



**VIA EMAIL TO: SECRETARY@CFTC.GOV**

February 14, 2013

Ms. Sauntia Warfield  
Commodity Futures Trading Commission  
1155 21<sup>st</sup> Street NW  
Three Lafayette Centre  
Washington DC 20581

Dear Ms. Warfield,

LCH.Clearnet Limited ("LCH.Clearnet"), a derivatives clearing organization registered with the Commodity Futures Trading Commission (the "CFTC"), is submitting for self-certification, pursuant to CFTC regulation §40.6(a), amendments to LCH.Clearnet's Rulebook. The amended Rulebook will be implemented and become effective on March 4, 2013.

The submission cover sheet and amended rules (with deletions and additions) are attached as Appendix I.

### **Explanation and Analysis**

#### Introduction

LCH.Clearnet is amending its rules to introduce "real time registration" ("RTR") for its ForexClear service as required under 17 CFR 39.12(b)(7)(i) ("Coordination with markets and clearing members"). The CFTC's Division of Clearing & Risk has clarified that it expects all DCOs to accept or reject trades not later than 60 seconds after submission to the DCO. The 60 second timeline starts upon Clearing Member's acceptance for the client consent model, otherwise upon receipt of the trade from approved trade source.

ForexClear intends to implement a set of changes as follows:

- An incremental risk check to estimate the margin requirement of each new transaction as it arrives, compare against available cover, and make a decision to accept or reject the transaction within 60 seconds.
- A systematic framework for members to provide additional initial margin (Minimum Excess Requirement, or MER) to facilitate intraday trade registration.
- A facility to extend a limited amount of intraday credit to members (Mutualized Credit Extension, or MCE), to further increase the proportion of transactions accepted, with sufficient financial resources being maintained through an increase in the size of the ForexClear default fund.

Internal approval from the LCH.Clearnet Risk Committee has been received for each of these changes.

Initially, LCH.Clearnet will not offer the MCE facility. This decision will be reviewed in the first two months following launch of the proposed service and subsequently at the discretion of LCH.Clearnet. The rule

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changes being filed with this submission therefore contain the framework for all of the changes set out above but at this stage constrain the level of MCE to zero and do not provide for the related additional default fund contributions. The rule changes necessary to implement the MCE will be the subject of a separate filing in due course.

In addition, LCH.Clearnet is filing an unrelated change to the FCM Procedures to remove outdated wording in rules 2A.17 and 2B.25 in respect of the UK tax position. These sections now require the FCM Clearing Member to use reasonable endeavours to provide information and support to the clearing house in relation to enquiries made by the UK tax authorities.

#### Detail of the proposed RTR methodology

RTR margining introduces three new elements: pre-registration risk check; the MER; and credit extension through a mutualized credit extension (MCE).

##### *Incremental trade registration process and pre-registration risk check*

Individual trades will be assessed by a pre-registration risk check and either accepted and registered, or rejected, within 60 seconds of receipt from the ForexClear matcher. The pre-registration risk check will assess the estimated total portfolio liability (ie. including the new trade) against total available cover, i.e. total collateral and any credit extension available to the member.

If sufficient cover is available for both counterparties of the trade, the trade is accepted and registered for clearing. If either counterparty has insufficient cover, the trade will be rejected and appropriate messaging will be issued to both counterparties. The counterparties are responsible for resubmission of any rejected trades.

The End of Day Initial and Variation margin amounts will be calculated using actual, as opposed to estimated, portfolio liability calculations.

##### *Minimum Excess Requirement*

The Minimum Excess Requirement (MER) Buffer is a new component of the member/client Initial Margin and forms part of a member's "Required Margin" (i.e. it is mandatory). The MER provides a buffer to facilitate trade registration whilst minimising intraday margin calls. The MER is expressed as a percentage of underlying portfolio IM, and is calibrated daily based on recent member/client activity such that higher levels of intraday trade volumes lead to a proportionally higher MER Buffer and vice versa.

In respect of the FCM client clearing model, the MER will be calculated at the client portfolio level and will be called in respect of, and credited to, each client's segregated sub-account and the FCM's proprietary account. An FCM client will also have access to its FCM's buffer and the FCM's credit extension when that client's trades are undergoing a pre-registration risk check.

##### *Mutualized Credit Extension*

In addition to the individually funded (by members and clients) MER buffer described above, we are proposing to create a mutualized member-funded collateral pool which would be used to provide members and their clients access to a mutualized intraday credit facility. Credit extended would only be available on an intraday basis; members will be required to cover their liabilities in full at the beginning of each day, as per the usual margin call process.



To enable intraday credit to be offered to ForexClear clearing members, we are proposing to increase the size of the current ForexClear Default Fund by an amount (denoted as the “ForexClear MCE Default Fund Buffer”) which will be determined by LCH.Clearnet. Given our policy requirement to cover a simultaneous two-member default, the maximum level of MCE available to each member would be 50% of the ForexClear MCE Default Fund Buffer. The MCE available to any individual member will also be capped at a percentage of their total funded capital with LCH.Clearnet. The distribution of member contributions to the ForexClear Default Fund would continue to be based on the existing rulebook.

The Rules have been drafted to give LCH.Clearnet absolute discretion to withdraw the provision of MCE to one or all members, including if it is necessary and prudent to do so on risk management grounds.

#### *Risk and collateral monitoring*

When a member’s portfolio liability exceeds its ‘notification threshold’, it will be notified by ForexClear and encouraged to proactively lodge collateral.

When a member’s portfolio liability exceeds its total collateral plus any available credit extension (denoted as the ‘registration limit’), a margin call will be issued. Risk reducing trades will be accepted at all times.

#### Description of rule changes

The implementation of the ForexClear RTR solution requires changes to section 2K of the Clearing House Procedures (“Procedures”) and section 2B of the FCM Procedures. These are summarised in the table below, with the key changes to implement RTR shown in bold text.

Procedures reference	FCM Procedures reference	Explanation
n/a	2A.17	(Unrelated to RTR) Amended to update tax treatment under UK law
2K.2.3.3(a)	2B.7	<b>Amended to include the requirement for transactions presented for registration to be registered or rejected as quickly as would be technologically practical if fully automated systems were used.</b>
2K.2.3.3(b)	2B.7	<b>Amended to make clear that sufficient cover (including any MCE) must be available before a transaction can be registered.</b>
2K.2.3.3(c)	2B.7	<b>Amended to state that transactions for which there is insufficient cover will be rejected.</b>
2K.2.3.3(d)	2B.7	Consequential to 2K.2.3.3(c) – transactions can no longer be parked awaiting cover.
2K.2.3.3(f)	2B.7	Amended to mention estimated Liabilities
2K.3.3.1(a)	2B.8.1	Amended to distinguish between Technical Validation and the Incremental Risk Check
2K.3.3.1(b)(i)	2B.8.1	Ancillary amendment to add “Technical”
2K.3.3.1(b)(vii)	2B.8.1	Table re-ordered to alphabetical order
2K.3.3.2	2B.8.2	<b>Added to describe the operation of Incremental Risk Checks (ie per-transaction estimation of changes in liabilities).</b>
2K.3.3.3	2B.8.3	Moved and amended to describe trade statuses under FRTR
2K.3.5.1(c)	2B.8.5	Amended to allow for cancellation to happen at any time.
2K.3.5.2(b)(old)	2B.8.4 (old)	Deleted, as FRTR means that transactions or contracts cannot be held pending cancellation (the cancellation must be accepted or rejected within 60 seconds).
2K.3.5.2(e)-(g)	2B.8.4 (old)	Old sections deleted as cancellations can no longer be suspended or parked. The new section 2K.3.5.2(d) sets out the treatment of cancellations under FRTR.
2K.3.6(old)	2B.8.6 (old)	Section deleted as backloading is no longer supported under FRTR.

Procedures reference	FCM Procedures reference	Explanation
2K.3.6(new)	n/a	Table re-ordered to alphabetical order.
2K.3.8(new)	2B.19	Deleted reference to Margin Run and added a reference to advising the relevant FXCCM of additional collateral required.
2K.4.3	n/a	Table re-ordered to alphabetical order.
2K.5.5.1	n/a	Typo correction.
2K.5.6.5	2B.12.2	<b>New section added describing the calculation and operation of the Minimum Excess Requirement Buffer (“MER buffer”), an additional amount of initial margin to cover intraday registration of trades.</b>
2K.5.7(new)	2B.12.3	<b>New section added describing the operation of the MCE, made available to members to register contracts intraday. The section is added to establish the rule but will note that no MCE will be extended. A future rule change will implement non-zero MCE.</b>
2K.6	2B.15	<b>Amended to delete reference to calls for additional cover. Under FRTR transactions will be rejected if there is insufficient cover.</b>
2K.6.1.2	2B.16.2	The end of day margin run has been moved from 2200 to midnight London time.
2K.6.1.4	2B.16.4	Reference to mini margin runs deleted.
2K.6.2(a)	2B.17	Amended to remove reference to parked statuses.
2K.6.2(e)	2B.17	Ancillary change to mention MCE.
2K.6.2(f)	2B.17	Amended to reflect revised process for calling for cover.
2K.7.1	2B.21.1	Details of new reporting added.
2K.7.7	2B.21.7	Details of new reporting added.
2K.8.4	2B.21.5	Timing of LDR setting has been deleted as the LDR is now based on a public reference rate.
n/a	2B.25	(Unrelated to RTR) Amended to update tax treatment under UK law

### Core Principle Compliance

These rule amendments relate to Core Principles B (Financial Resources), C (Participant and Product Eligibility) and D (Risk Management).

The amendments ensure compliance with Core Principle C by providing that transactions can be registered or rejected as quickly as would be technologically practicable if fully automated systems were used, in accordance with CFTC Regulation 39.12(b)(7)(i).

The amendments also make sure that, in registering transactions, LCH.Clearnet's risk management standards are maintained, namely that transactions are not be registered without suitable cover. This is achieved by a combination of an Incremental Risk Check on each transaction, the pre-funding of initial margin cover under the MER framework, and the cover of any additional liabilities by an increase to the size of the default fund (MCE). The latter increase is sized to maintain sufficient financial resources for LCH.Clearnet to meet its obligations to clearing members, notwithstanding defaults by the two clearing members creating the two largest financial exposures for LCH.Clearnet in extreme but plausible market conditions.

### Public Information

LCH.Clearnet has posted a notice of pending certification with the CFTC and a copy of the submission on LCH.Clearnet's website at: [http://www.lchclearnet.com/rules\\_and\\_regulations/ltd/proposed\\_rules.asp](http://www.lchclearnet.com/rules_and_regulations/ltd/proposed_rules.asp)



### **Opposing Views**

There were no opposing views expressed to LCH.Clearnet by governing board or committee members, members of LCH.Clearnet or market participants that were not incorporated into the rule.

### **Certification**

LCH.Clearnet Limited hereby certifies to the Commodity Futures Trading Commission, pursuant to the procedures set forth in the Commission regulation § 40.6, that attached rule submission complies with the Commodity Exchange Act, as amended, and the regulations promulgated there under.

Should you have any questions regarding this submission please contact me at [jay.iyer@lchclearnet.com](mailto:jay.iyer@lchclearnet.com).

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Jay Iyer', with a stylized flourish at the end.

**Jay Iyer, CCO**  
**LCH.Clearnet Limited**

**cc: Suzanne Calcagno**  
**Kenji Takaki**  
**Adam Cohen**

**Appendix I**

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position-keeping purposes) within that FXCCM's house position-keeping account. The ForexClear Dealer Clearing Agreement enables an FXD to nominate the "Designated Offices" (i.e. BICs) through which it may submit ForexClear Transactions.

- (b) Submission of a static data form to LCH's membership department by an FXCCM will also allow an FXCCM to be provided with one or more sub-accounts for any branch of that FXCCM (for position-keeping purposes) within that FXCCM's house position-keeping account.
- (c) Because the single financial account reflects the consolidated balances and liabilities of the FXCCM, the balances and liabilities associated with ForexClear Transactions submitted by FXDs and/or per branch will be provided as an estimate (if applicable) .

### 2K.2.3.3 Novation and Registration

- (a) An NDF is a ForexClear Transaction (i.e. eligible for registration as a ForexClear Contract) if it satisfies the ForexClear Eligibility Criteria (set out at Part B of the Schedule to the ForexClear Regulations) at the Registration Time. The Clearing House will register (or reject) a ForexClear Contract in respect of a ForexClear Transaction presented for registration as quickly as would be technologically practicable if fully automated systems were used.
- (b) ~~The ForexClear Service will register ForexClear Transactions submitted during the Opening Hours, provided that all FXCCMs have sufficient cover for their~~ Prior to registering a ForexClear Contract, the Clearing House will require the FXCCM in whose name such ForexClear Contract is to be registered to provide and maintain sufficient cover for its Liabilities (as defined in Section 2K.6.2) at the time of the relevant Margin Run.(c) (or its estimated Liabilities) (taking into account any MER Buffer (as defined at Section 2K.5.6.5) and any MCE (as defined at Section 2K.5.7) made available by the Clearing House, if any) as a precondition to registration. This cover check process is referred to as the "Incremental Risk Check" (as defined at Section 2K.3.3.2)
- (c) If any FXCCM does not have sufficient cover for its Liabilities or estimated Liabilities (taking into account any MER Buffer and MCE provided by the Clearing House, if any) at the time of the relevant ~~Margin Run, then the registration of~~ Incremental Risk Check, then any submitted and unregistered ForexClear ~~Transactions~~ Transaction to which it is a party ~~will be suspended until (1) sufficient cover is provided by that FXCCM or (2) until the FXCCM's portfolio risk is reduced by the FXCCM submitting for registration risk reducing ForexClear Transactions or (3) until the FXCCM's portfolio risk is sufficiently reduced as a result of the application of updated market data, at the Clearing House's discretion.~~ and that is subject to such Incremental Risk Check will be rejected.
- (d) Once the ForexClear Transaction has passed the Validation Checks (as defined in Section 3.3.1) ~~and the required cover has been provided by the relevant FXCCMs,~~ the Clearing House will send, via the ForexClear Matcher, a message confirming the registration of the ForexClear Transaction as atwo ForexClear ~~Contract~~ Contracts and including a



timestamp of the relevant registration time. For the purpose of the ForexClear Regulations, the time of dispatch of such message shall be the “**Registration Time**” of ~~that~~such ForexClear ~~Contract~~Contracts.

- (e) The definitive report of ~~the~~a registered ForexClear Contract will be shown on the “All Open Contracts” report issued by ForexClear Reporting (as defined in Section 7).
- (f) If an FXCCM is declared a defaulter, the Clearing House will not register any ForexClear Transactions to which the defaulter was a party. ForexClear Transactions between non-defaulting FXCCMs will continue to be registered (assuming sufficient cover for their Liabilities or estimated Liabilities has been provided).

## 2K.3 TRADE MANAGEMENT

### 2K.3.1 Trade Capture

After the execution of an NDF (a “**trade**”), each FXP who is a party to the trade will submit individual instructions to the ForexClear Matcher for matching and clearing of the trade. FXPs are not required to submit a confirmation of any trade submitted to the Clearing House for registration. Submission of the matched trade terms through the ForexClear Matcher will ensure that the agreed terms of the trade are recorded.

