



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

December 13, 2013

Ms. Melissa Jurgens  
Commodity Futures Trading Commission  
1155 21st Street NW  
Three Lafayette Centre  
Washington DC 20581

**RE: Changes to LCH.Clearnet Limited's Rules and Regulations in relation to margin-taking, payment netting and close-out netting**

Dear Ms. Jurgens:

Pursuant to §40.6(a) of the Commission Regulations, LCH.Clearnet Limited ("LCH.Clearnet"), a Derivatives Clearing Organization registered with the Commodity Futures Trading Commission ("CFTC"), hereby submits proposed changes to its rules pursuant to Commission Regulation §40.6. As detailed more fully below, LCH.Clearnet proposes to implement the changes to its rulebook with effect from December 31, 2013.

**Part I: Explanation and Rationale for the Amendments**

LCH.Clearnet is planning to make clarificatory amendments to certain provisions dealing with, or impacting on, margin-taking, payment netting and close-out netting. The intention is to increase transparency as to how the LCH.Clearnet collateralisation mechanics work with the benefit that the relevant provisions would support Clearing members to obtain robust legal and accounting opinions for accounting and regulatory capital purposes. These legal and accounting opinions will be required before the entry into force of new regulatory capital requirements (and clarification of accounting principles) on January 1, 2014.



These changes will not lead to any change in practice at LCH.Clearnet (operational or otherwise) and are intended to codify LCH.Clearnet's legal rights or obligations as they are generally understood in a manner which allows for greater legal certainty and which will therefore support the provision of the legal and accounting opinions noted above.

#### **Part II: Amendments to the Rules & Regulations of LCH.Clearnet**

The changes described above are reflected in changes to numerous provisions of each of the following documents, as explained on the document "Rulebook Matrix", which is attached as Appendix A-1:

- General Regulations at Appendix A-2
- Section 1 of the Clearing House Procedures at Appendix A-3
- Section 2C of the Clearing House Procedures at Appendix A-4
- Section 2E of the Clearing House Procedures at Appendix A-5
- Section 2G of the Clearing House Procedures at Appendix A-6
- Section 2K of the Clearing House Procedures at Appendix A-7
- Section 3 of the Clearing House Procedures at Appendix A-8
- Section 4 of the Clearing House Procedures at Appendix A-9
- Section 8 of the Clearing House Procedures at Appendix A-10
- Section 10 of the Clearing House Procedures at Appendix A-11
- Default Fund Rules at Appendix A-12
- Default Rules at Appendix A-13

#### **Part III: Certification by LCH.Clearnet**

LCH.Clearnet certifies to the CFTC, in accordance with CFTC Regulation §40.6, that the planned changes comply with the Commodity Exchange Act and the CFTC Regulations promulgated thereunder. LCH.Clearnet further certifies that, upon the submission of this material, in compliance with §39.21 of the Commission's regulations, LCH.Clearnet will post a notice of pending certification with the CFTC and a copy of the submission on LCH.Clearnet's website at

[http://lchclearnet.com/rules\\_and\\_regulations/lc/proposed\\_rules.asp](http://lchclearnet.com/rules_and_regulations/lc/proposed_rules.asp)

#### **Part IV: Compliance with Core Principles**

LCH.Clearnet has concluded that its compliance with Core Principles would not be adversely affected by these changes. The changes reflected herein will ensure continued compliance with the Core Principles and specifically with

#### **Part V: Opposing Views**

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



**Certification**

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

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

Sincerely yours,

A handwritten signature in black ink, appearing to be "Jay Iyer", written over a light blue horizontal line.

Jay Iyer, Chief Compliance Officer  
LCH.Clearnet Limited

cc: Shawn Durrani, CFTC  
Julie Mohr, CFTC  
Susan Milligan, LCH.Clearnet  
Julian Oliver, LCH.Clearnet

LCH.Clearnet Rule Submission

Exhibit A-1  
Rulebook Matrix

**Rulebook Matrix: Explanation of Changes to the LCH.Clearnet Limited rulebook.**

<b>Rulebook Reference:</b>	<b>Explanation:</b>
<b>Definitions:</b>	
Account Assets	Deleted
Associated Account Assets	Deleted
Applied Collateral Excess Proceeds	New definition
Associated Collateral Balance	New definition
Clearing House Applied Collateral	New definition
Clearing House Current Collateral Balance	New definition
Clearing House Returned Collateral	New definition
Clearing Member Applied Collateral	New definition
Clearing Member Current Collateral Balance	New definition
Clearing Member Returned Collateral	New definition
Collateral	New definition
Deed of Charge	New definition
House Excess	New definition
Required Margin Amount	New definition
Carrying Clearing Member	Amended Definition
cover	Amended Definition
Cross-Margining Agreement	Amended Definition
Individual Segregated Account Balance	Amended Definition
initial margin	Amended Definition
margin	Amended Definition
Omnibus Net Segregated Account Balance	Amended Definition
Receiving Clearing Member	Amended Definition

SwapClear Clearing Agreement variation margin	Amended Definition Amended Definition
<b>Regulation 4: Clearing Member Status of the Clearing House</b>	
4 (c)	Changes reference to "cover furnished" to "Collateral transferred".
<b>Regulation 5: Accounts</b>	
5 (i)	Restricts a Member from setting off amounts it owes to LCH under a 39A termination against the amount owed by LCH to it in respect of its Contributions to the Default Fund and clarifies segregation between different account types.
<b>Regulation 9: Registration</b>	
9 (b)	Clarifying that Collateral is taken by way of transfer to LCH in satisfaction of margin obligations.
9 (c)	Clarifying that Collateral is taken by way of transfer to LCH in satisfaction of margin obligations.
<b>Regulation 10: Trading Information</b>	
10	Clarifying that Collateral is taken by way of transfer to LCH in satisfaction of margin obligations.
<b>Regulation 12: Margin and Collateral</b>	
12 (a)	Clarifying that Collateral is taken by way of transfer to LCH in satisfaction of margin obligations.
12 (b)	Clarifying that Collateral is taken by way of transfer to LCH in satisfaction of margin obligations.
12 (c)	Clarifying that Collateral is taken by way of transfer to LCH in satisfaction of margin obligations.
12 (d)	Clarifying that Collateral is taken by way of transfer to LCH in satisfaction of margin obligations.
12 (g)	Clarifying that Collateral is taken by way of transfer to LCH in

	satisfaction of margin obligations.
12 (h)	Clarifying that Collateral is taken by way of transfer to LCH in satisfaction of margin obligations.
12 (i)	Clarifying what types of Collateral are subject to an accommodation charge.
12 (j)	Amending so that the new defined term "Collateral" is used as appropriate.
12 (k)	Clarifying that Collateral is taken by way of transfer to LCH in satisfaction of margin obligations.
12 (l)	Clarifying that the release or return of excess Collateral is dealt with in accordance with the Procedures.
12 (m)	Amending so that the new defined term "Collateral" is used as appropriate.
12 (n)	Increasing the scenarios in which a Member may assign or transfer its right to the return of cash Collateral or Contributions, to include where such assignment or transfer is expressly contemplated in the Rulebook.
12 (o)	Clarifying that Collateral is taken by way of transfer to LCH in satisfaction of margin obligations.
12 (p)	Aid to construction – Collateral
12 (q)	Aid to construction – transfers of Collateral
12 (r)	Aid to construction – holding and return of Collateral
12 (s)	Aid to construction – in-flight Collateral
12 (t)	Draws out more clearly the obligation to return Collateral on termination of membership
12 (u)	Provides for the acceleration of obligations in order to enable set-off.
12 (v)	Provides for the acceleration of obligations in order to enable set-off.
<b>Regulation 15: Daily Settlement or Marking to Market</b>	
15 (a)	Draws the distinction between settlement to market/marking to market of contracts and collateralisation of contracts.

15 (b)	Draws the distinction between settlement to market/marketing to market of contracts and collateralisation of contracts.
15 (c)	Amended to clarify that: (i) settlement amounts in favour of the clearing member become part of the current collateral balance where they are credited to the member's account rather than being paid out directly; and (ii) any relevant credits can (unless paid out or otherwise used) be used to cover future settlement amounts in the clearing house's favour, leaving the clearing member with an obligation to provide additional cash only to cover the shortfall (if any).
<b>Regulation 16: Other Modes of Settlement and Revaluation</b>	
16	Draws the distinction between settlement to market/marketing to market of contracts and collateralisation of contracts.
<b>Regulation 24: Collateral in Event of a Claim</b>	
24	Clarifying that Collateral is transferred to LCH in satisfaction of margin obligations.
<b>Regulation 39A: Netting</b>	
39A (a)	Makes clear that a Member can exercise its rights under 39A(c) if LCH fails to deliver an asset within the specified period.
39A (c)	Amending cross references.
39A (d)(iii)	It explicitly states that upon the occurrence of a Termination Date, any cash Collateral balance held by the Clearing House and/or the Member in respect of the other party's initial margin and/or variation margin obligations becomes immediately due and payable to the extent not already due and payable.
39A (d)(iv)	Incorporates the payment flows referred to in 39A (d)(iii) (including those that were already due and payable before the operation of 39A (d)(iii)) into the calculation of the Termination Amount.
39A (d)(v)	It specifies that a separate net amount is calculated in respect of each ISA and Net OSA, the totality of contracts in client accounts which aren't an ISA or Net OSA, and the Member's Proprietary Account.



39A (d)(vi)	Amends cross references
39A (d)(vii)	Amends cross references
39A (e)	Sets out the rights of a defaulting Member in the event that LCH also defaults on its payments in respect of that Member or becomes insolvent under 39A.
<b>Regulation 39B: Distribution of Assets</b>	
39B (a)	Clarifying how assets are to be distributed on a clearing house insolvency.
39B (b)	Clarifying how assets are to be distributed on a clearing house insolvency.
<b>Regulation 41: Transfer of Contracts on the terms of a Linked Exchange Contract</b>	
41 (c)	Clarifying that Collateral is taken by way of transfer to LCH in satisfaction of margin obligations.
<b>Regulation 43: Collateral</b>	
43	Clarifying that Collateral is taken by way of transfer to LCH in satisfaction of margin obligations.
<b>Regulation 47: Registration of SwapClear Contracts</b>	
47 (d)	Clarifying that Collateral is taken by way of transfer to LCH in satisfaction of margin obligations.
47 (g)	Clarifying that Collateral is taken by way of transfer to LCH in satisfaction of margin obligations.
48 (b)	Amending a reference to "SwapClear Client Clearing Business" to "SwapClear Clearing Client Business"
48 (c)	Amending a reference to "cover" to a reference to the new term "Collateral".
<b>Regulation 48A: Termination by Automated Service</b>	
48A (j)	Amending a reference to "margin" to a reference to the new term "Collateral".
<b>Regulation 50: Collateralisation of SwapClear Contracts</b>	
50 (a)	Clarifying that VM is paid by way of two-way collateralisation and

	providing for relevant calculations and payment netting arrangements.
50 (b)	Clarifying that VM is paid by way of two-way collateralisation and providing for relevant calculations and payment netting arrangements.
50 (c)	Clarifying that VM is paid by way of two-way collateralisation and providing for relevant calculations and payment netting arrangements.
50 (d)	Clarifying that VM is paid by way of two-way collateralisation and providing for relevant calculations and payment netting arrangements.
50 (e)	Clarifying that VM is paid by way of two-way collateralisation and providing for relevant calculations and payment netting arrangements.
<b>Regulation 52A: SwapClear Clearing Client Business</b>	
52A (j)	Amending references to "provide" and "provided" to references to "transfer" and "transferred", in order to clarify that Collateral is transferred to LCH by the Member.
<b>Regulation 52B: Default Management in respect of SwapClear Clearing Client Business</b>	
52B (c)	Sets out the actions taken in respect of the Clearing House Current Collateral Balances of the Defaulting SCM and the Backup Clearing Member upon the transfer or closing out and reopening (as applicable) of Relevant Contracts when porting ISA positions on a Member Default.
52B (d)	Sets out the actions taken in respect of the Clearing House Current Collateral Balances of the Defaulting SCM and the Backup Clearing Member upon the transfer or closing out and reopening (as applicable) of Relevant Contracts when porting OSA positions on a Member Default.
<b>Regulation 52C: Transfer</b>	
52C (b)	Amending references to "Associated Account Assets" to "Associated Collateral Balance" and "cover" to "Collateral".
52C (c)	Amending references to "Associated Account Assets" to "Associated Collateral Balance" and "cover" to "Collateral".
52C (d)	Clarifying that Collateral is taken by way of transfer to LCH in satisfaction of margin obligations and updating terminology.

52C (e)	Amending references to "Associated Account Assets" to "Associated Collateral Balance" and "cover" to "Collateral".
52C (f)	Amending references to "Associated Account Assets" to "Associated Collateral Balance" and "cover" to "Collateral" and clarifying that Collateral is transferred to LCH in satisfaction of margin obligations.
52C (h)	Sets out the actions taken in respect of the Clearing House Current Collateral Balances of the Carrying Clearing Member and the Receiving Clearing Member upon the transfer of Relevant SwapClear Contracts in a non-Default scenario.
<b>Regulation 58: Daily Margining of RepoClear Contracts and RepoClear GC Contracts</b>	
58 (a)	Clarifying that Collateral is taken by way of transfer to LCH in satisfaction of margin obligations.
58 (b)	Clarifying that Collateral is taken by way of transfer to LCH in satisfaction of margin obligations.
58 (c)	Clarifying that Collateral is taken by way of transfer to LCH in satisfaction of margin obligations.
58 (d)	Clarifying that Collateral is taken by way of transfer to LCH in satisfaction of margin obligations.
<b>Regulation 59: Delivery (or Other) Failures</b>	
59 (b)	Changing reference to "cover" to "Collateral" and clarifying drafting.
<b>SCHEDULE TO THE REPOCLEAR REGULATIONS</b>	
Part A 2.2	Changing reference to "cover" to "Collateral" and clarifying drafting to make clear that Collateral is transferred.
Part E 3.1	Changing reference to "cover" to "Collateral" and clarifying drafting to make clear that Collateral is transferred.
Part G 3.1	Changing reference to "cover" to "Collateral" and clarifying drafting to make clear that Collateral is transferred.
<b>Regulation 64: Delivery (or Other) Failures</b>	

64 (b)	Changing reference to "cover" to "Collateral" and clarifying drafting.
<b>Regulation 78: Delivery (or Other) Failures</b>	
78 (b)	Changing reference to "cover" to "Collateral" and clarifying drafting.
<b>Regulation 81: Cancellation, variation etc of Turquoise Derivatives Cleared Exchange Contracts</b>	
81 (b)	Changing reference to "cover" to "Collateral" and "furnished" to "transferred".
<b>Regulation 88: Introduction and Application</b>	
88 Margin and Collateral	Changing heading "Margin and cover for margin" to "Margin and Collateral".
<b>Regulation 89: Presentation, allocation of HKMEx Transactions and registration of HKMEx Contracts</b>	
89 (h)	Changing reference to "cover for margin" to "Collateral" and "furnishing" to "transfer".
<b>Regulation 92: Introduction and Application</b>	
92 Margin and Collateral	Changing heading "Margin and cover for margin" to "Margin and Collateral".
<b>Regulation 93: Presentation, Allocation of Nodal Transactions and Registration of Nodal Contracts</b>	
93 (e)	Changing reference to "cover for margin" to "Collateral" and "furnishing" to "transfer".
<b>Regulation 97: NYSE Liffe Clearing Membership</b>	
97 Margin and Collateral	Changing heading "Margin and cover for margin" to "Margin and Collateral" and changing reference to "cover for margin" to "Collateral".
<b>Regulation 103: Application of ForexClear Regulations</b>	
103 Margin and Collateral	Changing heading "Margin and cover for margin" to "Margin and Collateral".
103 (m)	Including reference to Regulation 16.
103 (p)	Changing reference to "Margin and Cover for Margin" to "Margin and

	Collateral”.
<b>Regulation 104: Registration of ForexClear Contracts</b>	
104 (g)	Clarifying drafting including reference to Collateral and changing “paid” to “provided”.
<b>Regulation 106: Cancellation of ForexClear Contracts</b>	
106 (i)	Changing “margin” to “Collateral”.
<b>Regulation 108: Variation Margin</b>	
108 (a)	Clarifying that Collateral is taken by way of transfer to LCH in satisfaction of margin obligations.
108 (c)	Clarifying that Collateral is taken by way of transfer to LCH in satisfaction of margin obligations.
108 (d)	Clarifying that Collateral is taken by way of transfer to LCH in satisfaction of margin obligations.
<b>Regulation 110: Introduction and Application</b>	
110 Margin and Collateral	Changing heading “Margin and cover for margin” to “Margin and Collateral”.
<b>Regulation 111: Presentation, Allocation of NLX Transactions and Registration of NLX Contracts</b>	
111 (c)	Changing reference to “cover for margin” to “Collateral” and “furnishing” to “transfer”.
<b>Default Rules</b>	
3	Including cross reference.
5 (a)	Tidying changes to clarify drafting.
6 (e)	Drafting is amended to make clear that Collateral is taken by way of transfer.
6 (h)	Drafting is amended to make clear that Collateral is taken by way of transfer.
6 (s)	Amended to clarify relationship between Service-specific provisions in Reg. 52B and the DMP Annexes and the more general provisions in

	Default Rule 6
8	Amended to clarify the interaction between Rules 6, 8 and 10.
8 (b)	Amended to reflect new defined terms
8 (c)	Amended to enable set-off between cash collateral balances held by either party absent any net sum payable under Rule 8(b).
8 (c)	"cover" changed to "Collateral".
9A (c)	"cover" changed to "Collateral" and changes to drafting to clarify how collateral is held by LCH.
9A 10(d)	"cover" changed to "Collateral".
<b>SwapClear DMP Annex</b>	
1.3	Tidying changes to clarify drafting.
2.3.1	Additional text expanding on the aims of auctioning the Auction Portfolios, specifically, establishing equivalent positions with Non-Defaulting SCMs and establishing the net value of the SwapClear Contracts.
2.3.5	Clarifying language.
2.4.2	Amending cross references.
4.1	Clarifying language.
4.2	Drafting is amended to make clear that Collateral is taken by way of transfer.
<b>ForexClear DMP Annex</b>	
1.3	Tidying changes to clarify drafting.
2.3.1	Additional text expanding on the aims of auctioning the Auction Portfolios, specifically, establishing equivalent positions with Non-Defaulting SCMs and establishing the net value of the SwapClear Contracts.
2.3.5	Clarifying language.
2.4.2	Amending cross references.
2.5.2	Amending cross references.

2.6	Clarifying language.
4.1	Clarifying language.
4.2	Drafting is amended to make clear that Collateral is taken by way of transfer.
<b>ForexClear DMP Annex Definitions</b>	
Margin Cover	Amending cross reference.
<b>RepoClear DMP Annex</b>	
2.3.6	Clarifying language.
3.2	Drafting is amended to make clear that Collateral is taken by way of transfer.
<b>Default Fund Rules</b>	
<b>General Definitions:</b>	
RepoClear Additional Payments Cap	Amended Definition
<b>General Provisions:</b>	
16 (a)	Clarifying language.
16 (c)	Clarifying language.
16 (i)	Clarifying language.
23 (a)(i)	Language added to tie in with the new Regulation 39A(e), which sets out the rights of a defaulting Member in the event that LCH also defaults on its payments in respect of that Member or becomes insolvent under 39A.
33	Clarifying language.
35	Drafting is amended to make clear that Collateral is taken by way of transfer.
<b>ForexClear Default Fund Supplement</b>	
F2 (d)	Clarifying language.
F3 (c)	Clarifying language.
F11 (b)	Clarifying language relating to the return of Collateral.
F11 (c)	Clarifying language relating to the return of Collateral.
F11 (h)	Clarifying language relating to the return of Collateral.

F13	Correcting typo.
<b>ForexClear Definitions</b>	
Cash Payment Type	Amended Definition
Last Call Prior to Default	Amended Definition
Loss Distribution Day	Amended Definition
<b>SwapClear Default Fund Supplement</b>	
S2 (g)	Clarifying language.
S2 (o)	Correcting typo.
S3 (c)	Clarifying language.
S11 (b)	Clarifying language relating to the return of Collateral.
S11 (c)	Clarifying language relating to the return of Collateral.
S11 (h)	Clarifying language relating to the return of Collateral.
S12 (b)	Correcting typo
<b>SwapClear Definitions</b>	
Cash Payment Type	Amended Definition
Last Call Prior to Default	Amended Definition
Loss Distribution Day	Amended Definition
<b>RepoClear Default Fund Supplement</b>	
R1	Clarifying language.
R2 (c)	Clarifying language.
R2 (k)	Clarifying language, including making clear that Collateral is taken by way of transfer.
R3 (b)	Clarifying language.
R11 (b)	Clarifying language relating to the return of Collateral.
R11 (c)	Clarifying language relating to the return of Collateral.
R11 (g)	Clarifying language relating to the return of Collateral.
R12 (c)	Correcting typo.
<b>RepoClear Definitions</b>	



Additional Margin	Amended Definition
Last Call Prior to Default	Amended Definition
Loss Distribution Day	Amended Definition
RCM Cash Payment	Amended Definition
<b>Commodities Default Fund Supplement</b>	
C3 (b)	Clarifying language
C10 (c)	Clarifying language relating to the return of Collateral.
C10 (e)	Clarifying language relating to the return of Collateral.
C10 (j)	Clarifying language relating to the return of Collateral.
<b>Commodities Definitions</b>	
Loss Distribution Day	Amended Definition
<b>Equities Default Fund Supplement</b>	
E3 (b)	Clarifying language
E10 (c)	Clarifying language relating to the return of Collateral
E10 (d)	Clarifying language relating to the return of Collateral
E10 (i)	Clarifying language relating to the return of Collateral
<b>Equities Definitions</b>	
Loss Distribution Day	Amended Definition
<b>Listed Interest Rate Default Fund Supplement</b>	
I.3 (b)	Clarifying language
L10 (c)	Clarifying language relating to the return of Collateral
L10 (d)	Clarifying language relating to the return of Collateral
L10 (f)	Clarifying language relating to the return of Collateral
<b>Listed Interest Rate Definitions</b>	
Loss Distribution Day	Amended Definition
<b>Procedure 1</b>	
Misc.	Reflecting changes to defined terms (e.g. "Collateral" instead of "cover")
Misc.	Clarifying language making clear that Collateral is taken by way of transfer

Misc.	Minor consequential and tidying changes
<b>Procedure 2C</b>	
2C.3.2	Changing reference to "cover" to "Collateral".
2C.3.3	Drafting is amended to make clear that Collateral is taken by way of transfer and also to introduce the term "Clearing Member Current Collateral Balance".
2C.3.5	Drafting is amended to make clear that Collateral is taken by way of transfer.
2C.3.6	References to "cover" changed to "Collateral" to clarify drafting.
2C.3.8	Reference to "cover" changed to "Collateral" to clarify drafting.
2C.6	Clarifying that variation margin is provided by way of collateralisation rather than settlement.
2C.6.3	Clarifying language, including changing "cover" to "Collateral".
2C.6.4	Clarifying language including making clear that Collateral is taken by way of transfer.
2C.8	Clarifying language including making clear that Collateral is taken by way of transfer.
2C.8.2	Reference to "cover" changed to "Collateral" to clarify drafting.
2C.9.1	Reference to "cover" changed to "collateralisation" to clarify drafting.
2C.9.3.2	Reference to "cover" changed to "Collateral" to clarify drafting.
2C9.3.3	Reference to "cover" changed to "Collateral" to clarify drafting.
2C9.3.4	Reference to "cover" and "margin" changed to "Collateral" to clarify drafting.
2C.11	Reference to "cover" changed to "Collateral" to clarify drafting and "Associated Account Assets" changed to "Associated Collateral Balance".
2C.15.5.2	Updating drafting to use new term "Associated Collateral Balance".
2C.15.5.3	Updating drafting to use new term "Associated Collateral Balance".
2C.15.5.4	Updating drafting to use new term "Associated Collateral Balance" and changing "cover" to "Collateral" to clarify drafting.

Appendix 2C.K1	Drafting is amended to make clear that Collateral is taken by way of transfer.
Appendix 2C.K2	Clarifying drafting to use the terms "Collateral" and "Associated Collateral Balance".
Appendix 2C.K3	Clarifying drafting to use the term "Associated Collateral Balance".
Appendix 2C.M, 5.1	Clarifying drafting with use of the term "Collateral".
<b>Procedure 2E</b>	
Misc.	Reflecting changes to defined terms (e.g. "Collateral" instead of "cover")
Misc.	Clarifying language making clear that Collateral is taken by way of transfer
Misc.	Minor consequential and tidying changes
<b>Procedure 2G</b>	
Misc.	Reflecting changes to defined terms (e.g. "Collateral" instead of "cover")
Misc.	Clarifying language making clear that Collateral is taken by way of transfer
Misc.	Minor consequential and tidying changes
<b>Procedure 2K</b>	
Misc.	Reflecting changes to defined terms (e.g. "Collateral" instead of "cover")
Misc.	Clarifying language making clear that Collateral is taken by way of transfer
Misc.	Minor consequential and tidying changes
<b>Procedure 3</b>	
Misc.	Reflecting changes to defined terms (e.g. "Collateral" instead of "cover")
Misc.	Clarifying language making clear that Collateral is taken by way of transfer
Misc.	Minor consequential and tidying changes
<b>Procedure 4</b>	
4.1	Changing instances of "collateral" and "cover" to "Collateral". Amending drafting to incorporate the new defined term "Clearing Member Current Collateral Balance". Creating new defined term "Current Collateral Value", being, at any time and in respect of a Clearing Member, the Clearing Member Current Collateral Balance in respect of that Clearing Member at that time.

4.1.1	Changing instances of "collateral" to "Collateral" and amending contact details and creating new defined term "CMS" and other minor drafting clarifications.
4.1.2	Amended to deal with the release of excess collateral and with the conversion of cash amounts subject to the Deed of Charge into title transfer collateral.
4.1.3	New provision to deal with substitution arrangements in relation to non-cash collateral.
4.1.4	Clarifying language, including making clear that Collateral is taken by way of transfer.
4.1.5	Clarifying language.
4.1.6	Clarifying language and changing instances of "collateral" to "Collateral".
4.1.8	Clarifying language and changing instances of "collateral" to "Collateral".
4.1.9	Clarifying language.
4.2.1	Drafting clarifying the legal mechanism of the Deed of Charge. Clarifying language, including making clear that Collateral is taken by way of transfer. Changing instances of "collateral" to "Collateral".
4.2.2	Drafting amended to restrict scope of 4.2.2 to non-cash Collateral. Clarifying language, including making clear that Collateral is taken by way of transfer. Changing instances of "collateral" to "Collateral".
4.2.3	Drafting amended to restrict scope of 4.2.2 to non-cash Collateral. Clarifying language, including making clear that Collateral is taken by way of transfer. Changing instances of "collateral" to "Collateral".
4.3	Clarifying language and replacing "Collateral Management system" to "CMS".
4.4	Clarifying language, including making clear that Collateral is taken by way of transfer.
4.4.1	Replacing "Collateral Management system" to "CMS" and amending reference to "BNYMellon".

4.4.2	Correcting typo.
4.4.3	Clarifying language, including making clear that Collateral is taken by way of transfer and amending drafting to use the new defined term "Current Collateral Value".
4.4.4	Clarifying language making clear that Collateral is taken by way of transfer.
4.4.4.1	Drafting amended to clarify the mechanism for the transferring Collateral included in the Clearing Member Current Collateral Balance to the Clearing Member and the effect such a transfer has on the Clearing Member's Current Collateral Value.
4.4.4.2	Drafting amended to clarify the mechanism for the transferring Collateral included in the Clearing Member Current Collateral Balance to the Clearing Member and the effect such a transfer has on the Clearing Member's Current Collateral Value.
4.4.5	Clarifying language, including making clear that any substitution is subject to Rule 4.1.3.
4.4.6	Clarifying language.
4.4.7	Clarifying language.
4.4.8	Replacing "Collateral Management system" to "CMS"
4.5.1	Clarifying language, including making clear that Collateral is taken by way of transfer.
4.5.2	Minor amendments.
4.5.3	Changing "Custodians" to "custodians".
4.7	Changing "Collateral Management system" to "CMS" and correcting typo.
4.16.1	Clarifying language, including making clear that Collateral is taken by way of transfer.
4.16.2	Clarifying language, including changing reference to "cover account" to "Current Collateral Value".

4.16.3	Changing "cover" to "Collateral" and clarifying language.
4.17.1	Correcting typos and clarifying language and changing "collateral" and "cover" to "Collateral".
4.17.2	Clarifying language.
4.17.3	Clarifying language.
4.17.4	Clarifying language.
4.17.4.1	Clarifying language.
4.17.4.2	Clarifying language and correcting a typo.
4.17.5	Clarifying language, including making clear that Collateral is taken by way of transfer and changing "collateral" to "Collateral".
4.17.6	Clarifying language making clear that Collateral is taken by way of transfer and changing "collateral" to "Collateral".
4.17.7	Changing "collateral" to "Collateral".
4.17.8.1	Clarifying language.
<b>Procedure 8</b>	
8.3(f)	Updating defined terms and clarifying that Collateral is taken by way of transfer
<b>Procedure 10</b>	
10.3.8	Updating defined terms and minor tidying

ICH.Clearnet Rule Submission

Exhibit A-2  
General Regulations

## CONTENTS

GENERAL REGULATIONS OF THE CLEARING HOUSE.....	1
Scope .....	1
Definitions.....	2
<i>Regulation 1</i> Obligations of the Clearing House to each Member .....	<u>3435</u>
<i>Regulation 2</i> Performance by the Clearing House of its Obligations under the Terms of an Open Contract .....	<u>3536</u>
<i>Regulation 3</i> Novation .....	<u>3637</u>
<i>Regulation 4</i> Clearing Member Status of the Clearing House .....	<u>3738</u>
<i>Regulation 5</i> Accounts.....	<u>3839</u>
<i>Regulation 6</i> Presentation of Particulars of Original Exchange Contracts and Confirmation of Original Exchange Contracts .....	<u>4041</u>
<i>Regulation 7</i> Allocation of Original Exchange Contracts .....	<u>4143</u>
<i>Regulation 8</i> Designation.....	<u>4244</u>
<i>Regulation 9</i> Registration .....	<u>4345</u>
<i>Regulation 10</i> Trading Information.....	<u>4446</u>
<i>Regulation 11</i> Transfer .....	<u>4547</u>
<i>Regulation 12</i> Margin and <del>Cover for Margin</del> .....	<u>46Collateral</u> <u>48</u>
<i>Regulation 13</i> Premium under Option Contracts and Payments under LIFFE Credit Default Swap Index Contracts.....	<u>4953</u>
<i>Regulation 14</i> Official Quotations and Reference Price .....	<u>5054</u>
<i>Regulation 15</i> Daily Settlement or Marking to Market .....	<u>5155</u>
<i>Regulation 15A</i> Settlement and Revaluation: Clearing Processing System.....	<u>5357</u>
<i>Regulation 16</i> Other Modes of Settlement and Revaluation.....	<u>5458</u>
<i>Regulation 17</i> Exercise of Options.....	<u>5559</u>
<i>Regulation 18</i> Delivery Contract Arising upon the Exercise of an Option and Event Protection Contracts .....	<u>5660</u>
<i>Regulation 19</i> Obligation to Make and Accept Tender under Cleared Exchange Contracts.....	<u>5862</u>
<i>Regulation 19A</i> Delivery Contracts .....	<u>6064</u>
<i>Regulation 20</i> Open Contracts Subject to Tender.....	<u>6165</u>
<i>Regulation 21</i> Arrangements for Delivery and Payment of Price.....	<u>6367</u>
<i>Regulation 22</i> Restrictions on Clearing House's Obligations and Liability .....	<u>6468</u>
<i>Regulation 23</i> Arbitration: Cleared Exchange Contracts, Turquoise Derivatives Cleared Exchange Contracts, EquityClear Contracts or LCH EnClear OTC Contracts (for Physical Delivery) .....	<u>6569</u>
<i>Regulation 24</i> <del>Cover</del> <u>Collateral</u> in Event of a Claim .....	<u>6872</u>
<i>Regulation 25</i> Default of a Member: Substituted Obligation.....	<u>6973</u>
<i>Regulation 26</i> Market Disorders, Impossibility of Performance, Trade Emergency .....	<u>7074</u>
<i>Regulation 27</i> Force Majeure.....	<u>7276</u>



Regulation 28	Invoicing Back.....	7377
Regulation 29	Currency Conversion.....	7579
Regulation 30	Disclosure.....	7680
Regulation 31	Fees and Other Charges.....	7781
Regulation 32	Records.....	7882
Regulation 33	Procedures.....	7983
Regulation 34	Alteration of Regulations and the Procedures.....	8084
Regulation 35	Interpretation of these Regulations.....	8485
Regulation 36	Waiver.....	8286
Regulation 37	Validity of Regulations and Action.....	8387
Regulation 38	Governing Law and Jurisdiction.....	8488
Regulation 39	Exclusion of Liability.....	8690
Regulation 39A	Netting.....	8993
Regulation 39B	Distribution of Assets.....	9496
LINK REGULATIONS.....		9297
Regulation 40	Application of Link Regulations.....	9297
Regulation 41	Transfer of Contracts on the terms of a Linked Exchange Contract.....	9398
Regulation 41A	Transfer to the Clearing House of Participating Exchange Contracts....	95100
Regulation 42	Default Affecting Transfer.....	96101
Regulation 43	Margin.....	99Collateral 104
Regulation 44	Impossibility of Transfer.....	100105
Regulation 45	Cross-Margining Regulations.....	104106
SWAPCLEAR REGULATIONS.....		102107
Regulation 46	Application of SwapClear Regulations.....	102107
Regulation 47	Registration of SwapClear Contracts.....	103108
Regulation 48	Compression.....	106111
Regulation 48A	Termination by Automated Service.....	107112
<del>Regulation 48B</del>	<del>Multilateral Compression.....</del>	<del>109</del>
Regulation 49	SwapClear Dealers.....	113
<del>Regulation 50</del>	<del>Settlement and Daily Revaluation of SwapClear Contracts.....</del>	<del>114</del>
Regulation 50	Collateralisation of SwapClear Contract.....	115
Regulation 51	The reset rate for, and the net present value of, a SwapClear Contract.....	115117
Regulation 52	Withdrawal of the SwapClear Service by the Clearing House.....	116118
Regulation 52A	SwapClear Clearing Client Business.....	117119
Regulation 52B	Default Management in respect of SwapClear Clearing Client Business.....	120122
Regulation 52C	Transfer.....	123125
SCHEDULE TO THE SWAPCLEAR REGULATIONS.....		129131
Part A	SwapClear Contract Terms.....	129131

Part B	Product Eligibility Criteria for Registration of a SwapClear Contract....	<u>138140</u>
REPOCLEAR REGULATIONS .....		<u>150152</u>
Regulation 53	Application of RepoClear Regulations.....	<u>150152</u>
Regulation 54	Submission of details of RepoClear Transactions and RepoClear GC Transactions through an Approved Trade Matching System .....	<u>151153</u>
Regulation 55	Registration of RepoClear Contracts and RepoClear GC Contracts following Submission of Details of a RepoClear Transaction or RepoClear GC Transaction.....	<u>153155</u>
Regulation 56	RepoClear transactions entered into by RepoClear Clearing Members through an Automated Trading System.....	<u>155157</u>
Regulation 56A	RepoClear transactions entered into by RepoClear Dealers through an Automated Trading System.....	<u>159161</u>
Regulation 57	RepoClear Dealers .....	<u>163165</u>
Regulation 57A	Authorisation to act as a RepoClear Clearing Member.....	<u>164166</u>
Regulation 58	Daily Margining of RepoClear Contracts and RepoClear GC Contracts.....	<u>166167</u>
Regulation 59	Delivery (or Other) Failures.....	<u>166168</u>
Regulation 60	Withdrawal of RepoClear Service by the Clearing House .....	<u>167169</u>
SCHEDULE TO THE REPOCLEAR REGULATIONS .....		<u>168170</u>
Part A	RepoClear Contract Terms: RepoClear Contracts arising from RepoClear Transactions, Repo Trades or Bond Trades .....	<u>168170</u>
Part B	Product Eligibility Criteria for Registration of a RepoClear Contract ....	<u>174176</u>
Part C	LCH GC Repo Contract Terms .....	<u>183185</u>
Part D	Product Eligibility Criteria for Registration of a LCH GC Repo Contract.....	<u>184186</u>
Part E	RepoClear SGC Contract Terms: RepoClear SGC Contracts arising from RepoClear SGC Transactions or SGC Trades .....	<u>185187</u>
Part F	Product Eligibility Criteria for Registration of a RepoClear SGC Contract.....	<u>191193</u>
Part G	RepoClear GC Contract Terms: RepoClear €GC Contracts arising from RepoClear €GC Transactions or €GC Trades.....	<u>193195</u>
Part H	Product Eligibility Criteria for Registration of A RepoClear €GC Contract.....	<u>200202</u>
EQUITYCLEAR REGULATIONS .....		<u>206207</u>
Regulation 61	Application of EquityClear Regulations .....	<u>206207</u>
Regulation 62	EquityClear .....	<u>206208</u>
Regulation 62A	EquityClear (Equities) Open Offer for EquityClear (Equities) ATP Matches.....	<u>206208</u>
Regulation 62B	EquityClear Novation Transactions.....	<u>211213</u>
Regulation 62C	EquityClear Open Offer for EquityClear (ccCFD) ATP Matches ("EquityClear (ccCFD) Open Offer") .....	<u>216218</u>
Regulation 63	EquityClear NCMs .....	<u>220222</u>
Regulation 64	Delivery (or Other) Failures.....	<u>221223</u>
Regulation 65	Suspension of the EquityClear service or the EquityClear Open Offer .....	<u>222224</u>
Regulation 66	Withdrawal of EquityClear Service by the Clearing House .....	<u>223225</u>
Regulation 67	Rejection of ATP Matches and of EquityClear Novation Transactions .....	<u>224226</u>

Regulation 67A	Rejection of EquityClear (ccCFD) ATP Matches .....	<u>225</u> <u>227</u>
SCHEDULE TO THE EQUITYCLEAR REGULATIONS .....		<u>226</u> <u>228</u>
Part A	EquityClear (Equities) Contract Terms .....	<u>226</u> <u>228</u>
Part B	EquityClear Eligible (Equities) .....	<u>228</u> <u>230</u>
Part C	EquityClear (ccCFD) Contract Terms .....	<u>229</u> <u>231</u>
LCH ENCLEAR OTC REGULATIONS .....		<u>233</u> <u>235</u>
Regulation 68	Application of LCH EnClear OTC Regulations .....	<u>233</u> <u>235</u>
Regulation 69	Registration of LCH EnClear Contracts .....	<u>234</u> <u>236</u>
Regulation 70	LCH EnClear Contracts .....	<u>235</u> <u>237</u>
Regulation 71	LCH EnClear Third Party Clearing Participants .....	<u>236</u> <u>238</u>
Regulation 72	Daily Settlement .....	<u>237</u> <u>239</u>
Regulation 73	Withdrawal of the LCH EnClear Service by the Clearing House .....	<u>238</u> <u>240</u>
Regulation 73A	Registration of LCH EnClear OTC Contracts .....	<u>239</u> <u>241</u>
Regulation 73B	LCH EnClear OTC Contracts .....	<u>240</u>
<del>Regulation 73C</del>	<del>Daily Settlement .....</del>	<del>242</del>
Regulation 73C	Daily Settlement .....	<u>244</u>
Regulation 73D	[This provision has been left blank intentionally] .....	<u>243</u> <u>245</u>
Regulation 73E	Withdrawal of the LCH EnClear OTC Services by the Clearing House .....	<u>244</u> <u>246</u>
SCHEDULE TO THE LCH ENCLEAR OTC REGULATIONS .....		<u>245</u> <u>247</u>
Part A	LCH EnClear OTC Contract Terms .....	<u>245</u> <u>247</u>
Part B	Product Eligibility Criteria for Registration of a LCH EnClear OTC Contract .....	<u>248</u> <u>284</u>
Turquoise Derivatives REGULATIONS .....		<u>295</u> <u>297</u>
Regulation 74	Application of Regulations for TGHL market .....	<u>295</u> <u>297</u>
Regulation 75	Turquoise Derivatives Orderbook Matches made on TGHL Market ....	<u>296</u> <u>298</u>
Regulation 76	Reported Trades and Turquoise Derivatives OTC Trades Reported to TGHL for Registration .....	<u>300</u> <u>302</u>
Regulation 77	Registration of Turquoise Derivatives Cleared Exchange Contracts following Submission of Details of a Reported Trade or Turquoise Derivatives OTC Trade .....	<u>304</u> <u>303</u>
Regulation 78	Delivery (or Other) Failures .....	<u>302</u> <u>304</u>
Regulation 79	Suspension of the Open Offer for Turquoise Derivatives .....	<u>303</u> <u>305</u>
Regulation 80	Withdrawal of Clearing House Turquoise Derivatives Services by the Clearing House .....	<u>304</u> <u>306</u>
Regulation 81	Cancellation, variation etc of Turquoise Derivatives Cleared Exchange Contracts .....	<u>305</u> <u>307</u>
Regulation 82	Rejection of Orderbook Matches .....	<u>306</u> <u>308</u>
Regulation 83	Cross-Border Transfers to the Clearing House of Contracts Executed by a Member of a Co-operating Exchange - Automatic Transfers .....	<u>307</u> <u>309</u>
Regulation 84	Default affecting a Cross-Border Transfer .....	<u>308</u> <u>310</u>
Regulation 85	Impossibility of Transfer .....	<u>309</u> <u>311</u>

Regulation 86	Options .....	340312
Regulation 87	Re-registration of Contracts .....	341313
SCHEDULE TO THE Turquoise Derivatives REGULATIONS .....		312314
Part A	Turquoise Derivatives Cleared Exchange Contract Terms arising from Turquoise Derivatives OTC Trades .....	312314
Part B	Product Eligibility Criteria for Registration of an Turquoise Derivatives OTC Trade .....	316318
HKMEX REGULATIONS .....		318320
Regulation 88	Introduction and Application .....	318320
Regulation 89	Presentation, allocation of HKMEX Transactions and registration of HKMEX Contracts .....	320322
Regulation 90	HKMEX Contracts .....	322324
Regulation 91	Daily Settlement or Marking to Market .....	323326
NODAL REGULATIONS .....		325328
Regulation 92	Introduction and Application .....	325328
Regulation 93	Presentation, Allocation of Nodal Transactions and Registration of Nodal Contracts .....	327330
Regulation 94	Nodal Contracts .....	329332
Regulation 95	Daily Settlement or Marking to Market .....	331334
NYSE LIFFE CLEARING REGULATIONS .....		333336
Regulation 96	Introduction and Application .....	333336
Regulation 97	NYSE Liffe Clearing Membership .....	334337
Regulation 98	Default of a NYSE Liffe Clearing Member .....	336339
RESERVED .....		337340
Regulation 99	RESERVED .....	337340
Regulation 100	RESERVED .....	337340
Regulation 101	RESERVED .....	337340
Regulation 102	RESERVED .....	337340
FOREXCLEAR REGULATIONS .....		338341
Regulation 103	Application of ForexClear Regulations .....	338341
Regulation 104	Registration of ForexClear Contracts .....	341344
Regulation 105	ForexClear Contracts .....	343347
Regulation 106	Cancellation of ForexClear Contracts .....	345349
Regulation 107	ForexClear Dealers .....	346351
Regulation 108	Variation Margin .....	347352
Regulation 109	Withdrawal of the ForexClear Service by the Clearing House .....	348353
SCHEDULE TO THE FOREXCLEAR REGULATIONS .....		349354
Part A	ForexClear Contract Terms .....	349354
Part B	Product Eligibility Criteria for Registration of a ForexClear Contract ...	354359

NLX REGULATIONS .....	356361
<i>Regulation 110</i> Introduction and Application .....	356361
<i>Regulation 111</i> Presentation, Allocation of NLX Transactions and Registration of NLX Contracts .....	358363
<i>Regulation 112</i> NLX Contracts .....	360365
<i>Regulation 113</i> Daily Settlement or Marking to Market .....	362366

## **LCH.CLEARNET LIMITED**

### **GENERAL REGULATIONS OF THE CLEARING HOUSE**

#### ***Scope***

Save where expressly stated to the contrary in these Regulations or the Procedures, these Regulations govern clearing services provided by LCH.Clearnet Limited. They do **not** cover clearing services provided by LCH.Clearnet SA which are governed by a separate set of rules.

For the purposes of these Regulations, LCH.Clearnet Limited is referred to as "the Clearing House". The terms "Member" or "Clearing Member" are used to refer to an undertaking which is entitled to receive clearing services from LCH.Clearnet Limited (see "Definitions"). They do not mean "shareholder" of LCH.Clearnet Limited or of any other undertaking in the LCH.Clearnet Group.

Any Regulation or group of Regulations expressly stated not to apply to a category, or categories, of Contract shall not apply to such category, or categories, of Contract.

The Link Regulations set out in Regulations 40 to 44 apply only to Contracts on the terms of a Linked Exchange Contract as further provided in Regulation 40.

The SwapClear Regulations set out in Regulations 46 to 52 apply only to SwapClear Contracts. Save as provided in Regulation 46, the provisions of Regulations 1 to 39A shall not apply to SwapClear Contracts.

The RepoClear Regulations set out in Regulations 53 to 60 apply only to RepoClear Contracts. Save as provided in Regulation 53, the provisions of Regulations 1 to 39A shall not apply to RepoClear Contracts.

The EquityClear Regulations set out in Regulations 61 to 67 apply only to EquityClear Contracts. Save as provided in Regulation 61, the provisions of Regulation 1 to 39A shall not apply to EquityClear Contracts.

LCH EnClear OTC Regulations set out in Regulation 68 and Regulations 73A to 73D respectively apply only to LCH EnClear OTC Contracts. Save as provided in Regulation 68, the provisions of Regulation 1 to 39A shall not apply to LCH EnClear OTC Contracts.

The Turquoise Derivatives Regulations set out in Regulations 74 to 87 apply only to Turquoise Derivatives Cleared Exchange Contracts which are eligible for clearing pursuant to these Regulations and the Turquoise Derivatives Rules.

The HKMEx Regulations set out in Regulations 88 to 91 apply only to HKMEx Contracts.

The Nodal Regulations set out in Regulations 92 to 95 apply only to Nodal Contracts.

The ForexClear Regulations set out in Regulations 103 to 109 apply only to ForexClear Contracts. Save as provided in Regulation 103, the provisions of Regulations 1 to 39A shall not apply to ForexClear Contracts.

The NLX Regulations set out in Regulations 110 to 113 apply only to NLX Contracts.

**Definitions**

In these Regulations and the Procedures, except where the context otherwise requires, the following words and expressions shall have the following meanings:

<i>Account Assets</i>	-	<del>Means all cash, margin, securities, receivables, rights, intangibles and any other collateral or assets deposited or held with the Clearing House by a Clearing Member in connection with an account carried by such Clearing Member on behalf of a SwapClear Clearing Client: (i) as cover for and in respect of the clearing of SwapClear Contracts for such SwapClear Clearing Client; and (ii) in the form of Additional Collateral.</del>
<i>Account Balance</i>	-	Means, in relation to the SwapClear Clearing Client Business of a defaulter, an Individual Segregated Account Balance or an Omnibus Net Segregated Account Balance.
<i>ACSP Compression Cycle</i>	-	A Multilateral Compression Cycle established by the Clearing House and facilitated by an ACSP nominated by the Clearing House, which shall be open to participation by SwapClear Clearing Members in accordance with the provisions of Regulation 48B and relevant Compression Documentation.
<i>Additional Collateral</i>	-	Means, in relation to SwapClear Clearing Client Business, collateral delivered by a SwapClear Clearing Member to the Clearing House in respect of a SwapClear Clearing Client which is in excess of the Required Collateral relating to the SwapClear Clearing Client Business undertaken by the relevant SwapClear Clearing Member in respect of the relevant SwapClear Clearing Client and which has been designated by that SwapClear Clearing Member as being Additional Collateral to be held in the Additional Collateral Account held in respect of that SwapClear Clearing Client.
<i>Additional Collateral Account</i>	-	Means, in relation to SwapClear Clearing Client Business, a sub-account opened by a SwapClear Clearing Member with the Clearing House in respect of a SwapClear Clearing Client for the purposes of holding Additional Collateral.
<u><i>Applied Collateral Excess Proceeds</i></u>	=	<u>means, where the Clearing House has sold, disposed of or appropriated all or any part of the non-cash Collateral held by a Clearing Member with the Clearing House in an exercise of its powers under the Deed of Charge entered into with the relevant Clearing Member, the amount (if any) of realisation proceeds from such sale or disposal remaining after the Clearing House has applied the same in or towards discharge of the Clearing Member's obligations to the Clearing House or, in</u>

		<u>the case of an appropriation, an amount of such non-cash Collateral (or, where the amount in question is less than the minimum denomination of the relevant non-cash Collateral which can be delivered, cash) having a value equal to the excess (if any) of the value of the appropriated non-cash Collateral (as determined by the Clearing House in accordance with the relevant Deed of Charge) over the Clearing Member's obligations to the Clearing House which have been discharged by that appropriation.</u>
<i>Applied FCM Buffer</i>	-	Has the meaning assigned to it in the FCM Regulations.
<i>approved agent</i>	-	A person appointed by the Clearing House to perform certain functions on its behalf in respect of an ATP.
<i>Approved Broker</i>	-	A person authorised by the Clearing House to participate as a broker in the LCH EnClear OTC service.
<i>Approved Compression Services Provider (ACSP)</i>	-	An entity other than the Clearing House which is approved by the Clearing House for the facilitation of Multilateral Compression in relation to eligible SwapClear Contracts in accordance with Regulation 48B and relevant Compression Documentation.
<i>Approved Trade Source System</i>	-	Means a system or facility, such as an exchange, a clearing house, a swap execution facility, a designated contract market, trade affirmation or routing system or other similar venue or system, approved by the Clearing House for submitting SwapClear Transactions to the Clearing House (and excludes, for the avoidance of doubt, the SwapClear API).
<i>Approved Turquoise Derivatives Settlement Provider</i>	-	The securities depository or securities settlement system (or an operator thereof) approved by the Clearing House from time to time for the provision of settlement services in connection with the Turquoise Derivatives Service.
<i>Approved EquityClear Clearing Agreement</i>	-	An agreement prescribed as such by the Clearing House from time to time between an EquityClear Clearing Member, an EquityClear NCM and the Clearing House.
<i>Approved EquityClear Settlement Provider ("ASP")</i>	-	The operator of the securities depository and/or securities settlement system prescribed by the Clearing House from time to time for the provision of settlement services in respect of specified EquityClear Contracts.
<i>Approved EquityClear Trading</i>	-	Any trading platform approved as such from time to time by the Clearing House in respect of the



<i>Platform ("ATP")</i>	-	EquityClear service.
<i>Associated Account Assets</i>	-	<del>The cover to be transferred to the Receiving Clearing Member in respect of the Account Assets of (i) an Individual Segregated Account Client or (ii) all of the Omnibus Net Segregated Clearing Clients within an Omnibus Net Segregated Account (as applicable).</del>
<i>Associated Clearing House</i>	-	The clearing house appointed from time to time by a Co-operating Exchange to act as the central counterparty to some or all transactions made on, or under the rules of the Co-operating Exchange.
<i><u>Associated Collateral Balance</u></i>	=	<u>The assets comprising the Clearing Member Current Collateral Balance to be transferred to the Receiving Clearing Member in respect of (i) an Individual Segregated Account Clearing Client or (ii) all of the Omnibus Net Segregated Clearing Clients within an Omnibus Net Segregated Account (as applicable).</u>
<i>ATP Market Rules</i>	-	The rules, regulations, administrative procedures, Memorandum and Articles of Association or by-laws which regulate an ATP and the market administered by it as notified from time to time to the Clearing House.
<i>Auction Portfolio</i>	-	Has the meaning assigned to it in the Default Rules.
<i>Automated Trading System</i>	-	An automated trading system in respect of which the Clearing House has an agreement with the operator thereof and in respect of which the Clearing House has notified RepoClear Participants in accordance with the Procedures.
<i>Backload Registration Cycle</i>	-	Has the meaning assigned to such term in the Procedures.
<i>Backloaded Trade</i>	-	Has the meaning assigned to such term in the Procedures.
<i>Backup SwapClear Clearing Member</i>	-	Means, in relation to SwapClear Clearing Client Business, the SwapClear Clearing Member(s) indicated by a SwapClear Clearing Client as acting as such and notified to the Clearing House from time to time.
<i>Block IRS Trade</i>	-	Means a trade the notional amount of which is at or above the minimum block size established by the CFTC pursuant to CFTC Regulation 43.6 for the interest rate asset class and in effect as of the date of submission of such trade to the Clearing House for registration.
<i>Board</i>	-	The board of directors or other governing body (whether called a board, a committee or otherwise)

		of an Exchange.
<i>Bond Trade</i>	-	A trading activity in which a RepoClear Participant offers to sell RepoClear Eligible Securities, and another RepoClear Participant offers to purchase those RepoClear Eligible Securities, and a trade subsequently ensues.
<i>business day</i>	-	In respect of a Cleared Exchange Contract, an OTC Contract (except where specified otherwise in the relevant OTC Contract Terms), an LCH EnClear OTC Contract (except where specified otherwise in the LCH EnClear OTC Contract Terms), and an EquityClear Contract a day on which the Clearing House is open for business.
<i>buyer</i>	-	A Member (or the Clearing House where the context so requires) who is a buyer under the terms of an exchange contract, a Cleared Exchange Contract, an Turquoise Derivatives Cleared Exchange Contract, a RepoClear Transaction, a RepoClear Contract, a RepoClear GC Transaction, a RepoClear GC Contract, an EquityClear ATP Match, an EquityClear Novation Transaction, EquityClear (ccCFD) ATP Match or an Eligible OTC Trade, as the case may be.
<i>Carrying Clearing Member</i>	-	A SwapClear Clearing Member carrying an account for a SwapClear Clearing Client, and in respect of which Relevant SwapClear Contracts and <u>the Associated Account Assets in respect of Account Assets Collateral Balance</u> held in such account may be transferred to a Receiving Clearing Member pursuant to Regulation 52C of these Regulations and in accordance with the Procedures.
<i>CEA</i>	-	Has the meaning assigned to it in the Default Rules.
<i>CFTC</i>	-	Has the meaning assigned to it in the Default Rules.
<i>CFTC Regulations</i>	-	Has the meaning assigned to it in the FCM Regulations.
<i>Cleared Exchange Contract</i>	-	A Contract entered into by the Clearing House on the terms of an exchange contract.

<i>Clearing House</i>	-	LCH.Clearnet Limited whose registered office is located at Aldgate House, 33 Aldgate High Street, London EC3N 1EA, United Kingdom.
<u><i>Clearing House Applied Collateral</i></u>	=	<u>In respect of an account of a Clearing Member, any cash Collateral provided by the Clearing House in respect of which the Clearing Member's obligation to return such Collateral has been discharged pursuant to the Rulebook by means of that return obligation having been set-off against an obligation owed by the Clearing House to that Clearing</u>
<u><i>Clearing House Current Collateral Balance</i></u>	=	<u>In respect of an account of a Clearing Member, all cash Collateral which has been transferred by the Clearing House to that Clearing Member (or which would, but for the application of Regulation 50(d) or another comparable payment netting provision applying in the ordinary course of business, have been transferred by the Clearing House to that Clearing Member) on account of the Clearing House's variation margin obligations relating to the relevant account pursuant to the Rulebook, less any Clearing House Applied Collateral and any Clearing House Returned Collateral in relation to that account; <b>provided that any</b> amounts transferred by the Clearing House to the Clearing Member for the purpose of settling an obligation in respect of daily settlement amounts pursuant to Regulation 15(c) which is due and payable do not form part of the Clearing House Current Collateral Balance.</u>
<u><i>Clearing House Returned Collateral</i></u>	=	<u>In respect of an account of a Clearing Member, any cash Collateral which: (i) a Clearing Member has returned to the Clearing House; or (ii) in respect of which the obligation to return such Collateral has been discharged as a result of the operation of Regulation 15(c) or as a result of the operation of Regulation 50(d) or another comparable payment netting provision applying in the ordinary course of business.</u>
<i>Clearing House Prescribed Language</i>	-	Means, in relation to SwapClear Clearing Client Business, the wording prescribed by the Clearing House for inclusion in the SwapClear Clearing Agreements entered into by SwapClear Clearing Members with their clients.
<u><i>Clearing Member Applied Collateral</i></u>	=	<u>In respect of an account of a Clearing Member: (i) any cash Collateral in respect of which the Clearing House's obligation to return such Collateral has been discharged pursuant to the Rulebook by means of that return obligation having been set-off against an obligation owed by that Clearing Member</u>

Clearing Member Current Collateral Balance

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to the Clearing House, as contemplated by Regulation 12(u); (ii) any non-cash Collateral (including in the form of securities or gold) that has been appropriated and retained by the Clearing House pursuant to an exercise of its powers under a Deed of Charge and applied in or towards discharge of the Clearing Member's obligations to the Clearing House; and (iii) any non-cash Collateral that has been sold or otherwise disposed of by the Clearing House pursuant to an exercise of its powers under a Deed of Charge.

In respect of an account of a Clearing Member: (A) the sum of (i) all Collateral which has been transferred by that Clearing Member to the Clearing

Regulation 50(d) or another comparable payment netting provision applying in the ordinary course of business, have been transferred by that Clearing Member to the Clearing House) on account of any type of that Clearing Member's margin obligations relating to the relevant account pursuant to the Rulebook; (ii) the cash proceeds of any non-cash Collateral relating to the relevant account which has been sold or otherwise disposed of by the Clearing House pursuant to an exercise of its powers under a Deed of Charge, to the extent that those proceeds have not yet been applied in or towards discharge of an obligation owed by the Clearing Member to the Clearing House; and (iii) any Applied Collateral Excess Proceeds credited to the relevant account; less (B) any Clearing Member Applied Collateral and any Clearing Member Returned Collateral in relation to that account; provided that any amounts transferred by the Clearing House to the Clearing Member for the purpose of settling an obligation in respect of daily settlement amounts pursuant to Regulation 15(c) which is due and payable do not form part of the Clearing House Current Collateral Balance.

Clearing Member Returned Collateral

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In respect of an account of a Clearing Member, any Collateral: (i) which the Clearing House has returned to a Clearing Member (provided that the Clearing House shall only be treated as having returned any non-cash Collateral to a Clearing Member if the security in respect of that Clearing Member's interest in that non-cash Collateral pursuant to the relevant Deed of Charge has been released); or (ii) in respect of which the obligation to return such Collateral has been discharged as a result of the operation of Regulation 15(c) or as a  
Regulation 50(d) or another comparable payment netting provision applying in the ordinary course of business.

<i>Clearing Membership Agreement</i>	-	The agreement so designated under which, inter alia, the Clearing House agrees to make available clearing services in respect of Contracts together with any extension letter or other agreement; in these Regulations and the Procedures the expressions "Clearing Member Agreement", "Member Agreement" and "Membership Agreement" shall have the same meaning as "Clearing Membership Agreement"; and in the Default Rules and the Default Fund Rules "Clearing Membership Agreement" includes the FCM Clearing Membership Agreement and FCM Default Fund Agreement.
<i>client account</i>	-	Means a segregated account with the Clearing House opened in the name of a Member in which Contracts relating to contracts made by the Member with one or more segregated clients are registered and to which monies in respect of such Contracts are credited.
<i>closing-out contract</i>	-	For the purposes of these Regulations, a contract effected by or on behalf of the Clearing House and registered in a Member's name, being a contract on the same terms (except as to price or premium) as an open contract in the Member's name, save that where the Clearing House is a buyer or a fixed rate payer, as the case may be, under the terms of such open contract the Clearing House shall be a seller or floating rate payer, as the case may be, under the terms of such closing-out contract and vice-versa.
<i>Compression Documentation</i>	-	Such documentation as may be prescribed from time to time by the Clearing House and/or any ACSP (where applicable) in relation to a Multilateral Compression Cycle or a SwapClear Clearing Member's participation in Multilateral Compression services, including: <ul style="list-style-type: none"> <li>(i) for a Member Compression Cycle, such agreements and documents as the Clearing House may require from all relevant SwapClear Clearing Members in relation to Multilateral Compression in accordance with the relevant Compression Proposal;</li> <li>(ii) for an ACSP Compression Cycle, such agreements and documents as may be required by the nominated ACSP and/or the Clearing House in order to allow a SwapClear Clearing Member to receive the services of the ACSP and participate in that ACSP Compression Cycle; and</li> <li>(iii) such other documentation as the Clearing House may prescribe from time to time in Procedures, user manuals or other guidance</li> </ul>

documentation regarding Multilateral Compression.

*Compression Proposal*

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In relation to any Multilateral Compression Cycle, the final statement as to the proposed set of Terminating SwapClear Contracts and the proposed set of resulting Post-Multilateral Compression Contracts, and, in relation to a SwapClear Clearing Member, references to Compression Proposal shall relate to such of the Terminating SwapClear Contracts and Post-Multilateral Compression Contracts as that SwapClear Clearing Member is or will become party to.

*Compression Time*

On the date designated by the Clearing House for a Multilateral Compression Cycle, the time at which the Clearing House effects a Multilateral Compression by terminating the Terminating SwapClear Contracts and simultaneously registering the Post-Multilateral Compression Contracts in the names of the SwapClear Clearing Members participating in that Multilateral Compression Cycle in accordance with the Compression Proposal.

*Co-operating Clearing House*

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(i) a Co-operating Exchange or Associated Clearing House party to a Link Agreement with the Clearing House; or (ii) a clearing house party to an agreement with the Clearing House in respect of the co-clearing of an Exchange pursuant to which such organisation co-clears specific types of Contract and agrees to be bound by these Regulations as a Member to the extent and subject to any variations agreed in such agreement.

*Co-operating Exchange*

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An exchange (which may also act as a central counterparty) which is party to a co-operation agreement with TGHL.

*Collateral*

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Cash, precious metals, performance bonds and/or securities which are denominated in currencies and of a description acceptable to the Clearing House as prescribed by these Regulations and the Procedures and which have been transferred, or are to be transferred, to or by the Clearing House in or towards discharge of margin obligations or anticipated margin obligations or otherwise as contemplated by the Rulebook. Where the context so permits, references to "Collateral" held by, or transferred to, the Clearing House shall include any cash proceeds resulting from the sale or disposal by the Clearing House of any non-cash Collateral pursuant to an exercise of its powers under a Deed of Charge, and such proceeds shall be considered cash Collateral.

<i>Combined Turquoise Derivatives Orderbook</i>	-	Means the electronic Orderbook operated by TGHL, and one or more Co-operating Exchanges.
<i>Commodity</i>	-	Any kind of property, currency, documents, right or interest (including an option) which is the subject matter of an exchange contract or an LCH EnClear OTC Contract.
<i>confirmed contract</i>	-	An original exchange contract which has been confirmed to the Clearing House by or on behalf of a buyer and a seller pursuant to Regulation 6 or 7 and the Procedures, save that where one or more allocations of an original exchange contract have taken place in accordance with Regulation 7 and the Procedures a "confirmed contract" shall only arise when the last allocation of such original exchange contract has been made and confirmed by a Member pursuant to Regulation 7 and the Procedures.
<i>Contract</i>	-	(i) A contract subject to the Regulations entered into by the Clearing House with a Member for the purposes of or in connection with the provision of clearing services including, without limitation, an open contract, settlement contract, re-opening contract or closing-out contract; and also (ii) in the case of the Default Rules (including the SwapClear DMP Annex and ForexClear DMP Annex), the Default Fund Rules, the FCM Default Fund Agreement, and any other document, rule or procedure as specified by the Clearing House from time to time, an FCM Contract.
<i>contract for differences</i>	-	A Cleared Exchange Contract, a Turquoise Derivatives Cleared Exchange Contract, an OTC Contract or an LCH EnClear OTC Contract which is to be performed by cash settlement only.
<i>Contribution</i>	-	In relation to the Default Fund Rules, has the meaning assigned to it in rule 17 of the Default Fund Rules.
<i>cover</i>	-	An amount <del>determined by the Clearing House</del> of cash or, <del>(with the approval of the Clearing House, security in a currency and a form)</del> <u>non-cash Collateral, determined by the Clearing House, and in a form and currency acceptable to the Clearing House as prescribed by</u> the Procedures.
<i>Cross-Border Transfers</i>	-	The automatic transfers of Turquoise Derivatives Cleared Exchange Contracts from an account of a Linked Member maintained with a Co-operating Exchange to an account of a Member with the Clearing House.
<i>Cross-Margining Affiliate</i>	-	A Member or a member of a Cross-Margining Exchange who has been accepted as eligible to be

		<p>a Cross-Margining Participant by the Clearing House or the Cross-Margining Exchange, as the case may be, and who is an affiliate (as defined in a Cross-Margining Agreement) of a Cross-Margining Participant of the other exchange or clearing organisation.</p>
<i>Cross-Margining Agreement</i>	-	<p>An agreement entered into between the Clearing House and a Cross-Margining Exchange (together or with other parties, as the case may be) pursuant to which the Clearing House agrees to take into account, in calculating <del>cover for initial margin</del> <u>the amount of Collateral to be furnished</u> <del>transferred</del> to the Clearing House by a Member who is a Cross-Margining Participant <u>in respect of that Member's initial margin obligations</u>, contracts entered into between the Cross Margining Exchange and the Cross-Margining Participant or his Cross-Margining Affiliate and pursuant to which the Clearing House is liable to make payments to the Cross-Margining Exchange (and, as the case may be, the Cross-Margining Exchange is liable to make payments to the Clearing House) of amounts calculated in accordance with the terms of the loss-sharing arrangements set forth in such Cross-Margining Agreement.</p>
<i>Cross-Margining Exchange</i>	-	<p>An exchange, clearing house or organisation party to a Cross-Margining Agreement with the Clearing House.</p>
<i>Cross-Margining Participant</i>	-	<p>A Member or a member of a Cross-Margining Exchange, which the Clearing House or the Cross-Margining Exchange, as the case may be, has accepted may participate in the cross-margining arrangements set forth in the Cross-Margining Agreement as a Cross-Margining Participant or Cross-Margining Affiliate.</p>
<i>daily settlement amounts</i>	-	<p>Amounts due to the Clearing House from a Member or to a Member from the Clearing House, as the case may be, arising out of settlement of open contracts pursuant to Regulation 15 or Regulation 73c, and the Procedures.</p>
<i>Day Position Balances</i>	-	<p>For the purposes of the Link Regulations, the meaning attributed to it in the Procedures in respect of Contracts on the terms of a Linked Exchange Contract referred to in Regulation 41(b) or, in respect of contracts on the terms of a Participating Exchange Contract referred to in Regulation 41A, the meaning attributed to it in the relevant Link Agreement.</p>
<i>Deed of Assignment</i>	-	<p>Means a deed of assignment entered into between a SwapClear Clearing Member and a SwapClear Clearing Client (or, notwithstanding any description</p>



to the contrary, such SwapClear Clearing Client's security trustee) in respect of a SwapClear Clearing Agreement. For this purpose, where the Deed of Assignment is entered into with the Clearing House acting as security trustee for the benefit of a SwapClear Clearing Client, any reference to the exercise of rights by a SwapClear Clearing Client pursuant to such Deed of Assignment shall be a reference to the Clearing House exercising such rights in its capacity as a security trustee for the benefit of the SwapClear Clearing Client

<u>Deed of Charge</u>	-	<u>Means a deed of charge entered into between a Clearing Member and the Clearing House in respect of all non-cash Collateral transferred to the Clearing House by that Clearing Member.</u>
<i>Default Management Process Agreement Amendment Agreement</i>	-	Has the meaning assigned to it in General Regulation 52A.
<i>defaulter</i>	-	Has the meaning assigned to it in rule 4 of the Default Rules.
<i>Default Fund Rules</i>	-	The Clearing House's Default Fund Rules from time to time in force which, for the avoidance of doubt, form part of the General Regulations and of the Default Rules.
<i>Default Rules</i>	-	The Clearing House's Default Rules from time to time in force pursuant to Part IV of The Financial Services and Markets Act 2000 (Recognition Requirements for Investment Exchanges and Clearing Houses) Regulations 2001 which, for the avoidance of doubt, form a part of these General Regulations.
<i>Defaulting FXCCM</i>	-	Has the meaning assigned to it in the Default Fund Rules.
<i>Defaulting SCM</i>	-	Has the meaning assigned to it in the Default Fund Rules.
<i>delivery contract</i>	-	A Cleared Exchange Contract or Turquoise Derivatives Cleared Exchange Contract between the Clearing House and a Member; <ul style="list-style-type: none"> <li>(i) for the immediate sale and purchase of a commodity arising on the exercise of an option pursuant to these Regulations; or</li> <li>(ii) for the sale and purchase of a commodity for delivery on the date specified in the contract or on the date agreed between the parties, in either case being an open contract under which tender is not required to be given.</li> </ul>

<i>HKMEx Service</i>	-	The service provided by the Clearing House under the HKMEx Regulations.
<i>HKMEx Service Clearing Member</i>	-	A Member who is designated by the Clearing House as eligible to clear HKMEx Contracts.
<i>HKMEx Trading System</i>	-	The facility, trading system or systems operated directly or indirectly by HKMEx on which HKMEx Eligible Products may be traded.
<i>HKMEx Transaction</i>	-	A contract in a HKMEx Eligible Product between HKMEx Service Clearing Members arising or registered on a HKMEx Trading System meeting the requirements of the Regulations and the Procedures.
<u><i>House Excess</i></u>		<u>means that part of the Clearing Member Current Collateral Balance maintained by a Clearing Member with the Clearing House on a proprietary basis and for its own account which is in excess of the relevant Required Margin Amount.</u>
<i>Individual Segregated Account</i>	-	Means, in relation to SwapClear Clearing Client Business, a sub-account opened within the Clearing House by a SwapClear Clearing Member in respect of Individual Segregated Account Business.
<i>Individual Segregated Account Balance</i>	-	<del>Means, in respect of an Individual Segregated Account Clearing Client, the sum</del> <u>such part of</u> (1) (i) <del>the Required Collateral attributed by the Clearing House in accordance with its rules and procedures to that client;</del> (ii) <del>the Excess Collateral attributed by the Clearing House in accordance with its rules and procedures to that client;</del> and (iii) <del>the Additional Collateral held in the Additional Collateral Account in respect of that client minus</del> (2) <u>in respect of any the Clearing Member Current Collateral Balance of the relevant Clearing Member which is attributable to the Individual Segregated Account Clearing Client in respect of whom the Clearing House acts as security trustee under a Deed of Assignment, that client's share (if any) of amounts required to discharge fees incurred by the security trustee (acting in that capacity) allocated between that SwapClear Clearing Client and the other SwapClear Clearing Clients in respect of whom the Clearing House acts as security trustee under such Deed of Assignment, by the Clearing House pro rata as it sees fit in its sole discretion held by the relevant Clearing Member on behalf of such client (together with any receivables, rights, intangibles and any other collateral or assets deposited or held with the Clearing House in connection with such an account).</u>
<i>Individual Segregated Account Business</i>	-	Has the meaning ascribed to such term in subparagraph (i) of paragraph (c) of Regulation 52A.

<i>Individual Segregated Account Clearing Client</i>	-	Means, in relation to SwapClear Clearing Client Business, a client in respect of whom a SwapClear Clearing Member engages in Individual Segregated Account Business.
<i>initial margin</i>	-	An amount determined and published from time to time by the Clearing House with regard to each category of contract, in respect of which Members may be required to provide <u>transfer</u> to the Clearing House <u>cover</u> <u>Collateral</u> in accordance with these Regulations and the Procedures as a condition of registration of a contract by the Clearing House and otherwise in respect of all Contracts registered with the Clearing House, as prescribed by these Regulations and the Procedures.
<i>LCH Approved Outsourcing Party</i>	-	Means a party approved for these purposes by the Clearing House, as set out in the FCM Procedures.
<i>LCH.Clearnet Group</i>	-	The group of undertakings consisting of LCH.Clearnet Limited, LCH.Clearnet Group Limited and Banque Centrale de Compensation S.A. trading as LCH.Clearnet SA. (Reference to a "member" of LCH.Clearnet Group within these Regulations is to be construed accordingly).
<i>LCH EnClear OTC Clearing Member</i>	-	A Member who is designated by the Clearing House as an LCH EnClear OTC Clearing Member eligible to clear LCH EnClear OTC Contracts.
<i>LCH EnClear OTC Contract</i>	-	A Contract entered into by the Clearing House with an LCH EnClear OTC Clearing Member on any applicable set of Contract Terms prescribed in the LCH EnClear OTC Regulations.
<i>LCH EnClear OTC Contract Terms</i>	-	The relevant Contract Terms in respect of LCH EnClear OTC Contracts.
<i>LCH EnClear OTC Regulations</i>	-	The Clearing House's Regulations, applicable to LCH EnClear OTC Contracts only, from time to time in force.
<i>LCIA Rules</i>	-	The LCIA Arbitration Rules of The London Court of International Arbitration.
<i>LIFFE</i>	-	LIFFE Administration and Management
<i>LIFFE Credit Default Swap Index Contract</i>	-	A Cleared Exchange Contract entered into by the Clearing House and a Member on the LIFFE Credit Default Swap Index Contract Terms.
<i>LIFFE Credit Default Swap Index Contract Terms</i>	-	The terms of the LIFFE Credit Default Swap Index Contract specification provided in LIFFE Rules.
<i>LIFFE Market</i>	-	Any market operated by LIFFE regardless as to whether the market is an exchange, multilateral trading facility, alternative trading system, other

		platform or an over the counter market but excluding any market outside of the European Union operated by LIFFE.
<i>LIFFE Rules</i>	-	The rules adopted by LIFFE in force from time to time and which govern the membership and operation of a LIFFE Market.
<i>Link</i>	-	The trading and/or clearing arrangements established by the Clearing House and a Participating Exchange and, as the case may be, an Exchange in respect of either or both of the following: <ul style="list-style-type: none"> <li>(i) one or more exchange contracts;</li> <li>(ii) one or more Participating Exchange Contracts.</li> </ul>
<i>Link Agreement</i>	-	An agreement entered into between the Clearing House and a Participating Exchange and, if applicable, an Exchange for the purposes of a Link.
<i>Link Clearing Agreement</i>	-	A written agreement in one or more forms and in the terms prescribed by an Exchange, the Clearing House and a Participating Exchange to which, amongst others, a Member is party which has the function, amongst other things, of facilitating the transfer of Contracts on the terms of one or more Linked Exchange Contracts covered by such agreement in accordance with Regulation 41.
<i>Linked Exchange Contract</i>	-	An exchange contract which is the subject of a Link.
<i>Linked Member</i>	-	A member of a Co-operating Exchange.
<i>Link Regulations</i>	-	The Clearing House's Link Regulations from time to time in force.
<i>lot</i>	-	The standard unit or quantity prescribed by an Exchange, with the approval of the Clearing House, as the trading unit of an exchange contract; or <ul style="list-style-type: none"> <li>- In relation to a contract other than an exchange contract, the standard unit or quantity prescribed by the relevant contract terms.</li> </ul>
<i>LSE</i>	-	The London Stock Exchange plc or any successor in title.
<i>margin</i>	-	Initial margin and/or variation margin and <u>any amounts required to be transferred and maintained under Regulation 12(a) (Margin and Collateral).</u>
<i>market</i>	-	A futures, options, forward, stock or other market, administered by an Exchange, or an OTC market in respect of which the Clearing House has agreed

		with such Exchange or, in respect of an OTC market, with certain participants in that market, to provide clearing services on the terms of these Regulations and the Procedures.
<i>market day</i>	-	In respect of a commodity, a day on which the market on which that commodity is dealt in is open for trading.
<i>Member Compression Cycle</i>	-	A Multilateral Compression Cycle requested by two or more SwapClear Clearing Members and agreed to by the Clearing House in relation to eligible SwapClear Contracts held by those requesting SwapClear Clearing Members. For the avoidance of doubt, a Member Compression Cycle will not involve any ACSP.
<i>Member or Clearing Member</i>	-	(i) Subject to (ii) means an undertaking (including a firm or company) which is entitled to be party to Contracts with the Clearing House in accordance with a Clearing Membership Agreement and the Procedures, a Participating Exchange or a Co-operating Clearing House, where so agreed with the Participating Exchange or the Co-operating Clearing House (as applicable). For the avoidance of doubt, the terms "Member" and "Clearing Member" for the purposes of these Regulations, Default Rules and Procedures, do not mean shareholder of LCH.Clearnet Limited or of any other undertaking in the LCH.Clearnet Group.
	-	(ii) "Clearing Member" includes or means (as the case may be) FCM Clearing Member for the purpose of the Default Rules (including the SwapClear DMP Annex and the ForexClear DMP Annex), the Default Fund Rules, the FCM Default Fund Agreement and any other document, rule or procedure as specified by the Clearing House from time to time.
<i>Member Link Agreement</i>	-	A Link Clearing Agreement or a Trade Allocation Agreement.
<i>MER</i>	-	Has the meaning assigned to it in Section 2C.3.3 of the Procedures.
<i>Multilateral Compression</i>	-	The exercise in which some or all of the SwapClear Contracts submitted by two or more SwapClear Clearing Members for inclusion in a Multilateral Compression Cycle are wholly terminated and, where relevant, replaced with other SwapClear Contracts whose combined notional value is less than the combined notional value of the terminated

		SwapClear Contracts in that Multilateral Compression Cycle.
<i>Multilateral Compression Cycle</i>	-	The process of Multilateral Compression in accordance with a Compression Proposal, whether by way of an ACSP Compression Cycle or a Member Compression Cycle.
<i>NLX</i>	-	NASDAQ OMX NLX Limited of 131 Finsbury Pavement, London EC2A 1NT.
<i>NLX Contract</i>	-	A Contract entered into by the Clearing House with an NLX Service Clearing Member pursuant to the NLX Regulations.
<i>NLX Contract Terms</i>	-	The terms of an NLX Contract as set out in the NLX contract specification provided in NLX's Rules.
<i>NLX Eligible Derivative Product</i>	-	A derivative product prescribed from time to time by the Clearing House as eligible for the NLX Service.
<i>NLX Non-Clearing Participant</i>	-	A person other than an NLX Service Clearing Member who is party to an agreement with NLX allowing such person to be a participant in the NLX Trading Facility and subjecting such person to the provisions of NLX's Rules.
<i>NLX Participants</i>	-	NLX Service Clearing Members and NLX Non-Clearing Participants.
<i>NLX Reference Price</i>	-	A Reference Price in respect of an NLX Contract.
<i>NLX Regulations</i>	-	The Clearing House's Regulations applicable to NLX Contracts from time to time in force.
<i>NLX's Rules</i>	-	The rules, practices, procedures, trading protocols and arrangements of the NLX Trading Facility as the case may be and as may be prescribed from time to time relating to NLX Eligible Derivative Products.
<i>NLX Service</i>	-	The service provided by the Clearing House under the NLX Regulations.
<i>NLX Service Clearing Member</i>	-	A Member who is designated by the Clearing House as eligible to clear NLX Contracts.
<i>NLX Trading Facility</i>	-	The facility, trading system or systems operated directly or indirectly by NLX on which NLX Eligible Derivative Products may be traded.
<i>NLX Transaction</i>	-	A contract in an NLX Eligible Derivative Product between NLX Service Clearing Members arising or registered on an NLX Trading Facility meeting the requirements of the Regulations and the Procedures.

<i>Nodal</i>	-	Nodal Exchange, LLC of 8065 Leesburg Pike, Suite 700, Vienna, VA 22182, United States of America.
<i>Nodal Contract</i>	-	A Contract entered into by the Clearing House with a Nodal Service Clearing Member pursuant to the Nodal Regulations.
<i>Nodal Contract Terms</i>	-	The terms of a Nodal Contract as set out in the Nodal contract specification provided in Nodal's Rules.
<i>Nodal Eligible Derivative Product</i>	-	A derivative product prescribed from time to time by the Clearing House as eligible for the Nodal Service.
<i>Nodal Non-Clearing Participant</i>	-	A person other than a Nodal Service Clearing Member who is party to an agreement with Nodal allowing such person to be a participant in the Nodal Trading Facility and subjecting such person to the provisions of Nodal's Rules.
<i>Nodal Participants</i>	-	Nodal Service Clearing Members and Nodal Non-Clearing Participants.
<i>Nodal Reference Price</i>	-	A Reference Price in respect of a Nodal Contract.
<i>Nodal Regulations</i>	-	The Clearing House's Regulations applicable to Nodal Contracts from time to time in force.
<i>Nodal's Rules</i>	-	The rules, practices, procedures, trading protocols and arrangements of the Nodal Trading Facility as the case may be and as may be prescribed from time to time relating to Nodal Eligible Derivative Products.
<i>Nodal Service</i>	-	The service provided by the Clearing House under the Nodal Regulations.
<i>Nodal Service Clearing Member</i>	-	A Member who is designated by the Clearing House as eligible to clear Nodal Contracts.
<i>Nodal Trading Facility</i>	-	The facility, trading system or systems operated directly or indirectly by Nodal on which Nodal Eligible Derivative Products may be traded.
<i>Nodal Transaction</i>	-	A contract in a Nodal Eligible Derivative Product between Nodal Service Clearing Members arising or registered on a Nodal Trading Facility meeting the requirements of the Regulations and the Procedures.
<i>Non-Deliverable FX Transaction</i>	-	Has the meaning given to it in the 1998 FX and Currency Option Definitions published by the International Swaps and Derivatives Association, Inc., the Emerging Markets Traders Association, and the Foreign Exchange Committee, or any successor organisations, as amended and updated

		from time to time.
<i>NYSE Liffe Clearing Contract</i>	-	A contract in the terms of a LIFFE exchange contract subject to the LIFFE Rules entered into by LIFFE as central counterparty with a NYSE Liffe Clearing Member including, without limitation, an open contract, settlement contract, re-opening contract or closing-out contract.
<i>NYSE Liffe Clearing Member</i>	-	A Clearing Member who has been designated by LIFFE to clear NYSE Liffe Clearing Contracts and <i>NYSE Liffe Clearing Membership</i> shall be construed accordingly.
<i>NYSE Liffe Clearing Service</i>	-	The central counterparty and ancillary services provided by LIFFE to NYSE Liffe Clearing Members in accordance with the LIFFE Rules.
<i>NYSE Liffe Clearing Membership Agreement</i>	-	The tripartite clearing membership agreement relating to the NYSE Liffe Clearing Service between LIFFE, the Clearing House and each NYSE Liffe Clearing Member, as in force from time to time.
<i>official quotation</i>	-	A price determined by the Clearing House under Regulation 14.
<i>Omnibus Net Segregated Account</i>	-	Means, in relation to SwapClear Clearing Client Business, a sub-account opened within the Clearing House by a SwapClear Clearing Member in respect of Omnibus Net Segregated Business.
<i>Omnibus Net Segregated Account Balance</i>	-	Means, in respect of an individual Omnibus Net Segregated Clearing Client, <del>the sum of: (1) (i) the Required Collateral attributed by the Clearing House in accordance with its rules and procedures to that client; (ii) the Excess Collateral attributed by the Clearing House in accordance with its rules and procedures to that client; and (iii) the Additional Collateral held in the Additional Collateral Account in respect of that client minus (2) in respect of any Omnibus Net Segregated Clearing Client in respect of whom the Clearing House acts as security trustee under a Deed of Assignment, that client's share (if any) of amounts required to discharge fees incurred by the security trustee (acting in that capacity) allocated between that SwapClear Clearing Client and the other SwapClear Clearing Clients in respect of whom the <u>such part of the Clearing Member Current Collateral Balance of the relevant Clearing Member which is attributable to the Omnibus Net Segregated Account held by the relevant Clearing Member on behalf of such client which is attributed by the Clearing House to the relevant client (together with any receivables, rights, intangibles and any other collateral or assets deposited or held with the Clearing House acts as security trustee under such Deed of Assignment by</u></del>



~~the Clearing House pro-rata as it sees fit in its sole discretion in connection with such an account).~~

<i>Omnibus Net Segregated Business</i>	-	Has the meaning ascribed to such term in sub-paragraph (ii) of paragraph (c) of Regulation 52A
<i>Omnibus Net Segregated Clearing Client</i>	-	Means, in relation to SwapClear Clearing Client Business, a client in respect of whom a SwapClear Clearing Member engages in Omnibus Net Segregated Business.
<i>Open Contract or open contract</i>	-	A Contract made with a Member on the terms (subject to variation of such terms as provided in the Regulations) of an original contract or a Contract made with a Member on the terms set out in the Regulations and/or any agreement entered into with the Member, which, in either case, has not been closed-out, settled or invoiced back in accordance with the Regulations and the Procedures. The term "open contract" shall include, where relevant, an option contract a delivery contract and an Event Protection Contract, but shall not include a settlement contract, a re-opening contract or a closing-out contract.
<i>open contract subject to tender</i>	-	A Cleared Exchange Contract made with a Member on the terms (unless otherwise provided in the Regulations) of an original exchange contract in respect of which a tender has been given, which has not been closed out, settled or invoiced back in accordance with the Regulations and the Procedures, and shall include, except where the context otherwise requires, a delivery contract.
<i>Open Offer for Turquoise Derivatives</i>	-	The open offer contained in Regulation 75 in relation to Orderbook Matches.
<i>option</i>	-	A right to enter into a contract for the sale and purchase of a commodity for future delivery, a contract for differences, or a delivery contract.
<i>option contract</i>	-	A contract for an option on the terms of an exchange contract; or
<i>original contract</i>	-	An original exchange contract, EquityClear Novation Transaction, Eligible OTC Trade, or an OTC Transaction other than a Repo Trade, Bond Trade or GC Trade.
<i>original exchange contract</i>	-	A contract including, where relevant, an option contract on the terms of an exchange contract which <ul style="list-style-type: none"> <li>(i) has been entered into on a market or otherwise under or in accordance with Exchange Rules and subject to Exchange Rules of which particulars are to be presented</li> </ul>

to the Clearing House for registration in the name of members in accordance with Exchange Rules, the Regulations or the Procedures; or

- (ii) arises pursuant to Regulation 41A(b) upon the transfer of a contract on the terms of a Participating Exchange Contract under a Link; or
- (iii) by agreement with a Participating Exchange is to be registered in the name of a Participating Exchange in accordance with the terms of any agreement made with a Participating Exchange.

Where any such contract is for more than one lot there shall be deemed to be a separate contract in respect of each lot and the term "original exchange contract" shall be construed accordingly. The term "original exchange contract" shall include a confirmed contract, except where the context otherwise requires. For the avoidance of doubt, the term "original exchange contract" shall not include any ATP Match made pursuant to the rules of an Approved EquityClear Trading Platform.

<i>OTC Contract</i>	-	A Contract entered into by the Clearing House with a Member on the relevant OTC Contract Terms, as prescribed by the Clearing House from time to time, in accordance with the Regulations and the Procedures and/or any agreement entered into with the Member.
<i>OTC Contract Terms</i>	-	The SwapClear Contract Terms in respect of SwapClear Contracts, the RepoClear Contract Terms in respect of RepoClear Contracts, the RepoClear SGC Contract Terms in respect of RepoClear SGC Contracts and the RepoClear €GC Contract Terms in respect of RepoClear €GC, the ForexClear Contract Terms in respect of ForexClear Contracts..
<i>OTC market</i>	-	Any dealings in an investment (as defined in section 22(1) and Schedule 2 Part II of the Financial Services and Markets Act 2000) which are entered into otherwise than on or subject to the rules of an Exchange.
<i>OTC Service</i>	-	A service provided by the Clearing House for the clearing of a category of OTC Contract.
<i>OTC Transaction</i>	-	A transaction being a SwapClear Transaction, RepoClear Transaction, RepoClear GC Transaction, Repo Trade, Bond Trade or GC Trade, or ForexClear Transaction.

<i>Participating Exchange</i>	-	<p>An organisation (whether an exchange, association, company or otherwise), other than an Exchange, responsible for administering a futures, options, stock or other market which has concluded a Link Agreement with the Clearing House including such an organisation pursuant to which Link Agreement:</p> <ul style="list-style-type: none"> <li>- contracts on the terms of one or more Linked Exchange Contracts are to be transferred to, for clearing by, such organisation; or</li> <li>- contracts on the terms of one or more Participating Exchange Contracts are to be transferred to, for clearing by, the Clearing House.</li> </ul>
	-	<p>And, for the purposes of these Regulations, the term "Participating Exchange" shall include a Co-operating Clearing House and Co-operating Exchange and any clearing house (other than the Clearing House) which from time to time provides clearing services to such organisation.</p>
<i>Participating Exchange Contract</i>	-	<p>In respect of a Participating Exchange, means a class of contract, the terms of which are published by the Participating Exchange from time to time, permitted to be made by members of the Participating Exchange under Participating Exchange Rules and which is the subject of a Link.</p>
<i>Participating Exchange Rules</i>	-	<p>The provisions of a Participating Exchange's Memorandum or Articles of Association or other constitutional documents, by-laws, rules, regulations, procedures, customs, practices, notices and resolutions in whatever form adopted by such Participating Exchange and any amendment, variation or addition thereto.</p>
<i>Portfolios</i>	-	<p>Has the meaning assigned to it in the Default Rules.</p>
<i>Post-Compression Contracts</i>	-	<p>Post-Multilateral Compression Contracts and/or any replacement SwapClear Contracts referred to in Regulation 48.</p>
<i>Post-Multilateral Compression Contracts</i>	-	<p>In relation to a Compression Proposal, the SwapClear Contracts registered as a result of Multilateral Compression in accordance with such Compression Proposal.</p>
<i>premium</i>	-	<p>The consideration for the selling of an option payable by the buyer in accordance with these Regulations and the Procedures.</p>
<i>Price</i>	-	<p>In the case of:</p> <ul style="list-style-type: none"> <li>(i) a contract on the terms of an exchange contract which is to be performed by delivery</li> </ul>

of a commodity, the consideration to be paid by the buyer in cash in the currency prescribed by the terms of the exchange contract, and in the case of an exchange contract which is a contract for differences, the valuation quoted as a price under its terms; or

- (ii) an OTC Contract, the price calculated by the Clearing House in accordance with the Regulations and the Procedures; or
- (iii) an EquityClear Contract, the consideration to be paid by the buyer in cash in the currency as set out in the ATP Match or ATP Match or EquityClear Novation Transaction information received by the Clearing House or its relevant approved agent; or
- (iv) an LCH EnClear OTC Contract, the price calculated by the Clearing House in accordance with the Regulations and Procedures.

#### *Procedures*

One or more documents containing the working practices and administrative or other requirements of the Clearing House for the purposes of implementing or supplementing these Regulations, or the procedures for application for and regulation of membership of the Clearing House and in respect of SwapClear Dealers, RepoClear Dealers, EquityClear NCMs, and ForexClear Dealers respectively, for:

- (i) application for admission to the Register of SwapClear Dealers and regulation of SwapClear Dealers admitted to the Register;
- (ii) application for admission to the Register of RepoClear Dealers and regulation of RepoClear Dealers;
- (iii) application for admission to the Register of EquityClear NCMs.
- (iv) application for admission to the Register of ForexClear Dealers.

and "Procedures" includes FCM Procedures when used in the Default Rules and the Default Fund Rules.

<i>Product</i>	-	Has the meaning assigned to it in the FCM Regulations.
<i>prompt date</i>	-	In respect of an exchange contract, the meaning ascribed to it in the Exchange Rules governing such contract.
<i>Proprietary Account</i>	-	Means a house account with the Clearing House opened in the name of a Member to which Contracts made by the Member for its own account are registered and to which monies in respect of such Contracts are credited.
<i>Protest</i>	-	Has the meaning given to it in Exchange Rules.
<i>Rate X and Rate Y</i>	-	Means, in relation to a SwapClear Transaction or a SwapClear Contract, the outstanding payment obligations of each party to the transaction, such that Rate X comprises the outstanding payment obligations of one party to the other and Rate Y comprises the outstanding payment obligations of the other party to the first party.
<i>Receiving Clearing Member</i>	-	A SwapClear Clearing Member nominated by one or more SwapClear Clearing Client(s) to receive the transfer of Relevant SwapClear Contracts and, where applicable, all of the Associated <del>Account</del> <u>Assets Collateral Balance</u> of such SwapClear Clearing Client(s) from a Carrying Clearing Member
<i>Reference Currency Buyer</i>	-	Means in relation to ForexClear Contract that is a Non-Deliverable FX Transaction, the party specified as the 'Reference Currency Buyer' in the Economic Terms.
<i>Reference Currency Seller</i>	-	Means in relation to ForexClear Contract that is a Non-Deliverable FX Transaction, the party specified as the 'Reference Currency Seller' in the Economic Terms.
<i>Reference Price</i>	-	A price (howsoever called) by reference to which a Contract is settled to market, marked to market, settled or valued in accordance with the Regulations and Procedures.
<i>Register of EquityClear NCMs</i>	-	The register which lists EquityClear NCMs.
<i>Register of ForexClear Dealers</i>	-	The register which lists ForexClear Dealers regarded by the Clearing House as for the time being eligible to submit contracts for registration as ForexClear Contracts by the Clearing House.
<i>Register of RepoClear Dealers</i>	-	The register which lists RepoClear Dealers regarded by the Clearing House as for the time being eligible to submit contracts for registration as RepoClear Contracts or RepoClear GC Contracts

		by the Clearing House or to deal through one or more Automated Trading Systems specified by the Clearing House in respect of each such RepoClear Dealer pursuant to which the Clearing House becomes a party to RepoClear Contracts or RepoClear GC Contracts, as the case may be, in accordance with the terms of the RepoClear Dealer Clearing Agreement and Regulation 56A.
<i>Register of SwapClear Dealers</i>	-	The register which lists SwapClear Dealers regarded by the Clearing House as for the time being eligible to submit contracts for registration as SwapClear Contracts by the Clearing House.
<i>Registration Time</i>	-	In respect of SwapClear Contracts shall have the meaning given in Regulation 47(e); in respect of RepoClear Contracts and RepoClear SGC Contracts, shall have the meaning given in Regulation 54(d) or Regulation 55(d), as applicable; in respect of LCH EnClear OTC Contracts, shall have the meaning given in Regulation 73A, in respect of HKMEx Contracts, shall have the meaning given in Regulation 89(b), in respect of Nodal Contracts, shall have the meaning given in Regulation 93(b), in respect of ForexClear Contracts, shall have the meaning given in Regulation 104(d) Regulation 104(d), and in respect of NLX Contracts, shall have the meaning given in Regulation 111(b).
<i>Regulations</i>	-	The Clearing House's General Regulations which include the Link Regulations, Default Rules, Default Fund Rules and Clearing House Settlement Finality Regulations, from time to time in force.
<i>Regulatory Body</i>	-	The Secretary of State, The Financial Services Authority or professional body designated under Part XX of the Financial Services and Markets Act 2000 or other body given regulatory powers under that Act ; the Bank of England, the Commodity Futures Trading Commission of the United States (CFTC) or any department, agency, office or tribunal of a nation or state or any other body or authority which exercises a regulatory or supervisory function under the laws of the United Kingdom or under any foreign law.
<i>Relevant Contract</i>	-	Has the meaning assigned to it Regulation 52B.
<i>Relevant SwapClear Contracts</i>	-	Those SwapClear Contracts registered with a Carrying Clearing Member on behalf of one or more SwapClear Clearing Clients) that are subject to a request to be transferred to a Receiving Clearing Member.
<i>re-opening contract</i>	-	A contract arising pursuant to Regulation 20(c) or

		(d).
<i>Repo Trade</i>	-	A trading activity in which a RepoClear Participant ("the First Participant") offers to sell (or buy) RepoClear Eligible Securities, and another RepoClear Participant ("the Second Participant") offers to buy (or sell, as the case may be) those securities, on condition that, at the end of a specified period of time, the Second Participant sells (or buys, as the case may be) equivalent securities and the First Participant buys (or sells, as the case may be) those equivalent securities, and a trade subsequently ensues.
<i>RepoClear Clearing Member</i>	-	A Member who is designated by the Clearing House as a RepoClear Clearing Member eligible to clear RepoClear Contracts, RepoClear GC Contracts and RepoClear €GC Contract.
<i>RepoClear Contract</i>	-	A Contract entered into by the Clearing House with a RepoClear Clearing Member on the RepoClear Contract Terms.
<i>RepoClear Contract Terms</i>	-	The Terms set out or referred to in Parts A and B of the Schedule to the RepoClear Regulations.
<i>RepoClear Dealer</i>	-	A person admitted by the Clearing House to the Register of RepoClear Dealers and who has not been removed from the Register.
<i>RepoClear Dealer Clearing Agreement</i>	-	A written agreement, in the form and on the terms prescribed by the Clearing House, between a RepoClear Dealer, a RepoClear Clearing Member and the Clearing House which has the function, amongst other things, of setting out the terms on which the RepoClear Clearing Member agrees to clear RepoClear Transactions, RepoClear SGC Transactions, RepoClear €GC Transactions, Repo Trades, Bond Trades, SGC Trades and €GC Trades for the RepoClear Dealer.
<i>RepoClear Eligibility Criteria</i>	-	With regard to RepoClear Transactions, Bond Trades and Repo Trades the product criteria set out in Part B ("Product Criteria for registration as a RepoClear Contract") of the Schedule to the RepoClear Regulations, and with regard to RepoClear SGC Transactions and SGC Trades, the product criteria set out in Part F ("Product Eligibility Criteria for registration as a RepoClear SGC Contract") of the Schedule to the RepoClear Regulations and with regard to RepoClear €GC Transactions and €GC Trades, the product criteria set out in Part H ("Product Eligibility Criteria for the registration of a RepoClear €GC contract") of the Schedule to the RepoClear Regulations.

<i>RepoClear Eligible Securities</i>	-	With regard to RepoClear Transactions, Bond Trades and Repo Trades securities of a type described in Part B to the Schedule to the RepoClear Regulations, and which appear in the list published for this purpose from time to time by the Clearing House.
<i>RepoClear €GC Contract</i>	-	A Contract entered into by the Clearing House with a RepoClear Clearing Member on the RepoClear €GC Contract Terms.
<i>RepoClear €GC Contract Terms</i>	-	The Terms set out or referred to in Parts G and H of the Schedule to the RepoClear Regulations.
<i>RepoClear €GC Transaction</i>	-	A contract, meeting the requirements of the Regulations and Procedures for registration as a RepoClear €GC Contract, details of which are presented to the Clearing House for registration in the name of RepoClear Clearing Members in accordance with the Regulations, Procedures and the terms of any agreement entered into between the Clearing House and each such RepoClear Clearing Member, and any RepoClear Dealer Clearing Agreement, as applicable.
<i>RepoClear GC Contract</i>	-	A RepoClear €GC Contract or a RepoClear SGC Contract.
<i>RepoClear GC Transaction</i>	-	A RepoClear €GC Transaction or a RepoClear SGC Transaction.
<i>RepoClear Open Offer Eligibility Criteria</i>	-	With regard to Bond Trades, Repo Trades and GC Trades, the requirements set out in paragraphs (i) to (v) inclusive of Regulation 56(c) of the Regulations or in sub-paragraphs (i) to (vi) inclusive of Regulation 56A(c) of the Regulations, as applicable;
<i>RepoClear Participants</i>	-	RepoClear Clearing Members and RepoClear Dealers and "RepoClear Participant" means any of them.
<i>RepoClear Regulations</i>	-	The Clearing House's RepoClear Regulations, applicable to RepoClear Contracts only, from time to time in force.
<i>RepoClear SGC Contract</i>	-	A Contract entered into by the Clearing House with a RepoClear Clearing Member on the RepoClear SGC Contract Terms.
<i>RepoClear SGC Transaction</i>	-	A contract, meeting the requirements of the Regulations and Procedures for registration as a RepoClear SGC Contract, details of which are presented to the Clearing House for registration in the name of RepoClear Clearing Members in accordance with the Regulations, Procedures and the terms of any agreement entered into between the Clearing House and each such RepoClear



		Clearing Member, and any RepoClear Dealer Clearing Agreement, as applicable.
<i>RepoClear Transaction</i>	-	A contract, meeting the requirements of the Regulations and Procedures for registration as a RepoClear Contract, details of which are presented to the Clearing House for registration in the name of RepoClear Clearing Members in accordance with the Regulations, Procedures and the terms of any agreement entered into between the Clearing House and each such RepoClear Clearing Member, and any RepoClear Dealer Clearing Agreement, as applicable. A "RepoClear Repo Transaction" is such a contract for the trade of a repo; a "RepoClear Bond Transaction" is such a contract for the trade of bond/s.
<i>Reported Trade</i>	-	A trade, other than a trade resulting in a Turquoise Derivatives Orderbook Match, which is reported to TGHL for registration with the Clearing House in accordance with Exchange Rules or the terms of any arrangements entered into between TGHL and a Co-operating Exchange.
<i>Required Collateral</i>	-	Means, in relation to SwapClear Clearing Client Business, the margin required by the Clearing House from a SwapClear Clearing Member from time to time in respect of its SwapClear Client Business.
<u><i>Required Margin Amount</i></u>	=	<u>Means: (i) in respect of an Individual Segregated Account or an Omnibus Net Segregated Account, the Required Collateral in respect of that account; and (ii) in respect of an account other than an Individual Segregated Account or an Omnibus Net Segregated Account, the most recent amount of each type of margin which the Clearing House requires in respect of the relevant account as determined by the most recent Collateral balances and valuations shown on the Collateral Management System and notified to the relevant Clearing Member by the Clearing House.</u>
<i>Risk Neutralisation</i>	-	Has the meaning assigned to it in the Default Rules.
<i>Rulebook</i>	-	The Regulations, Default Rules, Settlement Finality Regulations, Procedures, and such other rules of the Clearing House, as published and amended from time to time.
<i>Rules of the Clearing House</i>	-	The Rulebook of the Clearing House including the General Regulations, Default Rules, Settlement Finality Rules, Procedures and these NYSE Liffe Clearing Regulations
<i>SCM Branch</i>	-	A branch or part of a SwapClear Clearing Member, not being a different legal person from the

		SwapClear Clearing Member, which is authorized by the Clearing House to submit to the Clearing House, in the name of that SwapClear Clearing Member, SwapClear Transactions for registration, subject to these Regulations and the Procedures, by the Clearing House as SwapClear Contracts.
<i>segregated client</i>	-	A person whose monies are held by a Member separately from the Member's own monies with whom the Member has agreed (or in respect of which the Member is required) not to use such person's monies for the Member's own account.
<i>seller</i>	-	A Member (or the Clearing House where the context so requires) who is a seller under the terms of an exchange contract, a Cleared Exchange Contract, a Turquoise Derivatives Cleared Exchange Contract, a RepoClear Transaction, a RepoClear SGC Transaction, a RepoClear Contract, a RepoClear SGC Contract, an EquityClear ATP Match, an EquityClear Novation Transaction, an EquityClear Contract, or an LCH EnClear OTC Contract, as the case may be.
<i>Service</i>	-	means any one of the services made available by the Clearing House: (i) to an Exchange; (ii) under the SwapClear Regulations and under the FCM Regulations in respect of FCM SwapClear Contracts; (iii) under the RepoClear Regulations; (iv) under the EquityClear Regulations; (v) under the LCH EnClear OTC Regulations and under the FCM Regulations in respect of FCM EnClear Contracts; (vi) under the Turquoise Derivatives Regulations; (vii) under the HKMEX Regulations; (viii) under the Nodal Regulations; (ix) under the NYSE LIFFE Regulations; or (x) under the ForexClear Regulations and under the FCM Regulations in respect of FCM ForexClear Contracts.
<i>settlement contract</i>	-	A contract between the Clearing House and a Member arising pursuant to Regulation 15(b), Regulation 73C(b) or Regulation 91(b) or 95(b).
<i>settlement price</i>	-	One or more prices determined and issued by an Exchange in accordance with its Exchange Rules in respect of a delivery month or prompt date; or
	-	In relation to a Contract other than an exchange contract, one or more prices determined in accordance with the Regulations or the Procedures.
<i>SGC Trade</i>	-	A trading activity in which a RepoClear Participant ("the First Participant") offers to sell (or buy) an agreed value of securities comprised in an SGC Basket, to be allocated in accordance with the RepoClear Procedures applicable to RepoClear SGC Contracts, and another RepoClear Participant

("the Second Participant") offers to buy (or sell, as the case may be) the securities so allocated, on the conditions that:

- (i) at the end of a specified period of time, the Second Participant sells (or buys, as the case may be) Equivalent Securities (as such term is used in the RepoClear SGC Contract Terms) and the First Participant buys (or sells, as the case may be) those Equivalent Securities; and
- (ii) the understanding of the parties is that their obligations during the term of the transaction will be represented by a series of overnight repurchase transactions effected through Euroclear UK and Ireland delivery by value (DBV) functionality, as contemplated by the RepoClear Procedures applicable to RepoClear SGC Contracts,

and a trade subsequently ensues.

*Special Member*

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- (a) An organisation which has the necessary licences, authorisations and approvals to act as a clearing house or otherwise provide clearing services or an organisation which has the necessary licences, authorisations and approvals to administer a futures, options, stock or other market and also to act as a clearing house in respect of such market or markets.
- (b) An organisation carrying on comparable activities as the Clearing House may determine from time to time,

which has concluded a Clearing Membership Agreement with the Clearing House in such form as the parties may agree, pursuant to which such organisation clears specific types of Contract and agrees to be bound by these Regulations as a Member, to the extent and subject to any variations agreed in such Clearing Membership Agreement.

*Standard Terms*

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That part of the SwapClear Contract Terms, the RepoClear Contract Terms, the LCH EnClear OTC Contract Terms, or the ForexClear Contract Terms designated as Standard Terms by the Clearing House from time to time.

*strike price*

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The price specified in an option contract which becomes the price of the commodity under a contract for the future sale and purchase of that commodity for future delivery or, as the case may be, under a delivery contract, in either case on the exercise of the option, the subject of such option

		contract, in accordance with Exchange Rules, these Regulations and the Procedures.
<i>SwapClear Clearing Agreement</i>	-	<del>Means the client-clearing agreement providing for the creation of a separate ISDA Master Agreement (including any Credit Support Annex and other supplementary agreements)</del> <u>suitable contractual arrangements</u> between a SwapClear Clearing Member and a SwapClear Clearing Client in relation to the SwapClear Clearing Services.
<i>SwapClear Clearing Client</i>	-	Means an Individual Segregated Account Clearing Client or an Omnibus Net Segregated Clearing Client.
<i>SwapClear Clearing Client Business</i>	-	Means Individual Segregated Account Business and Omnibus Net Segregated Business entered into by a SwapClear Clearing Member in respect of its SwapClear Clearing Clients.
<i>SwapClear Clearing Client Entitlement</i>	-	Has the meaning assigned to it in Regulation 52B.
<i>SwapClear Clearing End-User Notice</i>	-	Means the SwapClear Clearing End-User Notice as specified by the Clearing House from time to time.
<i>SwapClear Clearing House Business</i>	-	Means SwapClear Contracts entered into by a SwapClear Clearing Member with the Clearing House on a proprietary basis and for its own account.
<i>SwapClear Clearing Member (SCM)</i>	-	A Member who is designated by the Clearing House as a SwapClear Clearing Member eligible to clear SwapClear Contracts which includes, in the case of the Default Rules, the Default Fund Rules (including the SwapClear DMP Annex), the FCM Default Fund Agreement and any other document, rule or procedure as specified by the Clearing House from time to time, an FCM Clearing Member.
<i>SwapClear Clearing Services</i>	-	Means the entering into of SwapClear Contracts by a SwapClear Clearing Member in respect of its Individual Segregated Account Clearing Clients and its Omnibus Net Segregated Clearing Clients.
<i>SwapClear Clearing Client Entitlement</i>	-	Has the meaning assigned to it General Regulation 52B.
<i>SwapClear Contract</i>	-	A Contract entered into by the Clearing House with a SwapClear Clearing Member on the SwapClear Contract Terms which includes, in the case of the Default Rules (including the SwapClear DMP Annex), the Default Fund Rules, the FCM Default Fund Agreement and any other document, rule or procedure as specified by the Clearing House from time to time, an FCM SwapClear Contract.

<i>SwapClear Contract Terms</i>	-	The terms applicable to each SwapClear Contract as set out from time to time in the Schedule to the SwapClear Regulations or the Procedures.
<i>SwapClear Dealer (SD)</i>	-	A person admitted by the Clearing House to the Register of SwapClear Dealers and who has not been removed from the Register.
<i>SwapClear Dealer Clearing Agreement</i>	-	A written agreement, in the form and on the terms prescribed by the Clearing House between a SwapClear Dealer, a SwapClear Clearing Member and the Clearing House which has the function, amongst other things, of setting out the terms on which the SwapClear Clearing Member agrees to clear SwapClear Transactions for the SwapClear Dealer.
<i>SwapClear DMG</i>	-	Has the meaning assigned to it in the Default Rules;
<i>SwapClear DMP</i>	-	Has the meaning assigned to it in the Default Rules;
<i>SwapClear Product Eligibility Criteria</i>	-	Means the product eligibility criteria set out in paragraphs 1.1(a), 1.1(b) or 1.1(c) and 3 of Part B of Schedule A to the SwapClear Regulations.
<i>SwapClear Regulations</i>	-	The Regulations entitled as such, applicable to SwapClear Contracts only, from time to time in force.
<i>SwapClear Tolerance</i>	-	Has the meaning assigned to it in Section 2C.3.3 of the Procedures.
<i>SwapClear Transaction</i>	-	Means any transaction the details of which are presented to the Clearing House via an Approved Trade Source System for the purpose of having such transaction registered at the Clearing House as two SwapClear Contracts or one SwapClear Contract and one FCM SwapClear Contract (as the case may be), regardless of whether such transaction (a) is an existing swap transaction, (b) was entered into in anticipation of clearing, or (c) is contingent on clearing.
<i>SWORD</i>	-	The system operated by the Clearing House for, inter alia, facilitating the issue, recording and electronic transfer of London Metal Exchange warrants.
<i>tender</i>	-	A notice in writing, given by or on behalf of a seller (or buyer where Exchange Rules so require) pursuant to Exchange Rules these Regulations and the Procedures, of an intention to make (or take) delivery of a commodity.

<i>Terminating SwapClear Contracts</i>		In relation to any Compression Proposal, the SwapClear Contracts which will be terminated and replaced with Post-Multilateral Compression Contracts in accordance with Regulation 48B.
<i>The Clearing House Turquoise Derivatives Services -</i>	-	The services provided by the Clearing House pursuant to the Turquoise Derivatives Regulations.
<i>TGHL</i>	-	London Stock Exchange plc whose registered office is at 10 Paternoster Square, London EC4M 7LS.
<i>Trade Allocation Agreement</i>	-	An agreement in one or more forms and in the terms prescribed by an Exchange, the Clearing House and a Participating Exchange to which, amongst others, a Member is a party which has the function of facilitating, amongst other things, the transfer, in accordance with Regulation 41, of those Contracts on the terms of a Linked Exchange Contract which are permitted by the terms of such agreement to be transferred under such agreement.
<i>trade correction procedures</i>	-	The procedures established for the purposes of a Link to facilitate the correction of errors contemplated by such procedures.
<i>Trading Platform Particulars</i>	-	The orders or other trade particulars submitted in respect of the sale or purchase of EquityClear Eligible Equities or EquityClear Eligible ccCFD(s), to an ATP in accordance with the relevant ATP Market Rules by, or on behalf of, an EquityClear Clearing Member (including, where relevant, submission of such orders or other trade particulars by or on behalf of an EquityClear NCM on behalf of the relevant EquityClear Clearing Member pursuant to, and in accordance with, the relevant Approved EquityClear Clearing Agreement between them and the relevant ATP Market Rules) or, in the case of an EquityClear Mixed Member Match, by, or on behalf of a member of a relevant Co-operating Clearing House.
<i>Treasury Contract</i>	-	Means any contract, including a contract of deposit, entered into by the Clearing House with that Member for purposes of, in connection with or otherwise in the course of its treasury management activities.
<i>Treasury Account</i>	-	Means any accounting process under which an amount due under a Treasury Contract from a member to the Clearing House is set off against any amount due from the Clearing House to that Member.
<i>Turquoise Derivatives Account</i>	-	An account maintained in the name of TGHL, by the Clearing House pursuant to Regulation 5 in which Turquoise Derivatives Cleared Exchange Contracts

		may be registered pursuant to Regulation 75, 80 or in such other circumstances as may be agreed between TGHL and the Clearing House from time to time.
<i>Turquoise Derivatives Cleared Exchange Contract</i>	-	A Contract entered into by the Clearing House in accordance with the Turquoise Derivatives Regulations.
<i>Turquoise Derivatives Contract Specification</i>	-	In respect of a Turquoise Derivatives Eligible Product, the relevant contract specification set out in the Turquoise Derivatives Rules.
<i>Turquoise Derivatives Eligible Product</i>	-	A product traded under the Rules of the London Stock Exchange Derivatives Market which TGHL has agreed from time to time with the Clearing House is to be cleared by the Clearing House pursuant to these Regulations.
<i>Turquoise Derivatives Non-Clearing Member (Turquoise Derivatives NCM)</i>	-	A member of TGHL who is not a Member and is party to a subsisting Turquoise Derivatives NCM-GCM Agreement.
<i>Turquoise Derivatives Orderbook</i>	-	The electronic orderbook operated by TGHL for the trading of Turquoise Derivatives Eligible Products.
<i>Turquoise Derivatives Orderbook Match or Orderbook Match</i>	-	A match made on the Turquoise Derivatives Orderbook of two sets of Turquoise Derivatives Trade Particulars submitted by or on behalf of two Members or a match made on the Combined Turquoise Derivatives Orderbook of two sets of Turquoise Derivatives Trade Particulars submitted by or on behalf of a Member and a Linked Member.
<i>Turquoise Derivatives Regulations</i>	-	The Regulations set out in Regulations 74 to 87 inclusive.
<i>Turquoise Derivatives Trade Particulars</i>	-	Means the trade particulars of an order submitted to the Turquoise Derivatives Orderbook by or on behalf of a Member or, in the case of a Member which is a Co operating Clearing House, submitted to the Combined Turquoise Derivatives Orderbook by or on behalf of a relevant Linked Member.
<i>Turquoise Derivatives OTC Trade</i>	-	An OTC trade reported to TGHL London in accordance with its Rules for its OTC Service.
<i>Turquoise Derivatives Transactions</i>	-	An Orderbook Match, Turquoise Derivatives OTC Trade, Reported Trade, Cross-Border Re-registration and a Cross-Border Transfer.
<i>Unallocated Excess</i>		Has the meaning assigned to it in the FCM Regulations.
<i>Unallocated Excess Sub-Account</i>		Has the meaning assigned to it in the FCM Regulations.

*US Trading Venue*

A swap execution facility or designated contract market registered as such with the CFTC which the Clearing House has approved for the purposes of having transactions executed thereon submitted to the Clearing House for registration. For the avoidance of doubt, a US Trading Venue need not be an Approved Trade Source System.

*US Trading Venue Transaction*

In respect of a Clearing Member, a transaction recorded in the Clearing House's systems (via applicable messaging from the relevant US Trading Venue, Approved Trade Source System or otherwise) as a transaction that was executed on a swap execution facility or designated contract market that, as at the time of such execution, was an Eligible US Trading Venue in respect of such Clearing Member.

*variation margin*

An amount determined by the Clearing House in accordance with the Procedures in respect of original contracts or open contracts (as the case may be) ~~by reference to the difference between the contract value of such contracts (as determined in accordance with the Procedures) and the value of such contracts at official quotations or at such other prices as the Clearing House may determine pursuant to the Procedures. The term "variation margin" shall include daily settlement amounts save where the context otherwise requires.~~

Terms not otherwise defined have the meaning given to them in the General Regulations of the Clearing House.

Any reference in these Regulations or the Procedures to statutes or statutory instruments or provisions thereof shall be to such statutes or statutory instruments or provisions thereof as amended, modified or replaced from time to time.

Reference to writing contained in these Regulations or the Procedures shall include typing, printing, lithography, photography or any other mode of representing or reproducing words in a visible form.

Words importing the singular shall, where the context permits, include the plural and vice-versa.

Any reference to time contained in these Regulations or the Procedures shall, unless otherwise stated, be to London time. Times are shown using the twenty four hour clock.

Any reference in these Regulations to a person or a party (howsoever described) shall include its successors.

Headings are used herein for ease of reference only.



**Regulation 4** Clearing Member Status of the Clearing House

- (a) Application for clearing member status of the Clearing House shall be made in accordance with the Procedures. A Member's clearing member status of the Clearing House shall be governed by these Regulations, the Procedures and any Clearing Membership Agreement to which he is for the time being party. Clearing member status does not provide or entitle a Member to any shareholding membership of LCH.Clearnet Limited or any shareholding or other membership of any other member of the LCH.Clearnet Group or any entitlement to membership of or participation in LCH.Clearnet SA, which has separate and distinct membership requirements.
- (b) The Clearing House shall determine which categories of Contract a Member is eligible to have registered in its name from time to time. If, in its absolute discretion, the Clearing House determines that a Member no longer meets the relevant eligibility criteria for a particular category, or categories, of Contract the Clearing House may rescind that Member's eligibility to have Contracts of such category or categories registered in its name, but without prejudice to his right to have registered in his name, subject to the Regulations, the categories of Contracts in respect of which the Member does meet the eligibility criteria. The Clearing House may from time to time publish a list of Members identifying the category or categories of Contracts which each Member is eligible to have registered in its name.
- (c) A Member shall be a principal to and not an agent in respect of any Contract registered in his name with the Clearing House. In performing its obligations and exercising its rights under these Regulations, the Clearing House shall take no account of any right or interest which any person other than the Member may have in any ~~good~~ collateral transferred furnished by such Member to the Clearing House.
- (d) Any Regulation or group of Regulations expressly stated not to apply to a Participating Exchange, and paragraph (a) above, shall not apply to a Participating Exchange, being an Exchange which is party to a trading and/or clearing agreement with an Exchange to whom the Clearing House provides clearing services and who has agreed to become a Member. The Clearing House shall enter into one or more agreements with such Participating Exchange which shall govern dealings between them and which may apply, disapply or modify, as the case may require, some or all of these Regulations with respect to such Participating Exchange.

**Regulation 5** Accounts

- (a) Accounts (including, where requested, client accounts) shall be opened between each Member and the Clearing House in accordance with the Procedures. A Member shall be responsible for all obligations owed to the Clearing House in respect of every account opened in respect of such Member.
- (b) This paragraph applies to a Member's Proprietary Accounts. In the event that more than one Proprietary Account is opened in respect of a Member, the Clearing House shall have the right to combine or consolidate the balances on any or all of the Member's Proprietary Accounts, and to set off any amount or amounts standing from time to time to the credit of any one or more of such accounts in or towards payment or satisfaction of all or any of the Member's liabilities to the Clearing House on any one or more of such accounts.
- (c) This paragraph applies to a Member's client accounts. Unless the Rules of the Clearing House provide otherwise, in the event that more than one client account is opened in respect of a Member, the Clearing House shall have the right to combine or consolidate the balances on any or all of such client accounts of a Member, and to set off any amount or amounts standing to the credit of any one or more of such client accounts of a Member in or towards payment or satisfaction of all or any of the Member's liabilities to the Clearing House on any one or more of such client accounts.
- (d) Amounts standing to the credit of a Member's accounts, other than, subject to paragraphs (c) above, his client accounts, may be applied by the Clearing House towards the payment of any sum whatsoever due by the Member to the Clearing House whether or not arising under these Regulations, save that, subject to Rule 8(d) of the Default Rules, no amounts standing to the credit of such Member's accounts shall be applied in or towards payment or satisfaction of all or any of the Member's liabilities to the Clearing House on any one or more of the Member's client accounts. Amounts standing to the credit of a Member's account relating to Contributions made under the Default Fund Rules may be applied as provided for in the Default Fund Rules.
- (e) Any rights of set-off, combination of accounts or appropriation which the Clearing House may have under these Regulations or otherwise shall apply whether or not accounts are denominated in the same currency.
- (f) Interest calculated on a basis determined from time to time by the Clearing House in accordance with the Procedures may at the Clearing House's discretion (but subject to the provisions of the Default Fund Rules and to Regulation 58(d)) be paid, or, in the case of negative interest rates, be charged, on amounts standing to the credit of any of the Member's accounts.
- (g) Debit balances due to the Clearing House on any account opened in respect of a Member are payable by such Member on demand and interest may at the Clearing House's discretion be charged on debit balances remaining unpaid (whether or not demand for payment is made) on a basis and at a rate determined from time to time by the Clearing House in accordance with the Procedures.
- (h) Subject to the provisions of the Default Fund Rules, the Clearing House may at its absolute discretion alter the basis of calculating interest rates and such alteration shall be effective in respect of all current and future business on the date notified to Exchanges and to Members in accordance with the Procedures.

- (i) If a Member specifies a Termination Date under Regulation 39A, the Member shall be entitled to set off any or all amounts (whether present or future, liquidated or unliquidated, actual or contingent; but excluding any claims in respect of the outstanding balance of a Clearing Member's Contribution under Default Fund Rule 23(a)(i)) due as between the Clearing House and the Member, provided, however, that a Termination Amount or other sum payable in respect of an amount recorded in or referable to a kind of account may not be combined or set off against any other amount unless such other amount is recorded in or the same to another kind of account. For the purposes of this Regulation 5(i):
- (i) each client account of the defaulter which is an Individual Segregated Account or an Omnibus Net Segregated Account shall constitute a separate "kind of account";
  - (ii) all client accounts of the defaulter (other than Individual Segregated Accounts and Omnibus Net Segregated Accounts) shall together constitute a single "kind of account"; and
  - (iii) the Proprietary Accounts of the defaulter shall together constitute a single "kind of account".
- (j) Where a payment has been made to the Clearing House by a Member through the PPS, that payment will only be credited to the account of the Member with the Clearing House if it (i) is paid into an account of the Clearing House with an institution which is solvent, (ii) that institution has performed its concentration function (being the transfer of net funds from the institution to a central account in the name of the Clearing House) and (iii) the institution has made the relevant payments to other Members on the date when the payment was due to be received by the Clearing House.

**Regulation 9** Registration

- (a) Paragraphs (b), (d) and (f) only of this Regulation shall apply to a contract on the terms of an exchange contract arising under Regulation 41A(b) upon the transfer of a contract on the terms of a Participating Exchange Contract under a Link. The Clearing House shall not register an original exchange contract or an Event Protection Contract in the name of a Member unless such contract has been confirmed or deemed confirmed pursuant to Regulation 6, 7 or 18 by or on behalf of a Member as a buyer and a Member as a seller who thereby have consented to such contract being registered in his name. The Clearing House shall register a contract in the name of a Member which is a Participating Exchange in accordance with the terms of any agreement made with the Participating Exchange and none of the following paragraphs shall apply in respect of a Member which is a Participating Exchange.
- (b) Where the Procedures so provide the Clearing House may require the Members in whose names one or more contracts are to be registered to ~~furnish it with cover for~~ transfer Collateral to the Clearing House in respect of their initial and variation margin obligations as a condition of registration of such contract or contracts, and such ~~cover~~ Collateral shall be ~~furnished~~ transferred to the Clearing House in accordance with Regulation 12 and, if applicable, the SwapClear Regulations, the RepoClear Regulations, the EquityClear Regulations, the LCH EnClear Regulations, the LCH EnClear OTC Regulations, the Turquoise Derivatives Regulations, the HKMEX Regulations, the Nodal Regulations, the ForexClear Regulations, or the NLX Regulations
- (c) The Clearing House may decline to register an original contract in the name of a Member where it considers such action advisable for its own protection or the protection of the relevant market. The Clearing House may, without assigning any reason, make the registration of any contract subject to any conditions stipulated by the Clearing House including, without limitation, the ~~furnishing of cover for margin~~ transfer of sufficient Collateral by both Members in whose name any such contract is to be registered.
- (d) This paragraph does not apply to a Member which is a Participating Exchange. No original exchange contract for a commodity shall be registered in the name of a Member who is not entitled under Exchange Rules to have original exchange contracts for such commodity registered in his name.
- (e) The Clearing House shall be deemed to register in the name of a Member an original exchange contract, at the time prescribed in the Procedures in respect of such exchange contract or, in the case of an original exchange contract registered by the Clearing House pursuant to rule 6(a) of the Default Rules, at the time chosen by the Clearing House whereupon Regulation 3(a) shall take effect.
- (f) A contract on the terms of an exchange contract arising under Regulation 41A(b) upon the transfer of a contract on the terms of a Participating Exchange Contract under a Link shall be registered in the name of the Member referred to in Regulation 41A(b) and shall be deemed to be registered in the name of such Member upon the arising of such Contract.

**Regulation 10 Trading Information**

The Clearing House shall make available to a Member in the manner and by the time prescribed by the Procedures, such details of original contracts presented for registration in the name of that Member, open contracts registered in that Member's name, and ~~never-furnished~~ Collateral transferred to the Clearing House by that Member as may be prescribed in the Procedures.

**Regulation 11** Transfer

- (a) A Member may not allocate or transfer a confirmed contract, or an open contract registered in his name except as provided in paragraph (d) below or in Regulation 41 or in Regulation 52C.
- (b) If a Member wishes to transfer an open contract from his name to be registered in the name of another Member, the Clearing House may, with the agreement of both Members and subject to such conditions as it may stipulate, at its absolute discretion and, without prejudice to any power of the Clearing House under the Default Rules, and where relevant with the consent of the Exchange whose Exchange Rules form part of the terms of such open contract, transfer the registration of such open contract into the name of the Member agreeing to have such contract registered in his name, whereupon Regulation 3(b) shall take effect.
- (c) No open contract on the terms of an exchange contract may be transferred pursuant to paragraph (b) above to any Member who is not entitled under Exchange Rules to have open contracts on the terms of that exchange contract registered in his name. No open contract, being a SwapClear Contract, may be transferred pursuant to paragraph (b) above to any Member who is not a SwapClear Clearing Member, and no open contract, being a RepoClear Contract, may be transferred pursuant to paragraph (b) above to any Member who is not a RepoClear Clearing Member. No open EquityClear Contract may be transferred pursuant to paragraph (b) above to any Member who is not an EquityClear Clearing Member. No open LCH EnClear OTC Contract may be transferred pursuant to paragraph (b) above to any Member who is not an LCH EnClear OTC Clearing Member. No open ForexClear Contract may be transferred pursuant to paragraph (b) above to any Member who is not a ForexClear Clearing Member.
- (d) Rights under an open contract shall not be capable of assignment by a Member. Any such purported assignment by a Member, or any purported transfer that is not in compliance with this Regulation, shall be void.

**Regulation 12** Margin and Cover for Margin Collateral

- (a) The Clearing House may in accordance with the Procedures require a Member to ~~furnish it with cover~~ transfer Collateral to the Clearing House, and to ~~keep the Clearing House furnished with sufficient cover at all times~~ maintain a Clearing Member Current Collateral Balance, in an amount determined by the Clearing House, as security for the performance by such Member of its obligations to the Clearing House in respect of all contracts from time to time to be registered in his name as open contracts pursuant to these Regulations. The obligation upon a Member to ~~furnish cover~~ transfer Collateral to the Clearing House pursuant to this paragraph shall be in addition to any other obligation of the Member to ~~furnish cover~~ transfer Collateral to the Clearing House pursuant to these Regulations.
- (b) The Clearing House may in accordance with the Procedures require a Member to ~~furnish it with cover~~ transfer Collateral to the Clearing House in respect of initial or variation margin in circumstances prescribed by the Regulations and the Procedures in respect of any open contract registered in the Member's name, such ~~cover~~ Collateral to be ~~furnished~~ transferred by the Member in such form and manner and by such time or times as may be prescribed by the Procedures.
- (c) If insufficient ~~monies are~~ Collateral is standing to the credit of a Member's account, or if any ~~security deposited assets or monies transferred~~ by a Member ~~as cover is~~ to the Clearing House as Collateral are determined by the Clearing House in accordance with the Procedures to be insufficient, such ~~cover for margin~~ Collateral as the Member is required to transfer to the Clearing House requires a Member to ~~furnish to it~~ pursuant to paragraph (b) above or Regulation 9 or the SwapClear Regulations, the RepoClear Regulations, the EquityClear Regulations, the LCH EnClear Regulations, or LCH EnClear OTC Regulations, the Turquoise Derivatives Regulations, the HKMEX Regulations, the Nodal Regulations, the ForexClear Regulations or the NLX Regulations, as applicable, shall be ~~furnished~~ transferred to the Clearing House by the Member in such form and manner and by such time or times as may be prescribed by the Procedures.
- (d)
- (i) ~~(d) (i)~~ — The Clearing House shall be entitled to assume that all securities and other assets ~~furnished or deposited~~ transferred by a Member to ~~or with the~~ Clearing House as ~~cover~~ Collateral pursuant to these Regulations or under the terms of any agreement made with the Member are the sole legal and beneficial property of the Member or are ~~furnished or deposited~~ transferred for the purposes of these Regulations with the legal and beneficial owner's unconditional consent and free of such owner's interest. A Member may not ~~furnish or deposit~~ transfer securities or other assets to ~~or with the~~ Clearing House as ~~cover~~ Collateral otherwise than in conformity to this paragraph. It shall be accepted by every person dealing on the terms of these Regulations that a Member has such person's unconditional consent to ~~furnish or deposit~~ transfer to ~~or with the~~ Clearing House as ~~cover~~ Collateral for the purposes of these Regulations any securities or other assets of such person in the Member's possession, free of such person's interest.
- (ii) Each Member represents and warrants to the Clearing House as at each date on which such Member ~~furnishes or deposits~~ transfers securities or other assets to ~~or with the~~ Clearing House as ~~cover~~ Collateral pursuant to these Regulations (a) that such Member is the sole legal and beneficial owner of those securities or other assets or, as the case may be, those securities or other assets are so

- ~~furnished or deposited~~transferred with the legal and beneficial owner's unconditional consent and free of such owner's interest and (b) that the provision to the Clearing House of such securities or other assets pursuant to these Regulations will not constitute or result in a breach of any trust, agreement or undertaking whatsoever.
- (iii) The Clearing House may, in its absolute discretion and at any time require a Member to ~~furnish or deposit~~transfer other securities or assets to ~~or with the~~ Clearing House in substitution of any securities or assets ~~deposited with~~transferred to the Clearing House pursuant to this Regulation 12.
- (e) The rate of initial margin in respect of each exchange contract shall be determined from time to time by the Clearing House after consultation with the relevant Exchange and such rate shall be published from time to time by the Clearing House. Subject to paragraph (g) below, any alteration of the rate so determined shall take effect on the expiry of such period of notice to Members as shall from time to time be agreed with the relevant Exchange. Any such notice shall be given to Members in accordance with the Procedures.
- (f) The rate of initial margin in respect of each category of OTC Contract shall be determined from time to time by the Clearing House, and such rate shall be published from time to time by the Clearing House. The rate of initial margin in respect of EquityClear Contracts and LCH EnClear OTC Contracts respectively shall be determined from time to time by the Clearing House and such rate shall be published from time to time by the Clearing House.
- (g) Notwithstanding paragraph (e) or paragraph (f) above, the Clearing House shall be entitled at its absolute discretion, without assigning any reason and without prior notice to a Member or, where applicable, to an Exchange, to modify the rate of initial margin applicable to an exchange contract, to an OTC Contract or to EquityClear Contracts or to LCH EnClear OTC Contracts, or to ~~call for demand~~ larger or additional amounts of ~~cover~~Collateral in respect of ~~the initial margin to be furnished to it by obligations of a Member, either before registration of a contract or at any time after registration. Any cover called~~Collateral demanded by the Clearing House pursuant to this paragraph shall be ~~furnished~~transferred by the Member to the Clearing House on demand and in such form as the Clearing House may require.
- (h) The Clearing House shall be entitled at any time to demand ~~from a Member the immediate provision of cover for margin from a Member~~transfer of Collateral in respect of that Member's margin obligations in an amount deemed necessary by the Clearing House without reference to official quotations or Reference Prices in respect of any open contract in the Member's name, if, in the opinion of the Clearing House, the ~~furnishing~~transfer to the Clearing House of such ~~cover~~Collateral by the Member is necessary in the circumstances then prevailing which may be affecting or may in the Clearing House's opinion be likely to affect market conditions or the Member's performance of its obligations under the terms of such contracts or under the terms of any original or confirmed contract to which the member is party. ~~In this paragraph, "immediate provision" means payment to the Clearing House within one hour of demand.~~
- (i) A Member shall ~~furnish~~transfer to the Clearing House in the manner and form and by the time or times prescribed in the Procedures ~~cover~~Collateral in respect of the premium in respect of option contracts or ~~cover~~Collateral in respect of the initial payment amount or fixed payment amounts in respect of LIFFE Credit ~~Default~~Default Swap Index Contracts on the terms of such contracts as ~~are~~ specified in the Procedures.



- (j) ~~(j)~~—The Clearing House shall be entitled to make an accommodation charge at a rate determined by the Clearing House and specified in the Procedures, in respect of any ~~security furnished to it as cover in a form prescribed by the Procedures~~ non-cash Collateral (other than Clearing Member Returned Collateral or Clearing Member Applied Collateral) transferred to the Clearing House. Any alteration in the basis of calculating the rates of accommodation charge shall become effective in respect of all current and future business by the time specified in the Procedures.
- (i) ~~(k)~~—Without prejudice to the requirements of paragraph (e) or (f) above, the Clearing House may at its absolute discretion accept ~~cover~~ Collateral to an agreed amount in a form other than those specified in the Procedures, subject always to the Clearing House's prior assessment as to the appropriateness of such form of ~~collateral~~ Collateral in accordance with its standard risk management procedures and to any special arrangements which the Clearing House may prescribe in each case (including as to valuation and haircut). The Clearing House may at its discretion make an accommodation charge at a special rate.
- (k) ~~(l)~~—If, in the opinion of the Clearing House, any ~~security asset~~ which has been ~~furnished~~ transferred to it by a Member as ~~cover~~ Collateral pursuant to these Regulations is no longer either of sufficient value or otherwise acceptable to the Clearing House, the Clearing House shall be entitled to demand further ~~provision of cover~~ Collateral from such Member. Such ~~cover~~ Collateral shall be ~~furnished~~ transferred by such Member to the Clearing House on demand in a form prescribed by the Procedures, provided that at any time the Clearing House shall be entitled to require the Member to ~~furnish it with cover~~ transfer Collateral to the Clearing House in a specified form and to demand that the Member replace the whole or part of any ~~security furnished by asset transferred to the Clearing House by that Member pursuant to these Regulations by cover~~ with Collateral in the form of cash.
- (m) ~~— If, in respect of open contracts in a Member's name, official quotations indicate that cover which has been furnished to the Clearing House by such Member in respect of such contracts is in excess of variation margin, the Clearing House may or at the Member's request shall (but only where the excess consists of cash) release the excess of such cover.~~
- (l) Any request by a Clearing Member for the release or return of excess Collateral shall be dealt with in accordance with the Procedures.
- (m) ~~(n)~~—If the Clearing House takes any step or steps under the Default Rules in relation to a Member, any sum (including without limitation the price due to be paid by the Clearing House in respect of the delivery of any property or currency by or on behalf of the Member) standing to the credit of any of the Member's accounts shall be treated as ~~cover~~ Collateral.
- (n) ~~(o)~~—Unless the Clearing House otherwise agrees in writing, ~~cover provided to the Clearing House by way of cash shall not be capable of assignment by any person or as expressly contemplated by the Rulebook, no Member may assign or otherwise transfer its right to the return of any cash Collateral or Contributions transferred to the Clearing House. Any such purported assignment or transfer by a Member (whether by way of security or otherwise) of cash cover provided to the Clearing House shall be void. A Member shall not otherwise encumber (or seek to encumber) its right to the return of any cash cover provided~~ Collateral or Contributions transferred to the Clearing House.
- (o) ~~(p)~~—Where the Clearing House is party to a Link Agreement with a Participating Exchange:

- (i) the Clearing House may ~~call~~request collateral from that Participating Exchange ~~for cover~~ in whatever form may be stipulated in the terms of that Link Agreement; and
  - (ii) if collateral is ~~provided~~transferred by such Participating Exchange pursuant to such Link Agreement, that collateral shall be deemed to be ~~cover~~Collateral for the purposes of these Regulations and the Default Rules.
- (p) Any references in the Rulebook to (i) Collateral deposited or held by or with the Clearing House or a Clearing Member or in an account maintained by the Clearing House or a Clearing Member, (ii) balances of Collateral with the Clearing House or a Clearing Member or in an account maintained by the Clearing House or a Clearing Member; and (iii) Collateral credited to an account maintained by the Clearing House or a Clearing Member (and any phrases describing similar concepts), shall be construed as including all Collateral transferred to the Clearing House by that Clearing Member or to that Clearing Member by the Clearing House (as applicable) and any Applied Collateral Excess Proceeds credited to that Clearing Member's account by the Clearing House, but as excluding any relevant Clearing Member Returned Collateral, Clearing Member Applied Collateral, Clearing House Returned Collateral and/or Clearing House Applied Collateral (as applicable).
- (q) Expressions in the Rulebook such as "furnish", "provide", "deposit" and "post" (and similar expressions) are used to describe the act of transferring Collateral to or, as the case may be, from, the Clearing House and, when used in conjunction with such expressions, expressions in the Rulebook such as "margin", "cover for margin" and "collateral" (and similar expressions) are used to describe the collateral which is transferred to or, as the case may be, from, the Clearing House. Where the context so permits, references to Collateral being held, or being transferred by a Clearing Member to the Clearing House to be held, in an account means that the Collateral is recorded in the books and records of the Clearing House as being attributable to a particular Clearing Member or Clearing Client. Where the Rulebook so provides, references to Collateral being "transferred" from the Clearing House to the Clearing Member may include the Clearing House recording in its books and records such Collateral as being attributable to the Clearing Member and held in an account of that Clearing Member with the Clearing House or, where the Clearing House no longer enjoys the benefit of Collateral in a form other than cash or securities, making appropriate book entries to reflect the fact that the relevant Collateral no longer forms part of the relevant Clearing Member Collateral Balance.
- (r) The Rulebook shall be construed such that:
- (i) save as stated in sub-paragraph (ii), all transfers of Collateral to or, as the case may be, from, the Clearing House are effected on an outright title-transfer basis (with there being no intention to create any form of in rem security interest in such collateral, and despite any references to such collateral being held by the Clearing House or a Clearing Member or in an account maintained by the Clearing House or a Clearing Member or to such collateral being credited to an account maintained by the Clearing House or a Clearing Member (or to similar concepts));
  - (ii) wherever non-cash Collateral is transferred to the Clearing House, it is held by the Clearing House as custodian for the Clearing Member which transferred it, on and subject to the terms of the Deed of Charge between the Clearing House and that Clearing Member;

- (iii) wherever the Clearing House is required to return cash Collateral or Applied Collateral Excess Proceeds to a Clearing Member or a Clearing Member is required to return cash Collateral to the Clearing House, that requirement is to pay an amount of cash equal to the amount expressed to be so required to be returned; and
- (iv) wherever the Clearing House is required to return non-cash Collateral to a Clearing Member, that requirement is to return (unless otherwise provided in the Procedures) the same non-cash Collateral (or equivalent non-cash Collateral) as was transferred to the Clearing House by that Clearing Member and to release the same from the security created by the relevant Deed of Charge.
- (s) In determining the amount of Collateral which the Clearing House requires to be transferred to or from the Clearing House pursuant to the Rulebook, the Clearing House shall take into account the amount of any Collateral which has previously been determined as being required to be transferred to or from the Clearing House but which, at the time of that determination, has not been so transferred.
- (t) Upon the Clearing House being satisfied (acting in good faith) that all obligations of a Clearing Member pursuant to the Rulebook have been irrevocably paid or discharged in full and that no such obligations are capable of arising:

  - (i) the Clearing House shall (A) in the case of cash Collateral transferred to the Clearing House for the purpose of collateralising that Clearing Member's obligations (other than any constituting Clearing Member Returned Collateral or Clearing Member Applied Collateral), pay an amount of cash to that Clearing Member equal to such cash; and (B) in the case of non-cash Collateral transferred to the Clearing House for the purpose of collateralising that Clearing Member's obligations (other than any constituting Clearing Member Returned Collateral or Clearing Member Applied Collateral), transfer that same Collateral (or equivalent Collateral) to that Clearing Member; and
  - (ii) the Clearing Member shall, in the case of cash Collateral transferred to the Clearing Member for the purpose of collateralising the Clearing House's obligations (other than any constituting Clearing House Returned Collateral or Clearing House Applied Collateral), transfer an amount of cash to the Clearing House equal to such cash.
- (u) Wherever the Rulebook contemplates an obligation of a Clearing Member being discharged by the Clearing House using, or otherwise applying, cash Collateral transferred to the Clearing House for the purpose of collateralising that Clearing Member's obligations to the Clearing House (including any Applied Collateral Excess Proceeds), the manner in which such discharge shall occur is by the acceleration of the Clearing House's obligation to return that cash Collateral or Applied Collateral Excess Proceeds to that Clearing Member (but only in an amount which does not exceed the obligation of that Clearing Member which is to be so discharged) and the set-off of that transfer obligation against that Clearing Member's obligation which is to be so discharged.
- (v) Wherever the Rulebook contemplates an obligation of the Clearing House being discharged by a Clearing Member using, or otherwise applying, cash Collateral transferred to that Clearing Member for the purpose of collateralising the Clearing House's obligations to that Clearing Member, the manner in which such discharge shall occur is by the acceleration of that Clearing Member's obligation to return that cash Collateral to the Clearing House (but only in an amount which does not exceed the

obligation of the Clearing House which is to be so discharged) and the set-off of that transfer obligation against the Clearing House's obligation which is to be so discharged.

**Regulation 15** Daily Settlement or Marking to Market

- (a) Where Exchange Rules or the Procedures so prescribe in respect of exchange contracts, the Clearing House may effect the daily settlement to market or daily marking to market of all open contracts (in each case, as opposed to requiring the collateralisation of such open contracts) on the terms of such exchange contracts in accordance with the Procedures and Exchange Rules, save where the Procedures otherwise provide. Daily settlement to market shall not apply to such open contracts which are for the account of a Member's client accounts.
- (b) The Clearing House shall, in accordance with the Procedures, in respect of each open contract in a Member's name which is subject to daily settlement to market or daily marking to market (as opposed to a collateralisation requirement), effect and register a settlement contract, being a contract on the same terms (except as to price or premium), including the strike price where applicable, as the open contract, save that where the Member is a buyer under the terms of the open contract the Member shall be a seller under the terms of the settlement contract and vice-versa, such settlement contract to be effected in accordance with the Procedures (or Exchange Rules if applicable) at the relevant official quotation for that day. The Clearing House shall thereupon settle each open contract against the respective settlement contract in accordance with the Procedures.
- (c) The Clearing House shall, upon completion of the procedure set out in paragraph (b) above, calculate the daily settlement amounts in accordance with the Procedures and shall thereafter make up the Member's account and upon the Clearing House so doing, the Member and the Clearing House shall (unless otherwise agreed) settle any daily settlement amounts arising as follows:
- (i) any profit arising to a Member shall: (A) be credited to the applicable account and; (B) to the extent that that account is a collateral account, become part of the Clearing Member Current Collateral Balance; and (C) subject to the Clearing House's right to retain such profit pursuant to these Regulations and in respect of a Cross-Margining Participant to the terms of any relevant Cross-Margining Agreement, such profit shall be paid to the Member on the Member's request; and
- (ii) any loss arising to a Member shall be debited ~~to~~from the applicable account of the Member ~~and (subject to) to the extent that there is an available balance in such account and, in accordance with~~ these Regulations) the Member shall pay the amount of any shortfall in respect of such loss to the Clearing House forthwith on demand.
- (d) The Clearing House shall, upon completion of the calculation of daily settlement amounts pursuant to paragraph (c) above, in the manner prescribed by the Procedures:
- (i) in respect of those open contracts in a Member's name which have been settled pursuant to paragraph (b) above and which are subject to daily settlement to market, register at the official quotation referred to in paragraph (b) above, contracts in the Member's name as open contracts on the same terms (except as to price or premium), including the strike price where applicable, as the settled open contracts, save that no contract for the purchase and no contract for the sale of the same commodity, for the same delivery month, or expiry month and strike price, where applicable, shall be registered in the Member's name;

**Regulation 16** Other Modes of Settlement and Revaluation

~~Settlement and revaluation and collateralisation~~ procedures (other than those contained in Regulations 15 and 15A) may be prescribed, in respect of open contracts on the terms of certain exchange contracts and in respect of open contracts which are OTC Contracts, EquityClear Contracts or LCH EnClear OTC Contracts in the Procedures or where agreed with, an Exchange, in Exchange Rules. ~~Settlement of open contracts~~The relevant settlement, revaluation and collateralisation procedures (as applicable) may be effected by the Clearing House in accordance with such provisions.

**Regulation 24** ~~Cover~~Collateral in Event of a Claim

If notice of claim and notice of intention to refer a dispute to arbitration is given to the Clearing House pursuant to Exchange Rules, Regulation 22 or Regulation 62A in respect of an open contract, an EquityClear Contract, any or all ~~cover~~Collateral (including any Applied Collateral Excess Proceeds) standing to the credit of the ~~accounts~~account of a Member who is party to one or more contracts under dispute (whether such ~~cover~~Collateral is held with respect to a contract under dispute or otherwise) may be retained by the Clearing House. The Clearing House may at any time and from time to time ~~call for payment~~demand transfer by such Member of additional ~~cover~~Collateral, in such amount as it may deem appropriate in respect of such contract or contracts, to be held by the Clearing House under these Regulations until the claim is finally disposed of. The amount of such ~~cover~~Collateral to be ~~furnished~~transferred by the Member to the Clearing House shall be assessed by reference to such circumstances as the Clearing House in its discretion deems relevant.

**Regulation 39A Netting**

- (a) If at any time the Clearing House fails to make a payment or a delivery of an asset to a Member, other than a defaulter, under a Contract for a period of 30 days from the date when the obligation to pay or deliver fell due then that Member may exercise its rights under paragraph (c) below.
- (b) If at any time the Clearing House commences a voluntary case or other procedure seeking or proposing liquidation, administration, receivership, voluntary arrangement or a scheme of arrangement, or other similar relief with respect to itself or to its debts under any bankruptcy, insolvency, regulatory, supervisory or similar law, or if any of the foregoing cases or procedures is commenced in relation to the Clearing House by any other person which results in liquidation or winding up of the Clearing House, or if the Clearing House takes corporate action to authorise any of the foregoing, in any such case other than for the purposes of corporate restructuring (including any consolidation, amalgamation or merger), then a Member, other than a defaulter, may exercise the right given to it under paragraph (c) below.
- (c) A Member entitled to exercise rights under this paragraph may, at any time whilst any of the circumstances referred to in paragraph ~~Regulation-39A~~(a) or (b) giving rise to such rights continue, by notice in writing to the Clearing House, specify a Termination Date for the termination and liquidation of all Contracts to which it is a party in accordance with paragraph (d) below.
- (d) Upon the occurrence of a Termination Date:
- (i) neither the Clearing House nor the Member shall be obliged to make any further payments or deliveries under any Contract between them which would, but for this Regulation 39A, have fallen due for performance on or after the Termination Date, and any obligations to make further such payments or deliveries which would otherwise have fallen due shall be satisfied by settlement (whether by payment, set-off or otherwise) of the Termination Amount;
  - (ii) the Member shall (on, or as soon as reasonably practicable after, the Termination Date) determine (discounting if appropriate) in respect of each Contract its total loss or, as the case may be, gain, in each case expressed in the lawful currency of the United Kingdom (the "**Base Currency**"), (and, if appropriate, including any loss of bargain, cost of funding or, without duplication, loss or, as the case may be, gain as a result of the termination, liquidation, obtaining, performing or re-establishing of any hedge or related trading position) as a result of the termination, pursuant to this agreement, of each payment or delivery which would otherwise have been required to be made under such Contract (assuming satisfaction of each applicable condition precedent and having due regard to, if appropriate, such market quotations published on, or official settlement prices set by, a relevant exchange or clearing organisation, as may be available on, or immediately preceding, the date of calculation); ~~and~~
  - (iii) any cash Collateral balance held by the Clearing House and/or the Member in respect of the other party's initial margin and/or variation margin obligations shall (to the extent not already due and payable) be accelerated so as to become immediately due and payable to the party who provided such cash Collateral, and the Member shall (on, or as soon as reasonably practicable after, the Termination Date) determine the Base Currency Equivalent of such amount(s). For the purposes of this Regulation 39A, the "Base Currency



- Equivalent** means, in respect of any amount denominated in the Base Currency, such Base Currency amount and, in respect of any amount denominated in a currency other than the Base Currency (the "**Other Currency**"), the amount in the Base Currency determined by the Member as being required to purchase such amount of such Other Currency as at the relevant Termination Date, with the Base Currency; and
- (iv) ~~(iii)~~ the Member shall treat each loss to it, ~~determined as above,~~ determined under paragraph (d)(ii) above and the Base Currency Equivalent of any amount of cash Collateral due and payable to it as a positive amount and each gain by it, ~~so determined,~~ determined under paragraph (d)(ii) above and the Base Currency Equivalent of any amount of cash Collateral due and payable by it as a negative amount and, subject to paragraph (iv)(v), shall aggregate all of such amounts to produce a single, net positive or negative amount, denominated in the Base Currency (the "**Termination Amount**").
- (v) ~~(iv)~~ Where a Member has a ~~house~~ Proprietary Account and one or more client accounts:
- (1) the Member shall determine ~~two~~ one or more net amounts under paragraph (d)(iii); ~~one~~ (d)(iv): (A) a separate net amount in respect of gains and losses arising on Contracts registered in the Member's client account (or client accounts as combined) and a second net amount in respect of gains and losses arising on all other Contracts each of its client accounts which are Individual Segregated Accounts or Omnibus Net Segregated Accounts and any corresponding cash Collateral balances held by that Member or the Clearing House; (B) a separate net amount in respect of gains and losses arising on all Contracts registered in all of its client accounts which are not Individual Segregated Accounts or Omnibus Net Segregated Accounts and any corresponding cash Collateral balances held by that Member or the Clearing House; and (C) a further separate net amount in respect of gains and losses arising on all Contracts registered in such Member's Proprietary Account (or Proprietary Accounts as combined) and any corresponding cash Collateral balances held by that Member or the Clearing House; and
- (2) each of the ~~two~~ net amounts determined under paragraph (iv)(1) shall constitute Termination Amounts.
- (vi) ~~(v)~~ If a Termination Amount determined pursuant to paragraph (d) ~~or (iv)(v)~~ above is a positive amount, the Clearing House shall pay it to the Member and if any such Termination Amount is a negative amount, the Member shall pay it to the Clearing House, in either case in accordance with paragraph (vi)(vii). The Member shall notify the Clearing House of each such Termination Amount, and by which party it is payable, immediately after the calculation thereof.
- (vii) ~~(vi)~~ A Termination Amount shall, subject to Regulation 39B, be paid in the Base Currency by the close of business on the business day following notification pursuant to paragraph (v)(vi) above (converted as required by applicable law into any other currency, any costs of such conversion to be borne by, and (if applicable) deducted from any payment to, the Clearing House). Any Termination Amount which is not paid on such day shall bear interest, at the average rate at which overnight deposits in the currency of such payment are offered by major banks in the London interbank market as of 11:00 hours (London time) (or, if no such rate is available, at such reasonable rate as the

Member may select) plus 1% per cent. per annum, for each day for which any such sum remains unpaid.

- (viii) ~~(vii)~~ For the purposes of any calculation required to be made under this Regulation, the Member may convert amounts denominated in any other currency into the Base Currency at such rate prevailing at the time of the calculation as it shall reasonably select.

The Member's rights under this Regulation 39A shall be in addition to, and not in limitation or exclusion of, any other rights which the Member may have (whether by agreement, operation of law or otherwise, including its rights under Regulation 5(i)).

(c) If a Member is a defaulter and either:

- (i) no default management process has been commenced by the Clearing House in respect of such Member within 3 business days following a default notice being issued in respect of that Member; or
- (ii) such default management process has been commenced within such period but that Member determines (acting reasonably) that the relevant default management process is unlikely to be completed,

then, provided that an event or circumstance as described in paragraph (a) (ignoring, for this purpose, the words "other than a defaulter" in that paragraph) or (b) above has also occurred, the relevant Member shall be entitled to exercise the rights provided under paragraph (c) above, notwithstanding that it is a defaulter.

**Regulation 39B** Distribution of Assets

- (a) ~~Where (after the any netting and set-off provided for in General Regulation 39A and General of these Regulations, Regulation 5(i) of these Regulations, Regulation 25 of the FCM Regulations, Regulation 6(i) of the FCM Regulations, or otherwise) the Clearing House has insufficient assets available to it to pay all Termination Amounts in full (determined in accordance with FCM Regulation 24A and General Regulation 39A), the claims of the Clearing Members (which shall include FCM Clearing Members for the purposes of this Regulation 39B) shall be met from assets available for distribution to all Clearing Members in respect of all claims they may have in full (including, for the avoidance of doubt, any claims in respect of outstanding Contributions under Default Fund Rule 23(a)(i)), such claims shall be met first in an amount equal to the aggregate sum of their the outstanding Contributions of each such Clearing Member and, thereafter, pro rata to the balance of each Clearing Member's respective claim's remaining claim, taking into account any amounts already received.~~
- (b) ~~To the extent the Clearing House does not have sufficient assets available to it to pay each Clearing Member the amount equal to the aggregate sum of its outstanding Contributions, the Clearing House shall distribute the assets available for distribution to all it to Clearing Members in respect of all claims they may have shall be allocated among the Clearing Members participating in each Service in proportion as the part of the Fund Amount corresponding to such Service which was not used under Default Fund Rule 46 bears to the aggregate of the unused parts of all Fund Amounts. The assets so allocated to each Service shall be applied to meet the claims of each Clearing Member in proportion as the outstanding Contribution of such Clearing Member in relation to such Service bears to the aggregate of all their claims relating to outstanding Contributions in relation to such Service priority to other Clearing Member claims, in each case in an amount equal to the proportion that the outstanding Contributions of the relevant Clearing Member bear to the aggregate of all outstanding Contributions of all Clearing Members.~~

## LINK REGULATIONS

### **Regulation 40** Application of Link Regulations

- (a) These Link Regulations, which form a part of the General Regulations, apply in conjunction with all other provisions of the Regulations to Contracts which are on the terms of those Linked Exchange Contracts specified for the purpose of these Link Regulations in the Procedures and which are registered by the Clearing House in the name of a Member pursuant to Regulation 9. The references in these Link Regulations to "Contracts on the terms of a Linked Exchange Contract" shall be construed as referring to Contracts on the terms of a Linked Exchange Contract specified for the purpose of these Link Regulations in the Procedures. The references in these Link Regulations to "contracts on the terms of a Participating Exchange Contract" shall be construed as referring to contracts on the terms of a Participating Exchange Contract specified for the purposes of these Link Regulations in the Procedures.
- (b) In the event of any conflict between these Link Regulations and the Default Rules, the Default Rules shall prevail.

**Regulation 41** Transfer of Contracts on the terms of a Linked Exchange Contract

- (a) Each Contract on the terms of a Linked Exchange Contract registered by the Clearing House in the name of a Member pursuant to Regulation 9 which forms part of a Member's Day Position Balances and all other Contracts on the terms of a Linked Exchange Contract which do not form part of such Day Position Balances shall, subject to Regulations 42(a), 42(b) and 44, be transferred in accordance with paragraph (c) below.
- (b) The Clearing House shall, in accordance with the Procedures, calculate each Member's Day Position Balances with respect to Contracts on the terms of a Linked Exchange Contract which are registered on a business day in each such Member's name and recorded in certain accounts referred to in the Procedures. Subject to Regulations 42(a), 42(b) and 44, the Clearing House shall transmit details of such Day Position Balances and all other Contracts on the terms of a Linked Exchange Contract registered on such business day in each such Member's name which do not form part of a Member's Day Position Balances to the relevant Participating Exchange in accordance with procedures from time to time agreed with, and by such time or times and on such day as agreed with, such Participating Exchange.
- (c) Upon the dispatch by the relevant Participating Exchange of a confirmation in such form as may be agreed from time to time with the Clearing House following receipt by such Participating Exchange of the details of Contracts transmitted pursuant to paragraph (b) above, all such Contracts comprised in each Member's Day Position Balances and all other Contracts referred to in paragraph (b) shall be transferred under this paragraph (c) and the terms of a Member Link Agreement to which each Member party to such Contracts is a party. The transfer of such Contracts shall, subject to Regulation 42(d), have effect so that:
- (i) the Clearing House and each Member party to each such Contract shall be released from their obligations to each other under each such Contract ("a discharged Contract") (except from their obligations under these Regulations including, without limitation, obligations with respect to any fees payable under the Regulations or to pay any daily settlement amounts in respect of one or more discharged Contracts or to ~~provide cover for margin~~ transfer Collateral) and, without prejudice to the foregoing or to the claims of either the Clearing House or a Member arising out of or in relation to a discharged Contract;
  - (ii) the respective rights of the Clearing House and a Member against each other under a discharged Contract shall be cancelled and the discharged Contract shall be replaced simultaneously by a contract on the terms of the relevant Participating Exchange Contract between the persons specified in the relevant Member Link Agreement to which the Member party to a discharged Contract is a party and under which such discharged Contract was transferred.
- (d) Contracts other than option Contracts comprised in a Member's Day Position Balances shall be transferred at the settlement price for the delivery month of such Contracts established by the relevant Exchange. Such Contracts (other than option Contracts) shall be transferred at the official quotation for such delivery month if no such Settlement Price has been established. Contracts in the terms of a Linked Exchange Contract which do not form part of a Member's Day Position Balances shall, subject to paragraph (e) below, be transferred at the price at which they were entered into and, unless paragraph (e) applies, no daily settlement amounts shall be payable in respect of such Contracts under the Regulations. Option Contracts comprised in a Member's Day Position Balance shall be transferred with effect that no premium shall be payable under

contracts on the terms of the relevant Participating Exchange Contract which arise pursuant to Regulation 41(c)(ii), but without prejudice to the obligation of the buyer to pay the premium due under each discharged Contract.

- (e) If Regulation 44(a) applies, all Contracts (other than option Contracts) which are subsequently transferred pursuant to paragraph (c) above after the business day on which they were registered by the Clearing House shall, subject to paragraph (f) below, be transferred at the settlement price referred to in paragraph (d) above, or if no such settlement price has been established, at the official quotation referred to in paragraph (d) above, for the business day immediately preceding the business day on which such transfer is made. Option Contracts which are subsequently transferred pursuant to paragraph (c) above after the business day on which they were registered by the Clearing House shall, subject to paragraph (f) below, be transferred with effect that no premium shall be payable under contracts on the terms of the relevant Participating Exchange Contract which arise pursuant to Regulation 41(c)(ii), but without prejudice to the obligation of the buyer to pay the premium due under each discharged Contract.
- (f) If Contracts to be transferred pursuant to Regulation 41(c) have been entered into pursuant to the trade correction procedures, such Contracts may be transferred at a different price to the price specified in paragraph (e) above.

**Regulation 41A** Transfer to the Clearing House of Participating Exchange Contracts

- (a) Each contract on the terms of a Participating Exchange Contract registered by a Participating Exchange in the name of a member of a Participating Exchange forming part of the member of the Participating Exchange's Day Position Balances shall, subject to Regulations 42 and 44, be transferred at the time or times and in the manner referred to in either or both of the Participating Exchange Rules of the relevant Participating Exchange and the applicable Member Link Agreement to which such member of the Participating Exchange is party and in accordance with any other procedures from time to time agreed between the Clearing House and the Participating Exchange and any Exchange party to the relevant Link. Notwithstanding the preceding sentence, such contracts on the terms of a Participating Exchange Contract may be transferred after such time or times if the Clearing House, the Participating Exchange, and any Exchange party to the relevant Link so agrees.
  
- (b) Upon the transfer of a contract referred to in paragraph (a) which is on the terms of a Participating Exchange Contract pursuant to a Member Link Agreement, the parties to such contract shall be released from their obligations to each other under such contract (except from those obligations which the Member Link Agreement and the relevant Participating Exchange Rules expressly state shall survive) (a "discharged contract") and, without prejudice to the provisions of the Participating Exchange Rules, their respective rights against each other shall be cancelled and the discharged contract shall be replaced simultaneously by a contract on the terms of the relevant exchange contract between the Clearing House and the Member party to such Member Link Agreement for the same number of lots and the same delivery month or expiry month and exercise price (as applicable) as the discharged contract. Such contract shall, upon its arising, be subject to the relevant Exchange Rules and the Regulations and shall not be subject to any Participating Exchange Rules and shall, upon registration pursuant to Regulation 9(f), become an open contract.

**Regulation 42** Default Affecting Transfer

- (a) (i) If, prior to the transfer of Contracts on the terms of one or more Linked Exchange Contracts pursuant to Regulation 41(c), a Member becomes a defaulter or any other default-related or other event specified in a relevant Member Link Agreement to which the Member is party occurs with respect to the Member ("the defaulting Member"), Contracts on the terms of one or more relevant Linked Exchange Contracts registered in the defaulting Member's name with the Clearing House shall not be transferred pursuant to Regulation 41(c) if the terms of the relevant Member Link Agreement so provides.
- (i) Following the occurrence of any event referred to in sub-paragraph (a)(i) above in respect of a Member, and if Contracts in the terms of the relevant Linked Exchange Contracts to which the defaulting Member is party cannot be transferred pursuant to Regulation 41(c), the Clearing House shall, without prejudice to the Default Rules or to paragraph (f) above, for the purposes of facilitating the transfer of Contracts under one or more Links pursuant to Regulation 41(c), either enter into Contracts ("Default Management Contracts") as a principal with one or more Members (each "a Nominated Member") who agrees to enter into such contracts which shall, in accordance with paragraph (c) of this Regulation 42, be in the terms of such Contracts on the terms of one or more relevant Linked Exchange Contracts which are or become registered in the defaulting Member's name with the Clearing House or, if the terms of the relevant Link Agreement so requires, implement the provisions of Regulation 42(g).
- (b) (i) If, prior to the transfer of Contracts on the terms of one or more Linked Exchange Contracts pursuant to Regulation 41(c), the Clearing House becomes aware that a member of a Participating Exchange who is party to such Member Link Agreement with a Member ("affected Member") has become a Defaulter (as defined in such Member Link Agreement) or any other default-related or other event specified in such Member Link Agreement occurs with respect to the member of the Participating Exchange, Contracts on the terms of one or more relevant Linked Exchange Contracts registered in the name of an affected Member shall not be transferred under such Member Link Agreement or under any other relevant Member Link Agreement if the terms of any such agreement do not so permit and, pursuant to the terms of the relevant Link Agreement either the provisions of sub-paragraph (ii) or Regulation 42(g) shall apply.
- (iii) (ii) If, pursuant to sub-paragraph (i) above, this sub-paragraph (ii) applies, the Clearing House shall, for the purposes of facilitating the transfer of Contracts under a Link pursuant to Regulation 41(c), enter into Default Management Contracts with one or more Nominated Members who agree to enter into such Contracts, which shall in accordance with paragraph (c) of this Regulation 42 be on the terms of Contracts on the terms of one or more relevant Linked Exchange Contracts which are or become registered in the affected Member's name.
- (c) Default Management Contracts entered into by the Clearing House pursuant to paragraph (a) or (b)(ii) above with one or more Nominated Members shall (in aggregate) be for the same number of lots as the number of lots of Contracts on the terms of one or more relevant Linked Exchange Contracts which remain open contracts after the Clearing House has taken steps (if any) pursuant to the Default Rules (or the relevant Exchange has taken steps (if any) under Exchange Rules) to achieve a discharge of the defaulter's rights and liabilities under or in respect of such Contracts or, as the case may be, pursuant to paragraph (f) below to achieve a discharge of the affected Member's Contracts and shall be assigned to such accounts of a Nominated Member as agreed



between the Clearing House and the Nominated Member and, as applicable, shall be included in the Nominated Member's Day Position Balances or aggregated with the Contracts registered in the Nominated Member's accounts which do not form part of his Day Position Balances. Details of such Default Management Contracts shall be transmitted to the relevant Participating Exchange pursuant to Regulation 41(b).

- (d) Default Management Contracts entered into by the Clearing House pursuant to Regulation 42(a) or 42(b)(ii) with a Nominated Member shall be transferred pursuant to Regulation 41(c) and thereby discharged in accordance with the terms of any written agreement entered into between the Clearing House and the Nominated Member for the purposes of this Regulation 42 and upon such transfer, the Clearing House and the Nominated Member shall become party to new Contracts which shall be subject to the Regulations and in the same terms and for the same number of lots as the Default Management Contracts, as more particularly described in such agreement, save that the Clearing House, if a party to a Default Management Contract as a seller, shall be a buyer under a Contract to which the Clearing House becomes a party under this paragraph (d) and vice versa. Such new Contracts shall not be transferred pursuant to Regulation 41, but shall be performed in accordance with the Regulations and the terms of any written agreement to which the Clearing House and the Nominated Member is a party for the purposes of this Regulation 42.
- (e) Contracts on the terms of a Linked Exchange Contract to which a defaulter or an affected Member is a party and which cannot be transferred pursuant to Regulation 41(c) ("affected Contracts") shall remain subject to and shall be discharged in accordance with the Regulations.
- (f) Without prejudice to the Default Rules, the Clearing House shall have the right to take such action and by such means as the Clearing House in its absolute discretion determines to close-out, cash-settle by invoicing back, transfer to another member pursuant to Regulation 11, or otherwise achieve a discharge of the affected Member's affected Contracts whether or not the affected Member is a defaulter.
- (g) If the terms of the applicable Link Agreement so require the Clearing House shall, following the occurrence of an event referred to in Regulation 42(a) in respect of a Member or in Regulation 42(b) in respect of a member of the relevant Participating Exchange, become party to one or more contracts (each a "Default Contract") with the Participating Exchange party to such Link Agreement which shall be on the same terms and for the same number of lots as the number of lots of the affected contracts which remain open contracts after the Clearing House has taken steps pursuant to the Default Rules or pursuant to paragraph (f) above with respect to such affected Contracts, except that each Default Contract shall be subject to the relevant Participating Exchange Rules and not subject to these Regulations or to the relevant Exchange Rules. The Clearing House shall have the right to take such action and by such means as the Clearing House in its absolute discretion determines to close-out, transfer or otherwise achieve the discharge of each Default Contract pursuant to the relevant Participating Exchange Rules or the terms of any agreement concluded between the Clearing House and such Participating Exchange and to close-out, transfer or otherwise achieve a discharge of the affected Contracts pursuant to the Default Rules or Regulation 42(f).
- (h) (i) If the terms of the relevant Link Agreement so require, following the occurrence of an event referred to in Regulation 42(a) in relation to a Member or in Regulation 42(b) in relation to a member of a Participating Exchange, contracts on the terms of one or more relevant Participating Exchange Contracts registered with the relevant Participating Exchange in the name of such member of the Participating Exchange or a member of the Participating Exchange party to a Member Link Agreement with the Member and

which form part of such member of the Participating Exchange's day Position Balances shall not be transferred pursuant to Regulation 41A (b) and the Participating Exchange (as a Member of the Clearing House) shall become party to one or more open contracts (each a "Default Contract") with the Clearing House.

- (ii) Each such Default contract shall be on the same terms and for the same number of lots as such contracts on the terms of each such Participating Exchange Contract, except that each Default Contract shall be subject to the Regulations and the relevant Exchange Rules and not subject to the relevant Participating Exchange Rules. The Participating Exchange shall have the right to take such action and by such means as the Participating Exchange in its absolute discretion determines to close-out, transfer or otherwise achieve the discharge of each Default Contract pursuant to the Regulations or the terms of any agreement concluded between the Clearing House and the relevant Participating Exchange, provided that, without prejudice to the Default Rules, the Clearing House shall also have the right to take such action and by such means as the Clearing House in its absolute discretion determines to close-out, transfer to another Member pursuant to Regulation 11, or (if they cannot be so transferred) otherwise achieve a discharge of each such Default Contract, and may take such action whether or not the Participating Exchange is a defaulter.

**Regulation 43** Margin Collateral

Without prejudice to the provisions of Regulation 9(b) or Regulation 12, the Procedures or any agreement entered into between the Clearing House and a Member with respect to ~~cover for~~ margin provided Collateral transferred or to be ~~provided~~ transferred by such Member to the Clearing House, the Clearing House shall be entitled to require a Member to ~~furnish cover~~ transfer Collateral to the Clearing House in an amount determined by the Clearing House as a condition of the Clearing House agreeing to register original contracts on the terms of a Linked Exchange Contract in the name of the Member and to ~~keep~~ ensure that the Clearing House ~~furnished with~~ holds sufficient ~~cover~~ Collateral at all times, in an amount or amounts determined by the Clearing House, as security for the performance by such Member of his obligations to the Clearing House in respect of such original contracts to be registered or Contracts registered with the Clearing House. In addition, the Clearing House shall be entitled to ~~require cover~~ demand Collateral in a form and in an amount determined by the Clearing House from a Member as a condition of the Clearing House agreeing to take any steps pursuant to any trade correction procedures.

**Regulation 44** Impossibility of Transfer

- (a) If it is not possible for any reason (other than for a reason referred to in Regulation 42) (including, without limitation, as a result of any action taken by an Exchange pursuant to Exchange Rules or, as a result of the act of a government or a Regulatory Body or any change in applicable law or as a result of the failure of any systems, communication facilities or other technology) for details of open contracts on the terms of a Linked Exchange Contract to be transmitted on a day pursuant to Regulation 41(b), or for the relevant Participating Exchange to receive such details or to despatch a confirmation as referred to in Regulation 41(c), so that such Contracts cannot be transferred pursuant to Regulation 41(c) on the business day on which such Contracts were registered by the Clearing House, such Contracts shall remain registered with the Clearing House and subject to the Regulations and Procedures. Details of such Contracts which remain as open contracts shall be transmitted to the relevant Participating Exchange pursuant to Regulation 41(b) on the next day on which such Contracts are permitted to be transferred under the Link entered into with the relevant Participating Exchange and on which it is possible for details of such Contracts to be transmitted.
- (b) If it is not possible for any reason other than for a reason referred to in Regulation 42 (including, without limitation, as a result of any action taken by an Exchange or a Participating Exchange pursuant to Exchange Rules or Participating Exchange Rules (as the case may be), or as a result of the act of a government or a Regulatory Body or any change in applicable law or a result of the failure of any systems, communication facilities or other technology) for contracts on the terms of a Participating Exchange Contract to be transferred pursuant to Regulation 41A on the day on which such contracts were registered by the Participating Exchange, such contracts shall remain registered with the Participating Exchange and subject to its Participating Exchange Rules. Such contracts shall be transferred to the Clearing House pursuant to Regulation 41A on the next day on which such contracts are permitted to be so transferred under the Link Agreement entered into with the relevant Participating Exchange and on which it is possible to do so.
- (c) If the Link entered into with a Participating Exchange is suspended for an indefinite period or terminated, Contracts which have not been transferred pursuant to Regulation 41(c) shall remain registered with the Clearing House and subject to the Regulations and shall be performed in accordance with their terms or may be closed-out or otherwise discharged in accordance with the Regulations or the relevant Exchange Rules.

**Regulation 45** Cross-Margining Regulations

- (a) A Member who is a Cross-Margining Participant shall indemnify and hold harmless the Clearing House against all amounts which are or may become due and payable by the Clearing House to a Cross-Margining Exchange pursuant to a Cross-Margining Agreement entered into between the Clearing House and the Cross-Margining Exchange (amongst other parties, as the case may be) to which the Member is also a party or is bound by agreement with the Clearing House and the Cross-Margining Exchange.
- (b) A Member shall pay on demand any amount or amounts which the Clearing House claims from the Member pursuant to the indemnity contained in Regulation 45(a). Any amount or amounts so demanded shall be conclusive and binding on the Member.
- (c) In the event of any conflict between the terms of the indemnity contained in paragraph (a) above and the terms of any indemnity, reimbursement obligation or like obligation to which the Member is bound by the terms of a Cross-Margining Agreement, the terms of the indemnity in Regulation 45(a) shall prevail.

SWAPCLEAR REGULATIONS

**Regulation 46 Application of SwapClear Regulations**

- (a) These SwapClear Regulations, which form part of the Regulations, together with the Regulations referred to in paragraph (b) apply to SwapClear Contracts, SwapClear Clearing Members and, insofar as relevant, to SwapClear Dealers.
- (b) The Default Rules (including the SwapClear DMP Annex), Default Fund Rules, the definitions and Regulations 1, 2, 3(b), 4, 5, 8, 9(b) and (c), 10, 11, 12, 14, 16, 26 to 39B inclusive (other than Regulation 35(a) and Regulation 37(b)) of the General Regulations apply to SwapClear Contracts, SwapClear Clearing Members and, insofar as relevant, to SwapClear Dealers.