Once the ForexClear Matcher receives the trade instructions from the FXPs who are parties to the trade, the ForexClear Matcher matches both instructions. The ForexClear Matcher validates the trade using the ForexClear Eligibility Criteria and will, if appropriate, submit a single message containing the names of the FXPs who are parties to the trade and the terms of the trade to the Clearing House for registration and clearing, such matched trade being known as a “**ForexClear Transaction**”. Once the Clearing House receives the ForexClear Transaction message, it will send a message of acknowledgement back via the ForexClear Matcher to each FXP that the trade has been matched and accepted for clearing. Instructions which show that one or both sides of the trade do not meet the ForexClear Eligibility Criteria (as per Section 3.3) are rejected. Rejections are reported back to the counterparties through the ForexClear Matcher.

The Clearing House will provide ForexClear Transaction/ForexClear Contract (as applicable) updates as and when these change e.g. for acceptance, rejection and novation.

### 2K.3.2 The ForexClear Matcher

FXCCMs must not submit instructions to the Clearing House for trades which will not meet the ForexClear Eligibility Criteria. The Clearing House will register a ForexClear Transaction on the basis of the data provided to it by the ForexClear Matcher and has no obligation to verify that the details received from the ForexClear Matcher in respect of a ForexClear Transaction properly reflect the trade entered into by the relevant FXCCMs.

The Clearing House is not able to, and will not, verify the authorisation of the source of any details of any ForexClear Transaction reported to it for registration by the ForexClear Matcher. The Clearing House shall have no liability in the event that any FXCCM suffers any loss through the unauthorised input of details into a system of a ForexClear Matcher.

Notwithstanding the designation by the Clearing House of a system as a ForexClear Matcher, the Clearing House makes no warranty (and will accept no liability) as to the effectiveness, efficiency, performance or any other aspect of the services provided by any ForexClear Matcher or the timeliness or otherwise of the delivery of any ForexClear Transaction details by that ForexClear Matcher to the Clearing House. Such matters form part of the relationship between the FXCCM and the ForexClear Matcher and the terms of such relationship may entitle the ForexClear Matcher to suspend the ability of an FXCCM to make submissions from time to time.

The Clearing House accepts no liability for any error within or corruption of any data sent by the ForexClear Matcher to the Clearing House or to an FXCCM or any delay in or failure of the transmission of such data to the Clearing House. In the event that the Clearing House registers any ForexClear Contract(s) on the basis of incorrect or corrupted data sent to it by a ForexClear Matcher, the FXCCM(s) concerned shall be bound by the terms of such ForexClear Contract(s), unless the ForexClear Contract is subsequently cancelled in accordance with Regulation 104 or 106.

### 2K.3.3 Trade Validation and Registration

#### 2K.3.3.1 Process Flow Description

- (a) The Clearing House performs a validation check on each trade submitted by FXPs to ensure that each such trade meets the ForexClear Eligibility Criteria and the Counterparty [Technical Validation Check](#) [\(as defined below\)](#) and [Incremental Risk Checks](#) [\(as defined below at Section 2K.3.3.2\)](#) required for ForexClear Transactions (together the “**Validation Checks**”).
- (b) The fields checked are as follows:
  - (i) **Counterparties:** (a) are both parties submitting trade particulars FXPs and (b) has each FXCCM in whose name the ForexClear Contract is to be registered not been declared a defaulter by the Clearing House? (together, the “**Counterparty Technical Validation Check**”);
  - (ii) **Trade type:** is the instrument type an NDF?
  - (iii) **Economic Terms:** does the trade include all the Economic Terms (as defined in the Schedule to the ForexClear Regulations)?
  - (iv) **Currency Pairs:** are the Reference Currency and the Settlement Currency a Currency Pair (as defined in the Schedule to the ForexClear Regulations)?
  - (v) **Settlement Currency:** is the Settlement Currency USD?

(vi) **Trade tenor eligibility:** does the scheduled Settlement Date fall on a date: (a) not earlier than three business days immediately following the date on which the trade is submitted to the Clearing House for registration (the “**Submission Date**”) and (b) not later than the date falling two calendar years plus two business days immediately following the Submission Date? If the ForexClear Transaction arrives after the ForexClear date roll (22.00 local London time), the Submission Date is defined as the next good business day.

(vii) **Valuation Date and Settlement Date:** do the Valuation Date and Settlement Date for the ForexClear Transaction fall on a valid Business Day for the Currency Pair to which the ForexClear Transaction relates? Does the Settlement Date fall on a Business Day after the Valuation Date? The table below shows the relevant Business Days for determining the Valuation Date and the Settlement Date:<sup>1</sup>

Currency Pair	Business Days for Valuation Date	Relevant City/Cities for Business Day for Valuation Date	Business Days for Settlement Date	Relevant City for Business Day for Settlement Date	
USD-BRL	BRL & USD	Any of Rio de Janeiro, Brasilia or São Paulo and New York City	USD	New York City	
		U S D - - R & U B U B	New York and Moscow	USD	New York City
		U S D - - R	Mumbai	USD	New York City
USD-CLP	USD & CLP	New York and Santiago	USD	New York City	
USD-CNY	CNY	Beijing	USD	New York City	
		U S D - - R A	Seoul	USD	New York City
USD-COP	USD & COP	New York and Bogota	USD	New York City	
USD-IDR	IDR & SGD	Jakarta and Singapore	USD	New York City	
<a href="#">USD-INR</a>	<a href="#">INR</a>	<a href="#">Mumbai</a>	<a href="#">USD</a>	<a href="#">New York City</a>	
<a href="#">USD-KRW</a>	<a href="#">KRW</a>	<a href="#">Seoul</a>	<a href="#">USD</a>	<a href="#">New York City</a>	

<sup>1</sup> As amended from time to time as per relevant EMTA Template.

USD-MYR	MYR & SGD	Kuala Lumpur and Singapore	USD	New York City	
USD-PHP	PHP	Manila	USD	New York City	
<a href="#">USD-RUB</a>	<a href="#">USD &amp; RUB</a>	<a href="#">New York and Moscow</a>	<a href="#">USD</a>	<a href="#">New York City</a>	
USD-TWD	TWD	Taipei	USD	New York City	

- (c) Trades that pass the Validation Checks are accepted and two trade records are created for the ForexClear Transaction: one for the ForexClear Contract between the Clearing House and the first FXCCM to the ForexClear Transaction and the other for the ForexClear Contract between the Clearing House and the second FXCCM to the ForexClear Transaction.
- (d) Provided each FXCCM has sufficient cover, the Clearing House will send a message via the ForexClear Matcher confirming the registration or, where the trade fails a Validation Check, the trade will be rejected and a status message will be sent to the ForexClear Matcher giving a reason for rejection.
- (e) As provided in Section 2.3.3, in respect of messages confirming registration, the time of dispatch of such message shall be the Registration Time of that ForexClear Contract.
- (f) The internal sub-account (i.e. FXCCM, branch, or FXD) into which each trade record is booked is derived from the BIC code within the message from the ForexClear Matcher. The BIC links to the FXCCM reference data.
- (g) Both new trade records arising out of the ForexClear Transaction have the same unique ForexClear ID (the “**ForexClear ID**”). Any further events or actions are applied on the basis of this ForexClear ID, to ensure consistency

### 2K.3.3.2 Incremental Risk Checks

- (a) The Clearing House will apply an “Incremental Risk Check” to each individual ForexClear Transaction. The Incremental Risk Check uses a suitable approximation methodology to estimate an FXCCM’s Liabilities (including the new ForexClear Transaction) against available cover (taking into account any MER Buffer and MCE made available by the Clearing House, if any). However, any ForexClear Transaction submitted by that FXCCM that is risk reducing (i.e. results in a reduction of that FXCCM’s Liabilities) will always pass the Incremental Risk Check, even if the FXCCM does not have sufficient cover for its Liabilities.
- (b) Both FXCCMs to the ForexClear Transaction must pass the Incremental Risk Check in order for the Clearing House to register two ForexClear Contracts in those FXCCM’s names.
- (c) If either (or both) FXCCM(s) to a ForexClear Transaction fail(s) the Incremental Risk Check(s), then the ForexClear Transaction will be



rejected immediately, and a rejection message will be issued to the ForexClear Matcher indicating which (or both) FXCCM(s) has failed the Incremental Risk Check(s).

### 2K.3.3.3 Registration

(a) Once it is confirmed that the transaction has passed the Validation Checks for the relevant FXCCMs, the Clearing House:

(i) registers each ForexClear Transaction as two ForexClear Contracts and changes the status for each ForexClear Transaction to “NOVATED” and informs the ForexClear Matcher; and

(ii) in respect of relevant ForexClear Contracts being cancelled, cancels the relevant ForexClear Contracts and changes the ForexClear Contract status of each relevant ForexClear Contract to “CANCELLED”.

(b) The Clearing House acknowledges the ForexClear Contract status and sends a message to the ForexClear Matcher that the ForexClear Transaction/ForexClear Contract (as the case may be) is either “NOVATED” or “CANCELLED” as appropriate.

### 2K.3.4 Manual Trade Rejection, Novation and Cancellation (Exceptional Event)

(a) From time to time, as an exceptional event, it may be necessary for the Clearing House to: (i) reject a trade submitted for registration; (ii) register a ForexClear Transaction; or (iii) accept or reject a cancellation request for a ForexClear Contract or a ForexClear Transaction, in each case manually prior to a Margin Run, (e.g. in the case of a default event, when a ForexClear Transaction needs to be registered immediately to expedite the hedging and auction process or to reject a ForexClear Transaction received from a defaulted FXCCM).

(b) The Clearing House acknowledges the action and sends a status message to the ForexClear Matcher of either “REJECTED” in respect of trades being manually rejected; “NOVATED” in respect of trades being manually registered; and “CANCELLED” in respect of a ForexClear Contract or a ForexClear Transaction being manually cancelled, as appropriate.

### 2K.3.5 Trade Cancellation

2K.3.5.1 (a) The Clearing House accepts cancellation messages from FXPs against both non-novated trades (ForexClear Transactions) and novated trades (ForexClear Contracts).

(b) With respect to any ForexClear Contract, cancellation messages may be submitted via the ForexClear Matcher until such ForexClear Contract is “fixed” – i.e. when its Settlement Rate has been determined on the relevant Valuation Date.

(c) A successful cancellation message results in a “CANCELLED” status message if the ForexClear Transaction or the ForexClear Contract (as

the case may be) is cancelled ~~before or after a Margin Run (as defined in Section 6)~~ during the Opening Hours. The status messages are sent from the Clearing House to the FXCCM via the ForexClear Matcher.

- (d) There is no ForexClear Contract or ForexClear Transaction amendment functionality.

#### 2K.3.5.2 Process Flow Description

- (a) The Clearing House accepts trade cancellation instructions from the ForexClear Matcher for ForexClear Transactions or ForexClear Contracts (as the case may be) that have previously been submitted to the ForexClear Service. Cancellation instructions must include the ForexClear ID.

~~(b) The Clearing House acknowledges receipt of the instruction from the ForexClear Matcher to cancel a ForexClear Transaction/ForexClear Contract (as the case may be) and sends a "PENDING CANCELLATION" message to the ForexClear Matcher for the relevant FXPs.~~

(b) ~~(e)~~ The Clearing House checks that the cancellation instruction contains a valid ForexClear ID which relates to: (a) a ForexClear Transaction or ForexClear Contract (as the case may be) that has not been previously cancelled; and (b) in the case of a ForexClear Contract only, a ForexClear Contract with respect to which the relevant Valuation Date has not yet occurred.

(c) ~~(d)~~ Where a trade has already been rejected (as a result of having failed a Counterparty Technical Validation Check), the ForexClear Service sends a "CANCEL REJECTED" message to the ForexClear Matcher for the relevant FXPs.

~~(e) If a Margin Run is currently in progress, the request to cancel is routed to a temporary queue for later manual action. Once the Margin Run has finished, the Clearing House will re-submit or reject the request to cancel.~~

~~(f) If the ForexClear Contract is "NOVATED", the Clearing House amends the status of the relevant ForexClear Contract to "PARKED PENDING CANCELLATION" and sends this information in a message to the ForexClear Matcher for the relevant FXPs. The effect of the "PARKED PENDING CANCELLATION" ForexClear Contract is included in the next Margin Run.~~

~~(g) The ForexClear Contract under sub-paragraph (f) is cancelled if all FXCCMs across the ForexClear Service have pledged sufficient collateral with the Clearing House to cover the margin requirement of the ForexClear Service without that particular ForexClear Contract. If an FXCCM has insufficient collateral pledged, the Clearing House makes a cash margin call via PPS. When confirmation of receipt of the margin call is received, the ForexClear Contract is cancelled. The ForexClear Contract is excluded from future Margin Runs and a "CANCELLED" message is sent to the ForexClear Matcher for the benefit of the relevant FXPs to the now excluded ForexClear Contract. In accordance~~

~~with Regulation 106(h), the time of dispatch of such message shall be the cancellation date and time in respect of that ForexClear Contract. If an FXCCM is declared a defaulter, the Clearing House will not process any cancellation of a ForexClear Contract to which the defaulter is a party, nor the corresponding ForexClear Contract that arose from the same underlying ForexClear Transaction. All ForexClear Contracts between non-defaulting FXCCMs for cancellation (assuming sufficient cover for their Liabilities has been provided) will be cancelled.~~

### ~~2K.3.6~~ **Backloading of Trades**

~~As from 2 January 2012, the Clearing House will provide the facility for FXCCMs to backload ForexClear Transactions through the ForexClear Matcher. Backloading refers to submission for clearing of trades which were executed before the Submission Date.~~

~~For backloaded trades, as for non backloaded trades, it is a pre-condition of registration that sufficient cover is provided. The Clearing House will perform the Validation Checks on backloaded trades and follow the processes as set out in Section 2K.3.3.1 above.~~

(d) All trade cancellation instructions must pass the Incremental Risk Check. If any FXCCM does not have sufficient cover for its Liabilities or estimated Liabilities (taking into account any MER Buffer and MCE provided by the Clearing House, if any) at the time of the relevant Incremental Risk Check, then any ForexClear trade cancellation instruction to which it is a party will be rejected immediately. However, any ForexClear trade cancellation instruction that is risk reducing (i.e. results in a reduction of that FXCCM's Liabilities) will always pass the Incremental Risk Check, even if the FXCCM does not have sufficient cover for its Liabilities.

### 2K.3.6 ~~2K.3.7~~ **Valuation Date Event Management**

The Clearing House is the Calculation Agent and will store and apply the Settlement Rate Option and the Valuation Date for each ForexClear Contract.

On the Valuation Date with respect to each ForexClear Contract, the Settlement Rate will be retrieved from the Settlement Rate Option per Currency Pair in accordance with the relevant EMTA Templates (as referenced in the Schedule to the ForexClear Regulations). The Market Data provider for Settlement Rates is Reuters.

ForexClear applies the relevant Settlement Rate to ForexClear Contracts using the following criteria:

- (a) Settlement Rate Option source code (as below);
- (b) Valuation Date.