**Regulation 47** Registration of SwapClear Contracts

- (a) A SwapClear Transaction may be presented to the Clearing House for registration as two SwapClear Contracts or one SwapClear Contract, and one FCM SwapClear Contract (in accordance with the other provisions of the Rulebook).
- (b) Once a SwapClear Transaction has been presented to the Clearing House, the Clearing House shall (where applicable in accordance with paragraph (c) below and Section 2C3.2 of the Procedures) request the consent of each of the relevant SwapClear Clearing Members with whom a SwapClear Contract shall be registered as a result thereof to such registration. Upon each such SwapClear Clearing Member providing its consent, such SwapClear Transaction shall be deemed to have been submitted (as such term is defined in the Procedures) to the Clearing House for registration. Any such consent shall be provided in accordance with the Procedures.
- (c) A SwapClear Clearing Member which has been nominated to clear the SwapClear Contract arising from the registration of a SwapClear Transaction on behalf of a third party Executing Party other than a SwapClear Dealer will (only where such SwapClear Transaction is not a US Trading Venue Transaction) be notified by the Clearing House of the relevant SwapClear Transaction and shall choose whether to grant or refuse consent to the registration of such SwapClear Transaction and the SwapClear Contract(s) resulting from such SwapClear Transaction. In circumstances where (i) a SwapClear Clearing Member is an Executing Party in relation to a SwapClear Transaction and shall clear one of the SwapClear Contracts resulting from such SwapClear Transaction, or (ii) a SwapClear Transaction is a US Trading Venue Transaction, the consent of that SwapClear Clearing Member to the registration of the relevant SwapClear Transaction will occur automatically and without the need for any further action by such SwapClear Clearing Member.
- (d) The Clearing House shall register or reject the registration of a SwapClear Contract in respect of a SwapClear Transaction presented for registration subject to, and in accordance with, these Regulations and ~~the~~ Procedures as quickly as would be technologically practicable if fully automated systems were used (the standard required in Part 39 of the CFTC Regulations), provided that:
- (i) both sides of the relevant SwapClear Transaction have been properly presented and submitted for clearing by (or on behalf of the) the Executing Parties;
  - (ii) the relevant SwapClear Transaction meets the eligibility criteria prescribed in the Rulebook at the time the particulars of the SwapClear Transaction are presented to the Clearing House and continues to meet such criteria at the Registration Time;
  - (iii) such SwapClear Contract is consented to by the relevant SwapClear Clearing Member (to the extent such consent is required) in accordance with paragraph (c) above and Section 2C3.2 of the Procedures;
  - (iv) the applicable SwapClear Clearing Member has ~~paid or~~ transferred, upon request of the Clearing House and in accordance with Regulation 12 and such other applicable provisions of the Rulebook, all ~~cover~~ Collateral required in respect of such SwapClear Contract prior to registration (taking into account any available MER and/or SwapClear Tolerance, if any); provided that such ~~cover~~ Collateral need not be ~~furnished~~ transferred prior to registration as a condition to the registration of such SwapClear Contract unless such

SwapClear Contract results from a SwapClear Transaction that is a Block IRS Trade;

- (v) all the conditions applicable (under the terms of the Rulebook or the FCM Rulebook, as the case may be) for the registration of the other SwapClear Contract or the FCM SwapClear Contract (as the case may be) deriving from the relevant SwapClear Transaction have been satisfied.
- (vi) From the time of registration by the Clearing House of two SwapClear Contracts or one SwapClear Contract and one FCM SwapClear Contract (as the case may be) (the "Registration Time") in respect of a SwapClear Transaction in accordance with the Procedures:
  - (A) where both of the Executing Parties in respect of such SwapClear Transaction are SwapClear Member(s) and/or SwapClear Dealer(s), those Executing Parties shall be released and discharged from all rights and obligations thereunder which fall due for performance on or after the Registration Time and, in all other cases, the rights and obligations of the Executing Parties to the SwapClear Transaction shall be governed by the applicable Execution Terms, or as otherwise agreed by such Executing Parties; and
  - (B) the relevant SwapClear Clearing Member(s) will be deemed to be and will be bound by the SwapClear Contract(s) with the Clearing House automatically and without any further action on its part, on terms that, without limitation, incorporate all applicable terms of the Rulebook and the Schedule to these SwapClear Regulations (including the SwapClear Contract Terms applicable to the relevant SwapClear Contract).
- (e) The Economic Terms shall be such that: (A) a SwapClear Clearing Member paying (or clearing on behalf of a person paying) Rate X and receiving (or clearing on behalf of a person receiving) Rate Y under a SwapClear Transaction shall have such rights against, and owe such obligations to, the Clearing House under the corresponding SwapClear Contract registered by it in respect of such SwapClear Transaction as further provided for in the final paragraph of this sub-paragraph (e) and (B) a SwapClear Clearing Member paying (or clearing on behalf of a person paying) Rate Y and receiving (or clearing on behalf of a person receiving) Rate X under a SwapClear Transaction shall have such rights against, and owe such obligations to, the Clearing House under the corresponding SwapClear Contract registered by it in respect of such SwapClear Transaction as further provided for in the final paragraph of this sub-paragraph (e).

In this sub-paragraph (e), a reference to the "rights" and "obligations" is a reference to rights and obligations, falling due for exercise or performance after the Registration Time, and which are the same in nature and character as the rights or obligations set out in the Economic Terms of the corresponding SwapClear Transaction (it being assumed, for this purpose, that such SwapClear Transaction was a legal, valid, binding and enforceable obligation of the parties thereto and that the Economic Terms thereof were as presented to the Clearing House for registration), notwithstanding the change in the person entitled to them or obliged to perform them, and subject to any change thereto as a result of the operation of the Standard Terms. In this sub-paragraph (e), a reference to "paying" means either paying under a SwapClear Transaction that is an existing swap transaction or "agreeing to pay" under a SwapClear Transaction that is contingent on clearing.



- (f) If at any time after registration of a SwapClear Contract, the Clearing House determines that the corresponding SwapClear Transaction of which details were presented for registration did not, at the Registration Time, meet the SwapClear Product Eligibility Criteria in existence at the Registration Time (an "Ineligible SwapClear Transaction"), the Clearing House shall, immediately set aside both SwapClear Contracts (or, in the case of a SwapClear Transaction that resulted in a SwapClear Contract and an FCM SwapClear Contract, such SwapClear Contract) arising from such Ineligible SwapClear Transaction. Upon a SwapClear Contract (an "Ineligible SwapClear Contract") being set aside under this paragraph (h): (1) the Clearing House will notify the SwapClear Clearing Member party to such Ineligible SwapClear Contract via the Approved Trade Source System through which details of the relevant Ineligible SwapClear Transaction were originally presented to the Clearing House that such Ineligible SwapClear Contract has been set aside; and (2) ~~the~~ such Ineligible SwapClear Contract shall immediately be deemed to be terminated and shall thereafter have no force or effect. Where an Ineligibel SwapClear Contract is set aside pursuant to this paragraph (h), all payments (including, without limitation, variation margin) (if any) paid by the Clearing House or by a SwapClear Clearing Member in respect of such Ineligible SwapClear Contract up to and including the time when such Ineligible SwapClear Contract was set aside shall be retained by the receiving party upon termination as a termination payment. Any other payment obligations in respect of an Ineligible SwapClear Contract and/or the relevant Ineligible SwapClear Transaction shall be as agreed between the Executing Parties to such Ineligible SwapClear Transaction and shall not be paid by or to the Clearing House.
- (g) Notwithstanding anything to the contrary in this Rulebook, the Clearing House may decline to register a SwapClear Transaction as a SwapClear Contract or a SwapClear Contract and a FCM SwapClear Contract (as the case may be) where it considers such action advisable for its own protection or the protection of the relevant market; provided that the Clearing House may (subject to the provisions of the Rulebook) register any SwapClear Contract which reduces the risk exposure of the Clearing House and the applicable SwapClear Clearing Member, as determined in the discretion of the Clearing House. The Clearing House may, subject to sub-paragraph (d) above and without assigning any reason, make the registration of any SwapClear Transaction subject to any conditions stipulated by the Clearing House including, without limitation, the ~~fulfilling~~transfer of additional ~~cover~~Collateral by any SwapClear Clearing Member in whose name any such SwapClear Transaction is to be registered.
- (h) Any SwapClear Transaction of which details have been presented for registration and which are not so registered will be governed by the applicable Execution Terms among the relevant parties, and the Clearing House shall have no obligations or liability in relation thereto.
- (i) If a SwapClear Transaction is revoked, avoided or otherwise declared invalid for any reason after particulars of it have been accepted by the Clearing House for registration such revocation, avoidance or invalidity shall not affect any SwapClear Contract arising under this Regulation 47, Regulation 3(b) or Regulation 11.

In the case of a SwapClear Contract registered by the Clearing House pursuant to rule 6(a) of the Default Rules, the Registration Time shall be deemed to be the time chosen by the Clearing House whereupon this Regulation 47 shall take effect.

**Regulation 48 Compression**

- (a) Notwithstanding any other provision of these Regulations if:
- (i) one or more SwapClear Contracts registered by a SwapClear Clearing Member in accordance with the Rulebook has substantially the same Economic Terms as one or more other SwapClear Contracts registered for the account of such SwapClear Clearing Member, and
  - (ii) all such SwapClear Contracts are either (a) registered on the SwapClear Clearing Member's own behalf or (b) registered on behalf of the same SwapClear Clearing Client (whether in an Omnibus Net Segregated Account or an Individual Segregated Account),
- (b) then, to the extent permitted in the Procedures and this Regulation 48, the SwapClear Clearing Member may request that the Clearing House compress and combine all such SwapClear Contracts by terminating the relevant existing SwapClear Contracts and compressing them into one SwapClear Contract reflecting the aggregate economic terms, or the net economic terms, as the case may be, of such original SwapClear Contracts. SwapClear Contracts registered on a SwapClear Clearing Member's own behalf can only be compressed pursuant to this Regulation 48 if they are derived from the registration of a SwapClear Transaction which relates to SwapClear Client Clearing Business. For the avoidance of doubt, in no circumstances can a SwapClear Contract registered in the Propriety Account of a SwapClear Clearing Member be compressed pursuant to this Regulation 48 with a SwapClear Contract registered in the client account of that SwapClear Clearing Member.
- (c) For purposes of this Regulation 48, two or more SwapClear Contracts may be deemed by the Clearing House to have "substantially the same Economic Terms" if they are based on the same underlying currencies and the Clearing House considers them, in its sole discretion, to have substantially the same fundamental economic attributes which influence the amount, value date and direction of all coupon cash flows. Two or more SwapClear Contracts that are compressed under the terms of this Regulation 48 shall be aggregated if the position of the SwapClear Clearing Member is in the same direction on each such SwapClear Contract (i.e., obligations to make payment aggregated and rights to receive payment aggregated), such that the SwapClear Contract that replaces the compressed SwapClear Contracts shall have a notional amount equal to the total notional amount of the compressed SwapClear Contracts. Two or more SwapClear Contracts that are compressed under the terms of this Regulation 48 shall be netted if the position of the SwapClear Clearing Member is in the opposite direction on two or more of each such SwapClear Contracts (i.e., obligations to make payment netted against rights to receive payment), such that the SwapClear Contract (if any) that replaces the compressed SwapClear Contracts shall have a notional amount equal to the net notional amount of the compressed SwapClear Contracts and provided that in the event that the net notional amount is equal to zero such compression shall result in no replacement SwapClear Contracts. The Clearing House shall determine (in its sole discretion) whether SwapClear Contracts that are the subject of a request for compression from the SwapClear Clearing Member may be compressed and, if such SwapClear Contracts are compressed, the Clearing House shall determine the resulting notional amount of the SwapClear Contract(s) (if any) that replaces the compressed SwapClear Contracts, and such determination shall be binding on the SwapClear Clearing Member, absent manifest error. It is a condition for compression of SwapClear Contracts that the amount of ~~sever~~Collateral that the Clearing House requires in respect of the original SwapClear Contracts is equal to that which is required by the Clearing House in respect of the replacement SwapClear Contract(s).

**Regulation 48A** Termination by Automated Service

- (a) SwapClear Contract may be terminated prior to its expiry by means of the automated SwapClear Intra-day Deletion Service (for the purposes of this Regulation "the Service"). The Service is designed so that the process of termination may be initiated by a SwapClear Dealer.
- (b) Each SwapClear Clearing Member is deemed to grant a continuing authority to every SwapClear Dealer with whom that SwapClear Clearing Member is a party to a SwapClear Dealer Clearing Agreement (for the purposes of this Regulation, an "SDC Agreement") to use the Service for the termination of any SwapClear Contract registered in the name of that SwapClear Clearing Member under that SDC Agreement. A SwapClear Clearing Member shall be bound by all entries, deletions and modifications which are made under this Service by the relevant SwapClear Dealer or which are purported to have been made by the relevant SwapClear Dealer.
- (c) A SwapClear Dealer shall have no obligation to inform, notify or seek the consent of any SwapClear Clearing Member prior to initiating the termination of a SwapClear Contract by means of the Service or making any entries, deletions or modifications when using the Service.
- (d) Each SwapClear Clearing Member is deemed to grant a continuing authority to the Clearing House to terminate any SwapClear Contract registered in the name of that SwapClear Clearing Member upon the request of a SwapClear Dealer with whom that SwapClear Clearing Member is a party to an SDC Agreement and make all other entries, deletions and modifications as may be required to give effect to such termination.
- (e) The Clearing House shall have no obligation to inform, notify or seek the consent of any SwapClear Clearing Member prior to terminating a SwapClear Contract or making any entries, deletions or modifications when operating the Service.
- (f) The termination of a SwapClear Contract to which the First SwapClear Clearing Member is a party is contingent upon *inter alia* the termination of the SwapClear Contract to which the Second SwapClear Clearing Member is a party, and vice versa.
- (g) The termination of a SwapClear Contract by means of the Service may be cancelled at any time prior to its termination or such earlier time as may be determined by the Clearing House from time to time, provided that, such cancellation must be agreed by both parties to the SwapClear Transaction which corresponds to that SwapClear Contract.
- (h) The date and time of termination of a SwapClear Contract shall be as reported by the Clearing House by means of the Service and shall be binding on all parties.
- (i) The Clearing House may decline to terminate any SwapClear Contract if, in the opinion of the Clearing House acting in its sole discretion, the termination of that SwapClear Contract is not consistent with the policies of the Clearing House, including, without limitation, any policies concerning risk management.
- (j) In addition to (i) above, the Clearing House may decline to terminate any SwapClear Contract if there is insufficient margin/Collateral in the relevant PPS account of the relevant SwapClear Clearing Member to accommodate the termination of that SwapClear Contract. For the avoidance of doubt and without limitation, the Clearing House may debit the relevant PPS account with any amount or amounts due to the Clearing House in connection with the termination of a SwapClear Contract.

- (k) Each SwapClear Dealer shall ensure that every user name, password and all other security information provided to it by the Clearing House is kept confidential and in a secure manner and is used solely for the purposes of utilising the Service. Each SwapClear Dealer shall be responsible for any action taken using any such security information as if SwapClear Dealer had itself taken the action concerned. Each SwapClear Dealer shall ensure that only such of its staff as are duly authorised are able to access and use the Service and that the Service is accessed and used by SwapClear Dealer and its authorised staff in accordance with all guidance and instructions issued by the Clearing House from time to time.
- (l) For the avoidance of doubt and without limitation, the provisions of Regulation 39 shall apply to the termination of each SwapClear Contract by means of the Service.
- (m) With effect from the time of the termination of a SwapClear Contract by means of the Service, the Clearing House shall have no obligation under the terms that SwapClear Contract and no liability in respect thereof, provided that the termination of any SwapClear Contract shall have no effect upon the rights and obligations already accrued under that SwapClear Contract, which rights and obligations shall survive such termination.
- (n) Upon the termination of a SwapClear Contract by means of the Service, the corresponding Parallel Contract arising by operation of the SDC Agreement shall also terminate.

**Regulation 48B Multilateral Compression**

- (a) The Clearing House may, from time to time in its absolute discretion, make available in accordance with this Regulation 48B, Multilateral Compression on the basis of a Multilateral Compression Cycle which is either:
- (i) an ACSP Compression Cycle, available to SwapClear Clearing Members; or
  - (ii) a Member Compression Cycle, where so requested by two or more SwapClear Clearing Members and agreed to by the Clearing House.
- (b) In participating in any Multilateral Compression Cycle, a SwapClear Clearing Member:
- (iii) ~~(i)~~—must be party to relevant Compression Documentation with the Clearing House and/or any nominated ACSP at such time as is contemplated in the Compression Documentation and from such time up to and including the Compression Time for that Multilateral Compression Cycle and at all relevant times must be accepted by the Clearing House and/or any nominated ACSP as an entity eligible to participate in such Multilateral Compression Cycle;
  - (iv) ~~(ii)~~—in relation to an ACSP Compression Cycle, shall nominate those SwapClear Contracts which it wishes to make available for Multilateral Compression in accordance with the relevant Compression Documentation;
  - (v) ~~(iii)~~—in relation to a Member Compression Cycle, shall together with the other requesting SwapClear Clearing Member(s) provide to the Clearing House details of the proposed Terminating SwapClear Contracts and Post-Multilateral Compression Contracts (in such form as the Clearing House may require from time to time) which shall, subject to the Clearing House's confirmation, constitute the Compression Proposal;
  - (vi) ~~(iv)~~—warrants and represents to the Clearing House that the terms of its participation in the proposed Multilateral Compression Cycle are in compliance with all applicable laws and regulation; and
  - (vii) ~~(v)~~—agrees and acknowledges that the Multilateral Compression Cycle will operate, and Multilateral Compression shall take place, in accordance with this Regulation 48B, the relevant Compression Proposal as accepted by such SwapClear Clearing Member, relevant Compression Documentation and such other processes and procedures as may be notified by the Clearing House from time to time.
- (c) Where the Clearing House intends to run an ACSP Compression Cycle, it shall nominate an ACSP to facilitate that ACSP Compression Cycle and produce the Compression Proposal. Such ACSP shall notify SwapClear Clearing Members meeting the criteria at (b)(i) above of the timing and procedure for such ACSP Compression Cycle and invite such SwapClear Clearing Members to confirm their interest. The Compression Documentation for such Multilateral Compression Cycle shall include any documentation relevant to that ACSP. Additional information on the administrative procedures for any Multilateral Compression Cycle may be included in the Compression Documentation or other procedures published by the Clearing House or a nominated ACSP from time to time or in connection with a particular Multilateral Compression Cycle.
- (d) In any Multilateral Compression Cycle, Multilateral Compression shall only take place in accordance with the terms of a Compression Proposal which has been established and

accepted by all participating SwapClear Clearing Members in accordance with this Regulation 48B. Notwithstanding the other provisions of this Regulation 48B, the Clearing House shall determine (in its sole discretion) whether SwapClear Contracts proposed for inclusion in a Compression Proposal may be so included.

- (e) A Compression Proposal shall:
- (viii) (i)-in relation to an ACSP Compression Cycle, be generated by the nominated ACSP in accordance with the relevant Compression Documentation and details submitted to the ACSP by participating SwapClear Clearing Members, and be communicated by the ACSP to each participating SwapClear Clearing Member in the manner contemplated in the relevant Compression Documentation for acceptance;
  - (ix) (ii)-in relation to a Member Compression Cycle, be constituted by the details submitted to the Clearing House by the requesting SwapClear Clearing Members (subject to the Clearing House's determination that such proposed details are eligible for Multilateral Compression), and shall form the basis for the subsequent acceptance by each requesting SwapClear Clearing Member; and
  - (x) (iii)-in all cases include only those SwapClear Contracts that are eligible for Multilateral Compression in the relevant Multilateral Compression Cycle and that are registered in a SwapClear Clearing Member's Proprietary Account.
- (f) Where it wishes to participate in a Multilateral Compression Cycle, each participating SwapClear Clearing Member shall confirm its acceptance of a Compression Proposal in the manner and by the time specified by the Clearing House or otherwise contemplated in the relevant Compression Documentation. In relation to an ACSP Compression Cycle, each participating SwapClear Clearing Member agrees and acknowledges that the ACSP's confirmation to the Clearing House that such SwapClear Clearing Member has confirmed its acceptance of the Compression Proposal to the ACSP shall constitute a binding acceptance by such SwapClear Clearing Member to the Clearing House for the purposes of this Regulation 48B. Upon a SwapClear Clearing Member's acceptance of a Compression Proposal in accordance with this paragraph, such SwapClear Clearing Member shall be irrevocably bound to the terms of that Compression Proposal and the Multilateral Compression contemplated thereunder.
- (g) The Clearing House may require margin, subsequent to a SwapClear Clearing Member's acceptance of a Compression Proposal but prior to the Compression Time, in connection with the Multilateral Compression Cycle and the SwapClear Clearing Member's positions thereunder.
- (h) Each SwapClear Clearing Member that confirms its acceptance of a Compression Proposal in accordance with relevant Compression Documentation agrees and acknowledges for the benefit of the Clearing House that, by its acceptance, such SwapClear Clearing Member:
- (xi) (i)-shall be bound by and act in accordance with the terms of this Regulation 48B, the Compression Documentation and any notifications made by the Clearing House or any nominated ACSP pursuant thereto;
  - (xii) (ii)-shall meet any margin calls from the Clearing House made prior to the Compression Time in connection with the Multilateral Compression Cycle. Any such margin will be called in accordance with the Procedures; and

accepted by all participating SwapClear Clearing Members in accordance with this Regulation 48B. Notwithstanding the other provisions of this Regulation 48B, the Clearing House shall determine (in its sole discretion) whether SwapClear Contracts proposed for inclusion in a Compression Proposal may be so included.

- (e) A Compression Proposal shall:
- (viii) (i) in relation to an ACSP Compression Cycle, be generated by the nominated ACSP in accordance with the relevant Compression Documentation and details submitted to the ACSP by participating SwapClear Clearing Members, and be communicated by the ACSP to each participating SwapClear Clearing Member in the manner contemplated in the relevant Compression Documentation for acceptance;
  - (ix) (ii) in relation to a Member Compression Cycle, be constituted by the details submitted to the Clearing House by the requesting SwapClear Clearing Members (subject to the Clearing House's determination that such proposed details are eligible for Multilateral Compression), and shall form the basis for the subsequent acceptance by each requesting SwapClear Clearing Member; and
  - (x) (iii) in all cases include only those SwapClear Contracts that are eligible for Multilateral Compression in the relevant Multilateral Compression Cycle and that are registered in a SwapClear Clearing Member's Proprietary Account.
- (f) Where it wishes to participate in a Multilateral Compression Cycle, each participating SwapClear Clearing Member shall confirm its acceptance of a Compression Proposal in the manner and by the time specified by the Clearing House or otherwise contemplated in the relevant Compression Documentation. In relation to an ACSP Compression Cycle, each participating SwapClear Clearing Member agrees and acknowledges that the ACSP's confirmation to the Clearing House that such SwapClear Clearing Member has confirmed its acceptance of the Compression Proposal to the ACSP shall constitute a binding acceptance by such SwapClear Clearing Member to the Clearing House for the purposes of this Regulation 48B. Upon a SwapClear Clearing Member's acceptance of a Compression Proposal in accordance with this paragraph, such SwapClear Clearing Member shall be irrevocably bound to the terms of that Compression Proposal and the Multilateral Compression contemplated thereunder.
- (g) The Clearing House may require margin, subsequent to a SwapClear Clearing Member's acceptance of a Compression Proposal but prior to the Compression Time, in connection with the Multilateral Compression Cycle and the SwapClear Clearing Member's positions thereunder.
- (h) Each SwapClear Clearing Member that confirms its acceptance of a Compression Proposal in accordance with relevant Compression Documentation agrees and acknowledges for the benefit of the Clearing House that, by its acceptance, such SwapClear Clearing Member:
- (xi) (i) shall be bound by and act in accordance with the terms of this Regulation 48B, the Compression Documentation and any notifications made by the Clearing House or any nominated ACSP pursuant thereto;
  - (xii) (ii) shall meet any margin calls from the Clearing House made prior to the Compression Time in connection with the Multilateral Compression Cycle. Any such margin will be called in accordance with the Procedures; and

- (xiii) ~~(iii)~~ is bound by the terms of the Compression Proposal and the terminations and registrations of SwapClear Contracts comprised therein.
- (i) Following acceptance of the Compression Proposal by all participating SwapClear Clearing Members, the Clearing House shall effect Multilateral Compression at such time as it may determine. For the avoidance of doubt, the irrevocable acceptance of a Compression Proposal by participating SwapClear Clearing Members shall not bind or require the Clearing House to proceed with a Multilateral Compression Cycle. At any time prior to the Compression Time, the Clearing House may, in its sole and absolute discretion, decide not to proceed with a Multilateral Compression Cycle.
- (j) Without prejudice to the rights of the Clearing House set out in Regulation 48B(i) above, a Compression Proposal shall be rejected by the Clearing House if:
- (xiv) ~~(i)~~ a SwapClear Clearing Member which has accepted a Compression Proposal is not eligible to participate in the relevant Multilateral Compression Cycle;
- (xv) ~~(ii)~~ any of the SwapClear Contracts included as a Post-Multilateral Compression Contract or a Terminating SwapClear Contract are not eligible for such Multilateral Compression Cycle;
- (xvi) ~~(iii)~~ in relation to a Member Compression Cycle, the proposals submitted by the relevant SwapClear Clearing Members do not match; or
- (xvii) ~~(iv)~~ any SwapClear Clearing Member due to participate in a Multilateral Compression Cycle rejects the Compression Proposal or does not provide the margin as required by the Clearing House.
- (k) When the Clearing House effects a Multilateral Compression, it shall terminate all Terminating SwapClear Contracts and, simultaneously with and contingent upon the termination of such SwapClear Contracts, shall register the Post-Multilateral Compression Contracts in the Proprietary Accounts of the relevant SwapClear Clearing Members. The Clearing House shall notify the participating SwapClear Clearing Members once the Multilateral Compression has been effected.
- (l) The Clearing House shall have no involvement in and accepts no responsibility or liability in relation to any Multilateral Compression-related balancing, termination or ancillary payments or fees that participating SwapClear Clearing Members may agree between themselves in accordance with relevant Compression Documentation or otherwise.
- (m) Without prejudice to any other provisions of these Regulations, in particular Regulation 39, or any Compression Documentation, neither the Clearing House, nor any other member of LCH.Clearnet Group shall have any liability whatsoever to any SwapClear Clearing Member or to any other person in contract, tort (including, without limitation, negligence), trust, as a fiduciary or under any other cause of action in respect of any damage, loss, cost or expense of whatsoever nature suffered or incurred by a SwapClear Clearing Member or any other person, as the case may be:
- (xviii) ~~(i)~~ as a result of any action the Clearing House takes under this Regulation 48B, whether in accordance with a Compression Proposal, in reliance on information provided by SwapClear Clearing Members or any ACSP or otherwise;
- (xix) ~~(ii)~~ in relation to an ACSP Compression Cycle, as a result of any action or omission of an ACSP, including, without limitation, any error or omission in the terms of any Compression Proposal; or



- (xx) ~~(iii)~~ in relation to any Multilateral Compression Cycle, as a result of any action or omission of a participating SwapClear Clearing Member, including, without limitation, any error or omission in the terms of any Compression Proposal.
- (n) An ACSP's liability in respect of its acts or omissions is subject to the relevant terms of the applicable Compression Documentation.
- (o) Any notification or communication required in connection with a Multilateral Compression Cycle shall be made in accordance with the Compression Documentation or, if not specified in the Compression Documentation, the Procedures or such other guidance as the Clearing House may provide from time to time.
- (p) Notwithstanding any other provision of these Regulations or the terms of the SwapClear Contracts, the Clearing House may disclose details of any Compression Proposal and related details of SwapClear Clearing Members to any ACSP or otherwise as the Clearing House considers appropriate in order to facilitate a Multilateral Compression Cycle.

**Regulation 49** SwapClear Dealers

- (a) Application for admission to the Register of SwapClear Dealers shall be made in accordance with these Regulations and the Procedures. An applicant for admission to the Register of SwapClear Dealers must satisfy the criteria prescribed by the Clearing House from time to time in order to be admitted to the Register of SwapClear Dealers. A SwapClear Dealer shall be subject to, and governed by, these Regulations, the Procedures and, if applicable, the SwapClear Dealer Clearing Agreement to which it is for the time being party.
- (b) A person admitted to the Register of SwapClear Dealers shall ensure that it will, at all times, satisfy the criteria prescribed by the Clearing House, from time to time, for admission to the Register.
- (c) The Clearing House may suspend or remove a SwapClear Dealer from the Register of SwapClear Dealers in accordance with these Regulations, the Procedures and, if applicable, the SwapClear Dealer Clearing Agreement to which it is for the time being party. Any person who has been suspended from the Register of SwapClear Dealers for a period of more than three months shall be removed from the Register of SwapClear Dealers and must make a new application if it wishes to be readmitted to the Register.
- (d) A SwapClear Dealer may request, by giving three months' written notice to the Clearing House, that its name be removed from the Register of SwapClear Dealers. At the end of such notice period, the Clearing House shall remove the SwapClear Dealer from the Register of SwapClear Dealers.
- (e) A SwapClear Dealer's suspension or removal from the Register of SwapClear Dealers, under paragraph (c), shall not, where it is a Member, affect its membership of the Clearing House, nor, subject to any contrary determination by the Clearing House under Regulation 4(aa), shall it affect the categories of Contract which such a person is eligible to have registered in its name.
- (f) Where a SwapClear Clearing Member is also a SwapClear Dealer it shall, automatically on the Clearing House serving a default notice in accordance with these Regulations be, removed from the Register of SwapClear Dealers.
- (g) Without prejudice to paragraph (f) of this Regulation, the Clearing House shall suspend from the Register of SwapClear Dealers any Member whose Clearing Membership Agreement has been terminated or who is no longer eligible to have SwapClear Contracts registered in its name, and who is not, from the date of such termination or such ineligibility, party to a SwapClear Dealer Clearing Agreement with another SwapClear Clearing Member, for such period as the Clearing House may determine.

**Regulation 50** Settlement and Daily Revaluation Collateralisation of SwapClear Contracts

(a) The net present value of each SwapClear Contract shall be calculated by the Clearing House for the purposes of determining required variation margin in such manner and at such times as may be provided in the Procedures. Except as prescribed in the Procedures, the net present value calculated by the Clearing House may in no circumstances be called in question. ~~The Clearing House shall at least daily, receive payment from, or pay to, the SwapClear Clearing Member cash cover for variation margin, representing the change in the net present value of the SwapClear Clearing Member's portfolio of SwapClear Contracts: (i) registered in a SwapClear Clearing Member's client account (or client accounts as combined); and (ii) registered in a SwapClear Clearing Member's Proprietary Account (each a "SwapClear Portfolio") from the preceding business day, in accordance with the Procedures.~~

~~(b) The Clearing House shall at least daily:~~

~~(i) where the net present value of an outstanding SwapClear Contract has moved in favour of the Clearing House since the last valuation, call on the SwapClear Clearing Member to transfer to the Clearing House cash in an amount equal to (A) the net present value to the Clearing House of the relevant SwapClear Contract minus (B) the current balance of cash Collateral provided to the Clearing House by such SwapClear Clearing Member in respect of its variation margin obligations in respect of that SwapClear Contract; and~~

~~(ii) where the net present value of an outstanding SwapClear Contract has moved in favour of the SwapClear Clearing Member since the last valuation, transfer to the SwapClear Clearing Member cash in an amount equal to (A) the net present value to the SwapClear Clearing Member of the relevant SwapClear Contract minus (B) the current balance of cash Collateral provided to such SwapClear Clearing Member by the Clearing House in respect of its variation margin obligations in respect of that SwapClear Contract.~~

~~provided that:~~

~~(iii) (A) and/or (B), as used in sub-paragraphs (i) and (ii) above, may be negative numbers where the net present value of a SwapClear Contract has moved in favour of the party that was "out of the money" at the time of the preceding valuation;~~

~~(iv) any time the calculation provided for in this Regulation 50(b) is performed for the first time in respect of any particular SwapClear Contract that SwapClear Contract shall for the purpose of sub-paragraphs (i) and (ii) above be deemed to have had a net present value of zero at the time of the preceding valuation; and~~

~~(v) the calculations under this Regulation 50(b) shall disregard any amount previously determined to be payable by one party to the other pursuant to Regulation 50(d) but which has not yet been so transferred.~~

~~(c) Cash provided by the Clearing House or a SwapClear Clearing Member under Regulation 50(b) is provided by way of title transfer and, other than where the provision of cash reduces a party's current balance of cash Collateral, for the purpose of collateralising the relevant party's obligations under the relevant SwapClear Contract(s).~~

~~(d) In respect of all SwapClear Portfolio and each Coupon-Payment-Date Contracts, on every Business Day, the Clearing House shall aggregate:~~

- (i) ~~the sums which would otherwise have been payable by the SwapClear Clearing Member to the Clearing House as cash~~ cover Collateral (in respect of variation margin obligations) on such date ~~and the Coupon Payments due on that date, any coupon payments which would otherwise have been due on that date from the SwapClear Clearing Member to the Clearing House and any other sums which would otherwise have been payable by the SwapClear Clearing Member to the Clearing House on such date (including, for the avoidance of doubt, any amounts due in respect of an obligation to return cash Collateral and any settlement amounts payable under a SwapClear Contract); and~~
- (ii) ~~the sums which would otherwise have been payable by the Clearing House to the SwapClear Clearing Member as cash~~ cover Collateral (in respect of variation margin obligations) on such date ~~and the Coupon Payments due on that date, any coupon payments which would otherwise have been due on that date from the Clearing House to the SwapClear Clearing Member and any other sums which would otherwise have been payable by the Clearing House to the SwapClear Clearing Member on such date (including, for the avoidance of doubt, any amounts due in respect of an obligation to return cash Collateral and any settlement amounts payable under a SwapClear Contract),~~

~~and, if the aggregate amount that would otherwise have been payable by one party exceeds the aggregate amount that would otherwise have been payable by the other party then the obligations of each party under this Regulation 50 (in each case which are payable in the same currency and which are payable in respect of the same client account or the same Proprietary Account), and all such sums shall be automatically satisfied and discharged on payment by the party by whom the larger aggregate amount would have been payable to the other party and only the excess of the larger aggregate amount over the smaller aggregate amount shall be payable by the party by whom the larger aggregate amount would otherwise have been payable.~~

- ~~(e) The parties acknowledge that effect of Regulation 50(d) is that any settlement payment obligation of a Clearing Member (or of the Clearing House) under a SwapClear Contract and any obligation of the Clearing House's (or of the Clearing Member) on the date of such settlement to return same-currency cash Collateral provided to it by way of variation margin in respect of that SwapClear Contract will be netted against each other, with only the balance being payable in accordance with Regulation 50(d).~~

- and Omnibus Net Segregated Business to a single SwapClear Clearing Client at the same time.
- (e) Subject to Regulation 52A(d), an Individual Segregated Account Clearing Client of a SwapClear Clearing Member may elect to become an Omnibus Net Segregated Clearing Client of that SwapClear Clearing Member and an Omnibus Net Segregated Clearing Client of a SwapClear Clearing Member may elect to become an Individual Segregated Account Clearing Client of that SwapClear Clearing Member provided, however, that the relevant SwapClear Clearing Member has not become a defaulter in accordance with Rule 4 of the Default Rules.
  - (f) A SwapClear Clearing Member may operate one or more Omnibus Net Segregated Accounts. Each Omnibus Net Segregated SwapClear Clearing Client must be allocated to one such account. No Omnibus Net Segregated SwapClear Clearing Client may be allocated to more than one Omnibus Net Segregated Account.
  - (g) A SwapClear Clearing Member may operate one or more Individual Segregated Accounts. Each Individual Segregated Account Clearing Client must be allocated to a separate Individual Segregated Account. No Individual Segregated Account Clearing Client may be allocated to more than one Individual Segregated Account.
  - (h) A SwapClear Clearing Member may deliver to the Clearing House Excess Collateral and/or Additional Collateral in respect of its SwapClear Clearing Clients. However, no SwapClear Clearing Member shall deliver to the Clearing House any collateral other than amounts provided for the purposes of, or in connection with, the provision of clearing services by the Clearing House.
  - (i) Required Collateral relating to the SwapClear Clearing Client Business of a SwapClear Clearing Member will be calculated by the Clearing House, and discharged by a SwapClear Clearing Member in respect of all of its SwapClear Clearing Clients, by:
    - (i) if and to the extent that there is Excess Collateral available, deduction by the Clearing House of amounts from such Excess Collateral;
    - (ii) if and to the extent that Additional Collateral is being held in respect of a SwapClear Clearing Client and to the extent that the Required Collateral relates to the SwapClear Clearing Client in question, and subject to appropriate instructions being received by the Clearing House from the SwapClear Clearing Member specifying the relevant Additional Collateral and the relevant SwapClear Clearing Client, deduction by the Clearing House of that Additional Collateral; and
    - (iii) otherwise, delivery by the SwapClear Clearing Member to the Clearing House of collateral with a value which is at least sufficient to discharge the relevant requirement.
  - (j) A SwapClear Clearing Member who has opened an Additional Collateral Account may ~~provide~~transfer Additional Collateral to the Clearing House for the credit of such account. Such SwapClear Clearing Member shall inform the Clearing House of the identity of the SwapClear Clearing Client for whose account the Additional Collateral is ~~provided~~transferred, together with the type and value of the Additional Collateral in question and the Clearing House will record the Additional Collateral in the Additional Collateral Account held in respect of the relevant SwapClear Clearing Client.

- (k) A SwapClear Clearing Member shall, as soon as reasonably practicable following a request from the Clearing House, provide the Clearing House with any information which the Clearing House may reasonably require in relation to the SwapClear Clearing Client Business of that SwapClear Clearing Member.
- (l) In addition to and without prejudice to any other provision in the Rulebook, in circumstances where an investment manager or similar third party agent acts on behalf of a SwapClear Clearing Client, the Clearing House shall be entitled to treat instructions received from the investment manager or similar third party as if they were instructions received from the relevant underlying SwapClear Clearing Client.
- (m) No SwapClear Clearing Member may withdraw any amount from:
  - (i) an Individual Segregated Account or an Omnibus Net Segregated Account if such withdrawal would cause the relevant Account Balance to be less than the Required Collateral then attributable to the relevant SwapClear Clearing Client by the Clearing House in accordance with the provisions of the Rulebook; or
  - (ii) an Additional Collateral Account unless such withdrawal is made (a) with the consent of the relevant SwapClear Clearing Client; or (b) in accordance with Regulation 52A(j).
- (n) Where any formalities or registration requirements apply in respect of the Deed of Assignment (and any other document which the Clearing House may from time to time determine), a SwapClear Clearing Member is required to comply with such obligations or to procure by agreement that such requirements are to be complied with. For the avoidance of doubt, prior to providing SwapClear Clearing Services to a SwapClear Clearing Client, each SwapClear Clearing Member must enter into a Deed of Assignment in respect of that SwapClear Clearing Client and in relation to amounts due to it from the Clearing House pursuant to the SwapClear DMP. Where a SwapClear Clearing Member enters into a Deed of Assignment and the Clearing House acts as Security Trustee, that SwapClear Clearing Member must provide notice of the assignments under such Deeds of Assignment to the Clearing House. The Clearing House agrees to exercise its default powers in such a fashion as to comply with its obligations under the Deeds of Assignment and related documentation, including by accepting instructions from the SwapClear Clearing Clients of a SwapClear Clearing Member following the occurrence of a Default in respect of such SwapClear Clearing Member.
- (o) In the context of a Deed of Assignment, a reference to the 'Default Management Process Agreement Amendment Agreement' or to the 'SwapClear Default Management Process Agreement' shall be construed as a reference to Regulation 52B.

**Regulation 52B Default Management in respect of SwapClear Clearing Client Business**

- (a) The SwapClear DMP in respect of any contract which is a SwapClear Contract entered into in respect of SwapClear Clearing Client Business shall involve the stages set out in this Regulation 52B. For the purposes of this Regulation 52B, a SwapClear Contract relating to SwapClear Clearing Client Business of an SCM (each a "**Relevant Contract**") will be included in the Auction Portfolio from such time as the Clearing House determines that such Relevant Contract will not be ported. For the avoidance of doubt, any such Auction Portfolio will only contain Relevant Contracts. The Clearing House shall not be entitled to include client and house positions in an Auction Portfolio for the purposes of this Regulation 52B.
- (b) If an SwapClear Clearing Member becomes a Defaulting SCM the Clearing House shall:
- (i) calculate the Account Balances;
  - (ii) take any action under Rule 6 of the Default Rules as it shall deem necessary in respect of the SwapClear Clearing Client Business of the Defaulting SCM;
  - (iii) ascertain whether each SwapClear Clearing Client of the Defaulting SCM has appointed a Backup SwapClear Clearing Member; and
  - (iv) send details of the open Relevant Contracts and Account Balances to the nominated Backup SwapClear Clearing Member for each Individual Segregated Account and Omnibus Net Segregated Account of the Defaulting SCM, if any.
- (c) In circumstances where (a) an Individual Segregated Account Clearing Client of a Defaulting SCM has appointed a Backup SwapClear Clearing Member; and (b) within such period as the Clearing House may determine of the service of a Default Notice on the relevant SCM pursuant to Rule 3 of the Default Rules or the Clearing House becoming aware of the occurrence of an Automatic Early Termination Event in respect of that SCM (as the case may be), the Clearing House has received confirmation from the Backup SwapClear Clearing Member of its agreement to act as Backup SwapClear Clearing Member in relation to the arrangements described in sub-paragraph (i) below and from the relevant client (in such form as the Clearing House may require at the relevant time):
- (i) the Clearing House shall (a) transfer all of the open Relevant Contracts entered into by the Defaulting SCM in respect of the relevant Individual Segregated Account Clearing Client to the appointed Backup SwapClear Clearing Member; or (b) terminate and close out such contracts at their market value (as determined by the Clearing House in its discretion) and enter into new contracts on equivalent terms to such contracts with the appointed Backup SwapClear Clearing Member in respect of the relevant Individual Segregated Account Clearing Client;
  - (ii) where the relevant Individual Segregated Account Clearing Client (in an exercise of its rights under the relevant Deed of Assignment) instructs a transfer of its Individual Segregated Account Balance to the appointed Backup SwapClear Clearing Member, the Clearing House shall give effect to such instruction;
  - (iii) (a) upon the Clearing House taking the actions specified in paragraph (c)(i)(a) above: (i) that portion (if any) of the Clearing House Current Collateral Balance in respect of the Defaulting SCM which is attributable to the Relevant Contracts

referred to in that paragraph (the "Relevant Portion") shall be reduced to zero; and (ii) the Clearing House Current Collateral Balance in respect of the Backup Clearing Member shall be increased by an amount equal to the value of the Relevant Portion immediately prior to the reduction referred to in (i) immediately above; and

- (iv) (b) upon the Clearing House taking the actions specified in paragraph (c)(i)(b) above, the Clearing House Current Collateral Balance in respect of the Backup Clearing Member shall be increased by an amount equal to the value of that portion of the Clearing House Current Collateral Balance in respect of the Defaulting SCM which was attributable to the Relevant Contracts referred to in that paragraph immediately prior to the termination and close-out of such Relevant Contracts in accordance with that paragraph; and
- (v) ~~(iii)~~ the amount due to be returned to the Defaulting SCM shall be reduced by an amount equivalent to the amount of the Account Balance transferred to the Backup SwapClear Clearing Member, as referred to in sub-paragraph (ii) of this Regulation 52B (c).
- (d) In circumstances where (a) all of the Omnibus Net Segregated Clearing Clients of a Defaulting SCM identified as composing an Omnibus Net Segregated Account have appointed a single Backup SwapClear Clearing Member; and (b) within such period as the Clearing House may determine of the service of a Default Notice on the relevant SCM pursuant to Rule 3 of the Default Rules or the Clearing House becoming aware of the occurrence of an Automatic Early Termination Event in respect of that SCM (as the case may be), the Clearing House has received confirmation from the Backup SwapClear Clearing Member of its agreement to act as Backup SwapClear Clearing Member in relation to the arrangements described in sub-paragraph (i) below and from the relevant clients (in such form as the Clearing House may require at the relevant time):
- (i) the Clearing House shall (a) transfer all of the open Relevant Contracts entered into by the Defaulting SCM in respect of the relevant Omnibus Net Segregated Clearing Clients to the appointed Backup SwapClear Clearing Member; or (b) terminate and close out such contracts at their market value (as determined by the Clearing House in its discretion) and enter into new contracts on equivalent terms to such contracts with the appointed Backup SwapClear Clearing Member in respect of the relevant Omnibus Net Segregated Clearing Clients;
- (ii) where all of the relevant Omnibus Net Segregated Clearing Client(s) (in an exercise of their respective rights under the relevant Deeds of Assignment) instruct a transfer of their Omnibus Net Segregated Account Balances to the appointed Backup SwapClear Clearing Member, the Clearing House shall give effect to such instructions; and
- (iii) (a) upon the Clearing House taking the actions specified in paragraph (d)(i)(a) above: (i) that portion (if any) of the Clearing House Current Collateral Balance in respect of the Defaulting SCM which is attributable to the Relevant Contracts referred to in that paragraph (the "Relevant Portion") shall be reduced to zero; and (ii) the Clearing House Current Collateral Balance in respect of the Backup Clearing Member shall be increased by an amount equal to the value of the Relevant Portion immediately prior to the reduction referred to in (i) immediately above; and



- ~~(iv)~~ (b) upon the Clearing House taking the actions specified in paragraph (d)(i)(b) above, the Clearing House Current Collateral Balance in respect of the Backup Clearing Member shall be increased by an amount equal to the value of that portion of the Clearing House Current Collateral Balance in respect of the Defaulting SCM which was attributable to the Relevant Contracts referred to in that paragraph immediately prior to the termination and close-out of such Relevant Contracts in accordance with that paragraph; and
- ~~(v)~~ (iii) the amount due to be returned to the Defaulting SCM in respect of such Omnibus Net Segregated Account shall be reduced by an amount equivalent to the aggregate amount of the Account Balances referred to in sub-paragraph (ii) above.
- (e) For the purposes of Regulations 52B(c) and (d) above, the relevant Individual Segregated Account Clearing Client or Omnibus Net Segregated Clearing Clients (as applicable) may provide consent to the Clearing House orally or in writing (including by facsimile and email) and shall not be entitled to withdraw such consent once received by the Clearing House.
- (f) In relation to those SwapClear Clearing Clients of a Defaulting SCM whose open Relevant Contracts are not dealt with pursuant to sub-paragraphs (i) and (ii) of Regulation 52B (c) or (d) above, the following shall occur:
- (i) the Clearing House shall calculate the entitlement to collateral (the "**SwapClear Clearing Client Entitlement**") of the Defaulting SCM in respect of each such SwapClear Clearing Client following the deduction of (a) the costs of any hedging undertaken; (b) amounts required to discharge all obligations owed to the Clearing House relating to Relevant Contracts entered into by the Defaulting SCM in respect of the relevant SwapClear Clearing Client; (c) any amounts to be deducted to reflect the operation of the set-off provision contained in Clause 3.1 of the SwapClear Clearing Agreement and confirmed in writing to the Clearing House by or on behalf of both the Defaulting SCM and the relevant SwapClear Clearing Client; (d) in respect of Omnibus Net Segregated Clearing Clients, amounts required to discharge all obligations owed to the Clearing House relating to Relevant Contracts entered into by the Defaulting SCM in respect of other Omnibus Net Segregated Clearing Clients relating to the Omnibus Net Segregated Account in question, in each case allocated pro rata as it sees fit in its sole discretion; and (e) in respect of any SwapClear Clearing Client in respect of whom the Clearing House acts as security trustee under a Deed of Assignment, that SwapClear Clearing Client's share (if any) of amounts required to discharge fees incurred by the security trustee (acting in that capacity) allocated between that SwapClear Clearing Client and the other SwapClear Clearing Clients in respect of whom the Clearing House acts as security trustee under such Deed of Assignment by the Clearing House pro rata as it sees fit in its sole discretion.
- (ii) where the relevant SwapClear Clearing Client (in an exercise of its rights under the relevant Deed of Assignment) instructs the Clearing House to pay an amount to it equal to the SwapClear Clearing Client Entitlement due to be returned in respect of it to the Defaulting SCM, the Clearing House shall give effect to such instructions, subject to:
- (a) the execution of appropriate documentation (which may, without limitation, include an indemnity (secured or otherwise))

between the Clearing House and the relevant SwapClear Clearing Client; and

- (b) in the case of any deduction made pursuant to (c) of Regulation 52B (f), the provision of appropriate documentation by or on behalf of the Defaulting SCM.
- (iii) Risk Neutralisation and the auction process relating to the Relevant Contracts shall be conducted in accordance with the provisions of the SwapClear DMP Annex, save that no hedging shall be undertaken in respect of a SwapClear Contract entered into in respect of SwapClear Clearing Client Business until such time as the Clearing House has determined that the SwapClear Contract in question will not be ported, from which time such contract shall be a Relevant Contract and included in an Auction Portfolio.
- (g) Calculation of the Account Balances and the SwapClear Clearing Client Entitlements will be undertaken by the Clearing House in accordance with its own records based on information provided to it by the Defaulting SCM. The Clearing House shall be under no obligation to verify or conduct any independent enquiry in respect of any such information and shall be entitled for all purposes to treat it as definitive. However, the Clearing House may, in its absolute discretion, adjust its records to reflect any matter which it believes should be taken into account in calculating the Account Balances and/or the SwapClear Clearing Client Entitlements.
- (h) Notwithstanding the provisions of Regulation 34, the Clearing House may not make any material change to the terms of this Regulation 52B without the written consent of 50% or more of all SwapClear Clearing Members unless such change is invoked unilaterally against all SCMs and is necessary to manage the Clearing House's risk or otherwise to meet the Clearing House's continuing regulatory obligations including those applicable to it as a Recognised Clearing House and a Derivatives Clearing Organization.

**Regulation 52C Transfer**

- (a) Other than in the event that a SwapClear Clearing Member is a defaulter, SwapClear Contracts carried by such a SwapClear Clearing Member in respect of SwapClear Clearing Client Business shall not be transferred except as provided in this Regulation 52C.
- (b) A Receiving Clearing Member may, upon the instruction or at the request of an Individual Segregated Account Clearing Client, request the Clearing House (as set out in the Procedures), to transfer that Individual Segregated Account Clearing Client's entire portfolio (and not less than an entire portfolio) of SwapClear Contracts registered with a Carrying Clearing Member and, if also requested by the Receiving Clearing Member, the Associated Account Assets in respect of all Account Assets Collateral Balance attributable to such Individual Segregated Account Clearing Client by the Carrying Clearing Member. It is a condition precedent to any such transfer of the Relevant SwapClear Contracts of the relevant Individual Segregated Account Clearing Client and/or the relevant Associated Account Assets Collateral Balance (as the case may be) that:
- (i) such SwapClear Clearing Client has not become insolvent (such SwapClear Clearing Client to be presumed to be solvent by the Clearing House unless evidenced to the contrary by the Carrying Clearing Member in the manner set forth in the Procedures or as otherwise reasonably determined by the Clearing House);
  - (ii) neither the Carrying Clearing Member nor the Receiving Clearing Member is a defaulter;
  - (iii) the Receiving Clearing Member has consented to such transfer of such Relevant SwapClear Contracts and such Associated Account Assets Collateral Balance (if any);
  - (iv) where (1) no Associated Account Assets are Collateral Balance is to be transferred simultaneously with the transfer of the Relevant SwapClear Contracts; or (2) as the result of an election by the Receiving Clearing Member to reject a portion of the relevant Associated Account Assets Collateral Balance pursuant to paragraph (e) of this Regulation 52C, the proposed transfer of the Relevant Contracts would lead to a ~~cover~~ requirement ~~from~~for the Receiving Clearing Member to transfer Collateral to the Clearing House, the Clearing House considers that it has received sufficient ~~cover~~Collateral from the Receiving Clearing Member in respect of the Relevant SwapClear Contracts; and
  - (v) the Carrying Clearing Member has not rejected such transfer (it being presumed by the Clearing House that the Carrying Clearing Member has not so rejected the transfer unless evidenced to the contrary by the Carrying Clearing Member in the manner set forth in the Procedures or as otherwise reasonably determined by the Clearing House).

For purposes of (v) above, the Carrying Clearing Member will be entitled to reject the transfer of the Relevant SwapClear Contracts of a particular Individual Segregated Account Clearing Client only if (a) such Individual Segregated Account Clearing Client has failed to satisfy all outstanding obligations that are due and payable to the Carrying Clearing Member and its Affiliates, including

any increased margin due and payable requirement for additional Collateral that may result from the proposed transfer, where, with respect to obligations owed to Affiliates of the Carrying Clearing Member by an Individual Segregated Account Clearing Client, "obligations" shall consist only of those obligations that arise as a result of cross-margining, cross-netting or other similar arrangements with respect to the Relevant SwapClear Contracts of that Individual Segregated Account Clearing Client which are being transferred or that client's, (b) the transfer of the Relevant SwapClear Contracts of that Individual Segregated Account Clearing Client would result in the client breaching exposure limits with, and/or other risk parameters set by, the Carrying Clearing Member and/or its Affiliates, or (c) such rejection is in accordance with terms agreed as between the Carrying Clearing Member and the relevant Individual Segregated Account Clearing Client.

- (c) A Receiving Clearing Member may, upon the instruction or at the request of each Omnibus Net Segregated Clearing Client for whom the same Omnibus Net Segregated Account is held by a Carrying Clearing Member, request the Clearing House (as set out in the Procedures), to transfer each of such SwapClear Omnibus Net Segregated Clearing Clients' entire portfolios (and not less than an entire portfolio) of SwapClear Contracts registered with the Carrying Clearing Member and, if also requested, the Associated Account Assets in respect of all Account Assets Collateral Balance attributable to such Omnibus Net Segregated Clearing Clients by the Carrying Clearing Member. If some but not all of the SwapClear Contracts registered in respect of such Omnibus Net Segregated Account are to be transferred, any such request shall be treated in accordance with Regulation 52C(d) below. It is a condition precedent to any such transfer of the Relevant SwapClear Contracts of the relevant Omnibus Net Segregated Clearing Clients and/or the relevant Associated Account Assets Collateral Balance (as the case may be) that:
- (i) each such Omnibus Net Segregated Clearing Client has not become insolvent (such Omnibus Net Segregated Clearing Clients to be presumed to be solvent by the Clearing House unless evidenced to the contrary by the Carrying Clearing Member in the manner set forth in the Procedures or as otherwise reasonably determined by the Clearing House);
  - (ii) neither the Carrying Clearing Member nor the Receiving Clearing Member is a defaulter;
  - (iii) the Receiving Clearing Member has consented to such transfer of such Relevant SwapClear Contracts and such Associated Account Assets Collateral Balance (if any);
  - (iv) where (1) no Associated Account Assets are Collateral Balance is to be transferred simultaneously with the transfer of the Relevant SwapClear Contracts or (2) as the result of an election by the Receiving Clearing Member to reject a portion of the relevant Associated Account Assets Collateral Balance pursuant to paragraph (e) of this Regulation 52C, the proposed transfer of the Relevant Contracts would lead to a cover requirement from for the Receiving Clearing Member to transfer Collateral to the Clearing House, the Clearing House considers that it has received sufficient cover Collateral from the Receiving Clearing Member in respect of the Relevant SwapClear Contracts; and
  - (v) the Carrying Clearing Member has not rejected such transfer (it being presumed by the Clearing House that the Carrying Clearing Member has not so rejected the transfer unless evidenced to the contrary by the Carrying Clearing Member in the manner set forth in the Procedures or as otherwise reasonably determined by the Clearing House).

For purposes of (v) above, the Carrying Clearing Member may be entitled to reject the transfer of Relevant SwapClear Contracts of the Omnibus Net Segregated Clearing Clients only if (a) any of such Omnibus Net Segregated Clearing Clients has failed to satisfy all outstanding obligations that are due and payable to the Carrying Clearing Member and its Affiliates, including any ~~increased margin due and payable~~ requirement for additional Collateral that may result from the proposed transfer, where, with respect to obligations owed to Affiliates of the Carrying Clearing Member by an Omnibus Net Segregated Clearing Client, "obligations" shall consist only of those obligations that arise as a result of cross-margining, cross-netting or other similar arrangements with respect to the Relevant SwapClear Contracts of that Omnibus Net Segregated Clearing Client which are being transferred or that client's related collateral, (b) the transfer of the Relevant SwapClear Contracts of that Omnibus Net Segregated Clearing Client would result in that client breaching exposure limits with, and/or other risk parameters set by, the Carrying Clearing Member and/or its Affiliates, or (c) such rejection is in accordance with terms agreed as between the Carrying Clearing Member and the relevant Omnibus Net Segregated Clearing Client. If a transfer is not effected due to one of the conditions (i) to (v) above not being satisfied and the Receiving Clearing Member wishes to proceed with such transfer or any other transfer of SwapClear Contracts of some or all of the Omnibus Net Segregated Clearing Clients, it shall be required to submit a new request to transfer in accordance with this paragraph (c) or paragraph (d) of this Regulation 52C (as applicable).

- (d) A Receiving Clearing Member may (A) upon the instruction or at the request of an Individual Segregated Account Clearing Client, request the Clearing House (as set out in the Procedures) to transfer a portion of that SwapClear Clearing Client's portfolio of SwapClear Contracts registered with a Carrying Clearing Member, or (B) upon the request or instruction of an Omnibus Net Segregated Clearing Client for a transfer from an Omnibus Net Segregated Account which is otherwise not covered by paragraph (c) above, request the Clearing House (as set out in the Procedures), to transfer either the whole or a part of such Omnibus Net Segregated Clearing Client's portfolio of SwapClear Contracts registered with the Carrying Clearing Member. It is a condition precedent to any such transfer of the Relevant SwapClear Contracts of the Individual Segregated Account Clearing Client or the Omnibus Net Segregated Clearing Client (as the case may be) that:
- (i) such Individual Segregated Account Clearing Client or Omnibus Net Segregated Clearing Client (as the case may be) has not become insolvent (such Individual Segregated Account Clearing Client or Omnibus Net Segregated Clearing Client (as the case may be) to be presumed to be solvent by the Clearing House unless evidenced to the contrary by the Carrying Clearing Member in the manner set forth in the Procedures or as otherwise reasonably determined by the Clearing House);
  - (ii) neither the Carrying Clearing Member nor the Receiving Clearing Member is a defaulter;
  - (iii) the Receiving Clearing Member has consented to the transfer of the Relevant SwapClear Contracts;
  - (iv) the Receiving Clearing Member has ~~provided~~ transferred sufficient ~~cover~~ Collateral to the Clearing House in respect of its current SwapClear Contracts and the Relevant SwapClear Contracts;
  - (v) the Carrying Clearing Member has not rejected such transfer (it being presumed by the Clearing House that the Carrying Clearing Member has not so rejected the transfer unless evidenced to the contrary by the Carrying Clearing Member

in the manner set forth in the Procedures or as otherwise reasonably determined by the Clearing House); and

- (vi) in the event that the transfer will lead to an increased ~~cover~~Collateral requirement from the Carrying Clearing Member to the Clearing House, the Carrying Clearing Member ~~provides~~transfers sufficient ~~cover~~Collateral to the Clearing House in respect of such increased ~~cover~~Collateral requirement.

For purposes of (v) above, the Carrying Clearing Member may be entitled to reject the transfer of the Relevant SwapClear Contracts of a particular SwapClear Clearing Client only if (a) such SwapClear Clearing Client has failed to satisfy all outstanding obligations that are due and payable to the Carrying Clearing Member and its Affiliates, including ~~any increased margin due and payable in respect of any additional Collateral required~~, that may result from the proposed transfer, where, with respect to obligations owed to Affiliates of the Carrying Clearing Member by a SwapClear Clearing Client, "obligations" shall consist only of those obligations that arise as a result of cross-margining, cross-netting or other similar arrangements with respect to the SwapClear Contracts being transferred or the SwapClear Clearing Client's related collateral, (b) the transfer of the Relevant SwapClear Contracts would result in the SwapClear Clearing Client breaching exposure limits with, and/or other risk parameters set by, the Carrying Clearing Member and/or its Affiliates, or (c) such rejection is in accordance with terms agreed as between the Carrying Clearing Member and the relevant SwapClear Clearing Client.

For the avoidance of doubt, no ~~Account-Assets~~part of the Clearing Member Current Collateral Balance may be transferred under this paragraph (d).

- (c) Upon request from the Clearing House, and in order to facilitate a transfer pursuant to paragraph (b) or paragraph (c) above, the Carrying Clearing Member shall notify the Clearing House of the Associated ~~Account-Assets~~Collateral Balance which ~~are~~is attributable to the Relevant SwapClear Contracts entered into by the Carrying Clearing Member on behalf of the relevant SwapClear Clearing Client and along with the Receiving Clearing Member shall take such actions and provide such information in connection with the transfer as may be required under the Procedures. In the event that the Carrying Clearing Member fails to notify the Clearing House of the Associated ~~Account-Assets~~Collateral Balance that ~~are~~is attributable to the relevant SwapClear Clearing Client, the Clearing House shall identify and transfer such collateral as it deems appropriate and as set out in the Procedures. Once the Associated ~~Account-Assets~~Collateral Balance which ~~are~~is to be the subject of a transfer ~~have~~has been notified by the Clearing House to the Receiving Clearing Member, the Receiving Clearing Member may elect to reject the transfer of some or all of such Associated ~~Account-Assets~~Collateral Balance. Any such an election will not prevent the transfer of the Relevant SwapClear Contracts of the relevant SwapClear Clearing Client(s) and any Associated ~~Account-Assets~~Collateral Balance which ~~have~~has been accepted by the Receiving Clearing Member, provided that the conditions set out in sub-paragraphs (i) to (v) of paragraph (b) or (c) (as applicable) are satisfied in relation to such transfer. The Clearing House shall transfer the Associated ~~Account-Assets~~Collateral Balance that ~~have~~has been identified to and consented by the Receiving Clearing Member. In the event that, for whatever reason, the Clearing House is unable to transfer such Associated ~~Account-Assets~~Collateral Balance, the Clearing House will not proceed with the transfer of the Relevant SwapClear Contracts.
- (f) Further to the satisfaction of the conditions set out in paragraphs (b), (c) and (d) above, as applicable, and provided that it does not determine, in its sole discretion, that the transfer cannot be effected under these Regulations or the Procedures, the Clearing House shall transfer the Relevant SwapClear Contract(s) into the name of the Receiving

Clearing Member on behalf of the relevant SwapClear Clearing Client(s). The transfer of the Relevant SwapClear Contracts shall occur by novation of all of the Carrying Clearing Member's rights and obligations in respect of such Relevant SwapClear Contracts to the Receiving Clearing Member.

(i) In the case where a transfer of Relevant SwapClear Contracts pursuant to paragraph (b) or paragraph (c) above will include the transfer of the Associated ~~Account-Assets~~ Collateral Balance:

1. in respect of Associated ~~Account-Assets~~ Collateral Balance that are ~~is~~ subject to security arrangements entered into between the Carrying Clearing Member and the Clearing House in relation to the ~~provision~~ transfer of ~~ever~~ Collateral, such transfer shall be effected as follows:

(A) the Carrying Clearing Member shall relinquish all rights to such Associated ~~Account-Assets~~ Collateral Balance (including, for the avoidance of doubt, any beneficial interest and/or equity of redemption in respect thereof);

(B) such Associated ~~Account-Assets~~ Collateral Balance shall immediately upon such relinquishment be held by the Clearing House on behalf of the Receiving Clearing Member; and

(C) the Receiving Clearing Member's rights to such Associated ~~Account-Assets~~ Collateral Balance arising as described in paragraph (B) above shall become, in respect of the Relevant SwapClear Contracts, subject to the security arrangements entered into between the Receiving Clearing Member and the Clearing House in relation to the ~~provision~~ transfer of ~~ever~~ Collateral (such rights thereby becoming Charged Property within the meaning of the document creating such security arrangements).

2. in respect of any part of the Associated ~~Account-Assets~~ Collateral Balance that are ~~is~~ not subject to security arrangements entered into between the Carrying Clearing Member and the Clearing House in relation to the ~~provision~~ transfer of ~~ever~~ Collateral, such transfer shall be by novation of the Carrying Clearing Member's rights and obligations in respect of such part of the Associated ~~Account-Assets~~ Collateral Balance to the Receiving Clearing Member.

3. For the avoidance of doubt, the Carrying Clearing Member shall have no right or entitlement to assert any claim over, or right with respect to, the Associated ~~Account-Assets~~ Collateral Balance transferred.

4. The transfer of the Relevant SwapClear Contracts and Associated ~~Account-Assets~~ Collateral Balance shall be deemed to occur simultaneously, and the transfer of the Relevant SwapClear Contracts shall be conditioned on the transfer of the Associated ~~Account-Assets~~ Collateral Balance, and vice versa.

5. If the transfer of the Relevant SwapClear Contracts and Associated ~~Account-Assets~~ Collateral Balance is not completed for any reason, then any actual transfer of any part of the Associated ~~Account-Assets~~ Collateral Balance or Relevant SwapClear Contracts that has occurred, as the

case may be, shall be deemed not to have occurred, and any actual transfer of any part of the Associated ~~Account-Assets~~ Collateral Balance or Relevant SwapClear Contracts that has occurred shall be immediately unwound.

6. (A) that portion (if any) of the Clearing House Current Collateral Balance in respect of the Carrying Clearing Member which is attributable to the Relevant SwapClear Contracts (the "Relevant Portion") shall be reduced to zero, and (B) the Clearing House Current Collateral Balance in respect of the Receiving Clearing Member shall be increased by an amount equal to the value of the Relevant Portion immediately prior to the reduction referred to in (A) immediately above.

Rights under a SwapClear Contract entered into by a SwapClear Clearing Member in respect of SwapClear Clearing Client Business shall not be capable of assignment by a SwapClear Clearing Member. Any such purported assignment by a SwapClear Clearing Member, or any purported transfer that is not in compliance with this Regulation 52C, shall be void.

- g If a SwapClear Clearing Member is a defaulter, the Clearing House shall take such actions, subject to and in accordance with the Default Rules and Regulation 52(B) in relation to SwapClear Contracts carried by such SwapClear Clearing Member on behalf of SwapClear Clearing Clients, provided always that the Clearing House shall take such actions as are required to meet the Clearing House's continuing regulatory obligations including those applicable to it as a Recognised Clearing House and a Derivatives Clearing Organization.
- h Subject to paragraph (j) below, but otherwise notwithstanding anything to the contrary in these Regulations, in making any transfer of Relevant SwapClear Contracts and (if applicable) Associated Account-Assets Collateral Balance pursuant to this Regulation 52C, the Clearing House shall be authorised and entitled to rely conclusively on the instructions of and information provided by the relevant SwapClear Clearing Member(s), which shall be solely responsible for all such instructions and information, including (i) ensuring that the transfer is properly authorised or rejected (as the case may be), (ii) that the appropriate client account and Associated Account-Assets Collateral Balance have been identified, and (iii) in the case of a partial transfer of SwapClear Contracts pursuant to Regulation 52C(d), the appropriate Relevant SwapClear Contracts have been identified by the Receiving Clearing Member, and the Clearing House shall have no responsibility or liability therefor.
- i The Clearing House shall verify that the Relevant SwapClear Contracts identified to it by a SwapClear Clearing Member as being the subject of such a transfer correspond to SwapClear Contracts which, according to its records, are registered in the name of the Carrying SwapClear Clearing Member on behalf of the relevant SwapClear Clearing Client. In the event that the Clearing House identifies a discrepancy, it will notify the relevant SwapClear Clearing Member(s) and no transfer will occur pursuant to this Regulation 52C until such time as the Relevant SwapClear Contracts identified to the Clearing House by the relevant SwapClear Clearing Member(s) can be verified by the Clearing House.
- j The Carrying Clearing Member agrees to indemnify the Clearing House in respect of all liabilities, costs, loss, fees, damages or expenses suffered or incurred by the Clearing House (howsoever arising or occurring) by reason of a proposed transfer being rejected by the Carrying Clearing Member other than in compliance with the grounds set out in the final paragraph of Regulation 52C(b), (c) or (d) (as the case may be).



**Regulation 58** Daily Margining of RepoClear Contracts and RepoClear GC Contracts

- (a) This Regulation 58 shall be without prejudice to the Clearing House's rights to require ~~cover~~Collateral to be ~~provided~~transferred to it under Regulation 12.
- (b) The Net Present Value of each RepoClear Contract and each RepoClear GC Contract shall be calculated by the Clearing House in such manner and at such times as may be provided in the Procedures. Except as prescribed in the Procedures, the Net Present Value calculated by the Clearing House may in no circumstances be challenged.
- (c) Subject to paragraph (d), the Clearing House shall require ~~payment~~the transfer, in accordance with the Procedures, at least daily, of cash ~~cover~~for variation marginCollateral from a RepoClear Clearing Member, or will be required to ~~pay~~transfer cash ~~cover~~for Collateral in respect of its variation margin obligations to such RepoClear Clearing Member, representing the change in the Net Present Value of all RepoClear Contracts and RepoClear GC Contracts registered in the RepoClear Clearing Member's name for a particular currency from the preceding RepoClear Opening Day (as defined in the Procedures), in an amount calculated in accordance with the Procedures. ~~Payment~~Any transfer of cash ~~cover~~Collateral shall be made in accordance with and by the time or times stated in the Procedures.
- (d) Interest shall be paid by the Clearing House on cash ~~cover~~paidCollateral (other than Clearing Member Returned Collateral) transferred to the Clearing House by such RepoClear Member and shall be calculated on the basis set out in the Procedures. A RepoClear Clearing Member shall pay interest to the Clearing House on cash ~~cover~~paidCollateral (other than Clearing House Returned Collateral) transferred by the Clearing House to the RepoClear Clearing Member in respect of variation margin as calculated by the Clearing House on the basis set out in the Procedures.

**Regulation 59** Delivery (or Other) Failures

- (a) Without prejudice to the Default Rules, if a RepoClear Clearing Member as seller fails to deliver securities to the Clearing House under a RepoClear Contract or RepoClear GC Contract by the due time therefore, the Clearing House shall issue directions, in accordance with the Procedures, to the seller and to a RepoClear Clearing Member as buyer under a corresponding RepoClear Contract or RepoClear GC Contract regarding the performance of such contracts and such directions shall be binding on such members.
- (b) The Clearing House shall be entitled to ~~call for sever for~~ demand Collateral in respect of a Member's margin obligations in such amounts and in such form as it may require in accordance with the Procedures from the selling RepoClear Clearing Member who has failed to deliver securities under a RepoClear Contract or RepoClear GC Contract by the due time therefore and from the buying RepoClear Clearing Member under the corresponding RepoClear Contract or RepoClear GC Contract.
- (c) Without prejudice to the Default Rules, if a selling RepoClear Clearing Member acts in such a manner (which could, without limit, include persistent failure to deliver securities to the Clearing House under RepoClear Contracts or RepoClear GC Contract (other than in circumstances where Regulations 26 and/or 27 apply)), and the Clearing House in its reasonable opinion determines that the reputation of the RepoClear Service is being, or has been, undermined, the Clearing House shall be entitled to terminate, on written notice, either summarily or at the expiry of the period specified in the notice, the RepoClear Member's ability to have RepoClear Contracts and/or RepoClear GC Contracts registered in his name and to require him to liquidate or transfer under Regulation 11 open contracts, being RepoClear Contracts and/or RepoClear GC Contracts registered in his name.

**Regulation 60** Withdrawal of RepoClear Service by the Clearing House

- (a) If at any time the Clearing House decides to withdraw the RepoClear service, it shall give not less than six months' notice to all RepoClear Participants of the date on which the service will be withdrawn ("the RepoClear Withdrawal Date"). The accidental omission by the Clearing House to give notice under this Regulation to, or the non-receipt of notice under this Regulation by, one or more RepoClear Participants shall not invalidate the RepoClear Withdrawal Date.
- (b) Without prejudice to its rights under the Default Rules, any notice given under paragraph (a) shall specify the nature of the service which the Clearing House will provide until the RepoClear Withdrawal Date.
- (c) If, at the RepoClear Withdrawal Date, a RepoClear Clearing Member has open Contracts, being RepoClear Contracts and/or RepoClear GC Contracts, registered in its name, the Clearing House shall, at its sole discretion, be entitled to liquidate any such RepoClear Contracts and/or RepoClear GC Contracts and effect cash settlement in respect of them with the RepoClear Clearing Member.
- (d) The Clearing House shall have the right to postpone the RepoClear Withdrawal Date until such time as the Clearing House determines.

The provisions set out in the General Regulations and the Procedures in relation to margin and ~~cover for~~ Collateral in respect of margin obligations shall be applicable to this RepoClear Contract. Any ~~cover for~~ Collateral transferred in respect of variation margin liability obligations will be in the form of cash only.

### 2.3. Income Payments

If this RepoClear Contract has arisen from a RepoClear Repo Transaction in accordance with the provisions of Regulation 55 or from a Repo Trade in accordance with the provisions of Regulation 56 or Regulation 56A, where the Term of this RepoClear Contract extends over any Income Payment Date in respect of any Purchased Securities subject to this RepoClear Contract, Buyer shall make payment of such amounts in respect of such Income Payment Date in accordance with the RepoClear Procedures.

### 2.4. Payment and Transfer

- (a) Each of the following insofar as it is applicable to this RepoClear Contract shall be paid or transferred, as the case may be, in accordance with the provisions set out in the RepoClear Procedures: the Purchase Price, the Repurchase Price, the Purchased Securities, the Equivalent Securities.
- (b) In accordance with the RepoClear Procedures, either party may appoint another person to make any payments and/or to make any transfers of securities on its behalf. Notwithstanding any such appointment, each of the parties agree that it shall remain liable under this RepoClear Contract as principal.
- (c) The parties shall execute and deliver all necessary documents and take all necessary steps to procure that all right, title and interest in any Purchased Securities, and if this RepoClear Contract has arisen from a RepoClear Repo Transaction in accordance with the provisions of Regulation 55 or from a Repo Trade in accordance with the provisions of Regulation 56 or Regulation 56A, in any Equivalent Securities, shall pass to the party to which transfer is being made upon transfer of the same in accordance with these Standard Terms, free from all liens, claims, charges and encumbrances.

### 2.5. Withholding Tax Provisions

- (a) All money payable by the RepoClear Clearing Member to the Clearing House in respect of this RepoClear Contract shall be paid free and clear of any deduction. Where however, a RepoClear Clearing Member is required by any applicable law or any taxation authority properly acting within the scope of its authority or power, to withhold or deduct any tax or duty from any payment due in respect of this RepoClear Contract, the RepoClear Clearing Member shall be entitled to withhold or deduct such tax or duty, and shall pay to the Clearing House such additional amounts as will result in the net amounts receivable by the Clearing House (after taking account of such withholding or deduction) being equal to such amounts as would have been received by the Clearing House had no such taxes or duties been required to be withheld or deducted.
- (b) All money payable by the Clearing House to the RepoClear Clearing Member in respect of this RepoClear Contract shall be paid free and clear of any deduction. Where however, the Clearing House is required by any applicable law or any taxation authority properly acting within the scope of its authority or power, to withhold or deduct any tax or duty from any payment due in respect of this RepoClear Contract, the Clearing House shall be entitled to withhold or deduct

## Terminology

- 2.6 Notwithstanding the use of expressions such as "margin", "Equivalent Securities", "Opening Cash Amount", "Purchased Securities", "Daily Cash Amount", "Daily Return Amount", "Daily Purchased Securities" and "Daily Equivalent Securities" which are used to reflect terminology used in the market for transactions of the kinds provided for in these RepoClear SGC Contract Terms, all right, title and interest in and to Daily Purchased Securities, Daily Cash Amount and Daily Return Amount transferred or paid under these RepoClear SGC Contract Terms and, all right, title and interest in Daily Equivalent Securities, shall pass to the transferee on transfer or payment, and the obligation of the party receiving Daily Purchased Securities on any SGC Day shall be an obligation to transfer Daily Equivalent Securities on the next following day, at such time as is set out in the RepoClear Procedures.

## Interest

- 2.7 Seller shall pay the Interest to Buyer on the End Date in accordance with these RepoClear SGC Contract Terms and the RepoClear Procedures.
- 2.8 Subject to the Default Rules, Interest payable under this RepoClear SGC Contract and Interest payable by either party to the other under any other RepoClear SGC Contract with the same End Date shall be combined in a single calculation of a net cash amount payable by one party to the other and the obligation to pay that sum shall be the only obligation of either party in respect of those amounts.

## Payment and Transfer

- 2.9 Each of the following insofar as it is applicable to this RepoClear SGC Contract, shall be paid or transferred in accordance with the provisions set out in the RepoClear Procedures: Daily Purchased Securities; Daily Equivalent Securities; Daily Cash Amount; Daily Return Amount; Interest.
- 2.10 In accordance with the RepoClear Procedures, either party may appoint another person to make any payments and to make any transfers of securities on its behalf. Notwithstanding any such appointment, each of the parties agrees that it shall remain liable under this RepoClear SGC Contract as principal.
- 2.11 The parties shall execute and deliver all necessary documents and take all necessary steps to procure that all right, title and interest in any Purchased Securities, and in any Equivalent Securities, shall pass to the party to which transfer is being made upon transfer of the same in accordance with these Standard Terms, free from all liens, claims, charges and encumbrances.

## 3. General

### Margin Maintenance

- 3.1 The provisions set out in the General Regulations and the Procedures in relation to margin and ~~cover for~~ Collateral in respect of margin obligations shall be applicable to this RepoClear SGC Contract. Any ~~cover for~~ Collateral transferred in respect of variation margin liability obligations will be in the form of cash only.

### Withholding Tax Provisions

- 2.10 The parties shall execute and deliver all necessary documents and take all necessary steps to procure that all right, title and interest in any Purchased Securities and in any Equivalent Securities shall pass to the party to which transfer is being made upon transfer of the same in accordance with these Standard Terms, free from all liens, claims, charges and encumbrances.

### 3. General

#### Margin Maintenance

- 3.1 The provisions set out in the General Regulations and the Procedures in relation to margin and ~~cover for~~ Collateral in respect of margin obligations shall be applicable to this RepoClear €GC Contract. Any ~~cover for~~ Collateral transferred in respect of variation margin liability obligations will be in the form of cash only and will be denominated in Euro.

#### Withholding Tax Provisions

- 3.2 All money payable by a RepoClear Clearing Member to the Clearing House in respect of this RepoClear €GC Contract shall be paid free and clear of, and without withholding or deduction for, any taxes or duties of whatsoever nature imposed, levied, collected, withheld or assessed by any authority having the power to tax, unless the withholding or deduction of such taxes or duties is required by law. In that event, the RepoClear Clearing Member shall pay such additional amounts as will result in the net amounts receivable by the Clearing House (after taking account of such withholding or deduction) being equal to such amounts as would have been received by it had no such taxes or duties been required to be withheld or deducted.
- 3.3 All money payable by the Clearing House to a RepoClear Clearing Member in respect of this RepoClear €GC Contract shall be paid free and clear of, and without withholding or deduction for, any taxes or duties of whatsoever nature imposed, levied, collected, withheld or assessed by any authority having the power to tax, unless the withholding or deduction of such taxes or duties is required by law. In that event, the Clearing House shall pay such additional amounts as will result in the net amounts receivable by the RepoClear Clearing Member (after taking account of such withholding or deduction) being equal to such amounts as would have been received by it had no such taxes or duties been required to be withheld or deducted; PROVIDED, however, that the Clearing House shall only be under an obligation to pay such additional amounts to the extent that the Clearing House determines, in its sole and absolute discretion, that it is entitled to recover the amount payable by it from a RepoClear Clearing Member in respect of any related RepoClear €GC Contract.

#### Regulations

- 3.4 This RepoClear €GC Contract shall be subject to the Regulations, which shall form a part of its terms.

#### Governing Law

- 3.5 This RepoClear €GC Contract shall be governed by, and construed in accordance with English law and the parties hereby submit to the exclusive jurisdiction of the English courts.

#### Third Party Rights

**Regulation 64** Delivery (or Other) Failures

- (a) Without prejudice to the Default Rules and the Procedures, if an EquityClear Clearing Member as seller fails to deliver financial instruments to the Clearing House under an EquityClear Contract by the due time therefor, the Clearing House may issue directions, in accordance with the Procedures, to the seller and to an EquityClear Clearing Member as buyer under a corresponding EquityClear Contract regarding the performance of such contracts and such directions shall be binding on such members.
- (b) The Clearing House shall be entitled to ~~call for cover for~~demand Collateral in respect of a Member's margin obligations in such amounts and in such form as it may require in accordance with the Procedures from the selling EquityClear Clearing Member who has failed to deliver securities under an EquityClear Contract by the due time therefor and from the buying EquityClear Clearing Member under the corresponding EquityClear Contract.
- (c) Without prejudice to the Default Rules, if a selling EquityClear Clearing Member acts in such a manner (which could, without limit, include persistent failure to deliver securities to the Clearing House under EquityClear Contracts (other than in circumstances where Regulations 26 and/or 27 apply)), and the Clearing House in its reasonable opinion determines that the reputation of the EquityClear Service is being, or has been, undermined, the Clearing House shall be entitled to terminate, on written notice, either summarily or at the expiry of the period specified in the notice, the EquityClear Clearing Member's ability to have EquityClear Contracts registered in his name and to require him to liquidate or transfer under Regulation 11 open contracts, being EquityClear Contracts registered in his name.

**Regulation 78 Delivery (or Other) Failures**

- (a) Without prejudice to the Default Rules and the Procedures, if a Clearing Member as seller fails to deliver securities or other instruments to the Clearing House under a Turquoise Derivatives Cleared Exchange Contract by the due time therefor, the Clearing House may issue directions, in accordance with the Procedures, to that Clearing Member and to a Clearing Member as buyer under a corresponding Turquoise Derivatives Cleared Exchange Contract regarding the performance of such Contracts and take such steps, as it may determine, in accordance with the Procedures and any such steps or directions shall be binding on the Clearing Members.
- (b) The Clearing House shall be entitled to ~~call for sever-for-demand~~ Collateral in respect of a Member's margin obligations in such amounts and in such form as it may require in accordance with the Procedures from a Clearing Member where it has failed to deliver securities or other instruments or pay the Price under a Turquoise Derivatives Cleared Exchange Contract by the due time therefor.
- (c) A Clearing Member who has failed to deliver securities or other instruments to the Clearing House under a Turquoise Derivatives Cleared Exchange Contract or to pay the Price shall indemnify the Clearing House in respect of all losses, costs, taxes and expenses suffered or incurred by the Clearing House in taking any steps under paragraph (a) of this Regulation 78.
- (d) Without prejudice to the Default Rules, if a Clearing Member acts in such a manner (which could, without limitation, include persistent failure to deliver securities or other instruments to the Clearing House under Turquoise Derivatives Cleared Exchange Contracts in respect of which it is the seller (other than in circumstances where Regulations 26 and/or 27 apply)) and the Clearing House in its reasonable opinion and after consultation with TGHL determines that the reputation of the Clearing House Turquoise Derivatives Services is being, or has been, undermined, the Clearing House shall be entitled to terminate, on written notice, either summarily or at the expiry of the period specified in the notice, the Clearing Member's ability to have Turquoise Derivatives Cleared Exchange Contracts registered in its name and to require it to liquidate or transfer under Regulation 11 open Turquoise Derivatives Cleared Exchange Contracts registered in its name.



**Regulation 81** Cancellation, variation etc of **Turquoise Derivatives Cleared Exchange Contracts**

- (a) The Clearing House shall, in accordance with procedures agreed with TGHL, cancel, or vary the terms of, a Turquoise Derivatives Cleared Exchange Contract and the corresponding Turquoise Derivatives Cleared Exchange Contract pursuant to a determination to this effect made by TGHL under the Exchange Rules that such Contracts have been entered into in error or certain terms have been agreed in error or in such other circumstances as may be set out in the Exchange Rules.
- (b) If following receipt of a statement from TGHL recording the details of Turquoise Derivatives Cleared Exchange Contracts which have been registered on a business day in the name of a Clearing Member under the Regulations, the Clearing Member considers that there has been an error or omission in such statement, it shall submit a Protest to TGHL in accordance with, and by the time required, by the Exchange Rules. On receipt of such Protest, TGHL will consult with the Clearing House with a view to determining whether the Protest is valid and, if valid, what step or steps (if any) should be taken in respect of such Clearing Member or any other affected Clearing Member, which may include registering, re-registering, cancelling or varying a Turquoise Derivatives Cleared Exchange Contract. The Clearing House shall take such steps as TGHL and the Clearing House determine to be appropriate and any other step or steps as may be required by the Procedures, which may include requiring ~~cover~~ Collateral to be ~~furnished~~ transferred to the Clearing House as required by the Clearing House. If the Clearing House does not take any steps under this paragraph (b) in respect of a Turquoise Derivatives Cleared Exchange Contract, the Clearing Member shall remain bound by the terms of each such Turquoise Derivatives Cleared Exchange Contract registered in his name with the Clearing House. This paragraph shall not apply in the circumstances contemplated by paragraph (a) of this Regulation.
- (c) Turquoise Derivatives Cleared Exchange Contracts may be registered in the Turquoise Derivatives Account in connection with any step taken by the Clearing House under paragraph (b) of this Regulation 81 or in such other circumstances as may be agreed between TGHL and the Clearing House from time to time.
- (d) A Clearing Member whose Turquoise Derivatives Cleared Exchange Contracts have been varied under this Regulation 81 shall be bound by the terms of such Contracts as varied and any relevant provisions of the Procedures.
- (e) Upon a Turquoise Derivatives Cleared Exchange Contract being cancelled under this Regulation 80, the particulars of the transaction in question shall be deemed never to have been submitted to the Clearing House for registration. Any payment (other than fees) made to the Clearing House under, or in respect of, a Turquoise Derivatives Cleared Exchange Contract which has been cancelled under this Regulation 81 shall be repayable to the person who made the payment, subject to LCH's rights under Regulation 12 and the Default Rules.
- (f) Without prejudice to Regulation 39 and its rights and obligations set out in this Regulation 81, the Clearing House shall have no liability whatsoever to any person in respect of any step taken under paragraph (a) or (b) of this Regulation 80.

## HKMEX REGULATIONS

### **Regulation 88 Introduction and Application**

#### **General**

- (a) The Clearing House shall provide the HKMEX Service subject to and in accordance with the terms of these HKMEX Regulations and the Procedures.
- (b) Clearing Members which are HKMEX Service Clearing Members, and applicants to become HKMEX Service Clearing Members, shall be bound by these HKMEX Regulations. Other than as specified in the Regulations, the remainder of the Regulations shall not apply to the HKMEX Service.
- (c) Regulations 1 and 2 of the Regulations apply to the HKMEX Service.

#### **HKMEX Service Clearing Membership**

- (d) A Clearing Member may apply to become a HKMEX Service Clearing Member in accordance with the Procedures.
- (e) Regulations 4(a) to 4(c) (inclusive) apply to HKMEX Service Clearing Membership and applications therefor as it applies to clearing membership.
- (f) In the event of any inconsistency between HKMEX's Rules and the HKMEX Regulations, the HKMEX Regulations shall prevail.

#### **Accounts**

- (g) Regulation 5 applies to the opening and operation of accounts with respect to a HKMEX Service Clearing Member. Such accounts shall be designated in accordance with Regulation 8.

#### **Formation, registration and transfers of HKMEX Contracts**

- (h) HKMEX's Rules govern the formation of a HKMEX Transaction.
- (i) Regulations 89 and 90 govern the registration and formation of a HKMEX Contract.
- (j) A HKMEX Service Clearing Member may clear HKMEX Transactions for a HKMEX Non-Clearing Member in accordance with the Procedures and HKMEX's Rules.
- (k) Regulation 11 (and, insofar as relevant, Regulation 3(b)) apply to a HKMEX Contract which is an open contract.

#### **Margin and ~~cover for margin~~ Collateral**

- (l) Regulation 12 applies to a HKMEX Service Clearing Member.

**Daily settlement**

- (m) Regulations 13, 14, 91 and 16 apply to the daily settlement to market of open HKMEX Contracts.

**Options**

- (n) Regulations 17 and 18 apply to HKMEX Contracts which are options.

**Physical settlement**

- (o) Regulations 19 to 22 (inclusive) and 25 apply to HKMEX Contracts.

**Arbitration**

- (p) Regulations 23 and 24 apply to HKMEX Contracts.

***Market disorders; force majeure; invoicing back; currency conversion; disclosure; fees and other charges; records; Procedures; alteration of Regulations and Procedures; interpretation; waiver; validity; governing law and jurisdiction; exclusion of liability; netting***

- (q) Regulations 25 to 39B (inclusive) apply to HKMEX Service Clearing Members and HKMEX Contracts.

**Default Rules and Default Fund Rules**

- (r) The Default Rules and the Default Fund Rules apply to HKMEX Service Clearing Members and HKMEX Contracts.

**Clearing House Settlement Finality Regulations**

- (s) The Clearing House Settlement Finality Regulations apply in relation to HKMEX Service Clearing Members and HKMEX Contracts.

**Regulation 89 Presentation, allocation of HKMEX Transactions and registration of HKMEX Contracts**

- (a) In order to utilise the HKMEX Service a HKMEX Service Clearing Member must cause particulars of a HKMEX Transaction to which it is party to be submitted for registration as a HKMEX Contract, through such means as shall be prescribed by the Procedures.
- (b) A HKMEX Transaction submitted for registration must meet the eligibility criteria prescribed in the Procedures at the time the particulars of such HKMEX Transaction are presented to the Clearing House and must continue to meet such criteria at the time prescribed in the Procedures ("Registration Time") in order to be registered as HKMEX Contracts. A HKMEX Service Clearing Member may not revoke, cancel or transfer a HKMEX Transaction unless permitted by HKMEX's Rules, the Regulations or the Procedures or with the consent of the Clearing House.
- (c) A HKMEX Service Clearing Member shall not allow the submission for registration of a transaction which is not a HKMEX Transaction.
- (d) The Clearing House may require HKMEX Transactions presented for registration in the name of a HKMEX Service Clearing Member to be confirmed by or on behalf of such Member, in which case it shall specify the manner, form and time of such confirmation in the Procedures.
- (e) A HKMEX Transaction may, subject to the Procedures or HKMEX's Rules (as may be the case), be allocated (or reallocated) by or on behalf of a HKMEX Service Clearing Member to another HKMEX Service Clearing Member in such manner and form and by such time as may be prescribed by the Procedures.
- (f) Where a HKMEX Transaction is allocated (or reallocated) to a HKMEX Service Clearing Member, then unless the Clearing House receives confirmation of the acceptance of the allocation of such contract from the HKMEX Service Clearing Member to whom such contract is being allocated (or reallocated) within the relevant time prescribed by the Procedures, the Clearing House shall register such HKMEX Transaction in the name of the HKMEX Service Clearing Member who sought to allocate the HKMEX Transaction.
- (g) Notwithstanding paragraph (f) of this Regulation, a HKMEX Service Clearing Member may from time to time agree in writing with the Clearing House that he shall accept for registration in his name any HKMEX Transaction allocated to him.
- (h) The Clearing House may decline to register a HKMEX Transaction in the name of a HKMEX Service Clearing Member where it considers such action advisable for its own protection or the protection of the relevant market. The Clearing House may, without assigning any reason, make the registration of any HKMEX Transaction subject to any conditions stipulated by the Clearing House including, without limitation, the ~~furnishing~~transfer of ~~cover~~for marginCollateral by both HKMEX Service Clearing Members in whose name any such HKMEX Transaction is to be registered.
- (i) Without prejudice to the Clearing House's rights under paragraph (k) of this Regulation, a HKMEX Service Clearing Member shall be bound by a HKMEX Contract registered in its name pursuant to the presentation of particulars of a HKMEX Transaction.
- (j) The Clearing House shall be deemed to register a HKMEX Contract in relation to a HKMEX Transaction in the name of a HKMEX Service Clearing Member at the Registration Time for that type of HKMEX Contract in accordance with Regulation 90.

## NODAL REGULATIONS

### **Regulation 92 Introduction and Application**

#### **General**

- (a) The Clearing House shall provide the Nodal Service subject to and in accordance with the terms of these Nodal Regulations and the Procedures.
- (b) Clearing Members which are Nodal Service Clearing Members, and applicants to become Nodal Service Clearing Members, shall be bound by these Nodal Regulations. Other than as specified in the Regulations, the remainder of the Regulations shall not apply to the Nodal Service.
- (c) Regulations 1 and 2 of the Regulations apply to the Nodal Service.

#### **Nodal Service Clearing Membership**

- (d) A Clearing Member may apply to become a Nodal Service Clearing Member in accordance with the Procedures.
- (e) Regulations 4(a) to 4(c) (inclusive) apply to Nodal Service Clearing Membership and applications therefor as it applies to clearing membership.

#### **Nodal's Rules**

- (f) In the event of any inconsistency between Nodal's Rules and the Nodal Regulations, the Nodal Regulations shall prevail.

#### **Accounts**

- (g) Regulation 5 applies to the opening and operation of accounts with respect to a Nodal Service Clearing Member. Such accounts shall be designated in accordance with Regulation 8.

#### **Formation, Registration and Transfers of Nodal Contracts**

- (h) Nodal's Rules govern the formation of a Nodal Transaction.
- (i) Regulations 93 and 94 govern the registration and formation of a Nodal Contract.
- (j) A Nodal Service Clearing Member may clear Nodal Transactions for a Nodal Non-Clearing Participant in accordance with the Procedures and Nodal's Rules.
- (k) Regulation 11 (and, insofar as relevant, Regulation 3(b)) apply to a Nodal Contract which is an open contract.

#### **Margin and ~~Cover for Margin~~ Collateral**

- (l) Regulation 12 applies to a Nodal Service Clearing Member.

#### **Daily Settlement**

- (m) Regulations 13, 14, 95 and 16 apply to the daily settlement to market of open Nodal Contracts.

**Options**

- (n) Regulations 17 and 18 apply to Nodal Contracts which are options.

**Physical Settlement**

- (o) Regulations 19 to 22 (inclusive) and 25 apply to Nodal Contracts.

**Arbitration**

- (p) Regulations 23 and 24 apply to Nodal Contracts.

**Market disorders; force majeure; invoicing back; currency conversion; disclosure; fees and other charges; records; Procedures; alteration of Regulations and Procedures; interpretation; waiver; validity; governing law and jurisdiction; exclusion of liability; netting**

- (q) Regulations 25 to 39B (inclusive) apply to Nodal Service Clearing Members and Nodal Contracts.

**Default Rules and Default Fund Rules**

- (r) The Default Rules and the Default Fund Rules apply to Nodal Service Clearing Members and Nodal Contracts.

**Clearing House Settlement Finality Regulations**

- (s) The Clearing House Settlement Finality Regulations apply in relation to Nodal Service Clearing Members and Nodal Contracts.

**Regulation 93** Presentation, Allocation of Nodal Transactions and Registration of Nodal Contracts

- (a) In order to utilise the Nodal Service a Nodal Service Clearing Member must cause particulars of a Nodal Transaction to which it is party to be submitted for registration as a Nodal Contract, through such means as shall be prescribed by the Procedures.
- (b) A Nodal Transaction submitted for registration must meet the eligibility criteria prescribed in the Procedures at the time the particulars of such Nodal Transaction are presented to the Clearing House and must continue to meet such criteria at the time prescribed in the Procedures ("**Registration Time**") in order to be registered as Nodal Contracts. A Nodal Service Clearing Member may not revoke, cancel or transfer a Nodal Transaction unless permitted by Nodal's Rules, the Regulations or the Procedures or with the consent of the Clearing House and Nodal.
- (c) A Nodal Service Clearing Member shall not allow the submission for registration of a transaction which is not a Nodal Transaction.
- (d) The Clearing House may require Nodal Transactions presented for registration in the name of a Nodal Service Clearing Member to be confirmed by or on behalf of such Member, in which case it shall specify the manner, form and time of such confirmation in the Procedures.
- (e) The Clearing House may decline to register a Nodal Transaction in the name of a Nodal Service Clearing Member where it considers such action advisable for its own protection or the protection of the relevant market. The Clearing House may, without assigning any reason, make the registration of any Nodal Transaction subject to any conditions stipulated by the Clearing House including, without limitation, the ~~furnishing~~transfer of ~~cover for margin~~Collateral by both Nodal Service Clearing Members in whose name any such Nodal Transaction is to be registered.
- (f) Without prejudice to the Clearing House's rights under paragraph (h) of this Regulation, a Nodal Service Clearing Member shall be bound by a Nodal Contract registered in its name pursuant to the presentation of particulars of a Nodal Transaction.
- (g) The Clearing House shall be deemed to register a Nodal Contract in relation to a Nodal Transaction in the name of a Nodal Service Clearing Member at the Registration Time for that type of Nodal Contract in accordance with Regulation 94.
- (h) For the avoidance of doubt, any transaction of which details have been submitted for registration as Nodal Contracts which is not so registered shall remain in effect or be terminated, as the case may be, according to any terms agreed between the parties thereto (directly or by virtue of their common participation in the Nodal Trading Facility through or on which the transaction was executed or by which it was registered), but subject in all cases to Nodal's Rules, and the Clearing House (and each other member of the LCH.Clearnet Group and their respective officers, employees and agents) shall have no obligations or liability in relation thereto.
- (i) If at any time after registration of a Nodal Contract the Clearing House determines that the corresponding transaction of which details were submitted for registration was not a Nodal Transaction or did not, at the Registration Time, meet the eligibility criteria for registration as a Nodal Contract, the Clearing House shall, as soon as practicable thereafter, set aside each such Nodal Contract. Upon the purported Nodal Contract being set aside under this Regulation 92(l), the particulars of the transaction in question shall be deemed never to have been registered. Any payment made under, or in respect

**Regulation 97 NYSE Liffe Clearing Membership**

- (a) In order to use the NYSE Liffe Clearing Service, a person must at all times be a clearing member of the market administered by LIFFE and a Clearing Member of the Clearing House, as further set out in the NYSE LIFFE Clearing Membership Agreement.
- (b) Regulations 4(a) and 4(c) apply to NYSE Liffe Clearing Membership and applications for such membership, as they apply to clearing membership.

**LIFFE's Rules**

- (c) In the event of any inconsistency between the LIFFE Rules and these NYSE Liffe Clearing Regulations, these NYSE Liffe Clearing Regulations shall prevail as between the NYSE Liffe Clearing Member and the Clearing House.

**Accounts**

- (d) Regulation 5 applies to the opening and operation of accounts with respect to an NYSE Liffe Clearing Member. Such accounts shall be designated in accordance with the LIFFE Rules.

**Margin and ~~Cover for Margin~~ Collateral**

- (e) Regulation 12 and the LIFFE Rules apply to margin and ~~cover for margin~~ Collateral with respect to an NYSE Liffe Clearing Member.

**Force Majeure; Disclosure; Procedures; Alteration of Regulations and the Procedures; Interpretation of these Regulations; Waiver; Validity of Regulations and Action; Governing Law and Jurisdiction; Exclusion of Liability**

- (f) Regulations 27, 30, 33, 34, 35, 36, 37, 38, 39, 39A and 39B apply to NYSE Liffe Clearing Members and in respect of the NYSE Liffe Clearing Contracts of such NYSE Liffe Clearing Members in relation to the relationship between such NYSE Liffe Clearing Members and the Clearing House.

**Default Rules and Default Fund Rules**

- (g) Where an NYSE Liffe Clearing Member has been declared a defaulter and its positions have transferred to the Clearing House in accordance with the LIFFE default rules or where the Clearing House has declared a Special Member of the Clearing House to be a defaulter, the Default Rules of the Clearing House shall apply: (i) to such NYSE Liffe Clearing Member; (ii) to such Special Member of the Clearing House; and (iii) in respect of the NYSE Liffe Clearing Contracts of such NYSE Liffe Clearing Member or such Special Member of the Clearing House.

The Default Fund Rules of the Clearing House shall apply to NYSE Liffe Clearing Members and in respect of the NYSE Liffe Clearing Contracts of such NYSE Liffe Clearing Members at all times.

**Clearing House Settlement Finality Regulations**

- (h) The Clearing House Settlement Finality Regulations apply in relation to NYSE Liffe Clearing Members and to instructions relating to NYSE Liffe Clearing Contracts to the extent that such instructions constitute "transfer orders" as defined in the terms of the UK Financial Markets and Insolvency (Settlement Finality) Regulations 1999. Settlement finality protection for NYSE Liffe Clearing Members and NYSE Liffe Clearing Contracts



under the Clearing House Settlement Finality Regulations applies subject to the terms of the SF Regulations including, inter alia, Regulation 20 of the SF Regulations which in certain circumstances would prevent settlement finality protection from applying to transfer orders issued by a NYSE Liffe Clearing Member after certain specified events relating to that NYSE Liffe Clearing Member's insolvency.

## FOREXCLEAR REGULATIONS

### **Regulation 103 Application of ForexClear Regulations**

- (a) The Clearing House shall provide the ForexClear Service subject to and in accordance with the terms of these ForexClear Regulations and the Procedures.
- (b) ForexClear Clearing Members shall be bound by these ForexClear Regulations. Applications to become a ForexClear Clearing Member shall be made in accordance with Regulation 103(d) and (e). Other than as expressly specified in this Regulation 103, the remainder of the Regulations shall not apply to the ForexClear Service. A summary table of those Regulations which apply to the ForexClear Service as described in Regulation 103(a) to (o) is provided at Regulation 103(p).
- (c) Regulations 1 and 2 of the Regulations apply to the ForexClear Service.

### **ForexClear Clearing Membership**

- (d) A Clearing Member may apply to become a ForexClear Clearing Member in accordance with the Procedures.
- (e) Regulation 4(a) to 4(c) applies to membership of the ForexClear Service and applications for such membership.

### **Accounts**

- (f) Regulation 5 applies to the opening and operation of accounts with respect to a ForexClear Clearing Member. Such accounts shall be designated in accordance with Regulation 8.

### **Formation, registration and transfers of ForexClear Contracts**

- (g) Regulations 9(b), 9(c) and 10 apply to the registration of a ForexClear Contract.
- (h) Regulation 104 and Regulation 105 (a) govern the registration and formation of a ForexClear Contract.
- (i) Regulation 3(b) of the Regulations applies to the ForexClear Service.
- (j) Regulation 11 (and, insofar as relevant, Regulation 3(b)) apply to a ForexClear Contract that is an open contract.

### **Margin and ~~cover for margin~~ Collateral**

- (k) Regulation 12 applies to a ForexClear Clearing Member.

### **Reference prices and Revaluation**

- (l) Regulations 14 and Regulation 108 apply to open ForexClear Contracts.

### **Other Applicable Regulations**

- (m) Regulations 16 and 26 to 39B inclusive apply to ForexClear Clearing Members and ForexClear Contracts.

**Default Rules and Default Fund Rules**

- (n) The Default Rules (including the ForexClear DMP Annex) and the Default Fund Rules apply to ForexClear Clearing Members and ForexClear Contracts.

**Clearing House Settlement Finality Regulations**

- (o) The Clearing House Settlement Finality Regulations apply in relation to ForexClear Clearing Members and ForexClear Contracts.

**Summary table of Regulations which apply to the ForexClear Service**

- (p) The Regulations listed in this Regulation 103(p) apply to the ForexClear Service as described under Regulation 103(a) to (o).

<b>Regulation</b>	<b>Title</b>
1	Obligation to the Clearing House to each Member
2	Performance by the Clearing House of its Obligations under the Terms of an Open Contract
3(b)	Novation
4(a) to (c)	Clearing Member Status of the Clearing House
5	Accounts
8	Designation
9(b), (c),	Registration
10	Trading Information
11	Transfer
12	Margin and <del>Cover-for-Margin-Collateral</del>
14	Official Quotations and Reference Price
26	Mark Disorders, Impossibility of Performance, Trade Emergency
27	Force Majeure
28	Invoicing Back
29	Currency Conversion
30	Disclosure
31	Fees and Other Charges
32	Records

<b>Regulation</b>	<b>Title</b>
33	Procedures
34	Alteration of Regulations and the Procedures
35	Interpretation of these Regulations
36	Waiver
37	Validity of Regulations and Action
38	Governing Law and Jurisdiction
39	Exclusion of Liability
39A and 39B	Netting
103 to 109	ForexClear Regulations
Default Rules	Default Rules (including ForexClear DMP Annex)
Default Fund Rules	Default Fund Rules
Settlement Finality Regulations	Settlement Finality Regulations

**Regulation 104 Registration of ForexClear Contracts**

- (a) In order to use the ForexClear Service, a ForexClear Participant must submit the particulars of a ForexClear Transaction for registration as a ForexClear Contract in accordance with these ForexClear Regulations and the Procedures.
- (b) Without prejudice to the Clearing House's rights under paragraph (c) of this Regulation, a ForexClear Clearing Member shall be bound by a ForexClear Contract registered in its name pursuant to the presentation of particulars of a ForexClear Transaction by it or by a ForexClear Dealer with whom the ForexClear Clearing Member is party to a FDC Agreement.
- (c) Without prejudice to the Clearing House's rights under paragraph (c) of this Regulation, a ForexClear Transaction, particulars of which are submitted for registration as a ForexClear Contract, must meet the ForexClear Eligibility Criteria at the time the particulars of the ForexClear Transaction are presented to the Clearing House and must continue to meet such ForexClear Eligibility Criteria at the Registration Time as defined in Regulation 104(d) below in order to be registered as a ForexClear Contract.
- (d) The Clearing House shall be deemed to register a ForexClear Contract, in accordance with Regulation 105, in the name of a ForexClear Clearing Member at the time prescribed in the Procedures ("Registration Time")
- (e) For the avoidance of doubt, any transaction of which details have been submitted by ForexClear Participants for registration as a ForexClear Contract which is not so registered will remain in effect between the persons party thereto in accordance with any terms agreed between them and the Clearing House (and each other member of the LCH.Clearnet Group and their respective officers, employees and agents) shall have no obligations or liability in relation thereto.
- (f) Subject to Regulation 104(h), if at any time falling after the registration of any ForexClear Contract the Clearing House determines that the corresponding transaction of which details were submitted for registration did not, at the Registration Time, meet the ForexClear Eligibility Criteria in existence at the Registration Time (an "**Ineligible Transaction**"), the Clearing House shall, as soon as practicable thereafter, set aside both ForexClear Contracts arising from such Ineligible Transaction in accordance with Regulation 104(g) below.
- (g) Upon a ForexClear Contract (an "**Ineligible ForexClear Contract**") being set aside under Regulation 104(f), the Clearing House will notify the FXCCM party to such Ineligible ForexClear Contract via the ForexClear Matcher that such Ineligible ForexClear Contract has been set aside. The following shall take effect immediately upon the delivery of such notice: (i) such Ineligible ForexClear Contract shall be deemed to be terminated at the time of the notification and shall thereafter have no force or effect; (ii) all Collateral in respect of variation margin obligations (if any) ~~paid~~provided by the Clearing House or by an FXCCM in respect of such Ineligible ForexClear Contract shall be retained by the receiving party upon termination; (iii) where there is a difference between the value of the Ineligible ForexClear Contract as at the last margin run and the value (as determined by the Clearing House) of that Ineligible ForexClear Contract at the time of the next official settlement rate for that currency pair, then a payment shall be made between the FXCCMs to the original Ineligible Transaction equal to such difference; and (iv) these payments shall be deemed to satisfy in full the relevant party's obligations under the Ineligible ForexClear Contract and shall be retained by the receiving party upon termination as a termination payment.

**Regulation 106** Cancellation of ForexClear Contracts

- (a) A ForexClear Clearing Member may, in accordance with this Regulation 106 and the Procedures, cancel a ForexClear Contract to which it is a party.
- (b) A ForexClear Dealer may, in accordance with this Regulation 106 and the Procedures, cancel a ForexClear Contract that arose from a ForexClear Transaction to which it is a party.
- (c) A ForexClear Clearing Member shall be bound by the cancellation of a ForexClear Contract made by the relevant ForexClear Dealer.
- (d) A ForexClear Dealer shall have no obligation to inform, notify or seek the consent of any ForexClear Clearing Member prior to initiating the cancellation of a ForexClear Contract in accordance with Regulation 4(d).
- (e) Each ForexClear Clearing Member is deemed to grant a continuing authority to the Clearing House to terminate any ForexClear Contract registered in the name of that ForexClear Clearing Member upon the request of a ForexClear Dealer with whom that ForexClear Clearing Member is a party to an FDC Agreement.
- (f) The Clearing House shall have no obligation to inform, notify or seek the consent of any ForexClear Clearing Member prior to cancelling a ForexClear Contract in accordance with this Regulation 106.
- (g) The cancellation of a ForexClear Contract to which a ForexClear Clearing Member is a party (in this Regulation, the "First ForexClear Contract") is contingent upon *inter alia* the cancellation of the corresponding ForexClear Contract that arose from the same underlying ForexClear Transaction (in this Regulation, the "Second ForexClear Contract"), and vice versa.
- (h) The date and time of the cancellation of a ForexClear Contract shall be as reported by the Clearing House in accordance with the Procedures and shall be binding on ForexClear Clearing Members.
- (i) The Clearing House may decline to cancel a ForexClear Contract if:
  - (i) in the opinion of the Clearing House acting in its sole discretion, the cancellation of that ForexClear Contract is not consistent with the Regulations and Procedures of the Clearing House and any policies of the clearing house concerning risk management;
  - (ii) if there is insufficient ~~margin~~Collateral standing to the credit of a ForexClear Clearing Member's account to accommodate the cancellation of the First ForexClear Contract and/or the Second ForexClear Contract.
- (j) With effect from the time of the cancellation of a ForexClear Contract in accordance with this Regulation 106, neither the ForexClear Clearing Member nor the Clearing House shall have any obligations under the terms of that ForexClear Contract and liability in respect thereof.
- (k) Upon the cancellation of a ForexClear Contract in accordance with this Regulation 106, the corresponding Parallel Contract (as defined in the FDC Agreement) arising by operation of the FDC Agreement shall also terminate.

**Regulation 107 ForexClear Dealers**

- (a) Application for admission to the Register of ForexClear Dealers shall be made in accordance with these Regulations and the Procedures. An applicant for admission to the Register of ForexClear Dealers must satisfy the criteria prescribed by the Clearing House from time to time in order to be admitted to the Register of ForexClear Dealers. A ForexClear Dealer shall be subject to, and governed by, these Regulations, the Procedures and, if applicable, the FDC Agreement to which it is for the time being party.
- (b) A person admitted to the Register of ForexClear Dealers shall ensure that it will, at all times, satisfy the criteria prescribed by the Clearing House, from time to time, for admission to the Register.
- (c) The Clearing House may suspend or remove a ForexClear Dealer from the Register of ForexClear Dealers in accordance with these Regulations, the Procedures and, if applicable, the FDC Agreement to which it is for the time being party. Any person who has been suspended from the Register of ForexClear Dealers for a period of more than three months shall be removed from the Register of ForexClear Dealers and must make a new application if it wishes to be readmitted to the Register.
- (d) A ForexClear Dealer may request, by giving three months' written notice to the Clearing House, that its name be removed from the Register of ForexClear Dealers. At the end of such notice period, the Clearing House shall remove the ForexClear Dealer from the Register of ForexClear Dealers.
- (e) A ForexClear Dealer's suspension or removal from the Register of ForexClear Dealers, under paragraph (c), shall not, where it is a Member, affect its membership of the Clearing House, nor, subject to any contrary determination by the Clearing House under Regulation 4(b), shall it affect the categories of Contract which such a person is eligible to have registered in its name.
- (f) Upon the Clearing House serving a default notice in accordance with these Regulations to a ForexClear Clearing Member who is also a ForexClear Dealer, such ForexClear Clearing Member shall automatically be removed from the Register of ForexClear Dealers.
- (g) Without prejudice to paragraph (f) of this Regulation, the Clearing House shall suspend from the Register of ForexClear Dealers, for such period as the Clearing House may determine, any Member (i) whose Clearing Membership Agreement has been terminated; or (ii) who is no longer eligible to have ForexClear Contracts registered in its name, and who is not, from the date of such termination under (i) or such ineligibility under (ii), party to a FDC Agreement with another ForexClear Clearing Member, for such period as the Clearing House may determine.

**Regulation 108 Variation Margin**

- (a) The Clearing House shall, at least daily and in accordance with and at the times stated in the Procedures, ~~pay~~transfer to, or require ~~payment~~transfer from, a ForexClear Clearing Member ~~of cash cover for~~Collateral in respect of variation margin. The amount ~~paid~~transferred represents the change from the preceding business day in the net present value of all ForexClear Contracts registered in that ForexClear Clearing Member's name.
- (b) The net present value of each ForexClear Contract shall be calculated by the Clearing House in such manner and at such times as may be provided in the Procedures. Except as prescribed in the Procedures, the net present value calculated by the Clearing House may in no circumstances be challenged.
- (c) The Clearing House pays to (or receives from) each ForexClear Clearing Member interest on cash ~~cover~~Collateral received (or ~~paid~~provided) by the Clearing House in respect of variation margin, calculated in accordance with the Procedures.
- (d) This Regulation is without prejudice to the Clearing House's right to require ~~cover~~Collateral to be ~~provided~~transferred to it under Regulation 12.



## NLX REGULATIONS

### **Regulation 110 Introduction and Application**

#### **General**

- (a) The Clearing House shall provide the NLX Service subject to and in accordance with the terms of these NLX Regulations and the Procedures.
- (b) Clearing Members which are NLX Service Clearing Members, and applicants to become NLX Service Clearing Members, shall be bound by these NLX Regulations. Other than as specified in the Regulations, the remainder of the Regulations shall not apply to the NLX Service.
- (c) Regulations 1 and 2 of the Regulations apply to the NLX Service.

#### **NLX Service Clearing Membership**

- (d) A Clearing Member may apply to become an NLX Service Clearing Member in accordance with the Procedures.
- (e) Regulations 4(a) to 4(c) (inclusive) apply to NLX Service Clearing Membership and applications therefor as it applies to clearing membership.

#### **NLX's Rules**

- (f) In the event of any inconsistency between NLX's Rules and the NLX Regulations, the NLX Regulations shall prevail.

#### **Accounts**

- (g) Regulation 5 applies to the opening and operation of accounts with respect to an NLX Service Clearing Member. Such accounts shall be designated in accordance with Regulation 8.

#### **Formation, Registration and Transfers of NLX Contracts**

- (h) NLX's Rules govern the formation of an NLX Transaction.
- (i) Regulations 110 and 111 govern the registration and formation of an NLX Contract.
- (j) An NLX Service Clearing Member may clear NLX Transactions for an NLX Non-Clearing Member in accordance with the Procedures and NLX's Rules.
- (k) Regulation 11 (and, insofar as relevant, Regulation 3(b)) apply to an NLX Contract which is an open contract.

#### **Margin and Cover for Margin Collateral**

- (l) Regulation 12 applies to an NLX Service Clearing Member.

#### **Daily Settlement**

Regulations 13, 14, 113 and 16 apply to the daily settlement to market of open NLX Contracts.

**Options**

- (m) Regulations 17 and 18 apply to NLX Contracts which are options.

**Physical Settlement**

- (n) Regulations 19 to 22 (inclusive) and 25 apply to NLX Contracts.

**Arbitration**

- (o) Regulations 23 and 24 apply to NLX Contracts.

**Market disorders; force majeure; invoicing back; currency conversion; disclosure; fees and other charges; records; Procedures; alteration of Regulations and Procedures; interpretation; waiver; validity; governing law and jurisdiction; exclusion of liability; netting**

- (p) Regulations 25 to 39A (inclusive) apply to NLX Service Clearing Members and NLX Contracts.

**Default Rules and Default Fund Rules**

- (q) The Default Rules and the Default Fund Rules apply to NLX Service Clearing Members and NLX Contracts.

**Clearing House Settlement Finality Regulations**

The Clearing House Settlement Finality Regulations apply in relation to NLX Service Clearing Members and NLX Contracts.

**Regulation 111 Presentation, Allocation of NLX Transactions and Registration of NLX Contracts**

- (a) In order to utilise the NLX Service an NLX Service Clearing Member must cause particulars of an NLX Transaction to which it is party to be submitted for registration as an NLX Contract, through such means as shall be prescribed by the Procedures.
- (b) An NLX Transaction submitted for registration must meet the eligibility criteria prescribed in the Procedures at the time the particulars of such NLX Transaction are presented to the Clearing House and must continue to meet such criteria at the time prescribed in the Procedures ("**Registration Time**") in order to be registered as NLX Contracts. An NLX Service Clearing Member may not revoke, cancel or transfer an NLX Transaction unless permitted by NLX's Rules, the Regulations or the Procedures or with the consent of the Clearing House and NLX.
- (c) An NLX Service Clearing Member shall not allow the submission for registration of a transaction which is not an NLX Transaction.
- (d) The Clearing House may require NLX Transactions presented for registration in the name of an NLX Service Clearing Member to be confirmed by or on behalf of such Member, in which case it shall specify the manner, form and time of such confirmation in the Procedures.
- (e) The Clearing House may decline to register an NLX Transaction in the name of an NLX Service Clearing Member where it considers such action advisable for its own protection or the protection of the relevant market. The Clearing House may, without assigning any reason, make the registration of any NLX Transaction subject to any conditions stipulated by the Clearing House including, without limitation, the ~~furnishing~~transfer of ~~cover for margin~~Collateral by both NLX Service Clearing Members in whose name any such NLX Transaction is to be registered.
- (f) Without prejudice to the Clearing House's rights under paragraph (h) of this Regulation, an NLX Service Clearing Member shall be bound by an NLX Contract registered in its name pursuant to the presentation of particulars of an NLX Transaction.
- (g) The Clearing House shall be deemed to register an NLX Contract in relation to an NLX Transaction in the name of an NLX Service Clearing Member at the Registration Time for that type of NLX Contract in accordance with Regulation 112.
- (h) For the avoidance of doubt, any transaction of which details have been submitted for registration as NLX Contracts which is not so registered shall remain in effect or be terminated, as the case may be, according to any terms agreed between the parties thereto (directly or by virtue of their common participation in the NLX Trading Facility through or on which the transaction was executed or by which it was registered), but subject in all cases to NLX's Rules, and the Clearing House (and each other member of the LCH.Clearnet Group and their respective officers, employees and agents) shall have no obligations or liability in relation thereto.
- (i) If at any time after registration of an NLX Contract the Clearing House determines that the corresponding transaction of which details were submitted for registration was not an NLX Transaction or did not, at the Registration Time, meet the eligibility criteria for registration as an NLX Contract, the Clearing House shall, as soon as practicable thereafter, set aside each such NLX Contract. Upon the purported NLX Contract being set aside under this Regulation 111(i), the particulars of the transaction in question shall be deemed never to have been registered. Any payment made under, or in respect of an

Exhibit A-3  
Section 1 of the Clearing House Procedures

**SECTION 1**

**CONTENTS**

1. CLEARING MEMBER, DEALER, EQUITYCLEAR AND TURQUOISE DERIVATIVES  
NCMS (NON-CLEARING MEMBERS).....2

1.1 APPLICATION PROCEDURE .....2

1.2 CRITERIA FOR CLEARING MEMBER STATUS.....4

1.3 DEALER STATUS CRITERIA.....7

1.4 EQUITYCLEAR NON-CLEARING MEMBER STATUS.....9

1.5 TURQUOISE DERIVATIVES NON-CLEARING MEMBER STATUS ....10

1.6 EXTENSION OF CLEARING ACTIVITIES..... 11

1.7 TERMINATION OF CLEARING MEMBER STATUS ..... 12

1.8 NET CAPITAL REQUIREMENTS ..... 12

1.9 CALCULATION OF NET CAPITAL..... 17

1.10 REPORTING ..... 18

1.11 ADDITIONAL REQUIREMENTS .....20

1.12 OTHER CONDITIONS.....20

## **1. CLEARING MEMBER, DEALER, EQUITYCLEAR AND TURQUOISE DERIVATIVES NCMs (NON-CLEARING MEMBERS)**

### **1.1 APPLICATION PROCEDURE**

An application for Clearing Member status of the Clearing House, or for Dealer status (whether as a ForexClear Dealer, RepoClear Dealer or SwapClear Dealer, each a "Dealer") or for other Non-Clearing Member status (EquityClear or Turquoise Derivatives), must be made on the appropriate form which can be obtained from the Clearing House's Membership team. Additional information (including legal documents) must be supplied where necessary and submitted to the Clearing House with the completed form.

An application for the status of special Clearing Member ("Special Clearing Member") must be initiated by a written request to the Clearing House. The nature of the application procedure and the documents and information required from the applicant will be determined by the Clearing House by reference to the nature of the application and will be notified by the Clearing House to the applicant upon receipt of such written request.

Applicants approved by the Clearing House for Clearing Member or Dealer status, ("Approved Applicants") must, within six months of notification of their approval, fulfil all conditions attached to their approval. If an Approved Applicant does not fulfil all such conditions within these six months, the Clearing House may, at its sole discretion, consider the grant of approval to have lapsed and may notify the prospective Clearing Member or Dealer accordingly that they will be required to provide further information, following which the application will be submitted for re-approval.

Clearing Members have the right to apply for approval to clear one or more of the markets cleared by the Clearing House, subject to meeting the requirements of the Clearing House in respect of each such market. Please note that Clearing Member status does not provide membership of the company LCH.Clearnet Limited or any right to a shareholding therein, nor does it provide the right to any shareholding in LCH.Clearnet Group Limited or any entitlement or right to participate in any way in LCH.Clearnet SA or the clearing services it offers. LCH.Clearnet SA has its own arrangements and admission criteria for Clearing Member status – see the LCH.Clearnet SA sections of the LCH.Clearnet website for further details.

Applicants approved as Dealers for ForexClear, RepoClear and/or SwapClear will be admitted to the Register of ForexClear Dealers, Register of RepoClear Dealers, and/or the Register of SwapClear Dealers ("the OTC Registers"), as appropriate. Successful admission to one OTC Register does not confer automatic admission to any other OTC Register.

#### **1.1.1 Clearing Member Status**

The terms and conditions binding on each Clearing Member are set out in the Clearing Membership Agreement as amended. Two copies of this document will be provided to the applicant who must sign both (but not date them) and return them to the Clearing House's Membership team along with the application documentation.

The applicant must pay the stipulated application fee to the Clearing House. This fee must accompany the application for Clearing Member status and is non refundable.

If and when Clearing Member status is granted, new Clearing Members will receive a duly executed (and dated) copy of the Clearing Membership Agreement together with the notification of acceptance and details of any condition(s) attached to Clearing Member status. If granted, Clearing Member status is subject to a Contribution to the Default Fund of the Clearing House (DF), as determined by the Clearing House under the Default Fund Rules.

### 1.1.2 Dealer Status

The terms and conditions of admission to each of the OTC Registers are set out in the ForexClear Dealer Clearing Agreement, the RepoClear Dealer Clearing Agreement and the SwapClear Dealer Clearing Agreement ("the OTC Agreements") as amended. Admission to each OTC Register requires that three copies of the corresponding OTC Agreement must be signed by the applicant and their proposed Clearing Member.

The copies of the relevant OTC Agreement should be returned, undated, to the Clearing House's Membership team along with the application documentation.

If and when admission to an OTC Register is granted, new Dealers will receive a duly executed and dated copy of the relevant OTC Agreement, together with the notification of acceptance and details of any condition(s) attached to their admission. The Clearing House will send, under separate cover, a copy of the duly executed and dated OTC Agreement to the elected Clearing Member.

### 1.1.3 Conditions of Application

An applicant for Clearing Member or Dealer status must accept that the Clearing House:

- (a) is entitled to make enquiries of any nature about the applicant and any person connected or associated with the applicant;
- (b) is entitled to ask the applicant to supply additional information and take whatever steps are necessary to verify information;
- (c) is entitled to provide and/or disclose information to an exchange, governmental department, regulatory organisation, other authority, or to the Clearing House's insurers in connection with any form of insurance, or to any person pursuant to the provisions of the Financial Services and Markets Act 2000 as amended and any rules made thereunder, or in accordance with any other statutory requirement, and in accordance with the terms of the Clearing Membership Agreement, the ForexClear Dealer Clearing Agreement, the RepoClear Dealer Clearing Agreement, or the SwapClear Dealer Clearing Agreement as applicable;
- (d) may disclose to any other party the name, address, registered number and details of any exchange or clearing memberships held or applied for; and
- (e) will endeavour to process, consider and decide upon an application in a timely fashion, but owes no duty or obligation to the applicant to do so.

Conditions (a) to (e) apply equally to Clearing Members and to Dealers.

## 1.2 **CRITERIA FOR CLEARING MEMBER STATUS**

### 1.2.1 General

An applicant must satisfy the criteria set out below in order to be considered for Clearing Member status. These requirements are without prejudice to the provisions of the Clearing Membership Agreement which must be executed by the applicant, and must equally be met by Clearing Members.

The Clearing House may, in its sole discretion, refuse an application for membership where it considers it appropriate to do so in accordance with its internal risk management policies and procedures as amended from time to time.

The applicant must either be, or have applied to become, a RepoClear Clearing Member (categories F & G), a SwapClear Clearing Member (category H), an EquityClear Clearing Member (categories I & J), a Clearing Member of the relevant exchange(s) (categories B – D), an LCH EnClear OTC Clearing Member (category B), a Special Clearing Member (category K) or a ForexClear Clearing Member (category M). Clearing Member status may be granted on a conditional basis before any Clearing House requirements have been fully met or before related exchange clearing membership(s) requirements are met, but cannot be operational until such requirements are satisfied.

The applicant must, if it also wishes to submit and clear RepoClear, SwapClear and/or ForexClear trades, meet the additional criteria for such status (see sections 1.2.2, 1.2.3 and 1.2.4 respectively). The applicant, any controller of the applicant, and those of its staff who exercise an executive or managerial role, must have a high standard of integrity and a level of knowledge, as determined by and acceptable to the Clearing House, of the nature, risks and obligations of trading in the markets and contracts they wish to clear.

A Clearing Member of one or more markets who wishes to clear the contracts of another market cleared by the Clearing House, must apply to the Clearing House for such extension and have the Clearing House's express written approval before commencing to submit trades in such other market for registration. The prescribed form of document for the relevant new market is available from the Clearing House's Membership team. Clearing Members should be aware that they also need the appropriate additional exchange clearing membership before they can extend their range of activities in this way. The Clearing Member must, within six months of notification of their approval to extend their activities, fulfil all conditions attached to their approval. If the Clearing Member does not, within these six months, fulfil all such conditions, the Clearing House may, at its sole discretion, consider the grant of approval to have lapsed and may notify the Clearing Member accordingly that they will be required to provide further information, following which the extension will be submitted for re-approval.

The applicant must satisfy the minimum Net Capital requirements, as set out in section 1.8.3 ("Net Capital Requirements") or such greater amounts as may be required by the Clearing House.

The applicant must open a Protected Payments System (PPS) bank account at one or more of the bank branches participating in PPS:-

- 1) in the UK in GBP;



- 2) in the UK in each currency in which it incurs settlements;
- 3) in the USA in US dollars,
- 4) in Hong Kong in US dollars if clearing in certain Asian markets – please see Section 3 of the Procedures for further information.

and execute all necessary documentation (see the Protected Payments System section of the LCH.Clearnet website for further information) in order to manage and open its House and Client accounts.

Clearing Members must ensure that they have contingency arrangements in place to ensure ~~continuity of~~ that they continue to meet their margin payment obligations in the event of failure of their nominated PPS bank(s).

The applicant must refrain from contravening the general prohibition contained in section 19 of the Financial Services and Markets Act 2000.

If the applicant is a bank, it must at all times be appropriately authorised by the banking supervisors of its home country and additionally meet any notification or authorisation requirements set by banking supervisors in the United Kingdom.

The applicant must satisfy a minimum internal credit score which is determined by the Clearing House based on analysis of a range of quantitative and qualitative inputs. These include financial analysis, external market data as well as consideration of any implicit or explicit support available to the applicant. The analysis is performed on a predetermined methodology applicable to all applicants

The applicant must maintain a back office:

- (a) remote from both the trading floor and/or trading desks;
- (b) with adequate systems (including but not limited to computer and communications systems) and records;
- (c) with an adequate number of administrative staff fully conversant with procedures for the management of business transacted in the markets and contracts cleared by the Clearing House and in which the Clearing Member participates; and
- (d) with such equipment (including technology and connectivity) as may be stipulated by the Clearing House or by the exchange(s) or EquityClear Approved Trading Platform (ATP),

or, where the Clearing House Rulebook and exchange rules (where relevant) permit, have executed a Clearing Services Management Agreement (as defined at Section 2H.2.1 of the NYSE Liffe Clearing Service Procedures).

Applicants and Clearing Members must at all times respond promptly to enquiries or requests for information made by the Clearing House. Such enquiries may require Applicants and Clearing Members to demonstrate compliance with the applicable membership criteria and/or applicable law or regulation.

Each Clearing Member shall at all times continue to comply with the qualifications and requirements set forth in these Procedures and shall promptly notify the Clearing

House if it has breached or reasonably expects to breach any such qualifications or requirements.

Each Clearing Member shall maintain current written risk management policies and procedures which address the risks that the relevant Clearing Member may pose to the Clearing House, including any policies and procedures that the Clearing House may reasonably request be incorporated therein. Upon the request of the Clearing House, a Clearing Member shall promptly provide the Clearing House with a copy of its current policies and procedures for review by the Clearing House.

Clearing Members are required promptly to notify or pre-notify the Clearing House of any changes which may result in non-compliance with the Clearing Member status criteria as stated in these Procedures.

#### 1.2.2 Supplementary Criteria Applicable to RepoClear Applicants

In addition to the minimum Net Capital Requirements set out in section 1.8.3, applicants must satisfy the following criteria:

- (a) be authorised and supervised as either a credit institution or an investment firm by the competent authorities of a member state of the European Union; or
- (b) be authorised and supervised as the equivalent of a credit institution or an investment firm by the competent authorities of a country outside the European Union and be subject to prudential rules considered to be as stringent as those applicable to credit institutions and investment firms.

#### 1.2.3 Supplementary Criteria Applicable to SwapClear Applicants

In addition to the minimum Net Capital Requirements as set out in section 1.8.3, an applicant must satisfy the following criteria:

- (a) successfully participate, or demonstrate that it has: (i) an affiliated SwapClear Clearing Member (SCM) that can successfully participate; or (ii) an LCH Approved Outsourcing Party that can successfully participate in a SwapClear "fire drill" run by the Clearing House which shall involve submitting a bid for a notional portfolio of trades within a specific currency in a specified timeframe. Submission of a bid outside the timeframe specified by the Clearing House or submitting a bid that is unreasonable will constitute a failure of the "fire drill" and the applicant's SCM application will not be approved.
- (b) be able to participate or demonstrate that it has: (A) an affiliated SCM that can participate; or (B) an LCH Approved Outsourcing Party that can successfully participate in the Default Management Process as operated by the Clearing House ;
- (c) have, within its corporate group, at least one credit institution or investment firm licensed by the competent authorities of a member state of the European Union, or the equivalent of a credit institution or an investment firm licensed by the competent authorities of a country outside the European Union and which is subject to prudential rules considered by the Clearing House to be at least as stringent as those applicable to credit institutions and investment firms within the European Union; and

- (d) in the event of a default, be able to receive from the Clearing House and process SwapClear contracts, and any associated hedge trades, in FPML format or, separated value electronic format.

Membership criteria for FCM Clearing Member status are contained in the Clearing House's FCM Regulations.

#### 1.2.4 Supplementary Criteria Applicable to ForexClear Applicants

In addition to the minimum Net Capital Requirements as set out in section 1.9.3, an applicant must satisfy the following criteria:

- (a) successfully participate, or demonstrate that it has: (i) an affiliated ForexClear Clearing Member (FXCCM) that can successfully participate; or (ii) an LCH Approved Outsourcing Party that can successfully participate, in a ForexClear "fire drill" run by the Clearing House which shall involve submitting a bid for a notional portfolio of trades within specific currency pairs in a specified timeframe. Submission of a bid outside the timeframe specified by the Clearing House or submitting a bid that is unreasonable will constitute a failure of the "fire drill" and the applicant's FXCCM application will not be approved;
- (b) be able to participate or demonstrate that it has: (A) an affiliated FXCCM that can successfully participate; or (B) an LCH Approved Outsourcing Party that can successfully participate, in the ForexClear Default Management Process as operated by the Clearing House;
- (c) have, within its corporate group, at least one credit institution or investment firm licensed by the competent authorities of a member state of the European Union, or the equivalent of a credit institution or an investment firm licensed by the competent authorities of a country outside the European Union and which is subject to prudential rules considered by the Clearing House to be at least as stringent as those applicable to credit institutions and investment firms within the European Union; and
- (d) in the event of a default, be able to receive from the Clearing House and process ForexClear contracts, and any associated hedge trades, in FPML format or, separated value electronic format.

#### 1.2.5 Supplementary Criteria Applicable to Special Clearing Member Applicants

The Clearing House may agree with an applicant for Special Clearing Member status, in addition to or in place of requirements set out in these Procedures, such further terms as it deems appropriate in the circumstances of the applicant and its business and these shall be reflected in the Clearing Membership Agreement.

### 1.3 **DEALER STATUS CRITERIA**

An applicant must satisfy the criteria set out below in order to be considered for admission to the OTC Registers. These requirements are without prejudice to the provisions of the ForexClear Dealer Clearing Agreement, the RepoClear Dealer Clearing Agreement and/or the SwapClear Dealer Clearing Agreement, and must equally be met by Dealers.

The applicant and any controller of the applicant, and those of its staff who exercise an executive or managerial role, must have a high standard of integrity and a level of knowledge, acceptable to the Clearing House, of the nature, risks and obligations of trading foreign exchange transactions, over-the-counter repos and swaps cleared by the Clearing House.

The applicant must be a member of an Approved Trade Matching System (as approved by the Clearing House from time to time).

- (a) For RepoClear, see Section 2B of the Procedures (RepoClear).
- (b) For SwapClear, see Section 2C of the Procedures (SwapClear).
- (c) For ForexClear, see Section 2K of the Procedures (ForexClear).

If the applicant is a bank it must, at all times, be appropriately authorised by the banking supervisors of its home country and additionally meet any notification or authorisation requirements set by banking supervisors in the United Kingdom.

The applicant must maintain a back office:

- (a) remote from both the exchange floor and/or trading desks;
- (b) with adequate systems (including but not limited to computer and communications systems) and records;
- (c) with an adequate number of administrative staff fully conversant with procedures for the management of business transacted in the markets and contracts cleared by the Clearing House in which the applicant participates; and
- (d) with such technology and connectivity as may be stipulated by the Clearing House.

The applicant must have executed and must maintain a ForexClear Dealer Clearing Agreement, a RepoClear Dealer Clearing Agreement and/or a SwapClear Dealer Clearing Agreement in the current standard form.

The applicant may specify any number of branches, with agreement from its corresponding Clearing Member, from which it proposes to submit eligible ForexClear, RepoClear and/or SwapClear Transactions. It is a requirement that only branches of the same legal entity as the Dealer may be specified. A company which is a different legal entity and which wishes to submit eligible ForexClear, RepoClear and/or SwapClear Transactions for clearing must apply separately for admission to the relevant OTC Register. ForexClear Dealers, RepoClear Dealers and SwapClear Dealers are entitled to remain on the relevant OTC Register for so long as a valid agreement remains in effect. In the event that the relevant agreement for any ForexClear Dealer, RepoClear Dealer or SwapClear Dealer is terminated, then that Dealer will be removed from the relevant OTC Register.

The applicant must at all times respond promptly to enquiries or requests for information made by the Clearing House.

### 1.3.2 ForexClear Dealer Status

The applicant must have a clearing arrangement for ForexClear transactions in place with an existing FXCCM within their corporate group.

### 1.3.3 RepoClear Dealer Status

The applicant must:

- (a) have minimum Net Capital (as defined in paragraph 1.9) of €100mn; and
- (b) be authorised and supervised as either a credit institution or an investment firm by the competent authorities of a member state of the European Union; or
- (c) be authorised and supervised as the equivalent of a credit institution or an investment firm by the competent authorities of a country outside the European Union and be subject to prudential rules considered to be as stringent as those applicable to credit institutions and investment firms.

### 1.3.4 SwapClear Dealer Status

The applicant must have a clearing arrangement for SwapClear transactions in place with an existing SwapClear Clearing Member within their corporate group.

## 1.4 **EQUITYCLEAR NON-CLEARING MEMBER STATUS**

A person who does not have Clearing Member status of the Clearing House may nevertheless participate indirectly in the EquityClear Service as an EquityClear Non-Clearing Member ("NCM"), subject to compliance with all the Clearing House requirements in this regard.

In order to participate in the manner described that person ("the Applicant NCM") must enter into the "EquityClear NCM-GCM Agreement" with a Clearing Member which is authorised by the Clearing House to clear the relevant market. This agreement must be in the form prescribed by the Clearing House. It must then be submitted to the Clearing House, together with the relevant EquityClear Static Data Form duly completed in the form prescribed by the Clearing House for that ATP. If the Clearing House agrees to admit the Applicant NCM to become an EquityClear NCM, as the case may be, it will indicate its consent by signing the agreement and adding the Applicant NCM to the section relating to that ATP in the Register of EquityClear NCMs.

An NCM is entitled to remain on the Register of NCMs for so long as a valid EquityClear NCM-GCM Agreement remains in effect. In the event that the relevant Agreement for any NCM is terminated, then that NCM will be removed from the Register of NCMs.

The rights and obligations of an NCM are set out in the EquityClear NCM-GCM Agreement.

The Clearing House may suspend the EquityClear Open Offer in respect of any ATP, and may, at the request of its GCM, suspend an NCM. Clearing Members and NCMs are referred to Section 2D of the Procedures (EquityClear) in this regard.

It should be noted that NCMs do not have Clearing Member status.

## **1.5 EXCHANGE NON-CLEARING MEMBERS STATUS**

A person who does not have Clearing Member status may nevertheless participate indirectly in the Clearing House Turquoise Derivatives Service as a Turquoise Derivatives Non-Clearing Member ("NCM"), subject to compliance with all the Clearing House requirements

### **1.5.1 TURQUOISE DERIVATIVES NON-CLEARING MEMBER STATUS**

In order to participate in the manner described, that person ("the Applicant NCM") must enter into a Turquoise Derivatives NCM-GCM Agreement with a Clearing Member which is authorised by the Clearing House to clear eligible trades as a "GCM". If the Clearing House agrees to admit the Applicant NCM, it will indicate its consent by signing the agreement and adding the Applicant NCM to the Register of NCMs.

An NCM is entitled to remain on the Register of NCMs for so long as a valid Turquoise Derivatives NCM-GCM Agreement remains in effect. In the event that the Agreement for any NCM is terminated, then that NCM will be removed from the Register of NCMs.

The rights and obligations of an NCM are set out in the Turquoise Derivatives NCM-GCM Agreement.

It should be noted that NCMs do not have Clearing Member status.

### **1.5.2 NLX Non-Clearing Member Status**

All Clearing Members may clear for one or more NCMs. In order to do so, the following conditions must be satisfied at all times:

- (i) the NCM is a participant of NLX and;
- (ii) the Clearing Member and the NCM are party to a valid and enforceable agreement under which the Clearing Member agrees to clear transactions on behalf of such person.

Such agreement must confer the right on the Clearing Member, and the Clearing Member must lawfully be entitled at all times to pass to the Clearing House, in accordance with Regulation 30, such information and data relating to the NCM as the Clearing House may in its sole discretion deem appropriate.

The static data form executed by both the NCM and the Clearing Member shall be definitive proof of the Clearing Member clearing for an NCM.

The Clearing House contracts with the Clearing Member alone and, to the fullest extent permitted by law, disclaims any duties or obligations to an NCM.

The Clearing Member may terminate its agreement with the NCM at any time but must provide written notice to both the relevant exchange and the Clearing House no less than 21 days in advance of the termination date.

For the avoidance of doubt, termination by the Clearing Member of its agreement with an NCM will be without prejudice to the Clearing Member's obligations arising from or in relation to any NLX Transaction or NLX Contacts arising prior to such termination.

## **1.6 EXTENSION OF CLEARING ACTIVITIES**

### **1.6.1 Extension to Exchange clearing**

A Clearing Member must hold the appropriate category of Clearing Member status for the exchange(s) it wishes to clear.

A Clearing Member is approved to clear only the exchange(s) stipulated in its application. Subject to the Clearing House's consent, this approval may be extended to include clearing on another exchange(s). Such approval must be given in writing by the Clearing House in the form prescribed from time to time. In determining such extension the Clearing House will have regard to, inter alia:

- (a) The Clearing Member having the appropriate category of exchange Clearing Member status applicable to the extension of its activities;
- (b) The Clearing Member demonstrably having sufficient staff resources and expertise in the new market that it wishes to clear; and
- (c) The Clearing Member having sufficient Net Capital to meet the additional requirement as set out in section 1.8.3.

### **1.6.2 Extension to LCH EnClear OTC Services/EquityClear/RepoClear/SwapClear/ForexClear Clearing**

In addition to the requirements noted above, a Clearing Member wishing to commence clearing on each of the LCH EnClear OTC services (Freight, OTC Emissions and/or Precious Metals divisions), the EquityClear markets and/or clearing or dealing on ForexClear, RepoClear and/or SwapClear, must complete additional documentation and be approved by the Clearing House. Clearing Members who wish to either clear directly or to submit for clearing EquityClear ATP Matches, RepoClear Transactions and/or Bond/Repo Trades, ForexClear Transactions and/or SwapClear Transactions originating from an NCM or Dealer for clearing, should contact the Clearing House's Membership team.

Dealers or NCMs who wish to clear their own transactions must apply for Clearing Member status. Potential applicants should contact the Clearing House's Membership team.

### **1.6.3 Extension for SwapClear Clearing Members to clear for clients**

Subject to obtaining approval from the Clearing House's Membership team a SwapClear Clearing Member ("SCM") may offer certain SwapClear clearing services to its clients (SwapClear Clearing Clients). SCMs should contact the Clearing

House's Membership team for further details of the SwapClear Client Clearing service.

1.6.4 Special Clearing Members

A Special Clearing Member is only approved to clear the types of contract on the Clearing House service(s) and/or on the market(s) stipulated in its Clearing Membership Agreement, subject to the terms of that Agreement.

**1.7 TERMINATION OF CLEARING MEMBER STATUS**

1.7.1 In the event that a Clearing Member wishes to terminate its Clearing Member status, it may do so by giving notice of not less than three months ahead of its termination date. By the close of business on the termination date, the Clearing Member shall ensure that all Registered Contracts in its name have been closed-out or transferred so as to ensure that there are no open Registered Contracts to which they are party to at the termination date. A resigning Clearing Member should note that any and all exchange NCMs or Dealers will be required to find alternative clearing arrangements by this date or will be unable to trade on the relevant exchange or cleared market. Clearing Members will need to give the Clearing House notice of termination in respect of all such NCM/Dealer agreements in accordance with the terms of those agreements and the relevant section of the Rulebook. For further information on the resignation process, Clearing Members should contact the Membership team.

1.7.2 If a Clearing Member has not been active on any exchange or market for a continuous period of three months, they will be asked to confirm that they intend to utilise their Clearing Member status and failing a satisfactory response, they will be asked to resign their Clearing Member status.

**1.8 NET CAPITAL REQUIREMENTS**

1.8.1 Categories of Clearing Member Status

There are ten categories of Clearing Member status currently in use. These are as follows:



**Category B**

- NYSE – Liffe - Individual Clearing Member (clearing own business)
- Turquoise Derivatives - Individual Clearing Member (clearing own business)
- LCH EnClear OTC Services - LCH EnClear Clearing Member being an OTC Participant for OTC Services: OTC Emissions, Freight and/or Precious Metals divisions (see Section 2E)
  
- Nodal Exchange - Individual Clearing Member (clearing own business)
  
- NLX Exchange - Clearing Member (Clearing own business)

**Category C**

- NYSE Liffe - General Clearing Member (clearing own business and/or the business of Non-Clearing Members)
- Turquoise Derivatives - General Clearing Member (clearing own business and/or the business of Non-Clearing Members)
- Nodal Exchange - General Clearing Member (clearing own business and/or the business of Non-Clearing Members)
- NLX Exchange - (Clearing own business and/or the business of Non-Clearing Members)

**Category D**

- LME
  - Associate Trade Clearing Member
  - Associate Broker Clearing Member
  - Ring Dealing Member

**Category E**

Category no longer in use.

**Category F**

RepoClear Clearing Member: clearing own business.

**Category G**

RepoClear Clearing Member: clearing own business, and the business of unrelated RepoClear

Dealers.

**Category H**

SwapClear Clearing Member.

**Category I**

EquityClear Individual Clearing Member: clearing own business on EquityClear.

**Category J**

EquityClear General Clearing Member: clearing own business, and the business of EquityClear Non-Clearing Members (NCMs) on EquityClear.

**Category K**

Special Clearing Member.

**Category L**

SwapClear FCM Clearing Member (refer to FCM Rulebook)

**Category M**

ForexClear Clearing Member

**Category N**

Not in use

**Category O**

LCH EnClear: OTC Services FCM Clearing Member (refer to FCM Rulebook)

## NOTES:

1.8.2 'Own business' is defined as trades transacted solely for the benefit of that Clearing Member or another wholly-owned company or other wholly-owned companies with the same ultimate parent company. These other companies must not in turn be trading on behalf of clients in relation to these trades.

## 1.8.3 Net Capital Requirements

The requirements set out below are the minimum requirements applicable to Clearing Members whose clearing relationship with the Clearing House is confined to the clearing of one market, subject, in relation to categories B to D, to an absolute minimum Net Capital requirement of £5mn sterling. The requirements may be satisfied in the currencies indicated or in foreign currency equivalents.

The requirements for Clearing Members who clear more than one market are detailed in section 1.8.4. The definition of Net Capital is given in section 1.9 (subject to a minimum of £5mn sterling).

**Category A**

Category no longer in use.

**Category B**

Net Capital	£1.0mn
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**Category C**

Net Capital	£2.0mn
-------------	--------

**Category D**

(i) LME Associate Trade Clearing Members

Net Capital	£2.5mn
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(ii) LME Associate Broker Clearing and Ring Dealing Members

Net Capital	£5.0mn
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**Category E**

Category no longer in use.

**Category F**

Net Capital	€100.0mn
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**Category G**

Net Capital	€400.0mn
-------------	----------

**Category H**

Net Capital	US \$50mn
<b>Category I</b>	
Net Capital	£5.0mn
<b>Category J</b>	
Net Capital	£10.0mn
<b>Category K</b>	
See section 1.9.5	
<b>Category L</b>	
Net Capital	Refer to FCM Rulebook
<b>Category M</b>	
Net Capital	US\$50mn
<b>Category N</b>	
Not in use	
<b>Category O</b>	Refer to FCM Rulebook
Net Capital	

#### 1.8.4 Cross-Market Net Capital Requirement for categories B-D and I-J,

Subject to the absolute minimum requirement of £5mn sterling, Clearing Members who clear more than one exchange (categories B – D) or have LCH EnClear OTC Services Clearing Member status and/or EquityClear Clearing Member Status (categories I – J), are required to meet a minimum Net Capital Requirement which is the sum of their specific requirements. For example, a Clearing Member acting as a General Clearing Member on NYSE Liffe (Category C - £2mn sterling) and as an EquityClear Individual Clearing Member (category I - £5mn sterling) has a minimum requirement of £7mn sterling. A Clearing Member acting as a General Clearing Member on NYSE Liffe only (Category C - £2mn sterling) has a minimum requirement of £5mn sterling.

Clearing Members for ForexClear, RepoClear and/or SwapClear (including those who clear on other exchanges or markets through the Clearing House) are required to meet the applicable Category F, G, H or M minimum Net Capital Requirement only.

#### 1.8.5 Capital Requirements for Category K

The minimum capital requirements for a Special Clearing Member will be established at the discretion of the Clearing House with reference to (i) the requirements set out in section 1.8.3 which would be applicable to a Clearing Member carrying on comparable business in the same service(s) and/or market(s) of the Clearing House as that which is to be carried on by the Special Clearing Member pursuant to its Clearing Membership Agreement and (ii) any other factors which the Clearing House

deems to be relevant in establishing such requirements for a Special Clearing Member.

#### 1.8.6 Additional Net Capital Requirements

Additional resources will be required when, in the Clearing House's assessment, a Clearing Member's Net Capital is not commensurate with its level of business.

The Clearing House shall, on a daily basis, compare the market risk associated with each Clearing Member's level of business with their level of Net Capital as reported to the Clearing House in order to ascertain whether, in the Clearing House's opinion, such Clearing Member is sufficiently capitalised to support the level of risk associated with the Contracts to which they are counterparty. In determining whether a Clearing Member is sufficiently capitalised, the Clearing House may also consider:

- (a) the Clearing Member's aggregate exposure to other clearing providers and other entities; and
- (b) the total amount of ~~cover~~ Collateral deposited with, transferred to or otherwise delivered to the Clearing House by the Clearing Member.

In the event that the Clearing House considers that the Clearing Member is not sufficiently capitalised to support the level of risk associated with its open Contracts, action may be taken, which could include, but is not limited to, a request for additional ~~cover~~ Collateral.

### 1.9 CALCULATION OF NET CAPITAL

Net Capital ("Net Capital") is broadly defined as:

Permanent Capital plus Additional Capital less Intangible Fixed Assets (including goodwill, development costs, etc ("Intangible Fixed Assets")).

Clearing Members must comply with the Net Capital minimum requirements at all times (see section 1.8.3).

The Clearing House may vary the definitions below to include forms of capital or to exclude assets, other than those stated. An applicant wishing to determine the acceptability of specific forms of capital or the treatment of particular categories of assets should contact the Clearing House's Membership team.

#### 1.9.1 Definition of Permanent Capital ("Permanent Capital")

The definition of Permanent Capital includes:

- issued and fully-paid ordinary share capital;
- issued and fully-paid preference share capital; and
- share premium account and reserves not available for distribution.

Accumulated profit and loss and reserves available for distribution will not be taken into account when calculating permanent capital. A deficit in reserves will, however, be deducted from permanent capital.

### 1.9.2 Definition of Additional Capital ("Additional Capital")

The definition of Additional Capital includes:

- other equity reserves (distributable or otherwise);
- profit and loss reserve;
- redeemable shares; and
- subordinated loans.

Where loans, subordinated or otherwise, are allowed in a Clearing Member's Net Capital calculation, the Clearing House may require Clearing Members to provide the Clearing House with details of the terms and conditions of the loan(s) (see section 1.9.3). The Clearing House may, at its discretion, recognise other long-term loans in the calculation of additional capital.

### 1.9.3 Acceptability of Subordinated Loans

The Clearing House will, in the Net Capital Requirement, allow subordinated loans from a parent company/ies as an acceptable form of capital. Where a Clearing Member is reliant upon subordinated loans to meet its minimum requirement, the Clearing House will require assurances that the loan(s) will not be repaid without the prior consent of the Clearing House.

Clearing Members who wish to re-structure their Net Capital in a way that subordinated loans become key to their meeting the minimum Net Capital Requirement, should contact the Clearing House's Membership team. Clearing Members will be required to enter into an agreement with the Clearing House in the standard form prescribed by the Clearing House for these purposes.

### 1.9.4 Recognition of Irrevocable Letters of Credit

In cases where the Net Capital Requirement is significantly greater than a Clearing Member's regulatory capital requirement, the Clearing House may, at its discretion, but in any case up to a maximum of 50% of the minimum capital requirement, recognise funds committed to the Clearing House under an Irrevocable Letter of Credit from a third party bank in determining whether the minimum requirement is met.

Clearing Members falling into this category and interested in meeting the requirements in this way will be required to enter into a standard form agreement with the Clearing House. That agreement is available from the Clearing House's Membership team.

## 1.10 **REPORTING**

Clearing Members must provide the information detailed below.

### 1.10.1 All Members

- (a) All Clearing Members must, within six months from the date on which their annual accounts are made up, provide the Clearing House with an English-language copy of their profit and loss account and balance sheet, together

with a statement that their auditors have reviewed and approved them, drawn up either in accordance with Companies Act requirements or otherwise in accordance with the requirements of the Clearing House. In addition, the Clearing House may at its discretion require the provision of financial accounts for the ultimate or immediate parent of the Clearing Member.

- (b) All Clearing Members must provide the Clearing House in a prompt and timely manner with:
- (i) any information concerning any financial or business development that the Clearing Member reasonably considers may materially affect the Clearing Member's ability to comply with the applicable membership criteria or applicable laws or regulations;
  - (ii) information and documents regarding the Clearing Member's risk management policies and practices as requested by the Clearing House. Such information shall include, without limitation, information and documents relating to the liquidity of that Clearing Member's financial resources and settlement procedures;
  - (iii) any other financial information that the Clearing House determines is necessary to assess whether membership criteria are being met on an ongoing basis; and
  - (iv) notice if the Clearing Member becomes the subject of a bankruptcy petition, receivership proceeding, or the equivalent, or any other event to which it is required to notify the Clearing House under the Clearing Membership Agreement or the Rulebook.

In addition, and upon request from the Clearing House, each Clearing Member shall promptly provide the information detailed in (ii) above directly to the any of the Clearing House's regulators (including the CFTC and the Financial Services Authority).

#### 1.10.2 Regulated Clearing Members

Regulated Clearing Members must provide the Clearing House with copies of all returns made to their regulator. The Clearing House will, in respect of firms regulated by the Financial Services Authority ("FSA"), take returns direct from the FSA. This arrangement is for administrative convenience and the Clearing House reserves the right to require that financial returns are submitted direct by the Clearing Member to the Clearing House. Clearing Members must provide the Clearing House with copies of all reports that are required to be filed with the CFTC pursuant to parts 17 and 20 of the CFTC Regulations.

#### 1.10.3 Non-Regulated Clearing Members

Non-regulated Clearing Members must provide the Clearing House with a quarterly balance sheet and profit and loss statement within 30 days of their quarter-end date. This must be signed by two directors, a director and the company secretary, or two Authorised Signatories. Where the Clearing Member is a partnership the balance sheet and profit and loss statement must be signed by two partners of the firm. Please provide evidence of signing authority together with specimen signatures.

1.10.4 Category K

Must provide the Clearing House with such financial information as is stipulated in their Clearing Membership Agreement.

1.10.5 Reduction in Net Capital

All Clearing Members must immediately notify the Clearing House of any significant reduction (usually 10% or more), from the figures shown in their last financial returns, in:

- (a) shareholders' funds;
- (b) Net Capital.

**1.11 ADDITIONAL REQUIREMENTS**

1.11.1 Notification of Changes of Ownership

Clearing Members (other than Special Clearing Members, who shall be subject to such specific terms as set out in their Clearing Membership Agreement) are required, under the terms of their Clearing Membership Agreement, to notify or pre-notify the Clearing House of changes in controlling holdings (defined as the exercise or control of 20% or more of the voting power of the firm). The Clearing House recognises that, in the case of Clearing Members which are part of large financial groups, changes in controllers may occur with relative frequency, may only be known after the event and are unlikely to be significant to the Clearing House. However in cases of changes in ownership, and particularly where those potentially acquiring a dominant stake in a Clearing Member are not known to the Clearing House, Clearing Members are required to pre-notify the Clearing House of their plans. The proposed change of ownership may be subject to an approval process involving the Risk Committee and Board of the Clearing House.

**1.12 OTHER CONDITIONS**

The Clearing House may, at any time, impose additional conditions relative to continued Clearing Member status, and at any time vary or withdraw any such conditions. These conditions may include, but are not limited to, a requirement to deposit/transfer additional security—in-cash or collateral/non-cash Collateral to the Clearing House, as determined by the Clearing House.



Exhibit A-4

Section 2C of the Clearing House Procedures

**SECTION 2C****CONTENTS**

2C.	SWAPCLEAR.....	1
2C.1	THE CLEARING PROCESS.....	1
2C.2	OPERATING TIMES AND CALENDARS.....	2
2C.3	REGISTRATION.....	3
2C.4	POSITION ACCOUNTS.....	8
2C.5	FINANCIAL ACCOUNTS.....	89
2C.6	VARIATION MARGIN.....	910
2C.7	COUPON PAYMENTS.....	12
2C.8	INITIAL MARGIN.....	2425
2C.9	INTRA-DAY MARGIN CALL: COLLATERAL MANAGEMENT.....	2526
2C.10	TRANSFER OF SWAPCLEAR CONTRACTS BETWEEN CLIENT ACCOUNTS AND PROPRIETARY ACCOUNTS.....	2830
2C.11	POSITION TRANSFERS.....	2931
2C.12	TERMINATION BY AUTOMATED SERVICE.....	3032
2C.13	AMENDMENT OF TRADE REFERENCES.....	3032
2C.14	TRADE REFERENCE AMENDMENT REQUEST FORM.....	3032
2C.15	SWAPCLEAR CLIENT CLEARING.....	3234
2C.16	EARLY TERMINATION EVENTS.....	3740
2C.17	TERMINATION OF SWAPCLEAR CLEARING MEMBER AND SWAPCLEAR DEALER STATUS.....	3740
2C.18	PAYMENT OF STAMP TAX.....	3841
2C.19	SECTION 168, FINANCE ACT 1994.....	3841
2C.20	DEFAULT MANAGEMENT.....	3842
APPENDIX 2C.A.....		4347
	SWAPCLEAR PROCESSING SCHEDULE.....	4347
APPENDIX 2C.B.....		4448
	INTRA-DAY COLLATERAL LODGEMENT FORM.....	4448
APPENDIX 2C.C.....		4650
	INTRA-DAY HOUSE NON-CASH EXCESS TRANSFER FORM.....	4650
APPENDIX 2C.D.....		4751
	INTRA-DAY HOUSE CASH EXCESS TRANSFER FORM.....	4751
APPENDIX 2C.E.....		4852
	ADDITIONAL COLLATERAL ACCOUNT LODGEMENT FORM.....	4852
APPENDIX 2C.F.....		5054
	INTRA-DAY ADDITIONAL COLLATERAL ACCOUNT NON-CASH TRANSFER FORM.....	5054

APPENDIX 2C.G .....	5256
INTRA-DAY ADDITIONAL COLLATERAL ACCOUNT CASH TRANSFER FORM .....	5256
APPENDIX 2C.H.....	5357
ADDITIONAL COLLATERAL ACCOUNT SPREADSHEET .....	5357
APPENDIX 2C.I .....	5458
CLEARING DEED OF ASSIGNMENT .....	5458
APPENDIX 2C.J .....	6468
CLEARING DEED OF ASSIGNMENT .....	6468
APPENDIX 2C.K1.....	7983
SWAPCLEAR CLEARING CLIENT – PARTIAL TRANSFER FORM .....	7983
APPENDIX 2C.K2.....	8185
SWAPCLEAR CLEARING CLIENT – FULL TRANSFER FORM .....	8185
APPENDIX 2C.K3.....	8387
SWAPCLEAR CLEARING CLIENT TRANSFER – CARRYING CLEARING MEMBER REPOSE FORM .....	8387
APPENDIX 2C.L .....	8589
CLEARING HOUSE PRESCRIBED LANGUAGE .....	8589
APPENDIX 2C.M .....	8892
CLEARED TRADE REMOVAL AGREEMENT .....	8892
APPENDIX 2C.N.....	9397
CONFIDENTIALITY, NON-DISCLOSURE AND PARTICIPATION IN THE DEFAULT MANAGEMENT GROUP .....	9397

**2C. SWAPCLEAR****2C.1 THE CLEARING PROCESS**

The SwapClear Service is an interface that processes and stores all SwapClear Transactions received from an Approved Trade Source System.

Those authorised by the Clearing House to submit trades for clearing in the SwapClear Service fall into two categories – SwapClear Clearing Members (SCMs) and SwapClear Dealers (SDs). SCMs are clearing members who have applied and have been accepted by the Clearing House to clear in the SwapClear Service. SDs are not clearing members but have met the criteria for registration as a SwapClear Dealer and have entered into a SwapClear Dealer Clearing Agreement with an SCM and the Clearing House. Subject to obtaining approval from the Clearing House's Membership Department an SCM may offer certain SwapClear Clearing Services to its clients (SwapClear Clearing Clients). SwapClear Clearing Services are provided to SwapClear Clearing Clients through an Individual Segregated Account or Omnibus Net Segregated Account. SCMs should contact the Clearing House's Membership Department for further details of the SwapClear Client Clearing Service and the Clearing House's approval process (+44 (0)20 7426 7949; [membership@lchclearnet.com](mailto:membership@lchclearnet.com)).

Only SwapClear Clearing Members are authorised by the Clearing House to submit trades for clearing in the SwapClear Clearing System.

An SCM Branch must always be the same legal entity as the SCM and, subject to authorisation by the Clearing House, it may present SwapClear Transactions to the Clearing House, for registration as SwapClear Contracts in the name of the SCM, using its own BIC code.

Therefore, where a SwapClear Transaction is presented for clearing by an SCM Branch, it is deemed to have been presented by, and in the name of, the SCM of which it is part for registration.

**2C.1.1 SwapClear Service Functions**

The following functions are performed within the SwapClear Service:

- processing and settlement of coupon payments;
- processing and settlement of consideration (fee) payments;
- calculation of initial and variation margin requirements;
- calculation of MER requirements and SwapClear Tolerance Limits;
- calculation of Price Alignment Interest;
- adjustment of cash payments to conform with Opening Days and the SwapClear Calendars;
- allocation and designation of trades to a position-keeping account; and
- reporting of registered trades.

SwapClear Transactions presented via an Approved Trade Source System (i.e. new trades presented for intra-day registration or existing trades presented for overnight registration) will, subject to meeting all requirements prescribed by the Clearing House, be processed and stored within the SwapClear clearing system. Information regarding

SwapClear Contracts and margin reporting will be disseminated via the SwapClear Clearing Member reporting system (see section 2C.1.3).

## 2C.1.2 **Clearing House System Requirements**

A SwapClear Clearing Member must, in order to submit SwapClear Transactions to the Clearing House, be a user of an Approved Trade Source System.

## 2C.1.3 **SwapClear Clearing Member Reporting System**

The Clearing House has various arrangements for the notification to SCMs of SwapClear Contract registrations and other information. These make use of systems including the following:

Report 001

Approved Trade Source Systems.

The SwapClear API.

An end-user report generation and analytical capability is provided by the Clearing House to SCMs. All SwapClear reports will be disseminated via the Clearing House's secure password access Clearing Member-only website. These reports are the definitive record as to registration by the Clearing House.

The Clearing House is not liable for any corruption or alteration of messages or loss of data which may take place within any Approved Trade Source System.

SCMs will be able to customise and produce reports either to print locally or to download in machine-readable data-file format. Queries about the Clearing Member-only website should be directed to the Clearing House Service Desk on +44 (0)20 7426 7200.

## 2C.2 **OPERATING TIMES AND CALENDARS**

### 2C.2.1 **Opening Days**

The Clearing House will publish a circular detailing the days on which SwapClear will be open.

### 2C.2.2 **Opening Hours**

Unless notified otherwise, the SwapClear clearing system will be operational during the following hours:

07:30 to 24:00 London time

However, SwapClear Clearing Members should note that Necessary Consents in relation to a Notification submitted during a business day shall be accepted by the Clearing House until 00.01. The Clearing House will notify SwapClear Clearing Members in the event that the SwapClear clearing system is scheduled for closure for operational or other reasons (including compression runs).

### 2C.2.3 **SwapClear Clearing System Calendars**

The SwapClear clearing system uses the *SwapsMonitor Financial Calendar* for its processing. This will require all SwapClear Clearing Members to be licensees of the *SwapsMonitor Financial Calendar*. The calendars, as applicable to the SwapClear clearing system, will be available online for inspection and for file download from the SwapClear Clearing Member reporting system (see section 2C.1.3).

**2C.3 REGISTRATION****2C.3.1 Executing Parties and Presentation for Clearing**

A SwapClear Transaction may be entered into by and presented for clearing by (or on behalf of), any of the following parties: (1) SwapClear Clearing Members (or the SCM Branches of one of any such SwapClear Clearing Members); (2) SwapClear Dealers; (3) SwapClear Clearing Clients; and (4) FCM SwapClear Members.

The Clearing House receives details of a new eligible SwapClear Transaction using agreed format messages via an Approved Trade Source System. The Approved Trade Source System will send details of a SwapClear Transaction to the Clearing House once it has been bi-laterally agreed by two Executing Parties, or otherwise executed by or on behalf of two Executing Parties on a US Trading Venue or other similar venue or facility, and will confirm which SwapClear Clearing Member(s) has been elected to register the SwapClear Transaction. For the avoidance of doubt, an Executing Party may appoint a third party to present details of a SwapClear Transaction to the Clearing House on its behalf.

**2C.3.2 Clearing House Notification**

In the case of a SwapClear Clearing Member which has been nominated to register a SwapClear Transaction on behalf of a third party Executing Party other than a SwapClear Dealer, the Clearing House will (only where such SwapClear Transaction is not a US Trading Venue Transaction) provide notification to such SwapClear Clearing Member of the relevant SwapClear Transaction and that it has been so nominated, via member reports, the SwapClear API or otherwise (the "Notification"). Where a SwapClear Clearing Member is nominated to clear both SwapClear Contracts arising from the registration of a such SwapClear Transaction (whether for itself or a third party Executing Party) in the capacities described in this paragraph, such SwapClear Clearing Member will receive two separate Notifications from the Clearing House in relation to such SwapClear Transaction. In all other cases, no Notification will be provided to any SwapClear Clearing Member.

In respect of a SwapClear Transaction that is not a US Trading Venue Transaction, following receipt of a Notification, a SwapClear Clearing Member may choose to grant or refuse consent to register the SwapClear Transaction. It is a condition for registration of such a SwapClear Transaction that a SwapClear Clearing Member grants a separate consent (each a "Necessary Consent") in respect of each Notification received by it in relation to the registration of such SwapClear Transaction. The Clearing House has an automated system which it operates on each business day (currently at or around 8 pm (London time)) for the purposes of rejecting SwapClear Transactions which have been presented for clearing but in respect of which any Necessary Consent has not been notified to the Clearing House prior to the LCH Cut-off Time. The "LCH Cut-off Time" in respect of a SwapClear Transaction will be the time on the business day following the day when the relevant SwapClear Transaction was presented for clearing at which the reject system is operated by the Clearing House and the relevant SwapClear Transaction is itself rejected by such system. If a SwapClear Clearing Member has not notified the Clearing House of a Necessary Consent by the LCH Cut-off Time, it will be deemed to have rejected the relevant SwapClear Transaction. Any Necessary Consent of a SwapClear Transaction notified by a SwapClear Clearing Member to the Clearing House prior to the LCH Cut-off Time is irrevocable. Any Necessary Consent notified by a SwapClear Clearing Member to the Clearing House after the LCH Cut-off Time shall be invalid.

In circumstances where the registration of a SwapClear Transaction is conditional upon one or more Necessary Consent(s) being notified by the applicable SwapClear Clearing Member(s), the relevant SwapClear Transaction shall be deemed to have been "submitted" to the Clearing House by each such SwapClear Clearing Member at the time when it notifies the Clearing House of its Necessary Consent. In all other circumstances, a SwapClear Transaction shall be "submitted" to the Clearing House by the applicable SwapClear Clearing Member upon being presented to the Clearing House for clearing by

or on behalf of such SwapClear Clearing Member (or its SCM Branch) or by or on behalf of a SwapClear Dealer (acting in such capacity with respect to the relevant SwapClear Transaction) approved to clear SwapClear Transactions through the relevant SwapClear Clearing Member.

In accordance with Section 2C.3.5 of these Procedures, it is a precondition for the registration of a SwapClear Contract that the applicable SwapClear Clearing Member has complied with all requirements to provide sufficient ~~cover~~Collateral (taking into account MER and/or SwapClear Tolerance, if any) to the Clearing House as of the time of "submission" or "deemed submission" of the SwapClear Transaction to which the SwapClear Contract relates, except that such ~~cover~~Collateral shall be required to be ~~furnished~~provided prior to registration as a condition thereto only if such SwapClear Transaction is a Block IRS Trade. For the avoidance of doubt, in respect of the registration of a SwapClear Transaction that is a Block IRS Trade, both SwapClear Clearing Members or the relevant SwapClear Clearing Member and FCM Clearing Member must have complied with all requirements to provide sufficient ~~cover~~Collateral (taking into account MER and/or SwapClear Tolerance, if any) at the time when both SwapClear Contracts, or the SwapClear Contract and the FCM SwapClear Contract (as applicable), relating to the relevant SwapClear Transaction have been submitted or deemed to be submitted (as applicable).

### 2C.3.3 **Trade Registration Facilitation: SwapClear Tolerance and MER (Minimum Excess Requirement)**

In order to facilitate the registration of SwapClear Contracts by SwapClear Clearing Members, the Clearing House may require the ~~delivery~~transfer to the Clearing House of additional ~~cover~~Collateral from those SwapClear Clearing Members participating in the MER Arrangements (as defined below) at the relevant time and may provide SwapClear Tolerance on a daily basis, as further described below.

The Clearing House will set MER requirements (where applicable) and SwapClear Tolerance Limits (as defined below) based on a number of factors, including a SwapClear Clearing Member's credit rating, risk profile, an analysis of the incremental risk registered by a SwapClear Clearing Member during a historic look-back period and, in the case of the overall value of the SwapClear Tolerance which may be made available to a SwapClear Clearing Member, whether the SwapClear Clearing Member is a participant in the MER Arrangements at the relevant time. However, the Clearing House sets MER requirements and SwapClear Tolerance Limits in its sole discretion, and may modify its methodologies at any time or may vary them across different SwapClear Clearing Members.

#### SwapClear Tolerance

If a SwapClear Clearing Member has not ~~delivered~~transferred sufficient ~~cover~~Collateral (taking into account any delivered with respect to MER) to the Clearing House to enable the registration of a SwapClear Contract, then the Clearing House may provide such SwapClear Clearing Member with temporary "tolerance" in the form of initial margin forbearance ("SwapClear Tolerance") to enable such registration. A SwapClear Clearing Member may utilise SwapClear Tolerance in between margin runs on a one-to-one basis to the value of the ~~initial margin~~Collateral that would have been required to cover that SwapClear Clearing Member's initial margin requirements for newly registered SwapClear Contracts registered in between margin runs. For the avoidance of doubt, SwapClear Tolerance is provided in the form of temporary initial margin forbearance and a SwapClear Clearing Member's utilisation of SwapClear Tolerance does not give rise to any payment or transfer of collateral by the Clearing House or result in any use of default fund resources (except following a Default).

The Clearing House will determine, in its sole discretion, the maximum value of the SwapClear Tolerance (which may be zero) (the "SwapClear Tolerance Limit") which it will make available to a SwapClear Clearing Member at any particular time. SwapClear Tolerance is made available by the Clearing House to a SwapClear Clearing Member at

the Clearing House's sole discretion. The Clearing House may adjust the value of a SwapClear Clearing Member's SwapClear Tolerance Limit, and/or require a SwapClear Clearing Member to ~~provide~~transfer Collateral in respect of its initial margin obligations to the Clearing House in respect of any utilised SwapClear Tolerance, at any time and without prior notice to the relevant SwapClear Clearing Member. The Clearing House will provide each SwapClear Clearing Member with information regarding its SwapClear Tolerance Limit and will, as promptly as reasonably practicable, notify it following any adjustment to the amount of its SwapClear Tolerance Limit. Subject to the above, a SwapClear Clearing Member will typically be required to ~~deliver initial margin~~transfer Collateral to the Clearing House in respect of any SwapClear Tolerance utilised by it in the margin run immediately following the time of the relevant registration of a SwapClear Contract where SwapClear Tolerance was utilised.

Any failure of a SwapClear Clearing Member to satisfy an initial margin call relating to SwapClear Tolerance may give rise to a Default by such SwapClear Clearing Member, just as any failure by a SwapClear Clearing Member to satisfy any other type of initial margin call may give rise to a Default.

#### Minimum Excess Requirement ("MER")

The Clearing House has put in place arrangements (the "MER Arrangements") (which will be optional for SwapClear Clearing Members) under which it will be able to call from each relevant SwapClear Clearing Member an amount of ~~cover~~Collateral (the "MER Cover") in respect of that SwapClear Clearing Member's potential ~~cover~~margin requirements (with respect to the registration of SwapClear Contracts) for the following day.

The Clearing House will calculate MER for each SwapClear Clearing Member using the same methodology and will publish such methodology to SwapClear Clearing Members. The Clearing House will provide 30 days notice before implementing any changes to the methodology used for calculating MER.

SwapClear Clearing Members are not required to participate in the MER Arrangements unless and until they elect to do so. In the event that a SwapClear Clearing Member wishes to change its participation status (the "Participation Status") from opting in to the MER Arrangements to opting out or vice versa it should contact the Clearing House to request applicable documentation ([swapclear.clientservices@lchclearnet.com](mailto:swapclear.clientservices@lchclearnet.com)). Changes in Participation Status are processed at the end of each month. All relevant documentation must be completed and returned to the Clearing House no later than 5 Business Days prior to the end of the month preceding the month to which the change in Participation Status applies. A SwapClear Clearing Member's Participation Status will remain unchanged until the Business Day following the day that the Clearing House confirms via email that the change in Participation Status has been processed. The Clearing House shall be entitled to treat the Participation Status of a SwapClear Clearing Member as continuing unchanged from month to month until such time as appropriate notice is received from such SwapClear Clearing Member and processed by the Clearing House in accordance with the provisions of this paragraph.

Any MER Cover delivered by a SwapClear Clearing Member will form part of the ~~required initial margin~~Clearing Member Current Collateral Balance in respect of that SwapClear Clearing Member's initial margin obligations. SwapClear Clearing Members participating in the MER Arrangements will be called for MER Cover separately in respect of their Proprietary Account related to SwapClear Clearing House Business and/or their client account related to SwapClear Clearing Client Business. However, such MER Cover will not be regarded as Required Collateral, or form part of any Account Balance or be deemed to ~~Account Assets~~form part of any SwapClear the Clearing Client Member Current Collateral Balance in respect of any Individual Segregated Account or Omnibus Net Segregated Account unless such MER Cover has been attributed to any such account by the Clearing House in accordance with this section.



For the avoidance of doubt, failure to deliver MER Cover when required by the Clearing House will constitute a breach of these Procedures and the Regulations.

In relation to the registration of a SwapClear Contract on behalf of a SwapClear Clearing Client, the Clearing House shall determine if there is sufficient ~~cover~~ Collateral to enable such registration. If the SwapClear Clearing Member does not have sufficient ~~cover~~ Collateral to enable the registration of such SwapClear Contract, the Clearing House will determine whether there is any unutilised MER Cover related to SwapClear Clearing Client Business and, if so, will attribute the relevant part of such MER Cover to the relevant Individual Segregated Account or Omnibus Net Segregated Account. In this context, the attribution of the MER Cover to the relevant Individual Segregated Account or Omnibus Net Segregated Account means that it will be recorded as initial margin held in relation to such account and shall be treated as part of the Account Balance of such account.

At each end of day margin run, the Clearing House will recalculate and call, on an account by account basis, required margin in respect of the MER requirements of each SwapClear Clearing Member currently participating in the MER Arrangements.

#### 2C.3.4 **Approved Trade Source Systems and US Trading Venues**

##### 2C.3.4.1 Approved Trade Source Systems

Currently, the Approved Trade Source Systems designated by the Clearing House for SwapClear are MarkitWire, Bloomberg, Tradeweb and TrueEx. Where the Clearing House approves additional Approved Trade Source Systems, it will notify SwapClear Clearing Members via a member circular.

SwapClear Transactions presented through an 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 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 Approved Trade Source System or the timeliness or otherwise of the delivery of any SwapClear Transaction details by that Approved Trade Source System to the Clearing House. Such matters form part of the relationship between the SwapClear Clearing Members and that Approved Trade Source System.

The Clearing House will process any SwapClear Transaction reported to it by an Approved Trade Source System on an "as is" basis and, subject to the General Regulations and these Procedures, will register any such SwapClear Transaction on the basis of the data provided to it by the Approved Trade Source System and approved by the relevant SwapClear 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 Approved Trade Source System to the Clearing House or to a SwapClear 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 SwapClear Contract on the basis of incorrect or corrupted data sent to it by an Approved Trade Source System and consented to (where applicable) by a SwapClear Clearing Member, the SwapClear Clearing Member concerned shall be bound by the terms of such SwapClear Contract. The Clearing House shall use its reasonable endeavours to assist the relevant SwapClear Clearing Member(s) in re-registering the trade on the correct basis but the Clearing House shall not be liable to a SwapClear Clearing Member or to any other party with regard to the registration (or lack of registration or re-registration) of any such SwapClear Contract.

SwapClear Clearing Members shall ensure that Necessary Consents are provided by appropriately authorised personnel. Apart from in respect of Necessary Consents, the Clearing House is not able to, and will not, verify the authorisation of the source of any

details of any transaction reported to it for registration by any Approved Trade Source System. The Clearing House shall have no liability in the event that any SwapClear Clearing Member suffers any loss through the unauthorised granting of a Necessary Consent.