The table below gives the source codes of the Settlement Rate Options to be used as per the relevant EMTA Template:

Currency Pair	Settlement Rate Option (or as per the relevant EMTA
---------------	---

	Template as amended from time to time	
USD-BRL		BRL PTAX (BRL09)
	US D-R UB	RUB CME EMTA (RUB03)
	US D-IN R	INR RBIB (INR01)
	US D-C NY	CNY SAEC (CNY01)
USD-CLP		CLP DÓLAR OBS (CLP10)
	US D-K RW	KRW KFTC18 (KRW02)
<a href="#">USD-CNY</a>		<a href="#">CNY SAEC (CNY01)</a>
USD-COP		COP TRM (COP2)
USD-IDR		IDR ABS (IDR01)
<a href="#">USD-INR</a>		<a href="#">INR RBIB (INR01)</a>
<a href="#">USD-KRW</a>		<a href="#">KRW KFTC18 (KRW02)</a>
USD-MYR		MYR ABS (MYR01)
USD-PHP		PHP PDSPEO (PHP06)
<a href="#">USD-RUB</a>		<a href="#">RUB CME-EMTA (RUB03)</a>
USD-TWD		TWD TAIFX1 (TWD03)

The Clearing House applies the Settlement Rate to all relevant ForexClear Contracts at a predefined time (see Section 4.3 below) following its publication.

The Clearing House calculates the Settlement Currency Amount in the Settlement Currency per ForexClear Contract. FXCCMs can retrieve the Settlement Rate and Settlement Currency Amount in the Settlement Currency via ForexClear Reporting (as defined in Section 7) on the ForexClear Service Portal and on MemWeb, which are internet services onto which information is loaded and can be accessed by FXCCMs.

#### [2K.3.6.2](#) ~~2K.3.7.2~~ Process Flow Description

- (a) After the Registration Time for a ForexClear Contract, the ForexClear Service links a Settlement Rate Option to it in accordance with the relevant EMTA Template for the Currency Pair.



- (b) On the Valuation Date, the Clearing House uses the Settlement Rate for the Currency Pair for the ForexClear Contract when it is published by Reuters, and calculates the Settlement Currency Amount for each ForexClear Contract in the Settlement Currency by applying the relevant Settlement Rate Option as published.
- (c) If the Settlement Rate Option set out in the relevant EMTA Template is unavailable at the relevant time, Disruption Fallback alternatives for the determination of the Settlement Rate will apply as set out in the relevant EMTA Template.

2K.3.7~~2K.3.8~~ **Settlement**

With respect to each ForexClear Contract, the Settlement Currency Amount is calculated by the application of the Settlement Rate to the Notional Amount in accordance with the ForexClear Contract Terms.

From (and including) the Registration Time to (and including) the Business Day immediately preceding the Settlement Date, changes in the daily value of open ForexClear Contracts will have resulted in variation margin (“VM”) credits and debits between the parties (as set out at Section 5.2). With respect to each ForexClear Contract, on the Business Day immediately preceding the Settlement Date, the Clearing House nets the Settlement Currency Amount against the aggregate net VM which has been paid/received through the term of the ForexClear Contract, the result of which is a Net Settlement Amount (“NSA”), which will be reflected in the FXCCMs’ cash accounts with the Clearing House on the Settlement Date. As such, with respect to each ForexClear Contract, the payment in full of all the VM required during the term of such ForexClear Contract shall satisfy the relevant party’s obligation to pay the Settlement Currency Amount on the Settlement Date of such ForexClear Contract. For the purpose of providing Nostro reconciliations, to the relevant parties, the Clearing House will provide Reporting (as defined in Section 7) which will reflect an entry for the “Settlement Currency Amount” and a separate entry for the reversal of the aggregate net VM which has been paid/received through the term of the ForexClear Contract. This paragraph applies even if the Settlement Date has been adjusted in accordance with the ForexClear Contract Terms.

2K.3.8~~2K.3.9~~ **Portfolio Management**

The Clearing House allows portfolios of ForexClear Contracts to be transferred between FXCCMs e.g. in the event of merger, or where agreed between the relevant FXPs.

The portfolio transfer capability allows the transfer of:

- (a) A single ForexClear Contract.
- (b) Part of an FXCCM’s portfolio (which includes the ability to transfer ForexClear Contracts to various other FXCCMs, e.g. Bank A to Bank B for USD/RUB, Bank A to Bank C for USD/KRW and Bank A to Bank D for USD/BRL).
- (c) Portfolio transfer (i.e. the transfer of all or just one of the portfolios belonging to an FXCCM).

- (d) Multiple portfolio transfers (i.e. the transfer of several portfolios of an FXCCM).

The Clearing House will carry out the portfolio transfer. For transfers under 2, 3 and 4, this can be on a ForexClear Contract by ForexClear Contract or on a Currency Pair basis.

~~Transfers will only be effected upon completion of a successful Margin Run.~~

Before the completion of a portfolio transfer, the Clearing House will perform a margin impact analysis of the transfer to the source and destination portfolios. The Clearing House will advise the relevant FXCCM regarding any additional collateral that may be required in order to complete the portfolio transfer.

#### 2K.3.8.2 ~~2K.3.9.2~~ Legal Documentation

The Transfer of ForexClear Contracts will be documented in accordance with the standard legal documentation for the transfer of ForexClear Contracts provided by the Clearing House to FXPs. Any such transfer must be authorised by all relevant parties and executed by individuals with appropriate signing authority.

#### 2K.3.9 ~~2K.3.10~~ Reference Data

##### 2K.3.9.1 ~~2K.3.10.1~~ Holiday Event Calendar

For the ForexClear Service the Clearing House uses the SwapsMonitor Financial Calendar (as published by Swaps Monitor Publications, INC.) the ("**SwapsMonitor Financial Calendar**") in order to determine holidays. This requires all ForexClear Participants to be licensees of the SwapsMonitor Financial Calendar. The calendars, as applicable to the ForexClear Service, will be available online for inspection and for file download from Clearing Member Reporting. SwapsMonitor is used on a daily basis across all calendars.

##### 2K.3.9.2 ~~2K.3.10.2~~ Date Adjustment

When a new holiday is declared in a particular jurisdiction, an update to the holiday calendar affecting ForexClear Contracts for which the Valuation Date is due on the new holiday is required. The Valuation Date and the Settlement Date will be adjusted in accordance with the provisions of the EMTA Template for the relevant Currency Pair.

The Clearing House may accede to a request from FXCCMs to suspend processing of adjustments to the relevant affected Valuation Dates and Settlement Dates so as to allow FXCCMs to cancel and rebook any ForexClear Contracts following any such adjustment. In such case, the Clearing House will inform FXCCMs as to the timing and duration of any such suspension. Market Data.

#### 2K.4 **MARKET DATA**

##### 2K.4.1 **Sources used by ForexClear Service**

The ForexClear Service collates instrument quotes for the following from multiple market sources (as detailed in Section 4.2 ) in relation to each Currency Pair:

- (i) Source - Reuters.
- (ii) Frequency - when published (at the times shown in the table at Section 4.3 below).
- (d) Interest Rate Curves:
  - (i) Source - internal Clearing House.
  - (ii) Frequency - at each SwapClear margin run.
- (e) Country Credit Spreads:
  - (i) Source - Bloomberg.
  - (ii) Frequency - when published.
- (f) USD LIBOR Curve:
  - (i) Source - SwapClear.
  - (ii) Frequency - at each SwapClear margin run.
- (g) PAI rates:
  - (i) Source - LCH Treasury.
  - (ii) Frequency - Daily.

2K.4.3 Market Data

Reference Currency	Settlement Rate Option (or as per the relevant EMTA Template as amended from time to time)	Settlement Rate Publication Local Time (or as per the relevant EMTA Template as amended from time to time)
BRL	BRL PTAX (BRL09)	13:15 (São Paulo)
	<del>RUB CME EMTA (RUB03)</del>	<del>13:30 (Moscow)</del>
	<del>INR RBIB (INR01)</del>	<del>12:30 (Mumbai)</del>
CLP	CLP DÓLAR OBS (CLP10)	10:30 (Santiago)
CNY	CNY SAEC (CNY01)	09:15 (Beijing)
	<del>KRW KFTC18 (KRW02)</del>	<del>15:30 (Seoul)</del>
COP	COP TRM (COP02)	10.30 (Bogota)
IDR	IDR ABS (IDR01)	11:30 (Singapore)
<a href="#">INR</a>	<a href="#">INR RBIB (INR01)</a>	<a href="#">12:30 (Mumbai)</a>
<a href="#">KRW</a>	<a href="#">KRW KFTC18 (KRW02)</a>	<a href="#">15:30 (Seoul)</a>

MYR	MYR ABS (MYR01)	11:30 (Singapore)
PHP	PHP PDSPEO (PHP06)	11:30 (Manila)
<a href="#">RUB</a>	<a href="#">RUB CME-EMTA (RUB03)</a>	<a href="#">13:30 (Moscow)</a>
TWD	TWD TAIFX1 (TWD03)	11:00 – 12:00 (Taipei)

#### 2K.4.4 Market Data Provision to FXCCMs

Market Data used in a Margin Run is made available to FXCCMs via ForexClear Reporting (as defined in Section 7).

#### 2K.4.5 Curve Building in ForexClear

##### 2K.4.5.1 FX Curve (Zero Coupon/Market Rate Curve)

The Clearing House builds for each Currency Pair an FX curve (zero coupon/market rate curve) using the FX Spot Rates, FX Swap Points and the USD LIBOR Curve based on interpolation techniques agreed through the ForexClear Risk & Trading Working Group (a group comprising the Clearing House and FXCCM's risk and trading representatives) ("**RTWG**"). The USD LIBOR Curve is used for discounting; the FX curve is used for capitalisation of forward cash flows.

##### 2K.4.5.2 Interest Rate Curve

The Clearing House applies the linear interpolation method to build the Interest Rate Curve. Linear interpolation is applied on zero coupon curves.

##### 2K.4.5.3 Curve Use

End of day is defined as 22.00 local London time ("**EOD**"). The following EOD data is used in the calculation of risk analytics for an EOD Margin Run (as defined in Section 6.1.2):

- (a) FX Spot Rates; and
- (b) FX Swap Points.

#### 2K.4.6 Country Credit Spreads

The Clearing House takes country credit spreads (in relation to Brazil, Russia, India, China, Chile, South Korea, Colombia, Indonesia, Malaysia, Philippines and Taiwan) from Bloomberg for use in risk multiplier calculations.

### 2K.5 VALUATION AND MARGIN

#### 2K.5.1 Product Valuation

##### 2K.5.1.1 Price Submission

Each FXCCM shall provide pricing data to the Clearing House in accordance with the ForexClear Market Data Interface (a document issued by LCH and as amended from time to time) as amended from time to time (save in the case of there being more than one FXCCM in the same corporate group, in which case



The Clearing House will require FXCCMs to post IM.

#### 2K.5.5.1 Calculation of Initial Margin

IM will be calculated within the day and at EOD on each business day as part of each Margin Run. With respect to each FXCCM, it is calculated for the portfolio of open ForexClear Contracts and ForexClear Transactions using ForexClear's Portfolio Analysis and Risk ("**FxPAR**") margining model, FxPAR is based on a modified filtered historical simulation value-at-risk methodology. All open ForexClear Contracts and ForexClear Transactions in each Currency Pair are re-valued under a series of cross portfolio yield curve scenarios to estimate the potential portfolio profit and loss and therefore the IM requirement.

These scenarios will be continually monitored and reviewed periodically or on an ad hoc basis according to market conditions. ForexClear Clearing Members will usually be notified by the Clearing House of alterations to margin parameters no later than the day before calls are made based on the new parameters. Further details of this method are available upon request from the ForexClear Risk team.

FxPAR uses the historical (5 year) data submitted by FXCCMs pursuant to Section 5.1.1, which is adapted to current market prices.

#### 2K.5.6 Initial Margin Risk Multipliers

Credit risk, liquidity risk and sovereign risk are measured and applied to FXCCMs as part of the IM calculation.

##### 2K.5.6.1 Credit Risk Multiplier ("CRiM")

The CRiM applied will consider the FXCCM's credit worthiness, initial margin level and/or stress testing exposures in accordance with LCH.Clearent Credit Risk Policy.

##### 2K.5.6.2 Liquidity Risk multiplier ("LRMM").

(a) Where an FXCCM has an exposure above set thresholds in a particular Currency Pair or tenor of ForexClear Contracts, the LRMM is applied and additional IM is charged. The LRMM is calculated in accordance with parameters set by the ForexClear Default Management Group (the "**FXDMG**") according to tenor and notional concentration. The thresholds are reviewed quarterly and use prevailing perceptions of market conditions as seen by the FXDMG.

(b) LRMM increases IM called due to concentrated Currency Pair exposure by tenor of ForexClear Contracts. Additional IM is called to mitigate the risk of a position not being closed out in five days and/or the extra hedging costs that may be incurred.

(c) The Clearing House calculates and applies LRMM as part of each Margin Run, based on the LRMM for each Currency Pair in the FXCCM's house position-keeping account.

##### 2K.5.6.3 Sovereign Risk multiplier ("SRM").

- (a) An SRM is applied when there is a perceived risk of sovereign default or a change in a country's currency regime which would impact ForexClear Contracts transacted in certain Reference Currencies. The SRM takes into account:
  - (i) the probability of sovereign default or a regime change event occurring; and
  - (ii) the depreciation or appreciation risk of the Reference Currencies.
- (b) The SRM sovereign default probability is calculated by assessing the three month probability of default for the different sovereign countries, based on the country's 5-year credit default swap (CDS) spread. The probability of a regime change event is estimated based on historical events and publicly available data for the different sovereign countries. The county CDS spreads are reviewed and updated weekly.
- (c) The Clearing House calculates and applies the SRM as part of each Margin Run, for each Currency Pair in the FXCCM's house position-keeping account.

#### 2K.5.6.4 Additional Margin

The Clearing House may require an FXCCM to pay additional amounts (in addition to initial margin and variation margin) as security for the performance by an FXCCM of its obligations to the Clearing House in respect of ForexClear Contracts to which such FXCCM is a party in accordance with Regulation 12. This may be required from time to time where, in the opinion of the Clearing House, the risk inherent in ForexClear Contracts to which such FXCCM is a party not adequately covered by IM or VM. This may cover instances where stress testing losses under various scenarios provided in the ForexClear Default Fund Rules have increased.

#### 2K.5.6.5 Minimum Excess Requirement Buffer ("MER Buffer")

To facilitate the intraday registration of ForexClear Contracts, at each EOD Margin Run, the Clearing House will call from each FXCCM an amount of IM referred to as "Minimum Excess Requirement Buffer" ("MER Buffer") in respect of that FXCCM's potential intraday Liabilities (as defined below at Section 2K.6.2) for the following day.

The required amount of MER Buffer for an FXCCM is expressed as a percentage of the FXCCM's start-of-day portfolio IM, and is calibrated daily based on recent member activity such that higher levels of intraday trade volumes lead to a proportionally higher MER Buffer requirement and vice versa. The MER Buffer percentage is calculated as a given percentile of intraday peak relative IM changes over a given number of historical business days.