#### 2C.3.4.2 US Trading Venues

While the Clearing House receives details of a SwapClear Transaction via an Approved Trade Source System pursuant to section 2C.3.1 of these Procedures, such Approved Trade Source System may in providing such details to the Clearing House rely upon similar details delivered to it by a US Trading Venue (where such SwapClear Transaction is executed on such US Trading Venue). Additionally, the Clearing House may rely on details relating to a SwapClear Transaction obtained from a US Trading Venue for verification purposes or in order to generate reports or to exercise its rights or discretion under Regulation 47. In this regard, the Clearing House may direct the US Trading Venues to use prescribed format messages or classifications.

Notwithstanding the approval by the Clearing House of any US Trading Venue, 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 US Trading Venue or the timeliness or otherwise of the delivery of any SwapClear Transaction details by that US Trading Venue to the Clearing House. Such matters form part of the relationship between the SwapClear Clearing Members and that US Trading Venue.

The Clearing House will process any SwapClear Transaction reported to it by a US Trading Venue on an "as is" basis and, subject to the General Regulations and these Procedures, will register any such SwapClear Transaction on the basis of the data provided to it by the Approved Trade Source System and the relevant US Trading Venue. The Clearing House has no obligation to verify that the details received properly reflect the trade entered into by the relevant Executing Parties or that the US Trading Venue is correctly applying the format messages or classifications that the Clearing House has prescribed.

The Clearing House accepts no liability for any error within or corruption of any data sent by a US Trading Venue to the Clearing House or to a SwapClear 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 SwapClear Contract on the basis of incorrect or corrupted data sent to it by a US Trading Venue and accepted (whether automatically or manually, as applicable) by a SwapClear Clearing Member, the SwapClear Clearing Member concerned shall be bound by the terms of such SwapClear Contract. The Clearing House shall use its reasonable endeavours to assist the relevant SwapClear Clearing Member(s) in re-registering the trade on the correct basis but the Clearing House shall not be liable to a SwapClear Clearing Member or to any other party with regard to the registration (or lack of registration or re-registration) of any such SwapClear Contract.

#### 2C.3.5 Registration of New Trades

The following section does not apply to Backloaded Trades, which are dealt with in section 2C.3.6 below.

Prior to it registering a SwapClear Contract resulting from a SwapClear Transaction that is a Block IRS Trade, the Clearing House will require the SwapClear Clearing Member in whose name such SwapClear Contract is to be registered to ~~provide it with cover for~~ transfer to the Clearing House adequate Collateral in respect of initial and variation margin in respect of requirements relating to such contract as a precondition to registration (taking into account any MER and/or SwapClear Tolerance, if any). In accordance with Regulation 47(d)(iv), a SwapClear Clearing Member becomes obligated to ~~provide~~ transfer such ~~cover~~ Collateral (taking into account any MER and/or SwapClear Tolerance, if any) to the Clearing House at the time when both SwapClear Contracts, or the SwapClear Contract and the FCM SwapClear Contract (as applicable), relating to the relevant

SwapClear Transaction that is a Block IRS Trade have been submitted or deemed to be submitted (as applicable) by the relevant SwapClear Clearing Member(s) or the relevant SwapClear Clearing Member and FCM Clearing Member (as the case may be) and such SwapClear Clearing Member(s) or such SwapClear Clearing Member and such FCM Clearing Member shall ~~provide~~transfer such ~~cover~~Collateral to the Clearing House prior to registration upon request of the Clearing House. In respect of a SwapClear Contract resulting from a SwapClear Transaction that is not a Block IRS Trade, the SwapClear Clearing Member in whose name such SwapClear Contract is registered shall ~~furnish~~transfer to the Clearing House with sufficient ~~cover~~Collateral in respect of such SwapClear Contract at such time after the registration of such SwapClear Contract as the Clearing House shall require.

Notwithstanding the foregoing, (i) if the Clearing House registers a Block IRS Trade where one or both of the relevant SwapClear Clearing Members has not ~~furnished~~provided sufficient ~~cover~~Collateral prior to registration, the SwapClear Clearing Members shall be bound by the terms of the SwapClear Contract relating thereto arising under Regulation 47 (and in particular by paragraphs (c), (h) and (j) thereof) and any other applicable provision of the Rulebook; and (ii) if the Clearing House rejects a SwapClear Transaction that is not a Block IRS Trade for reasons of insufficient cover~~Collateral~~, the Clearing House shall use its reasonable ~~endeavors~~endeavours to assist the relevant SwapClear Clearing Member in re-registering the SwapClear Transaction on the correct basis but the Clearing House shall not be liable to any SwapClear Clearing Member or anyone else with regard to the registration (or lack of registration or re-registration) of any such SwapClear Transaction.

Upon a SwapClear Transaction being submitted to the Clearing House for registration and the conditions to registration specified in Regulation 47 having been satisfied in respect of the related SwapClear Contract(s), the SwapClear clearing system will respond, after processing, with a message confirming the registration. The registration notification message will be sent using the SwapClear Clearing Member reporting system (including by way of the originating Approved Trade Source System). The definitive report of a registered SwapClear Contract will be shown within the SwapClear Clearing Member reporting system (see section 2C.1.3) on the SwapClear Clearing Member reporting account.

#### 2C.3.6 Backloading of Existing Trades

A SwapClear Transaction that has a Trade Date of greater than ten calendar days prior to the date of submission is considered a Backloaded Trade by the Clearing House (a "**Backloaded Trade**"). Due to the nature of Backloaded Trades, SwapClear Clearing Members should note that a relatively large amount of ~~cover~~Collateral is required to register such trades. The Clearing House provides the facility for SwapClear Clearing Members to load such eligible existing SwapClear Transactions, through an Approved Trade Source System (currently, MarkitWire, Bloomberg and Tradeweb). Where the Clearing House approves additional Approved Trade Source Systems for these purposes, it will notify SwapClear Clearing Members via a member circular. Backloading requires bilateral agreement between the relevant Executing Parties and acceptance by the SwapClear Clearing Member(s) or the SwapClear Clearing Member and the FCM Clearing Member (as the case may be) of the full particulars required by the Clearing House for each such SwapClear Transaction.

At least once every Business Day, the Clearing House will carry out a process for the registration of Backloaded Trades (each a "**Backload Registration Cycle**") which have been presented for clearing or with respect to which the Clearing House has received the one or more Necessary Consents, if any. Following each Backload Registration Cycle, the Clearing House will calculate the increase in incremental cover required to register the Backloaded Trade(s) and will notify each relevant SwapClear Clearing Member (the "**Backload Margin Call**"). The Backload Margin Call will be for the entire amount of incremental cover required in connection with the Backloaded Trade(s), and the Backload Margin Call cannot be satisfied by and will not take into account SwapClear Tolerance (i.e., SwapClear Tolerance is not available for this purpose), or any available MER Cover

or any form of excess cover (other than that which has been expressly allocated for that purpose, as described in the paragraph below). In connection with a Backload Margin Call, following the time that a SwapClear Clearing Member is required to deliver to the Clearing House the cover associated with such Backload Margin Call (the "**Backload Margin Call Deadline**"), the Clearing House will issue such SwapClear Clearing Member a subsequent margin call to deliver cover in respect of any increase in SwapClear Tolerance utilisation as of the time of the Backload Margin Call Deadline (if any).

Where an individual SwapClear Clearing Member determines that the Backloaded Trade(s) that it is submitting for registration will lead to an aggregate change (be it either an increase or decrease) in the net present value of its portfolio of SwapClear Contracts in excess of a threshold amount (the "**Individual Backload Value Threshold**") as published by the Clearing House from time to time, it shall notify the Clearing House before the end of the Business Day preceding the Backload Registration Cycle. In the event that the Clearing House does not receive such notification and the change in net present value of the SwapClear Clearing Member's portfolio of SwapClear Contracts is in excess of the Individual Backload Value Threshold the Clearing House may, in its sole discretion, exclude that SwapClear Clearing Member from the Backload Registration Cycle or postpone or cancel the entire Backload Registration Cycle.

Where a SwapClear Clearing Member notifies the Clearing House of a change in net present value in excess of the Individual Backload Value Threshold, the Clearing House shall inform the SwapClear Clearing Member whether it will be required to pre-fund the Backload Margin Call and, if so, how it should be delivered such that it will be made available for a Backload Registration Cycle.

In the event that the aggregate Backload Margin Call required from all SwapClear Clearing Members participating in a Backload Registration Cycle is in excess of a pre-determined threshold amount (the "**Aggregate Backload Margin Threshold**") as published by the Clearing House from time to time, the Clearing House may postpone or cancel the relevant Backload Registration Cycle.

Where the Clearing House postpones or cancels a Backload Registration Cycle it shall notify those SwapClear Clearing Members that were intending to participate in the Backload Registration Cycle.

Backloaded Trades received by the Clearing House in advance of a Backload Registration Cycle will be 'parked' until the next Backload Registration Cycle (whether that Backload Registration Cycle is on the same Business Day or the following Business Day).

In order for the registration of the Backloaded Trades included in a Backload Registration Cycle to complete, cover for margin from each SwapClear Clearing Member (and each FCM Clearing Member, if applicable) which is party to a Backloaded Trade within that Backload Registration Cycle must be provided as required to the Clearing House in advance.

A Backloaded Trade which has been presented for clearing (or with respect to which the Clearing House has received the one or more Necessary Consents, if any) shall be deemed to have been submitted by the SwapClear Clearing Member(s) or the SwapClear Clearing Member and the FCM Clearing Member (as the case may be) for registration by the Clearing House at such time that the Clearing House determines that sufficient cover has been provided to register that Backloaded Trade.

For any SwapClear Transaction which is a Backloaded Trade, where one leg is to be registered as an FCM SwapClear Contract, the FCM Rulebook will apply with respect to such registration of an FCM SwapClear Contract.

The Clearing House shall publish the following via member circular:

- (i) times of Backload Registration Cycles;

- (ii) the Individual Backload Value Threshold; and
- (iii) the Aggregate Backload Margin Threshold.

#### 2C.3.7 **Notification**

The Clearing House will send to the originating Approved Trade Source System notification of registration or rejection, as the case may be, and the SwapClear Clearing Members will be notified by the Approved Trade Source System or the SwapClear API or otherwise of the registration or rejection of SwapClear Transactions, or contracts purported as such.

#### 2C.3.8 **Rejected Trades**

Trades submitted for registration that do not meet the product or other eligibility criteria prescribed from time to time by the Clearing House (including a trade submitted by or on behalf of a SwapClear Clearing Member that was executed on (i) a US Trading Venue that was not at the time of execution of such trade an Eligible US Trading Venue in respect of such SwapClear Clearing Member or (ii) a trading venue or facility that had not at the time of the execution of such trade been approved by the Clearing House as a US Trading Venue) or which contain invalid or incomplete message data or with respect to which the Clearing House has not received sufficient ~~cover~~Collateral (taking into account MER and/or SwapClear Tolerance, if any) will be rejected, except that such ~~cover~~Collateral shall be required to be ~~furnished~~provided prior to registration as a condition to the registration of such trade only if such trade is a Block IRS Trade. If, at any time, the Clearing House does not register a trade presented for registration it will send to the originating Approved Trade Source System notification of the rejection.

### 2C.4 **POSITION ACCOUNTS**

#### 2C.4.1 **SCM Accounts**

For identification purposes each SCM is assigned a unique three-character mnemonic. An SCM's position and financial information are further identified by a single character code; C for segregated client business; and H for house business. The H account is obligatory, the C account is optional

#### 2C.4.2 **Position-Keeping Accounts**

##### 2C.4.2.1 Clearing Member Accounts

These are identical to Clearing Member accounts as described in Regulation 5. The account types are: H for house business; and C for segregated client business. An SCM's SwapClear positions are also recorded within the SwapClear clearing system in SwapClear Accounts.

##### 2C.4.2.2 SwapClear Accounts

The SwapClear clearing system will provide position-keeping accounts for SCMs. A SwapClear Account will be assigned a code identical to the Bank Identifier Code (BIC) of the SCM. Each SwapClear Account must map to a Member Account.

All registered SwapClear Contracts will be identifiable to SCMs via SwapClear Clearing Member reporting (see section 2C.1.3). Each SwapClear Contract will also be assigned a unique trade identifier. The SwapClear Clearing Member reporting functionality also allows SCMs to identify all SwapClear Contracts, registered in their name, and, if submitted by an SD, the submitting SD.

### 2C.5 **FINANCIAL ACCOUNTS**

Clearing Member accounts have financial accounts associated with them. These are, inter alia, used to record cash balances, and securities/ documentary credits. Information contained within position-keeping accounts is consolidated into financial accounts, as follows:

#### 2C.5.1 **Relationship with Position-Keeping Accounts**

Trading Account	Financial Account	
H	House	H
C	Client	C

#### 2C.5.2 **Other Financial Accounts**

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

	Code
Buffer accounts (House), used for holding additional cash in relation to House business	B
Buffer account (Client), used for holding additional cash in relation to Client business	E
SwapClear Additional Collateral Account	A

#### 2C.5.3 **Default Fund (DF) Account**

Each SCM's Default Fund Contribution is held on a separate financial account. The DF account code is "F".

#### 2C.5.4 **SwapClear Additional Collateral Account**

Upon request from an SCM the Clearing House will setup a new sub-account called the Additional Collateral Account.

Such requests should be submitted to the Clearing House's Treasury Operations team ([lchoperations-treasury@lchclearnet.com](mailto:lchoperations-treasury@lchclearnet.com); 020 7426 7505).

SCMs are able to lodge excess collateral on behalf of their clients (the amount is at the SCM's discretion), into the Additional Collateral Account.

In order to lodge collateral into the Additional Collateral Account, an SCM must adhere to the following procedure:

- (a) an SCM can lodge non-cash collateral or request that the Clearing House call cash directly from the SCM into the Additional Collateral Account. If an SCM intends to lodge non-cash collateral they must submit an Additional Collateral Account Lodgement Form to the Clearing House. (Appendix 2C.E);
- (b) an SCM can transfer non-cash or cash collateral from its Client Account to the Additional Collateral Account (see section 2C.9).

When an SCM lodges non-cash collateral at the Clearing House, the Clearing House will issue the SCM with a collateral lodgement number that must be provided to the Clearing House whenever that SCM wishes to transfer that non-cash collateral.

The SCM is responsible for maintaining a record of the collateral held against each SwapClear Clearing Client (see Additional Collateral Account Spreadsheet, Appendix 2C.H).

The Additional Collateral Account Spreadsheet submitted by an SCM to the Clearing House is the primary record of the contents of the Additional Collateral Account and an SCM must provide an updated version to the Clearing House whenever transfers are made from/to the Additional Collateral Account.

In the event of an SCM default, the Additional Collateral Account Spreadsheet provided by the defaulted SCM will be used to identify the SwapClear Clearing Clients' collateral lodged in the Additional Collateral Account.

## 2C.6 VARIATION MARGIN

All SwapClear Transactions will, on submission to the Clearing House, be marked-to-market, ~~in accordance with Regulation 45(b)~~, using the Clearing House's zero coupon yield curves. ~~The~~ in accordance with Regulation 50 (Collateralisation of SwapClear Contracts), the Clearing House will use these curves to calculate the ~~Net Present Value~~ net present value of the SwapClear Transaction to the Clearing House or, as the case may be, to an SCM.

This value must, subject to intra-day registration, be paid by the SCM in cash in the currency of the SwapClear Transaction. Where a SwapClear Transaction is registered intra-day, and the variation margin obligation is covered with non-cash collateral Collateral, the Clearing House will, the following business day, require payment of the full cash amount.

All SwapClear Contracts will be marked-to-market daily, ~~in accordance with Regulation 16 (b)~~, using the Clearing House's zero coupon yield curves. The daily change in the ~~Net Present Value~~ net present value will be credited to or debited from ~~SCM's financial accounts~~ the relevant position account.

~~For the avoidance of doubt, this Procedure shall not apply to contracts which are credited to a SwapClear Clearing Member's Client account or to such other contracts as the Clearing House may determine.~~ any transfers of cash Collateral by an SCM to the Clearing House in respect of the SCM's variation margin obligations or by the Clearing House to an SCM in respect of the Clearing House's variation margin obligations shall be for the purposes of collateralisation and not settlement of obligations under the relevant SwapClear Contracts.

### 2C.6.1 Zero Coupon Yield Curve Construction

The Clearing House will determine, at its sole discretion, appropriate instruments, points and market prices for the construction of zero coupon curves and portfolio valuation. Details of the construction method and Instruments used are available on request from the Clearing House Risk Management Department on +44 (0)20 7426 7549, but may be subject to change without prior notification.

### 2C.6.2 Official Quotations

Zero Coupon Yield curves will use prices and rates taken at:

All times quoted are London time

AUD	12:00
CAD	20:00
CHF LIBOR & OIS	16:30
CZK	16:30
DKK	16:30
EURO LIBOR	16:30
GBP LIBOR	16:30
HKD	12:00
HUF	16:30
JPY	12:00
NOK	16:30
NZD	12:00
PLN	16:30
SEK	16:30
SGD	12:00
USD	20:00



LIBOR & OIS	
ZAR	16:30
EURO	18:00
OIS	
GBP	18:00
OIS	

Zero coupon yield curves used for daily marking to market will be published on the Clearing House's member reporting website at intervals during the day as the prices and rates are captured.

### 2C.6.3 **Net Present Value**

The Clearing House will calculate the net present value (NPV) of each eligible SwapClear Contract using the Clearing House's zero coupon yield curves.

It is a condition of registration that sufficient ~~cover~~Collateral, as determined by the Clearing House, is held with the Clearing House to cover both the NPV and ~~Initial-Margin~~initial margin obligations in respect of each SwapClear Transaction (taking into account, for these purposes, any MER and/or SwapClear Tolerance, if any), except that such ~~cover~~Collateral shall be required to be ~~furnished~~provided prior to registration as a condition thereto only if such SwapClear Transaction is a Block IRS Trade.

### 2C.6.4 **Price Alignment Interest**

The ~~payment~~transfer of Collateral in respect of variation margin, or change in NPV, on a daily basis without adjustment would distort the pricing for SwapClear Transactions cleared through the Clearing House. In order to minimise the impact of variation margin, the Clearing House will for each SCM either charge interest on cumulative amounts received by the SCM in respect of variation margin ~~received obligations~~, or pay interest on cumulative amounts paid by the SCM in respect of variation margin ~~paid obligations~~ (see section 3.5.2).

## 2C.7 **COUPON PAYMENTS**

### 2C.7.1 **Calendars and Coupons**

Payment dates for coupon payments will be set based on the SwapsMonitor Financial Calendar (see section 2C.2.3). Changes to the calendar that affect SwapClear Contracts will be published and made available to SCMs by the Clearing House in a Clearing Member Report. The central control and publication of these calendars will assist the reconciliation of coupon payments between SCMs and the Clearing House. Coupon

payments will be adjusted, in the event of a holiday amendment, in accordance with the Contract Terms.

**2C.7.2 Calculation of Fixed Amount**

The Clearing House will calculate the Fixed Amount payable by a party on a Payment Date as either:

- (a) if an amount is specified for the SwapClear Contract as the Fixed Amount payable by that party for that Payment Date or for the related Calculation Period, such amount; or
- (b) if an amount is not specified for the SwapClear Contract as the Fixed Amount payable by that party for that Payment Date or for the related Calculation Period, an amount calculated on a formula basis for that Payment date or for the related Calculation Period as follows:

$$\text{Fixed Amount} = \frac{\text{Calculation Amount}}{\text{Fixed Rate}} \times \text{Fixed Rate Day Count Fraction}$$

**2C.7.3 Calculation of Floating Amount**

The Clearing House will calculate the Floating Amount payable by a party on a Payment Date as an amount calculated on a formula basis for that Payment Date or for the related Calculation Period as follows:

$$\text{Floating Amount} = \frac{\text{Calculation Amount}}{\text{Floating Rate}} \times \text{Floating Rate Day Count Fraction}$$

(+/- Spread)

2C.7.4 **OIS coupon calculation**

## Compounding Rate Calculations

The rate used for the OIS rate is calculated according to ISDA 2006 definitions. The formula for these calculations is given below.

## USD-Federal Funds-H.15-OIS-COMPOUND

$$\left[ \prod_{i=1}^{d0} \left( 1 + \frac{\text{FEDFUND}_i \times n_i}{360} \right) - 1 \right] \times \frac{360}{d}$$

Where:

"d0" for any Calculation Period is the number of New York Banking Days in the relevant Calculation Period;

"i" is a series of whole numbers from 1 to d0, each representing the relevant New York Banking Days in chronological order from, and including, the first New York Banking Day in the relevant Calculation Period;

"FEDFUND<sub>i</sub>", for any day "i" in the relevant Calculation Period, is a reference rate equal to the rate set forth in H.15(519) in respect of the day under the caption "EFFECT", as such rate is displayed on the Reuters Screen FEDFUNDS1 Page, in respect of any day "i", the rate for that will be agreed between the parties, acting in good faith and in a commercially reasonable manner. If the parties cannot agree, the rate for that day will be the rate displayed on the Reuters FEDFUNDS1 Page, in respect of the first preceding New York Banking Day;

"n<sub>i</sub>" is the number of calendar days in the relevant Calculation Period on which the rate is FEDFUND<sub>i</sub>; and

"d" is the number of calendar days in the relevant Calculation Period.

## CHF-TOIS-OIS-COMPOUND

$$\left[ \prod_{i=1}^{d0} \left( 1 + \frac{\text{TOIS}_i \times n_i}{360} \right) - 1 \right] \times \frac{360}{d}$$

Where:

"d0" for any Calculation Period is the number of Zurich Banking Days in the relevant Calculation Period;

"i" is a series of whole numbers from 1 to d0, each representing the relevant Zurich Banking Days in chronological order from, and including, the first Zurich Banking Day in the relevant Calculation Period;

"TOISI", for any day "i" in the relevant Calculation Period, is a reference rate equal to the rate for tomorrow next deposits in Swiss Francs which appears on the Reuters Screen CHFTOIS= as of 11:00 a.m., Zurich time, on the day that is one Zurich Banking Day preceding that day;

"ni" is the number of calendar days in the relevant Calculation Period on which the rate is TOISI; and

"d" is the number of calendar days in the relevant Calculation Period.

GBP-WMBA-SONIA-COMPOUND

$$\left[ \prod_{i=1}^{d_0} \left( 1 + \frac{\text{SONIA}_i \times 11i}{365} \right) - 1 \right] \times \frac{365}{d}$$

Where:

"d0" for any Calculation Period is the number of London Banking Days in the relevant Calculation Period;

"i" is a series of whole numbers from 1 to d0, each representing the relevant London Banking Days in chronological order from, and including, the first London Banking Day in the relevant Calculation Period;

"SONIA", for any day "i" in the relevant Calculation Period, is a reference rate equal to the overnight rate as calculated by the Wholesale Market Brokers' Association and appearing on the Reuters Screen SONIA Page in respect of that day;

"ni" is the number of calendar days in the relevant Calculation Period on which the rate is SONIAi; and

"d" is the number of calendar days in the relevant Calculation Period.

EUR-EONIA-OIS-COMPOUND

$$\left[ \prod_{i=1}^{d_0} \left( 1 + \frac{\text{EONIA}_i \times 11i}{360} \right) - 1 \right] \times \frac{360}{d}$$

Where:

"d0" for any Calculation Period is the number of TARGET Settlement Days in the relevant Calculation Period;

"i" is a series of whole numbers from 1 to d0, each representing the relevant TARGET Settlement Days in chronological order from, and including, the first TARGET Settlement Days in the relevant Calculation Period;

"EONIA", for any day "i" in the relevant Calculation Period, is a reference rate equal to the overnight rate as calculated by the European Central Bank and appearing on the Reuters Screen EONIA Page in respect of that day;

"ni" is the number of calendar days in the relevant Calculation Period on which the rate is EONIAi; and

"d" is the number of calendar days in the relevant Calculation Period.

CAD-CORRA-OIS-COMPOUND

$$\left[ \prod_{i=1}^{d_0} \left( 1 + \frac{CORRA_i \times n_i}{365} \right) - 1 \right] \frac{365}{d}$$

Where:

"d0" for any Calculation Period is the number of Toronto Banking Days in the relevant Calculation Period;

"i" is a series of whole numbers from one to d0, each representing the relevant Toronto Banking Day in chronological order from, and including, the first Toronto Banking Day in the relevant Calculation Period;

"CORRA<sub>i</sub>", for any day —"i" in the relevant Calculation Period, is a reference rate equal to the daily fixing for Canadian Dollar overnight repurchase rate as published at approximately 9:00 am, Toronto time, on the day that is one Toronto Banking Day following that day "i" on the Bank of Canada website page address <http://www.bankofcanada.ca/fmd/monmrt.htm>. If such rate does not appear on such Bank of Canada website page in respect of any day "i", the rate for that day will be as agreed between the parties, acting in good faith and in a commercially reasonable manner. If the parties cannot agree, the rate for that day will be the rate displayed on the Bank of Canada website page <http://www.bankofcanada.ca/fmd/monmrt.htm> in respect of the first preceding Toronto Banking Day;

"n<sub>i</sub>" is the number of calendar days in the relevant Calculation Period on which the rate is CORRA<sub>i</sub>; and

"d" is the number of calendar days in the relevant Calculation Period.

#### 2C.7.5 **Calculation of Compounded Amount**

Depending on whether the SwapClear Contract is submitted under ISDA 2000 or 2006 Definitions the Clearing House will calculate the compounded floating amount payable by a SwapClear Clearing Member on a Payment Date as an amount calculated in accordance with Articles 6.1 to 6.3 inclusive of the relevant Definitions.

#### 2C.7.6 **Calculation of FRA Discounting (Article 8.4 of the 2006 ISDA Definitions)**

Where FRA Discounting is specified for CAD, CHF, CZK, DKK, EUR, HUF, JPY, NOK, PLN, SEK, USD, ZAR the FRA Amount will be calculated in accordance with the following formula:

$$\text{FRA Amount} = \frac{\text{Calculation Amount} \times \left[ \begin{array}{l} \text{(Floating Rate +} \\ \text{Spread)} \\ \text{- Fixed Rate} \end{array} \right] \times \frac{\text{Floating Rate Day Count}}{\text{Fraction}}}{1 + \left[ \begin{array}{l} \text{Discount Rate} \\ \times \frac{\text{Discount Rate Day Count}}{\text{Fraction}} \end{array} \right]}$$

Where FRA Discounting is specified for AUD Forward Rate Transactions and NZD Forward Rate Transactions then FRA Yield Discounting will be applied and the FRA Amount calculated in accordance with the following formula:

$$\text{FRA Amount} = \text{Calculation Amount} \times 365 \times \left[ \frac{1}{365 + R_1 \times \text{ND}} - \frac{1}{365 + R_2 \times \text{ND}} \right]$$

Where:

R<sub>1</sub> is the sum of the Floating Rate and the Spread on the payment date, expressed as a decimal

R<sub>2</sub> is the Fixed Rate, expressed as a decimal

ND is the actual number of days in the calculation period

**2C.7.7 Business Day and Business Day Convention**

In determining whether a day is a Business Day the Clearing House will only apply the Financial Centres specified in the matched SwapClear Transaction message. The Clearing House will in the event of non-business days apply the Business Day Conventions as specified in the matched SwapClear Transaction message.

**2C.7.8 Payment of Coupons**

After adjusting coupons, in accordance with the appropriate Business Day and Business Day Conventions, the Clearing House will credit or debit Clearing Members' Accounts with the appropriate Fixed or Floating Amount with a value date matching the Coupon Payment Date. In the event of SwapClear being closed on a Coupon Payment Date it will pay the Fixed and Floating Amounts on the next business day following the Coupon Payment Date.

**2C.7.9 Calculation Periods**

In respect of any Calculation Period that is a not a whole calendar month (a stub period), the Reset Rate for the Reset Date in respect of that Calculation Period shall be determined by the Clearing House with reference to the rate(s) specified in the matched format message.

**2C.7.10 Day Count Fractions: ISDA 2000**

Day count fractions will be applied to deal legs independently as they are communicated via the matched format message.

Day count fractions will be applied to deal legs independently as they are communicated via the matched format message.

Where the SwapClear Contract is submitted under the ISDA 2000 Definitions, the Clearing House will calculate Day Count Fractions in accordance with the following principles:

- (a) if "Actual/365" or "Actual/Actual" is specified, the actual number of days in the Calculation Period in respect of which payment is being made divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);
- (b) if "Actual/365 (Fixed)" is specified, the actual number of days in the Calculation Period in respect of which payment is being made divided by 365;
- (c) if "Actual/360" is specified, the actual number of days in the Calculation Period in respect of which payment is being made divided by 360;
- (d) if "30/360", "360/360", "Bond Basis", "30E/360" or "Eurobond Basis" is specified the actual number of days in the Calculation Period in respect of which payment is being made will be determined in accordance with the following formula:

$$((Y_2 - Y_1) * 360) + ((M_2 - M_1) * 30) + (D_2 - D_1)$$

where  $D_1$ ,  $M_1$  and  $Y_1$  are the day, month and year respectively on which the period begins and  $D_2$ ,  $M_2$  and  $Y_2$  are the day, month and year respectively on which the period ends (coupon payment date).

In accordance with this formula the following will be applied:

- (i) if "30/360", "360/360" or "Bond Basis" is specified the Clearing House will:

if  $D_1$  is 31 amend it to 30,

if  $D_2$  is 31 amend it to 30 only if  $D_1$  is 30 or 31; or

- (ii) if "30E/360" or "Eurobond Basis" is specified the Clearing House will:

if  $D_1$  is 31 then amend it to 30

if  $D_2$  is 31 then amend it to 30.

- (e) For Actual/Actual (ISMA): "The [Fixed/Floating] Amount will be calculated in accordance with Rule 251 of the statutes, by-laws, rules and recommendations of the International Securities Market Association, as published in April 1999, as applied to straight and convertible bonds issued after December 31, 1998, as though the [Fixed/Floating] Amount were the interest coupon on such a bond".

2C.7.11 **Day Count Fractions: ISDA 2006**

Day count fractions will be applied to deal legs independently as they are communicated via the matched format message.

Where the SwapClear contract is submitted under the ISDA 2006 Definitions, the Clearing House will calculate Day Count Fractions in accordance with the following principles:

- (a) if "Actual/Actual", "Actual/Actual (ISDA)", "Act/Act", or "Act/Act-(ISDA)" is specified, the actual number of days in the Calculation Period in respect of which payment is being made divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);
- (b) if "Actual/365 (Fixed)" is specified, the actual number of days in the Calculation Period in respect of which payment is being made divided by 365;
- (c) if "Actual/360" is specified, the actual number of days in the Calculation Period in respect of which payment is being made divided by 360;
- (d) "30/360", "360/360" or "Bond Basis" is specified the number of days in the Calculation Period or Compounding Period in respect of which payment is being made divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{((360 \times (Y2 - Y1)) + (30 \times (M2 - M1)) + (D2 - D1))}{360}$$

Where:

"Y1" is the year, expressed as a number, in which the first day of the Calculation or Compounding Period falls;

"Y2" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation or Compounding Period falls;

"M1" is the calendar month, expressed as a number, in which the first day of the Calculation Period or Compounding Period falls;

"M2" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation or Compounding Period falls;

"D1" is the first calendar day, expressed as a number, of the Calculation period or Compounding Period, unless such number would be 31, in which case D1 will be 30 and

"D2" is the Calendar day, expressed as a number, immediately following the last day included in the Calculation Period or Compounding Period, unless such number would be 31 and D1 is greater than 29, in which case D2 will be 30; and

- (e) if "30/E60" or "Eurobond basis" is specified, the number of days in the Calculation or Compounding Period in respect of which payment is being made divided by 360, calculate on a formula basis as follows:



$$\text{Day Count Fraction} = \frac{((360 \times (Y2 - Y1)) + (30 \times (M2 - M1)) + (D2 - D1))}{360}$$

Where:

"Y1" is the year, expressed as a number, in which the first day of the Calculation or Compounding Period falls;

"Y2" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation or Compounding Period falls;

"M1" is the calendar month, expressed as a number, in which the first day of the Calculation Period or Compounding Period falls;

"M2" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation or Compounding Period falls;

"D1" is the first calendar day, expressed as a number, of the Calculation period or Compounding Period, unless such number would be 31, in which case D1 will be 30 and

"D2" is the calendar day, expressed as a number, immediately following the last day included in the Calculation or Compounding Period, unless such number would be 31, in which case D2 will be 30.

- (f) if 30E/360(ISDA) is specified, the number of days in the Calculation or Compounding period in respect of which payment is being made divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{((360 \times (Y2 - Y1)) + (30 \times (M2 - M1)) + (D2 - D1))}{360}$$

Where:

"Y1" is the year, expressed as a number, in which the first day of the Calculation or Compounding Period falls;

"Y2" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation or Compounding Period falls;

"M1" is the calendar month, expressed as a number, in which the first day of the Calculation Period or Compounding Period falls;

"M2" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation or Compounding Period falls;

"D1" is the first calendar day, expressed as a number, of the Calculation period or Compounding Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D1 will be 30; and

"D2" is the calendar day, expressed as a number, immediately following the last day included in the Calculation or Compounding Period, unless (i) that day is the last day of

February but NOT the termination date or (ii) such number would be 31, in which case D2 will be 30.

- (g) If "Actual/Actual" (ICMA)" or "Act/Act" (ICMA) is specified, a fraction equal to "number of days accrued/number of days in year", as such terms are used in Rule 251 of the statutes, by-laws, rules and recommendations of the International Capital Market Association (the "ICMA Rule Book"), calculated in accordance with Rule 251 of the ICMA Rule Book as applied to non US Dollar denominated straight and convertible bonds issued after December 21, 1998, as though the interest coupon on a bond were being calculated for a coupon period corresponding to the Calculation Period or Compounding Period in respect of which payment is being made.

## 2C.7.12 **Reset Rates**

2C.7.12.1 Reset Rates will be published by the Clearing House via the Rate Reset reports.

The Clearing House will apply the following principles in calculating Reset Rates:

- (a) "GBP-LIBOR-BBA" means that the rate for a Reset Date will be the rate for deposits in Sterling for a period of the Designated Maturity which appears on the Reuters Screen LIBOR01 Page as of 11:00 hours, London time, on that Reset Date.
- (b) "USD--LIBOR-BBA" the rate for US Dollar deposits for a period of the Designated Maturity which appears on Reuters Screen LIBOR01 as of 11:00 hours London time, on the day that is two London Banking Days preceding that Reset Date.
- (c) "Euro-LIBOR-BBA" the rate for Euro deposits for a period of the Designated Maturity which appears on the Reuters Screen LIBOR01 as of 11:00 hours London time, on the day that is two TARGET Settlement Days preceding that Reset Date.
- (d) "Euro-EURIBOR-Telerate (ISDA2000) / "Euro-EURIBOR-Reuters" the rate for Euro deposits for a period of the Designated Maturity which appears on the Reuters Screen EURIBOR01 as of 11:00 hours Brussels time, on the day that is two TARGET Settlement Days preceding that Reset Date.
- (e) "JPY-LIBOR-BBA" the rate for Japanese Yen deposits or a period of the Designated Maturity which appears on the Reuters Screen LIBOR01 as of 11:00 hours London time, on the day that is two London Banking Days preceding that Reset Date.
- (f) "CHF-LIBOR-BBA" means that the rate for a Rest Date will be the rate for deposits in Swiss Francs for a period of the Designated Maturity which appears on the Reuters Screen LIBOR02 as of 11:00 hours, London time, on the day that is two London Banking Days preceding that Reset Date.
- (g) "AUD-BBR-BBSW" means that the rate for a Reset Date will be the average mid rate, for Australian Dollar bills of exchange having a tenor of the Designated Maturity, which appears on the Reuters screen BBSW Page at approximately 10:10 hours, Sydney time, on that Reset Date.

- (h) "AUD-LIBOR-BBA" means that the rate for a Reset Date will be the rate for deposits in Australian Dollars for a period of the Designated Maturity which appears on the Reuters Screen LIBOR02 as of 11:00 hours, London time, on the day that is two London Banking Days preceding that Reset Date.
- (i) "CAD-BA-CDOR" means that the rate for a Reset Date will be the average rate for Canadian Dollar bankers acceptances for a period of the Designated Maturity which appears on the Reuters Screen CDOR page as of 10:00 hours, Toronto time, on that Reset Date.
- (j) "CAD-LIBOR-BBA" means that the rate for a Reset Date will be the rate for deposits in Canadian Dollars for a period of the Designated Maturity which appears on the Reuters Screen LIBOR01 as of 11:00 hours, London time, on the day that is two London Banking Days preceding that Reset Date.
- (k) "CZK-PRIBOR-PRBO" means that the rate for a Reset Date will be the rate for deposits in Czech Koruna for a period of the Designated Maturity which appears on the Reuters Screen PRBO page as of 10:00 hours, Prague time, on the day that is two Prague Banking days preceding that Reset Date.
- (l) "DKK-CIBOR-DKNA13" means that the rate for a Reset Date will be the rate for deposits in Danish Kroner for a period of the Designated Maturity which appears on the Reuters Screen DKNA13 Page as of 11:00 hours, Copenhagen time, on that Reset Date.
- (m) "DKK-CIBOR2-DKNA13" means that the rate for a Reset Date will be the rate for deposits in Danish Kroner for a period of the Designated Maturity which appears on the Reuters Screen DKNA13 Page as of 11:00 hours, Copenhagen time, on the day that is two Copenhagen Banking Days preceding that Reset Date.
- (n) "HKD-HIBOR-HIBOR=" means that the rate for a Reset Date will be the rate for deposits in Hong Kong Dollars for a period of the Designated Maturity which appears on the Reuters Screen HIBOR1=R Page (for Designated Maturities of one month to six months, inclusive) or the Reuters Screen HIBOR2=R Page (for Designated Maturities of seven months to one year, inclusive), in each case across from the caption "FIXING@11:00" as of 11:00 hours, Hong Kong time, on that Reset Date.
- (o) "HKD-HIBOR-HKAB" means that the rate for a Reset Date will be the rate for deposits in Hong Kong Dollars for a period of the Designated Maturity which appears on the Reuters Screen HKABHIBOR as of 11:00 hours, Hong Kong time, on that Reset Date.
- (p) "HKD-HIBOR-ISDC" (ISDA2000) means that the rate for a Reset Date will be the rate for deposits in Hong Kong Dollars for a period of the Designated Maturity which appears on the Reuters Screen ISDC Page as of 11:00 hours, Hong Kong time, on that Reset Date.
- (q) "HUF-BUBOR-Reuters" means that the rate for a Reset Date will be the rate for deposits in Hungarian Forint for a period of the Designated Maturity which appears on the Reuters Screen BUBOR= page as of

10:00 hours, Budapest time, on the day that is two Budapest Banking days preceding that Reset Date.

- (r) "NOK-NIBOR-NIBR" means that the rate for a Reset Date will be the rate for deposits in Norwegian Kroner for a period of the Designated Maturity which appears on the Reuters Screen NIBR Page as of 12:00 noon, Oslo time, on the day that is two Oslo Banking Days preceding that Reset Date.
- (s) "NZD-BBR-Telerate" (ISDA2000) means that the rate for a Reset Date will be the fixed midrate for New Zealand Dollar bills of exchange for a period of the Designated Maturity which appears on the Telerate Page 2484 as of 11:00 hours, Wellington time, on that Reset Date.
- (t) "NZD-BBR-FRA" means that the rate for a Reset Date will be the rate for the New Zealand Dollar bills of exchange for a period of designated maturity which appears on the Reuters Screen BKBM Page opposite the caption of "FRA" as of 11:00 hours, Wellington time, on that Reset Date.
- (u) "SEK-STIBOR-SIDE" means that the rate for a Reset Date will be the rate for deposits in Swedish Kronor for a period of the Designated Maturity which appears on the Reuters Screen SIDE page under the caption "FIXINGS" as of 11:00 hours, Stockholm time, on the day that is two Stockholm Banking days preceding that Reset Date.
- (v) "SGD-SOR-Reuters" means that the rate for a Reset Date will be the rate for deposits in Singapore Dollars for a period of the Designated Maturity which appears on the Reuters Screen ABSIRFIX01 as of 11:00 hours, Singapore time, on the day that is two Singapore Banking days preceding that Reset Date.
- (w) "SGD-SOR-VWAP" means that the rate for a Reset Date will be the synthetic rate for deposits in Singapore Dollars for a period of the Designated Maturity which appears on the Reuters Screen ABSFIX01 Page under the heading "SGD SOR rates" as of 11:00 a.m., London time, on the day that is two Singapore and London Banking Days preceding that Reset Date.
- (x) "PLN-WIBOR-WIBO" means that the rate for a Reset Date will be the rate for deposits in Polish Zloty for a period of the Designated Maturity which appears on the Reuters Screen WIBO page under the caption "FIXINGS" as of 11:00 hours, Warsaw time, on the day that is two Warsaw Banking days preceding that Reset Date.
- (y) "ZAR-JIBAR-SAFEX" means that the rate for a Reset Date will be the mid-market rate for deposits in South African Rand for a period of the Designated Maturity which appears on the Reuters screen SAFEY page under the caption "YIELD" as of 11:00 hours, Johannesburg time, on that reset date. If such rate does not appear on the Reuters screen SAFEY page, the rate for that Reset Date will be determined as if the parties had specified "ZAR-JIBAR-Reference Banks" as the applicable Floating Rate Option.
- (z) "CHF-TOIS-OIS-COMPOUND" means that the rate for a Reset Date, calculated in accordance with the formula set forth in section 2C.7.4, will

be the rate of return of a daily compound interest investment (it being understood that the reference rate for the calculation of interest is the arithmetic mean of the daily rates of the day-to-day Swiss interbank money market).

- (aa) "GBP-WMBA-SONIA-COMPOUND" means that the rate for a Reset Date, calculated in accordance with the formula set forth in section 2C 7.4, will be the rate of return of a daily compound interest investment (it being understood that the reference rate for the calculation of interest is the Sterling daily overnight reference rate).
- (bb) "USD-Federal Funds-H.15-OIS-Compound" means that the rate for a Reset Date, calculated in accordance with the formula set forth in section 2C 7.4, will be the rate of return of a daily compound interest investment (it being understood that the reference rate for the calculation of interest is the daily effective federal funds rate determined by the Federal Reserve as the weighted average of the rates on brokered trades).
- (cc) "EUR-EONIA-OIS-COMPOUND" means that the rate for a Reset Date, calculated in accordance with the formula set forth in section 2C 7.4, will be the rate of return of a daily compound interest investment (it being understood that the reference rate for the calculation of interest is the arithmetic mean of the daily rates of the day-to-day Euro-zone interbank euro money market).

In the event of no rate being available the Clearing House will, at its sole discretion, determine an applicable rate.

#### 2C.7.12.2 Applying Reset Rate

The Clearing House will identify the reset dates of floating legs that require the application of a Reset Rate. The Reset Rate will be applied to the appropriate floating legs and the coupon payments calculated.

The coupon payments will be adjusted to fall on actual business days according to the Calendar(s) and Business Day Convention specified.

#### 2C.7.12.3 Negative Interest Rate Method

SCMs should note the provisions of section 3.3 of Part A of the Schedule to the SwapClear Regulations regarding the applicability of the Negative Interest Rate Method to a SwapClear Contract. SwapClear Clearing Members may, in the circumstances, wish to ensure that any trade submitted for registration follows that Negative interest Rate Method.

### 2C.8 INITIAL MARGIN

The Clearing House will require SCMs to post/transfer Collateral in respect of their initial margin obligations. This amount will be determined by the prevailing market conditions and the expected time to close out the portfolio. The Portfolio Approach to Interest Rate Scenarios (PAIRS) will be used to calculate initial margin requirements for SwapClear Contracts.

Separate initial margin calculations are performed for an SCM's house "H" and client "C" accounts.

#### 2C.8.1 Margin Parameters

The Clearing House Risk Management Department uses appropriate yield curve scenarios, both in terms of shape and magnitude of movement, to capture potential losses based on an observed history - the primary component of the initial margin calculation. These scenarios will be continually monitored and reviewed periodically or on an ad hoc basis according to market conditions. However, in accordance with the Regulations, the Clearing House retains the right at its discretion to vary the rates for the whole market or for a specific SCM's House and/or Client accounts.

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 yield curve scenarios.

#### 2C.8.2 **Counterparty Risk Multiplier**

Where a risk multiplier is applied to an SCM that has SwapClear Clearing Clients, that multiplier will be applied only to SwapClear Clearing Clients that have no Backup SwapClear Clearing Member.

The Clearing House reserves the right to require additional amounts of ~~cover~~Collateral from a specific SCM or from all SCMs in accordance with Regulation 12.

#### 2C.8.3 **Liquidity Multiplier**

Risk Management apply a liquidity multiplier based on WCL exceeding certain thresholds on the SCM's whole portfolio and individual currencies. The threshold amounts and multipliers are reviewed on an ongoing basis. SwapClear Clearing Client accounts are treated as independent accounts for purposes of liquidity and will be called only in the event that the individual account exceeds the relevant threshold.

#### 2C.8.4 **Intra-day Margin Calls**

In accordance with the Clearing House's General 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 2C.9).

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.**

#### 2C.8.5 **Calculation of Initial Margin**

##### 2C.8.5.1 Portfolio Approach to Interest Rate Scenarios (PAIRS)

The PAIRS calculation is a VAR based approach based on historical simulations. All positions in each currency are re-valued under a series of cross portfolio yield curve scenarios to estimate the highest forecast loss and therefore the initial margin requirement. Further details of this method are available upon request and are detailed in the PAIRS TIP document. The PAIRS document and further information relating to Initial Margin calculations can be obtained from the Rates team on +44 (020) 7426 6325 or +44 (020) 7426 7428.

#### 2C.8.6 **Tenor Basis Risk Margin Add-on**

A margin add-on will be applied in respect of tenor basis risk.

**2C.9 INTRA-DAY MARGIN CALL: COLLATERAL MANAGEMENT****2C.9.1 General – Intra-day Margining**

Following an intra-day margin call and unless notified otherwise by an SCM at the time of an intra-day margin call the Clearing House will deduct cash, in the appropriate currency, directly from the relevant SCM's PPS account to cover that intra-day margin call.

Standard Clearing House rules for acceptable cash used for intra-day ~~cover~~collateralisation will apply.

It is the responsibility of the SCM to ensure that they have sufficient cash funds in place with their PPS Bank(s) in order to avoid any intra-day liquidity issues.

If the Clearing House is unable to contact the SCM in order to arrange an alternative payment method for the intra-day margin call the Clearing House will automatically issue a PPS call to debit the SCM's PPS account in the appropriate currency.

Please note: An SCM must notify the Clearing House of its preferred method of collateralisation at the time of the Clearing House's margin call. Once an SCM has chosen an intra-day collateralisation method and has notified the Clearing House of its chosen method, such choice is definitive and the Clearing House will not reverse any decision.

**2C.9.2 Alternative Intra-Day Cash Collateralisation Methods**

An SCM may choose to cover its intra-day, margin calls by transferring cash from its House account or Additional Collateral Account to its Client Account.

**2C.9.2.1 Method 1: Transferring Cash Collateral from the House Account**

An SCM may choose to transfer excess cash collateral from its House account to cover an intra-day margin call for its Client account.

In the event that an SCM notifies the Clearing House that it wishes to meet its intra-day margin call, or part of its intra-day margin call, by transferring excess cash collateral from its House account it must follow the procedure below.

A transfer of excess cash collateral from its House account to its Client account must be completed within 1 hour of the SCM's request to the Clearing House that it intends to transfer House cash excess to its Client account by completing the Intra-Day House Cash Excess Transfer Form (Appendix 2C.D)

In the event that an SCM does not fulfil the requirement to provide the Clearing House with an executed Intra-Day House Cash Excess Transfer Form within 1 hour of notifying the Clearing House of its intention to transfer excess cash collateral, the Clearing House may at its discretion issue a PPS call to cover the requirements in cash, in the appropriate currency, or impose penalty charges.

**2C.9.2.2 Method 2: Transferring Cash Collateral Excess Deposited in the Additional Collateral Account**

An SCM may choose to utilise any cash collateral held in its Additional Collateral account in respect of a SwapClear Clearing Client to cover an intra-day margin call for its Client account. An SCM may only transfer collateral from its Additional Collateral account for the purposes of meeting an intra-day margin call on its Client account.

In the event that an SCM notifies the Clearing House that it wishes to meet its intra-day margin call, or part of its intra-day margin call, by transferring cash collateral from its Additional Collateral account it must follow the procedure below.

A transfer of cash collateral from the Additional Collateral account to the Client account must be completed within 1 hour of the SCM's request to the Clearing House that it intends to transfer Additional Collateral cash excess to its Client account by completing the Additional Collateral Cash Excess Transfer Form (Appendix 2C.G)

In the event that an SCM does not meet its requirement to provide the Clearing House with an executed Additional Collateral Cash Excess Transfer Form within 1 hour of notifying the Clearing House of its intention to transfer cash collateral, the Clearing House may as its discretion issue a PPS call to cover the requirement in cash, in the appropriate currency, or impose penalty charges.

An SCM may also transfer cash collateral from its Client account to its Additional Collateral account by completing an Additional Collateral Account Cash Transfer Form (Appendix 2C.G).

An SCM must submit an Additional Collateral Account Spreadsheet to the Clearing House whenever transfers are made from/to the Additional Collateral account.

### 2C.9.3 **Alternative Intra-Day Non-Cash Collateralisation Methods**

2C.9.3.1 An SCM may choose not to cover its intra-day margin calls with cash collateral. In such a case, an SCM may choose from one or more of the following three methods:

1. Deposit intra-day non-cash collateral into the Client account;
2. Transfer House non-cash excess from the House account to the Client account;
3. Transfer Client non-cash excess deposited in the Additional Collateral account to the Client account

#### 2C.9.3.2 Method 1 – Deposit Intraday Non-Cash Collateral

An SCM may choose to lodge non-cash collateral to cover any intra-day margin call for their Client account.

In the event that an SCM notifies the Clearing House that it wishes to meet its intra-day margin call, or part of its intra-day margin call, by depositing non-cash collateral it must follow the procedure below;

Within 30 minutes of the SCM's notification of its intention to deposit non-cash collateral it must:

- (a) complete the Intra-Day Collateral Lodgement Form and provide a copy to the Clearing House (Appendix 2C.B);
- (b) input instructions for matching with the relevant Custodian account.

Any lodgement of non-cash collateral must be settled in the Clearing House's account at the relevant Custodian within 1 hour of the SCM's notification to the Clearing House of its intention to lodge non-cash collateral.

The Clearing House will charge accommodation fees as notified to SCMs for any non-cash collateral lodged as intra-day ~~cover~~ Collateral (see section 3 of the Clearing House Procedures). This charge will be invoiced to SCMs separately from the standard monthly interest and accommodation charge statement.



In the event that non-cash collateral is not settled in the Clearing House's account within 1 hour of the SCM notifying the Clearing House of its intention to lodge non-cash collateral, the Clearing House may at its discretion issue a PPS call to cover the intra-day requirement in cash, in the appropriate currency, or impose penalty charges.

When an SCM lodges non-cash collateral, the Clearing House will issue the SCM with a collateral lodgement reference number.

#### 2C.9.3.3 Method 2 – Transfer Non-Cash House Excess

An SCM may choose to utilise any excess non-cash collateral held in its House account to cover an intra-day margin call on its Client account.

In the event that an SCM notifies the Clearing House that it wishes to meet its intra-day margin call, or part of its intra-day margin call, by transferring excess non-cash collateral from its House account it must follow the procedure below:

A transfer of excess non-cash collateral from the House account to the Client account must be completed within 1 hour of the SCM's request to the Clearing House that it intends to transfer House excess to its Client account by completing the House Excess Transfer Form (Appendix 2C.C).

The House Excess Transfer Form submitted by the SCM to the Clearing House must contain the collateral lodgement reference number as provided by the Clearing House to the SCM at the time the non-cash collateral was lodged.

In the event that an SCM transfers non-cash collateral to its Client account, the Clearing House will apply accommodation charges for any non-cash collateral lodged as intra-day ~~cover~~ Collateral. This charge will be invoiced to members separately from the standard monthly interest and accommodation charge statement.

In the event that an SCM does not fulfil its requirement to provide the Clearing House with an executed House Excess Transfer Form within 1 hour of notifying the Clearing House of its intention to transfer non-cash collateral, the Clearing House may at its discretion issue a PPS call to cover the requirement in cash, in the appropriate currency, or impose penalty charges.

Transfers from the Client Account to the House account are not permitted under any circumstances.

#### 2C.9.3.4 Method 3 – Transfer Non-Cash Collateral deposited in the Additional Collateral Account

An SCM may choose to transfer non-cash collateral held in its Additional Collateral account in respect of a SwapClear Clearing Client to cover any intra-day margin call on its Client account.

In the event that an SCM notifies the Clearing House that it wishes to meet its intra-day margin call, or part of its intra-day margin call, by transferring non-cash ~~margin~~ Collateral held in its Additional Collateral account it must follow the procedure below:

Within 30 minutes of the SCM's notification of its intention to transfer non-cash collateral from the Additional Collateral Account:

- (a) submit an Additional Collateral Account Non-Cash Transfer Form (Appendix 2C.F);

- (b) provide the Clearing House with a revised Additional Collateral Account Spreadsheet (Appendix 2C.H) that takes into account the transfer from the Additional Collateral account to the Client account.

The Clearing House will apply accommodation charges for any Non-cash collateral lodged as intra-day ~~cover~~ Collateral (see section 3 of the Clearing House Procedures). This charge will be invoiced to members separately from the monthly interest and accommodation charge statement.

If an SCM does not fulfil its requirement to provide the Clearing House with an executed Additional Collateral Account Non-Cash Transfer Form within 1 hour of the SCM's notification to the Clearing House that it wishes to transfer non-cash collateral from the Additional Collateral account, the Clearing House may at its discretion issue a PPS call to cover the margin requirement in cash, in the appropriate currency, or impose penalty charges.

An SCM may also transfer non-cash collateral from its Client account to its Additional Collateral account by completing an Additional Collateral Account Transfer Form.

All Additional Collateral Account Non-Cash Transfer Forms submitted by the SCM to the Clearing House must contain the collateral lodgement reference number as provided by the Clearing House to the SCM at the time the non-cash collateral was initially lodged.

An SCM must submit an Additional Collateral Account Spreadsheet to the Clearing House whenever transfers are made from/to the Additional Collateral account.

## 2C.10 TRANSFER OF SWAPCLEAR CONTRACTS BETWEEN CLIENT ACCOUNTS AND PROPRIETARY ACCOUNTS

- 2C.10.1 **If at any time an early termination date (howsoever described) occurs in respect of one or more of the transactions between a SwapClear Clearing Member and a SwapClear Clearing Client in respect of which such SwapClear Clearing Member is a party to Related SwapClear Contracts and, at the time of such early termination date, the relevant SwapClear Clearing Member is not a Defaulting SCM, the relevant SwapClear Clearing Member may instruct the Clearing House to transfer the relevant Related SwapClear Contracts from its client account to its Proprietary Account.**

For the purposes of this section 2C.10.1 a "Related SwapClear Contract" means, in respect of a transaction between a SwapClear Clearing Member and a SwapClear Clearing Client which has been terminated on an early termination date, the open position represented by the SwapClear Contract entered into with the Clearing House by such SwapClear Clearing Member on behalf of the relevant SwapClear Clearing Client on equal and opposite terms to such transaction.

A transfer pursuant to this section 2C.10.1 will be subject to receipt by the Clearing House of the following:

- (a) a copy of the notice from the relevant SwapClear Clearing Member to the relevant SwapClear Clearing Client designating the relevant early termination date or, if such early termination date has occurred automatically, evidence of the relevant event of default or termination event;
- (b) a copy of a notice served by the relevant SwapClear Clearing Member on the relevant SwapClear Clearing Client alerting that SwapClear Clearing Client of its intention to request a transfer of the relevant Related SwapClear Contracts pursuant to this section 2C.10; and

- (c) an indemnity from the relevant SwapClear Clearing Member in a form suitable to the Clearing House

The Clearing House will usually arrange a transfer of Related SwapClear Contracts within 24 hours of receipt (to the extent applicable) of the documents listed in paragraphs (a) to (c) above, unless such transfer is contested by the relevant SwapClear Clearing Client.

**2C.10.2 In any other circumstance not covered by 2C.10.1, a SwapClear Clearing Member may only instruct the Clearing House to transfer a SwapClear Contract from its client account to its Proprietary Account in circumstances where the Clearing House has received from the SwapClear Clearing Member:**

- (a) evidence of the relevant SwapClear Clearing Client's consent to such transfer in a form suitable to the Clearing House; and
- (b) an indemnity in a form suitable to the Clearing House.

The Clearing House will usually arrange a transfer of any SwapClear Contract to be transferred pursuant to this 2C.10.2 within 24 hours of receipt (to the extent applicable) of the documents listed in paragraphs (a) and (b) above, unless such transfer is contested by the relevant SwapClear Clearing Client.

**2C.10.3 In the event that all of the SwapClear Contracts entered into by a SwapClear Clearing Member on behalf of a SwapClear Clearing Client are:**

- (a) Related SwapClear Contracts transferred in accordance with section 2C.10.1; or
- (b) transferred pursuant to section 2C.10.2,

the relevant SwapClear Clearing Member shall be entitled to any collateral lodged in the Additional Collateral Account with the Clearing House and held in respect of the relevant SwapClear Clearing Client.

**2C.11 POSITION TRANSFERS**

The SwapClear Clearing System provides functionality for transfer of positions between SCMs. Other than transfers conducted pursuant to Regulation 52C and Procedure 2C.15.5, an SCM who wishes to effect a position transfer to another SCM should contact the Clearing House Risk Management Department.

SwapClear Dealers who wish to change their SCM will be required to execute a new SwapClear Dealer Clearing Agreement with their intended new SCM. The Clearing House will, if all parties are in agreement, effect a transfer of positions from one SCM to the other.

Other than in respect of a transfer to a Backup SwapClear Clearing Member following a default of their existing SwapClear Clearing Member, transfers will only be effected once adequate ~~cover~~ Collateral (which, in the case of transfers conducted pursuant to Regulation 52C(b), may include ~~the Associated Account Assets~~ Collateral Balance) has been provided by both parties to the transfer.

**2C.11.1 Legal Documentation**

The Clearing House will provide standard legal documentation for the transfer of positions. The transfer must be authorised by both parties and by individuals with appropriate signing authority.

**2C.11.2 Position Transfer Notice Period**

The Clearing House will usually require five business days notice ahead of an intended transfer.

**2C.12 TERMINATION BY AUTOMATED SERVICE**

Termination by automated service is no longer available. SwapClear Contracts may be declared from SwapClear in line with section 2C.10. In the event that an SCM wishes to remove a SwapClear Contract submitted through the SWIFT trade source it should complete a Cleared Trade Removal Agreement as set out in Appendix 2C.M and a corresponding Cleared Trade Removal Agreement should also be submitted to the Clearing House by the Counterparty SCM (as defined in the Agreement).

**2C.13 AMENDMENT OF TRADE REFERENCES**

Sometimes SwapClear Clearing Members wish to change their own trade references numbers/codes by which they identify trades registered in the SwapClear Service. Subject to that SwapClear Clearing Member meeting all the Clearing House's requirements and these Procedures, the Clearing House will, as part of its service to SwapClear Clearing Members, amend its records in order to reflect this change. Such change has no effect whatsoever on the terms of any registered SwapClear contract or any other obligations of the SCMs party to those contracts.

**2C.14 TRADE REFERENCE AMENDMENT REQUEST FORM**

The Clearing House requires a completed Trade Amendment Request Form (in the form prescribed by the Clearing House) to be submitted by any SwapClear Clearing Member wishing to amend a trade reference. The form must be signed by two persons from within the SwapClear Clearing Member with appropriate signing authority and must set out the required full details of each registered trade in respect of which the SwapClear Clearing Member wishes to change its trade reference. Evidence of such signing authority may be required by the Clearing House. All parts of the form must be properly and fully completed, including the requested date for trade reference amendment, and, in respect of each trade identified therein, details of the current trade reference and the new trade reference and the Clearing House trade reference number.

The requested date for trade reference amendment must be no earlier than two business days ("the Trade Reference Amendment Notice Period") after the date upon which the form is received by the Clearing House. While the Clearing House will do what it reasonably can to meet the requested date for the amendment it cannot promise to do so. The date for the amendment in the Clearing House's records and SwapClear clearing system is a matter entirely within the discretion of the Clearing House and SCMs will be advised in due course of the date set by the Clearing House.

**2C.14.1 Multi-trade Amendments**

If a SwapClear Clearing Member requests amendment to several trades it must (in addition to the hard copy Trade Reference Amendment Request Form) provide to the Clearing House an electronic text file containing all the relevant details required by the Trade Reference Amendment Request Form. Detail of the required formats of the file can be obtained from SwapClear Operations (Tel: +44 (0) 20 7426 7697). If the file is not submitted in the correct format and containing all the required details, the request for deletion will be rejected by the Clearing House and the SwapClear Clearing Member advised accordingly.

**2C.14.2 Processing**

The Clearing House will usually agree to process any request for amendment of trade reference properly submitted; however the Clearing House will reject any such request if:

- (a) It is not made in accordance with these Procedures;
- (b) any trade reference notified to the Clearing House in the Trade Reference Amendment Request Form does not match the SwapClear Clearing Member trade reference which the Clearing House has recorded;
- (c) any the Clearing House trade reference number notified in the Trade;
- (d) Reference Amendment Request Form does not refer to a trade registered in the SwapClear clearing system;
- (e) any trade referred to in the Trade Reference Amendment Request Form is not already registered in the SwapClear Clearing system or is not recorded by the Clearing House against the BIC code of the SwapClear Clearing Member requesting the amendment;
- (f) it would not be practical in all the circumstances or would put the Clearing House to unacceptable cost if the Clearing House were to make the requested amendments or the Clearing House forms the view that to do so would adversely affect its risk.

Following notification of agreement to make the requested amendments, the Clearing House will use its reasonable endeavours to process the amendments on the anticipated date of amendments; if, for whatever reason the Clearing House is unable to do so, it will notify the SwapClear Clearing Member and process the amendment as soon as reasonably practicable thereafter.

After close of business of the day of processing, the Clearing House will produce a report setting out details of the time and date that it has amended its records in accordance with the request, details of the old and new SwapClear Clearing Member trade references and the status of the amendment in respect of each trade set out in the Trade Reference Amendment Request – namely "amended" or "rejected". All records of the Clearing House and data held in the SwapClear clearing system will then be updated overnight following the close of business on that day.

**2C.14.3 Legal Documentation**

The Clearing House will provide the requesting SwapClear Clearing Member with legal documentation in Clearing House standard form for that SwapClear Clearing Member to sign. No trade reference will be amended unless such documentation is completed and signed. The documentation must be signed by a person within the SCM with appropriate signing authority. Evidence of such authority may be required by the Clearing House. No amendment to such documentation will be accepted by the Clearing House.

**2C.14.4 Notification**

Subject to the requesting SwapClear Clearing Member meeting all the Clearing House's requirements (including completion and submission of all documentation and such other additional requirements as the Clearing House may be set by the Clearing House in its discretion), the Clearing House will notify the SwapClear Clearing Member of its agreement to the amendment of its records of the SwapClear Clearing Member's trade reference in respect of the trades identified in the Trade Reference Amendment Request

Form, and advise of the anticipated date of amendment ("the anticipated date of amendment").

## 2C.15 SWAPCLEAR CLIENT CLEARING

SwapClear Client Clearing allows a SwapClear Clearing Member to provide certain clearing services to SwapClear Clearing Clients.

### 2C.15.1 Deed of Assignment

Unless otherwise specified by the Clearing House, SwapClear Clearing Members and SwapClear Clearing Clients must enter into a Deed of Assignment with the Clearing House before such SwapClear Clearing Members provide clearing services to SwapClear Clearing Clients. The deed of assignment must be executed substantially in the form set out in Appendix 2C.I.

A slightly amended Deed of Assignment is required for SwapClear Clearing Members incorporated in Ireland and is available from the Clearing House's Membership Department ([membershipteam@lchclearnet.com](mailto:membershipteam@lchclearnet.com)).

As an alternative to entering an individual Deed of Assignment with each SCM and their individual SwapClear Clearing Client, the Clearing House also operates a Security Trustee Model whereby the Clearing House holds those assets assigned under the Deed of Assignment on trust for SwapClear Clearing Clients. The Security Trustee Model Deed of Assignment is shown at Appendix 2C.J. Further details are available from the Clearing House's Membership Department ([membershipteam@lchclearnet.com](mailto:membershipteam@lchclearnet.com)).

The Security Trustee Deed of Assignment is currently only available to UK incorporated SwapClear Clearing Members and UK branches of overseas incorporated SwapClear Clearing Members.

### 2C.15.2 Prescribed Language

Pursuant to the Clearing House's General Regulations, each SwapClear Clearing Member is required to ensure that it includes certain language in its agreement with its SwapClear Clearing Client (the "Clearing House Prescribed Language"). The Clearing House Prescribed Language is shown at Appendix 2C.L.

### 2C.15.3 Other Legal Documentation

- 2C.15.3.1 From time to time, the Clearing House may make available on its website template documents that a SwapClear Clearing Member and a SwapClear Clearing Client may find useful when agreeing the terms between them for the provision of clearing services by such SwapClear Clearing Member to a SwapClear Clearing Client. The Clearing House makes no representations in respect of any documentation, including without limitation, those provided by the Clearing House or otherwise.

SwapClear Clearing Clients should, of course, make their own independent decisions in relation to the SwapClear Client Clearing Service based upon their own judgment and upon such advice from such advisers as those clients deem necessary.

SwapClear Clearing Clients' attention is drawn to the SwapClear Clearing End-User Notice which is published on the Clearing House's website ([http://www.lchclearnet.com/swaps/swapclear\\_for\\_clients/default.asp](http://www.lchclearnet.com/swaps/swapclear_for_clients/default.asp))

2C.15.3.2— Certain template versions of client clearing documentation are made available on the Clearing House's website.

**2C.15.4 Withholding Taxes**

Please note that where SCMs are not beneficially entitled to securities that they lodge with the Clearing House as non-cash collateral, the Clearing House may require certain tax documents from the relevant beneficial owner of such securities (see section 4 of the LCH procedures).

**2C.15.5 Transfer of SwapClear Contracts held by a Carrying Clearing Member on behalf of SwapClear Clearing Clients**

In certain circumstances, the Clearing House will transfer SwapClear Contracts registered with a Carrying Clearing Member on behalf of a SwapClear Clearing Client from such Carrying Clearing Member to a Receiving Clearing Member on behalf of a SwapClear Clearing Client, pursuant to Regulation 52(C).

**2C.15.5.1 Partial Transfers**

Where, pursuant to paragraph (d) of Regulation 52C, a Receiving Clearing Member wishes, on behalf of (i) an Individual Segregated Account Clearing Client to receive a transfer of a portion of such SwapClear Clearing Client's portfolio of SwapClear Contracts held with a Carrying Clearing Member; or (ii) an Omnibus Net Segregated Clearing Client to receive a transfer of some of all of such SwapClear Clearing Client's portfolio of SwapClear Contracts held with a Carrying Clearing Member, it shall provide the Clearing House with a SwapClear Clearing Client Partial Transfer Form (see Appendix 2C.K1), signed by or on behalf of the relevant SwapClear Clearing Client. Such form shall list all of the Relevant SwapClear Contracts that are to be transferred pursuant to this Procedure. Following receipt of a SwapClear Clearing Client Partial Transfer Form, the Clearing House shall notify the Carrying Clearing Member that a request has been received to transfer SwapClear Contracts. All partial transfers shall take place in accordance with the timing and notice requirements set out in Procedure 2C.15.5.4. In the event that such timing and notice requirements are not complied with, and unless agreed otherwise between the Clearing House and the relevant Clearing Members, the relevant partial transfer shall not take effect.

In the event that any of the conditions set forth in paragraph (d) of Regulation 52C are not satisfied, including where the Carrying Clearing Member notifies the Clearing House that certain of the conditions have not been satisfied using the Carrying Member Response Form, the Clearing House shall not proceed with the transfer of the Relevant SwapClear Contracts and shall promptly notify the Receiving Clearing Member of such outcome. If the Receiving Clearing Member wishes to proceed with such transfer, it shall be required to submit a new request to transfer in accordance with these Procedures.

**2C.15.5.2 Full Transfers**

Where, pursuant to: (i) paragraph (b) of Regulation 52C, a Receiving Clearing Member wishes, on behalf of an Individual Segregated Account Clearing Client to receive a transfer of all of the SwapClear Contracts registered in the Individual Segregated Account of such Individual Segregated Account Clearing Client with a Carrying Clearing Member; or (ii) paragraph (c) of Regulation 52C, a Receiving Clearing Member wishes, on behalf of each Omnibus Net Segregated Clearing Client on behalf of whom the same Omnibus Net Segregated Account is held by a Carrying Clearing Member to receive a transfer of all of the SwapClear Contracts held in such Omnibus Net Segregated Account, such Receiving Clearing Member shall provide the Clearing House with a SwapClear Clearing Client Full Transfer Form (see Appendix 2C.K.2), in respect of (and signed by or on behalf of) each SwapClear Clearing Client on behalf of whom the relevant transfer would be made. Each such form shall confirm that all SwapClear Contracts attributable to the applicable SwapClear Clearing Client shall be transferred pursuant to this Procedure. Where a Receiving Clearing Member submits a SwapClear Clearing Client Full Transfer Form, it must confirm whether or not the SwapClear Clearing Client(s) also wishes to transfer

~~Associated Account Assets in respect of the Account Assets of the relevant SwapClear Clearing Client~~ wish(es) to transfer the Associated Collateral Balance. Following receipt of a SwapClear Clearing Client Full Transfer Form, the Clearing House shall notify the Carrying Clearing Member that a request has been received to transfer SwapClear Contracts. All full transfers shall take place in accordance with the timing and notice requirements set out in Procedure 2C.15.5.4. In the event that such timing and notice requirements are not complied with, and unless agreed otherwise between the Clearing House and the relevant Clearing Members, the relevant transfer shall not take effect.

In the event that any of the conditions set forth in Regulation 52C(b) are not satisfied, including where the Carrying Clearing Member notifies the Clearing House that certain conditions have not been satisfied using the Carrying Member Response Form, the Clearing House shall not proceed with the transfer of the Relevant SwapClear Contracts or the transfer of the Associated Account Assets Collateral Balance (when applicable) and shall promptly notify the Receiving Clearing Member of such outcome. If the Receiving Clearing Member wishes to proceed with such transfer or any other transfer of the Relevant SwapClear Contracts of the SwapClear Clearing Clients referred to in (i) or (ii) in the preceding paragraph, it shall be required to submit a new request to transfer in accordance with these Procedures.

Following receipt by the Carrying Clearing Member of the notice that a SwapClear Clearing Client Full Transfer Form has been received, the Carrying Clearing Member shall not be permitted to submit additional SwapClear Contracts on behalf of the SwapClear Clearing Clients whose SwapClear Contracts are to be subject to transfer during the period commencing at the end of the SwapClear service operating hours on the day on which the relevant SwapClear Clearing Member received such notice and ending at the time at which the relevant transfer (including the transfer of the relevant Associated Account Assets Collateral Balance, if applicable) is actually effected, fails or is rejected in accordance with Regulation 52C and these Procedures.

### 2C.15.5.3 Collateral Transfers

Where a Receiving Clearing Member notifies the Clearing House that a SwapClear Clearing Client wishes to transfer ~~an Associated Account Assets in respect of its Account Assets~~ Collateral Balance from the Carrying Clearing Member to the Receiving Clearing Member, the Clearing House shall notify the Carrying Clearing Member of such request in accordance with the timetable below.

Following such notification, the Carrying Clearing Member shall confirm to the Clearing House (using the Carrying Member Response form at Appendix 2C.K.3) which assets comprise the Associated Account Assets are Collateral Balance attributable to the SwapClear Clearing Client(s) and the Relevant SwapClear Contracts. In the event that the Carrying Clearing Member fails to do so in accordance with the timetable below, the Clearing House shall determine (in its sole discretion) the Associated Account Assets that are Collateral Balance to be transferred from the Carrying Clearing Member's client account with LCH. The Clearing House shall notify the Carrying Clearing Member and the Receiving Clearing Member of ~~the any~~ Associated Account Assets Collateral Balance that will be transferred in accordance with the timetable below. Following receipt of such notification by the Clearing House, the Receiving Clearing Member may elect to reject the transfer of some or all of the relevant Associated Account Assets Collateral Balance in accordance with paragraph (e) of Regulation 52C. The Clearing House shall transfer the Associated Account Assets Collateral Balance that ~~have~~ has been identified to and consented by the Receiving Clearing Member. In the event that, for whatever reason, the Clearing House is unable to transfer such Associated Account Assets Collateral Balance, the Clearing House will not proceed with the transfer of the Relevant SwapClear Contracts.

In the event that any of the conditions set forth in Regulation 52(b) or 52C(c) (as applicable) are not satisfied, including where the Carrying Clearing Member notifies the Clearing House that certain conditions have not been satisfied using the Carrying Member



Response Form, such that the related SwapClear Contracts will not be transferred, the Clearing House shall not proceed with the transfer of the relevant Associated ~~Account Assets~~ Collateral Balance.

In the event that the Clearing House transfers any Associated ~~Account Assets~~ Collateral Balance pursuant to these Procedures and the General Regulations, it will also transfer the aggregate balance held in respect of variation margin and next day settlement coupons and fees associated with the transferring Relevant SwapClear Contracts.

#### 2C.15.5.4 Timetable for SwapClear Clearing Client Transfer

<u>Time</u>	<u>Partial Transfer</u>	<u>Full Transfer (with collateral)</u>	<u>Full Transfer (without collateral)</u>
(all references below are to London Time)			
Day 0: 17:00	Deadline for receipt from Receiving Clearing Member of SwapClear Clearing Client Partial Transfer Form.	Deadline for receipt from Receiving Clearing Member of SwapClear Clearing Client Full Transfer Form and confirmation that Associated <del>Account Assets</del> <u>are Collateral Balance is to be transferred.</u>	Deadline for receipt from Receiving Clearing Member of SwapClear Clearing Client Full Transfer Form.
Day 0: 19:00	Deadline for Clearing House to notify Carrying Clearing Member of receipt by Clearing House of SwapClear Clearing Client Partial Transfer Form.	Deadline for Clearing House to notify Carrying Clearing Member of receipt by Clearing House of SwapClear Clearing Client Full Transfer Form.	Deadline for Clearing House to notify Carrying Clearing Member of receipt by Clearing House of SwapClear Clearing Client Full Transfer Form.
Day 1: 10:00	Deadline for: (i) notification by the Clearing House to the Carrying Clearing Member and the Receiving Clearing Member that it intends to transfer the Relevant SwapClear Contracts of the relevant SwapClear Clearing Client pursuant to a request from the Receiving Clearing Member; and (ii) provision by the Clearing House of details to the Carrying Clearing Member and the Receiving Clearing Member of the Relevant SwapClear Contracts to be transferred.	Deadline for: (i) notification by the Clearing House to the Carrying Clearing Member and the Receiving Clearing Member that it intends to transfer the Relevant SwapClear Contracts of the relevant SwapClear Clearing Client pursuant to a request from the Receiving Clearing Member; and (ii) provision of details to the Carrying Clearing Member and the Receiving Clearing Member of the Relevant SwapClear Contracts to be transferred.	Deadline for: (i) notification by the Clearing House to the Carrying Clearing Member and the Receiving Clearing Member that it intends to transfer the Relevant SwapClear Contracts of the relevant SwapClear Clearing Client pursuant to a request from the Receiving Clearing Member; and (ii) provision of details to the Carrying Clearing Member and the Receiving Clearing Member of the Relevant SwapClear Contracts to be

<u>Time</u>	<u>Partial Transfer</u>	<u>Full Transfer (with collateral)</u>	<u>Full Transfer (without collateral)</u>
(all references below are to London Time)			
			transferred.
Day 2: 12:00	Deadline for notification (if any) from Carrying Clearing Member that it is rejecting the transfer (in accordance with Regulation 52C(d)(v)).	Deadline for notification (if any) from Carrying Clearing Member that it is rejecting the transfer (in accordance with Regulation 52C(b)(v) or 52C(c)(v) (as applicable)).	Deadline for notification (if any) from Carrying Clearing Member that it is rejecting the transfer (in accordance with Regulation 52C(b)(v) or (c)(v) (as applicable)).
		Deadline for confirmation from Carrying Clearing Member of the Associated Account <u>Assets Collateral Balance</u> which are available to be transferred to the Receiving Clearing Member.	
Day 2: 12:00 to 14:00		LCH notifies the Receiving Clearing Member of the Associated Account <u>Assets Collateral Balance</u> that would be transferred.	
Day 2: 17:00	Deadline for receipt by the Clearing House of consent to transfer of the Relevant SwapClear Contracts from the Receiving Clearing Member.	Deadline for receipt by the Clearing House of consent to transfer of the Relevant SwapClear Contracts and (if applicable) some or all of the Associated Account <u>Assets Collateral Balance</u> from the Receiving Clearing Member.	Deadline for receipt by the Clearing House of consent to transfer of the Relevant SwapClear Contracts from the Receiving Clearing Member.
Day 3: 08:00	Target deadline for notification by Clearing House to the Carrying Clearing Member and/or the Receiving Clearing Member of whether any additional <u>cover Collateral</u> is required to enable the transfer.	Target deadline for notification by Clearing House to the Receiving Clearing Member of whether any additional <u>cover Collateral</u> is required to enable the transfer.	Target deadline for notification by Clearing House to the Receiving Clearing Member of whether any additional <u>cover Collateral</u> is required to enable the transfer.

<u>Time</u>	<u>Partial Transfer</u>	<u>Full Transfer (with collateral)</u>	<u>Full Transfer (without collateral)</u>
(all references below are to London Time)			
Day 3: 09:00	Deadline for receipt by Clearing House of any additional <del>cover</del> <u>Collateral</u> from the Carrying Clearing Member and/or the Receiving Clearing Member required to enable the transfer.	Deadline for receipt by Clearing House of any additional <del>cover</del> <u>Collateral</u> from the Receiving Clearing Member required to enable the transfer.	Deadline for receipt by Clearing House of any additional <del>cover</del> <u>Collateral</u> from the Receiving Clearing Member required to enable the transfer.
Day 3: 09:00	Clearing House transfers the Relevant SwapClear Contracts.	Clearing House transfers the Relevant SwapClear Contracts and (if applicable) some or all of the Associated <del>Account Assets</del> <u>Collateral Balance</u> .	Clearing House transfers the Relevant SwapClear Contracts.

The timings and processes listed in the table above may be amended from time to time by the Clearing House in its full discretion via Member Circular.

## 2C.16 EARLY TERMINATION EVENTS

SwapClear Clearing Members using MarkitWire, Tradeweb and Bloomberg may, if they so wish, use the Early Termination Provision FpML block to include details of any terms relating to optional early termination agreed between the parties to that SwapClear Transaction.

The Clearing House has agreed, in order to assist SwapClear Clearing Members, that SwapClear Clearing Members may use these fields for their own administrative convenience as a record of a term of the underlying SwapClear Transaction between them, but any data populating these fields will not under any circumstances constitute any part of or any term of the SwapClear Contracts which arise between the Clearing House and the SCMs in whose name such trades are registered. SCMs have no right to elect early termination of any SwapClear Contract. The full terms of any such SwapClear Contract are as set out in Part A of the Schedule to the SwapClear Regulations.

The Clearing House does not store or record any data populating these fields or blocks or any other fields or blocks in the trade confirmation message which are ignored by the SwapClear system (see information documents provided by SwapClear entitled:

"The FpML Validation Rules for SwapClear".

## 2C.17 TERMINATION OF SWAPCLEAR CLEARING MEMBER AND SWAPCLEAR DEALER STATUS

### 2C.17.1 Termination of SwapClear Clearing Member Status

Clearing Members should contact the Clearing House Membership Department (+44 (0)20 7426 7949; [membership@lchclearnet.com](mailto:membership@lchclearnet.com)) for details of how to resign from the SwapClear service.

**2C.17.2 Termination of SwapClear Dealer status**

The SwapClear Dealer Agreement sets out how that relationship may be terminated.

In particular, a SwapClear Dealer may terminate the agreement by giving no less than twenty one (21) days' written notice in the same terms to the SCM and to the Clearing House. Before the expiry of such twenty one (21) days (the "Termination Date"), the Clearing House will notify all SwapClear Clearing Members and SwapClear Dealers that the relevant SD is no longer able, from such Termination Date to submit SwapClear Transactions for registration. It may only resume registration of SwapClear Transactions if it enters into another SwapClear Dealer Clearing Agreement and resumes its place in the Register of SwapClear Dealers. The Clearing House may give such notification by letter, email, fax, internet or telephone.

An SCM may terminate the agreement, inter alia, at any time by giving written notice to the SD and to the Clearing House in accordance with the provisions of the agreement. Following receipt of that notice, the Clearing House will confirm receipt to the SCM and SD and such termination will become effective 3 hours after the Clearing House's confirmation has been sent out. Confirmation may be given by the Clearing House by letter, email, fax, internet or telephone. Where notice is given to the Clearing House on a day which is not a business day for the SwapClear Service, it will become effective three (3) hours after the commencement of the SwapClear Service on the next following business day.

Following the receipt of a notice to terminate given by the SCM, the Clearing House will notify all SwapClear Clearing Members and SwapClear Dealers that the relevant SD is no longer able to submit SwapClear Transactions for registration until that SD enters into another SwapClear Dealer Clearing Agreement and resumes its place in the Register of SwapClear Dealers.

**2C.18 PAYMENT OF STAMP TAX**

Each SwapClear Clearing Member 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 SwapClear 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 SwapClear Contract) by any such Stamp Tax Jurisdiction or by any other jurisdiction.

**2C.19 SECTION 168, FINANCE ACT 1994**

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 which would otherwise fall within section 696 CTA 2009 must not be submitted to the Clearing House for clearing nor should any SwapClear Clearing Member knowingly permit any such contract to be submitted. Should this occur the SwapClear 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 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 SwapClear Dealer submitting such a contract for registration for the Register of SwapClear Dealers. The Clearing House may also in its absolute discretion take such action in respect of the SwapClear Clearing Member as it deems fit in accordance with the Regulations. The SwapClear 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, Clearing Members should consult their professional advisers as to the potential application of sections 696 and 697 CTA 2009 to their transaction.

## 2C.20 **DEFAULT MANAGEMENT**

### 2C.20.1 **Portfolio Splitting**

As part of the SwapClear DMP, 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 SwapClear DMG, seek to create:

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

### 2C.20.2 **Acceptance of Bids**

In deciding whether to accept a bid, the Clearing House will generally accept the best bid in respect of any individual Auction. However, the Clearing House is entitled to reject a bid in the event that it considers, in its reasonable discretion that accepting the bid may:

- (a) cause the Clearing House to breach any legal or regulatory requirement applicable to it by virtue of its being a Recognised Clearing House or a Derivatives Clearing Organization;
- (b) cause the Clearing House or its membership any reputational harm;
- (c) cause legal action or proceedings to be taken against the Clearing House; or
- (d) endanger the Clearing House, any of its clearing members or the financial markets in which the Clearing House operates.

Where the Clearing House receives more than one bid from the same SwapClear Clearing Member and in respect of the same Auction the Clearing House is entitled to accept the last bid received by it in respect of that Auction. Where the Clearing House does not receive a bid that was made by a SwapClear Clearing Member for operational,

technological or other similar reasons and as a result of which a bid does not reach the Clearing House, the Clearing House will be unable to accept a bid and shall not be liable for any failure to accept such bid.

#### 2C.20.3 **Affiliate Bidding**

SwapClear Clearing Members are entitled to bid for an Auction Portfolio on behalf of an affiliated SwapClear Clearing Member or affiliated FCM Clearing Member. Where a SwapClear Clearing Member makes a bid and that SwapClear Clearing Member has an affiliated SwapClear Clearing Member or FCM Clearing Member that does not make a bid, the Clearing House shall not (unless instructed otherwise in accordance with the paragraph below) assume that the bidding SwapClear Clearing Member has made the relevant bid on behalf of a non-bidding, affiliated SwapClear Clearing Member or affiliated FCM Clearing Member.

A SwapClear Clearing Member may notify the Clearing House, in advance of an Auction, that it wishes to bid on behalf of an affiliated SwapClear Clearing Member or affiliated FCM Clearing Member. Where it wishes to do so, the SwapClear Clearing Member should contact the Clearing House's Membership Department (membership@lchclearnet.com; +44 (0)207 426 7949).

#### 2C.20.4 **Backup SwapClear Clearing Members**

SwapClear Clearing Members may nominate a Backup SwapClear Clearing Member in respect of a SwapClear Clearing Client.

Where a SwapClear Clearing Member nominates a Backup SwapClear Clearing Member, the Clearing House is entitled, in accordance with the SwapClear DMP and following the default of the relevant SwapClear Clearing Member, to immediately and without notice to any person, send details of the Relevant Contracts and Account Balances to that pre-nominated Backup SwapClear Clearing Member; the Clearing House shall not require consent from any person in advance of sending these details.

Note: Nomination of a Backup Clearing Member does not mean that SwapClear Contracts will always be transferred to that Backup Clearing Member. Porting of SwapClear Contracts, following a SwapClear Clearing Member's default is always subject to the Clearing House's receipt of consent from the relevant Backup SwapClear Clearing Member.

A SwapClear Clearing Member that wishes to nominate a Backup SwapClear Clearing Member on behalf of a SwapClear Clearing Client should contact the Clearing House's Membership Department (membership@lchclearnet.com; +44 (0)207 426 7949).

#### 2C.20.5 **Default Fund: SwapClear Contributions**

SwapClear Contributions (as defined in the Default Fund Rules) will be called via PPS on the fourth working day of each month or more frequently pursuant to a determination of the SwapClear Contribution under S2(k) of the Default Fund Rules (each a "**SwapClear Reset Day**"). SwapClear Contribution requirements will be notified to SwapClear Clearing Members at least two working days prior to each SwapClear Reset Day on Member Intranet Report 000032.

Excess SwapClear Contribution amounts due to SwapClear Clearing Members following the adjustment to the SwapClear Contribution will be repaid to SwapClear Clearing Members' PPS accounts on the SwapClear Reset Day immediately following the adjustment to the SwapClear Contribution.

Interest on SwapClear Contributions will be paid to SwapClear Clearing Members' PPS accounts on the first working day after the SwapClear Reset Day following the end of the

relevant "interest accrual period". Interest is calculated in respect of each "interest accrual period", which commences on (and includes) a SwapClear Reset Day and ends on (and includes) the calendar day immediately before the next SwapClear Reset Day. Notwithstanding the preceding paragraphs, if the rate of interest payable on SwapClear Contributions is negative, interest shall be payable by SwapClear Clearing Members to the Clearing House.

#### 2C.20.6 **Quantifying SwapClear Contributions**

For the purposes of calculating the SwapClear Margin Weight under Rule S2(c) of the SwapClear Default Fund Supplement, the average daily requirement for initial margin applied to an SCM shall be determined by reference to the SwapClear Contracts comprising the SwapClear House Business of that SCM only. Nothing in the foregoing sentence shall prevent the Clearing House from introducing changes to the methodology used for calculating the SwapClear Margin Weight and, in particular, with effect from 28 September 2012, the average daily requirement for initial margin applied to an SCM for the purposes of such calculation shall be determined by reference to the SwapClear Contracts comprising both the SwapClear House Business and the SwapClear Clearing Client Business of that SCM.