The parameters of the MER model are: MER percentile, MER lookback period, relative MER cap and absolute MER floor. The values of these parameters are calibrated based on the quantitative analysis of the FXCCMs' IM history across the ForexClear Service.

As ForexClear Contracts are registered in an FXCCM's name, the Clearing House will, in accordance with the Margin Run process, calculate an FXCCM's intraday Liabilities (or, in the case of an Incremental Risk Check, the FXCCM's estimated Liabilities), taking into account any MER Buffer.

At each EOD Margin Run, the Clearing House will recalculate and call the FXCCM's MER Buffer for the following day.

#### 2K.5.7 Mutualised Credit Extension ("MCE")

If an FXCCM has insufficient cover to enable the registration of further ForexClear Contracts in its name, then the Clearing House may make available to an FXCCM intraday credit by way of a Mutualised Credit Extension ("MCE") to enable the FXCCM to register further ForexClear Contracts. An FXCCM may utilise MCE intraday on a one-to-one basis to the value of the IM that would have been required to cover that FXCCM's Liabilities (or, in the case of Incremental Risk Checks, the FXCCM's estimated Liabilities). The amount of the MCE made available to an FXCCM in aggregate during any one day must not exceed an amount that is the lesser of: (a) 50% of the ForexClear MCE Default Fund Buffer; or (b) the sum of the FXCCM's IM and ForexClear Contribution. The amount of the "ForexClear MCE Default Fund Buffer" is currently zero and therefore the Clearing House will not provide MCE to any FXCCM until further notice.

For the avoidance of doubt, MCE is provided in the form of intraday initial margin forbearance and an FXCCM's utilisation of MCE does not give rise to any payment or transfer of collateral by the Clearing House nor does it result in any use of the ForexClear Fund Amount (except in events of default).

All MCE credit extended on any given day shall be revoked at the close of business on such day (unless revoked earlier in accordance with the following paragraph). As part of each EOD Margin Run, the Clearing House will call IM from each FXCCM to replace any utilised MCE and that FXCCM's MCE will be reset for the following day (assuming such FXCCM has satisfied any margin calls). Any failure of an FXCCM to satisfy an IM call relating to the replacement of MCE constitutes a default by such FXCCM – just as any failure by an FXCCM to satisfy any other type of initial margin call constitutes a default.

The MCE is made available at the Clearing House's sole discretion. In particular (but without limitation), the Clearing House may refuse to extend MCE to any or all FXCCMs on risk management grounds, and may at any time require an FXCCM to provide IM in place of any utilised MCE.

#### 2K.5.8 ~~2K.5.7~~ **Initial Margin Management Events Service ("IMMES")**

IMMES aims to find risk and IM reducing ForexClear Contracts amongst participating FXCCMs. IMMES can be run on all Currency Pairs that are cleared through the ForexClear Service, although the primary focus will be on those Currency Pairs that contribute to the largest IM requirement.

FXCCMs who wish to obtain further information about, or to participate in, IMMES should contact ForexClear Business Operations on 0207 426 7527. To be eligible to participate in IMMES, an FXCCM must enter into an IMMES agreement with the Clearing House (the "IMMES Agreement").

##### 2K.5.8.1 ~~2K.5.7.1~~ Step-By-Step Details

- (a) The Clearing House usually conducts the IMMES at least monthly.
- (b) A reminder that there is an IMMES run taking place is sent out the week before to each FXCCM which is a party to an IMMES Agreement with LCH and each FXCCM is asked to confirm their participation.
- (c) On the day of the scheduled IMMES run, the Clearing House analyses all participating FXCCMs' profiles to find ForexClear Contracts with equivalent and opposite delta values by tenor and Currency Pair to compile a list of offsetting suggested trades that are mutually beneficial in terms of IM reduction (the "**IMMES Trades**").
- (d) The Clearing House then analyses the relevant FXCCM ForexClear Contract portfolios with the IMMES Trades and determines the change in NPV, IM, delta and zero yield sensitivity from the IMMES Trades.
- (e) The FXCCMs on either side of the trades are advised of the economic details of the IMMES Trades.
- (f) If the two FXCCMs agree to undertake the IMMES Trades, the Clearing House will then put them in touch with each other. The FXCCMs will enter into the bilateral IMMES Trades and submit them to the Clearing House through the ForexClear Matcher for registration.

## 2K.6 GENERAL MARGINING PROCESS

A "**Margin Run**" is the process by which the Clearing House calculates an FXCCM's IM requirement (if any) and, during an EOD Margin Run, its VM requirement and PAI adjustment (if required) (together its "**Margin Requirements**"); and ~~(a)~~ applies that FXCCM's cover to satisfy the Margin Requirements for that FXCCM in respect of the ForexClear Contracts within that FXCCM's portfolio; ~~and/or (b) calls for additional cover (if required) to cover the relevant Margin Requirement.~~

### 2K.6.1 Types of Margin Runs

There are ~~four~~three types of Margin Run:

#### 2K.6.1.1 ITD/Ad Hoc - Day Margin Run

- (a) ITD/Ad-hoc London daytime Margin Runs are initiated as and when dictated by the schedule published by the Clearing House and notified to FXCCMs from time to time (the "**Schedule**") or as necessary, and are performed in the time period during which a PPS call can be made (the "**ITD/Ad-hoc Day Margin Run**"). PPS times are published on the Clearing House's website at: [http://www.lchclearnet.com/risk\\_management/itd/pps/](http://www.lchclearnet.com/risk_management/itd/pps/).
- (b) ITD/Ad-hoc Margin Runs are calls in respect of IM only. VM and PAI are not included in ITD/Ad-hoc Margin Runs.

#### 2K.6.1.2 EOD Margin Run

- (a) The EOD Margin Run is the final ITD/Ad-hoc Day Margin Run that completes by ~~22~~24:00 local London time on that business day (the “**EOD Margin Run**”).
- (b) EOD Margin Runs are calls in respect of IM as well as VM and PAI.

#### 2K.6.1.3 ITD / Ad Hoc - Night Margin Run

- (a) ITD/Ad-hoc London overnight Margin Runs are initiated as and when dictated by the Schedule or as necessary, and are performed in the time period during which a PPS call cannot be made (the “**ITD/Ad-hoc Night Margin Run**”).
- (b) ITD/Ad-hoc Night Margin Runs are calls in respect of IM only. VM and PAI are not included in ITD/Ad-hoc Night Margin Runs.

#### ~~2K.6.1.4 Mini Margin Run~~

- ~~(a) Mini Margin Run's (MMRs) will run continuously during the “Service Operating Hours” when ITD/Ad-Hoc or EOD Margin Runs are not running or other key daily processes (such as banking opening / closure and date roll) are not running.~~
- ~~(b) Mini Margin Run's can take place in (1) MMR Day Margin Run Mode where they follow the same principles as the “ITD Day Margin Run” or (2) MMR Night Margin Run Mode where they follow the same principles as the “ITD Night Margin Run”.~~

#### 2K.6.2 Margin Run Process

- (a) Margin Runs cover all registered ForexClear Contracts with the status “NOVATED”, ~~ForexClear Transactions with the status “PARKED” and ForexClear Contracts in respect of which the Clearing House has received a request for cancellation with the status “PARKED PENDING CANCELLATION”. Margins Runs will not cover ForexClear Transactions for which registration has been suspended pursuant to the application of Section 2.3.3.~~
- (b) Margin runs will be carried out for each ForexClear Contract and ForexClear Transaction (as the case maybe) until (and including) the later of:
  - (i) EOD Margin Run on the Settlement Date; or
  - (ii) EOD Margin Run after the Settlement Rate is published.
- (c) During every Margin Run the Clearing House calculates the IM required and (where applicable) the VM and PAI required to cover each FXCCM's relevant open ForexClear Contracts and ForexClear Transactions (each a “**Liability**” and together the “**Liabilities**”).
- (d) Each FXCCM's Liability is offset against that FXCCM's non-cash collateral account (being a sub-account of the FXCCM's financial account) (for IM only) or funds in that FXCCM's cash account (being a sub-account of the FXCCM's financial account) (for VM/PAI/IM). IM will

always be a Liability (payable to the Clearing House) and VM and PAI may be a cash posting or a Liability (payable by, or to, the Clearing House, respectively).

- (e) FXCCMs are informed via email of their Liabilities as a percentage of their current total cover (such percentage being shown as a percentage of the aggregate cover in their cash and non-cash collateral account(s)) and are directed to the ForexClear Service portal (being a secure website made available to FXCCMs) (the “**ForexClear Service Portal**”) which provides reports (at the times specified in Section 7.1) informing FXCCMs of their (i) total Liabilities under the ForexClear Service; (ii) current total cover posted with the Clearing House for [the ForexClear Service \(including any MCE, if any\)](#); and (iii) Liabilities as a percentage of their current total cover (such percentage being shown as a percentage of the aggregate cover in their cash and non-cash collateral account(s)).
- (f) If following a Margin Run an FXCCM is required to provide additional collateral, this is also indicated by email and via the ForexClear Service Portal. ~~Registration of ForexClear Transactions and cancellations of ForexClear Contracts to which that FXCCM is a party will be suspended pursuant to Section 2.3.3. Once it is confirmed that all FXCCMs have sufficient cover, the Clearing House:~~
- ~~(i) registers each ForexClear Transaction as two ForexClear Contracts and changes the status for each ForexClear Transaction from “PARKED” to “NOVATED” and informs the ForexClear Matcher; and~~
  - ~~(ii) in respect of relevant ForexClear Contracts being cancelled, cancels the relevant ForexClear Contracts and changes the ForexClear Contract status of each relevant ForexClear Contract from “PARKED” to “CANCELLED”.~~
  - ~~(g) The Clearing House acknowledges the ForexClear Contract status and sends a message to the ForexClear Matcher that the ForexClear Transaction/ForexClear Contract (as the case may be) is either “NOVATED” or “CANCELLED” as appropriate. [In the case of ITD/Ad-hoc Margin Runs, where an FXCCM’s Liabilities exceed its available cover and any MCE, then the Clearing House will issue a margin call for the amount of the shortfall plus 50% of the FXCCM’s MER Buffer.](#)~~

## 2K.7 FOREXCLEAR REPORTING

The Clearing House produces a suite of treasury reports for members across each of the Clearing House services. Some of these reports are cross-service reports and others are specific to the ForexClear Service, thus an FXCCM will receive reports in respect of ForexClear and may also receive cross-service reports where it is a member of another service. Follow this link to the information available from the LCH.Clearnet website: [Banking Reports](#).<sup>2</sup>

<sup>2</sup> [http://www.lchclearnet.com/Images/banking\\_report\\_tcm6-48011.pdf](http://www.lchclearnet.com/Images/banking_report_tcm6-48011.pdf)



In respect of the ForexClear Service, on each business day the Clearing House will provide two sets of reports to FXCCMs: (1) Banking Reports; and (2) reports direct from the ForexClear Service (together “**ForexClear Reporting**”). These Procedures reference the ForexClear Service specific reports. Each day’s report will remain available for download by FXCCMs from the ForexClear Service Portal for five days.

#### 2K.7.1 **Margin Liability Reports**

Reports detailing Liabilities are provided to FXCCMs following every scheduled Margin Run in accordance with Section 6.2 and where additional collateral cover has been called by the Clearing House. Additionally, a report, including sensitivities, is provided at ForexClear Contracts level at 22.00 local London time. If the EOD Margin Run has not completed by 22:00 local London time on a particular business day, the report generated at EOD will reflect that not all the Liabilities of all FXCCMs as covered by collateral by 22:00 local London time. [A report will also be provided detailing an FXCCM's cover utilisation level. If an FXCCM's Liabilities exceed its total available cover, ForexClear will alert the FXCCM.](#)

#### 2K.7.2 **Market Data Reports**

Reports detailing Market Data are provided to FXCCMs following every scheduled Margin Run. They include reports of Market Data and Settlement Rate used in the valuation of ForexClear Contracts and reports of Market Data shifts for each historic scenario used in IM calculations.

#### 2K.7.3 **Trade Reports**

Reports are provided that enable FXCCMs to monitor their firms’ trading events and positions in respect of ForexClear. Reports on open ForexClear Contracts and on cancelled ForexClear Transactions and ForexClear Contracts are generated at EOD and reports on transferred ForexClear Contracts are made on an ad hoc basis.

#### 2K.7.4 **Trade Fixing and Settlement Reports**

Reports are published on each business day detailing the ForexClear Contracts to which the Settlement Rate has been applied on that business day (the “NDF Fixings” report), ForexClear Contracts that have been settled during that current business day (the “Settlements Today” report) and ForexClear Contracts that will settle the next business day (the “NDF’s Fixed with Settlement Tomorrow” report).

#### 2K.7.5 **Fees Reports**

Reports on trading volumes on a daily and monthly basis are provided to FXCCMs. Monthly reports are provided on the last business day of each month. They include the full trading volumes on which the monthly transaction fees will be charged to those FXCCMs choosing to have tariffs levied per transaction.

#### 2K.7.6 **Banking Reports**

[Follow this link for a full list of Banking reports.](#)<sup>3</sup>

### 2K.7.7 Real-time Reporting

[A near real-time view of member liabilities, collateral pledged, collateral and credit utilisation will be available from the ForexClear Service Portal \(referred to in Section 2K.6.2\(e\)\)](#)

## 2K.8 TREASURY OPERATIONS & COLLATERAL MANAGEMENT

### 2K.8.1 Cover Distribution

The Clearing House nets each FXCCM's Liabilities (i.e. margins and multipliers) and then the total of cash collateral and non-cash collateral are applied to offset those net Liabilities. This process is known as cover distribution ("**Cover Distribution**"). FXCCMs can choose whether cash or non-cash collateral should be applied first. At the end of this process, if an FXCCM has a shortfall, a PPS (as defined in Section 8.2 below) call for additional collateral is made. Conversely, any excess cash remaining after the final overnight Margin Run can, if requested before 09:30 local London time, be repaid to the FXCCM.

#### 2K.8.1.1 Cover Distribution Notification

- (a) FXCCMs are informed via email of their: Liabilities as a percentage of their current total cover (such percentage being shown as a percentage of the aggregate cover in their cash and non-cash collateral account(s)) and are directed to the ForexClear Service Portal which provides reports (at the times specified in Section 7.1) informing FXCCMs of their (i) total Liabilities under the ForexClear Service; (ii) current total cover posted with the Clearing House for ForexClear; and (iii) Liabilities as a percentage of their current total cover (such percentage being shown as a percentage of the aggregate cover in their cash and non-cash collateral account(s)).
- (b) The reports accessed via the ForexClear Service Portal will enable FXCCMs to log in and examine the underlying data.

### 2K.8.2 Protected Payment System

The Clearing House operates the Protected Payments System ("**PPS**") for transferring funds to and from its FXCCMs to cover their Margin Requirements. This is similar to a direct debit arrangement where the PPS bank confirms that any Clearing House-specified call is met.

FXCCMs are obliged to hold an account with a London PPS bank in USD, as well as a USD account with a PPS bank in the USA.

Follow the link below for a list of PPS banks operating in the UK and US:

[List of PPS Banks](#)<sup>4</sup>.

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<sup>3</sup> [http://www.lchclearnet.com/membership/ltid/training\\_and\\_education/banking\\_reports\\_reference\\_pack.asp](http://www.lchclearnet.com/membership/ltid/training_and_education/banking_reports_reference_pack.asp)

<sup>4</sup> [http://www.lchclearnet.com/risk\\_management/ltid/pps/](http://www.lchclearnet.com/risk_management/ltid/pps/)

### 2K.8.3 **Acceptable Forms of Collateral Cover**

Follow the link below for a detailed description of acceptable collateral and processes applicable from time to time:

[Risk Management/LCH.Clearnet Ltd/Acceptable Collateral](#)<sup>5</sup>.

### 2K.8.4 **Interest and Accommodation**

Interest is paid to FXCCMs on cash collateral held by the Clearing House. The London Deposit Rate (“LDR”) is applied. ~~This rate is set daily at 10.00 local London time.~~

A utilisation fee, known as an accommodation charge, is charged on securities lodged at the Clearing House to cover liabilities. For an overview of interest and accommodation charges, please contact the Clearing House’s Treasury Operations or follow the link below:

[Overview of interest and charges](#)<sup>6</sup>.

### 2K.9 **PAYMENT OF STAMP TAX**

Each FXCCM shall pay any Stamp Tax or duty levied or imposed upon it or in respect of its execution or performance of the Clearing Membership Agreement, the Regulations and the Procedures (including any registration of a ForexClear Contract) by a jurisdiction in which it is incorporated, organised, managed and controlled, or considered to have its seat, or in which a branch or office through which it is acting is located (“**Stamp Tax Jurisdiction**”) or by any other jurisdiction and shall indemnify the Clearing House against any Stamp Tax or duty levied or imposed upon the Clearing House or in respect of the Clearing House’s execution or performance of the Clearing Membership Agreement, the Regulations and the Procedures (including any registration of a ForexClear Contract) by any such Stamp Tax Jurisdiction or by any other jurisdiction.

### 2K.10 **DEFAULT MANAGEMENT**

#### 2K.10.1 **Portfolio Splitting:**

As part of the ForexClear Default Management Process, the Clearing House may divide an Auction Portfolio into two or more individual Auction Portfolios. In circumstances where such portfolio splitting is adopted, the Clearing House will, in consultation with the ForexClear Default Management Group, seek to create:

- (a) one or more individual Auction Portfolios which have comparatively greater levels of risk associated with them, thereby isolating such Auction Portfolios from those which are more risk neutral; and
- (b) one or more individual Auction Portfolios which are more risk neutral.

<sup>5</sup> [http://www.lchclearnet.com/Images/Section4\\_tcm6-43748.pdf](http://www.lchclearnet.com/Images/Section4_tcm6-43748.pdf)

<sup>6</sup> [http://www.lchclearnet.com/risk\\_management/ltd/acceptable\\_collateral.asp](http://www.lchclearnet.com/risk_management/ltd/acceptable_collateral.asp)

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Clearing House's execution or performance of the FCM Clearing Membership Agreement, the FCM Regulations and the FCM Procedures (including any registration of an FCM SwapClear Contract) by any such jurisdiction.

**2A.17 Section ~~168, Finance Act 1994~~[696, Corporation Tax Act 2009](#)**

~~Under section 696 Corporation Tax Act 2009 ("CTA 2009"), net payments in relation to certain derivative contracts (as defined in section 576 CTA 2009) by any company (company "A") to a non-UK resident are denied UK tax relief unless one or more of the following conditions in section 697 CTA 2009 are met:~~

~~Company A is a bank, building society, financial trader or recognised clearing house acting as principal who has entered into the qualifying contract for the purposes of a UK trade.~~

~~The non-UK resident holds the qualifying contract (as principal) for the purposes of its UK trade.~~

~~A double tax treaty, that makes provision for interest, is in force between the UK and the country of residence of the non-UK resident (or, if different, the country of residence of the beneficial counterparty to the contract).~~

~~The Clearing House is considered a "recognised clearing house" as defined in section 285 of FSMA 2000.~~

~~Any contract must not be submitted to the Clearing House by FCM Clearing Members for clearing where one or more of the conditions in section 697 CTA 2009 are not satisfied, thereby bringing the contract within section 696 CTA 2009, nor should any FCM Clearing Member knowingly permit any such contract to be submitted by a SwapClear Participant. Should this occur the SwapClear FCM Clearing Member in whose name the contract is to be or has been registered must promptly notify the Clearing House and, in any event, within 30 days of that FCM Clearing Member becoming aware of the situation. Having investigated the circumstances, the Clearing House has an obligation to notify the HM Revenue & Customs of the event and the Clearing House may, in its absolute discretion suspend any Executing Party (or any other party permitted by the Clearing House to submit FCM Transactions) submitting such a contract for registration from submitting FCM Transactions for registration. The Clearing House may also, in its absolute discretion take such action in respect of the SwapClear FCM Clearing Member as it deems fit in accordance with the Regulations. The SwapClear FCM Clearing Member shall indemnify the Clearing House against any Corporation Tax or any other tax levied or imposed upon the Clearing House in respect of any such contract, and any other costs and expenses incurred by the Clearing House in connection therewith.~~

~~If in doubt, FCM Clearing Members should consult their professional advisers as to the potential application of sections 696 and 697 CTA 2009 to their transaction~~

[The FCM Clearing Member agrees that should a situation arise where HM Revenue and Customs \("HMRC"\) raises an enquiry, or makes an information request, to the Clearing House regarding an FCM Transaction or FCM Contract that the FCM Clearing Member is submitting \(or has submitted\) to the Clearing House, and that enquiry or information request is in respect of the application of s696 - s697 Corporation Tax Act 2009, the FCM Clearing Member will use its reasonable endeavours to provide such information and support as the Clearing House may](#)

reasonably require in order to respond to and effectively deal with the queries raised by HMRC.

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## 2B.6.2 Other Financial Accounts

At the Clearing House's discretion, further financial accounts, used only to record financial balances, may be opened as follows:

	Code
Additional Margin accounts (House), used for holding additional cash in relation to Proprietary business	B
Additional Margin account (Client), used for holding additional cash in relation to FCM Client Business	E
Unallocated Excess account (Client), used for holding excess cash and non-cash collateral in relation to FCM Client Business	U

## 2B.6.3 Default Fund (DF) Account

Each FCM Clearing Member's Contribution is held in a separate financial account. The Default Fund account code is "F". Each FCM Clearing Member's ForexClear Contribution is held in an account that is separate from any financial account containing such FCM Clearing Member's Contribution relating to any other Business Categories of FCM Contracts.

## 2B.7 Novation and Registration

An NDF is an FCM ForexClear Transaction (i.e., eligible for registration as an FCM ForexClear Contract) if it satisfies the FCM ForexClear Eligibility Criteria (set out in Part B of the Schedule B to the FCM Regulations) at the Registration Time. [The Clearing House will register \(or reject\) an FCM ForexClear Contract in respect of an FCM ForexClear Transaction presented for registration as quickly as would be technologically practicable if fully automated systems were used \(i.e. the standard required in Part 39 of the CFTC Regulations\).](#)

Where an FX FCM accepts registration of the FCM ForexClear Transaction and notifies the Clearing House of such acceptance, the FX FCM shall, pursuant to FCM Regulation 40(b), (i) be deemed to have presented the FCM ForexClear Transaction for clearing and (ii) become obliged to pay all cover required by the Clearing House in connection with the registration of the FCM ForexClear Transaction upon request of the Clearing House. It is a condition for registration of an FCM ForexClear Transaction that, where both Executing Parties intend to register the FCM ForexClear Transaction through an FX FCM, both FX FCMs accept the FCM Notification (or where such Executing Parties nominate the same FX FCM, such FX

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FCM accepts both acceptances) and therefore submit the FCM ForexClear Transaction to the Clearing House.

~~It is a condition for registration of~~ Prior to registering an FCM ForexClear Contract ~~that the applicable FCM Clearing Member provide sufficient cover to,~~ the Clearing House ~~in respect of~~ will require the FX FCM in whose name such FCM ForexClear Contract ~~prior to registration. The FCM ForexClear Service will register FCM ForexClear Transactions submitted during the Opening Hours, provided that all FX FCMs have~~ is to be registered to provide and maintain sufficient cover for ~~their~~ its Liabilities (as defined in Section 2B.17) ~~at the time of the relevant Margin Run (or its estimated Liabilities) (taking into account any MER Buffer (as defined in Section 2B.12.2) and any MCE (as defined in Section 2B.12.3) made available by the Clearing House, if any) as a precondition to registration. This cover check process is referred to as the "Incremental Risk Check" (as defined in Section 2B.8.2).~~

If any FX FCM does not have sufficient cover for its Liabilities or estimated Liabilities (taking into account any MER Buffer and MCE provided by the Clearing House, if any) at the time of the relevant ~~Margin Run, then the registration of~~ Incremental Risk Check, then any submitted and unregistered FCM ForexClear ~~Transactions~~ Transaction to which it is a party ~~will be suspended until (1) sufficient cover is provided by the FCM Clearing Member; (2) until the FX FCM's portfolio risk is reduced by the FX FCM submitting for registration risk-reducing FCM ForexClear Transactions; or (3) until the FCM Clearing Member's portfolio risk is sufficiently reduced as a result of the application of updated market data, at the Clearing House's discretion~~ and that is subject to such Incremental Risk Check will be rejected.

Once the FCM ForexClear Transaction has passed the Validation Checks (as defined in Section 2B.8.1) ~~and the required cover has been provided by the relevant FX FCMs,~~ the Clearing House will send, via the FCM Approved Trade Source System, a message confirming the registration of the FCM ForexClear Transaction as ~~an~~ two FCM ForexClear ~~Contract~~ Contracts (or one FCM ForexClear Contract and one Non-FCM ForexClear Contract, as applicable) and and including a datestamp of the relevant registration time. For the purpose of the Part III of the FCM Regulations, the time of dispatch of such message shall be the "**Registration Time**" of ~~that~~ such FCM ForexClear Contract(s).

The definitive report of ~~the~~ a registered FCM ForexClear Contract will be shown on the "All Open Contracts" report issued by ForexClear Reporting (as defined in Section 2B.21).

If an FX FCM is declared a defaulter, the Clearing House will not register any ForexClear Transactions to which the defaulter was a party. ForexClear Transactions between non-defaulting FX FCMs will continue to be registered (assuming sufficient cover for their Liabilities or estimated Liabilities has been provided).

## 2B.7.1 Trade Capture

Once the FCM Approved Trade Source System receives the trade instructions from the FXPs who are parties to the trade, the FCM Approved Trade Source System matches both instructions (a "**trade**"). The FCM Approved Trade Source System validates the trade using the FCM ForexClear Product Eligibility Criteria as set forth in Part B to Schedule B to the FCM Regulations (the "**FCM ForexClear Eligibility Criteria**") and will, if appropriate, submit a single message containing the names of

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the FXPs who are parties to the trade and the terms of the trade to the Clearing House for registration and clearing, such matched trade being known as an “**FCM ForexClear Transaction**”. Once the Clearing House receives the FCM ForexClear Transaction message, it will send a message of acknowledgement back via the FCM Approved Trade Source System that the trade has been matched and accepted for clearing. Instructions which show that one or both sides of the trade do not meet the Validation Checks are rejected. Rejections are reported back to the FCM Approved Trade Source System.

The Clearing House will provide FCM ForexClear Transaction/FCM ForexClear Contract (as applicable) updates as and when these change (e.g., for acceptance, rejection and novation).

## 2B.7.2 **ForexClear FCM Approved Trade Source Systems**

Currently the FCM Approved Trade Source System designated by the Clearing House for ForexClear is MarkitSERV. Where the Clearing House approves additional FCM Approved Trade Source Systems, it will notify FCM Clearing Members via member circular.

FCM ForexClear Transactions submitted through an FCM Approved Trade Source System must be in an acceptable message format, as prescribed by the Clearing House.

Notwithstanding the designation by the Clearing House of any system as an FCM Approved Trade Source System, the Clearing House makes no warranty (and will accept no liability) as to the effectiveness, efficiency, performance or any other aspect of the services provided by any FCM Approved Trade Source System or the timeliness or otherwise of the delivery of any FCM ForexClear Transaction details by that FCM Approved Trade Source System to the Clearing House. Such matters form part of the relationship between the FCM Clearing Members and that FCM Approved Trade Source System and the terms of such relationship may entitle the FCM Approved Trade Source System to suspend the ability of an FX FCM to make submissions from time to time.

FX FCMs must not submit instructions to the Clearing House for trades which will not meet the FCM ForexClear Eligibility Criteria. The Clearing House will process any FCM ForexClear Transaction reported to it by an FCM Approved Trade Source System on an “as is” basis, and subject to the FCM Regulations and these FCM Procedures, will register any such FCM ForexClear Transaction on the basis of the data provided to it by the FCM Approved Trade Source System and approved by the relevant FCM Clearing Member. The Clearing House has no obligation to verify that the details received, properly reflect the trade entered into by the relevant Executing Parties.

The Clearing House accepts no liability for any error within or corruption of any data sent by an FCM Approved Trade Source System to the Clearing House or to an FCM Clearing Member or any delay in or failure of the transmission of such data to the Clearing House. In the event that the Clearing House registers any FCM ForexClear Contract on the basis of incorrect or corrupted data sent to it by an FCM Approved Trade Source System and accepted by an FCM Clearing Member, the FCM Clearing Member concerned shall be bound by the terms of such FCM ForexClear Contract(s), unless the FCM ForexClear Contract is subsequently cancelled in accordance with FCM Regulation 41.



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FCM Clearing Members shall ensure that transaction details accepted for registration are accepted by appropriately authorized personnel. Apart from the foregoing acceptance, the Clearing House is not able to, and will not, verify the authorization of the source of any details of any transaction reported to it for registration by any FCM Approved Trade Source System. The Clearing House shall have no liability in the event that any FCM Clearing Member suffers any loss through the unauthorized acceptance of an FCM Notification.

## **2B.8 Trade Validation and Registration**

### **2B.8.1 Process flow description**

The Clearing House performs a validation check on each trade submitted by FXPs to ensure that each such trade meets the FCM ForexClear Eligibility Criteria and the Counterparty [Technical Validation Check](#) (as defined below) [and Incremental Risk Checks \(as defined in Section 2B.8.2\)](#) required for FCM ForexClear Transactions (together the “**Validation Checks**”).

The fields checked are as follows:

- **Counterparties:** (a) are both parties submitting trade particulars FXPs and (b) has each FXCCM in whose name the FCM ForexClear Contract is to be registered not been declared a defaulter by the Clearing House? (together, the “**Counterparty [Technical Validation Check](#)**”);
- **Trade type:** is the instrument type an NDF?
- **Economic Terms:** does the trade include all the Economic Terms (as defined in Part A of Schedule B to the FCM Regulations)?
- **Currency Pairs:** are the Reference Currency and the Settlement Currency a Currency Pair (as defined in Schedule B to the FCM Regulations)?
- **Settlement Currency:** is the Settlement Currency USD?
- **Trade tenor eligibility:** does the scheduled Settlement Date fall on a date: (a) not earlier than three business days immediately following the date on which the trade is submitted to the Clearing House for registration (the “**Submission Date**”) and (b) not later than the date falling two calendar years plus two business days immediately following the Submission Date? If the FCM ForexClear Transaction arrives after the ForexClear date roll (22.00 hours, London time), the Submission Date is defined as the next good business day.