#### 2C.20.7 **Outsourcing**

Pursuant to Section 1 (Membership) of the Procedures, an SCM may appoint a third party to fulfil one or both of the Clearing House's Membership requirements to: (i) participate in a SwapClear "fire drill" run by the Clearing House; and (ii) participate in the SwapClear DMP operated by the Clearing House. Where an SCM chooses to outsource one or both of these functions it must appoint and maintain at least three LCH Approved Outsourcing Agents.

The following entities are eligible for appointment as an LCH Approved Outsourcing Agent:

- (a) a SwapClear Clearing Member;
- (b) an FCM Clearing Member;
- (c) an FCM Client or SwapClear Clearing Client;
- (d) any other entity that the Clearing House deems appropriate in its sole discretion.

Where an SCM wishes to appoint a third party to carry out any obligation on its behalf, it should contact the Clearing House's Membership Department with the:

- (a) details of the third party entity that the SCM wishes to appoint as an LCH Approved Outsourcing Agent. Such information should include details of the applicant's regulatory status;
- (b) evidence of the existence of a legally binding agreement between the SCM Clearing Member and the third party; and
- (c) such other information that the Clearing House reasonably considers necessary for the purposes of determining whether an entity should be approved as an LCH Approved Outsourcing Agent.

Following the receipt of all of the information above, the Clearing House shall determine in its sole discretion, whether to approve the third party as an LCH Approved Outsourcing Agent. In making its determination, the Clearing House shall consider the third party's

ability to demonstrate that it has the necessary operational infrastructure and appropriate asset class expertise.

Where an SCM successfully appoints an LCH Approved Outsourcing Agent, that SCMs may be subject to increased margin requirements to cater for the additional time required to invoke an outsourcing process in the event of a default.

SCMs should note that LCH Approved Outsourcing Agents may be subject to a more rigorous driving test and fire-drill than SCM (i.e. required to demonstrate an ability to price and bid a greater number of trades at tighter pricing tolerances and within more onerous timeframes). In addition, the Clearing House may require an SCM, that has appointed an LCH Approved Outsourcing Agent, to participate in an ad-hoc fire-drill or driving test with such notice as the Clearing House deems appropriate in its sole discretion.

The Clearing House reserves the right to revoke an entity's status as an LCH Approved Outsourcing Agent, in its sole discretion and without notice. In the event of such a revocation, the relevant SCM shall be required to assume those responsibilities that were previously outsourced. Such revocation may occur where the Clearing House considers that there is an insufficient number of third party entities that are providing outsourced default management services (usually a minimum of five providers at any one time).

Other than in exceptional circumstances and in the Clearing House's sole discretion, an LCH Approved Outsourcing Agent may not act on behalf of more than three clearing members.

The appointment of an LCH Approved Outsourcing Agent does not SwapClear DMP (including its obligation to participate in an Auction) and an LCH Approved Outsourcing Agent's participation in the SwapClear DMP on behalf of an SCM, in the event of a default, shall not extend beyond the provision of operational and other ancillary support to that SCM.

#### 2C.20.8 **SwapClear DMG**

The necessary involvement of SCMs and the SwapClear DMG in the SwapClear DMP entails the assessment and dissemination of information that could give rise to conflicts of interest. To ensure that such potential conflicts are demonstrably contained, Appendix 2C.N establishes binding obligations of confidentiality, anonymity and the extent of dissemination of information on SCMs (and their executives or directors who participate from time to time in the SwapClear DMG) and on the Clearing House.

Each SCM who makes available a representative to serve on the SwapClear DMG agrees, and shall procure that, to the extent applicable, its representatives agree to be bound by and to ensure that it and any of its executives or directors serving on the SwapClear DMG complies with Appendix 2C.N covering confidentiality, non-disclosure and other terms.



## APPENDIX 2C.A

## SWAPCLEAR PROCESSING SCHEDULE

This table outlines the daily processes and timetable of the SwapClear operation. Clearing Members will be informed of changes to this timetable via member circular. All time shown is London time.

SWAPCLEAR PROCESSING SCHEDULE	
Time	
07:30	SwapClear Opens
by 09:30	Registration of Backloaded trades and confirmation of deleted trades from T-1 (see section 2C.3.6)
16:00	Deadline for PPS calls in London
22:00	SwapClear Closes

APPENDIX 2C.B

INTRA-DAY COLLATERAL LODGEMENT FORM



Version 1: Oct 2009

LCH,Clearnet Limited Ref No: **XX??**

To: LCH.Clearnet Limited (the "Clearing House"), Treasury Department  
(scmcollateral@lchclearnet.com)

From: Clearing Member (full name): \_\_\_\_\_

Client Account\*

Mnemonic: \_\_\_\_\_

**We confirm** that (i) we are the sole and beneficial owner of these securities; or (ii) these securities are furnished or deposited with the legal and beneficial owner's unconditional consent and free of such owner's interest.

We acknowledge that these securities may be held by any custodian in any depository, securities clearing or settlement system (in the United Kingdom or elsewhere) which may for the time being be customarily used in connection with securities of similar kinds on a fungible basis and subject to the rules of the relative system and the terms and conditions of its operator, and the Clearing House has no responsibility for the performance of any such custodian, system or operator and in particular we consent to the securities being held in the Euroclear clearance system subject to the fungibility regime organised by the Belgian Royal Decree No. 62 of 10 November 1967 promoting the circulation of securities as amended from time to time.

Security Code Number	Settlement Date	Trade Date	Amount/Nominal Value	Description of Security (Issue – Coupon – Maturity)

Delivery from: Depository/Agent: \_\_\_\_\_

(for US Securities, Broker Code) \_\_\_\_\_

Account Holder \_\_\_\_\_

Account Number \_\_\_\_\_

Delivery to (please indicate)

Depository	Euroclear	Euroclear (ITL tax exempt)	CRESTCo	Citibank (US owners)	Citibank (non-US owners)
Clearing House Account No	91205	91737	5165	090401	090372

Signatories for and on behalf  
of the Clearing Member:

1. \_\_\_\_\_  
(Signature) (Print Name) (Position)
  2. \_\_\_\_\_  
(Signature) (Print Name) (Position)
- Date: \_\_\_\_\_

To: **THE ABOVE-NAMED CLEARING HOUSE**

We accept the above-mentioned securities for inclusion in The Schedule of "Specified Securities" charged to us under your above-mentioned charge.

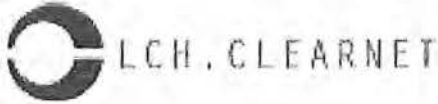
For and on behalf of LCH  
Clearnet Limited

Date: \_\_\_\_\_ Time: \_\_\_\_\_

(Authorised Signatory): \_\_\_\_\_

APPENDIX 2C.C

INTRA-DAY HOUSE NON-CASH EXCESS TRANSFER FORM



Version 1: Oct 2009

Completed forms should be sent to the Clearing House Treasury Department ([scmcollateral@lchclearnet.com](mailto:scmcollateral@lchclearnet.com)).

From: Clearing Member (full name) House Account: \_\_\_\_\_

To: **Client Account** **Mnemonic:** \_\_\_\_\_

**Lodgment Ref:** \_\_\_\_\_

**We confirm** that (i) we are the sole and beneficial owner of these securities; or (ii) these securities are furnished or deposited with the legal and beneficial owner's unconditional consent and free of such owner's interest.

We acknowledge that these securities may be held by any custodian in any depository, securities clearing or settlement system (in the United Kingdom or elsewhere) which may for the time being be customarily used in connection with securities of similar kinds on a fungible basis and subject to the rules of the relative system and the terms and conditions of its operator, and the Clearing House has no responsibility for the performance of any such custodian, system or operator and in particular we consent to the securities being held in the Euroclear clearance system subject to the fungibility regime organised by the Belgian Royal Decree No. 62 of 10 November 1967 promoting the circulation of securities as amended from time to time.

Security Code Number	Settlement Date	Amount/Nominal Value	Description of Security (Issue – Coupon – Maturity)

Signatories for and on behalf of the Clearing Member:

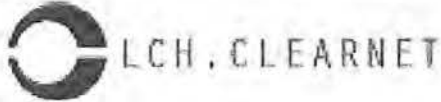
1. \_\_\_\_\_  
 (Signature) (Print Name) (Position)

2. \_\_\_\_\_  
 (Signature) (Print Name) (Position)

Date: \_\_\_\_\_

APPENDIX 2C.D

INTRA-DAY HOUSE CASH EXCESS TRANSFER FORM



Version 1: Oct 2009

Completed forms should be sent to the Clearing House Treasury Department (scmcollateral@lchclearnet.com).

From: Clearing Member (full name) House Account: \_\_\_\_\_

To: Client Account Mnemonic: \_\_\_\_\_

We wish to transfer the following amount of cash collateral from our House account to the Additional Collateral Account as detailed above. We confirm that we are duly authorised, on behalf of the Clearing Member detailed above, to instruct the Clearing House to make this transfer.

Amount

Signatories for and on behalf of the Clearing Member:

1. \_\_\_\_\_  
(Signature) (Print Name) (Position)

2. \_\_\_\_\_  
(Signature) (Print Name) (Position)

Date: \_\_\_\_\_

APPENDIX 2C.E

ADDITIONAL COLLATERAL ACCOUNT LODGEMENT FORM



Version 1: Oct 2009

LCH.Clearnet Limited Ref No: **XX??**

Completed forms should be sent to the Clearing House Treasury Department ([scmcollateral@lchclearnet.com](mailto:scmcollateral@lchclearnet.com))

To: LCH.Clearnet Limited (the "Clearing House")

From: Clearing Member (full name): \_\_\_\_\_

Additional Collateral Account Mnemonic: \_\_\_\_\_

\*Please delete as appropriate

**We confirm** that (i) we are the sole and beneficial owner of these securities; or (ii) these securities are furnished or deposited with the legal and beneficial owner's unconditional consent and free of such owner's interest.

We acknowledge that these securities may be held by any custodian in any depository, securities clearing or settlement system (in the United Kingdom or elsewhere) which may for the time being be customarily used in connection with securities of similar kinds on a fungible basis and subject to the rules of the relative system and the terms and conditions of its operator. and the Clearing House has no responsibility for the performance of any such custodian, system or operator and in particular we consent to the securities being held in the Euroclear clearance system subject to the fungibility regime organised by the Belgian Royal Decree No. 62 of 10 November 1967 promoting the circulation of securities as amended from time to time.

Security Code Number	Settlement Date	Trade Date	Amount/Nominal Value	Description of Security (Issue – Coupon – Maturity)

Delivery from: Depository/Agent: \_\_\_\_\_

(for US Securities, Broker Code) \_\_\_\_\_

Account Holder \_\_\_\_\_

Account Number \_\_\_\_\_

Delivery to (please indicate)

Depository	Euroclear	Euroclear (ITL tax exempt)	CRESTCo	Citibank (US owners)	Citibank (non-US owners)
Clearing House Account No	91205	91737	5165	090401	090372

Signatories for and on behalf  
of the Clearing Member:

1. \_\_\_\_\_  
(Signature) (Print Name) (Position)
  2. \_\_\_\_\_  
(Signature) (Print Name) (Position)
- Date: \_\_\_\_\_

To: **THE ABOVE-NAMED CLEARING HOUSE**

We accept the above-mentioned securities for inclusion in The Schedule of "Specified Securities" charged to us under your above-mentioned charge.

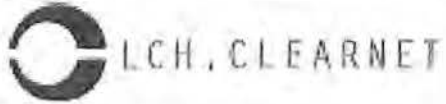
For and on behalf of LCH  
Clearnet Limited

Date: \_\_\_\_\_ Time: \_\_\_\_\_

(Authorised Signatory): \_\_\_\_\_

APPENDIX 2C.F

INTRA-DAY ADDITIONAL COLLATERAL ACCOUNT NON-CASH TRANSFER FORM



Version 1: Oct 2009

Completed forms should be sent to the Clearing House Treasury Department (scmcollateral@lchclearnet.com)

Clearing Member (full name):

Mnemonic:

\_\_\_\_\_  
\_\_\_\_\_

Lodgment Ref:

\_\_\_\_\_

From: Additional Collateral Account or Client Account\*

\*Please delete as appropriate

To: Additional Collateral Account or Client Account\*

\_\_\_\_\_  
\_\_\_\_\_

**We confirm** that (i) we are the sole and beneficial owner of these securities; or (ii) these securities are furnished or deposited with the legal and beneficial owner's unconditional consent and free of such owner's interest.

We acknowledge that these securities may be held by any custodian in any depository, securities clearing or settlement system (in the United Kingdom or elsewhere) which may for the time being be customarily used in connection with securities of similar kinds on a fungible basis and subject to the rules of the relative system and the terms and conditions of its operator, and the Clearing House has no responsibility for the performance of any such custodian, system or operator and in particular we consent to the securities being held in the Euroclear clearance system subject to the fungibility regime organised by the Belgian Royal Decree No. 62 of 10 November 1967 promoting the circulation of securities as amended from time to time.



Security Code Number	Settlement Date	Amount/Nominal Value	Description of Security (Issue – Coupon – Maturity)

Signatories for and on behalf of the Clearing Member:

1.

\_\_\_\_\_  
(Signature)                      (Print Name)                      (Position)

2.

\_\_\_\_\_  
(Signature)                      (Print Name)                      (Position)

Date: \_\_\_\_\_

APPENDIX 2C.G

INTRA-DAY ADDITIONAL COLLATERAL ACCOUNT CASH TRANSFER FORM



Version 1; Oct 2009

Completed forms should be sent to the Clearing House Treasury Department (scmcollateral@lchclearnet.com)

Clearing Member (full name):
Mnemonic:
Lodgment Ref:

From: Additional Collateral Account or Client Account \*Please delete as appropriate

To: Additional Collateral Account or Client Account

We wish to transfer the following amount of cash collateral from the account specified above to the account specified above. We confirm that we are duly authorised, on behalf of the Clearing Member detailed above, to instruct the Clearing House to make this transfer.

Table with 1 column and 2 rows, header 'Amount'

Signatories for and on behalf of the Clearing Member:

1. (Signature) (Print Name) (Position)
2. (Signature) (Print Name) (Position)
Date:

APPENDIX 2C.H

ADDITIONAL COLLATERAL ACCOUNT SPREADSHEET

Additional Collateral (Client) Account Spreadsheet

Issue Date 04/05/2010

Example

Collateral Funded Date	SCMnemonic	Scmname	Client	Collgroup	Collgroupdescription	Currency	Bankcode	Bankname	Price	Nominal value	Cover value	Value Date	Expiry date	ISIN
26/10/2009	XXX	XXX Bank	ABC	BLN	EUROPEAN GOVERNMENT BONDS	EUR	87000	EUROCLEAR (GROSS 91737)	146.80	14,000,000.00	19215120	20/08/2009	27/10/2023	FR0000366655
27/10/2009	XXX	XXX Bank	ABC	BLN	EUROPEAN GOVERNMENT BONDS	EUR	87001	EUROCLEAR (GROSS 91737)	114.03	16,000,000.00	17058888	21/04/2009	26/04/2031	FR0000444378
27/10/2009	XXX	XXX Bank	ABC	CASH	CASH	EUR	87000	XXXX		1,000,000.00				
28/10/2009	XXX	XXX Bank	XYZ	BLN	EUROPEAN GOVERNMENT BONDS	EUR	87001	EUROCLEAR (GROSS 91737)	103.37	10,000,000.00	9820150	07/06/2009	26/01/2020	FR0000954789
26/10/2009	XXX	XXX Bank	EFG	BLN	EUROPEAN GOVERNMENT BONDS	EUR	87001	EUROCLEAR (GROSS 91737)	146.80	14,000,000.00	19215120	20/08/2009	27/10/2023	FR0000366655
27/10/2009	XXX	XXX Bank	EFG	BLN	EUROPEAN GOVERNMENT BONDS	EUR	87001	EUROCLEAR (GROSS 91737)	114.03	16,000,000.00	17058888	21/04/2009	26/04/2031	FR0000444378
27/10/2009	XXX	XXX Bank	EFG	CASH	CASH	GBP	87001	XXXX		5,000,000.00				
<b>Total "A" account holdings</b>													???	

Please fill in the following:

Collateral Funded Date	SCMnemonic	Scmname	Client	Collgroup	Collgroupdescription	Currency	Bankcode	Bankname	Price	Nominal value	Cover value	Value Date	Expiry date	ISIN
<b>Total "A" account holdings</b>													???	

**APPENDIX 2C.1  
CLEARING DEED OF ASSIGNMENT**

[Insert Date]

**[CLEARING MEMBER]**

and

**[CLIENT]**

and

**LCH.CLEARNET LIMITED**

**DEED OF ASSIGNMENT**

**THIS DEED** is dated [*Insert Date*] and made between:

- (1) **[CLEARING MEMBER]** in its capacity as assignor (the "**Assignor**");
- (2) **[CLIENT]** in its capacity as assignee (the "**Assignee**"); and
- (3) **LCH.CLEARNET LIMITED** in its capacity as recipient of the notice of assignment pursuant to Clause 4.2 ("**LCH.Clearnet**").

**WHEREAS:**

- (A) In order to facilitate the clearing of certain transactions with LCH.Clearnet, the Assignor and Assignee have entered into the Client Clearing Agreement dated [*Insert Date*] (the "**Client Clearing Agreement**") pursuant to which they will have entered into as of such date the Clearing ISDA Master Agreement (as defined in the Client Clearing Agreement). In addition, the parties have, pursuant to the Client Clearing Agreement, entered into a Credit Support Annex in respect of, and which forms part of, the Clearing ISDA Master Agreement (the Clearing ISDA Master Agreement together with such Credit Support Annex and the Client Clearing Agreement, the "**Swap Agreement**").
- (B) The Assignor and Assignee, for commercial and economic reasons, desire to maximise the ability to move positions represented by Transactions under the Swap Agreement to a Backup SwapClear Clearing Member upon an Enforcement Event (defined below) and to deliver certain receivables from LCH.Clearnet to the Assignee directly.
- (C) LCH.Clearnet has agreed to be a party to this Deed solely for the purpose of Clause 4.2 [and Clause 4.4].

**It is agreed** as follows:

**1. Definitions and Interpretation**

**Definitions:**

- 1.1 Capitalised terms used but not defined in this Deed shall have the meaning given to them in the Swap Agreement. In addition, the following expressions shall have the following meanings:

"**Assigned Assets**" means the assets subject, or expressed to be subject, to the Assignment or any part of those assets.

"**Assignment**" means the assignment created or expressed to be created by this Deed.

"**Client Clearing Agreement**" has the meaning given to it in Recital (A) to this Deed.

"**Enforcement Event**" means the occurrence of an Early Termination Date under the Swap Agreement as a result of a Clearing Default.

"**Insolvency Act**" means the Insolvency Act 1986.

"**Liabilities**" means all present and future obligations, moneys, debts and liabilities due, owing or incurred by the Assignor to the Assignee under or in connection with the Swap Agreement.

"LPA" means the Law of Property Act 1925.

"**Relevant Account Balance**" means the Account Balance (as defined in the LCH Rules) relating to the Assignee and the Associated LCH Transactions determined by LCH.Clearnet following a Clearing Default in accordance with the LCH Rules.

"**Relevant SwapClear Clearing Client Entitlement**" means the SwapClear Clearing Client Entitlement (as defined in the LCH Rules) relating to the Assignee and the Associated LCH Transactions determined by LCH.Clearnet following a Clearing Default in accordance with the LCH Rules.

"**Security**" means a mortgage, charge, pledge, lien or other security interest securing any obligation of any person or any other agreement or arrangement having a similar effect.

"**Swap Agreement**" has the meaning given to it in Recital (A) to this Deed.

"**Transaction Documents**" means this Deed and the Swap Agreement.

"**UCC**" means the Uniform Commercial Code as in effect in any applicable jurisdiction.

## 1.2 Construction:

1.2.1 Unless a contrary indication appears, any reference in this Deed to:

- (i) "**assets**" includes present and future properties, revenues and rights of every description;
- (ii) the "**Assignor**", the "**Assignee**" or any "**party**" shall be construed so as to include its successors in title and permitted transferees;
- (iii) an agreement, confirmation or instrument is to a reference to that agreement or instrument as amended, novated, supplemented, extended, restated (however fundamentally and whether or not more onerous) or replaced;
- (iv) a "**person**" includes any individual, firm, company, corporation, government, state or agency of a state or any association, trust, joint venture, consortium or partnership (whether or not having separate legal personality);
- (v) a "**regulation**" includes any regulation, rule, official directive, request or guideline (whether or not having the force of law) of any governmental, intergovernmental or supranational body, agency, department or of any regulatory, self-regulatory or other authority or organisation; and
- (vi) a provision of law is a reference to that provision as amended or re-enacted.

1.2.2 Clause and Schedule headings are for ease of reference only.

## 2. Undertaking to pay

The Assignor undertakes to pay each of its Liabilities when due in accordance with its terms.

## 3. Security

The Assignor, with full title guarantee [and as security for the payment of all Liabilities]<sup>1</sup>, assigns absolutely to the Assignee all its present and future right, title and interest in and to the Relevant SwapClear Clearing Client Entitlement and the Relevant Account Balance.

## 4. Restrictions and Further Assurance

4.1 **Security:** The Assignor agrees that it shall not create or permit to subsist any Security over any Assigned Assets except for the Assignment.

4.2 **Notice of Assignment and Undertaking:** The Assignor hereby gives notice of the Assignment to LCH.Clearnet. LCH.Clearnet hereby acknowledges receipt of such notice and undertakes to the other parties hereto that it shall, following the occurrence of a Clearing Default, act in accordance with the LCH Rules and any other laws and regulations applicable to it in determining how the Assigned Assets are to be distributed.

The parties hereto acknowledge and agree that LCH.Clearnet has agreed to be a party to this Deed solely for the purposes of this Clause 4.2 [and to receive the written evidence referred to in Clause 4.4] and shall have no other obligation or liability save as expressly provided in Clause 4.2 [and Clause 4.4]. In particular, the parties agree that the undertaking given by LCH.Clearnet in this Clause 4.2 shall be without prejudice to any protections afforded to it pursuant to the LCH Rules or any other laws and regulations applicable to it.

4.3 **Margining:** The Assignor agrees that, prior to the operation of Clause 9.1, it shall provide margin in respect of any Associated LCH Transactions to LCH.Clearnet on [an Individual Segregated Account basis]/[an Omnibus Net Segregated Account basis]<sup>2</sup> in accordance with (and as defined in) the LCH Rules.

4.4 **[UCC Financing Statement:** The Assignor hereby authorises the filing of a financing statement describing the Assigned Assets in the filing office of Assignor's location as determined by Section 9-307 of the UCC and the Assignee hereby agrees to (a) file such financing statement within [10 Business Days] of the date hereof and (b) provide the Assignor and LCH.Clearnet with a copy of the relevant filed Form UCC-1.]<sup>3</sup>

4.5 **Assignor's Undertaking:** The Assignor undertakes to the Assignee that it shall not, without the prior written consent of the Assignee to such amendment, vote in favour of any amendment to Regulation 52B of the LCH Rules or the SwapClear DMP Annex to the Default Rules of LCH.Clearnet (to the extent any such vote is required) in either case the effect of which amendment would be to (a) amend the terms of the

<sup>1</sup> The language in brackets should not be included where the relevant Clearing Member is organised under the laws of Germany.

<sup>2</sup> Delete as applicable.

<sup>3</sup> This covenant must be included if the Assignor is organised under the laws of the United States of America or any state thereof or located in any such jurisdiction for purposes of Section 9-307 of the UCC.

Assigned Assets hereunder or thereunder or (b) amend the terms on which the Assigned Assets may be dealt with following the occurrence of a Clearing Default.

## 5. Payments

5.1 **No Enforcement Event:** Subject as otherwise provided in this Deed, and for so long as no Enforcement Event has occurred, the Assignor shall be entitled to receive and retain all payments or transfers made to it in respect of the relevant [Individual Segregated Account]/[Omnibus Net Segregated Account]<sup>4</sup> in accordance with the LCH Rules. For the avoidance of doubt the Assignor shall not be entitled to deal with the Assigned Assets at any time while the Assignment is in effect.

5.2 **Post Enforcement Event:** Following the occurrence of an Enforcement Event, the Assignee shall be entitled to receive directly from LCH.Clearent all Assigned Assets and payments or transfers made in respect of an Assigned Asset.

## 6. Enforcement and Remedies

6.1 **Enforcement Event:** As between the Assignor and the Assignee, the Security created on the date hereof shall only be enforceable, and the powers conferred by Section 101 of the LPA as varied and extended by this Deed shall only be exercisable, following the occurrence of an Enforcement Event.

6.2 **Power of Sale:** The statutory power of sale and the other statutory powers conferred on mortgagees by Section 101 of the LPA as varied and extended by this Deed shall arise on the date of this Deed.

6.3 **Section 103 LPA:** Section 103 of the LPA shall not apply to this Deed.

## 7. Provisions Relating to Assignee

7.1 **Assignee's Rights:** At any time after the occurrence of an Enforcement Event, the Assignee shall have the rights set out in the Schedule hereto.

7.2 **Application of Proceeds:** Subject to Clause 9.1, all amounts or assets received or recovered by the Assignee in the exercise of its rights under this Deed shall be applied in the following order: (i) in or towards the payment of the Liabilities in such order as the Assignee thinks fit, but in any case acting in good faith and in a commercially reasonable manner, and (ii) in payment of any surplus to the Assignor.

7.3 **Power of Attorney:** The Assignor by way of security irrevocably appoints the Assignee as its attorney (with full power of substitution), on its behalf and in its name or otherwise, in such manner as the attorney thinks fit, but in any case acting in good faith and in a commercially reasonable manner, to exercise (following the occurrence of an Enforcement Event only) any of the rights conferred on the Assignee in relation to the Assigned Assets or under the LPA or the Insolvency Act. The Assignor ratifies and confirms and agrees to ratify and confirm whatever any such attorney shall do in the exercise or purported exercise of the power of attorney granted by it in this Clause 7.3.

## 8. Saving Provisions

<sup>4</sup> Delete as applicable.



- 8.1 **Continuing Security:** Subject to Clause 9, the Assignment is continuing security and will extend to the ultimate balance of the Liabilities, regardless of any intermediate payment or discharge in whole or in part.
- 8.2 **Reinstatement:** If any discharge, release or arrangement (whether in respect of the obligations of the Assignor or any security for those obligations or otherwise) is made by the Assignee in whole or in part on the basis of any payment, security or other disposition which is avoided or must be restored in insolvency, liquidation or otherwise, without limitation, then the liability of the Assignor and the Assignment shall continue or be reinstated as if the discharge, release or arrangement had not occurred.
- 8.3 **Waiver of Defences:** Neither the obligations of the Assignor under this Deed nor the Assignment will be affected by an act, omission, matter or thing which, but for this Clause 8, would reduce, release or prejudice any of its obligations under any Transaction Document or the Assignment (without limitation and whether or not known to it or the Assignee) including:
- 8.3.1 any time, waiver or consent granted to, or composition with, the Assignor or other person;
  - 8.3.2 the release of the Assignor or any other person under the terms of any composition or arrangement with any creditor of any affiliate;
  - 8.3.3 the taking, variation, compromise, exchange, renewal or release of, or refusal or neglect to perfect, take up or enforce, any rights against, or security over assets of, the Assignor or other person or any non-presentation or non-observance of any formality or other requirement in respect of any instrument or any failure to realise the full value of any security;
  - 8.3.4 any amendment, novation, supplement, extension, restatement (however fundamental and whether or not more onerous) or replacement of any Transaction Document or any other document or security; or
  - 8.3.5 any insolvency or similar proceedings.
- 8.4 **Immediate Recourse:** The Assignor waives any right it may have of first requiring the Assignee (or any trustee or agent on its behalf) to proceed against or enforce any other rights or security or claim payment from any person before claiming from the Assignor under this Deed. This waiver applies irrespective of any law or any provision of a Transaction Document to the contrary.
- 8.5 **Additional Security:** The Assignment is in addition to and is not in any way prejudiced by any other guarantees or security now or subsequently held by the Assignee.
9. **Discharge of Security**
- 9.1 **Final Redemption:** Immediately upon there no longer being any Liabilities remaining (or, if earlier, immediately upon it no longer being possible for an Enforcement Event to occur), the Assignee shall be deemed to have immediately released, reassigned or discharged (as appropriate) the Assigned Assets from the Assignment and therefore:
- 9.1.1 the Assignor may retain for its own account; and

9.1.2 the Assignee shall therefore promptly pay or transfer to the Assignor,

any amounts or other assets received by such party from LCH.Clearnet in respect of the Assigned Assets. For the avoidance of doubt, it is acknowledged that the Assignor's rights under this Clause 9 shall constitute an equity of redemption (and therefore a proprietary interest to the extent of such equity of redemption) in the Assigned Assets and any amounts or other assets the subject of such rights shall be returned by the Assignee to the Assignor.

9.2 **Consolidation:** Section 93 of the LPA shall not apply to the Assignment.

## 10. Miscellaneous Provisions

10.1 **Payments:** All payments by the Assignor under this Deed (including damages for its breach) shall be made to such account, with such financial institution and in such other manner as the Assignee may direct.

10.2 **Remedies and Waivers:** No failure to exercise, nor any delay in exercising, on the part of the Assignee any right or remedy under this Deed shall operate as a waiver, nor shall any single or partial exercise of any right or remedy prevent any further or other exercise or the exercise of any other right or remedy. The rights and remedies provided in this Deed are cumulative and not exclusive of any rights or remedies provided by law.

10.3 **Amendments and Waivers:** Any term of this Deed may be amended or waived only with the consent of the Assignee and the Assignor.

10.4 **Assignment:** Subject to the extent permitted by applicable law, neither this Deed nor any interest or obligation in or under it may be assigned or otherwise transferred (whether by way of security or otherwise) by either party without the prior written consent of the other party.

10.5 **Partial Invalidity:** If, at any time, any provision of this Deed is or becomes illegal, invalid or unenforceable in any respect under any law of any jurisdiction, neither the legality, validity or enforceability of the remaining provisions nor the legality, validity or enforceability of such provision under the law of any other jurisdiction will in any way be affected or impaired.

10.6 **Third Party Rights:** A person who is not a party to this Deed has no right under the Contracts (Rights of Third Parties) Act 1999 to enforce or enjoy the benefit of any term of this Deed.

10.7 **Counterparts:** This Deed may be executed in any number of counterparts, and this has the same effect as if the signatures on the counterparts were on a single copy of this Deed.

10.8 **Governing Law:** This Deed and any non-contractual obligations arising out of or in connection with it are governed by English law.

10.9 **Jurisdiction:** In relation to any proceedings, each party to this Deed irrevocably submits to the exclusive jurisdiction of the courts of England and waives any objection to proceedings in such courts on the grounds of venue or on the grounds that the proceedings have been brought in an inconvenient forum. Each such submission is made for the benefit of the other party and shall not affect the right of any party to take proceedings in any other court of competent jurisdiction nor shall

the taking of proceedings in any court of competent jurisdiction preclude any party from taking proceedings in any other court of competent jurisdiction (whether concurrently or not) unless precluded by law.

- 10.10 **[Agent for Service of Process; Assignor:** The Assignor hereby irrevocably appoints *[Name of Agent]* of *[Address in England]* to receive service of process on its behalf as its authorised agent for service of process in England. If for any reason such agent ceases to be such agent for service of process, the Assignor shall forthwith appoint a new agent for service of process in England and deliver to the Assignee a copy of the new agent's acceptance of appointment within 30 days. Nothing in this Deed shall affect the right to serve process in any other matter permitted by law.]
- 10.11 **[Agent for Service of Process; Assignee:** The Assignee hereby irrevocably appoints *[Name of Agent]* of *[Address in England]* to receive service of process on its behalf as its authorised agent for service of process in England. If for any reason such agent ceases to be such agent for service of process, the Assignee shall forthwith appoint a new agent for service of process in England and deliver to the Assignor a copy of the new agent's acceptance of appointment within 30 days. Nothing in this Deed shall affect the right to serve process in any other matter permitted by law.]

## Schedule

### Rights of Assignee

Following the occurrence of an Enforcement Event, the Assignee shall have the right, either in its own name or in the name of the Assignor or otherwise and in such manner and upon such terms and conditions as the Assignee thinks fit, but in any case, acting in good faith and in a commercially reasonable manner, and either alone or jointly with any other person:

1. **Take possession:** to take possession of, get in and collect the Assigned Assets and to require payment to it of revenues deriving therefrom;
2. **Deal with Assigned Assets:** to sell, transfer, assign, exchange or otherwise dispose of or realise the Assigned Assets to any person either by public offer or auction, tender or private contract and for a consideration of any kind (which may be payable or delivered in one amount or by instalments spread over a period or deferred);
3. **Borrow money:** to borrow or raise money either unsecured or on the security of the Assigned Assets (either in priority to the Assignment or otherwise);
4. **Rights of ownership:** to manage and use the Assigned Assets and to exercise and do (or permit the Assignor or any nominee of it to exercise and do) all such rights and things as the Assignee would be capable of exercising or doing if it were the absolute beneficial owner of the Assigned Assets;
5. **Claims:** to settle, adjust, refer to arbitration, compromise and arrange any claims, accounts, disputes, questions and demands with or by any person relating to the Assigned Assets;
6. **Legal actions:** to bring, prosecute, enforce, defend and abandon actions, suits and proceedings in relation to the Assigned Assets;
7. **Redemption of Security:** to redeem any Security (whether or not having priority to the Assignment) over the Assigned Assets and to settle the accounts of any person with an interest in the Assigned Assets; and
8. **Other powers:** to do anything else it may think fit for the realisation of the Assigned Assets or incidental to the exercise of any of the rights conferred on the Assignee under or by virtue of any Transaction Document, the LPA or the Insolvency Act,

**This Deed** has been delivered on the date stated at the beginning of this Deed.

**[ASSIGNOR]**

*[INSERT APPROPRIATE SIGNATURE BLOCK]*

**[ASSIGNEE]**

*[INSERT APPROPRIATE SIGNATURE BLOCK]<sup>†</sup>*

<sup>†</sup> Parties should ensure that suitable signature blocks are inserted, which will depend on the legal identity, jurisdiction of incorporation and constitutional documents relating to the parties.

[Signed as a deed by

**LCH.CLEARNET LIMITED**

acting by its attorney

[signature of attorney]

**[NAME OF ASSIGNOR (ATTORNEY)]**

in the presence of:

[signature of witness]

[name and address of witness]<sup>2</sup>

[Executed as a deed by

**LCH.CLEARNET LIMITED**

By: [Director] By: [Director/Company Secretary]<sup>3</sup>

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<sup>2</sup> Use if the Assignor has a power of attorney to sign on behalf of LCH.Clearnet.

<sup>3</sup> Use if LCH.Clearnet intend to execute the Deed themselves.

**APPENDIX 2C.J**  
**CLEARING DEED OF ASSIGNMENT**

[Insert Date]

**[CLEARING MEMBER]**  
and  
**LCH.CLEARNET LIMITED**  
**DEED OF ASSIGNMENT**

**THIS DEED** is dated [Insert Date] and made between:

- (1) **[CLEARING MEMBER]** in its capacity as assignor (the "**Assignor**"); and
- (2) **LCH.CLEARNET LIMITED** in its capacity as the clearing house (in such capacity, the "**Clearing House**") and in its capacity as the assignee and security trustee under this Deed (in such capacity, the "**Security Trustee**").

**WHEREAS:**

- (A) In order to facilitate the clearing of certain transactions with the Clearing House, the Assignor has entered into agreements with one or more of its clients (each a "**Client**" and each such agreement a "**Client Clearing Agreement**") pursuant to which the Assignor and the relevant Client will have entered into as of the date of such Client Clearing Agreement a Clearing ISDA Master Agreement (as defined in the relevant Client Clearing Agreement). In addition, the Assignor and the relevant Client have, pursuant to the relevant Client Clearing Agreement, entered into a Credit Support Annex in respect of, and which forms part of, the relevant Clearing ISDA Master Agreement (each such Clearing ISDA Master Agreement together with the related Credit Support Annex and the related Client Clearing Agreement, a "**Swap Agreement**").
- (B) The Assignor and each Client, for commercial and economic reasons, desire to maximise the ability to move cleared positions representing Transactions under the relevant Swap Agreement to a Backup SwapClear Clearing Member upon the occurrence of an Enforcement Event (as defined below) or to deliver certain receivables from the Clearing House to the relevant Client directly.
- (C) The Security Trustee has agreed to act as the security trustee in accordance with the provisions of this Deed.

**IT IS AGREED** as follows:

1. **Definitions and Interpretation**

1.1 **Definitions**

Capitalised terms used but not defined in this Deed shall have the meaning given to them in the LCH Rules. In addition, the following expressions shall have the following meanings:

"**Assigned Assets**" means the assets subject, or expressed to be subject, to the Assignment or any part of those assets.

"**Assignment**" means the assignment created or expressed to be created by this Deed.

"**Associated LCH Transaction**" means the SwapClear Contract, as defined in the LCH Rules, entered into between the Assignor and the Clearing House.

"**Clearing Default**" means the Assignor becoming a defaulter for the purposes of Rule 4 of the LCH Default Rules.

"**Client**" has the meaning given to it in Recital (A) to this Deed, save that a person shall not be a "Client" for the purposes of this Deed unless the notification provided for in Clause 7.2 has been made and has not been withdrawn.

"**Client Clearing Agreement**" has the meaning given to it in Recital (A) to this Deed.

"**Enforcement Event**" means the occurrence of a Clearing Default in relation to the Assignor in accordance with the LCH Rules.

"**Insolvency Act**" means the Insolvency Act 1986.

"**Liabilities**" means all present and future obligations, moneys, debts and liabilities due, owing or incurred by the Assignor to the Secured Parties under or in connection with the Transaction Documents.

"**LCH Rules**" means the rules, regulations, procedures or agreements (including the LCH General Regulations and the LCH Default Rules), applicable to the Assignor and/or an Associated LCH Transaction, in each case as published by the Clearing House and as the same may be amended from time to time.

"**LPA**" means the Law of Property Act 1925.

"**Relevant Account Balance**" means the Account Balance relating to a Client and the relevant Associated LCH Transactions as calculated by the Clearing House in accordance with the LCH Rules following an Enforcement Event.

"**Relevant SwapClear Clearing Client Entitlement**" means the SwapClear Clearing Client Entitlement relating to a Client and the relevant Associated LCH Transactions as calculated by the Clearing House in accordance with the LCH Rules following an Enforcement Event.

"**Secured Parties**" means each Client from time to time.

"**Security**" means a mortgage, charge, pledge, lien or other security interest securing any obligation of any person or any other agreement or arrangement having a similar effect.

"**Swap Agreement**" has the meaning given to it in Recital (A) to this Deed.

"**Transaction Documents**" means this Deed and each Swap Agreement outstanding from time to time.

"**UCC**" means the Uniform Commercial Code as in effect in any applicable jurisdiction.

## 1.2 Construction

1.2.1 Unless a contrary indication appears, any reference in this Deed to:

- (i) "**assets**" includes present and future properties, revenues and rights of every description;
- (ii) the "**Assignor**", the "**Security Trustee**" or any "**party**" shall be construed so as to include its successors in title and permitted transferees;



- (iii) an agreement, confirmation or instrument is to a reference to that agreement or instrument as amended, novated, supplemented, extended, restated (however fundamentally and whether or not more onerous) or replaced;
- (iv) a "**person**" includes any individual, firm, company, corporation, government, state or agency of a state or any association, trust, joint venture, consortium or partnership (whether or not having separate legal personality);
- (v) a "**regulation**" includes any regulation, rule, official directive, request or guideline (whether or not having the force of law) of any governmental, intergovernmental or supranational body, agency, department or of any regulatory, self-regulatory or other authority or organisation; and
- (vi) a provision of law is a reference to that provision as amended or re-enacted.

1.2.2 Clause and Schedule headings are for ease of reference only.

## 2. **Undertaking to Pay**

The Assignor undertakes to pay each of its Liabilities when due in accordance with its terms.

## 3. **Security**

The Assignor, with full title guarantee [and as security for the payment of all Liabilities<sup>4</sup>, assigns absolutely to the Security Trustee all its present and future right, title and interest in and to each Relevant SwapClear Clearing Client Entitlement and each Relevant Account Balance. The Security Trustee shall hold the benefit of the Assignment on trust for the Secured Parties on the terms of this Deed.

## 4. **Restrictions and Further Assurance**

### Security

- 4.1 The Assignor agrees that it shall not create or permit to subsist any Security over any Assigned Assets except for the Assignment.
- 4.2 Notice of Assignment and Undertaking: The Assignor hereby gives notice of the Assignment to the Clearing House. The Clearing House hereby acknowledges receipt of such notice and undertakes to the Security Trustee (on behalf of the Secured Parties) that it shall, following the occurrence of a Clearing Default, act in accordance with the LCH Rules and any other laws and regulations applicable to it in determining how the Assigned Assets are to be distributed. The parties hereto acknowledge and agree that the Clearing House (acting in such capacity and not in its capacity as Security Trustee) has agreed to be a party to this Deed solely for the purposes of this Clause 4.3 [and to receive the written evidence referred to in Clause 4.4] and shall have no other obligation or liability save as expressly provided in this Clause 4.3 [and Clause 4.4]. In particular, the parties agree that the undertaking

<sup>4</sup> The language in brackets should not be included where the relevant Clearing Member is organised under the laws of Germany.

given by the Clearing House in this Clause 4.3 shall be without prejudice to any protections afforded to it pursuant to the LCH Rules or any other laws and regulations applicable to it.

- 4.3 **Margining:** The Assignor agrees that, prior to the operation of Clause 9.1, it shall provide margin in respect of any Associated LCH Transactions to the Clearing House on an Individual Segregated Account basis or, as may be agreed between the Assignor and the relevant Client, an Omnibus Net Segregated Account basis in accordance with the LCH Rules.
- 4.4 **[UCC Financing Statement:** The Assignor hereby authorises the filing of a financing statement describing the Assigned Assets in the filing office of the Assignor's location as determined by Section 9-307 of the UCC and hereby agrees to (a) file such financing statement within [10 Business Days] of the date hereof and (b) provide the Security Trustee and the Clearing House with a copy of the relevant filed Form UCC-1]<sup>5</sup>.
- 4.5 **Assignor's Undertaking:** The Assignor undertakes to the Security Trustee that it shall not, without the prior written consent of the Security Trustee (acting upon the instructions of the relevant Client) to such amendment, make any amendment to the SwapClear Default Management Process Agreement to which the Assignor is a party the effect of which amendment would be to (a) amend the terms of the Assigned Assets hereunder or thereunder or (b) amend the terms on which the Assigned Assets may be dealt with following the occurrence of a Clearing Default, unless such amendment is of a formal, minor or technical nature or, in the reasonable opinion of the Security Trustee, is not materially prejudicial to the interests of any Secured Party.

## 5. **Payments**

- 5.1 **No Enforcement Event:** Subject as otherwise provided in this Deed, and for so long as no Enforcement Event has occurred, the Assignor shall be entitled to receive and retain all payments or transfers made to it in respect of each Individual Segregated Account and each Omnibus Net Segregated Account relating to each Client from time to time in accordance with the LCH Rules. For the avoidance of doubt the Assignor shall not be entitled to deal with the Assigned Assets at any time while the Assignment is in effect.
- 5.2 **Post Enforcement Event:** Following the occurrence of an Enforcement Event, the Security Trustee shall be entitled to receive directly from the Clearing House all Assigned Assets and payments or transfers made in respect of such Assigned Assets.

## 6. **Enforcement and Remedies**

- 6.1 **Enforcement Event:** The Security created on the date hereof shall only be enforceable, and the powers conferred by Section 101 of the LPA as varied and extended by this Deed shall only be exercisable, following the occurrence of an Enforcement Event.

<sup>5</sup> This covenant must be included if the Assignor is organised under the laws of the United States of America or any state thereof or located in any such jurisdiction for purposes of Section 9-307 of the UCC.

- 6.2 **Power of Sale:** The statutory power of sale and the other statutory powers conferred on mortgagees by Section 101 of the LPA as varied and extended by this Deed shall arise on the date of this Deed.
- 6.3 **Section 103 LPA:** Section 103 of the LPA shall not apply to this Deed.
7. **Declaration of Trust**
- 7.1 The Security Trustee declares that it shall hold the benefit of this Deed and the Assignment on trust for the Secured Parties on the terms set out herein. The parties agree that the provisions set out in Schedule 1 hereto shall apply to the appointment of the Security Trustee.
- 7.2 The Assignor shall notify the Security Trustee of the identity of each person with whom it has entered into a Client Clearing Agreement, and whom it is intended shall take the benefit of this Deed ( which includes, without limitation, the declaration of trust at Clause 7) and the Security Trustee shall, on request, confirm to such person or to the Assignor that it has received such notification. Such notification, once given, may be withdrawn at any time, but any such withdrawal shall take effect only when notification of withdrawal is received by the Security Trustee.
8. **Saving Provisions**
- 8.1 **Continuing Security:** Subject to Clause 9, the Assignment is continuing security and will extend to the ultimate balance of the Liabilities, regardless of any intermediate payment or discharge in whole or in part.
- 8.2 **Reinstatement:** If any discharge, release or arrangement (whether in respect of the obligations of the Assignor or any security for those obligations or otherwise) is made by any Secured Party in whole or in part on the basis of any payment, security or other disposition which is avoided or must be restored in insolvency, liquidation or otherwise, without limitation, then the liability of the Assignor and the Assignment shall continue or be reinstated as if the discharge, release or arrangement had not occurred.
- 8.3 **Waiver of Defences:** Neither the obligations of the Assignor under this Deed nor the Assignment will be affected by an act, omission, matter or thing which, but for this Clause 8, would reduce, release or prejudice any of its obligations under any Transaction Document or the Assignment (without limitation and whether or not known to it or any Secured Party) including:
- 8.3.1 any time, waiver or consent granted to, or composition with, the Assignor or other person;
- 8.3.2 the release of the Assignor or any other person under the terms of any composition or arrangement with any creditor of any affiliate;
- 8.3.3 the taking, variation, compromise, exchange, renewal or release of, or refusal or neglect to perfect, take up or enforce, any rights against, or security over assets of, the Assignor or other person or any non-presentation or non-observance of any formality or other requirement in respect of any instrument or any failure to realise the full value of any security;

- 8.3.4 any amendment, novation, supplement, extension, restatement (however fundamental and whether or not more onerous) or replacement of any Transaction Document or any other document or security; or
- 8.3.5 any insolvency or similar proceedings.
- 8.4 **Immediate Recourse:** The Assignor waives any right it may have of first requiring a Secured Party (or any trustee or agent on its behalf) to proceed against or enforce any other rights or security or claim payment from any person before claiming from the Assignor under this Deed. This waiver applies irrespective of any law or any provision of a Transaction Document to the contrary.
- 8.5 **Additional Security:** The Assignment is in addition to and is not in any way prejudiced by any other guarantees or security now or subsequently held by any Secured Party.
9. **Discharge of Security**
- 9.1 **Final Redemption:** Immediately upon there no longer being any Liabilities remaining in relation to a Client (or, if earlier, immediately upon it no longer being possible for an Enforcement Event to occur), the Security Trustee shall be deemed to have immediately released, reassigned or discharged (as appropriate) the Assigned Assets relating to such Client from the Assignment and therefore:
- 9.1.1 the Assignor may retain for its own account; and
- 9.1.2 the Security Trustee shall therefore promptly pay or transfer to the Assignor, any amounts or other assets received by such party from the Clearing House in respect of the relevant Assigned Assets. For the avoidance of doubt, it is acknowledged that the Assignor's rights under this Clause 9 shall constitute an equity of redemption (and therefore a proprietary interest to the extent of such equity of redemption) in the Assigned Assets and any amounts or other assets the subject of such rights shall be returned by the Security Trustee to the Assignor.
- 9.2 **Consolidation:** Section 93 of the LPA shall not apply to the Assignment.
10. **Miscellaneous Provisions**
- 10.1 **Payments:** All payments by the Assignor under this Deed (including damages for its breach) shall be made to such account, with such financial institution and in such other manner as the Security Trustee may direct.
- 10.2 **Remedies and Waivers:** No failure to exercise, nor any delay in exercising, on the part of the Security Trustee any right or remedy under this Deed shall operate as a waiver, nor shall any single or partial exercise of any right or remedy prevent any further or other exercise or the exercise of any other right or remedy. The rights and remedies provided in this Deed are cumulative and not exclusive of any rights or remedies provided by law.
- 10.3 **Amendments and Waivers:** Any term of this Deed may be amended or waived only with the consent of the Security Trustee and the Assignor.
- 10.4 **Assignment:** Subject to the extent permitted by applicable law, neither this Deed nor any interest or obligation in or under it may be assigned or otherwise transferred

- (whether by way of security or otherwise) by either party without the prior written consent of the other party.
- 10.5 Disclosure to Clients: The Clearing House agrees that the Assignor may provide a copy of this Deed to any Client or prospective Client.
  - 10.6 Partial Invalidity: If, at any time, any provision of this Deed is or becomes illegal, invalid or unenforceable in any respect under any law of any jurisdiction, neither the legality, validity or enforceability of the remaining provisions nor the legality, validity or enforceability of such provision under the law of any other jurisdiction will in any way be affected or impaired.
  - 10.7 Third Party Rights: A person who is not a party to this Deed has no right under the Contracts (Rights of Third Parties) Act 1999 to enforce or enjoy the benefit of any term of this Deed.
  - 10.8 Counterparts: This Deed may be executed in any number of counterparts, and this has the same effect as if the signatures on the counterparts were on a single copy of this Deed.
  - 10.9 Governing Law: This Deed and any non-contractual obligations arising out of or in connection with it are governed by English law.
  - 10.10 Jurisdiction: In relation to any proceedings, each party to this Deed irrevocably submits to the exclusive jurisdiction of the courts of England and waives any objection to proceedings in such courts on the grounds of venue or on the grounds that the proceedings have been brought in an inconvenient forum. Each such submission is made for the benefit of the other party and shall not affect the right of any party to take proceedings in any other court of competent jurisdiction nor shall the taking of proceedings in any court of competent jurisdiction preclude any party from taking proceedings in any other court of competent jurisdiction (whether concurrently or not) unless precluded by law.
  - 10.11 [Agent for Service of Process: The Assignor hereby irrevocably appoints [Name of Agent] of [Address in England] to receive service of process on its behalf as its authorised agent for service of process in England. If for any reason such agent ceases to be such agent for service of process, the Assignor shall forthwith appoint a new agent for service of process in England and deliver to the Security Trustee a copy of the new agent's acceptance of appointment within 30 days. Nothing in this Deed shall affect the right to serve process in any other matter permitted by law.]

**SCHEDULE 1****PROVISIONS RELATING TO THE APPOINTMENT OF THE SECURITY TRUSTEE****Trust**

The Security Trustee declares that it shall hold the benefit of this Deed and the Assignment on trust for the Secured Parties on the terms contained in this Deed. All moneys from time to time received or recovered by the Security Trustee in connection with the realisation or enforcement of all or any part of the Assignment in respect of the Assigned Assets relating to any Client shall be held by the Security Trustee on trust to apply them as soon as reasonably practicable, to the extent permitted by applicable law and subject to the provisions of this Deed in the following order of priority:

- (a) in payment to such Client of all sums due and payable by the Assignor to such Client in respect of Liabilities; and
- (b) the balance, if any, in payment to the Assignor.

The Security Trustee shall not apply any moneys realised by it under this Deed in respect of the Assigned Assets relating to one Client in discharge of any sums due and payable by the Assignor to another Client.

**No Independent Power**

The Secured Parties shall not have any independent power to enforce, or have recourse to, any of the Assigned Assets or to exercise any rights or powers arising under this Deed.

**Security Trustee's Actions**

- 1.1 The Security Trustee shall have only those duties, obligations and responsibilities expressly specified in this Deed (and no others shall be implied). Subject to the other provisions of this Deed, the Security Trustee may take such action in the exercise of any of its powers and duties under this Deed which in its absolute discretion it considers to be for the protection and benefit of all the Secured Parties.
- 1.2 The duties, obligations and responsibilities of the Security Trustee specified in this Deed shall be subject to the duties, obligations and responsibilities, imposed from time to time by or pursuant to any law or instrument made thereunder, to which the Security Trustee is subject when it acts in its capacity as clearing house ("**RCH Duty**").
- 1.3 The Security Trustee may exercise any right, power or discretion in the discharge of any RCH Duty, whether under its default rules or otherwise, independently of its obligations as Security Trustee under this Deed ("**RCH Power**"). The exercise of any RCH Power shall take precedence over any duty, obligation or responsibility of the Security Trustee specified in this Deed. The Security Trustee shall not be liable to any person as a result of its proper exercise of (or proper omission to exercise) any RCH Power, including where the exercise of such power has the effect of varying the amount to which any beneficiary would otherwise be entitled under this Deed.
- 1.4 The Assignor shall, notwithstanding any release or discharge of all or any part of the Assignment, indemnify the Security Trustee against all charges and expenses, and

any action, proceeding, claims, losses, liabilities and costs ("Loss") properly incurred by it, or which it may sustain as a consequence of any breach by the Assignor of the provisions of this Deed, or in the proper exercise or purported exercise of any of the rights and powers conferred on the Security Trustee by, or in respect of any matter or thing properly done or omitted in any respect in connection with, this Deed or otherwise relating to the Assigned Assets, but only to the extent that such Loss has not been incurred by any fraud, wilful default or gross negligence of the Security Trustee or, in the case of the exercise of an RCH Power, any act or omission in respect of which it would not be subject to the exemption from liability in section 291 of the Financial Services and Markets Act 2000 or any other statutory exclusion of liability enacted from time to time.

#### **Security Trustee's Discretions**

- 1.5 The Security Trustee may assume (unless it has actual knowledge to the contrary or has received express notice to the contrary from any Secured Party) that:
- (a) the Assignor is not in breach of its obligations under Clause 2 of this Deed; and
  - (b) any right, power, authority or discretion vested in any person has not been exercised.
- 1.6 The Security Trustee may engage, pay for and rely in good faith on the advice or services of any lawyers, accountants, or other experts (whether obtained by the Security Trustee or by any Secured Party) in connection with the performance of its obligations under this Deed.
- 1.7 The Security Trustee may rely upon any communication or document reasonably believed by it to be genuine and, as to any matters of fact which might reasonably be expected to be within the knowledge of a Secured Party or the Assignor, upon a certificate signed by or on behalf of that person.

#### **Security Trustee's Rights and Obligations**

- 1.8 At any time after the occurrence of an Enforcement Event, the Security Trustee shall have the rights set out in Schedule 2 to this Deed.
- 1.9 The Security Trustee shall promptly inform the Secured Parties of (a) the contents of any notice or document received by it in its capacity as Security Trustee from the Assignor; and (b) the occurrence of any breach of any term of this Deed of which the Security Trustee has received notice from any Secured Party.

#### **Excluded Obligations**

The Security Trustee shall not:

- (a) be bound to enquire as to the occurrence or otherwise of any breach by the Assignor of any of its obligations under this Deed;
- (b) be bound to account to any Secured Party for any sum or the profit element of any sum received by it for its own account;
- (c) be bound to disclose to any other person (including any Secured Party):

- (i) any confidential information, or
- (ii) any other information if disclosure would constitute a breach of any law or be a breach of fiduciary duty;
- (d) be under any obligation, the discharge of which would constitute a breach of any RCH Duty;
- (e) be under any obligation other than those which are specifically provided for in this Deed; or
- (f) have or be deemed to have any duty, obligation or responsibility to, or relationship of trust or agency with, the Assignor.

### **Exclusion of Liability**

1.10 Unless caused directly by its own fraud, wilful default or gross negligence, the Security Trustee shall not accept responsibility or be liable for:

- (a) the proper exercise of (or proper omission to exercise) any RCH Power;
- (b) the adequacy, accuracy and/or completeness of any information supplied by the Security Trustee or any other person in connection with this Deed, or any other agreement, arrangement or document entered into, made or executed in anticipation of, pursuant to or in connection with this Deed;
- (c) the legality, validity, effectiveness, adequacy or enforceability of this Deed or any other agreement, arrangement or document entered into, made or executed in anticipation of, pursuant to or in connection with this Deed;
- (d) any losses to any person or any liability arising as a result of taking or refraining from taking any action in relation to this Deed or otherwise;
- (e) the exercise of, or the failure to exercise, any judgment, discretion or power given to it by or in connection with this Deed or any other agreement, arrangement or document entered into, made or executed in anticipation of, pursuant to or in connection with this Deed; or
- (f) any shortfall which arises on the enforcement of the Assignment.

### **No Proceedings**

No Secured Party or party to this Deed may take any proceedings against any officer, employee or agent of the Security Trustee in respect of any claim it might have against the Security Trustee or in respect of any act or omission of any kind by that officer, employee or agent in relation to this Deed and any officer, employee or agent of the Security Trustee may rely on this clause.

### **No Responsibility to Perfect Assignment**

1.11 The Security Trustee shall have no obligation to, and shall not be liable for any failure to:

- (a) require the deposit with It of any deed or document certifying, representing or constituting the title of the Assignor to any of the Assigned Assets;



- (b) obtain any licence, consent or other authority for the execution, delivery, legality, validity, enforceability or admissibility in evidence of any of this Deed or the Assignment;
- (c) register, file or record or otherwise protect the Assignment (or the priority of the Assignment) under any applicable laws in any jurisdiction or to give notice to any person of the execution of this Deed or of the Assignment;
- (d) take, or to require the Assignor to take, any steps to perfect its title to any of the Assigned Assets or to render the Assignment effective or to secure the creation of any ancillary security under the laws of any jurisdiction; or
- (e) require any further assurances in relation to this Deed.

#### **Insurance by Security Trustee**

The Security Trustee shall be under no obligation to insure any of the Assigned Assets or to require any other person to maintain any insurance. The Security Trustee shall not be responsible for any loss which may be suffered by any person solely as a result of the lack of or inadequacy of any such insurance.

#### **Acceptance of Title**

The Security Trustee shall be entitled to accept without enquiry, and shall not be obliged to investigate, such right and title as the Assignor may have to any of the Assigned Assets and shall not be liable for or bound to require the Assignor to remedy any defect in its right or title.

#### **Refrain from Illegality**

The Security Trustee may refrain from doing anything which in its reasonable opinion will or may be contrary to any relevant law, directive or regulation of any jurisdiction which would or might otherwise render it liable to any person, and may do anything which is, in its reasonable opinion, necessary to comply with any law, directive or regulation.

#### **Business with the Assignor**

1.12 The Security Trustee may

- (a) provide clearing services to the Assignor both for itself and on account of any other person and do all things incidental to the provision of clearing services as they involve the Assignor in whatever capacity; and
- (b) deal with, accept deposits from, lend money to, and generally engage in any kind of treasury or other business with the Assignor.

#### **Authorisation of Release**

Upon a disposal of any of the Assigned Assets pursuant to the enforcement of the Assignment by the Security Trustee, the Security Trustee is authorised to execute, without the need for any further authority from the Secured Parties, any release of the Assignment or other claim over that part of the Assigned Assets.

#### **Winding up of Trust**

After the Security Trustee, with the approval of the Secured Parties, has determined that all of the Liabilities and all other obligations secured by this Deed have been fully and finally discharged, and all relevant certifications and other documents have been transferred to the Assignor, the trusts set out in this Deed shall be wound up.

### **Perpetuity Period**

The perpetuity period under the rule against perpetuities, if applicable to this Deed, shall be the period of eighty years from the date of this Deed.

### **Powers Supplemental**

The rights, powers and discretions conferred upon the Security Trustee by this Deed shall be supplemental to the Trustee Acts 1925 and 2000 and in addition to any which may be vested in the Security Trustee by general law or otherwise.

### **Dis-application**

Section 1 of the Trustee Act 2000 shall not apply to the duties of the Security Trustee in relation to the trusts constituted by this Deed. Where there are any inconsistencies between the Trustee Acts 1925 and 2000 and the provisions of this Deed, the provisions of this Deed shall, to the extent allowed by law, prevail and, in the case of any inconsistency with the Trustee Act 2000, the provisions of this Deed shall constitute a restriction or exclusion for the purposes of that Act.

### **Resignation of Security Trustee**

#### 1.13 Where:

- (a) the Security Trustee so agrees with the Secured Parties or
- (b) without prejudice to the generality of Clause 12 of this Schedule One, the Security Trustee is required to resign as a result of a change in its exempt status, its regulatory status or it otherwise becoming unable to exercise its duties and functions as Security Trustee because of a change in any law, regulation, rule or other regulatory measure,

the Security Trustee may resign by giving such notice to the Assignor as is reasonable in the circumstances giving rise to the resignation.

#### 1.14 Where the Security Trustee gives notice of its resignation, it may together with the Secured Parties, appoint a successor Security Trustee, unless any change in its exempt status, its regulatory status, law, regulation rule, or other regulatory measure prevents the Security Trustee from taking any step to appoint a successor Security Trustee, in which case the Secured Parties may themselves appoint such successor Security Trustee, subject to any regulatory requirement to do so in consultation or after consultation with any relevant regulatory, governmental or similar authority.

#### 1.15 The retiring Security Trustee shall, at its own cost, make available to the successor Security Trustee such documents and records and provide such assistance as the successor Security Trustee may reasonably request and any regulation rule, or other regulatory measure permits for the purposes of performing its functions as Security Trustee under this Deed.

- 1.16 The Security Trustee's resignation notice shall only take effect upon the appointment of a successor. Upon the appointment of a successor, the retiring Security Trustee shall be discharged from any further obligation in respect of this Deed but shall remain entitled to the benefit of this Schedule. Its successor and each of the other parties shall have the same rights and obligations amongst themselves as they would have had if such successor had been an original party.

**Power of Attorney**

The Assignor by way of security irrevocably appoints the Security Trustee as its attorney (with full power of substitution), on its behalf and in its name or otherwise, in such manner as the attorney thinks fit, but in any case acting in good faith and in a commercially reasonable manner, to exercise (following the occurrence of an enforcement event only) any of the rights conferred on the Security Trustee in relation to the Assigned Assets or under the LPA or the Insolvency Act. The Assignor ratifies and confirms and agrees to ratify and confirm whatever any such attorney shall do in the exercise or purported exercise of this power of attorney.

**SCHEDULE 2****RIGHTS OF THE SECURITY TRUSTEE**

Following the occurrence of an Enforcement Event, the Security Trustee shall have the right, either in its own name or in the name of the Assignor or otherwise and in such manner and upon such terms and conditions as the Security Trustee thinks fit, but in any case, acting in good faith in and a commercially reasonable manner, and either alone or jointly with any other person:

1. Take possession: to take possession of, get in and collect the Assigned Assets and to require payment to it of revenues deriving therefrom;
2. Deal with Assigned Assets: to sell, transfer, assign, exchange or otherwise dispose of or realise the Assigned Assets to any person either by public offer or auction, tender or private contract and for a consideration of any kind (which may be payable or delivered in one amount or by instalments spread over a period or deferred);
3. Borrow money: to borrow or raise money either unsecured or on the security of the Assigned Assets (either in priority to the Assignment or otherwise);
4. Rights of ownership: to manage and use the Assigned Assets and to exercise and do (or permit the Assignor or any nominee of it to exercise and do) all such rights and things as the Security Trustee would be capable of exercising or doing if it were the absolute beneficial owner of the Assigned Assets;
5. Claims: to settle, adjust, refer to arbitration, compromise and arrange any claims, accounts, disputes, questions and demands with or by any person relating to the Assigned Assets;
6. Legal actions: to bring, prosecute, enforce, defend and abandon actions, suits and proceedings in relation to the Assigned Assets;
7. Redemption of Security: to redeem any Security (whether or not having priority to the Assignment) over the Assigned Assets and to settle the accounts of any person with an interest in the Assigned Assets; and
8. Other powers: to do anything else it may think fit for the realisation of the Assigned Assets or incidental to the exercise of any of the rights conferred on the Assignee under or by virtue of any Transaction Document, the LPA or the Insolvency Act.

**THIS DEED** has been delivered on the date stated at the beginning of this Deed.

**[ASSIGNOR]**

*[INSERT APPROPRIATE SIGNATURE BLOCK]*


**[EXECUTED as a Deed by  
LCH.CLEARNET LIMITED**

By: *[Director]*

By: *[Director/Company Secretary]*

APPENDIX 2C.K1

SWAPCLEAR CLEARING CLIENT — PARTIAL TRANSFER FORM

		SWAPCLEAR CLEARING CLIENT - PARTIAL TRANSFER FORM																													
			V.[.]:[.] 201[.]																												
<i>Terms used in this form are as defined in LCH.Clearnet Limited's Rulebook unless defined herein</i>																															
<b>To:</b>	LCH.Clearnet Limited																														
<b>From:</b>	Receiving Clearing Member																														
<b>Date:</b>																															
<p>We, .....[insert name of Receiving Clearing Member] (the "Receiving Clearing Member") have received a request from ..... [insert name of transferring SwapClear Clearing Client] (the "SwapClear Clearing Client") to transfer (i) in the case of a SwapClear Clearing Client which is an Individual Segregated Account Clearing Client, part of its portfolio of SwapClear Contracts; and (ii) the case of a SwapClear Clearing Client which is an Omnibus Net Segregated Clearing Client, part or all of its portfolio of SwapClear Contracts, from ....[insert name of Carrying Clearing Member] to us. We hereby request the transfer of the SwapClear Contracts as identified below pursuant to Regulation 52C(d) and the Procedures.</p> <p>Please insert the LCH trade IDs of the transferring SwapClear Contracts, using the Schedule below:</p> <p><i>**Please insert the LCH trade ID and Approved Trade Source (ATS) ID of the transferring SwapClear Contracts.</i></p> <p><i>**Please append a list of additional SwapClear Contracts to this form, if required</i></p> <table border="1" style="width:100%; border-collapse: collapse; margin-top: 10px;"> <thead> <tr> <th style="width: 60%; text-align: center;">LCH Trade ID</th> <th style="width: 40%; text-align: center;">ATS Trade ID</th> </tr> </thead> <tbody> <tr><td> </td><td> </td></tr> <tr><td> </td><td> </td></tr> <tr><td> </td><td> </td></tr> <tr><td> </td><td> </td></tr> <tr><td> </td><td> </td></tr> <tr><td> </td><td> </td></tr> <tr><td> </td><td> </td></tr> <tr><td> </td><td> </td></tr> <tr><td> </td><td> </td></tr> <tr><td> </td><td> </td></tr> </tbody> </table> <p><b>Signatories for and on behalf of the Receiving Clearing Member:</b></p> <p>We acknowledge and confirm the above and are authorised to sign for and on behalf of the Receiving Clearing Member</p> <table border="1" style="width:100%; border-collapse: collapse; margin-top: 10px;"> <tr> <td style="width: 5%; text-align: center;">1.</td> <td style="width: 20%;"></td> <td style="width: 5%;"></td> <td style="width: 20%;"></td> <td style="width: 5%;"></td> <td style="width: 20%;"></td> </tr> </table>				LCH Trade ID	ATS Trade ID																					1.					
LCH Trade ID	ATS Trade ID																														
1.																															

	(Authorised Signatory)	Name	Position	Date
2.				
	(Authorised Signatory)	Name	Position	Date

**Signatories for and on behalf of the transferring SwapClear Clearing Client:**

To: Receiving Clearing Member

We acknowledge and confirm:

- i. the request to transfer as detailed above;
- ii. that LCH.Clearnet Limited will contact our Carrying Clearing Member in relation to this transfer and will disclose our identity to such Carrying Clearing Member;
- iii. that, in accordance with the Clearing House's Rulebook, LCH.Clearnet Limited is entitled to rely conclusively on the instructions and information received from the Receiving Clearing Member and the Carrying Clearing Member and shall have no liability or responsibility therefor;
- iv. that the transfer detailed above may require that additional ~~cover~~ Collateral be ~~paid/transferred~~ to LCH.Clearnet Limited (and/or by us to the Receiving Clearing Member listed above and/or by us to our Carrying Clearing Member), and that LCH.Clearnet Limited is not required to effect the transfer if it has not received adequate ~~cover~~ Collateral in respect of the transfer or if any of the other conditions set forth in the Clearing House's Rulebook applicable to the transfer are unsatisfied;
- v. that in order for the transfer detailed above to be effected, we will be required to satisfy any requirements as between ourselves and the Carrying Clearing Member and/or its Affiliates at the time of, or arising as a result of, such transfer, to the extent the Clearing House's Rulebook states that such requirements must be satisfied in order for the transfer to be effected, including, without limitation, any outstanding obligations that are due and payable to the Carrying Clearing Member and/or its Affiliates at the time of, or arising as a result of, such transfer, as provided for in sub-paragraph (v) of Regulation 52C(d); and
- vi. that we are authorised to make these acknowledgements and confirmations and do so on behalf of the SwapClear Clearing Client listed above in accordance with the Regulations.

For and on behalf of the SwapClear Clearing Client:

Authorised signatory	Authorised signatory
Date	Date

All forms should be returned to LCH.Clearnet Limited for the attention of Client Services.  
 Email: [swapclearclientservices@lchclearnet.com](mailto:swapclearclientservices@lchclearnet.com)  
 Telephone: +44 (0) 207 426 7651 or +1 212 513 8265

SwapClear Client Services Aldgate House 33 Aldgate High Street London EC3N 1EA	SwapClear Client Services 17 State Street New York NY 10004 USA
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APPENDIX 2C.K2

SWAPCLEAR CLEARING CLIENT – FULL TRANSFER FORM

	<b>SWAPCLEAR CLEARING CLIENT - FULL TRANSFER FORM</b>
V.[]: [] 20[]	
<i>Terms used in this form are as defined in LCH.Clearnet Limited's Rulebook unless defined herein</i>	
<b>To:</b>	LCH.Clearnet Limited
<b>From:</b>	Receiving Clearing Member
<b>Date:</b>	

We, .....[insert name of Receiving Clearing Member] (the "Receiving Clearing Member") have received a request from ..... [insert name of transferring SwapClear Clearing Client] (the "SwapClear Clearing Client") to transfer its entire portfolio of SwapClear Contracts from ..... [insert name of Carrying Clearing Member] to us. We hereby request the transfer of all SwapClear Contracts registered in the name of the Carrying Clearing Member on behalf of the relevant SwapClear Clearing Client pursuant to Regulation 52C(b) or (c) (as applicable) and the Procedures.

Please insert:

Name of Carrying Clearing Member:  
.....

in order to enable LCH.Clearnet to identify the relevant SwapClear Contracts that are to be transferred.

Please tick the relevant box below to confirm whether the SwapClear Clearing Client wishes to transfer the Associated Accounts Assets in accordance with Regulation 52C(b) or (c) (as applicable).

<input type="checkbox"/>	The SwapClear Clearing Client wishes to transfer <u>the Associated Account-AssetsCollateral Balance</u>
<input type="checkbox"/>	The SwapClear Clearing Client does NOT wish to transfer <u>the Associated AccountCollateral AssetsBalance</u>

**Signatories for and on behalf of the Receiving Clearing Member:**

We acknowledge and confirm the above and are authorised to sign for and on behalf of the Receiving Clearing Member

1.			
	(Authorised Signatory)	Name	Position
			date
2.			
	(Authorised Signatory)	Name	Position
			date

**Signatories for and on behalf of the transferring SwapClear Clearing Client:**

To: Receiving Clearing Member

We acknowledge and confirm:

- i. the request to transfer as detailed herein;
- ii. that our Carrying Clearing Member shall not be permitted to register additional SwapClear Contracts on our behalf during the period commencing at the end of the SwapClear service operating hours on the day on which it received notice that a SwapClear Clearing Client Full Transfer Form has been received and ending at the time at which the relevant transfer (including the transfer of the relevant Associated ~~Account-Assets~~ Collateral Balance, if applicable) is actually effected or is rejected;
- iii. that LCH.Clearnet Limited will contact our Carrying Clearing Member in relation to this transfer and will disclose our identity to such Carrying Clearing Member;
- iv. that, in accordance with the Clearing House's Rulebook, LCH.Clearnet Limited is entitled to rely conclusively on the instructions and information received from the Receiving Clearing Member and the Carrying Clearing Member and shall have no liability or responsibility therefor;
- v. that the transfer detailed above may require that additional ~~sever~~ Collateral be ~~paid~~ provided to LCH.Clearnet Limited (and/or by us to the Receiving Clearing Member) even where the Associated Account-Assets are Collateral Balance is transferred, and that LCH.Clearnet Limited is not required to effect the transfer if it has not received adequate ~~sever~~ Collateral in respect of the transfer or if any of the other conditions set forth in the Clearing House's Rulebook applicable to the transfer are unsatisfied;
- vi. that, where we have requested the transfer of the Associated Account-Assets Collateral Balance, (x) we should contact our Carrying Clearing Member to ensure that they contact LCH.Clearnet Limited to identify the correct assets comprising the Associated Account-Assets Collateral Balance available for transfer, and (y) where our Carrying Clearing Member ~~does~~ does not so identify the correct assets comprising the Associated Account-Assets Collateral Balance available for transfer, LCH.Clearnet Limited is permitted to transfer alternative collateral as it deems appropriate in accordance with the Clearing House's Rulebook;
- vii. in order for the transfer detailed above to be effected, we will be required to satisfy any requirements as between ourselves and the Carrying Clearing Member and/or its Affiliates at the time of, or arising as a result of, such transfer, to the extent the Clearing House's Rulebook states that such requirements must be satisfied in order for the transfer to be effected, including, without limitation, any outstanding obligations that are due and payable to the Carrying Clearing Member and/or its Affiliates at the time of, or arising as a result of, such transfer, as provided for in sub-paragraph (v) of Regulation 52C(b) or 52C(c) (as applicable);
- viii. that we are authorised to make these acknowledgements and confirmations and do so on behalf of the SwapClear Clearing Client listed above in accordance with the Regulations.

For and on behalf of the SwapClear Clearing Client:

Authorised signatory		Authorised signatory
Date		Date

All forms should be returned to LCH.Clearnet Limited for the attention of Client Services.  
 Insert email: [swapclearclientservices@lchclearnet.com](mailto:swapclearclientservices@lchclearnet.com)  
 Insert telephone number: +44 (0) 207 426 7651


SwapClear Client Services	SwapClear Client Services
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Aldgate House 33 Aldgate High Street London EC3N 1EA UNITED KINGDOM	17 State Street New York NY 10004 USA
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APPENDIX 2C.K3

SWAPCLEAR CLEARING CLIENT TRANSFER – CARRYING CLEARING MEMBER  
RESPONSE FORM

	SWAPCLEAR CLEARING CLIENT TRANSFER – <b>CARRYING CLEARING MEMBER RESPONSE FORM</b>
[V] : [ ]	
Terms used in this form are as defined in LCH.Clearnet Limited's Rulebook unless defined herein	
<b>To:</b>	LCH.Clearnet Limited
<b>From:</b>	Carrying Clearing Member
<b>Date:</b>	
We, .....[insert name of Carrying Clearing Member] (the "Carrying Clearing Member") have received a request from LCH.Clearnet Limited in relation to .....s [insert name of transferring SwapClear Clearing Client] (the "SwapClear Clearing Client") request to transfer [[its entire]/[part of its]*] portfolio of SwapClear Contracts held by us. We are writing to inform you that:	
* Delete as appropriate	
<input type="checkbox"/> (Please tick if applicable)	The transferring SwapClear Clearing Client has become insolvent and no SwapClear Contracts should therefore be transferred in accordance with Regulation 52(b)(i), Regulation 52C(c)(i) or Regulation 52C(d)(i) as applicable.
<input type="checkbox"/> (Please tick if applicable)	The transferring SwapClear Clearing Client has, or would have as a consequence of the occurrence of the requested transfer, unsatisfied requirements which the Clearing House's Rulebook states must be satisfied in order for the transfer to be effected as between itself and us and/or our Affiliates at the time of, or arising as a result of, such transfer, including, without limitation, outstanding obligations as described in sub-paragraph (v) of Regulation 52C(b), Regulation 52C(c) or Regulation 52C(d) (as applicable) and therefore no SwapClear Contracts should not be transferred.
<input type="checkbox"/> (Please tick if applicable)	The transferring SwapClear Clearing Client has asked that <u>the Associated Account-AssetsCollateral Balance</u> be transferred and the relevant <u>assets comprising the Associated Account-AssetsCollateral Balance</u> are described in the schedule below.
<b>Schedule of <u>assets comprising the Associated Account-AssetsCollateral Balance</u>:</b>	
<input type="checkbox"/>	The Associated <u>Account-AssetsCollateral Balance</u> of the SwapClear Clearing Client <del>consist</del> <u>consists</u> solely of cash in the following amount and currency:
<div style="border: 1px solid black; height: 20px; width: 100%;"></div>	
<input type="checkbox"/>	The Associated <u>Account-AssetsCollateral Balance</u> of the SwapClear Clearing Client <del>consist</del> <u>consists</u> of the following cash and non-cash collateral:

<b>ISIN</b>	<b>Notional Value</b>

All forms should be returned to LCH.Clearnet Limited for the attention of Client Services.  
 Email: [swapclearclientservices@lchclearnet.com](mailto:swapclearclientservices@lchclearnet.com)  
 Telephone: +44 (0) 207 426 7651 or +1 212 513 8265  
 Fax: +1 212 513 8290

SwapClear Client Services Aldgate House 33 Aldgate High Street London EC3N 1EA UNITED KINGDOM	SwapClear Client Services 17 State Street New York NY 10004 USA
--	--

**Signatories for and on behalf of the Carrying Clearing Member:**

We acknowledge and confirm the above and that we are authorised to sign for and on behalf of the Carrying Clearing Member:

1.					
	(Authorised Signatory)	Name	Position		Date
2.					
	(Authorised Signatory)	Name	Position		Date

## APPENDIX 2C.1

## CLEARING HOUSE PRESCRIBED LANGUAGE

Capitalised terms used in this Annex and shall have the meaning specified in the LCH Rules.

[SwapClear Clearing Client] hereby acknowledges and agrees that:

- (a) the services provided by the Clearing House with regard to the SwapClear Clearing Services will be subject to and governed by the rules in the Clearing House's Rulebook, and the SwapClear Clearing Client will not act so as to cause – whether directly or indirectly – any breach of such rules or agreement by any person. The provisions of the amended text of Regulation 39 (Exclusion of Liability) of the Clearing House's Rulebook set out below shall apply *mutatis mutandis* as though entered into by the SwapClear Clearing Client directly with the Clearing House;
- (b) in the event that the SwapClear Clearing Client has failed to appoint a Backup SwapClear Clearing Member or the Clearing House does not receive the necessary confirmation from the SwapClear Clearing Client of its wish to have its positions transferred (including by way of termination, close-out and establishment of new replacement transactions to replicate such positions) or the Backup SwapClear Clearing Member declines to act as such, on the default of the relevant SwapClear Clearing Member, the Clearing House will close out and terminate the SwapClear Contracts entered into by that SwapClear Clearing Member in respect of the SwapClear Clearing Client and will not transfer or otherwise re-establish such positions;
- (c) the SwapClear Clearing Client will not be entitled to instruct the Clearing House to act or omit to act in any manner at any time prior to the default of the relevant SwapClear Clearing Member but the Clearing House shall accept instructions from the SwapClear Clearing Client following a default of the relevant SwapClear Clearing Member, provided that such instructions are in accordance with the rules of the Clearing House's Rulebook;
- (d) the SwapClear Clearing Client will not be entitled to any information from the Clearing House as to any balance held by the Clearing House for any person at any time prior to the default of the relevant SwapClear Clearing Member but the Clearing House shall provide such information to the SwapClear Clearing Client following a default of the relevant SwapClear Clearing Member;
- (e) the Clearing House will not hold any assets transferred to it on trust for any person;  
and
- (f) where the SwapClear Clearing Member provides securities to the Clearing House as collateral (the "**Securities**"), the SwapClear Clearing Client will not be entitled to assert any equitable or other claim to any such Securities in circumstances where the assertion of such a claim would delay or inhibit the disposal by the Clearing House of such Securities and/or the application of the proceeds of sale of such Securities in accordance with the rules of the Clearing House's Rulebook.

**Regulation 39: Exclusion of Liability**

*(This has been extracted from the Clearing House's Rulebook)*

- (g) Neither the Clearing House nor any other member of the LCH.Clearnet Group shall have any liability whatsoever to any SwapClear Clearing Member or to any other person (including, without limitation, any SwapClear Clearing Client) in contract, tort (including, without limitation, negligence), trust, as a fiduciary or under any other cause of action in respect of any damage, loss, cost or expense of whatsoever nature suffered or incurred by a SwapClear Clearing Member or any other person, as the case may be, as a result of: any suspension, restriction or closure of any market, whether for a temporary period or otherwise or as a result of a decision taken on the occurrence of a market emergency; any failure by the Clearing House or a SwapClear Clearing Member to supply each other with data or information in accordance with arrangements from time to time established between such persons; the failure of any systems, communication facilities or technology supplied, operated or used by the Clearing House, a SwapClear Clearing Member or other relevant person; any event which is outside the control of the Clearing House; any act or omission of a SwapClear Clearing Member in connection with the provision of SwapClear Clearing Services or the entering into of SwapClear Contracts, including, without limitation, any error in the establishment of a price; any act or omission of the Clearing House; or any determination made in connection with SwapClear Clearing Services or SwapClear Contracts.
- (h) Neither the Clearing House nor any other member of the LCH.Clearnet Group shall have any liability to a SwapClear Clearing Member or any other person (including, without limitation, any SwapClear Clearing Client) in respect of any dispute arising from or in relation to any SwapClear Contract including, but not limited to, any dispute as to the validity or otherwise of such transaction, the terms of such transaction, or whether any alleged agreement or arrangement constitutes a SwapClear Contract.
- (i) Without prejudice to the provisions of Regulation 1 and Regulation 39(e), neither the Clearing House nor any other member of the LCH.Clearnet Group shall have any liability whatsoever to any SwapClear Clearing Member or to any other person (including, without limitation, a SwapClear Clearing Client) in contract, tort (including without limitation, negligence), trust, as a fiduciary or under any other cause of action in respect of any damage, loss, cost or expense of whatsoever nature suffered or incurred as a result of any suspension of any service, a step taken by the Clearing House under Regulations 26, 27, 47(f), 54(f) or 67, or any failure or malfunction of any systems, communication lines or facilities, software or technology supplied, operated or used by the Clearing House or the relevant approved agent; the occurrence of any event which is outside the control of the Clearing House; or any exercise by the Clearing House of its discretion under the Regulations, or any decision by the Clearing House not to exercise any such discretion.
- (ii) Without prejudice to Regulation 39(c) and 39(e), unless otherwise expressly provided in the Regulations or in any other agreement to which the Clearing House is party, neither the Clearing House nor any other member of the LCH.Clearnet Group shall have any liability under any circumstances (including, without limitation, as a result of any negligence by the Clearing House, or any other member of the LCH.Clearnet Group Limited, or their respective officers, employees, agents or representatives), be liable to any SwapClear Clearing Member or any SwapClear Clearing Client for any indirect or consequential loss or damage, or loss of anticipated profit (whether direct or indirect) or loss of bargain, suffered or incurred by any such SwapClear Clearing Member or SwapClear Clearing Client and shall not in any circumstances be liable for any loss, cost, damage or expense suffered or incurred by any person as a result of any negligence on

the part of the Clearing House, or any other member of the LCH.Clearnet Group Limited, or their respective officers, employees, agents or representatives.

- (k) Nothing in this Regulation 39 shall be construed as an attempt by the Clearing House to exclude any liability for any fraud, fraudulent misrepresentation or wilful default on the part of the Clearing House. The Clearing House accepts liability for any personal injury or death caused by the negligence of the Clearing House and for any fraud or wilful default on the part of the Clearing House.
- (l) Without prejudice to the provisions of Regulations 1 and 22 and 39(a) neither the Clearing House, nor any other member of the LCH.Clearnet Group shall have any liability whatsoever to any SwapClear Clearing Member or to any other person (including, without limitation, any SwapClear Clearing Client) in contract, tort (including, without limitation, negligence), trust, as a fiduciary or under any other cause of action in respect of any damage, loss, cost or expense of whatsoever nature suffered or incurred by a SwapClear Clearing Member or any other person, as the case may be, as a result of the failure of any systems, communication facilities or technology or as a result of any negligence, wrongdoing, or other act, error, failure or omission on the part of any technology supplier in supplying any services to the Clearing House with regard to the Clearing House services or as a result of or in connection with any inconsistency or conflict between any provision contained in any Default Management Process Amendment Agreement or other agreement related to SwapClear between the Clearing House and a SwapClear Clearing Member on the one hand and any provision of the Clearing House Regulations, Default Rules and Procedures and any other Clearing House documentation on the other hand.
- (m) For the purposes of the Contracts (Rights of Third Parties) Act 1999, save: (i) as is expressly set out herein; and/or (ii) for rights conveyed to any SwapClear Clearing Client under a Deed of Assignment, these Regulations, Default Rules and Procedures do not create any rights in any persons who are not SwapClear Clearing Member.

**APPENDIX 2C.M**

**CLEARED TRADE REMOVAL AGREEMENT**

**Removal of registered SwapClear Contracts**

SCM's Requested Removal Date: DD/MM/YYYY

**BETWEEN**

**LCH.CLEARNET LIMITED** (the "Clearing House")

whose registered office is Aldgate House, 33 Aldgate High Street, London EC3N 1EA;

and

**[SWAPCLEAR CLEARING MEMBER]** ("SCM"),

each a "Party" and jointly the "Parties".

**WHEREAS**

- (A) The Clearing House, a Recognised Clearing House under the Financial Services and Markets Act 2000 runs a service known as SwapClear for the clearing of certain OTC derivatives transactions.
- (B) SCM is a member of the Clearing House authorised by the Clearing House to participate in the SwapClear service as a SwapClear Clearing Member.
- (C) SCM wishes to withdraw certain SwapClear Contracts from the SwapClear Service which were previously registered by the Clearing House
- (D) The Clearing House agrees to remove from the service certain SwapClear Contracts subject to and in accordance with the terms and conditions of this Agreement.
- (E) The Parties acknowledge that the removal of a trade from clearing pursuant to this Agreement (and the Clearing House Rulebook) is primarily for the removal of trades that were originally submitted from SWIFT and in respect of which automated trade deletion and termination is no longer available.

**THE PARTIES** agree as follows:

**1. Definitions**

Words and phrases not otherwise defined in this Agreement shall have the same meaning as in the General Regulations, Default Rules and Procedures of the Clearing House (the "Clearing House Rulebook").

**2. Contracts for Removal from Service**

SCM requests that the SwapClear Contract(s), particulars of which are set out in Schedule A hereto, registered by the Clearing House on the date(s) set out in that Schedule, and to which SCM and the Clearing House are party (the "Registered SwapClear Contract(s)"), be removed from service by mutual consent in accordance with the provisions of this Agreement and the Clearing House Rulebook.

### 3. Contingent Event

The removal of service of the Registered SwapClear Contract(s) requested herein is contingent, inter alia, upon the simultaneous removal (such time being the time set by the Clearing House in its absolute discretion) of each of the SwapClear Contract(s) which relate to the same SwapClear Transaction which was submitted to the Clearing House for clearing as two SwapClear Contracts ("the "Offsetting Contract(s)") to which the Clearing House is party together with the corresponding SwapClear Clearing Members (the "Counterparty SCMs").

### 4. Administrative and Other Arrangements

4.1 In order to facilitate the requested removal of service of the Registered SwapClear Contract(s) and the Offsetting Contract(s) the Clearing House may:

4.1.1 make whatever changes, adjustments and alterations to information and records relating to the SCM and the Counterparty SCM(s) held by the Clearing House on its internal systems (other than data constituting the economic terms of any such Registered SwapClear Contract or Offsetting Contract) and to the Clearing House's normal processes and procedures as the Clearing House in its sole discretion considers necessary; and

4.1.2 take whatever other steps and actions as the Clearing House in its sole discretion determines as necessary and appropriate.