- **Valuation Date and Settlement Date:** do the Valuation Date and Settlement Date for the FCM ForexClear Transaction fall on a valid Business Day for the Currency Pair to which the FCM ForexClear Transaction relates? Does the Settlement Date fall on a Business Day after the Valuation Date? The table below shows the relevant Business days for determining the Valuation Date and Settlement Date:<sup>1</sup>

Currency Pair	Business Days for Valuation Date	Relevant City/Cities for Business Day for Valuation Date	Business Days for Settlement Date	Relevant City for Business Day for Settlement Date
USD-BRL	BRS & USD	Any of Rio de Janeiro, Brasilia or São Paulo and New York City	USD	New York City
<del>USD-RUB</del>	<del>USD &amp; RUB</del>	<del>New York and Moscow</del>	<del>USD</del>	<del>New York City</del>
<del>USD-INR</del>	<del>INR</del>	<del>Mumbai</del>	<del>USD</del>	<del>New York City</del>
USD-CLP	USD & CLP	New York and Santiago	USD	New York City
USD-CNY	CNY	Beijing	USD	New York City
<del>USD-KRW</del>	<del>KRW</del>	<del>Seoul</del>	<del>USD</del>	<del>New York City</del>
USD-COP	USD & COP	New York and Bogata	USD	New York City
USD-IDR	IDR & SGD	Jakarta and Singapore	USD	New York City
<u>USD-INR</u>	<u>INR</u>	<u>Mumbai</u>	<u>USD</u>	<u>New York City</u>
<u>USD-KRW</u>	<u>KRW</u>	<u>Seoul</u>	<u>USD</u>	<u>New York City</u>
USD-MYR	MYR & SGD	Kuala Lumpur and Singapore	USD	New York City
USD-PHP	PHP	Manila	USD	New York City
<u>USD-RUB</u>	<u>USD &amp; RUB</u>	<u>New York and Moscow</u>	<u>USD</u>	<u>New York City</u>
USD-TWD	TWD	Taipei	USD	New York City

<sup>1</sup> As amended from time to time as per the relevant EMTA Template.

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Trades that pass the Validation Checks are accepted and two trade records are created for the FCM ForexClear Transaction: one for the FCM ForexClear Contract between the Clearing House and the first FX FCM to the FCM ForexClear Transaction and the other for the FCM ForexClear Contract between the Clearing House and the second FX FCM to the FCM ForexClear Transaction (or the ForexClear Contract between the Clearing House and the ForexClear Clearing Member to the corresponding ForexClear Transaction pursuant to the UK General Regulations).

Provided each FXCCM has sufficient cover, the Clearing House will send a message via the FCM Approved Trade Source System confirming the registration or, where the trade fails a Validation Check, the trade will be rejected and a status message will be sent to the FCM Approved Trade Source System giving a reason for rejection.

As provided in Section 2B.7, in respect of messages confirming registration, the time of dispatch of such message shall be the Registration Time of that FCM ForexClear Contract.

The account (H or C) and sub-account (if applicable) into which each trade record is booked is derived from the BIC/unique identifier code within the message from the FCM Approved Trade Source System. The BIC links to the FX FCM reference data.

Both new trade records arising out of the ForexClear Transaction have the same unique ForexClear ID (the “**ForexClear ID**”). Any further events or actions are applied on the basis of this ForexClear ID, to ensure consistency.

#### 2B.8.2 [Incremental Risk Checks](#)

[The Clearing House will apply an “Incremental Risk Check” to each individual FCM ForexClear Transaction. The Incremental Risk Check uses a suitable approximation methodology to estimate an FX FCM’s Liabilities \(including the new FCM ForexClear Transaction\) against available cover \(taking into account any MER Buffer and MCE made available by the Clearing House, if any\). However, any FCM ForexClear Transaction submitted by that FXCCM that is risk reducing \(i.e. results in a reduction of that FX FCM’s Liabilities\) will always pass the Incremental Risk Check, even if the FX FCM does not have sufficient cover for its Liabilities.](#)

[Both FXCCMs to the FCM ForexClear Transaction must pass the Incremental Risk Check in order for the Clearing House to register two FCM ForexClear Contracts \(or one FCM ForexClear Contract and one Non-FCM ForexClear Contract, as applicable\) in those FXCCM’s names.](#)

[If either \(or both\) FXCCM\(s\) to an FCM ForexClear Transaction fail\(s\) the Incremental Risk Check\(s\), then the FCM ForexClear Transaction will be rejected immediately, and a rejection message will be issued to the FCM Approved Trade Source System indicating which \(or both\) FXCCM\(s\) has failed the Incremental Risk Check\(s\).](#)

#### [2B.8.3 Registration](#)

[Once it is confirmed that the transaction has passed the Validation Checks for the relevant FXCCMs, the Clearing House:](#)

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(a) registers the FCM ForexClear Transaction as two FCM ForexClear Contracts (or one FCM ForexClear Contract and one Non-FCM ForexClear Contract, as applicable) and changes the status for the FCM ForexClear Transaction to “NOVATED” and informs the FCM Approved Trade Source System; and

(b) in respect of relevant FCM ForexClear Contracts being cancelled, cancels the relevant FCM ForexClear Contracts and changes the FCM ForexClear Contract status of each relevant FCM ForexClear Contract to “CANCELLED”.

The Clearing House acknowledges the FCM ForexClear Contract status and sends a message to the FCM Approved Trade Source System that the FCM ForexClear Transaction/FCM ForexClear Contract (as the case may be) is either “NOVATED” or “CANCELLED” as appropriate.

#### 2B.8.4 **Manual Trade Rejection, Novation and Cancellation (Exceptional Event)**

From time to time, as an exceptional event, it may be necessary for the Clearing House to: (i) reject a trade submitted for registration; (ii) register an FCM ForexClear Transaction; or (iii) accept or reject a cancellation request for an FCM ForexClear Contract or an FCM ForexClear Transaction, in each case manually prior to a Margin Run, (e.g., in the case of a default event, when an FCM ForexClear Transaction needs to be registered immediately to expedite the hedging and auction process or to reject an FCM ForexClear Transaction received from a defaulted FX FCM).

The Clearing House acknowledges the action and sends a status message to the FCM Approved Trade Source System of either “REJECTED” in respect of trades being manually rejected; “NOVATED” in respect of trades being manually registered; and “CANCELLED” in respect of an FCM ForexClear Contract or an FCM ForexClear Transaction being manually cancelled, as appropriate.

#### 2B.8.38.5 **Trade Cancellation**

The Clearing House accepts cancellation messages from Executing Parties against both non-novated trades (FCM ForexClear Transactions) and novated trades (FCM ForexClear Contracts).

With respect to any FCM ForexClear Contract, cancellation messages may be submitted via the FCM Approved Trade Source System until such FCM ForexClear Contract is “fixed” (i.e., when its Settlement Rate has been determined on the relevant Valuation Date).

A successful cancellation message results in a “CANCELLED” status message if the FCM ForexClear Transaction or the FCM ForexClear Contract (as the case may be) is cancelled ~~before or after a Margin Run (as defined in Section 2B.15)~~ during the Opening Hours. The status messages are sent from the Clearing House to the FX FCM via the FCM Approved Trade Source System.

#### 2B.8.48.6 **Process flow description**

The Clearing House accepts trade cancellation instructions from the FCM Approved Trade Source System for FCM ForexClear Transactions or FCM ForexClear Contracts (as the case may be) that have previously been submitted to the FCM ForexClear Service. Cancellation instructions must include the ForexClear ID.

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~~The Clearing House acknowledges receipt of the instruction from the FCM Approved Trade Source System to cancel an FCM ForexClear Transaction/FCM ForexClear Contract (as the case may be) and sends a “PENDING CANCELLATION” message to the FCM Approved Trade Source System for the relevant FXPs.~~

The Clearing House checks that the cancellation instruction contains a valid ForexClear ID which relates to: (a) an FCM ForexClear Transaction or FCM ForexClear Contract (as the case may be) that has not been previously cancelled; and (b) in the case of an FCM ForexClear Contract only, an FCM ForexClear Contract with respect to which the relevant Valuation Date has not yet occurred.

Where a trade has already been rejected (as a result of having failed a [Counterparty Technical](#) Validation Check), the FCM ForexClear Service sends a “CANCEL REJECTED” message to the FCM Approved Trade Source System for the relevant FXPs.

~~If a Margin Run is currently in progress, the request to cancel is routed to a temporary queue for later manual action. Once the Margin Run has finished, the Clearing House will re-submit or reject the request to cancel.~~

~~If the FCM ForexClear Contract is “NOVATED”, the Clearing House amends the status of the relevant FCM ForexClear Contract to “PARKED PENDING CANCELLATION” and sends this information in a message to the FCM Approved Trade Source System for the relevant FXPs. The effect of the “PARKED PENDING CANCELLATION” FCM ForexClear Contract is included in the next Margin Run.~~

~~The “PARKED PENDING CANCELLATION” FCM ForexClear Contract is cancelled if all FXCCMs have pledged sufficient collateral with the Clearing House to cover the ForexClear margin requirement without that particular FCM ForexClear Contract. **If an FX FCM has insufficient** collateral pledged, the Clearing House makes a cash margin call via PPS. When confirmation of receipt of the margin call is received, the FCM ForexClear Contract is cancelled. The FCM ForexClear Contract is excluded from future Margin Runs and a “CANCELLED” message is sent to the FCM Approved Trade Source System for the benefit of the relevant FXPs to the now excluded FCM ForexClear Contract. In accordance with FCM Regulation 41, the time of dispatch of such message shall be the cancellation date and time in respect of that FCM ForexClear Contract. If an FX FCM is declared a defaulter, the Clearing House will not process any cancellation of an FCM ForexClear Contract to which the defaulter is a party, nor the corresponding FCM ForexClear Contract that arose from the same underlying FCM ForexClear Transaction. All FCM ForexClear Contracts between non-defaulting FX FCMs for cancellation (assuming sufficient cover for their Liabilities has been provided) will be cancelled.~~

All trade cancellation instructions must pass the Incremental Risk Check. If any FX FCM does not have sufficient cover for its Liabilities or estimated Liabilities (taking into account any MER Buffer and MCE provided by the Clearing House, if any) at the time of the relevant Incremental Risk Check, then any ForexClear trade cancellation instruction to which it is a party will be rejected immediately. However, any ForexClear trade cancellation instruction that is risk reducing (i.e. results in a reduction of that FX FCM's Liabilities) will always pass the Incremental Risk Check, even if the FX FCM does not have sufficient cover for its Liabilities.

## 2B.8.58.7 Trade Amendment

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No amendment of the financial terms of an FCM ForexClear Transaction or FCM ForexClear Contract is permitted. FX FCMs who wish to change the FCM Client information on a ForexClear Transaction should contact ForexClear Business Operations at 0207 426 3729 for further information.

#### ~~2B.8.6~~ **Backloading of Existing Trades**

~~The Clearing House provides the facility for FCM Clearing Members to load eligible existing FCM ForexClear Transactions, through an FCM Approved Trade Source System. Backloading requires bilateral agreement between the relevant Executing Parties and acceptance by the FCM Clearing Member(s) and the ForexClear Clearing Member, if any, of the full particulars required by the Clearing House for each such FCM ForexClear Transactions. Following acceptance, the backloaded trade shall be deemed to have been presented by the FCM Clearing Member(s) and the ForexClear Clearing Member, if any, for registration by the Clearing House. In any backloading of transactions where one leg is to be registered as a ForexClear Contract, the UK General Regulations will apply with respect to such registration of a Non-FCM ForexClear Contract.~~

~~For backloaded trades the Clearing House will notify FCM Clearing Members of their submission and status via FCM Clearing Member Reporting (see Section 2B.21). It is a pre-condition of registration that sufficient cover for IM and variation margin ("VM") is provided.~~[2B.8.7](#)[8.8](#)

#### **Valuation Date Event Management**

The Clearing House is the Calculation Agent and will store and apply the Settlement Rate Option and the Valuation Date for each FCM ForexClear Contract.

On the Valuation Date with respect to each FCM ForexClear Contract, the Settlement Rate will be retrieved from the Settlement Rate Option per Currency Pair in accordance with the relevant EMTA Templates (as referenced in Schedule B to the FCM Regulations). The Market Data provider for Settlement Rates is Reuters.

The FCM ForexClear Service applies the relevant Settlement Rate to FCM ForexClear Contracts using the following criteria:

- Settlement Rate Option source code (as below)
- Valuation Date



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From (and including) the Registration Time to (and including) the Business Day immediately preceding the Settlement Date, changes in the daily value of open FCM ForexClear Contracts will have resulted in VM credits and debits between the parties (as set out [at](#) in Section 2B.10.3). With respect to each FCM ForexClear Contract, on the Business Day immediately preceding the Settlement Date, the Clearing House nets the Settlement Currency Amount against the aggregate net VM which has been paid/received through the term of the FCM ForexClear Contract, the result of which is a Net Settlement Amount (“NSA”), which will be reflected in the FX FCMs’ cash accounts with the Clearing House on the Settlement Date. As such, with respect to each FCM ForexClear Contract, the payment in full of all the VM required during the term of such FCM ForexClear Contract shall satisfy the relevant party’s obligation to pay the Settlement Currency Amount on the Settlement Date of such FCM ForexClear Contract. For the purpose of providing Nostro reconciliation, to the relevant parties, the Clearing House will provide Reporting (as defined in Section 2B.21 of these FCM Procedures) which will reflect an entry for the “Settlement Currency Amount” and a separate entry for the reversal of the aggregate net Variation Margin which has been paid/received through the term of the FCM ForexClear Contract. This paragraph applies even if the Settlement Date has been adjusted in accordance with the FCM ForexClear Contract Terms.

#### 2B.8.10 Reference Data

##### *Holiday Event Calendar:*

For the FCM ForexClear Service the Clearing House uses the SwapsMonitor Financial Calendar (as published by Swaps Monitor Publications, Inc.) the (“SwapsMonitor Financial Calendar”) in order to determine holidays. This requires all FX FCMs to be licensees of the SwapsMonitor Financial Calendar. The calendars, as applicable to the FCM ForexClear Service, will be available online for inspection and for file download from Clearing Member Reporting. SwapsMonitor is used on a daily basis across all calendars.

##### *Date Adjustment:*

When a new holiday is declared in a particular jurisdiction, an update to the holiday calendar affecting FCM ForexClear Contracts for which the Valuation Date is due on the new holiday is required. The Valuation Date and the Settlement Date will be adjusted in accordance with the provisions of the EMTA Template for the relevant Currency Pair.

The Clearing House may accede to a request from FX FCMs to suspend processing of adjustments to the relevant affected Valuation Dates and Settlement Dates so as to allow FX FCMs to cancel and rebook any FCM ForexClear Contracts following any such adjustment. In such case, the Clearing House will inform FX FCMs as to the timing and duration of any such suspension.

#### 2B.9 Market Data

##### 2B.9.1 Sources used by FCM ForexClear Service

The FCM ForexClear Service collates instrument quotes for the following from multiple market sources (as detailed in Section 2B.9.2) in relation to each Currency Pair:

- FX spot rates (“FX Spot Rates”);

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Separate Initial Margin calculations are performed for an FX FCM's house "H" and client "C" accounts.

The Clearing House reserves the right to require additional amounts of cover from a specific FX FCM or from all FX FCMs in accordance with FCM Regulation 9.

#### 2B.11.1 **Credit Risk Multiplier ("CRiM")**

The CRiM applied will consider the FX FCM's credit worthiness, Initial Margin level and/or stress testing exposures in accordance with LCH.Clearent Credit Risk Policy.

#### 2B.11.2 **Liquidity Risk Multiplier ("LRMM")**

Where an FXCCM has an exposure above set thresholds in a particular Currency Pair or tenor of FCM ForexClear Contracts, the LRMM is applied and additional IM is charged. The LRMM is calculated in accordance with parameters set by the ForexClear Default Management Group (the "FXDMG") according to tenor and notional concentration. The thresholds are reviewed quarterly and use prevailing perceptions of market conditions as seen by the FXDMG.

LRMM increases IM called due to concentrated Currency Pair exposure by tenor of FCM ForexClear Contracts. Additional IM is called to mitigate the risk of a position not being closed out in seven days and/or the extra hedging costs that may be incurred.

The Clearing House calculates and applies LRMM as part of each Margin Run, based on the IM for each Currency Pair in the FX FCM's house position-keeping account.

#### 2B.11.3 **Sovereign Risk multiplier ("SRM")**

An SRM is applied when there is a perceived risk of sovereign default or a change in a country's currency regime which would impact FCM ForexClear Contracts transacted in certain Reference Currencies. The SRM takes into account:

- i. the probability of sovereign default or a regime change event occurring; and
- ii. the depreciation or appreciation risk of the Reference Currencies.

The SRM sovereign default probability is calculated by assessing the three month probability of default for the different sovereign countries, based on the country's 5-year credit default swap (CDS) spread. The probability of a regime change event is estimated based on historical events and publicly available data for the different sovereign countries. The country CDS spreads are reviewed and updated weekly.

The Clearing House calculates and applies the SRM as part of each Margin Run, for each Currency Pair in the FX FCM's house position-keeping account.

### 2B.12 **[Additional Margin, MER Buffer, MCE and Intraday Margin Calls](#)**

#### [2B.12.1](#) **Additional Margin**

The Clearing House may require an FX FCM to pay additional amounts (in addition to Initial Margin and Variation Margin) as security for the performance by an FX FCM of its obligations to the Clearing House in respect of FCM ForexClear Contracts to

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which such FX FCM is a party in accordance with FCM Regulation 9. This may be required from time to time where, in the opinion of the Clearing House, the risk inherent in FCM ForexClear Contracts to which such FX FCM is a party not adequately covered by Initial Margin or Variation Margin. This may cover instances where stress testing losses under various scenarios provided in the ForexClear Default Fund Rules have increased.

#### **2B.12.1.2 Minimum Excess Requirement Buffer (“MER Buffer”)**

To facilitate the intraday registration of FCM ForexClear Contracts, at each EOD Margin Run, the Clearing House will call from each FX FCM, separately in respect of its Proprietary Account and each of its FCM Client Segregated Sub-Accounts, an amount of IM referred to as “Minimum Excess Requirement Buffer” (“MER Buffer”) in respect of that FX FCM’s and its FCM Clients’ potential intraday Liabilities (as defined below in Section 2B.17) for the following day. MER Buffer is part of the FX FCM’s Required Margin. An FCM’s MER Buffer is calculated in respect of an FCM’s Proprietary Account and each of its FCM Client Segregated Sub-Accounts, and cover posted in respect of MER Buffer is credited to each account (as applicable) as IM.

The required amount of MER Buffer for each applicable account of an FX FCM is expressed as a percentage of start-of-day portfolio IM for such account. The MER Buffer for each account is calibrated daily based on recent activity within the relevant account such that higher levels of intraday trade volumes lead to a proportionally higher MER Buffer requirement and vice versa. The MER Buffer percentage is calculated as a given percentile of intraday peak relative IM changes over a given number of historical business days.

The parameters of the MER Buffer model are: MER percentile, MER lookback period, relative MER cap and absolute MER floor. The values of these parameters are calibrated based on the quantitative analysis of the FX FCM’s IM history across the ForexClear Service.

As FCM ForexClear Contracts are registered in an FX FCM’s relevant accounts, the Clearing House will, in accordance with the Margin Run process, calculate the FX FCM’s intraday Liabilities (or, in the case of an Incremental Risk Check, the FX FCM’s estimated Liabilities), taking into account any IM posted as MER Buffer in the applicable account.

At each EOD Margin Run, the Clearing House will recalculate and call the FCM’s Required Margin, which includes MER Buffer for all accounts.

#### **2B.12.3 Mutualized Credit Extension (“MCE”)**

If an FX FCM has insufficient cover to enable the registration of further FCM ForexClear Contracts in a relevant FCM Client Segregated Sub-Account or its Proprietary Account, then the Clearing House may make available to an FX FCM intraday credit (in the form of intraday Initial Margin forbearance) by way of a Mutualized Credit Extension (“MCE”) to enable the FX FCM to register further FCM ForexClear Contracts. An FX FCM may utilize MCE intraday on a one-to-one basis to the value of the IM that would have been required to cover that FX FCM’s Liabilities (or, in the case of Incremental Risk Checks, the FX FCM’s estimated Liabilities). The amount of the MCE made available to an FX FCM in aggregate during any one day must not exceed an amount that is the lesser of: (a) 50% of the ForexClear MCE Default Fund Buffer; or (b) the sum of the FX FCM’s IM and

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ForexClear Contribution. The amount of the “ForexClear MCE Default Fund Buffer” is currently zero and therefore the Clearing House will not provide MCE to any FX FCM until further notice.

For the avoidance of doubt, MCE is provided in the form of intraday Initial Margin forbearance and an FX FCM’s utilization of MCE does not give rise to any payment or transfer of collateral by the Clearing House nor does it result in any use of the ForexClear Fund Amount (except in events of default).

All MCE credit extended on any given day shall be revoked at the close of business on such day (unless revoked earlier in accordance with the following paragraph). As part of each EOD Margin Run, the Clearing House will call IM from each FX FCM to replace any utilized MCE and that FX FCM’s MCE will be reset for the following day (assuming such FX FCM has satisfied any margin calls). Any failure of an FCM Clearing Member to satisfy an IM call relating to the replacement of MCE constitutes a default by such FCM Clearing Member—just as any failure by an FCM Clearing Member to satisfy any other type of IM call constitutes a default

The MCE is made available at the Clearing House’s sole discretion. In particular (but without limitation), the Clearing House may refuse to extend MCE to any or all FX FCMs on risk management grounds, and may at any time require an FXCCM to provide IM in place of any utilized MCE.

#### **2B.12.4 Intra-day Margin Calls**

In accordance with the Clearing House’s FCM Regulations, the Clearing House is entitled to make additional margin calls for payment the same day (intra-day margin calls) where it is considered necessary. Intra-day margin calls can be called at any time throughout the business day (08:30 to 21:00 hours, London time). Intra-day margin calls will usually be made via the Protected Payments System (PPS) (see Section 2B.22.3).

In certain circumstances the Clearing House may wish to make a call for additional funds after the closure of London PPS facilities at 16:00 hours, London time. In this event the Clearing House will require payment of additional funds through PPS facilities in the USA (see Section 3.2.2). Members must ensure, in these circumstances, that they are in a position to fund such calls through their nominated US PPS account within one hour of the call.

#### **2B.13 Initial Margin Management Events Service (“IMMES”)**

IMMES aims to find risk and IM reducing FCM ForexClear Contracts and ForexClear Contracts amongst participating FXCCMs. IMMES can be run on all Currency Pairs that are cleared through the FCM ForexClear Service, although the primary focus will be on those Currency Pairs that contribute to the largest IM requirement. IMMES is available in respect of an FX FCM’s house account only.

FX FCMs who wish to obtain further information about, or to participate in, IMMES should contact ForexClear Business Operations at 0207 426 7527. To be eligible to participate in IMMES, an FX FCM must enter into an IMMES agreement with the Clearing House (the “**IMMES Agreement**”).

##### **2B.13.1 Step-by-step details**

The Clearing House usually conducts the IMMES at least monthly.

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A reminder that there is an IMMES run taking place is sent out the week before to each FXCCM which is a party to an IMMES Agreement with LCH and each FXCCM is asked to confirm their participation.

On the day of the scheduled IMMES run, the Clearing House analyses all participating FXCCMs' profiles to find FCM ForexClear Contracts and ForexClear Contracts with equivalent and opposite delta values by tenor and Currency Pair to compile a list of offsetting suggested trades that are mutually beneficial in terms of IM reduction (the "IMMES Trades").

The Clearing House then analyses the relevant FX FCM's FCM ForexClear Contract portfolios with the IMMES Trades and determines the change in NPV, IM, delta and zero yield sensitivity from the IMMES Trades.

The FXCCMs on either side of the trades are advised of the economic details of the IMMES Trades.

If the two FXCCMs agree to undertake the IMMES Trades, the Clearing House will then put them in touch with each other. The FXCCMs will enter into the bilateral IMMES Trades and submit them to the Clearing House through the FCM Approved Trade Source System for registration.

## **2B.14 Intra-Day Margin Call: Collateral Management**

### **2B.14.1 General – Intra-day Margining**

Following an intra-day margin call (except as notified otherwise by an FX FCM at the time of an intra-day margin call), the Clearing House will deduct cash, in the appropriate currency, directly from the relevant FX FCMs PPS account to cover that intra-day margin call.

Cash payments in respect of intra-day cover are accepted only in USD by the Clearing House.

Each FCM Clearing Member must ensure that it has sufficient cash funds in place with their PPS Bank(s) in order to avoid any intra-day liquidity issues.

## **2B.15 General Margining Process**

A "Margin Run" is the process by which the Clearing House calculates an FX FCM's Initial Margin requirement (if any) and, during an EOD Margin Run, its Variation Margin requirement and PAI adjustment (if required) (together its "Margin Requirements"); and ~~(a)~~ applies that FX FCM's cover to satisfy the Margin Requirements for that FX FCM in respect of the FCM ForexClear Contracts within that FX FCM's portfolio; ~~and/or (b) calls for additional cover (if required) to cover the relevant Margin Requirement.~~

## **2B.16. Types of Margin Runs**

There are ~~four~~three types of Margin Run:

### **2B.16.1 ITD / Ad Hoc – Day Margin Run**

ITD/Ad-hoc London daytime Margin Runs are initiated as and when dictated by the schedule published by the Clearing House and notified to FX FCMs from time to time

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(the “**Schedule**”) or as necessary, and are performed in the time period during which a PPS call can be made (the “**ITD/Ad-hoc Day Margin Run**”). PPS times are published on the Clearing House’s website at: [http://www.lchclearnet.com/risk\\_management/itd/pps/](http://www.lchclearnet.com/risk_management/itd/pps/).

ITD/Ad-hoc Margin Runs are calls in respect of Initial Margin only. Variation Margin and PAI are not included in ITD/Ad-hoc Margin Runs.

#### 2B.16.2 **EOD Margin Run**

The EOD Margin Run is the final ITD/Ad-hoc Day Margin Run that completes by ~~22~~22:00 hours, London time, on that business day (the “**EOD Margin Run**”).

EOD Margin Runs are calls in respect of Initial Margin as well as Variation Margin, NSA and PAI.

#### 2B.16.3 **ITD / Ad Hoc - Night Margin Run**

ITD/Ad-hoc London overnight Margin Runs are initiated as and when dictated by the Schedule or as necessary, and are performed in the time period during which a PPS call cannot be made (the “**ITD/Ad-hoc Night Margin Run**”).

ITD/Ad-hoc Night Margin Runs are calls in respect of Initial Margin only. Variation Margin, NSA and PAI are included in ITD/Ad-hoc Night Margin Runs, but only as a component of IM.

#### ~~2B.16.4 **Mini Margin Run**~~

~~Mini Margin Run’s (MMRs) will run continuously during the “Service Operating Hours” when ITD/Ad Hoc or EOD Margin Runs are not running or other key daily processes (such as banking opening / closure and date roll) are not running.~~

~~Mini Margin Run’s can take place in (1) MMR Day Margin Run Mode where they follow the same principles as the “ITD Day Margin Run” or (2) MMR Night Margin Run Mode where they follow the same principles as the “ITD Night Margin Run”.~~

#### 2B.17 **Margin Run Process**

Margin Runs cover all registered FCM ForexClear Contracts with the status “NOVATED”, ~~FCM ForexClear Transactions with the status “PARKED” and FCM ForexClear Contracts in respect of which the Clearing House has received a request for cancellation with the status “PARKED PENDING CANCELLATION”.~~ Margins Runs will not cover FCM ForexClear Transactions for which registration has been suspended pursuant to the application of Section 2B.7.

Margin runs will be carried out for each FCM ForexClear Contract and FCM ForexClear Transaction (as the case maybe) until (and including) the later of:

- EOD Margin Run on the Settlement Date; or
- EOD Margin Run after the Settlement Rate is published.

During every Margin Run the Clearing House calculates the Initial Margin required and (where applicable) the Variation Margin and PAI required to cover each FX



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FCM's relevant open FCM ForexClear Contracts and FCM ForexClear Transactions (each a "**Liability**" and together the "**Liabilities**").

Each FX FCM's Liability is offset against that FX FCM's non-cash collateral account (being a sub-account of the FX FCM's financial account) (for IM only) or funds in that FX FCM's cash account (being a sub-account of the FX FCM's financial account) (for VM/PAI/IM). Initial Margin will always be a Liability (payable to the Clearing House) and Variation Margin, NSA and PAI may be a cash posting or a Liability (payable by, or to, the Clearing House, respectively).

FX FCMs are informed via email of their Liabilities as a percentage of their current total cover (such percentage being shown as a percentage of the aggregate cover in their cash and non-cash collateral account(s)) and are directed to the ForexClear Services portal (being a secure website made available to FXCCMs) (the "**ForexClear Service Portal**") which provides reports (at the times specified in Section 7.1) informing FX FCMs of their (i) total Liabilities under the FCM ForexClear Service; (ii) current total cover posted with the Clearing House for [the FCM ForexClear Service \(including any MCE, if any\)](#); and (iii) Liabilities as a percentage of their current total cover (such percentage being shown as a percentage of the aggregate cover in their cash and non-cash collateral account(s)).