### 5. Margin

5.1 In accordance with the Clearing House Rulebook, the Clearing House may, for so long as the Clearing House deems appropriate, retain all ~~margin or cover for margin~~ Collateral or other sums that the Clearing House may hold in connection with the Registered SwapClear Contract(s) or Offsetting Contract(s), and any cash or collateral provided to the Clearing House by or on behalf of SCM in respect of that SCM's margin obligations to the Clearing House in connection with the Registered SwapClear Contract(s) shall be available to the Clearing House to meet any obligations or liabilities whatsoever which are or which may become due to the Clearing House, notwithstanding any administrative change(s) that may have been made or administrative action that may have been taken by the Clearing House.

5.2 SCM agrees to advise its relevant PPS Bank of any additional margin requirements, in line with the Clearing House Rulebook, which may arise as a result of the requested termination and deletion and shall ensure that the Clearing House is sufficiently funded in order to meet any additional margin requirements.

### 6. Costs and Expenses

Unless agreed otherwise by the Clearing House, the SCM shall be responsible for and agrees to pay all costs and expenses associated with the requested removal from service.

### 7. Provision of Particulars

If so requested by the Clearing House, SCM shall promptly provide to the Clearing House such reasonable particulars in respect of any or all of the registered SwapClear Contracts as the Clearing House may request, in such electronic form as the Clearing House may require.



**8. Time and Date of Termination**

- 8.1 Unless specified otherwise by the Clearing House, the date of termination of each registered SwapClear Contract shall be the date set out at the head of this Agreement as the "Requested Removal Date" ("Removal Date"), unless the Parties otherwise agree, provided always that the Clearing House may amend the Removal Date by notice to the SCM.
- 8.2 SCM acknowledges and accepts that the time of removal on the Removal Date of the registered SwapClear Contract(s) shall not in any circumstances be the time at which the Clearing House effects any administrative change(s) or administrative action(s) but shall instead be the time which the Clearing House notifies SCM as being the time when removal has taken place.
- 8.3 The termination of any registered SwapClear Contract shall have no effect upon accrued rights and obligations of the SCM in respect of that registered SwapClear Contract, which rights and obligations shall survive termination.
- 8.4 The Clearing House may, by notice to the SCM given at any time up to the Removal Date, revoke its agreement to the removal of service of any registered SwapClear Contract in the event that:
- 8.4.1 the Counterparty SCM has not consented or has withdrawn its consent to the re of the Offsetting Contract: or
  - 8.4.2 the Clearing House takes the view that to terminate that registered SwapClear Contract(s) would adversely and materially adversely affect its risk or the risk of the market as a whole.
  - 8.4.3 the Clearing House takes the view that to terminate that registered SwapClear Contract(s) would adversely and materially adversely affect its risk or the risk of the market as a whole.
- 8.5 SCM or any Counterparty SCM may, at any time up to the start of the day which is one clear London Business Day prior to the Removal Date, by notice in writing to the Clearing House and the Counterparty SCM, withdraw its agreement for the trade removal of any of the Registered SwapClear Contracts or Offsetting Contract (as the case may be) and the Clearing House shall use its reasonable endeavours to ensure that the Registered SwapClear Contract(s) and/or the Offsetting Contract is not removed from service.

**9. Moneys Due to the Clearing House**

SCM acknowledges and agrees that the Clearing House may in its sole discretion debit the relevant PPS account in respect of any moneys due from SCM to the Clearing House in connection with the requested removal.

**10. Agreement to Prevail**

In the event of any inconsistency between the provisions of this Agreement and the Clearing House Rulebook, the provisions of the Clearing House Rulebook shall prevail.

11. **Confirmation of Consents etc.**

SCM confirms that all requisite consents and approvals, regulatory or otherwise, have been obtained in connection with the removal from service requested herein.

12. **Law and Jurisdiction**

This Agreement shall be governed by English law and the Parties irrevocably submit to the exclusive jurisdiction of the English courts.

13. **Liability**

All matters of liability arising in connection with this Agreement shall be determined in accordance with the provisions of the Clearing House Rulebook as if the terms of this Agreement formed part of the Clearing House Rulebook.

For and on behalf of **SCM**

\_\_\_\_\_  
Authorised Signatory

\_\_\_\_\_  
Authorised Signatory

\_\_\_\_\_  
Name

\_\_\_\_\_  
Name

For and on behalf of the **CLEARING HOUSE**

\_\_\_\_\_  
Signatory

\_\_\_\_\_  
Name

**SCHEDULE A**

**THE REGISTERED SWAPCLEAR CONTRACTS**

Contract parties: {SwapClear Clearing Member} and LCH.Clearnet Limited (the "**Clearing House**").

<b>Contract LCH Reference</b>	<b>Contract SCM Reference</b>	<b>Date of Registration</b>
-------------------------------	-------------------------------	-----------------------------

## APPENDIX 2C.N

### CONFIDENTIALITY, NON-DISCLOSURE AND PARTICIPATION IN THE DEFAULT MANAGEMENT GROUP

#### 1. Definitions

- 1.1 **"Confidential Material"** means data (including but not limited to portfolio data) and documents, which are not in the public domain and which are disclosed to the SCM, its associated companies and advisers, or to which the SCM, its associated companies and advisers obtains or otherwise has access as a result of participation in the SwapClear DMP, (which, for the avoidance of doubt, does not include any information, data or documents provided to the Clearing House by the SCM).
- 1.2 **"DMG Member"** means an individual appointed by a Nominating SCM.
- 1.3 **"Nominating SCM"** means a SwapClear Member who, through their obligations under the SwapClear DMP, makes available a representative to serve on the DMG.
- 1.4 **"Permitted Purpose"** means proper fulfilment by the SCM of its duties under the SwapClear DMP and includes, after the completion of the Auction, the use by the SCM, its associated companies and advisers (to be determined by it at its discretion) of any data or documents related to portfolios successfully won through the Auction for the purposes of its own ongoing portfolio management and to enable it to comply with ongoing legal or regulatory requirements.
- 1.5 References denoting the masculine (including "his" and "he") shall be construed as the feminine if the DMG Member is female.
- 1.6 All other terms have the meaning ascribed to them in the Default Rules (including the SwapClear DMP Annex).

#### Confidentiality and Non-Disclosure: General Obligations of the SCM

#### 2. Confidentiality

- 2.1 The SCM agrees that, in consideration of being given Confidential Material, it will keep all such Confidential Material in the strictest confidence, adhere to the provisions of this Agreement in respect thereof and, subject to Clause 2.3, will not disclose it to any person without the prior written permission of the Managing Director, Risk of the Clearing House or a Director of Risk Management of the Clearing House, providing always that the SCM shall be relieved of such an obligation of confidentiality in respect of any Confidential Material if:
  - 2.1.1 it comes into the public domain other than through a breach by the SCM of this Agreement; or
  - 2.1.2 the SCM is expressly obliged to do so by order of a court of competent jurisdiction upon the application of a third party, or as a result of any request to disclose such part or parts of the Confidential Material in

connection with any inquiry or other request by a regulatory authority or self-regulatory authority asserting jurisdiction over the SCM.

- 2.2 The SCM further agrees that it will not use any Confidential Material for any purpose other than the Permitted Purpose. In this regard the SCM expressly acknowledges and agrees that the Confidential Material may contain commercially sensitive information which if used inappropriately or otherwise than in accordance with this Agreement might result in the gaining of an unfair commercial advantage by the SCM over other members of the Clearing House SwapClear Service.
- 2.3 Subject to paragraph 2.5, the SCM may disclose any Confidential Material to any of its employees, representatives, associated companies and advisers on a "strictly need to know" basis, in the event that any such person needs that Confidential Material for the Permitted Purpose (and to that extent only).
- 2.4 The SCM agrees to establish and adhere to adequate procedures (including, without limitation, the establishment of appropriate Chinese walls) to ensure that any employee or representative to whom any Confidential Material is disclosed shall not use any part or all of that Confidential Material for any proprietary purpose outside the scope of the Permitted Purpose.
- 2.5 This paragraph and the duties hereunder shall survive the termination of this Agreement and, in relation to any Confidential Material, shall expire on the second anniversary of the date the Confidential Material was first provided to the SCM.

### 3. **Secrecy**

- 3.1 Except in accordance with the terms of this Appendix, the SCM agrees that it shall treat as strictly confidential and shall not disclose or allow to be divulged to any person:
- 3.2 Confidential Material:
  - 3.2.1 the fact that it has received any Confidential Material;
  - 3.2.2 the existence of any discussions or negotiations between the parties in this matter;
  - 3.2.3 details of the Permitted Purpose and any of the proposals, terms, conditions, facts or other matters relating to any of the forgoing. Subject only to the SCM being relieved of such an obligation because of the circumstances covered in paragraphs 2.1.1 and 2.1.2.

### 4. **Property**

The parties acknowledge that the property in the Confidential Material (or any part of it) shall not pass to the SCM or any SCM, and the property in the media on which it is conveyed to the receiving party shall not pass to the SCM or any SCM unless expressly so agreed by the Clearing House in writing.

### 5. **Return of Confidential Material**

Upon request by the Clearing House, and in any event upon fulfilment of the Permitted Purpose, the SCM shall promptly return to the Clearing House by a secure method of transportation all or any part of the Confidential Material and all copies thereof in its possession or control or that of its employees or representatives, including all other papers, programs and records incorporating any of that Confidential Material, or shall destroy such information and shall certify to the Clearing House in writing that it has done so provided that the SCM is permitted to retain copies of any Confidential Material which it requires as part of its portfolio management or otherwise for legal or regulatory reasons.

**6. No Representations or Warranties; No Conflict of Interest**

- 6.1 Subject to references made in paragraph 7, the Confidential Material is disclosed by the Clearing House without any representation or warranty whatsoever as to its accuracy or completeness or otherwise.
- 6.2 The Clearing House acknowledges and agrees that, subject to compliance with the terms of this Appendix by the SCM and any of its employees or representatives to whom Confidential Material is provided in accordance with this Appendix, the SCM's participation in the SwapClear DMP shall not prevent the SCM from carrying out any transaction, or otherwise providing investment services in respect of, investments that the SCM may subsequently learn are the subject of Confidential Material and, furthermore, the Clearing House agrees that it shall not be able to assert that the SCM has a conflict of interest in doing so nor shall the Clearing House have a claim or action in respect of the foregoing against the SCM or any of its directors, employees or other representatives.

**7. Liability**

- 7.1 Subject to General Regulation 39, the parties agree and acknowledge that neither the Clearing House nor any of its employees or representatives shall have any liability whatsoever to the SCM or any of employees or representatives, for any loss or damage of whatsoever kind howsoever arising directly or indirectly out of or in connection with the disclosed Confidential Material or its use.
- 7.2 The Clearing House accepts liability for any personal injury or death caused by the negligence of the Clearing House and any fraud or wilful default on the part of the Clearing House, for any actions that it may take on the basis of advice given to it by the DMG, and for the accuracy of the information (confidential material as defined in the Appendix to this Agreement) that it distributes to the SCM in connection with the SwapClear DMP.
- 7.3 Under no circumstances shall the Clearing House have any liability to the SCM for (a) any consequential loss or other indirect loss of whatsoever kind or (b) loss of anticipated profit (whether direct or indirect).

**8. Remedies**

Without affecting any other rights or remedies that the Clearing House may have, the SCM acknowledges that the Clearing House may be irreparably harmed by any breach of the terms of this Agreement and that damages alone may not necessarily be an adequate remedy. Accordingly, the Clearing

House will be entitled to the remedies of injunction, specific performance and other equitable relief, or any combination of these remedies, for any threatened or actual breach of its terms, and not proof of special damages will be necessary to enforce this Agreement.

## **Confidentiality and Non-Disclosure and General Terms of Participation in SwapClear DMG**

### **9. Conflict of Interest**

The SCM shall procure that, in the event that a DMG Member takes the view that a possible conflict of interest may arise with regard to any matter forming part of the business of the DMG, he shall promptly report his view to the Chairman of the DMG, who shall act accordingly, taking the advice of other DMG Members as appropriate.

### **10. Confidentiality**

- 10.1 Subject to paragraph 10.3 below, the SCM shall procure that the DMG Member shall keep all Confidential Material strictly confidential to himself and will not disclose it to any person who is not a DMG Member (including, for the avoidance of doubt, the SCM who recommended his appointment to the DMG ("the Nominating SCM") or his employer (if different) or any other employee, adviser, officer or fellow worker of that SCM or his employer) without the prior written permission of the Managing Director, Risk of the Clearing House or his properly authorised delegate, providing always that the DMG Member shall be relieved of such an obligation of confidentiality in respect of any Confidential Material if it comes into the public domain in the circumstances covered in paragraphs 2.1.1 and 2.1.2.
- 10.2 Subject to paragraph 10.3 below, the SCM shall procure that the DMG Member shall not use any Confidential Material for any purpose other than the proper fulfilment of his duties as a DMG Member.
- 10.3 The parties acknowledge that, in the event that a Default Notice is issued by the Clearing House in respect of any SwapClear Clearing Member, the DMG Member may be required by the Nominating SCM and/or his employer (if different) to provide certain services to the Clearing House in the management of the default. In such event, and only in such event, the parties acknowledge that the DMG Member shall be entitled to disclose any part or parts of the Confidential Material as may be agreed by the Clearing House, in such manner and form and in accordance with such procedures as may be prescribed by the Clearing House and/or the DMG with regard to the management of that default.
- 10.4 Upon request by the Clearing House, and in any event upon termination of the membership of the DMG Member of the DMG, the SCM shall procure that the DMG Member shall promptly return to the Clearing House by a secure method of transportation all or any part of the Confidential Material and all copies thereof in his possession or control, including all abstracts, notes, drawings and other papers, programs and records incorporating any of that Confidential Material, or shall destroy such information and shall certify to the Clearing House in writing that it has done so, provided that the DMG Member is permitted to retain a copy thereof to comply with applicable legal or regulatory requirements.

11. **Warranty and Representation**

11.1 The SCM represents and warrants that it will procure that:

11.1.1 the Nominating SCM and the DMG Member's employer (if different) are aware of the obligations of confidentiality arising out of this Agreement; and

11.1.2 nothing in this Agreement will cause the DMG Member to breach any duty or obligation (whether arising pursuant to contract or otherwise) which he owes to the Nominating SCM or to his employer, if different, or any other contract counterparty of the DMG Member.

12. **Confidentiality and Non-Disclosure : General Obligations of the Clearing House**

The Clearing House will treat all Confidential Material in the terms envisaged in this Appendix, confining use to the SwapClear DMP, restricting its availability on a "strictly need to know basis", and exercising every duty of care required of it as a Recognised Clearing House and as a Derivatives Clearing Organization.

13. **Third Party Rights**

A person who is not a party to this Annex shall have no rights under the Contracts (Rights of Third Parties) Act 1999 to enforce any of its terms.



Exhibit A-5

Section 2E of the Clearing House Procedures

**SECTION 2E****CONTENTS**

2E.	LCH ENCLEAR OTC SERVICES .....	2
2E.1	GENERAL MATTERS .....	2
2E.2	FREIGHT DIVISION .....	18
2E.3	ENERGY DIVISION .....	21
2E.4	PRECIOUS METALS DIVISION .....	23
2E.5	Option Exercise and Expiry .....	26
2E.6	EMISSIONS DELIVERY PROCEDURES .....	28
2E.7	PRECIOUS METALS: DELIVERY PROCEDURES .....	48
APPENDICES 2E.A	.....	56
	Emissions deliveries .....	56
APPENDICES 2E.B	.....	57
	Seller's EUA Forward Contracts Delivery Confirmation Form .....	57
APPENDICES 2E.C	.....	58
	Seller's CER Forward Contracts Delivery Confirmation Form .....	58
APPENDICES 2E.D	.....	59
	BUYER'S EUA Forward Contracts Delivery Confirmation Form .....	59
APPENDICES 2E.E	.....	60
	BUYER'S CER Forward Contracts Delivery Confirmation Form .....	60

**2E. LCH ENCLEAR OTC SERVICES****2E.1 GENERAL MATTERS****2E.1.1 Introduction**

These Procedures form part of the Rulebook (the General Regulations, Default Rules, Settlement Finality Regulations and Procedures of the Clearing House) and must be read in conjunction with the other parts of the Rulebook. Clearing Members must inform themselves fully of their obligations under the Rulebook and other relevant documentation, such as the Clearing Membership Agreement, and the terms of any approval by the Clearing House to extend clearing activities. It is to be noted that the Rulebook (including these Procedures) is subject to change from time to time.

LCH EnClear OTC Services are provided to Clearing Members authorised by the Clearing House to participate in it ("LCH EnClear OTC Clearing Members" or "GCMs") in respect of "Eligible OTC Trades" executed by GCMs. Such transactions must comply with the Clearing House's requirements (see the LCH EnClear OTC Regulations).

These Procedures apply to all LCH EnClear OTC Contracts on ECS or Synapse (as set out hereafter) and consist of:

- A general section (2E.1) applicable across the three divisions of the LCH EnClear OTC Services;
- Sections specific to the Freight Division (2E.2), the Energy Division (2E.3) and the Precious Metals Division (2E.4);
- A section describing option exercise and expiry (2E.5); and
- Sections specific to Emissions Deliveries (2E.6) and Precious Metals Deliveries (2E.7).

In the event of any conflict between any provision of these Procedures and any requirement, rule or provision of any other documentation, these Procedures shall prevail.

Except where otherwise stated, all times shown are London time and the twenty four hour clock is used.

**2E.1.2 Definitions**

The following terms shall have the meanings below for the purposes of these Procedures:

<b>GCM</b>	An LCH EnClear OTC Clearing Member that has entered into a Clearing Extension Agreement with the Clearing House for the purpose of participating in LCH EnClear OTC Services
<b>ECS</b>	The Extensible Clearing System, made available by the Clearing House for position management in the Freight and Energy Divisions of the LCH EnClear OTC Service

<b>Synapse</b>	The Clearing System, made available by the Clearing House for the purpose of registering trades in the LCH OTC Precious Metals Division
<b>ClearWay</b>	A user interface made available by the Clearing House for the purpose of entering and confirming Eligible OTC Trades for the EnClear market and for submission of Eligible OTC trades into ECS for clearing
<b>Approved Broker</b>	A broker that has entered into an LCH EnClear OTC Services Approved Broker Agreement
<b>OTP</b>	OTC EnClear Trading Platform

## 2E.1.3

**Agreements**

## 2E.1.3.1

**Clearing Approval**

Only Clearing Members may clear LCH EnClear OTC Contracts.

Details of how to obtain Clearing Member status at the Clearing House or how to become approved by the Clearing House as a GCM of the Freight, Energy and/or Precious Metals Divisions can be obtained from the Clearing House Membership department on +44 (0)207 426 7627/7521/7968.

Clearing Members seeking approval from the Clearing House to clear Eligible OTC Trades in any one of the Freight, Energy or Precious Metals Divisions must submit to the Clearing House the appropriate signed Clearing Extension Agreement(s) which can be obtained from the Membership department.

Where a Clearing Member already has approval to clear LCH EnClear OTC Contracts in one Division of the LCH EnClear OTC Services and wishes to submit trades for registration in another Division, that Clearing Member must seek further approval from the Clearing House in respect of that other Division.

## 2E.1.4

**Customers**

Parties ("Customers") who are not GCMs may not directly clear trades through the LCH EnClear OTC Service. However, any such Customer may enter into an agreement with a GCM who has been approved (on such terms as may be agreed between them) to clear that Customer's trades. Particulars of such a trade, if it is an Eligible OTC Trade – that is, it meets all the relevant criteria published by the Clearing House from time to time – may be submitted for registration to the Clearing House by the GCM in accordance with the Regulations and these Procedures. For the Freight and Energy Divisions, a clearing arrangement is entered into if particulars relating to that trade are "accepted" by two relevant GCMs who each agree to become counterparty to the appropriate LCH EnClear OTC Contract with the Clearing House, in accordance with the Regulations and these Procedures.

However, there is no relationship between the Clearing House and any Customer and no Customer has any rights against the Clearing House in respect of any LCH EnClear OTC Contract.

**2E.1.5 Approved Brokers**

Only brokers who are expressly authorised by the Clearing House ("Approved Broker") may access ClearWay and submit Eligible OTC Trades for registration. These brokers need to seek permission from the Clearing House to submit eligible trades under each product type separately:

- Freight (FFAs, Options and Containers)
- Iron Ore (Swaps and Options)
- Steel
- Coal (Swaps and Options)
- Fertilizer
- Emissions (physical Swaps and Options)

The Rules of the Broker Scheme, which bind each Approved Broker and a copy of the Freight and Energy Agreements to be signed between the Clearing House and the Approved Broker, are available from the Clearing House.

Details of how to obtain Approved Broker status at the Clearing House of the Freight and/or Energy Division can be obtained from the Clearing House Membership department on +44 (0)207 426 7627/7521/7968.

Where a broker who is not an Approved Broker purports to input particulars of a trade via ClearWay, that trade will not be registered by the Clearing House and will be rejected by the Clearing House.

**PLEASE NOTE:** If the two relevant GCMs accept an Eligible OTC Trade which has been brokered, within the timeframe laid down by these Procedures, it will be registered by the Clearing House in the names of those GCMs, whether or not those GCMs have appointed or authorised that broker to submit such a trade.

In the event that a trade is submitted to the Clearing House for registration by an Approved Broker and such trade is accepted for registration by that GCM, that GCM shall be bound by an LCH EnClear OTC Contract arising therefrom, notwithstanding that any trade particulars submitted by that Approved Broker in respect of such trade are erroneous or incorrect. A GCM shall accept full responsibility to the Clearing House for any trade notified to the Clearing House by an Approved Broker.

The Clearing House shall not be liable for any errors or omissions on the part of an Approved Broker who inputs a trade via ClearWay and which is registered by the Clearing House.

Approved Brokers do not act as agents for the Clearing House in participating in the services offered by the Clearing House in the LCH EnClear OTC Services.

The Clearing House, in adding a broker to the list of Approved Brokers, makes no warranty or promise regarding the competence, ability, experience or professional skills of any Approved Broker, or at all, notwithstanding that such broker shall have been authorised by the Clearing House to submit trades under the relevant product types. The authorisation of such brokers as Approved Brokers is purely to assist GCMs to submit trades to the Clearing House for registration in the names of those GCMs. No check is made regarding the skills, professionalism or competence of those brokers, nor is any consideration paid by any such, in return for authorisation or at all.

## 2E.1.6

**OTPs**

OTPs may submit Eligible OTC Trades for registration via the ClearWay ticket entry system.

LCH.Clearnet has signed agreements with the following OTPs:

- **Baltic Exchange Derivatives Trading Limited (BEDT).** BEDT submit trades for clearing via ClearWay. Tickets therefore pass through the ClearWay Lot Limit Credit Filter and are automatically accepted by the GCMs (STP facility) and registered for clearing in ECS if they are within the parameters set. Transactions which are not within the parameters set, or where no limit has been set by the GCMs, will remain in ClearWay as pending transactions for GCMs to accept manually.
- **Cleartrade (CT).** CT connects directly to ECS and has its own Credit Filter, monitored by CT itself. Trades are sent to the Clearing House pre-confirmed by the GCMs in the CT Credit Filter, meaning GCMs will not have to accept the trades in either ECS or ClearWay and they will be registered as soon as received in ECS. On occasion, CT may manually enter details of trades transacted on their screen into ClearWay. These tickets will therefore pass through the ClearWay Lot Limit Credit Filter and be automatically accepted by the GCMs and registered for clearing in ECS if they are within the parameters set. Transactions which are not within the parameters set, or where no credit limit has been set by the GCMs, will remain in ClearWay as pending transactions for GCMs to accept manually.

**PLEASE NOTE:** If a GCM accepts an Eligible OTC Trade which has been matched on BEDT, within the timeframe laid down by these Procedures, it will be registered by the Clearing House in the name of that GCM, whether or it is a participant of BEDT.

In the event that a trade is submitted to the Clearing House for registration by an OTP and such trade is "accepted" for registration by that GCM, that GCM shall be bound by an LCH EnClear OTC Contract arising there-from, notwithstanding that any trade particulars submitted by that OTP in respect of such trade are erroneous or incorrect.

The Clearing House shall not be liable for any errors or omissions on the part of an OTP who inputs a trade directly to ECS or via ClearWay and which is registered by the Clearing House.

**2E.1.7 Contract Terms**

The LCH EnClear OTC Contract Terms for contracts cleared in the Energy Division are set out in Section 3.3 of Part A of the Schedule to the LCH EnClear OTC Regulations.

The LCH EnClear OTC Contract Terms for contracts cleared in the Freight Division are set out in Section 3.4 of Part A of the Schedule to the LCH EnClear OTC Regulations.

The LCH EnClear OTC Contract Terms for contracts cleared in the Precious Metals Division are set out in Section 3.5 of Part A of the Schedule to the LCH EnClear OTC Regulations.

The Eligibility Criteria for each LCH EnClear OTC Contract are set out in Part B of the Schedule to the LCH EnClear OTC Regulations.

**2E.1.8 Registration****2E.1.8.1 General**

Eligible OTC Trades in the Freight and Energy Divisions must be submitted to the Clearing House either via ClearWay or by an OTP for processing in the ECS System.

Eligible OTC Trades in the Precious Metals Division must be submitted to the Clearing House via LMESmart for processing in Synapse.

The Clearing House may require a GCM in whose name an LCH EnClear OTC Contract is to be registered to provide it with cover for transfer to the Clearing House Collateral in respect of the initial and variation margin obligations as a condition of registration.

**2E.1.8.2 EnClear Market User Systems****2E.1.8.2.1 ClearWay**

ClearWay is an application used by GCMs, Approved Brokers and OTPs to enter eligible OTC trades, which once confirmed by both GCM's, will be registered for clearing in ECS.

ClearWay contains a Lot Limit Credit Filter which enables GCMs to set limits for their position accounts. If a ticket is entered which falls within a GCM's set parameters, it's side of the trade will be automatically confirmed.

Transactions which breach the parameters set, or where no credit limit has been set by the GCMs, will remain in ClearWay as pending transactions, for GCMs to accept manually.

In the event that a trade is submitted to the Clearing House for registration by an OTP, Broker or GCM and such trade is accepted for registration by the GCM, the GCM shall be bound by the terms set in LCH EnClear OTC Contract.

**2E.1.8.2.2 ECS**

ECS is the clearing system which registers trades within the LCH EnClear OTC Services: Freight and Energy Divisions. The following functionality is available to GCMs:

- position keeping
- position adjustments
- position transfers (LCH.Clearnet will perform the transfers on the request of GCMs)
- manual exercise/abandonment of Coal Options

#### 2E.1.8.2.3 **Synapse**

The Synapse system will be used to process Eligible OTC Precious Metals Trades submitted for clearing via LMESmart.

Clearing Members should refer to the "Synapse Member User Guide" for operating instructions, full details of enquiries and report facilities and the Synapse Licence Agreement and Terms of Use.

Details of registered LCH EnClear OTC Precious Metal Contracts will be disseminated to GCMs via Synapse GUI and the Clearing House Member Reporting site (private member-only site).

#### 2E.1.8.3 **Clearing House System Requirements**

GCMs and Approved Brokers must maintain an acceptable network connection from a location acceptable to the Clearing House for connecting to the ECS system, ClearWay and/or Synapse in order to carry out their Clearing Member responsibilities within the clearing systems and to review their trades and positions as necessary.

#### 2E.1.9 **Submission and Acceptance of Eligible OTC Trades for Registration in the Freight and Energy Divisions**

For registration of Eligible OTC Trades, GCMs must comply with all the requirements of the Clearing House as set out in the Rulebook and other relevant documentation issued by the Clearing House in this regard.

An Eligible OTC Trade submitted to the Clearing House, which complies with the Clearing House requirements for registration, will be deemed to be registered by the Clearing House immediately upon receipt by ECS, after the acceptance by both GCMs, whether the acceptance is explicit or is given via the parameters of a credit filter.

#### 2E.1.10 **Submission and Acceptance of Eligible OTC Trades for Registration in the Precious Metals Division**

Matched trading data is presented for registration to the Clearing House in the name of the Clearing Member submitting them to the LMESmart Matching System (evidenced by the use of the system security password). Trades that exceed pre-set trade limits are held within Synapse, pending confirmation of acceptance for registration by the Clearing House.



Eligible OTC Precious Metal transactions which are not held in the pending queue will be registered upon acceptance in Synapse. Trades held in the pending queue will be registered upon release from the pending queue.

Eligible OTC trades can be submitted on any London business day.

#### 2E.1.10.1 Risk Pending Trades

The traded price and lot size of all trades presented to the Clearing House for registration are validated against a price range and lots limit file.

For each value date the price range above and below the previous day's closing price is calculated each day by reference to a pre-determined price limit for each Precious Metal (refer to 2E4.5).

The price limit is normally set to be identical to the prevailing scanning range for each contract; however, during periods of high price volatility this may temporarily be increased to avoid the suspension of trades which are within the day's trading range. Lot and price limits may be changed, by member circular, from time-to-time.

Trades input, where either the price range or the lot size limit is exceeded, will be matched in the usual manner, but will be written to a separate 'matched trade file' for subsequent acceptance or rejection by the Clearing House.

The Clearing House may alter the price and lots limits to cater for volatile price conditions. This will allow trades transacted at 'current' market prices to be input, matched and presented to the Clearing House for registration without requiring acceptance.

#### 2E.1.10.2 Conditions for Acceptance of Risk Trades

Registration of trades held in the Risk Pending Queue is conditional on the provision of ~~margin cover~~ sufficient Collateral. The Clearing House will first consider any surplus ~~cover~~ Collateral held, surplus credit variation margin, and any net credit variation margin in respect of new business, before requesting additional ~~cover~~ Collateral from a Clearing Member. Margin in this case is net debit variation margin in respect of the pending trades, calculated automatically by the system with reference to the previous day's closing price.

If the Clearing House decides that additional ~~cover~~ Collateral is ~~necessary~~ required, it will advise the Clearing Member as soon as possible. The Member so advised should contact the counterparty to the pending trade in order to notify them that there may be some delay prior to acceptance of the trade. At the same time, the currency and method of funds transfer, or type of collateral to be provided, will be agreed between the Clearing House and the Clearing Member. Only when the Clearing House has received ~~e~~ Collateral or confirmation from the transferring PPS bank that the funds have been transferred will it accept the pending trades.

The Clearing House will carry out the process of accepting pending trades on an hourly basis throughout the day, or more frequently where possible. The acceptance process will apply to both sides of a trade at the same time.

It is the responsibility of each Clearing Member to ensure that any trades likely to require acceptance are input and matched as early as possible in the day; and that either sufficient surplus ~~GCM~~ Collateral is maintained with the Clearing House (to meet debit variation margin obligations arising from pending trades) or arrangements are in place to meet additional calls for ~~GCM~~ Collateral. Matched trades not accepted by the Clearing House will not be registered. In order to achieve registration the trade must be re-submitted the next business day, when the same process will apply.

#### 2E.1.11 **Novation**

Once a trade has been registered in ECS, novation replaces each Eligible OTC Trade submitted through the LCH EnClear OTC Services with two separate LCH EnClear OTC Contracts: one between the selling GCM and the Clearing House and the other between the buying GCM and the Clearing House.

#### 2E.1.12 **Rejection**

If the Clearing House does not register a trade presented for registration it will notify the relevant GCMs concerned within a reasonable time, indicating the reasons for rejection.

#### 2E.1.13 **Notification**

For the Freight and Energy Divisions, all LCH EnClear OTC Contracts arising from registered Eligible OTC Trades are listed on ECS and in the daily Trade report available through the Clearing House's Member reporting extranet site.

For the Precious Metals Division, all LCH EnClear OTC Contracts arising from registered Eligible OTC Trades are listed on the Clearing Member Registration Statement available on Synapse.

#### 2E.1.14 **Position Keeping Accounts**

##### 2E.1.14.1 **Types of Accounts for the Freight and Energy Divisions**

Positions with regard to LCH.Clearent Freight and Energy Contracts are recorded within the ECS system in position-keeping accounts. For the avoidance of doubt, these position-keeping accounts in ECS are not "Member accounts" as described in Regulation 5 of the General Regulations.

GCMs may open and utilise position accounts at their discretion. For example, a GCM may wish to have a separate account for each customer, several accounts for one customer or one account for several customers.

There is no restriction on the number of individual position accounts a GCM may open. The account reference for each position account within the Clearing House systems will be a free format alphanumeric code, as prescribed by the GCM.

##### 2E.1.14.2 **Types of Accounts for the Precious Metals Divisions**

Positions with regard to LCH Precious Metals OTC Contracts are recorded within the GCM's House account within Synapse.

2E.1.14.3 **Basis of Position Keeping for the Freight and Energy Divisions**

Position Accounts can be held net or gross, as required by the GCM. GCMs must notify the Clearing House of their requirements in this regard.

2E.1.14.4 **Basis of Position Keeping for the Precious Metals Divisions**

Positions within a GCM's House account are held net.

2E.1.14.5 **Position Settlement (Gross Accounts) for Freight and Energy Divisions**

Where a position account is held gross, the GCM may, if it so wishes, carry out a closeout by the manual settlement of open positions, using the position adjustment facility in the ECS system.

2E.1.14.6 **Financial Accounts**

Position accounts have financial accounts associated with them. These are, inter alia, used to record cash balances, securities/documentary credits and non-realised margin obligations.

Where appropriate, GCMs' financial accounts are identified by a single character code: "C" for segregated client business; "H" for house and non-segregated business.

Position accounts will map to either a GCM's "C" account or "H" account, as specified by that Member.

For the Precious Metals Division GCMs' House accounts will map to "H" financial account.

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

	<b>Code</b>
Buffer account (House), used for holding additional cash in relation to House business	B
Buffer account (Client), used for holding additional cash in relation to Client business	E

2E.1.14.7 **Default Fund (DF) Account**

Each Clearing Member's Default Fund Contribution is held in a separate financial account. In accordance with the Default Fund Rules this account attracts a higher rate of interest at 3 month LIBOR + 1%. The Default Fund account code is "F".

2E.1.15 **Margins**

2E.1.15.1 **Initial Margins**

Separate initial margin calculations are performed for a GCM's house "H" and client "C" accounts; no offset between these accounts is allowed. Accounts are margined net, meaning that if long and short positions are held in the same delivery month, initial margin is charged on the net position.

#### 2E.1.15.2 **Initial Margins Parameters**

Initial margin parameters are set by the Clearing House. However, in accordance with the Regulations, the Clearing House retains the right at its discretion to vary the rates for the whole market or for an individual GCM's house and/or client accounts.

GCMs will be notified by the Clearing House of alterations to initial margin parameters no later than the day before calls are made based on the new rates.

#### 2E.1.15.3 **Calculation of Initial Margins**

London SPAN

Initial margins are re-calculated at the close of each business day using the London SPAN algorithm, which is an adaptation of the SPAN method developed by the Chicago Mercantile Exchange<sup>1</sup>.

For full details of how London SPAN calculates margins, reference should be made to the SPAN technical information package available from the Clearing House Service Desk +44 (0)20 7426 7200. Technical questions should be directed to the Clearing House Risk Management department on +44 (0)20 7426 7620.

#### 2E.1.15.4 **Realised Variation Margin**

The majority of LCH EnClear OTC Contracts are settled to market daily by the Clearing House in accordance with the relevant LCH EnClear OTC Contract Terms. Profits or losses are either credited to or debited from GCMs' relevant financial accounts (realised margin).

Realised margin is the calculated profit or loss arising from a comparison between the values of open positions at the relevant Reference Price with the value of positions recorded i.e. the Fixed Price for new trades and the previous day's Reference Price for other positions.

#### 2E.1.15.5 **Contingent Variation Margin**

Certain types of LCH EnClear OTC Contracts (World Scale Wet Freight) are marked to market daily by the Clearing House in accordance with the relevant LCH EnClear OTC Contract Terms. Un-realised margin is the calculated contingent profit or loss arising from a comparison between the values of open positions at the relevant Reference Price with the value of positions recorded i.e. the original traded price.

<sup>1</sup> The Chicago Mercantile Exchange (CME) permitted the Clearing House to adapt the CME specifications for SPAN to produce London SPAN, which meets the particular requirements of the London futures and options markets. 'SPAN [TM] ®' is a registered trademark of the CME. The CME assumes no liability in connection with the use of SPAN or London SPAN by any person or entity.

**2E.1.15.6 Option Variation Margin**

As premium is paid up front, option variation margin is the value of unexpired option, calculated with reference to the official quotation. Bought and sold options generate credit and debit NLV (Net Liquidation Value) margin respectively.

**2E.1.15.7 Intra Day Margin Calls**

In accordance with the Regulations the Clearing House is entitled to make additional margin calls for payment the same day (intra-day margin calls) where it considers it necessary. Intra-day margin calls will be made through the Protected Payments System in London or the USA (USD).

**2E.1.16 Trade Management for the Freight and Energy Divisions****2E.1.16.1 Trade Entry**

Eligible OTC Trades for the Freight and Energy Divisions may be submitted for clearing either directly by the GCM or by an Approved Broker via ClearWay, or through an OTP. A list of Approved Brokers is available from the Clearing House.

BEDT trades will be submitted via the Baltex screen, which is linked directly to ClearWay. Cleartrade trades may be entered via the Cleartrade screen, which is linked directly to ECS, or manually (by Cleartrade staff) via ClearWay.

The following particulars of Eligible OTC Trades must be entered in ClearWay via its Ticket Entry screen:

- Product
- Series (Spot, Month, Quarter, Season or Calendar)
- Contract Type (Forward, Call or Put)
- Prompt (contract day, month, quarter, season or calendar)
- Strike (select from the dropdown list)
- Seller Ref (a sequential number)
- Buyer Ref (same as the Seller Ref)
- Seller Account (obtained from the customer or its GCM)
- Buyer Account (obtained from the customer or its GCM)
- Lots (per month (or day in the case of spot))
- Price

The following particulars of Eligible OTC Trades must be entered in ClearWay via an Upload file:

- Type (always TICKET)
- Sell Trader (always LCH1)
- Sell Account (obtained from the customer or its GCM)
- Sell Broker (their 3 letter mnemonic)
- Buy Trader (always LCH1)
- Buy Account (obtained from the customer or its GCM)
- Buy Broker (their 3 letter mnemonic)
- Contract (combination of the product, series, contract type, prompt and strike)
- Quantity (in lots)
- Price
- Buy Client Ref (a sequential number)
- Sell Client Ref (same as the Buy Client Ref)
- Anonymous Trade (always Y)

In certain circumstances the Clearing House may enter trades upon request from a GCM, Approved Broker, OTP or other party. In such circumstances, the Clearing House shall have no liability to the GCM, Approved Broker, OTP or any other party for any failure to input trades or for inputting trade details incorrectly.

#### 2E.1.16.2 **Trades between persons who are not GCMs**

Where an Eligible OTC Trade is executed directly between two parties who are not GCMs, or between a GCM and another party, the trade may be submitted for clearing provided that each party to that trade has a GCM who is prepared to "accept" that trade for clearing. Such Eligible OTC Trades will then be submitted to the relevant GCMs via ClearWay for acceptance.

#### 2E.1.16.3 **Acceptance of Trades**

Energy and Freight Trades must be accepted by GCMs in order to be cleared.

When details of an Eligible OTC Trade are input via ClearWay, such trade details will be sent to the GCMs identified in such particulars, who may then accept or reject their side of that trade.

GCMs can accept and reject trades in ClearWay manually, but can also set lot limit parameters for their customers, such that trades which fall within those parameters are automatically deemed as accepted by those GCMs. Trades which do not pass the lot limit validation criteria set by a GCM will go to a pending state, and will not be cleared unless they are manually accepted on the same day by the GCM. If a GCM has a credit limit set up for an account

and a trade is entered which is within that limit, that GCM will not have an opportunity to reject that trade.

Once a trade has been accepted by both GCMs in ClearWay, either manually or automatically via the credit filter, it is submitted to ECS for registration, where the trade is novated and a subsequent LCH OTC Contract arises between each GCM and LCH.Clearnet.

Cleartrade trades need to be confirmed in Cleartrade's credit filter prior to being accepted by ECS for registration. GCMs can set credit limit parameters for their clients in Cleartrade and should refer to Cleartrade's procedures for further details of this.

If a trade is neither accepted nor rejected by both GCMs by close of business at the end of any business day, it shall cease to be eligible for registration in the name of that GCM or any other GCM and the trade will either remain open as a bi-lateral uncleared trade or be terminated, dependent upon what the trading parties have agreed in the event of non-registration and will automatically be deleted from the ClearWay system.

Acceptance by a GCM of any Eligible OTC Trade means that the GCM so accepting agrees to be bound by an LCH EnClear OTC Contract arising in respect of that OTC trade in accordance with the Regulations and these Procedures, and other applicable documentation. Once a trade has been accepted in accordance with the requirements of the Clearing House, as notified from time to time to GCMs, the trade may not be withdrawn, recalled or amended.

#### 2E.1.16.4 **Contra Trades**

Where incorrect details of a trade have been accepted by both GCMs in accordance with the Regulations and these Procedures, the only available method to correct that trade will be by the entry of a contra trade.

A contra trade will not be required if the trade has a status of "pending" and has not been accepted by both counterparties, as the trade can be cancelled via ClearWay by the GCM or Approved Broker and input again with the correct details.

An accepted trade may need to be corrected by a contra trade for the following reasons:

- incorrect price;
- incorrect expiry month;
- incorrect product;
- incorrect lots (only where too many lots have been entered);
- incorrect buyer/seller.

GCMs will be able to view and confirm all contra trades in ClearWay. Contra trades will appear in ClearWay as new trades and it will be the responsibility of the GCMs to confirm the trades as appropriate. Where a contra trade is

entered via ClearWay and passes the lot limit validation criteria set by a GCM, it will be automatically accepted by that GCM. Where a trade does not meet the validation criteria, it will pend and need to be manually confirmed by that GCM.

Contra trades will attract the same clearing fees as a normal trade unless Commercial Services are notified of the trade details on +44 (0)20 7426 7027/6311.

## 2E.1.17 **Trade Management for the Precious Metals Division**

### 2E.1.17.1 **Registration of Trades**

Matched trades will be received from LMESmart in Synapse. They are then immediately registered by the Clearing House (unless the trades are pending LCH.Clearnet Business Operations or Risk approval).

### 2E.1.17.2 **Contra Trades**

Where a trade has been erroneously matched in LMESmart, the only available method to correct that trade will be by matched entries of a contra trade into LMESmart by the same Clearing Members.

A registered trade may need to be corrected by a contra trade for the following reasons:

- incorrect price;
- incorrect value date;
- incorrect lots (only where too many lots have been entered);
- incorrect buyer/seller.

## 2E.1.18 **Position Transfers**

GCMs wishing to affect a position transfer from one GCM to another GCM should submit a request to the Clearing House Membership Team by email to MembershipTeam@lchclearnet.com. Confirmation of a position transfer is required from both the transferor GCM and the transferee GCM.

GCMs are requested to forward the Position Transfer Request as early as possible, but no later than 12:00 hours, on a business day, to ensure timely input of the details into ECS/Synapse.

Provided that adequate ~~ever~~Collateral is available from both GCMs, the transfer will normally be authorised. Should insufficient ~~ever~~Collateral be available, the transfer may not be authorised until additional ~~ever~~Collateral is provided.

## 2E.1.19 **Reports**

### **ECS**



The ECS system will generate reports at the end of each business day detailing registered LCH EnClear OTC Contracts in the Freight and Energy Divisions, margin requirements and positions. These reports are available to GCMs and some to Approved Brokers via the Clearing House Member Reporting site (a private member-only site).

It is the responsibility of each GCM and Approved Broker to preserve any report required for historic, audit or legal purposes, including, but not limited to, any margin reports.

#### **ClearWay**

ClearWay will retain 90 days of trade data only, showing details of all trades entered and whether or not they cleared, which can be accessed by GCMs and Approved Brokers through the ClearWay GUI and downloaded as a report.

#### **Synapse**

Synapse will (as part of end-of-day processing) generate reports, which will be available via the Synapse GUI and the Clearing House Member Reporting site (a private member-only site).

It is the responsibility of each GCM to preserve any report required for historic, audit or legal purposes, including, but not limited to, any margin reports.

#### **2E.1.20**

##### **Fees**

Fees arising for the provision of LCH EnClear OTC Services will be collected from the GCMs monthly through the Members' accounts.

Details of tariffs and any changes thereto will be notified to GCMs by means of Member circulars.

For further details regarding fees (including details of how information regarding charges made for LCH EnClear OTC Contracts registered by the Clearing House is communicated to GCMs), please see Section 3.6 (Financial Transactions, Fees) of these Procedures. Members should also have regard for the individual sections of these LCH EnClear OTC Services Procedures which may contain further information regarding fees.

#### **2E.1.21**

##### **Tax**

GCMs should take their own legal and accounting advice regarding any taxation liabilities in any country in which a liability to pay tax may arise.

In the event that the Clearing House incurs any liability to pay any tax in respect of or in connection with any LCH EnClear OTC Contract, it shall have the right to require reimbursement of such tax liability, together with any costs or expenses incurred by the Clearing House in connection with the administration and processing of such tax liability, from the GCM who is or was party to that LCH EnClear OTC Contract and whom, in the Clearing House's reasonable opinion, should be responsible for meeting such tax

liability, costs and expenses. The Clearing House will collect such payments through the Clearing House Protected Payments System.

2E.2

**TO THE EXTENT THAT VAT, OR ANY EQUIVALENT TRANSACTION TAX, IS DUE OR BECOMES DUE IN RESPECT OF A TRANSACTION UNDER ANY LCH ENCLEAR OTC CONTRACT, THE CONSIDERATION WHICH THE PARTIES HAVE AGREED IS DUE UNDER THE CONTRACT WILL BE REGARDED AS EXCLUSIVE OF VAT OR ANY EQUIVALENT TRANSACTION TAX. ANY VAT OR EQUIVALENT TRANSACTION TAX WILL BE CHARGED IN ADDITION TO THIS AMOUNT.**

**FREIGHT DIVISION****2E.2.1 Introduction**

**This Section 2E.2 only applies to the Freight Division of the LCH EnClear OTC Services.**

References to "LCH EnClear OTC Clearing Members" or "GCMs" in this section, means those GCMs who are party to, or accept, Eligible OTC Trades in the Freight Division for clearing by the Clearing House. See Section 2E.1.3 for further details about obtaining approval to clear within the Freight Division.

**2E.2.2 OTC Freight Division Products Eligible for Clearing**

Only trades in products approved by the Clearing House for the LCH EnClear OTC Freight Division ("Eligible Products") may be submitted for registration. The contract terms of Eligible Products for the Freight Division are set out in Section 3.4 of Part A of the Schedule to the LCH EnClear OTC Regulations and may be amended from time to time.

Below is a list of Eligible Products in the Freight Division; this list is split into three categories of products within Freight Division. The list may change from time to time.

**2E.2.2.1 FFA (Forward Freight Agreement) Products**

Dry Timecharter Basket Routes – Forwards (CTC, PTC, STC, HTC)

Dry Timecharter Trip & Basket Routes – Options (CTO, PTO, STO, HTO, P2O)

Dry Voyage Routes (C3E, C4E, C5E, C7E)

Dry Trip Timecharter Routes (P1E, P2E, P3E, P1A, P2A, P3A)

Dry Timecharter Voyage Route (S7)

\$ per Tonne Tanker Voyage Routes (DD3, DD5, DD7, D19, DC2, DC6, D14)

Baltic Exchange Dry Index (BDI)

**2E.2.2.2 CFSA (Container Freight Swap Agreement) Products**

CNW (Shanghai – North West Europe)

CMD (Shanghai – Mediterranean)

CSW (Shanghai – US West Coast)

CSE (Shanghai – US East Coast)

**2E.2.2.3 WCI Container Products**

WRS (Rotterdam – Shanghai)

WLS (Los Angeles – Shanghai)

**2E.2.2.4 Commodities**

Iron Ore Swaps (TSI)

Iron Ore Options (TSO)

Steel Swaps (SCN, SCS, SST, SBC, SCC)

Fertilizer Swaps (UNO, UYZ, DTA, DNO, UAN, UNE)

Fertilizer Options (ONO)

Coal Swaps (API 2 and API 4)<sup>2</sup>Coal Options (API 2 and API 4)<sup>3</sup>**2E.2.3 Operating Times****2E.2.3.1 Opening Days**

The Clearing House will publish details of the business days on which the LCH EnClear OTC Service is operational to receive Eligible OTC Trades in its Freight Division by Member Circular.

**2E.2.3.2 Opening Hours**

Eligible OTC Trades in the Freight Division may be notified during the following UK times:

Products	Trade Entry Times	Trade Confirmation Times
FFAs	07:00 – 18:00	07:00 – 18:30
Containers	07:00 – 18:00	07:00 – 18:30
Iron Ore	07:00 – 18:00	07:00 – 18:30
Steel	07:00 – 18:00	07:00 – 18:30
Fertilizer	07:00 – 18:00	07:00 – 18:30
Coal Swaps	07:00 – 18:00	07:00 – 18:30
Coal Options	07:00 – 18:00	07:00 – 18:30

<sup>2</sup> API 2 and API 4 are trademarks and are used under license from Argus Media Limited and IHS Global Limited. All copyrights and database rights in the API 2 and API 4 indices belong exclusively to Argus Media Limited and IHS Global Limited and are used herein under license. LCH.Clearnet Ltd is solely responsible for the API 2 cif ARA and API 4 fob Richards Bay (Argus/McCloskey) Coal Swap Contracts. Argus and IHS take no position on the purchase or sale of such API 2 cif ARA and API 4 fob Richards Bay (Argus/McCloskey) Coal Swap Contracts.

<sup>3</sup> See footnote 2, above. LCH.Clearnet Ltd is solely responsible for the API 2 cif ARA and API 4 fob Richards Bay (Argus/McCloskey) Coal Option Contracts. Argus and IHS take no position on the purchase or sale of such API 2 cif ARA and API 4 fob Richards Bay (Argus/McCloskey) Coal Option Contracts.

	On expiry date – 07:00 – 17:00	On expiry date – 07:00 – 17:30
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Any trade which has not been accepted within the time specified above, on the day on which particulars of that trade are input into ClearWay, will be deleted from ClearWay automatically during the end of day run. It will cease to be an Eligible OTC Trade and will not be registrable that day. It may, however, be re-submitted on another day.

Note: GCMs are asked to note that where trades are executed or originated outside the Opening Hours, no registration can take place until the relevant registration time on the following Opening Day. Where a weekend and/or public holiday intervenes, registration may be delayed for more than a day.

#### 2E.2.4 **Trade Acceptance: Cleartrade Credit Filter**

GCMs may elect to use Cleartrade Exchange Pte Ltd's credit filter. If a GCM does so elect, then, when a trade is submitted through the filter, submission of the trade through the filter constitutes a deemed "acceptance" of the trade on behalf of the GCM. If a GCM wishes to allow for trades to be submitted in its name, through the Cleartrade credit filter, it should contact the Membership Department of LCH.Clearnet for the requisite variation agreement, amending the Clearing Extension Agreement. GCMs shall be bound by the LCH EnClear OTC Contract which arises subsequently, upon registration of the trade in ECS.

Correspondingly, where a trade has been submitted to via the Cleartrade credit filter, a pre-matched contra trade in respect of that trade may only be submitted via the Cleartrade credit filter.

#### 2E.2.5 **Settlement**

All LCH EnClear OTC Contracts arising from Eligible OTC Trades in the Freight Division are subject to cash settlement unless closed out prior to expiry of the relevant contract series (not permissible for World Scale wet contracts). No physical settlement is permissible.

#### 2E.2.6 **Reference Prices for Daily Settlement and Marking to Market**

The Clearing House will use a variety of data from market participants, price reporting agencies and brokers for the purposes of producing reference prices each Business Day for daily settlement purposes and for the final settlement prices. See Part B of the Schedule to the LCH EnClear OTC Regulations for details of the reference prices for each eligible product in the Freight Division listed therein. The reference price will be the "Floating Price" for the purposes of the Contract Terms (see the Schedule to LCH EnClear OTC Regulations).

**2E.3 ENERGY DIVISION****2E.3.1 Introduction**

**This Section 2E.3 only applies to the Energy Division of the LCH EnClear OTC Services.**

References to "LCH EnClear OTC Clearing Members" or "GCMs" in this section, means those GCMs, being OTC Participants, who are party to, or accept, Eligible OTC Trades in the Energy Division for clearing by the Clearing House. See Section 2E.1.3 for further details about obtaining approval to clear the Energy Division.

**2E.3.2 OTC Energy Division Products Eligible for Clearing**

Only trades in products approved by the Clearing House for the Energy Division of the LCH EnClear OTC Services ("Eligible Products") may be submitted for registration. The contract terms of Eligible Products for the Energy Division are set out in Section 3.3 of Part A of the Schedule to the LCH EnClear OTC Regulations and may be amended from time to time.

Below is a list of Eligible Products in the Energy Division. This list may change from time to time.

**2E.3.2.1 Emissions contracts**

EUA Forward Contract (EUA)

CER Forward Contract (CER)

EUA Spot Contract (EUS)

CER Spot Contract (CES)

EUA Option Contract (EUO)

CER Option Contract (CEO)

**2E.3.3 Operating Times****2E.3.3.1 Opening Days**

The Clearing House will publish details of the business days on which the LCH EnClear OTC Service is operational to receive Eligible OTC Trades in its Energy Division by Member Circular.

**2E.3.3.2 Opening Hours**

Eligible OTC Trades in the Energy Division may be notified during the following UK times:

Products	Trade Entry Times	Trade Confirmation Times
Emissions Contracts	07:00 – 18:00	07:00 – 18:30

Any OTC trade which has not been accepted within the time specified above, on the day on which particulars of that trade are input via ClearWay, will be deleted from ClearWay automatically during the end of day run. It will cease to be an Eligible OTC Trade and will not be registrable that day. It may, however, be re-submitted on another day.

Note: GCMs are asked to note that where trades are executed or originated outside the Opening Hours, no registration can take place until the relevant registration time on the following Opening Day. Where a weekend and/or public holiday intervenes, registration may be delayed for more than a day.

#### 2E.3.4 **Settlement**

All LCH EnClear OTC Contracts arising from Eligible OTC Emission Trades are subject to physical delivery, unless closed out prior to commencement of the relevant delivery period.

GCMs should refer to Section 2E.6 of these Procedures (Emissions Delivery Procedures) for full details of the delivery process.

#### 2E.3.5 **Reference Prices for Daily Settlement and Marking to Market**

The Clearing House will use a variety of data from market participants, price reporting agencies and brokers for the purposes of producing reference prices each Business Day for daily settlement purposes and for the final settlement prices. See Part B of the Schedule to the LCH EnClear Regulations for details of the reference prices for each eligible product in the Energy Division listed therein.

**2E.4      PRECIOUS METALS DIVISION****2E.4.1      Introduction****2E.4.1.1      This Section 2E.4 only applies to the Precious Metals Division of the LCH EnClear OTC Services.**

References to "LCH EnClear OTC Clearing Members" or "GCMs" in this section, means those GCMs who are party to Eligible OTC Trades in the Precious Metals Division. See Section 2E.1.3 for further details about obtaining approval to clear the Precious Metals Division.

**2E.4.2      OTC Precious Metals Division Products Eligible for Clearing**

Only trades in products approved by the Clearing House for the LCH EnClear OTC Precious Metals Division ("Eligible Products") may be submitted for registration. The contract terms of Eligible Products for the Precious Metals Division are set out in Section 3.5 of Part A of the Schedule to the LCH EnClear OTC Regulations as may be amended from time to time.

Below is a list of Eligible Products in the Precious Metal Division:

OTC Gold Forward (OGD)

OTC Silver Forward (AGD)

The OTC Gold Forward and OTC Silver Forward contracts are referred to in this Section 2E.4 and Section 2E.7 as the "Precious Metal Contracts" or as gold and silver respectively.

**2E.4.3      Operating Times****2E.4.3.1      Opening Days**

The Clearing House will publish details of the business days on which the LCH EnClear OTC Service is operational to receive Eligible OTC Trades in its Precious Metals Division by Member Circular.

**2E.4.3.2      Opening Hours**

Eligible OTC Trades in the Precious Metals Division may be notified during the following UK times:

<b>Products</b>	<b>Trade Acceptance Times</b>
OGD (Gold) and AGD (Silver)	07:30 – 20:00 for forwards  07:30 – 15:00 for next valid value date

Any trade which has not been accepted within the time specified above on the day, on which particulars of that trade are input into Synapse, will be rejected by Synapse. It will cease to be an Eligible OTC Trade and will not be registered that day. GCMs may, however, elect to re-submit on another day.



Note: GCMs are asked to note that where trades are executed or originated outside Trade Acceptance times, no registration can take place until the relevant registration time on the following Business Day. Where a weekend and/or public holiday intervenes, registration may be delayed for more than a day

#### 2E.4.3.3 **Settlement by Delivery:**

- (a) The net Lots covered by Precious Metal Contracts remaining open on expiry of the contract shall be settled on their Value Date by payment.
- (b) The Clearing House shall raise invoices or credit notes for the contract weight of the net Lots covered by such Precious Metal Contracts at the Settlement Price and shall deliver the same to the relevant Clearing Members. Such invoices and credit notes shall be for the contract weight.
- (c) Payments and receipts in respect of the invoices and credit notes raised by the Clearing House under (b) above shall be effected through PPS.
- (d) The net Lots covered by Precious Metal Contracts open on expiry of the contract shall be settled by delivery between Unallocated Precious Metal accounts as set out below at 2E.7. Once the settlement instructions have been matched with LCH.Clearnet, the settlement is irrevocable.

#### 2E.4.4 **Reference Prices for Daily Settlement to Market of Precious Metal Contracts**

The Clearing House will use the LBMA Gold Forward Curve and LBMA Silver Forward Curve anchored onto the spot gold and silver prices, respectively, for the purposes of producing reference prices each business day for daily settlement to market of contracts.

In the event that the LBMA Gold Forward Curve and/or LBMA Silver Forward Curve is not available or is deemed to not be an accurate reflection of current market prices, the Gold and/or Silver prices would be based on either:

- broker quotes for spot gold or silver and a previous LBMA Gold Forward Curve or LBMA Silver Forward Curve adjusted to reflect changes in US interest rates; or
- gold or silver forward prices that LCH.Clearnet Risk Department deems to be an accurate reflection of current market prices.

The Clearing House will use the London Gold Fixing PM price for the final settlement price. In the event that the London Gold Fixing PM price is not available (for example Christmas eve) or deemed to not be an accurate reflection of the current market price either the London Gold Fixing AM price or broker quotes for spot gold or a price that LCH.Clearnet Risk Department deems to be an accurate reflection of the current market price will be used for the final settlement price.

The Clearing House will use the London Silver Fixing price for the final settlement price. In the event that the Silver Fixing price is not available (for example Christmas eve) or deemed to not be an accurate reflection of the current market price either the broker quotes for spot silver or a price that LCH.Clearnet Risk Department deems to be an accurate reflection of the current market price will be used for the final settlement price.

The London Bullion Market Association is the owner of the LBMA Gold Forward Curve and the LBMA Silver Forward Curve. The London Gold Market Fixing Ltd is the owner of the London Gold Fixing price data and The London Silver Market Fixing Ltd is the owner of the London Silver Fixing price data.

**2E.5 OPTION EXERCISE AND EXPIRY****2E.5.1 The OTC EnClear service provides option contracts that are exercised through the Clearing System.****2E.5.1.1 Freight, Fertilizer and Iron Ore Options**

Freight, Fertilizer and Iron Ore options are European style. Automatic exercise will occur if the option contract is one tick or more in the money on expiry day with reference to the relevant Final Settlement Price. Upon exercise or assignment an open futures position will be created in the underlying contract at the strike price which will be immediately cash settled. Clearing Members cannot make any adjustments to the automatic exercise settings. Option contracts not automatically exercised against the Final Settlement Price will expire worthless.

**2E.5.1.2 Emissions Options**

Emission options are European style. Automatic exercise will occur if the option contract is one tick or more in the money on expiry day with reference to the relevant Final Settlement Price. Upon exercise or assignment an open futures position will be created in the underlying contract at the strike price. Clearing Members cannot make any adjustments to the automatic exercise settings. Option contracts not automatically exercised against the Final Settlement Price will expire worthless.

**2E.5.1.3 Coal Options**

Coal options are European style. Coal options will be automatically exercised or expired, unless manually exercised or cancelled, as described below.

**Automatic Exercise**

Automatic exercise will occur if the option contract is one tick or more in the money on expiry day with reference to the relevant Final Settlement Price.

Upon exercise or assignment an open futures position will be created in the underlying contract at the strike price. Option contracts not automatically exercised against the Final Settlement Price will expire worthless.

**Manual Exercise or Cancellation**

On expiry day and before 17:30 hours, Clearing Members can override the automatic exercise of a coal option by using the ECS EnClear Trade GUI to perform a manual exercise or cancellation of the option contract. Upon exercise or assignment, an open futures position will be created in the underlying contract at the strike price.

It is not possible for Clearing Members to input exercise or exercise cancellation instructions after the option expiry deadline has dropped.

2E.5.1.4 **Exercise by the Clearing House**

When exercised against, the Clearing House will select sellers against which to assign, based on their open position at the end of the last trading day.

**Notice of Assignment/Allocation**

The Clearing House will use reasonable endeavours to notify the relevant seller of its allocation as soon as is possible on the day the options expire.

Notification will be sent via the MBREXR report on the MemberLive reporting site. Members must have a valid account and password to access this secure site.

**2E.6 EMISSIONS DELIVERY PROCEDURES****2E.6.1 General Information****2E.6.1.1 Additional Definitions**

Additional definitions relevant to the LCH EnClear OTC Services: Energy Division are set out at Section 3.3C of the Schedule to the EnClear OTC Regulations.

**2E.6.1.2 Delivery of Documentation to the Clearing House**

Clearing Members must submit the required delivery documentation by email to [LCHOperations-Commodities@lchclearnet.com](mailto:LCHOperations-Commodities@lchclearnet.com) or by hand to LCH.Clearnet Limited, Aldgate House, 33 Aldgate High Street, London EC3N 1EA, United Kingdom in both cases marked "**Urgent, for the attention of Operations and Client Servicing**".

**2E.6.1.3 Authorised Signatories**

Prior to making or taking any delivery, Clearing Members must submit a list of authorised signatories to the Clearing House (Appendices 2E.A). It is the Clearing Member's responsibility to ensure that details of authorised signatories held at the Clearing House are updated as appropriate.

**2E.6.1.4 "Buyers" and "Sellers"**

Throughout these delivery procedures the term "Buyer" or "buyer" is used to refer to the buying Clearing Member and "Seller" or "seller" to the selling Clearing Member.

**2E.6.1.5 Member Accounts**

No offset is allowed for either physical delivery or financial settlement between Clearing Members' house and client accounts.

**2E.6.1.6 Clearing House Account**

The Clearing House shall maintain Accounts in the Registry for the purposes of making and taking delivery under LCH EnClear OTC Contracts. Deliveries to the Clearing House must be made to the Clearing House's Account as follows:

Account Number: EU-100-5016892-0-62

**2E.6.2 OTC Emissions Delivery for Forward Contracts****2E.6.2.1 Introduction**

This Section 2E.6.2 (plus Appendices 2E.A-E) applies to deliveries under Forward EUA and CER Emissions Contracts within the OTC Emissions Service of the LCH EnClear OTC Services (Energy Division). The following terms shall have the following meanings for the purposes of the same provisions.

<b>Authorised</b>	A natural person authorised for the purposes of the
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<b>Representative</b>	Registry Regulation to initiate Transfer Requests
<b>Additional Authorised Representative</b>	A natural person authorised for the purposes of the Registry Regulation to authorise Transfer Requests
<b>Buyer</b>	A GCM who is the buyer under an LCH EnClear OTC Contract.
<b>CER</b>	A certified emissions reduction that conforms to the contract terms and eligibility criteria contained in the Schedule to the LCH EnClear OTC Regulations
<b>GCM</b>	An LCH EnClear OTC Clearing Member who has entered into a clearing extension agreement with the Clearing House for the purpose of participating in the OTC Emissions Service
<b>EUA</b>	An EU allowance that conforms to the contract terms and eligibility criteria contained in the Schedule to the LCH EnClear OTC Regulations
<b>Forward Contract</b>	An LCH EnClear OTC Contract, being a forward EUA or CER emissions contract
<b>Instruments</b>	EUAs or CERs, as the case may be, to be delivered in accordance with the terms of an LCH EnClear OTC Contract.
<b>OTC Emissions Service</b>	That part of the LCH EnClear OTC Services (Energy Division) which relates to OTC Emissions Products.
<b>PPS</b>	Protected Payment System to debit or credit payments from GCMs' accounts.
<b>Registry</b>	The Union registry established pursuant to the Registry Regulation.
<b>Registry Regulation</b>	As defined at Section 3.3C of the Schedule to the EnClear OTC Regulations
<b>Seller</b>	A GCM who is the seller under an LCH EnClear OTC Contract.
<b>Trading Account</b>	An Account that is a trading account.
<b>Transfer Request</b>	A request made in accordance with the Registry Regulation for the transfer of Instruments.

#### 2E.6.2.2 Compliance Registry Regulation and other requirements

Each GCM shall at all times comply with any applicable provisions of the Registry Regulation, any other applicable legislation and any applicable

requirements, terms, conditions and procedures of the Registry in performing its obligations under LCH EnClear OTC Contracts and otherwise when participating in the OTC Emissions Service. Each GCM shall additionally obtain and at all times adequately maintain such systems and technology as may be necessary in order to comply with such provisions.

#### 2E.6.2.3 **Delivery Specification**

##### 2E.6.2.3.1 **Delivery**

Delivery under an LCH EnClear OTC Contract is effected by the transfer of Instruments in accordance with the terms of that LCH EnClear OTC Contract from the Trading Account of the Seller to the relevant Trading Account of the Clearing House and from the relevant Trading Account of the Clearing House to the Trading Account of the Buyer.

#### 2E.6.2.4 **Requirement to have a Trading Account and "trusted account list"**

To participate in the OTC Emissions Service, each GCM must maintain an operational Trading Account from which it is possible to make delivery under that LCH EnClear OTC Contract into the relevant Trading Account of the Clearing House or, as the case may be, into which it is possible to take delivery under that LCH EnClear OTC Contract from the relevant Trading Account of the Clearing House. Each Clearing Member must link to the Clearing House's designated Trading Account and maintain that link in its "trusted account list" to enable deliveries to progress in accordance with the timetable at Section 2E.6.2.7.

#### 2E.6.2.5 **Nature of the Instruments to be delivered**

Instruments to be delivered shall meet the relevant eligibility criteria set out in the Schedule to the LCH EnClear OTC Regulations. Each GCM shall ensure that any Instruments it delivers in performing its obligations under an LCH EnClear OTC Contract within the OTC Emissions Service are free and clear of all and any encumbrances.

#### 2E.6.2.6 **Days and Times**

Unless otherwise stated, references to "day" mean "business day". All "timings" or "times of day" are London times.

#### 2E.6.2.7 **Delivery timetable for Forward Contracts**

The following is the UK timetable governs the delivery of Instruments under Forward Contracts in the OTC Emissions Service. For the avoidance of doubt the timetable applies whether the Instruments to be delivered under the particular Forward Contract are EUAs or CERs.

DAY	TIME	ACTION	
<b>Cessation of trading day (D - 1)</b>	At 18:00	Trading ceases	Trading ceases
	By 18:30	Trade confirmation only	Trade confirmation only
	After 19:15	HIT report available	HIT report available
		Invoice and Account Sales report available	Invoice and Account Sales report available
<b>Delivery Day (D)</b>	By 09:00		Pays contract value to the Clearing House (via PPS) against the Instruments to be transferred to the Buyer by the Clearing House
	By 10:00	Submit appropriate <i>Seller's Delivery Confirmation Form</i>	Submit appropriate <i>Buyer's Delivery Confirmation Form</i>
	By 14:30	Sellers must ensure that the necessary Transfer Requests have been effected and that the necessary Instruments have been Transferred into the Trading Account of the Clearing House	
	After 14:30	Receives contract value (via PPS) against Instruments received by the Clearing House	On receipt from the Sellers of the Instruments into the Trading Account of the Clearing House, the Clearing House will randomly select the order in which the Clearing House will make Transfer Requests.
	At 14:30	Buying-in notice presented to Selling Clearing Member in	Invoice amounts returned in respect of the Late Delivery



		respect of Late Delivery of Instruments requiring them to transfer the necessary Instruments by 11:00 hours on the Delivery Day + 1. A failure to do so will be deemed a Failed Delivery and will prompt Buying-in.	of Instruments.
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#### 2E.6.2.8 **Delivery Procedure**

Contracts will expire at 18:00 on the last Monday of the contract month. Where the last Monday of the contract month is not a business day, or there is a non-business day in the four days following the last Monday of the contract month, then the expiry day will be the second last Monday of the contract month. In cases where there is a non-business day in the four days following the second last Monday of the contract month, then the expiry day will be the third last Monday of the contract month.

##### 2E.6.2.8.1 **Cessation of Trading Day (D – 1)**

At 18:00 hours

Trading ceases.

By 18:30 hours

GCMs must ensure that all settlements and transfers are performed via ECS by 18:30 hours.

N.B: Upon contract expiry the delivery positions are calculated for each product with individual long and short positions in each Settlement Account being netted for delivery to or from either the house or the client account of the Clearing Member.

The delivery position will be the number of contracts that are deliverable into or out of the Trading Account of the Clearing House.

End of day

At end of day, open contracts in the expiring contract month become open delivery contracts; GCMs are obliged to make or take delivery.

##### 2E.6.2.8.2 **Delivery Day (D)**

By 09:00 hours

Buyers pay, via PPS, full contract value against the Instruments to be transferred to the Buyer from the Clearing House Trading Account.

By 10:00 hours

Sellers must submit the appropriate *Seller's Delivery Confirmation Form* to LCH.Clearnet.

Buyers must submit the appropriate *Buyer's Delivery Confirmation Form* to LCH.Clearnet.

By 14:30 hours

Sellers must ensure that the necessary Transfer Requests (as described in the appropriate *Seller's Delivery Confirmation Form*) have been made so as to allow the Instruments to be transferred from the Trading Account of the Seller to the Trading Account of the Clearing House.

After 14:30 hours

On receipt from Sellers of the Instruments into the Trading Account of the Clearing House, the Clearing House will randomly select the order in which the Clearing House will make the Transfer Requests (as contained in the *Buyer's Delivery Confirmation Form*) for the Instruments to be transferred from the Trading Account of the Clearing House to the Trading Account of the Buyer.

After 14:30 hours

Sellers are credited full contract value against the Instruments received by the Clearing House.

At 14:30 hours

Sellers that fail to deliver Instruments by this Time will be issued with a Buying-in Notice Warning, requesting the delivery of Instruments by 11:00 hours on the Delivery Day (D) + 1.

Instruments received from Sellers by the Clearing House after 14:30 will be deemed a Late Delivery and will not be passed to the Buyers until D + 1 by approximately 13:00. Sellers will not be paid for these instruments until approximately 13:00 on D + 1. Invoice amounts will be returned to Buyers in respect of the Late Delivery of the Instruments.

### 2E.6.2.8.3 **Delivery Day +1**

By 09:00 hours

In respect of Late Deliveries, Buyers pay, via PPS, full contract value against the Instruments to be transferred to the Buyer from the Clearing House Trading Account.

At 11:00 hours

Sellers must ensure that the necessary Transfer Requests (as described in the appropriate Seller's instructions) have been made in respect of a Late Delivery so as to allow the Instruments to be transferred from the Trading Account of the Seller to the Trading Account of the Clearing House. The

Clearing House must receive the Instruments into its Trading Account from the Seller.

Buying-in will be executed in respect of a failure by the Selling Clearing Member to make a Transfer Request that results in the receipt of the necessary Instruments into the Trading Account of the Clearing House.

By Approx 13:00 hours

On receipt from Sellers of the Instruments in respect of the Late Delivery into the Trading Account of the Clearing House, the Clearing House will randomly select the order in which the Clearing House will make the Transfer Requests (as contained in the Buyer's Delivery Confirmation Form) for the Instruments to be transferred from the Trading Account of the Clearing House to the Trading Account of the Buyers effected by the Late Delivery.

By Approx 13:00 hours

Sellers receive full contract value against the Instruments received by the Clearing House in respect of the Late Delivery.

#### 2E.6.2.9 **Failed Delivery**

##### 2E.6.2.9.1 **Delivery Day +1**

After 11:00 hours D+1

Where any Transfer Request in respect of an Instrument has not been made by the Seller prior to 11:00 on the Delivery Day + 1, such that the Clearing House is in receipt of these Instruments in its Trading Account, as required by these Procedures, the Clearing House shall declare this a Failed Delivery and will invoke Buying-in.

The Clearing House will continue to ~~charge~~impose initial margin ~~to obligations~~ and require Collateral from both the Buyer and the Seller until delivery of the necessary Instruments is complete under the Buying-in Process, or the position has been closed through Cash Settlement where Buying-in has been unsuccessful.

#### 2E.6.2.10 **Failure to perform Obligation under a Contract**

##### 2E.6.2.10.1 **Buying-in process**

11:00 Delivery Day + 1

If the Seller fails to transfer the necessary Instruments to the Trading Account of the Clearing House by 11:00 on D+1 as stated on the relevant Buying-in Notice the Clearing House will instigate the Buying-in and use its reasonable endeavours to obtain the relevant Instruments by 11:00 on Delivery Day +2 (N.B. Delivery may take longer than this). Once the Clearing House has placed an order with its Buying-in agent, the Clearing House will not accept any Instruments from the failed Seller.

Timetable of Events (in UK Times)

Functions	Timescales
Buying-in proposed by the Clearing House by issuing the Warning Notice to the Seller	14:30 hours on Delivery Day
Buying-in instigated by the Clearing House	If failing selling member fails transfer allowances by 11:00 hours on the Delivery Day + 1
Close of Buying-in period	11:00 on the Delivery Day + 2
Cash Settlement Occur	By 09:00 on the Delivery Day + 3 if Buying-in fails

#### 2E.6.2.10.2 Cash Settlement

If the Clearing House is unable or for any reason fails to execute the Buying-in of the full amount of relevant Instruments by 11:00 on D+2, the Clearing House will "Cash Settle" the relevant Forward Contract/s on D+3 by 09:00 hours at a price calculated at COB on D+2 at the discretion of the Clearing House. Both the Buyer and Seller will be informed of the price at which the remaining position will be Cash Settled.

#### 2E.6.2.10.3 Late Delivery/Buying-in Charges

The Clearing House will charge an administration fee of €100 plus any applicable VAT for each instance of Late Delivery by the Member.

Where a Buying-in Notice is issued, the Seller concerned will be liable to pay the Clearing House for all costs and expenses incurred by the Clearing House in issuing such Notice and/or carrying out the buying-in pursuant to that Notice. Such costs and expenses will include any dealing and other charges incurred by the Clearing House to its buying-in agent. The Clearing House will also charge an administration fee of €200 plus any applicable VAT per Buying-In Notice issued to a Seller. This administration fee will be charged to the Clearing Member in accordance with standard Clearing House procedures at the beginning of each calendar month (for the previous month's charges). The Clearing House is entitled to collect such costs, expenses, administration fee and VAT through the PPS and debit the appropriate PPS account of that Seller accordingly.

The Clearing House shall under no circumstances be liable for any indirect or consequential loss or loss of profits.

#### 2E.6.2.10.4 Liability

- (a) Without prejudice to the provisions of the Forward Contract, the Procedures and any other steps or sanctions which may be taken or applied under the General Regulations, Default Rules and Procedures:
- (b) If, in respect of a Forward Contract where the Clearing House is party as the Buyer, there is a Failed Delivery as a result of any failure on the

- part of the Seller to comply with the applicable obligations under such Contract, then the Seller shall indemnify the Clearing House in respect of any costs directly attributable to that Failed Delivery.
- (c) If, in respect of a Forward Contract where the Clearing House is party as the Seller, there is a Failed Delivery result of any failure on the part of the Buyer to comply with the applicable obligations under a Contract, then the Buyer shall indemnify the Clearing House in respect of any costs directly attributable to that Failed Delivery.
  - (d) The Clearing House shall have absolute discretion in determining the costs arising pursuant to (a) or (b). For the purposes of calculating either such costs, the relevant consequences of the Failed Delivery shall be considered in isolation from other notifications not made under a Forward Contract in respect of the Buyer's or Seller's Trading Accounts.
  - (e) Without prejudice to (a) above, the Seller shall indemnify the Clearing House against all costs and expenses incurred by the Clearing House in taking steps to mitigate the losses, charges, expenses or penalties which would otherwise be incurred as a result of the Seller's failure to comply with its obligations under a Forward Contract.
  - (f) Without prejudice to (b) above, the Buyer shall indemnify the Clearing House against all costs and expenses incurred the Clearing House in taking steps to mitigate the losses, charges, expenses or penalties which would otherwise be incurred as a result of the Buyer's failure to comply with its obligations under a Forward Contract.
  - (g) The Buyer and the Seller acknowledge that the right to be indemnified under this clause shall be their sole remedy in respect of any failure by any other party to comply with its obligations in respect of a Forward Contract.

#### 2E.6.2.11 **Payments**

##### 2E.6.2.11.1 **Cessation of trading day + 1**

After 10:30 hours

Invoices will be available as a report on Member Reporting website.

##### 2E.6.2.11.2 **Cessation of trading day + 2**

After 10:30 hours

Account sales will be available as a report on Member Reporting website.

#### 2E.6.2.12 **Invoices**

##### 2E.6.2.12.1 **Invoice Calculation**

The Invoice and Account Sale Report gives details of all deliveries and amounts due to Sellers and payable by the Buyers. These amounts are calculated as follows:

Contract EUAs / x official quotation on last trading day for the  
CERs relevant delivery month (Final Settlement  
Price or FSP)

#### 2E.6.2.12.2 **Confirmed Deliveries**

The value of EUAs and CERs is calculated as follows:

EUAs / CERs x FSP

Where

EUAs / CERs = The number of instruments delivered

#### 2E.6.2.13 **Delivery Documentation Summary**

##### 2E.6.2.13.1 **Seller's Delivery Confirmation Form**

Sellers submit this form to the Clearing House. It shall include the following details:-

- (a) The number of lots that are to be specified in each Transfer Request;
- (b) Details of each Trading Account from which each Transfer Request will be made;
- (c) Name and contact details of the Authorised Representative and, if relevant, Additional Authorised Representative in respect of each Trading Account specific to each Transfer Request;
- (d) Confirmation that the member will maintain the relevant Trading Accounts listed in (b) during the delivery period and is not for any reason prevented from processing Transfer Requests as required for the purposes of the relevant Forward Contract;
- (e) Such other details as are required by the Clearing House from time to time.

##### 2E.6.2.13.1.2 **Buyer's Delivery Confirmation Form**

Buyers submit this form to the Clearing House. It shall include the following details:-

- (a) The number of lots that are to be specified in each Transfer Request;
- (b) Details of each Trading Account to which each transfer is to be made by the Clearing House;
- (c) Name and contact details of the Authorised Representative and, if relevant, Additional Authorised Representative in respect of each Trading Account specific to each Transfer Request;
- (d) Confirmation that the Member will maintain the relevant Trading Account or Trading Accounts listed in (b) during the delivery period and is not for any reason prevented from processing Transfer

Requests as required for the purposes of the relevant Forward Contract;

- (e) Such other details as are required by the Clearing House from time to time.

Appended to these Procedures are forms for Buyers and Sellers for CERs and EUAs.

2E.6.3 **OTC Emissions Delivery for Spot Contracts**

2E.6.3.1 **Introduction**

This Section 2E.6.3 applies to deliveries under spot contracts within the OTC Emissions Service of the LCH EnClear OTC Services (Energy Division). The following terms shall have the following meanings for the purposes of the same provisions.

<b>Authorised Representative</b>	A natural person authorised for the purposes of the Registry Regulation to initiate Transfer Requests
<b>Additional Authorised Representative</b>	A natural person authorised for the purposes of the Registry Regulation to authorise Transfer Requests
<b>Buyer</b>	A GCM who is the buyer under an LCH EnClear OTC Contract.
<b>CER</b>	A certified emissions reduction that conforms to the contract terms and eligibility criteria contained in the Schedule to the LCH EnClear OTC Regulations
<b>GCM</b>	An LCH EnClear OTC Clearing Member who has entered into a clearing extension agreement with the Clearing House for the purpose of participating in the OTC Emissions Service
<b>EUA</b>	An EU allowance that conforms to the contract terms and eligibility criteria contained in the Schedule to the LCH EnClear OTC Regulations
<b>Forward Contract</b>	An LCH EnClear OTC Contract, being a forward EUA or CER emissions contract
<b>Instruments</b>	EUAs or CERs, as the case may be, to be delivered in accordance with the terms of an LCH EnClear OTC Contract.
<b>OTC Emissions Service</b>	That part of the LCH EnClear OTC Services (Energy Division) which relates to OTC Emissions Products.

<b>PPS</b>	Protected Payment System to debit or credit payments from GCMs' accounts.
<b>Registry</b>	The Union registry established pursuant to the Registry Regulation.
<b>Registry Regulation</b>	As defined at Section 3.3C of the Schedule to the EnClear OTC Regulations
<b>Seller</b>	A GCM who is the seller under an LCH EnClear OTC Contract.
<b>Trading Account</b>	An Account that is a trading account.
<b>Transfer Request</b>	A request made in accordance with the Registry Regulation for the transfer of Instruments.

### 2E.6.3.2 **Compliance with Registry Regulation and other Requirements**

Each GCM shall at all times comply with any applicable provisions of the Registry Regulation, any other applicable legislation and any applicable requirements, terms, conditions and procedures of the Registry in performing its obligations under LCH EnClear OTC Contracts and otherwise when participating in the OTC Emissions Service. Each GCM shall additionally obtain and at all times adequately maintain such systems and technology as may be necessary in order to comply with such provisions.

### 2E.6.3.3 **Delivery Specification**

#### 2E.6.3.3.1 **Delivery**

Delivery under an LCH EnClear OTC Contract is effected by the transfer of Instruments in accordance with the terms of that LCH EnClear OTC Contract from the Trading Account of the Seller to the relevant Trading Account of the Clearing House and from the relevant Trading Account of the Clearing House to the Trading Account of the Buyer.

#### 2E.6.3.3.2 **Requirement to have a Trading Account and "trusted account list"**

To participate in the OTC Emissions Service, each GCM must maintain an operational Trading Account from which it is possible to make delivery under that LCH EnClear OTC Contract into the relevant Trading Account of the Clearing House or, as the case may be, into which it is possible to take delivery under that LCH EnClear OTC Contract from the relevant Trading Account of the Clearing House. Each Clearing Member must link to the Clearing House's designated Trading Account and maintain that link in its "trusted account list" to enable deliveries to progress in accordance with the timetable at Section 2E.6.3.3.5. Each GCM shall identify that Trading Account on the Static Data Form. The Clearing house will only accept the allowances from that specified Trading Account.

The Clearing House will reject any delivery from an account other than the GCM's Account as specified on the Static Data Form. The rejection will be an



equivalent amount of instruments as the attempted delivery, but will not necessarily be the identical instruments (although they will be of the same type).

**2E.6.3.3.3 Nature of the Instruments to be delivered**

Instruments to be delivered shall meet the relevant eligibility criteria set out in the Schedule to the LCH EnClear OTC Regulations. Each GCM shall ensure that any Instruments it delivers in performing its obligations under an LCH EnClear OTC Contract within the OTC Emissions Service are free and clear of all and any encumbrances.

**2E.6.3.3.4 Days and Times**

Unless otherwise stated, references to "day" mean "business day". All "timings" or "times of day" are London times.

**2E.6.3.3.5 Delivery Timetable for Spot Emissions Contracts**

The following is the UK timetable governs the delivery of Instruments under LCH EnClear OTC Contracts in the OTC Spot Emissions Service. For the avoidance of doubt the timetable applies whether the Instruments to be delivered under the particular LCH EnClear OTC Contract are EUAs or CERs.

DAY	TIME	ACTION	
		SELLERS	BUYERS
Cessation of trading day (CTD) D-1	At 18:00	Trading ceases	Trading ceases
Cessation of trading day (CTD) D-1	By 18:30	Trade confirmation only	Trade confirmation only
Cessation of trading day (D-1)	After 19:15	HIT report available Invoice and Account Sales report available	HIT report available Invoice and Account Sales report available
Delivery Day (D)	By 09:00		Pays contract value to the Clearing House via PPS for the Instruments to be transferred to the Buyer by the Clearing House
	At 11:00	Sellers must ensure that the necessary Transfer Requests have been effected and that the necessary Instruments have been transferred into the Trading Account of the Clearing House. Any Instruments received after this time will be deemed a Late Delivery.	
	By Approx 13:00	Receives contract value (via PPS) for Instruments received by the Clearing House	On receipt from the Sellers of the Instruments into the Trading Account of the Clearing House, the Clearing House will randomly select the order in which it

<p><b>Delivery Day (D)</b></p>	<p>By 14:30</p>	<p>Buying-in notice presented to the Selling Clearing Member in respect of Late Delivery of Instruments requiring them to transfer the necessary Instruments by 11:00 hours on the Delivery Day +1. A failure to do so will be deemed a Failed Delivery and will prompt Buying-in.</p>	<p>will make Transfer Requests. Buyer receives Instruments into its Trading Account Invoice amounts returned in respect of the Late Delivery of Instruments.</p>
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**2E.6.3.4 Delivery Procedures**

**Cessation of Trading Day**

At 18:00 hours on each business day

Trading ceases.

By 18:30 hours

The window will remain open until 18:30 for the members to complete the confirmation of any outstanding trades in ClearWay.

End of day

At end of day, open contracts on each expiry day will become open delivery positions; GCMs are obliged to make or take delivery.

**2E.6.3.4.1 Delivery Day D**

By 09:00 hours

Buyers pay full contract value against the Instruments to be transferred to the Buyer from the Clearing House Trading Account via PPS payment method.

At 11:00 hours

Sellers must have ensured that the necessary Transfer Requests (as described in the appropriate Seller's instructions) have been made so as to allow the Instruments to be transferred from the Trading Account of the Seller

to the Trading Account of the Clearing House. The Clearing House must receive the Instruments into its Trading Account from the Seller.

Instruments received from Sellers by the Clearing House after this time will be deemed a Late Delivery and will incur an administration charge in accordance with these Procedures.

By Approx 13:00 hours

On receipt from Sellers of the Instruments into the Trading Account of the Clearing House, the Clearing House will randomly select the order in which it will make the Transfer Requests (as contained in the Buyer's Delivery instruction) for the Instruments from the Trading Account of the Clearing House to the Trading Account of the Buyer.

By Approx 13:00 hours

Sellers receive full contract value against the Instruments received by the Clearing House.

At 14:30 hours

Sellers that fail to deliver Instruments by this time will be issued with a Buying-in Notice requesting the delivery of Instruments by 11:00 hours on the delivery day D+1.

Instruments received from Sellers by the Clearing House after 14:30 will be deemed a Late Delivery and will not be passed to the Buyers until D+1 by approx 13:00. Sellers will not be paid for these instruments until approx 13:00 on D+1. Invoice amounts will be returned to the buyers in respect of the Late Delivery of the Instruments.

#### 2E.6.3.5 **Delivery Day + 1**

At 11:00 hours

Sellers must ensure that the necessary Transfer Requests (as described in the appropriate *Seller's instructions*) have been made in respect of Late Delivery so as to allow the Instruments to be transferred from the Trading Account of the Seller to the Trading Account of the Clearing House. The Clearing House must receive the Instruments into its Trading Account from the Seller.