If following a Margin Run an FX FCM is required to provide additional collateral, this is also indicated by email and via the ForexClear Service Portal. ~~Registration of FCM ForexClear Transactions and cancellations of FCM ForexClear Contracts to which that FX FCM is a party will be suspended pursuant to Section 2B.7. In the case of ITD/Ad-hoc Margin Runs, where an FX FCM's Liabilities exceed its available cover and any MCE then the Clearing House will issue a margin call for the amount of the shortfall plus 50% of the FX FCM's MER Buffer amount.~~

~~Once it is confirmed that all FXCCMs have sufficient cover, the Clearing House:~~

- ~~• registers each FCM ForexClear Transaction as two FCM ForexClear Contracts (or registers an FCM ForexClear Contract and a ForexClear Contract under the UK General Regulations, if applicable) and changes the status for each FCM ForexClear Transaction from "PARKED" to "NOVATED" and informs the FCM Approved Trade Source System; and~~
- ~~• in respect of relevant FCM ForexClear Contracts being cancelled, cancels the relevant FCM ForexClear Contracts and changes the FCM ForexClear Contract status of each relevant FCM ForexClear Contract from "PARKED" to "CANCELLED".~~

~~The Clearing House acknowledges the FCM ForexClear Contract status and sends a message to the FCM Approved Trade Source System that the FCM ForexClear Transaction/FCM ForexClear Contract (as the case may be) is either "NOVATED" or "CANCELLED" as appropriate.~~

## **2B.18 Transfer of FCM Clients**

In certain circumstance the Clearing House will transfer FCM ForexClear Contracts from one Carrying FCM Clearing Member to a Receiving FCM Clearing Member on behalf of an FCM Client and pursuant to FCM Regulation 8(b) or 8(c).

### **2B.18.1 Partial Transfers**

<b>Time</b> (all references below are to New York time, unless stated otherwise)	<b><u>Partial Transfer</u></b>	<b><u>Full Transfer (with collateral)</u></b>	<b><u>Full Transfer (without collateral)</u></b>
Day 3: 11:00	Deadline for receipt by Clearing House of any additional cover from the Carrying FCM Clearing Member or the Receiving FCM Clearing Member required to enable the transfer.	Deadline for receipt by Clearing House of any additional cover from the Receiving FCM Clearing Member required to enable the transfer.	Deadline for receipt by Clearing House of any additional cover from the Receiving FCM Clearing Member required to enable the transfer.
Day 3: 11:00	Clearing House transfers FCM ForexClear Contracts.	Clearing House transfers FCM ForexClear Contracts and associated collateral.	Clearing House transfers FCM ForexClear Contracts.
Day 3: 11:30	Clearing House publication of relevant transfer reporting in relation to the FXM ForexClear Contracts transferred to both the Carrying FCM Clearing Member and the Receiving FCM Clearing Member	Clearing House publication of relevant transfer reporting in relation to the FXM ForexClear Contracts transferred to both the Carrying FCM Clearing Member and the Receiving FCM Clearing Member.	Clearing House publication of relevant transfer reporting in relation to the FXM ForexClear Contracts transferred to both the Carrying FCM Clearing Member and the Receiving FXM Clearing Member.

## **2B.19 Proprietary Account Position Transfers**

The FCM ForexClear Clearing System provides functionality for the transfer of positions from an FCM Clearing Member's Proprietary Account, either in respect of FCM ForexClear Contracts held on an FCM Clearing Member's own behalf or in respect of FCM ForexClear Contracts held on behalf of an Affiliate. In either case, any such transfer may only occur if the Receiving FCM Clearing Member is an Affiliate of the Carrying FCM Clearing Member. An FCM Clearing Member who wishes to effect a position transfer to another FCM Clearing Member should contact the Clearing House's Risk Management Department.

[Before the completion of a portfolio transfer, the Clearing House will perform a margin impact analysis of the transfer to the source and destination portfolios. The Clearing House will advise the relevant FX FCM regarding any additional collateral that may be required in order to complete the portfolio transfer.](#) Transfers will only be effected once adequate cover has been provided by both parties to the transfer. Transfers of Affiliate positions shall not be permitted to another FCM Clearing Member's Proprietary Account unless such Affiliate is an Affiliate of the FCM Clearing Member receiving the transferred position.

## **2B.20 FCM Clearing Member's Client Fund Transfer**

The FCM ForexClear Clearing System provides functionality for the transfer of an individual FCM ForexClear Contract whereby an FCM Client has incorrectly booked

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the FCM ForexClear Contract to a fund, and wishes to re-locate the FCM ForexClear Contract to an alternative fund within the accounts of the same FCM Clearing Member.

Transfers can only occur based upon the below rules:

A valid request has been received by the Clearing House from the applicable FCM Clearing Member on behalf of the FCM Client, as per Appendix 2B.B.

The FCM ForexClear Contract is registered by the Clearing House, and sufficient collateral is held to cover the FCM ForexClear Contract.

Transfers are only handled on an individual trade by trade basis, and within the accounts of a single FCM Clearing Member (i.e., not a transfer between two FCM Clearing Members).

Transfer requests received by ForexClear Operations prior to 17:00 London time will be managed and included in the 19:30 London time margin run. The transfer of the FCM ForexClear Contract will occur provided that sufficient cover is held for the FCM Clearing Member.

## **2B.21 ForexClear Reporting**

The Clearing House produces a suite of treasury reports for members across each of the Clearing House services. Some of these reports are cross-service reports and others are specific to the ForexClear Service (including the FCM ForexClear Service), thus an FX FCM will receive reports in respect of the FCM ForexClear Service and may also receive cross-service reports where it is a member of another service. Follow this link to the information available from the LCH.Clearent website: [Banking Reports](#).<sup>2</sup>

In respect of the FCM ForexClear Service, on each business day the Clearing House will provide two sets of reports to FX FCMs: (1) Banking Reports; and (2) reports direct from the FCM ForexClear Service (together "**ForexClear Reporting**"). These Procedures reference the FCM ForexClear Service specific reports. Each day's report will remain available for download by FX FCMs from the FCM ForexClear Service Portal for five days.

### **2B.21.1 Margin Liability Reports**

Reports detailing Liabilities are provided to FX FCMs following every scheduled Margin Run in accordance with Section 2B.17 and where additional collateral cover has been called by the Clearing House. Additionally, a report, including sensitivities, is provided at ForexClear Contracts level at 22.00 hours, London time. If the EOD Margin Run has not completed by 22:00 hours, London time, on a particular business day, the report generated at EOD will reflect that not all the Liabilities of all FXCCMs as covered by collateral by 22:00 hours, London time. [A report will also be provided detailing an FX FCM's cover utilisation level. If an FX FCM's Liabilities exceed its total available cover, ForexClear will alert the FX FCM.](#)

### **2B.21.2 Market Data Reports**

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<sup>2</sup> [http://www.lchclearnet.com/Images/banking\\_report\\_tcm6-48011.pdf](http://www.lchclearnet.com/Images/banking_report_tcm6-48011.pdf)

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Reports detailing Market Data are provided to FX FCMs following every scheduled Margin Run. They include reports of Market Data and Settlement Rate used in the valuation of FCM ForexClear Contracts and reports of Market Data shifts for each historic scenario used in IM calculations.

### 2B.21.3 Trade Reports

Reports are provided that enable FX FCMs to monitor their firms' trading events and positions in respect of ForexClear. Reports on open FCM ForexClear Contracts and on cancelled FCM ForexClear Transactions and FCM ForexClear Contracts are generated at EOD and reports on transferred FCM ForexClear Contracts are made on an ad hoc basis.

### 2B.21.4 Trade Fixing and Settlement Reports

Reports are published on each business day detailing the FCM ForexClear Contracts to which the Settlement Rate has been applied on that business day (the "NDF Fixings" report), FCM ForexClear Contracts that have been settled during that current business day (the "Settlements Today" report) and FCM ForexClear Contracts that will settle the next business day (the "NDF's Fixed with Settlement Tomorrow" report).

### 2B.21.5 Fees Reports

Reports on trading volumes on a daily and monthly basis are provided to FX FCMs. Monthly reports are provided on the last business day of each month. They include the full trading volumes on which the monthly transaction fees will be charged to those FX FCMs choosing to have tariffs levied per transaction.

### 2B.21.6 Banking Reports

[Follow this link for a full list of Banking reports.](#)<sup>3</sup>

### 2B.21.7 Real-time Reporting

[A near real-time view of member liabilities, collateral pledged, collateral and credit utilisation will be available from the ForexClear Service Portal \(referred to in Section 2B.17\)](#)

## 2B.22 Treasury Operations & Collateral Management

### 2B.22.1 Cover Distribution

The Clearing House nets each FX FCM's Liabilities (i.e., margins and multipliers) and then the total of cash collateral and non-cash collateral are applied to offset those net Liabilities. This process is known as cover distribution ("Cover Distribution"). FX FCMs can choose whether cash or non-cash collateral should be applied first. At the end of this process, if an FX FCM has a shortfall, a PPS (as defined in Section 2B.22.3 below) call for additional collateral is made. Conversely, any excess cash remaining after the final overnight Margin Run can, if requested before 09:30 hours, London time, be repaid to the FX FCM.

### 2B.22.2 Cover Distribution Notification

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<sup>3</sup> [http://www.lchclearnet.com/membership/lttd/training\\_and\\_education/reference\\_guide\\_request\\_form.asp](http://www.lchclearnet.com/membership/lttd/training_and_education/reference_guide_request_form.asp)

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FX FCMs are informed via email of their: Liabilities as a percentage of their current total cover (such percentage being shown as a percentage of the aggregate cover in their cash and non-cash collateral account(s)) and are directed to the ForexClear Service Portal which provides reports (at the times specified in Section 2B.20.1) informing FX FCMs of their (i) total Liabilities under the ForexClear Service; (ii) current total cover posted with the Clearing House for ForexClear; and (iii) Liabilities as a percentage of their current total cover (such percentage being shown as a percentage of the aggregate cover in their cash and non-cash collateral account(s)).

The reports accessed via the ForexClear Service Portal will enable FX FCMs to log in and examine the underlying data.

### 2B.22.3 Protected Payment System

The Clearing House operates the Protected Payments System (“PPS”) for transferring funds to and from its FX FCMs to cover their Margin Requirements. This is similar to a direct debit arrangement where the PPS bank confirms that any Clearing House-specified call is met.

FX FCMs are obliged to hold an account with a London PPS bank in USD, as well as a USD account with a PPS bank in the USA.

Follow the link below for a list of PPS banks operating in the UK and US:

[List of PPS Banks](#)<sup>4</sup>

### 2B.22.4 Acceptable Forms of Collateral Cover

Follow the link below for a detailed description of acceptable collateral and processes applicable from time to time:

[Risk Management/LCH.Clearent Ltd/Acceptable Collateral](#)<sup>5</sup>

### 2B.21.5 Interest and Accommodation

Interest is paid to FX FCMs on cash collateral held by the Clearing House. The London Deposit Rate (“LDR”) is applied. ~~This rate is set daily at 10.00 hours, London time.~~

A utilization fee, known as an accommodation charge, is charged on securities lodged at the Clearing House to cover liabilities. For an overview of interest and accommodation charges, please contact the Clearing House’s Treasury Operations or follow the link below:

[Overview of interest and charges](#)<sup>6</sup>

## 2B.23 Default Management

### 2B.23.1 Portfolio Splitting

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<sup>4</sup> [http://www.lchclearnet.com/risk\\_management/ltd/pps/](http://www.lchclearnet.com/risk_management/ltd/pps/)

<sup>5</sup> [http://www.lchclearnet.com/Images/Section4\\_tcm6-43748.pdf](http://www.lchclearnet.com/Images/Section4_tcm6-43748.pdf)

<sup>6</sup> [http://www.lchclearnet.com/risk\\_management/ltd/acceptable\\_collateral.asp](http://www.lchclearnet.com/risk_management/ltd/acceptable_collateral.asp)

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auctioning/liquidating the Hedged Account and the aggregate notional value of all FCM ForexClear Contracts in the Hedged Account, each of clauses (1) and (2) as determined by the Clearing House. The allocations described in this clause (v) are without reference to any Risk Factor or Existing Non-Porting Clients Combined Risk Factor.

*Settlement of Non-Porting Clients Following Liquidation of Hedged Account.* Following the liquidation of a Hedged Account, the Clearing House shall allocate the appropriate gains and losses (as determined in accordance with the above provisions) to each Non-Porting Client's FCM Client Segregated Sub-Account.

## **2B.24 Payment of Stamp Tax**

Each FCM Clearing Member shall pay any stamp tax or duty levied or imposed upon it or in respect of its execution or performance of the FCM Clearing Membership Agreement, the FCM Default Fund Agreement, the FCM Regulations and the FCM Procedures (including any registration of an FCM ForexClear Contract) by a jurisdiction in which it is incorporated, organized, managed and controlled, or considered to have its seat, or in which a branch or office through which it is acting is located or by any other jurisdiction and shall indemnify the Clearing House against any stamp tax or duty levied or imposed upon the Clearing House or in respect of the Clearing House's execution or performance of the FCM Clearing Membership Agreement, the FCM Regulations and the FCM Procedures (including any registration of an FCM ForexClear Contract) by any such jurisdiction.

## **2B.25 Section ~~168, Finance Act 1994~~696, Corporation Tax Act 2009**

~~[Under section 696 Corporation Tax Act 2009 ("CTA 2009"), net payments in relation to certain derivative contracts (as defined in section 576 CTA 2009) by any company (company "A") to a non-UK resident are denied UK tax relief unless one or more of the following conditions in section 697 CTA 2009 are met:~~

~~Company A is a bank, building society, financial trader or recognised clearing house acting as principal who has entered into the qualifying contract for the purposes of a UK trade.~~

~~The non-UK resident holds the qualifying contract (as principal) for the purposes of its UK trade.~~

~~A double tax treaty, that makes provision for interest, is in force between the UK and the country of residence of the non-UK resident (or, if different, the country of residence of the beneficial counterparty to the contract).~~

~~The Clearing House is considered a "recognised clearing house" as defined in section 285 of FSMA 2000.~~

~~Any contract must not be submitted to the Clearing House by FCM Clearing Members for clearing where one or more of the conditions in section 697 CTA 2009 are not satisfied, thereby bringing the contract within section 696 CTA 2009, nor should any FX FCM knowingly permit any such contract to be submitted by a ForexClear Participant. Should this occur the FX FCM in whose name the contract is to be or has been registered must promptly notify the Clearing House and, in any event, within 30 days of that FCM Clearing Member becoming aware of the situation.~~



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~~Having investigated the circumstances, the Clearing House has an obligation to notify the HM Revenue & Customs of the event and the Clearing House may, in its absolute discretion suspend any Executing Party submitting such a contract for registration from the Register of ForexClear Dealers. The Clearing House may also, in its absolute discretion take such action in respect of the FX FCM as it deems fit in accordance with the Regulations. The FX FCM shall indemnify the Clearing House against any Corporation Tax or any other tax levied or imposed upon the Clearing House in respect of any such contract, and any other costs and expenses incurred by the Clearing House in connection therewith.~~

~~If in doubt, FCM Clearing Members should consult their professional advisers as to the potential application of sections 696 and 697 CTA 2009 to their transaction.]~~FCM Clearing Member agrees that should a situation arise where HM Revenue and Customs ("HMRC") raises an enquiry, or makes an information request, to the Clearing House regarding an FCM Transaction or FCM Contract that the FCM Clearing Member is submitting (or has submitted) to the Clearing House, and that enquiry or information request is in respect of the application of s696 - s697 Corporation Tax Act 2009, the FCM Clearing Member will use its reasonable endeavours to provide such information and support as the Clearing House may reasonably require in order to respond to and effectively deal with the queries raised by HMRC.