Buying-in will be executed in respect of a failure by the Selling Clearing Member to make a Transfer Request that results in the receipt of the necessary Instruments into the Trading Account of the Clearing House.

By Approx 13:00 hours

On receipt from Sellers of the Instruments in respect of Late Delivery into the Trading Account of the Clearing House, the Clearing House will randomly select the order in which the Clearing House will make the Transfer Requests (as contained in the *Buyer's Delivery instruction*) for the Instruments to be transferred from the Trading Account of the Clearing House to the Trading Account of the Buyers effected by the Late Delivery.

By Approx 13:00 hours

Sellers receive full contract value against the Instruments received by the Clearing House in respect of the Late Delivery.

2E.6.3.6 **Failed Delivery**

2E.6.3.6.1 **Delivery Day + 1**

After 11:00 hours D+1

Where any Transfer Request in respect of an Instrument has not been made by the Selling Member prior to 11:00 on the Delivery Day + 1, such that the Clearing House is in receipt of these Instruments in its Trading Account, as required by these Procedures, the Clearing House shall declare this a Failed Delivery and will invoke Buying-in.

Clearing House will continue to ~~charge~~impose initial margin ~~to~~obligations on both the Buying Member and the Selling Member until delivery of the necessary Instruments is complete under the Buying-in Procedures, or the position has been closed through Cash Settlement where Buying-in has been unsuccessful.

**Failure to Perform Obligations under a Contract**

Without prejudice to the provisions of the Contract, the Procedures and any other steps or sanctions which may be taken or applied under the General Regulations, Default Rules and Procedures:

- (a) If, in respect of a Contract where the Clearing House is party as the Buyer, there is a Transfer Request Failure as a result of any failure on the part of the Seller to comply with the applicable obligations under such Contract, then the Seller shall indemnify the Clearing House in respect of any Delivery Costs directly attributable to that Transfer Request Failure.
- (b) If, in respect of a Contract where the Clearing House is party as the Seller, there is a Transfer Request Failure as a result of any failure on the part of the Buyer to comply with the applicable obligations under a Contract, then the Buyer shall indemnify the Clearing House in respect of any Delivery Costs directly attributable to that Transfer Request Failure.
- (c) The Clearing House shall have absolute discretion in determining the Delivery Costs arising Pursuant to (a) or (b). For the purposes of calculating either such Delivery Costs, the relevant consequences of the Transfer Request Failure shall be considered in isolation from other notifications not made under a Contract in respect of the Buyer's or Seller's Trading Accounts.
- (d) Without prejudice to (a) above, the Seller shall indemnify the Clearing House against all costs and expenses incurred by the Clearing House in taking steps to mitigate the losses, charges, expenses or penalties which would otherwise be incurred as a result of the Seller's failure to comply with its obligations under a Contract.

- (e) Without prejudice to (b) above, the Buyer shall indemnify the Clearing House against all costs and expenses incurred the Clearing House in taking steps to mitigate the losses, charges, expenses or penalties which would otherwise be incurred as a result of the Buyer's failure to comply with its obligations under a Contract.

2E.6.3.6.2 **The Clearing House shall under no circumstances be liable for any indirect or consequential loss or loss of profits.**

2E.6.3.7 **Buying-In**

2E.6.3.7.1 **Buying-in notice**

After 14:30 on the Delivery Day the Clearing House will issue a notice (a "Buying-in Notice") to the Selling Member who has failed to deliver informing it that buying-in will be instigated by 11:00 on the day following the Delivery Day (D+1) if the Selling Member does not transfer the necessary Instruments to the Trading Account of the Clearing House prior to this time.

2E.6.3.8 **Buying-in Process**

11:00 Delivery Day + 1

If the Selling Clearing member fails to transfer the necessary Instruments to the Trading Account of the Clearing House by 11:00 on D+1 as stated on the relevant Buying-in Notice the Clearing House will execute Buying-in and use its reasonable endeavours to obtain the relevant Instruments by 11:00 on Delivery Day +2. Once the Clearing House has placed an order with its Buying in agent, the Clearing House will not accept any Instruments from the failed Selling Clearing member.

If the Clearing House is unable or for any reason fails to buy-in the full amount of relevant Instruments by 11:00 on D+2, the Clearing House will "Cash Settle" the relevant Spot Emissions Contract/s pursuant to Section 2E.6.3.9.

Timetable of Events (in UK Times)

Functions	Timescales
Buying In initiated by the Clearing House by issuing the notice to the Selling Clearing Member	14:30 hours on Delivery Day
Buying In executed by the Clearing House	If failing selling member fails transfer allowances by 11:00 hours on the Delivery Day + 1,
Close of Buying-in period	11:00 on the Delivery Day + 2
Cash Settlement Occurs	By 09:00 on the Delivery Day + 3 if buying in fails

**2E.6.3.9 Cash Settlement**

In the event that buying-in cannot be achieved as described in 2E.6.3.7 then the Clearing House will cash settle on D+3 by 09:00 hours any outstanding positions at a price calculated at COB on D+2, at the discretion of the Clearing House. Both the Buying and Selling Member will be informed of the time at which the remaining position will be Cash Settled.

**2E.6.3.10 Payment****2E.6.3.10.1 Cessation of Trading D-1**

After 19:15 hours

Invoices and account sales will be available as a report on Member Reporting website.

**2E.6.3.11 Settlement Day D**

By 09:00 hours

The Buyers will be debited the full contract value via PPS.

By Approx 13:00 hours

The Sellers will receive full contract value against the Instruments received by the Clearing House.

**2E.6.3.12 Late Delivery/Buying-In Charges**

The Clearing House will charge an administration fee of €100 plus any applicable VAT for each instance of Late Delivery by the Member.

Where a Buying-in Notice is issued, the Selling Member concerned will be liable to pay the Clearing House for all costs and expenses incurred by the Clearing House in issuing such Notice and/or carrying out the buying-in pursuant to that Notice. Such costs and expenses will include any dealing and other charges incurred by the Clearing House to its buying-in agent. The Clearing House will also charge an administration fee of €200 plus any applicable VAT for per Buying-In Notice issued to a Selling Member. This administration fee will be charged to the Clearing Member in accordance with standard Clearing House procedures at the beginning of each calendar month (for the previous month's charges). The Clearing House is entitled to collect such costs, expenses, administration fee and VAT through the PPS and debit the appropriate PPS account of that Selling Member accordingly.

The Clearing House shall under no circumstances be liable for any indirect or consequential loss or loss of profits.

**2E.6.3.13 Invoice**

Invoice Calculation

The Invoice and Account Sale Report gives details of all deliveries and amounts due to Sellers and payable by the Buyers. These amounts are calculated as follows:

Contract EUAs / CERs x official quotation on trading day for the relevant Instrument (Final Settlement Price or FSP)

Value Added Tax will account for on the Invoice and Account Sale Report. VAT amounts due from the Buyer and due to the Seller will be included with contract payments via the PPS.



**2E.7      PRECIOUS METALS: DELIVERY PROCEDURES****2E.7.1      General Information****2E.7.1.1      Delivery**

The following terms shall have the following meanings in this section:

Unallocated Account	An account held with one of the members of the LPMCL for the purposes of holding Unallocated Precious Metal.
Settlement Agent	One of the six commercial bank members of the LPMCL.
LPMCL	London Precious Metals Clearing Limited
Transfer Request	An instruction from a GCM's Settlement Agent in AURUM to make or take delivery of Unallocated Precious Metal

Delivery is affected by transferring Precious Metal between members' Unallocated Accounts held with one of the Settlement Agents who are members of the LPMCL.

**2E.7.1.2      Settlement Agent and Unallocated Account details**

Clearing Members must ensure they have an Unallocated Account with a Settlement Agent member of the LPMCL. It is the Clearing Member's responsibility to ensure that the Clearing House holds accurate up to date details of their Unallocated Account via submission of updated Static Data forms.

Clearing Members must submit their transfer instructions to their Settlement Agents, to be matched with the Clearing House, no later than 16:00 on the day of settlement.

The Clearing House Unallocated Account is managed by its settlement Bank Barclays Bank PLC. For matching with the Clearing House the following are its Unallocated Account and Settlement bank details:

Barclays Bank plc (SWIFT BARCGB22PMD)

a/c LCH.Cleernet Ltd, London

a/c 20193

**2E.7.2      Precious Metal Forwards Delivery****2E.7.2.1      Compliance with LPMCL and other Requirements**

Each GCM shall at all times comply with any applicable provisions of the LPMCL, any other applicable legislation and any applicable requirements, terms, conditions and procedures of any relevant Settlement Agent in performing its obligations under LCH EnClear OTC Contracts and otherwise when participating in the OTC Precious Metals Service. Each GCM shall

additionally obtain and at all times adequately maintain such systems and technology as may be necessary in order to comply with such provisions.

#### 2E.7.2.2 **Delivery Specification**

##### 2E.7.2.2.1 **Nature of the Precious Metal delivery**

The eligibility criteria for the Precious Metal Contract are set out in the Schedule to the LCH EnClear OTC Regulations. Each GCM shall ensure that all Unallocated Precious Metal it delivers in performing its obligations under a Precious Metal Contract is free and clear of all and any encumbrances.

##### 2E.7.2.2.2 **Unallocated Accounts**

The Clearing House shall maintain an Unallocated Account with its Settlement Agent for the purposes of making and taking delivery of Precious Metal Contracts. The account is held on the terms stipulated by the LPMCL on its website at:

<http://www.lpmcl.com/Final%20Unallocated%20Agreement%2020061005.pdf>

Each GCM approved to clear trades in the Precious Metals Division shall maintain an Unallocated Account from which it is possible to make or take delivery into or from the relevant Unallocated Account of the Clearing House. Each GCM shall identify its Unallocated Account on the Static Data Form. The Clearing House will only accept or deliver the Unallocated Precious Metal from or to that specified Unallocated Account. (i.e. The Clearing House will reject any delivery from an account other than the GCM's Unallocated Account as specified on the Static Data Form.)

##### 2E.7.2.2.3 **Delivery**

Delivery under a Precious Metal Contract is effected by the transfer of Unallocated Precious Metal in accordance with the terms of that contract from the Unallocated Account of the Seller to the relevant Unallocated Account of the Clearing House and from the relevant Unallocated Account of the Clearing House to the Unallocated Account of the Buyer.

It should be noted that, in accordance with the terms stipulated by the LPMCL, referred to above at 2E.7.2.2.2, the Settlement Agent acting for the Clearing House has reserved the power to reverse provisional or erroneous entries credited to the account of the Clearing House. In such event, the Clearing House reserves the right to reverse or adjust any payments made in respect of such entries and to give such directions as it considers appropriate to the Clearing Members who are party to the corresponding Precious Metal Contracts in order that settlement and delivery may be achieved at the earliest opportunity.

##### 2E.7.2.2.4 **Days and Times**

Unless otherwise stated, references to "day" mean "business day". All "timings" or "times of day" are London times.

##### 2E.7.2.2.5 **Delivery Timetable for Precious Metal**

The following is the timetable governing the delivery of Unallocated Gold and Silver pursuant to Precious Metal Contracts.

DAY	TIME	ACTION	
		SELLERS	BUYERS
D-1    Value Date (D)	At 15:00	Trade acceptance ceases for next valid value date	Trading ceases for next valid value date
	After 16:15	Delivery instructions sent for matching with LCH.Cleernet Settlement Agent.  Invoice & Account Sales Synapse screens will reflect delivery amounts	Delivery instructions sent for matching with LCH.Cleernet Settlement Agent.  Invoice & Account Sales Synapse screens will reflect delivery amounts
	After 20:00	Member Synapse reports will be made available to confirm the delivery	Member Synapse reports will be made available to confirm the delivery
	By 09:00		Pay contract value to the Clearing House via USD PPS  The Clearing House will authorise Precious Metal transfers to buyers Unallocated Accounts on receipt of payments.  Buyers must ensure that the necessary Transfer Request has been effected to receive Precious Metal into their Unallocated Account from that of the Clearing House.
	By 16:00	Sellers must ensure that the necessary Transfer Request has been effected and that the necessary Precious Metal has been delivered into the Unallocated Account of the Clearing House.  Once transfers have been matched with the Clearing House and delivery has been confirmed the Clearing House will authorise payments to the Seller via their UK USD PPS account. If delivery to the Clearing House occurs after 15:30, sellers will be paid via their US USD PPS accounts.	
	After	Any unresolved transfer	

	16:00	instructions after this time will be a delivery transfer request failure.	
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2E.7.2.3

#### 2E.7.2.4 **Delivery Procedures**

Determination of Delivery Positions

At 16:00 on the day before Value Day open sold and bought lots are netted. The result will be an uncovered sold or bought position for the settlement day. This is the delivery position.

##### 2E.7.2.4.1 **Value Date (D)**

By 09:00 hours

Buyers pay full contract value via PPS payment method.

Transfer Requests have been made to receive Precious Metal into their Unallocated Account from the Unallocated Account of the Clearing House.

LCH.Clearnet Operations and Client Servicing will authorise transfers of Precious Metal Contracts from the Clearing House Unallocated Account to Buyers upon receipt of payment from the Buyers.

LCH.Clearnet Operations and Client Servicing will authorise all Transfers to Sellers by 09:30 in readiness to be matched by Seller.

As soon as possible by no later than 16:00 Sellers must have ensured that the necessary Transfer Requests have been made so as to allow Precious Metal to be transferred from their Unallocated Account to that of the Clearing House. The Clearing House must receive the Precious Metal into its account before payment will be made to the Seller.

Precious Metal received from Sellers by the Clearing House after this time will be deemed a Late Delivery and may incur administration charges in accordance with these Procedures.

Once delivery has been made into the account of the Clearing House, the Clearing House will authorise payments to the relevant Seller via UK PPS. If confirmation of delivery into the account of the Clearing House occurs after 15:30, the relevant Seller will be paid via its US PPS accounts.

##### 2E.7.2.4.2 **Payment**

Buyers must pay the Clearing House by 09:00 on the value date via PPS.

Sellers will be paid by the Clearing House on receipt of Precious Metal on the value date.

##### 2E.7.2.5 **Invoice**

Invoice Calculation

The Invoice and Account Sale Report gives details of all delivery transfers and amounts due to Sellers and payable by the Buyers. These amounts are calculated as follows:

Lots	X	Fine troy ounces of gold/silver	X	quotation on trading day for the relevant gold/silver contract delivery settlement price
------	---	---------------------------------	---	--

## 2E.7.3

**Delivery Failure**

It is the responsibility of the GCM to ensure that any Precious Metal Contract settles on the intended value date.

Sellers/buyers must ensure that the necessary Transfer Requests are made so as to allow Unallocated Precious Metal to be transferred between their account and that of the Clearing House.

The Clearing House must receive the Precious Metal into its Unallocated Account from the Seller before any payments are made to the Seller.

Without prejudice to the provisions of the Contract, the Procedures and any other steps or sanctions which may be taken or applied under the General Regulations, Default Rules and Procedures:

(a) if there is a Delivery Failure as a result of any failure on the part of the Seller/Buyer to comply with the applicable obligations under such Contract, then that party shall indemnify the Clearing House in respect of any costs directly attributable to that Delivery Failure;

(b) the Clearing House shall have absolute discretion in determining the costs arising Pursuant to (a);

(c) without prejudice to (a) above, the Seller/Buyer shall indemnify the Clearing House against all costs and expenses incurred by the Clearing House in taking steps to mitigate the losses, charges, expenses or penalties which would otherwise be incurred as a result of the Seller's/Buyer's failure to comply with its obligations under a Contract;

(d) in the event of a further delivery failure subsequently taking place and a further cost being incurred by the Clearing House, the Selling/Buying Member will be liable to reimburse the Clearing House for all costs incurred.

(e) the Clearing House is entitled to collect such costs through the PPS and debit the appropriate PPS account of that Selling/Buying Member accordingly.

The Clearing House shall under no circumstances be liable for any indirect or consequential loss or loss of profits.

In the event of a failure on the part of the Seller to deliver, the Clearing House will continue to ~~charge~~impose initial margin ~~obligations~~ on the Selling Member until settlement of the Precious Metal contract is complete or the position has been closed out by the Clearing House.

If any GCM is unable to fulfil their delivery obligation they must inform the Clearing House immediately.

#### 2E.7.3.1 **Delivery Failure on Value Date (D)**

In the case of a failure to deliver by the time specified under section 2E 6.2.4.1, the Clearing House will declare a Delivery Failure.

The declaration will be in the form of a Closeout Notification being sent out to the GCM on value date (D).

The Clearing House may, at its absolute discretion, take such steps as it deems appropriate to facilitate a mutually acceptable resolution of the Delivery Failure at any stage.

Upon the declaration of a Delivery Failure the Clearing House will organise a back to back trade to cover the position, by instructing its Settlement Agent to execute a swap trade to cover any overnight exposure caused by the Seller's failure to deliver. The swap will comprise of two trades: a purchase by the Clearing House for the value date of the amount that the Seller failed to deliver; a sale by the Clearing House for the next value date of the same amount.

The Seller will be required to pay to the Clearing House the full contractual amount of the purchase side of the swap trade on the value day (D) of the failure. The Clearing House will pay to the Seller the full contractual amount of the sell side on the next value date (minus administration costs, charges and any penalties) by 09:30hrs. All amounts will be processed via PPS Calls/Pays to the Seller's PPS account.

The Clearing House will cancel its Delivery Transfer Request instruction to its Settlement Agent in respect of the failed delivery for that value date (D) and will instruct a Delivery Transfer Request against the GCM for the next value date (D+1). Despite the swap trade, the GCM remains responsible to deliver on the next value date (D+1) and must ensure delivery no later than 14:00 hours on that day.

#### 2E.7.3.2 **Delivery Transfer Request Failure on the day after Value Date (D+1)**

The GCM will remain obliged to fulfil the original delivery on D and must match with the new Delivery Transfer Request of the Clearing House by 14:00hours on D+1.

If the delivery remains unsettled by such time, the Clearing House will purchase the contract amount of the Precious Metal on behalf of the Seller in accordance with the terms of the Closeout Notification which was sent to the Seller on value date.

The Clearing House will instruct its Settlement Agent to purchase the full contract amount of the Precious Metal on behalf of the Clearing House to close out the outstanding failed delivery, for delivery on the same day.

Once the Clearing House has placed an order with its Settlement Agent, the Clearing House will not accept any Precious Metal delivery from the failing GCM. The Clearing House will use its reasonable endeavours to execute the

relevant contract by close of business on the day after the original delivery failure (D+1).

Where a the Clearing House purchases Precious Metal pursuant to a Closeout Notification, the Seller will indemnify the Clearing House against all costs and expenses incurred in taking steps to mitigate the losses, charges, expenses or penalties which would otherwise be incurred as a result of the Seller's failure to deliver under a Contract and those attributed to the purchase following the Closeout Notification.

The Clearing House will also charge an administration fee of \$200 plus any applicable VAT for any Closeout Notification issued to a GCM. This fee will be charged to the GCM in accordance with standard Clearing House procedures at the beginning of each calendar month (for the previous month's charges). The Clearing House will debit the appropriate PPS account of that Selling Member accordingly.

The Clearing House will continue to ~~charge~~impose initial margin ~~to obligations~~on the Seller until the position has been closed out fully.

The Clearing House shall under no circumstances be liable for any indirect or consequential loss or loss of profits.



APPENDICES 2E.A  
EMISSIONS DELIVERIES

LCH EnClear Delivery Documentation

**LCH EnClear DELIVERY DOCUMENTATION  
AUTHORISED SIGNATORIES**

**Name of Clearing Member:** \_\_\_\_\_

**Member Address:** \_\_\_\_\_

**Company Stamp**

**Corporate Registration Number:** \_\_\_\_\_

**Date:** \_\_\_\_\_

Name	Specimen Signature	Position in Company

The person(s) listed above is/are authorised to sign such delivery documentation on our behalf

(Director) for and on behalf of \_\_\_\_\_

\_\_\_\_\_ Company Name

LCH.Clearnet Limited must be informed immediately of any amendments/changes to the information specified in this form; failure to do so may result in delivery documents/notifications being rejected.

**APPENDICES 2E.B**

**SELLER'S EUA FORWARD CONTRACTS DELIVERY CONFIRMATION FORM**

To: LCH.Clearnet Limited  
 Aldgate House  
 33 Aldgate High Street  
 London EC3N1EA



Email LCHOperations-Commodities@lchclearnet.com

**Seller's OTC EUA Forward Contracts Delivery Confirmation Form**

Member:

Delivery Month:  | Date

Lots	Margin Account	Trading Account	Authorised Representative	Additional Authorised Representative	Email	Telephone

From: \_\_\_\_\_ (member)

We confirm that, as the above mentioned Clearing Member of LCH.Clearnet Ltd, we will continue to have the relevant Trading Accounts listed on this form during the Delivery Period and will ensure that we are not prevented from having those Trading Accounts updated pursuant to Transfer Requests, in accordance with the General Regulations of the Clearing House.

for \_\_\_\_\_ (member - authorised signatory)

**Must be completed on all occasions**

The following members of staff may be contacted, out of office hours, in the event of delivery problems

1st Contact: \_\_\_\_\_ Tel: \_\_\_\_\_  
 No: \_\_\_\_\_  
 2nd Contact: \_\_\_\_\_ Tel: \_\_\_\_\_  
 No: \_\_\_\_\_

APPENDICES 2E.C

SELLER'S CER FORWARD CONTRACTS DELIVERY CONFIRMATION FORM

To: LCH.Clearnet Limited  
 Aldgate House  
 33 Aldgate High Street  
 London EC3N1EA



Email LCHOperations-Commodities@lchclearnet.com

**Seller's OTC CER Forward Contracts Delivery Confirmation Form**

Member:

Delivery Month:  | Date

Lots	Margin Account	Trading Account	Authorised Representative	Additional Authorised Representative	Email	Telephone
------	----------------	-----------------	---------------------------	--------------------------------------	-------	-----------

From: \_\_\_\_\_ (member)

We confirm that, as the above mentioned Clearing Member of LCH.Clearnet Ltd, we will continue to have the relevant Trading Accounts listed on this form during the Delivery Period and will ensure that we are not prevented from having those Trading Accounts updated pursuant to Transfer Requests, in accordance with the General Regulations of the Clearing House.

for \_\_\_\_\_ (member - authorised signatory)

**Must be completed on all occasions**

The following members of staff may be contacted, out of office hours, in the event of delivery problems

1st Contact \_\_\_\_\_ Tel No \_\_\_\_\_  
 2nd Contact \_\_\_\_\_ Tel No \_\_\_\_\_

APPENDICES 2E.D

BUYER'S EUA FORWARD CONTRACTS DELIVERY CONFIRMATION FORM

To: LCH.Clearnet Limited  
 Aldgate House  
 33 Aldgate High Street  
 London EC3N1EA



Email: LCHOperations-Commodities@lchclearnet.com

Buyer's OTC EUA Forward Contracts Delivery Confirmation Form

Member:

Delivery Month:

Date

Lots	Margin Account	Trading Account	Authorised Representative	Additional Authorised Representative	Email	Telephone

From: \_\_\_\_\_ (member)

We confirm that, as the above mentioned Clearing Member of LCH.Clearnet Ltd, we will continue to have the relevant Trading Accounts listed on this form during the Delivery Period and will ensure that we are not prevented from having those Trading Accounts updated pursuant to Transfer Requests, in accordance with the General Regulations of the Clearing House.

for \_\_\_\_\_ (member - authorised signatory)

**Must be completed on all occasions**

The following members of staff may be contacted, out of office hours, in the event of delivery problems

1st Contact \_\_\_\_\_ Tel \_\_\_\_\_  
 No \_\_\_\_\_  
 2nd Contact \_\_\_\_\_ Tel \_\_\_\_\_  
 No \_\_\_\_\_

APPENDICES 2E.E

BUYER'S CER FORWARD CONTRACTS DELIVERY CONFIRMATION FORM

To: LCH.Clearnet Limited  
 Aldgate House  
 33 Aldgate High Street  
 London EC3N1EA



Email LCHOperations-Commodities@lchclearnet.com

Buyer's OTC CER Forward Contracts Delivery Confirmation Form

Member:

Delivery Month:  | Date

Lots	Margin Account	Trading Account	Authorised Representative	Additional Authorised Representative	Email	Telephone

From: \_\_\_\_\_ (member)

We confirm that, as the above mentioned Clearing Member of LCH.Clearnet Ltd, we will continue to have the relevant Trading Accounts during the Delivery Period listed on this form and will ensure that we are not prevented from having those Trading Accounts updated pursuant to Transfer Requests, in accordance with the General Regulations of the Clearing House.

for \_\_\_\_\_ (member - authorised signatory)

**Must be completed on all occasions**

The following members of staff may be contacted, out of office hours, in the event of delivery problems

1st Contact \_\_\_\_\_ Tel No \_\_\_\_\_  
 2nd Contact \_\_\_\_\_ Tel No \_\_\_\_\_

Exhibit A-6

Section 2G of the Clearing House Procedures

**SECTION 2G****CONTENTS**

2G.	THE NODAL SERVICE.....	2
2G.1	INTRODUCTION.....	2
2G.2	MEMBERSHIP .....	2
2G.3	GENERAL.....	3
2G.4	NODAL TRANSACTIONS.....	3
2G.5	CLEARING FOR NODAL NON-CLEARING PARTICIPANTS .....	4
2G.6	REGISTRATION OF NODAL TRANSACTIONS.....	5
2G.7	POSITION AND FINANCIAL ACCOUNTS .....	5
2G.8	FEES .....	7
2G.9	MARGIN.....	8
2G.10	TAX.....	9
2G.11	SETTLEMENT OF NODAL CONTRACTS .....	9
2G.12	POSITION TRANSFERS .....	9

## 2G. THE NODAL SERVICE

### 2G.1 INTRODUCTION

#### 2G.1.1 Background

These NODAL Service procedures apply to the clearing of NODAL Eligible Derivative Products listed on NODAL Exchange.

NODAL Service Clearing Members ("CMs") must inform themselves fully of their obligations under the Clearing House Rulebook (the "Rulebook") and other relevant documentation, such as the Clearing Membership Agreement and the terms of any approval by the Clearing House to extend clearing activities. NODAL Service CMs should also familiarise themselves with NODAL's Rules.

The Clearing House provides the NODAL Service in respect of cash settled futures contracts only. Hence, it does not cover options contracts and there are no physical deliveries under this service. There is no provision for allocation or give-ups.

Please note that both the Rulebook (including these Procedures) and NODAL's Rules are subject to change from time to time. Enquiries regarding these Procedures or any other aspects of the operation of the NODAL Service should be directed to the Clearing House Business Operations Department on +44 (0)20 7426 7689. Enquiries regarding CM status should be directed to the Membership Department on +44 (0)20 7426 7627 / 7063. Enquiries relating to NODAL's Rules should be directed to NODAL.

Full details of contact points may be found on the Clearing House website (<http://www.lchclearnet.com>) and NODAL's website (<http://www.nodalexchange.com>).

#### 2G.1.2 Interpretation

Capitalised terms used in these Procedures have the meaning set out in the NODAL Regulations unless otherwise specified.

**Except where otherwise stated, all times shown are London time and the twenty four hour clock is used.**

### 2G.2 MEMBERSHIP

NODAL Service CMs may submit NODAL Transactions for registration by the Clearing House. NODAL Transactions may also be submitted for registration on behalf of a NODAL Service CM by a NODAL Non-Clearing Participant ("NODAL NCP") as set out at Section 2G.4.1.

A NODAL Service CM must comply with all Clearing House requirements and with any NODAL requirements relating to participation in the relevant NODAL Trading System.



It is the responsibility of each NODAL Service CM to keep any report, including, but not limited to, the NODAL Service CM Report, required for its own historic, audit or legal purposes.

Details of how to be approved as a NODAL Service CM can be obtained from the Clearing House Membership Department on +44 (0)20 7426 7627 / 7063.

#### **2G.2.1 Submission of NODAL Transactions for registration**

NODAL Service CMs who wish a NODAL Transaction to be registered by the Clearing House must comply with all requirements of the NODAL Exchange, as relevant.

#### **2G.3 GENERAL**

##### **2G.3.1 Operating Times**

###### **2G.3.1.1 Opening Days**

Details of the days on which the NODAL Service is operational will be published by the Clearing House by Clearing Member circular. Details of the days on which NODAL is operational is available from NODAL.

###### **2G.3.1.2 Opening Hours**

The NODAL Service will be operational from 02:00 to 18:00 hours, Eastern Prevailing Time (the "Opening Hours").

#### **2G.4 NODAL TRANSACTIONS**

##### **2G.4.1 Eligible Transactions**

Only the transactions in this 2G.4 in NODAL Eligible Derivative Products executed or registered through a NODAL Trading System in accordance with NODAL's Rules will be designated as NODAL Transactions eligible for registration by the Clearing House.

Any such transactions must satisfy the Clearing House's requirements as set out in these Procedures and in the NODAL Regulations, and NODAL's requirements as set out in its Rules.

###### **(a) Parties to Transactions presented for Registration**

The Clearing House only registers NODAL Contracts arising from NODAL Transactions between NODAL Service CMs.

Such NODAL Transactions may arise through trades executed or registered through a NODAL Trading System by NODAL Service CMs, or by NODAL NCPs.

- (i) The NODAL Transaction may have been entered into by two NODAL Service CMs, each acting as principal.
- (ii) One side (or both sides) of the NODAL Transaction may arise through a NODAL NCP executing or

registering a trade on the NODAL Trading System. In such case, the trade will immediately be replaced with:

- a trade between the NODAL NCP and its NODAL Service CM, and
- a NODAL Transaction between its NODAL Service CM and the counterparty NODAL Service CM.

(b) **Presentation for Registration**

Under A (1) or (2) above, the NODAL Transaction will be presented to the Clearing House for registration as two NODAL Contracts, with the Clearing House as seller to the buying NODAL Service CM and as buyer to the selling NODAL Service CM.

(Where two NODAL NCPs both have the same NODAL Service CM, then each side of the trade will be presented to the Clearing House for registration as a separate NODAL Contract:

- with one in which that NODAL Service CM is buyer and the Clearing House is the seller;
- and the other in which that NODAL Service CM is the seller and the Clearing House is the buyer.)

**2G.4.2 NODAL Contracts – Eligibility Criteria**

It is part of the eligibility criteria for registration as a NODAL Contract that the particulars of a NODAL Transaction presented to the Clearing House must include matched information in respect of the following:

- (a) Seller and the Buyer;
- (b) the NODAL Eligible Derivatives Product which is the subject of the NODAL Transaction (this should be changed to a relevant contract for Nodal) and
- (c) the transaction specific information in respect of the NODAL Eligible Derivative Product.

**2G.5 CLEARING FOR NODAL NON-CLEARING PARTICIPANTS**

**2G.5.1 NODAL NCPs**

Certain NODAL Service CMs may clear for one or more NCPs ("NODAL NCPs"). In order to do so, the following conditions must be satisfied at all times:

- (a) the NODAL NCP is a participant of the NODAL Exchange; and
- (b) the NODAL Service CM and the NODAL NCP are party to a valid and enforceable agreement under which the NODAL

Service CM agrees to clear NODAL Transactions on behalf of such person. Such agreement must confer rights on the NODAL Service CM and the NODAL Service CM must lawfully be entitled at all times to pass to the Clearing House, in accordance with Regulation 30, such information and data relating to the NODAL NCP as the Clearing House may in its sole discretion deem appropriate.

The static data form executed by both the NODAL NCP and the NODAL Service CM shall be definitive proof of the NODAL Service CM clearing for a NODAL NCP.

The Clearing House contracts with the NODAL Service CM alone and, to the fullest extent permitted by law, disclaims any duties or obligations to a NODAL NCP.

Further details regarding clearing for NODAL NCPs can be obtained from the Clearing House Membership Department on +44 (0) 207426 7627 / 7063.

#### **2G.5.2 Termination**

The NODAL Service CM may terminate its agreement with a NODAL NCP at any time by giving 21 days written notice to NODAL and the Clearing House. For the avoidance of doubt, the Clearing House need not receive any notice of or any confirmation of such termination from the NODAL NCP.

For the avoidance of doubt, termination by the NODAL Service CM of its agreement with a NODAL NCP will be without prejudice to the NODAL Service CM's obligations arising from or in relation to any NODAL Transaction or NODAL Contracts arising prior to such termination.

### **2G.6 REGISTRATION OF NODAL TRANSACTIONS**

#### **2G.6.1 General**

The Clearing House may require a NODAL Service CM in whose name a NODAL Transaction is to be registered to ~~provide it with cover for~~ transfer Collateral in respect of initial and variation margin obligations to the Clearing House as a condition of registration as a NODAL Contract.

#### **2G.6.2 Registration**

All matched transactions which have been presented for registration and comply with the Clearing House requirements for registration of a NODAL Transaction, are deemed to have been registered by the Clearing House immediately upon receipt by TRS/CPS.

#### **2G.6.3 Novation**

With effect from registration, novation operates to replace each NODAL Transaction with two separate NODAL Contracts, one between the selling NODAL Service CM and the Clearing House and the other between the

buying NODAL Service CM and the Clearing House. Novation is described in more detail in the NODAL Regulations.

#### **2G.6.4 Notification**

All NODAL Contracts arising from registered NODAL Transactions are listed on the NODAL Service CM Report available through TRS.

### **2G.7 POSITION AND FINANCIAL ACCOUNTS**

#### **2G.7.1 Position-Keeping Accounts**

##### **2G.7.1.1 Types of Account**

Positions with regard to NODAL Contracts are recorded within CPS in position-keeping accounts at Individual Trader Mnemonic (ITM) level, which are not CM accounts as described in Regulation 5. The account types are as follows:

H House [excluding Clients]<sup>1</sup>

N Non-segregated client

S Segregated client

Z Default account, only to be used in the event of a CM default

D Default "transactions" which have not been assigned to one of the above account codes

The requirement to open H and D accounts is compulsory. Other position-keeping accounts may be opened by agreement with the Clearing House.

<sup>1</sup> The "house position-keeping account" represents a Member's principal business; the "house financial account" (see 2G.8.2.1 below) also includes non-segregated clients' positions.

##### **2G.7.1.2 Basis of Position Keeping**

###### **(a) Net Accounts**

The following position-keeping accounts are held net at ITM level, e.g. a position of bought one lot and sold two lots will be reported as sold one:-

H House

N Non-segregated client

S Segregated client

###### **(b) Gross Accounts**

The following position-keeping accounts are held gross at ITM level e.g. a position of bought one lot and sold two lots will show both bought and sold positions:-

- D Default "transactions" which have not been assigned to one of the above account codes

**2G.7.2 Financial Accounts**

NODAL Service CM position-keeping accounts have financial accounts associated with them. These are, amongst other things, used to record cash balances, securities/documentary credits and non-realised margin obligations.

Where appropriate, a NODAL Service CM's financial accounts are identified by a single character code: C for segregated client business (recorded as S within CPS); H for house and non-segregated business (recorded as H within CPS). Only the H financial account is obligatory.

Information contained within position-keeping accounts is consolidated into financial accounts, as follows:

**2G.7.2.1 Relationship with Position-keeping accounts**

Position-keeping accounts	Financial account
H House	H
N Non-segregated client	H
S Segregated client	C
D Default "transactions" which have not been assigned to one of the above account codes	H

By permitting a transaction to be allocated to a position-keeping account, a NODAL Service CM is also deemed to be designating that transaction for the associated financial account.

**2G.7.2.2 Other Financial Accounts**

Subject to approval by the Clearing House, further financial accounts, used only to record financial balances, may be opened as follows:

	Code
Buffer account (House), used for holding additional cash in relation to House business	B
Buffer account (Client), used for holding additional cash in relation to Client business	E
Resources account, used for holding supplementary financial resources	Q
Buyers' and Sellers' security account (segregated	X

business) used for certain delivery contracts

### **2G.7.2.3 Default Fund (DF) Account**

Each NODAL Service CM's Default Fund Contribution is held on a separate financial account. In accordance with the Default Fund Rules this account attracts a rate of interest at 3 month LIBOR +1%. The Default Fund account code is F.

## **2G.8 FEES**

### **2G.8.1 General**

Fees arising for the provision of NODAL Services will be collected monthly from the NODAL Service CMs' financial accounts.

Details of tariffs and any changes thereto will be notified to NODAL Service CMs by means of Clearing Member circular.

For further details (including details of how information regarding charges made for NODAL Contracts registered by the Clearing House is communicated to NODAL Service CMs) please see Section 3.6 ("Fees") of these Procedures.

### **2G.8.2 Execution Fees**

Members are asked to note that, in respect of NODAL Contracts, fees charged to NODAL Service CMs by the Clearing House will include execution fees which the Clearing House will collect on behalf of NODAL in respect of the underlying trades executed through the NODAL Trading System.

Details of execution fees and any changes thereto will be notified to NODAL Service CMs by NODAL.

## **2G.9 MARGIN**

For the purposes of the NODAL Service only, a "Reference Price" includes daily Settlement Price and final Settlement Price as used in the NODAL Rules.

### **2G.9.1 Variation Margin**

Certain NODAL Contracts are settled to market daily by the Clearing House. Profits or losses are either credited to or debited from NODAL Service CMs' relevant financial accounts (realised margin).

#### **2G.9.1.1 Realised Margin**

Realised margin is the calculated profit or loss arising from a comparison between the value of open positions at the relevant daily Settlement Price with the value of positions recorded i.e. the Traded Price for new trades and the previous day's daily Settlement Price for other positions. The currency of this margin amount will be the same as the currency denomination of the contract's reference price.

## **2G.9.2 Initial Margin**

Separate Initial Margin calculations are performed for a NODAL Service CM's house "H" and client "C" accounts; **no offset between these accounts is allowed**. "H" accounts are margined net, meaning that if long and short positions are held in the same delivery month/prompt date, ~~Initial Margin is charged on~~ the initial margin requirement is calculated in the basis of the net position. "C" accounts are margined gross on a client-by-client basis, meaning that if long and short positions with the same Delivery Month/Prompt Date are attributable to the same client, Initial Margin is charged on the net position, whereas no netting of positions may occur between positions attributable to distinct clients. Collateral transferred to the Clearing House in respect of initial margin obligations need not be in the same currency as the contracts traded. A list of acceptable ~~collateral~~ Collateral to cover initial margin requirements can be found at the following location:

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

### **2G.9.2.1 Initial Margin Parameters**

Initial margin parameters are set by the Clearing House. However, in accordance with the NODAL Regulations, the Clearing House retains the discretion to vary the rates for the whole market or for a NODAL Service CM's house and/or client accounts.

NODAL Service CMs will be notified by the Clearing House of alterations to initial margin parameters no later than the day before calls are made based on the new rates.

### **2G.9.2.2 Intra-day Margin Calls**

In accordance with the Regulations, the Clearing House is entitled to make additional margin calls for ~~payment~~ transfer of Collateral to the Clearing House on the same day (intra-day margin calls) where it considers it necessary. Intra-day margin calls will be made through the protected payments system ("PPS") in London ("London PPS") or the USA ("US PPS") (see section 3.2 of these Procedures - "Protected Payments System").

### **2G.9.2.3 Calculation of Initial Margin**

#### **VaR**

Initial ~~margins~~ margin obligations are re-calculated at the close of each business day using a VaR algorithm developed to margin Nodal exchange contracts.

Technical questions about this algorithm should be directed to the Clearing House Risk Management Department on +44 (0)20 7426 7520

## **2G.10 TAX**

NODAL Service CMs should take their own advice regarding any taxation liabilities in any country in which a liability to pay tax may arise.

In the event that the Clearing House incurs any liability to pay any tax in respect of or in connection with any NODAL Contract, it shall have the right to require reimbursement of such tax liability, together with any costs and expenses incurred by the Clearing House in connection with the administration and processing of such tax liability, from the NODAL Service CM who is or was party to that NODAL Contract, and whom, in the Clearing House's opinion should be responsible for meeting such tax liability, costs and expenses. The Clearing House will collect such payments through PPS.

## **2G.11 SETTLEMENT OF NODAL CONTRACTS**

NODAL Contracts are settled depending upon their terms, as set out in the relevant NODAL Contract Terms.

### **2G.11.1 Cash Settlement**

Cash settlement is a final settlement derived from the difference between the final Settlement Price and the previous trading day's daily Settlement Price or such other quotation as is specified in NODAL's Rules. This is debited from or credited to the NODAL Service CMs' financial accounts.

### **2G.11.2 Reference Prices for daily settlement to market**

Should NODAL fail to determine Reference Prices, the Clearing House will itself determine these as necessary. This will be done at the Clearing House's discretion and be announced as soon as possible following such determination.

## **2G.12 POSITION TRANSFERS**

NODAL Service CMs will not have the functionality to affect a position transfer to another NODAL Service CM or between internal accounts.



Exhibit A-7

Section 2K of the Clearing House Procedures

**SECTION 2K****CONTENTS**

2K.	INTRODUCTION AND INTERPRETATION.....	2
2K.1	USERS OF FOREXCLEAR .....	2
2K.2	SERVICE SCOPE.....	3
2K.3	TRADE MANAGEMENT .....	5
2K.4	MARKET DATA .....	13
2K.5	VALUATION AND MARGIN .....	16
2K.6	GENERAL MARGINING PROCESS.....	21
2K.7	FOREXCLEAR REPORTING.....	23
2K.8	TREASURY OPERATIONS & COLLATERAL MANAGEMENT.....	24
2K.9	PAYMENT OF STAMP TAX .....	26
2K.10	DEFAULT MANAGEMENT .....	26
APPENDIX 2K.A.....		30
	CONFIDENTIALITY, NON-DISCLOSURE AND PARTICIPATION IN THE FOREXCLEAR DEFAULT MANAGEMENT GROUP.....	30

## 2K. INTRODUCTION AND INTERPRETATION

These Procedures govern the ForexClear Service, form part of the Rulebook and must be read in conjunction with the other parts of the Rulebook.

Any terms not defined in these Procedures have the definitions given to them in the Rulebook.

References to "Sections" shall mean Sections in these Procedures.

References to "Business Day", "Calculation Agent", "Currency Pair", "Disruption Fallback", "Notional Amount", "Reference Currency", "Scheduled Valuation Date", "Settlement Currency", "Settlement Currency Amount", "Settlement Date", "Settlement Rate", "Settlement Rate Option", "Trade Date", "Valuation Date", "Valuation Postponement" shall carry the meanings given to them in the Schedule to the ForexClear Regulations with respect to the relevant Currency Pair.

References to "business day" shall carry the meaning given to it in the Rulebook.

Unless otherwise specified, all times are in local London time.

The liability of the Clearing House is as set out in Regulation 39, which applies to these Procedures in its entirety unless provided otherwise.

### 2K.1 USERS OF FOREXCLEAR

The ForexClear Service is an interface that processes and stores all ForexClear Transactions. Those authorised by the Clearing House to submit trades (as defined below) for clearing in the ForexClear Service fall into two categories – ForexClear Clearing Members ("**FXCCMs**") and ForexClear Dealers ("**FXDs**"). FXCCMs are clearing members who have applied and have been accepted by the Clearing House to clear in the ForexClear Service. FXDs are not FXCCMs, but have met the criteria for registration as a ForexClear Dealer and have entered into a ForexClear Dealer Clearing Agreement with an FXCCM and the Clearing House. FXCCMs and FXDs are collectively known as ForexClear Participants ("**FXPs**"). For membership procedures, please see Section 1 of the Procedures.

For identification purposes each FXCCM is assigned a unique three-character mnemonic.

#### 2K.1.1 Termination of FXCCM Status

Clearing Members should contact the Clearing House Membership Department (+44 (0)207 426 7891/7627/7063; [membership@lchclearnet.com](mailto:membership@lchclearnet.com)) for details of how to resign from the ForexClear Service.

#### 2K.1.2 Termination of FXD Status

The ForexClear Dealer Agreement and Regulation 107 set out how the FXD relationship may be terminated.

**2K.2 SERVICE SCOPE****2K.2.1 Eligibility**

Non-Deliverable FX Transactions as defined in Schedule A to the ForexClear Regulations ("**NDFs**") may be submitted for clearing through the ForexClear Service. To be eligible to be registered as a ForexClear Contract, a trade must meet the ForexClear Eligibility Criteria (as set out in Part B of the Schedule to the ForexClear Regulations).

**2K.2.2 Service Operating Hours****2K.2.2.1 Opening Days**

The ForexClear Service will be open each day, except weekends, Christmas Day and New Year's Day.

**2K.2.2.2 Opening Hours**

The ForexClear Service will be open between 20:00 local London time Sunday night and 01:00 local London time Saturday morning ("**Opening Hours**"). The ForexClear Service will not accept ForexClear Transactions outside of these hours.

**2K.2.3 Account Structure****2K.2.3.1 FXCCMs**

- (a) The ForexClear Service provides each FXCCM with (i) a single house position-keeping account with the account code "H"; (ii) a financial account associated with the house position-keeping account; and (iii) a separate financial account for each FXCCM's ForexClear Default Fund Contribution with the account code "F".
- (b) The FXCCM's single financial account is used to record cash balances, liabilities, and securities/documentary credits.
- (c) The FXCCM's house position-keeping account, as described in Regulation 5 and Regulation 103(f), is for house business.
- (d) Sub-accounts within the FXCCM's house position-keeping account may be set up (e.g. for branches or FXDs). Each such sub-account will carry the unique Bank Identifier Code ("**BIC**") of the relevant branch/FXD (please see Section 2.3.2 below).
- (e) Sub-accounts within the FXCCM's house position-keeping account will be associated with the single financial account of the FXCCM and information contained across the house position-keeping sub-accounts is consolidated into the single financial account of each FXCCM.

**2K.2.3.2 FXDs and Branches**

- (a) Where an FXCCM enters into a ForexClear Dealer Clearing Agreement with an FXD, submission of a static data form to LCH will allow it to be provided with one or more sub-accounts for that FXD (for

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) 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~~transfer and maintain sufficient ~~cover~~Collateral for its Liabilities (as defined in Section 2K.6.2(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~~Collateral 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~~Collateral 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 submitted and unregistered ForexClear Transaction to which it is a party 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), the Clearing House will send, via the ForexClear Matcher, a message confirming the registration of the ForexClear Transaction as two ForexClear 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 such ForexClear Contracts.
- (e) The definitive report of 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~~ Collateral in respect of 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 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, Brasília or São Paulo and New York City	USD	New York City
USD-CLP	USD & CLP	New York and Santiago	USD	New York City
USD-CNY	CNY	Beijing	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
USD-INR	INR	Mumbai	USD	New York City
USD-KRW	KRW	Seoul	USD	New York City
USD-MYR	MYR	Kuala Lumpur	USD	New York City
USD-PHP	PHP	Manila	USD	New York City
USD-RUB	USD & RUB	New York and Moscow	USD	New York City
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~~ Collateral, 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

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



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~~Collateral (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~~has not ~~have~~transferred sufficient ~~cover~~for Collateral in respect of its Liabilities to the Clearing House.
- (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 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 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) 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.

- (d) All trade cancellation instructions must pass the Incremental Risk Check. If any FXCCM ~~does~~has not ~~have~~transferred sufficient ~~cover~~ ~~for~~Collateral in respect of its Liabilities or estimated Liabilities to the Clearing House (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~~has not ~~have~~transferred sufficient ~~cover~~ ~~for~~Collateral in respect of its Liabilities to the Clearing House.

## 2K.3.6

**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)
USD-CLP	CLP DÓLAR OBS (CLP10)
USD-CNY	CNY SAEC (CNY01)
USD-COP	COP TRM (COP2)
USD-IDR	IDR IWVAP (IDR03)
USD-INR	INR RBIB (INR01)
USD-KRW	KRW KFTC18 (KRW02)
USD-MYR	MYR PPKM (MYR03)
USD-PHP	PHP PDSPEO (PHP06)
USD-RUB	RUB CME-EMTA (RUB03)

USD-TWD	TWD TAIFX1 (TWD03)
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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 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 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~~ transfer to, or receipt from, the Clearing House of all the VM collateral in respect of the variation margin 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 **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.

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 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 **Reference Data**

##### 2K.3.9.1 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 Date Adjustment

When a new holiday is declared in a particular jurisdiction, an update to the holiday calendar is required.

The Valuation Date and/or the Settlement Date of the affected ForexClear Contracts will automatically 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.

## 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:

- (a) FX spot rates ("**FX Spot Rates**");
- (b) FX swap points ("**FX Swap Points**");
- (c) Settlement Rate Option;
- (d) Interest rate curves (see Section 4.5.2 below) ("**Interest Rate Curves**");
- (e) USD LIBOR Curve;
- (f) PAI rates ("**PAI Rates**"); and
- (g) Country credit spreads (see Section 4.6 below) ("**Country Credit Spreads**"),

together, "**Market Data**".

FX Spot Rates and FX Swap Points are received by the Clearing House via a live link from all eligible FXCCMs during the Opening Hours (as defined in Section 2.2.2).

### 2K.4.2 Market Data Sources and Frequencies

The Clearing House receives the following updated raw prices:

- (a) FX Spot Rates:
  - (i) Source – contributing FXCCMs.
  - (ii) Frequency - every time updated by contributing FXCCMs up to a maximum rate of once every five minutes.
- (b) FX Swap Points:

- (i) Source - contributing FXCCMs.
- (ii) Frequency - every time updated by contributing FXCCMs up to a maximum rate of once every five minutes.
- (iii) Tenors – as shown in the table below.

Tenor
S/N
1 week
1 month
2 months
3 months
6 months
12 months
24 months

- (c) Settlement Rate Options:
  - (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)
CLP	CLP DÓLAR OBS (CLP10)	10:30 (Santiago)
CNY	CNY SAEC (CNY01)	09:15 (Beijing)
COP	COP TRM (COP02)	10:30 (Bogota)
IDR	IDR IWAP (IDR03)	11:30 (Singapore)
INR	INR RBIB (INR01)	12:30 (Mumbai)
KRW	KRW KFTC18 (KRW02)	15:30 (Seoul)
MYR	MYR PPKM (MYR03)	11:10 (Kuala Lumpur)
PHP	PHP PDSPEO (PHP06)	11:30 (Manila)
RUB	RUB CME-EMTA (RUB03)	13:30 (Moscow)
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 Net Present Value ("NPV")

From (and including) the Registration Time to the EOD Margin Run on the business day preceding the Valuation Date, each ForexClear Contract is valued in USD using the current market rates and discounted from the future Settlement Date to its present value (being valued using the data submitted by FXCCMs, in accordance with Sections 4.2).

At EOD on the Valuation Date, the Settlement Rate is used to value the ForexClear Contract.

If Valuation Postponement applies, the ForexClear Contract is valued using the current forward price (based on the data submitted by FXCCMs, in accordance with Sections 4.2) to (and including) the date on which the Settlement Rate is determined in accordance with the ForexClear Contract Terms.

#### 2K.5.2 Variation Margin ("VM")

VM for each ForexClear Contract is calculated at EOD as the change from the preceding business day in its NPV. With respect to each FXCCM, the net sum of the VM for all open ForexClear Contracts is credited to or debited from such FXCCM once a day, following the EOD Margin Run.

~~Cover for VM~~ Collateral in respect of variation margin obligations (adjusted by PAI, as set out below) will be ~~paid~~ transferred each business day by or to each FXCCM in respect of all of its open ForexClear Contracts. The VM variation margin obligation will be calculated in, and must be paid in, USD.

With respect to each ForexClear Contract, VM is calculated every business day from (and including) the Registration Time to (and including) the EOD on the business day immediately preceding the Settlement Date.

#### 2K.5.3 Reporting Breakdown

ForexClear margin reports show the portfolio of open ForexClear Contracts of each FXCCM and of each FXD by Currency Pairs and in the Settlement Currency (i.e. USD).

#### 2K.5.4 Price Alignment Interest ("PAI")

The effect of daily cash VM movements results in the need for PAI. Without this adjustment, the pricing of ForexClear Contracts would differ from identical uncleared trades, as cash earned from favourable daily price moves would be priced into the product.

##### 2K.5.4.1 PAI Calculation Methodology

PAI is calculated at EOD on each business day from (and including) the first business day after the Trade Date to (and including) the business day immediately preceding the Settlement Date.

In this Section 5.4, "T" means any given business day; "T-1" means the business day immediately preceding T; "T+1" means the business day immediately following T; and "MTM" means the total value (expressed in USD) of an FXCCM's portfolio open of ForexClear Contracts after valuation in accordance with Section 5.2 at close of business on any business day. The Clearing House calculates PAI in USD once a day at EOD.

- (a) Principles:
- (i) MTM is calculated at EOD on T-1.
  - (ii) Change in MTM (net VM in respect of an FXCCM's portfolio of open ForexClear Contracts) is paid/ received on the morning of T.
  - (iii) PAI Rate for T to be applied is known at EOD T.
  - (iv) PAI is calculated on the night of T, for MTM of T-1 for ForexClear Contracts up to the business day before their Settlement Date.
  - (v) PAI is paid / received on morning of T+1 via PPS.
- (b) Components:
- (i) PAI Rate (annualised interest applied to an FXCCM's MTM)
  - (ii) MTM;
  - (iii) Accrual Factor (factor used to convert the PAI Rate from an annual rate to a daily rate, on a basis of a year of 360 days).
- (c) So:
- (i)  $PAI T = PAI T \text{ Rate} \times MTM T-1 \times \text{Accrual Factor}$ .

The Clearing House uses the PAI Rate from the relevant EOD overnight index swap curves, which is sourced from the Clearing House.

#### 2K.5.4.2 VM/PAI Adjustment

With respect to each FXCCM, the Clearing House makes the following adjustment to the EOD VM:

- (a) if, with respect to its portfolio of open ForexClear Contracts, such FXCCM has (to but excluding the relevant EOD) paid an amount in VM greater than the amount of VM it has received, such FXCCM will receive PAI; and
- (b) if, with respect to its portfolio of open ForexClear Contracts, such FXCCM has (to but excluding the relevant EOD) received an amount

in VM greater than the amount of VM it has paid, such FXCCM will pay PAI.

#### 2K.5.5 Initial Margin ("IM")

The Clearing House will require FXCCMs to post-IM transfer to the Clearing House Collateral in respect of their IM obligations.

##### 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 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 market data submitted by FXCCMs pursuant to Section 4.

#### 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~~transfer additional ~~amounts~~ Collateral to the Clearing House (in addition to amounts of Collateral already transferred to the Clearing House in respect of initial margin and variation margin obligations) 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~~the Collateral transferred in respect of the initial margin or variation margin obligations. 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~~ Collateral 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 **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 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 applies that FXCCM's ~~cover~~ Collateral to satisfy the Margin Requirements for that FXCCM in respect of the ForexClear Contracts within that FXCCM's portfolio.

##### 2K.6.1 Types of Margin Runs

There are 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 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 obligations 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.6.2 Margin Run Process

- (a) Margin Runs cover all registered ForexClear Contracts with the status "NOVATED".
- (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 Collateral required in respect of the initial margin obligations and (where applicable) the VM Collateral required in respect of the variation margin obligations 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 ~~available~~ Collateral (such percentage being shown as a percentage of the aggregate ~~available~~ Collateral 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 ~~available~~ Collateral posted with the Clearing House for the ForexClear Service (including any MCE, if any); and (iii) Liabilities as a percentage of their current total ~~available~~ Collateral (such percentage being shown as a percentage of the aggregate ~~available~~ Collateral in their cash and non-cash collateral account(s)).
- (f) If following a Margin Run an FXCCM is required to ~~provide~~ transfer additional ~~collateral~~ Collateral to the Clearing House, this is also indicated by email and via the ForexClear Service Portal. In the case of ITD/Ad-hoc Margin Runs, where an FXCCM's Liabilities exceed its available ~~available~~ Collateral 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>

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~~ Collateral 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 ~~available~~ Collateral by 22:00 local London time. A report will also be provided detailing an FXCCM's ~~available~~ Collateral utilisation level. If an FXCCM's Liabilities exceed its total available ~~available~~ Collateral, ForexClear will alert the FXCCM.

### 2K.7.2 Market Data Reports

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



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. margin~~margin~~ obligations 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.

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

**2K.8.1.1 Cover Distribution Notification**

- (a) FXCCMs are informed via email of their Liabilities as a percentage of their current total ~~Cover~~Collateral (such percentage being shown as a percentage of the aggregate ~~Cover~~Collateral 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~~Collateral 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~~Collateral (such percentage being shown as a percentage of the aggregate ~~Cover~~Collateral 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>.

**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.

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>.

<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)

**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.

**2K.10.2 Acceptance of Bids**

In deciding whether to accept a bid, the Clearing House will generally accept the best bid in respect of any individual Auction. However, the Clearing House is entitled to reject a bid in the event that it considers, in its reasonable discretion that accepting the bid may:

- (a) cause the Clearing House to breach any legal or regulatory requirement applicable to it by virtue of its being a Recognised Clearing House or a Derivatives Clearing Organization;
- (b) cause the Clearing House or its membership any reputational harm;
- (c) cause legal action or proceedings to be taken against the Clearing House; or
- (d) endanger the Clearing House, any of its clearing members or the financial markets in which the Clearing House operates.

Where the Clearing House receives more than one bid from the same ForexClear Clearing Member and in respect of the same Auction the Clearing House is entitled to accept the last bid received by it in respect of that Auction. Where the Clearing House does not receive a bid that was made by a ForexClear Clearing Member for operational, technological or other similar

reasons and as a result of which a bid does not reach the Clearing House, the Clearing House will be unable to accept a bid and shall not be liable for any failure to accept such bid.

### 2K.10.3 **Affiliate Bidding**

ForexClear Clearing Members are entitled to bid for an Auction Portfolio on behalf of an affiliated ForexClear Clearing Member. Where a ForexClear Clearing Member makes a bid and that ForexClear Clearing Member has an affiliated ForexClear Clearing Member that does not make a bid, the Clearing House shall not (unless instructed otherwise in accordance with the paragraph below) assume that the bidding ForexClear Clearing Member has made the relevant bid on behalf of a non-bidding, affiliated ForexClear Clearing Member.

A ForexClear Clearing Member may notify the Clearing House, in advance of an Auction, that it wishes to bid on behalf of an affiliated ForexClear Clearing Member. Where it wishes to do so, the ForexClear Clearing Member should contact the Clearing House's Membership Department (membership@lchclearnet.com; +44 (0)207 426 7949).

### 2K.10.4 **Default Fund: ForexClear Contributions**

ForexClear Contributions (as defined in the Default Fund Rules) will be called via PPS on the fourth working day of each month or more frequently pursuant to a determination of the ForexClear Contribution under F2(a) of the Default Fund Rules (each a "**ForexClear Reset Day**"). ForexClear Contribution requirements will be notified to ForexClear Clearing Members at least two working days prior to each ForexClear Reset Day on Member Intranet Report 000032.

Excess ForexClear Contribution amounts due to ForexClear Clearing Members following the adjustment to the ForexClear Contribution will be repaid to ForexClear Clearing Members' PPS accounts on the ForexClear Reset Day immediately following the adjustment to the ForexClear Contribution.

Interest on ForexClear Contributions will be paid to ForexClear Clearing Members' PPS accounts on the first working day after the ForexClear Reset Day following the end of the relevant "interest accrual period". Interest is calculated in respect of each "interest accrual period", which commences on (and includes) a ForexClear Reset Day and ends on (and includes) the calendar day immediately before the next ForexClear Reset Day.

### 2K.10.5 **Quantifying ForexClear Contributions**

For the purposes of calculating the ForexClear Margin Weight under Rule F2(d) of the ForexClear Default Fund Supplement, the average daily requirement for initial margin applied to an FXCCM shall be determined by reference to the ForexClear Contracts comprising the ForexClear House Business of that FXCCM only.

### 2K.10.6 **Outsourcing**

Pursuant to Section 1 (Membership) of the Procedures, an FXCCM may appoint a third party to fulfil one or both of the the Clearing House's Membership requirements to: (i) participate in a ForexClear "fire drill" run by the Clearing

House; and (ii) participate in the ForexClear Default Management Process operated by the Clearing House. Where an FXCCM chooses to outsource one or both of these functions it must appoint and maintain at least three LCH Approved Outsourcing Agents.

The following entities are eligible for appointment as an LCH Approved Outsourcing Agent:

- A ForexClear Clearing Member
- any other entity that the Clearing House deems appropriate in its sole discretion.

Where an FXCCM wishes to appoint a third party to carry out any obligation on its behalf, it should contact the Clearing House's Membership Department with the:

- (a) details of the third party entity that the FXCCM wishes to appoint as an LCH Approved Outsourcing Agent. Such information should include details of the applicant's regulatory status;
- (b) evidence of the existence of a legally binding agreement between the FXCCM Clearing Member and the third party; and
- (c) such other information that the Clearing House reasonably considers necessary for the purposes of determining whether an entity should be approved as an LCH Approved Outsourcing Agent.

Following the receipt of all of the information above, the Clearing House shall determine in its sole discretion, whether to approve the third party as an LCH Approved Outsourcing Agent. In making its determination, the Clearing House shall consider the third party's ability to demonstrate that it has the necessary operational infrastructure and appropriate asset class expertise.

Where an FXCCM successfully appoints an LCH Approved Outsourcing Agent, that FXCCM may be subject to increased margin requirements to cater for the additional time required to invoke an outsourcing process in the event of a default

FXCCMs should note that LCH Approved Outsourcing Agents may be subject to a more rigorous driving test and fire-drill than FXCCM (i.e. required to demonstrate an ability to price and bid a greater number of trades at tighter pricing tolerances and within more onerous timeframes). In addition, the Clearing House may require an FXCCM, that has appointed an LCH Approved Outsourcing Agent, to participate in an ad-hoc fire-drill or driving test with such notice as the Clearing House deems appropriate in its sole discretion.

The Clearing House reserves the right to revoke an entity's status as an LCH Approved Outsourcing Agent, in its sole discretion and without notice. In the event of such a revocation, the relevant FXCCM shall be required to assume those responsibilities that were previously outsourced. Such revocation may occur where the Clearing House considers that there is an insufficient number of third party entities that are providing outsourced default management services (usually a minimum of five providers at any one time).

Other than in exceptional circumstances and in the Clearing House's sole discretion, an LCH Approved Outsourcing Agent may not act on behalf of more than three clearing members.

The appointment of an LCH Approved Outsourcing Agent does not absolve an FXCCM of its obligations under the ForexClear DMP (including its obligation to participate in an Auction) and an LCH Approved Outsourcing Agent's participation in the ForexClear DMP on behalf of an FXCCM, in the event of a default, shall not extend beyond the provision of operational and other ancillary support to that FXCCM

#### 2K.10.7 **ForexClear DMG**

The necessary involvement of FXCCMs and the ForexClear DMG in the ForexClear DMP entails the assessment and dissemination of information that could give rise to conflicts of interest. To ensure that such potential conflicts are demonstrably contained, Appendix 2K.A establishes binding obligations of confidentiality, anonymity and the extent of dissemination of information on FXCCMs (and their executives or directors who participate from time to time in the ForexClear DMG) and on the Clearing House.

Each FXCCM who makes available a representative to serve on the ForexClear DMG agrees, and shall procure that, to the extent applicable, its representatives agree to be bound by and to ensure that it and any of its executives or directors serving on the ForexClear DMG complies with Appendix 2K.A covering confidentiality, non-disclosure and other terms.

## APPENDIX 2K.A

**Confidentiality, non-disclosure and participation in the ForexClear Default Management Group****1. Definitions**

- 1.1 **"Confidential Material"** means data (including but not limited to portfolio data) and documents, which are not in the public domain and which are disclosed to the FXCCM, its associated companies and advisers, or to which the FXCCM, its associated companies and advisers obtains or otherwise has access as a result of participation in the ForexClear Default Management Process, (which, for the avoidance of doubt, does not include any information, data or documents provided to the Clearing House by the FXCCM).
- 1.2 **"FXDMG Member"** means an individual appointed by a Nominating FXCCM.
- 1.3 **"Nominating FXCCM"** means a ForexClear Member who, through their obligations under the ForexClear DMP Annex, makes available a representative to serve on the FXDMG.
- 1.4 **"Permitted Purpose"** means proper fulfilment by the FXCCM of its duties under the ForexClear DMP Annex and includes, after the completion of the Auction, the use by the FXCCM its associated companies and advisers (to be determined by it at its discretion) of any data or documents related to portfolios successfully won through the Auction, for the purposes of its own ongoing portfolio management and to enable it to comply with ongoing legal or regulatory requirements.
- 1.5 References denoting the masculine (including "his" and "he") shall be construed as the feminine if the FXDMG Member is female.
- 1.6 All other terms have the meaning ascribed to them in the Default Rules (including the ForexClear DMP Annex).

**Confidentiality and Non-Disclosure: General Obligations of the FXCCM****2. Confidentiality**

- 2.1 The FXCCM agrees that, in consideration of being given Confidential Material, it will keep all such Confidential Material in the strictest confidence, adhere to the provisions of this Agreement in respect thereof and, subject to paragraph 2.3, will not disclose it to any person without the prior written permission of the Managing Director, Risk of the Clearing House or a Director of Risk Management of the Clearing House, providing always that the FXCCM shall be relieved of such an obligation of confidentiality in respect of any Confidential Material if:
  - (a) it comes into the public domain other than through a breach by the FXCCM of this Agreement; or
  - (b) the FXCCM is expressly obliged to do so by order of a court of competent jurisdiction upon the application of a third party, or as a result of any request to disclose such part or parts of the Confidential Material in connection with any inquiry or other request by a regulatory authority or self-regulatory authority asserting jurisdiction over the FXCCM.

- 2.2 The FXCCM further agrees that it will not use any Confidential Material for any purpose other than the Permitted Purpose. In this regard the FXCCM expressly acknowledges and agrees that the Confidential Material may contain commercially sensitive information which if used inappropriately or otherwise than in accordance with this Appendix 2K.A might result in the gaining of an unfair commercial advantage by the FXCCM over other members of the Clearing House ForexClear Service.
- 2.3 Subject to paragraph 2.5 the FXCCM may disclose any Confidential Material to any of its employees, representatives, associated companies and advisers on a "strictly need to know" basis, in the event that any such person needs that Confidential Material for the Permitted Purpose (and to that extent only).
- 2.4 The FXCCM agrees to establish and adhere to adequate procedures (including, without limitation, the establishment of appropriate Chinese walls) to ensure that any employee or representative to whom any Confidential Material is disclosed shall not use any part or all of that Confidential Material for any proprietary purpose outside the scope of the Permitted Purpose.
- 2.5 This paragraph and the duties hereunder shall survive the termination of this Appendix 2K.A and, in relation to any Confidential Material, shall expire on the second anniversary of the date the Confidential Material was first provided to the FXCCM.

### 3. **Secrecy**

- 3.1 Except in accordance with the terms of this Appendix 2K.A, the FXCCM agrees that it shall treat as strictly confidential and shall not disclose or allow to be divulged to any person:
- (a) Confidential Material;
  - (b) the fact that it has received any Confidential Material;
  - (c) the existence of any discussions or negotiations between the parties in this matter,
  - (d) details of the Permitted Purpose and any of the proposals, terms, conditions, facts or other matters relating to any of the forgoing. Subject only to the FXCCM being relieved of such an obligation because of the circumstances covered in paragraphs 2.1a) and 2.1b).
- 3.2 The Clearing House undertakes to ensure that the FXCCM is fully apprised of information on the ForexClear Default Management Process that it makes public and which is accordingly of relevance to the FXCCM's obligations.

### 4. **Property**

- 4.1 The parties acknowledge that the property in the Confidential Material (or any part of it) shall not pass to the FXCCM or any FXCCM, and the property in the media on which it is conveyed to the receiving party shall not pass to the FXCCM or any FXCCM unless expressly so agreed by the Clearing House in writing.



**5. Return of Confidential Material**

- 5.1 Upon request by the Clearing House, and in any event upon fulfillment of the Permitted Purpose, the FXCCM shall promptly return to the Clearing House by a secure method of transportation all or any part of the Confidential Material and all copies thereof in its possession or control or that of its employees or representatives, including all other papers, programs and records incorporating any of that Confidential Material, or shall destroy such information and shall certify to the Clearing House in writing that it has done so provided that the FXCCM is permitted to retain copies of any Confidential Material which it requires as part of its portfolio management or otherwise for legal or regulatory reasons.

**6. No Representations or Warranties; No Conflict of Interest**

- 6.1 Subject to references made in paragraph 7, the Confidential Material is disclosed by the Clearing House without any representation or warranty whatsoever as to its accuracy or completeness or otherwise.
- 6.2 The Clearing House acknowledges and agrees that, subject to compliance with the terms of this Appendix 2K.A by the FXCCM and any of its employees or representatives to whom Confidential Material is provided in accordance with this Appendix 2K.A, the FXCCM's participation in the ForexClear Default Management Process shall not prevent the FXCCM from carrying out any transaction, or otherwise providing investment services in respect of, investments that the FXCCM may subsequently learn are the subject of Confidential Material and, furthermore, the Clearing House agrees that it shall not be able to assert that the FXCCM has a conflict of interest in doing so nor shall the Clearing House have a claim or action in respect of the foregoing against the FXCCM or any of its directors, employees or other representatives.

**7. Liability**

- 7.1 Subject to Regulation 39, the parties agree and acknowledge that neither the Clearing House nor any of its employees or representatives shall have any liability whatsoever to the FXCCM or any of employees or representatives, for any loss or damage of whatsoever kind howsoever arising directly or indirectly out of or in connection with the disclosed Confidential Material or its use.
- 7.2 The Clearing House accepts liability for any personal injury or death caused by the negligence of the Clearing House and any fraud or wilful default on the part of the Clearing House, for any actions that it may take on the basis of advice given to it by the FXDMG, and for the accuracy of the information (confidential material as defined in this Appendix 2K.A) that it distributes to the FXCCM in connection with the ForexClear Default Management Process.
- 7.3 Under no circumstances shall the Clearing House have any liability to the FXCCM for (a) any consequential loss or other indirect loss of whatsoever kind or (b) loss of anticipated profit (whether direct or indirect).

**8. Remedies**

- 8.1 Without affecting any other rights or remedies that the Clearing House may have, the FXCCM acknowledges that the Clearing House may be irreparably harmed by any breach of the terms of this Appendix 2K.A and that damages alone may not necessarily be an adequate remedy. Accordingly, the Clearing House will be entitled

to the remedies of injunction, specific performance and other equitable relief, or any combination of these remedies, for any threatened or actual breach of its terms, and not proof of special damages will be necessary to enforce this Agreement.

### **Confidentiality and Non-Disclosure and General Terms of Participation in ForexClear Default Management Group**

#### **9. Conflict of Interest**

- 9.1 The FXCCM shall procure that, in the event that a FXDMG Member takes the view that a possible conflict of interest may arise with regard to any matter forming part of the business of the FXDMG, he shall promptly report his view to the Chairman of the FXDMG, who shall act accordingly, taking the advice of other FXDMG Members as appropriate.

#### **10. Confidentiality**

- 10.1 Subject to paragraph 10.3 below, the FXCCM shall procure that the FXDMG Member shall keep all Confidential Material strictly confidential to himself and will not disclose it to any person who is not a FXDMG Member (including, for the avoidance of doubt, the FXCCM who recommended his appointment to the FXDMG (the Nominating FXCCM) or his employer (if different) or any other employee, adviser, officer or fellow worker of that FXCCM or his employer) without the prior written permission of the Managing Director, Risk of the Clearing House or his properly authorised delegate, providing always that the FXDMG Member shall be relieved of such an obligation of confidentiality in respect of any Confidential Material if it comes into the public domain in the circumstances covered in paragraphs 2.1a) and 2.1b).
- 10.2 Subject to paragraph 10.3 below, the FXCCM shall procure that the FXDMG Member shall not use any Confidential Material for any purpose other than the proper fulfilment of his duties as a FXDMG Member.
- 10.3 The parties acknowledge that, in the event that a Default Notice is issued by the Clearing House in respect of any ForexClear Clearing Member, the FXDMG Member may be required by the Nominating FXCCM and/or his employer (if different) to provide certain services to the Clearing House in the management of the default. In such event, and only in such event, the parties acknowledge that the FXDMG Member shall be entitled to disclose any part or parts of the Confidential Material as may be agreed by the Clearing House, in such manner and form and in accordance with such procedures as may prescribed by the Clearing House and/or the FXDMG with regard to the management of that default.
- 10.4 Upon request by the Clearing House, and in any event upon termination of the membership of the FXDMG Member of the FXDMG, the FXCCM shall procure that the FXDMG Member shall promptly return to the Clearing House by a secure method of transportation all or any part of the Confidential Material and all copies thereof in his possession or control, including all abstracts, notes, drawings and other papers, programs and records incorporating any of that Confidential Material, or shall destroy such information and shall certify to the Clearing House in writing that it has done so, provided that the FXDMG Member is permitted to retain a copy thereof to comply with applicable legal or regulatory requirements.

#### **11. Warranty and Representation**

- 11.1 The FXCCM represents and warrants that it will procure that:

- (a) the Nominating FXCCM and the FXDMG Member's employer (if different) are aware of the obligations of confidentiality arising out of this Agreement; and
  - (b) nothing in this Appendix 2K.A will cause the FXDMG Member to breach any duty or obligation (whether arising pursuant to contract or otherwise) which he owes to the Nominating FXCCM or to his employer, if different, or any other contract counterparty of the FXDMG Member.
12. **Confidentiality and Non-Disclosure: General Obligations of the Clearing House**
- 12.1 The Clearing House will treat all Confidential Material in the terms envisaged in this Appendix 2K.A, confining use to the ForexClear Default Management Process, restricting its availability on a "strictly need to know basis", and exercising every duty of care required of it as a Recognised Clearing House and as a Derivatives Clearing Organization.

Exhibit A-8

Section 3 of the Clearing House Procedures

**SECTION 3**

**CONTENTS**

3. FINANCIAL TRANSACTIONS ..... 2

    3.1. ACCOUNTS ..... 2

    3.2. PROTECTED PAYMENTS SYSTEM (PPS) ..... 3

    3.3. ACCEPTABLE FORMS OF ~~COVER~~COLLATERAL ..... 8

    3.4. DISTRIBUTION OF ~~COVER~~COLLATERAL ..... 9

    3.5. INTEREST AND ACCOMMODATION CHARGE STRUCTURE ..... 12

    3.6. FEES ..... 15

    3.7. PARTICIPATION MONIES ..... 16

APPENDIX 3A ..... 17

    LCH.CLEARNET BANK ACCOUNTS IN HONG KONG ..... 17

### 3. **FINANCIAL TRANSACTIONS**

#### 3.1. **ACCOUNTS**

##### 3.1.1. **Overview**

Clearing Members are usually provided with two financial accounts that reflect their House and Client business; other financial accounts may be provided depending upon their participation in certain markets. All Clearing Members will also have a Default Fund (DF) account.

Each financial account will in turn have at least one sub account:

- CoverCollateral account; and other sub accounts depending on the market and eCollateral provided, for example:
- Tender account
- Coupon account (for payment of coupons on securities held as collateral); and
- Buffer account (where additional eCollateral may be provided).

Liabilities arising from trading activity are recorded against the Covercollateral account only. Sub accounts are used to record cash movements between the Clearing House and the Clearing Member. Postings may be applied to Covercollateral, Tender and other sub accounts.

##### 3.1.2. **CoverCollateral Account Postings**

Transactions posted to the Covercollateral account include but are not limited to:

- PPS calls and pays;
- option premiums;
- prompt day delivery amounts;
- interest and accommodation charges;
- Clearing House fees, charges and rebates;
- exchange fees, levies and rebates; and
- Variation margin, Price Alignment Interest, NPV, coupons.

##### 3.1.3. **Tender Account Postings**

Transactions posted to the Tender account include but are not limited to:

- PPS calls and pays;
- delivery amounts;
- settlement differences; and

- Coupon Payments relating to member Collateral.

### 3.1.4. **Financial Transaction Reporting**

Banking reports are generated each day that provide members with data relating to but not limited to: liabilities by market, cash balances, non-cash balances, cash posting and interest rates.

All reports are available via the Member Reporting Web Site (Member Live site) and can be downloaded via the user interface or directly to Member back-office systems via an SFTP connection.

A "Banking Reports Reference Pack" can be requested from the LCH.Clearnet Client Training Team, this contains definitions and examples of each of the available reports.

### 3.2. **PROTECTED PAYMENTS SYSTEM (PPS)**

The Clearing House operates a direct debit system, known as the Protected Payments System (PPS), for the transfer of funds to and from Clearing Members. PPS is a recognised interbank payments system overseen by the Bank of England.

PPS is operated in both London ("London PPS") and in the United States (where it is known as "US PPS"). In this Section 3, a day on which PPS is open is referred to as a "working day". The Clearing House also operates accounts in Hong Kong where Clearing Members will be mandated to hold accounts for the operation of certain Asian markets.

Clearing Members should note that the PPS (both in London and in the US) is a system for facilitating payment to the Clearing House of moneys due from Clearing Members to the Clearing House and vice versa. The giving of a commitment by a participating Bank through PPS to make any payment, and the receipt of that commitment by the Clearing House is not to be regarded as satisfaction of any payment due to the Clearing House.

Each Clearing Member remains fully responsible for the payment to the Clearing House of all moneys due to the Clearing House as required, inter alia, by the Clearing Membership Agreement, clearing extension documentation and these General Regulations, Default Rules and Procedures. Payment is only completed when the funds have been credited for value to the relevant Clearing House bank account, and any time permitted by the relevant payment settlement system for the recall of any such payment has expired.

#### 3.2.1. **PPS**

##### 3.2.1.1. **Introduction**

A Clearing Member is required to maintain a PPS bank account(s) in London in GBP and in each currency in which it incurs settlements, at one or more of the bank branches participating in the PPS system in London. Different banks may be used for different currencies.

Each Clearing Member is required to maintain at least one US dollar PPS account with at least one of the US PPS Banks (please refer to the following link for details:

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

Clearing Members are responsible at all times for ensuring that their PPS banks accounts have sufficient funds or credit lines to be able to meet margin calls from the Clearing House.

Any bank charges connected with the holding of any PPS bank accounts or related to any activity on that account must be paid by the Clearing Member holding the relevant account. PPS Mandates

Each Clearing Member is required to complete a standard form London and US PPS Mandate(s) (copies are available from [membershipteam@lchclearnet.com](mailto:membershipteam@lchclearnet.com)) for each bank branch at which they wish to operate an account before clearing can commence. The original of the mandate must be signed by a person with the appropriate authority within the Clearing Member institution and then forwarded to the relevant bank. A copy must also be forwarded at the same time to the Clearing House Membership Department.

#### 3.2.1.2. **Currency Conversion**

The Clearing House supports cross currency collateral, this allows the Clearing Member to elect to have initial and contingent margin liabilities covered in a currency other than that in which the liability is calculated. Clearing Members must nominate the currency in which they wish to cover margin liabilities by prior arrangement with LCH.Clearnet Limited Treasury Operations.

#### 3.2.1.3. **Morning PPS Calls**

Clearing Members' liabilities are calculated overnight. Should the relevant liability not be covered by acceptable forms of ~~cover~~ Collateral held by the Clearing House (see section 3.3) any shortfall is called through London PPS with separate calls made for each currency. It is the responsibility of each Clearing Member to ensure that its London PPS bank(s) meets all payment instructions received from the Clearing House. Confirmation of payments, as notified, must be received by the Clearing House from the relevant PPS bank(s) by 09:00, or within one hour of a subsequent call, on the day on which the PPS Call is made. Payments will only be recognized for this purpose if the relevant PPS bank (i) has performed its concentration function (being the transfer of net funds from the PPS bank to a central account in the name of the Clearing House) (ii) has made such payments, and (iii) any time permitted by the relevant payment settlement system for the recall of any such payment has expired.

Where payments are due to a Clearing Member, Payments will be recognized as soon as payment instructions in respect to that payment have been given to a PPA bank. For this purpose, a payment instruction will only be recognised to the extent that the Clearing House has taken steps to transfer to the PPS bank any such sums as may be necessary to enable that payment instruction to be performed by the PPS Bank.



#### 3.2.1.4. **Intraday PPS Calls**

The intra-day margin call by the Clearing House is for intra-day ~~cover payments~~ Collateral transfers. GBP, EUR or USD can be used to ~~cover~~ collateralise margin obligations intraday. Between 14.30 - 16.00 (London time) only USD will be called in London.

Normally the Clearing House will call Collateral in respect of intra-day margin obligations through London PPS accounts. However where the Clearing House wishes to make such an intra-day call after London PPS closes (16:00 London time), such a call will be made upon the Clearing Member's nominated US PPS account.

Clearing Members must designate a currency (GBP, EUR or USD) that will be called by default during the hours of London PPS for each mnemonic/sub-account. Clearing Members may request a change to the default currency no later than 09.30 am London time in order for the change to be undertaken the following day. Member can submit a request to change their currency at the following link:

[www.lchclearnet.com/risk\\_management/ltd/preferential\\_currency\\_for\\_intraday\\_margin\\_calls\\_form.asp](http://www.lchclearnet.com/risk_management/ltd/preferential_currency_for_intraday_margin_calls_form.asp)

The Clearing House has the ability to call US dollars in respect of an intra-day margin call up until 16:00 hours New York Time (21:00 hours London Time).

The Clearing House must receive confirmation of payment from the Clearing Member's nominated PPS bank(s) within one hour of receipt of the intraday call by the relevant bank branch.

Failure of a bank to confirm a PPS call within one hour may result in the Clearing Member being declared in default. Late confirmation of PPS calls are reported to the regulators of LCH.Clearnet.

#### 3.2.1.5. **Auto repay**

Clearing Members may request that they are automatically repaid any excess cash balances that remain on their accounts at the end of each day. Clearing Members must contact Treasury Operations in order to have auto-repay applied to their accounts. (LCHOperations-Treasury@lchclearnet.com or Tel +44 (0)20 7426 7505)

#### 3.2.1.6. **Value Date**

Although confirmation from the banks that PPS payments will be made must be received within the deadlines set out in sections 3.2.1.4, subject to section 3.2.1.8, all currency transactions are processed by PPS with next business day value with the exception of the following currencies: CAD, EUR, GBP and USD which are processed with value for the same business day.

#### 3.2.1.7. **Foreign Bank Holidays**

The Clearing House has made arrangements with London PPS banks to operate the PPS on all UK banking days including foreign bank holidays.

Confirmation that PPS payments will be made must be received within the deadlines set out in section 3.2.1.4. However the value date for any PPS transactions made on a day which is a bank or public holiday in the country of that currency will be for the next business day on which both the foreign currency centre and the Clearing House are open for business. This applies to GBP, CAD, EUR and USD.

Example: 20 August is a public holiday in the USA but not in the UK. 21 August is a normal banking day in the USA.

On the 20 August, the Clearing House will issue its normal USD instructions to PPS banks, and receive confirmation in response to the PPS Call, for value 21 August.

Please refer to Clearing Member Circulars for details of Clearing House opening days and currency holidays at the following link:

[www.lchclearnet.com/member\\_notices/](http://www.lchclearnet.com/member_notices/)

#### 3.2.1.8. **UK Bank Holidays**

The Clearing House does not give value to any currency on a UK bank holiday, if the Clearing House is closed for business on that bank holiday. PPS Calls will be made on the next following business day, for the relevant currency.

However, the Clearing House may sometimes be open for business on a UK bank holiday – in such circumstances PPS Calls will be made as normal that day. Value will be given the same day providing that the relevant currency centre is open for business. It should be noted, however, that value for GBP is given on the next GBP business day.

#### 3.2.1.9. **Use of London PPS and US PPS**

These Procedures indicate which part of the PPS system will be used in the normal course of events for making PPS Calls. Generally London PPS will be used for Morning PPS Calls (including contributions to the Default Fund), remitting surplus cash balances to a Clearing Member, and for making intra-day margin calls up to 16:00 hours London time. However Clearing Members should be aware that the Clearing House reserves the right to direct a Morning PPS Call or intra-day margin calls before 16:00 hours London time to a Clearing Member's US PPS account in exceptional circumstances (an "Exceptional PPS Call"). The Clearing House will use all reasonable commercial endeavours to notify the Clearing Member in advance of issuing any such Exceptional PPS Call.

#### 3.2.1.10. **Contingency Payment Arrangements**

Clearing members must ensure that they have contingency arrangements to ensure continuity of ~~margin~~ Collateral payment in the event of failure of their nominated PPS Bank. From time to time the Clearing House may require the Clearing Member to provide evidence of these arrangements.

#### 3.2.1.11. **Recovery from Insolvent PPS Banks**

In the event that payment is not completed by the relevant PPS Bank, due to insolvency and not a technical failure, and the affected Clearing Member(s)

make alternative payments, the Clearing House, should it make a recovery from the estate of the PPS bank, will credit such recovery, net of cost, to the accounts of the affected Clearing Members in proportion to the amount of the original missed payment.

### 3.2.2. **Hong Kong Payments**

#### 3.2.2.1. **Introduction**

In order to facilitate clearing services for the Asian/Pacific Markets, the ability to call funds to cover margin requirements during the Asian day is required.

The Clearing House mandates that Clearing Members clearing in certain Asian markets maintain bank accounts in Hong Kong to facilitate margin calls during the Hong Kong day.

Currently only USD accounts are operated in Hong Kong.

Where the Clearing House has mandated that Clearing Members must operate an account in Hong Kong, each Clearing Member is required to maintain one US dollar account at a bank in Hong Kong where the Clearing House also operates an account – a list of the banks used by the Clearing House in Hong Kong appears in Appendix 3A.

#### 3.2.2.2. **Intra-Day Margin Call in Hong Kong (overnight UK)**

The intra-day margin call by the Clearing House is for intra-day ~~cover payments~~ Collateral transfers.

The Clearing Member will be requested to ~~make a payment~~ transfer cash Collateral to the Clearing House's account at their nominated bank.

A ~~payment~~ transfer to the Clearing House's account in Hong Kong may be requested between the hours of 08:00 and 16:00 Hong Kong time.

#### 3.2.2.3. **Confirmations**

The Clearing House must receive confirmation of payment from the Clearing House's bank within one hour of the Clearing House requesting funds from the Clearing Member.

#### 3.2.2.4. **Operating days and Bank Holidays**

USD payments are supported during Hong Kong public holidays when the US is open.

Members may be ~~called for~~ required to transfer additional ~~margin~~ cash Collateral on any day that the markets and the Clearing House are open.

Therefore the Clearing House can instruct a USD payment on a public holiday in Hong Kong and receive good value (except on a US currency holiday when margin will be collected once UK PPS opens in UK business hours or if the Clearing House consider that internal measures of credit tolerance may be breached additional ~~margin~~ Collateral can be requested ahead of US bank holidays).

**Value Date**

Clearing Members must meet these margin calls for all USD working days even if it is a Hong Kong holiday, if the markets are open.

Each Clearing Member remains fully responsible for the payment to the Clearing House of all moneys due to the Clearing House as required, inter alia, by the Clearing Membership Agreement, clearing extension documentation and these General Regulations, Default Rules and Procedures.

Payment is only completed when the funds have been credited for the full value to the Clearing House bank account, at the nominated Hong Kong bank, and at the point in time when the Clearing House is able to verify that the funds are within the account.

**3.3. ACCEPTABLE FORMS OF COVERCOLLATERAL**

The Clearing House accepts certain types of ~~cover~~Collateral in the Clearing House's prescribed form against liabilities. Please refer to the following link for further details:

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

**The Clearing House may vary, at its discretion, the standard requirements and valuation procedures set out in this section, either generally or in a particular case, without giving prior written notice to Clearing Members. Further, the Clearing House may vary the types of ~~cover~~Collateral acceptable to it.**

**3.3.1. Cash**

In order not to fall within the scope of deposit-taking regulations applying to banks and similar institutions, the Clearing House can accept cash from Clearing Members only in relation to current or anticipated obligations.

Cash used as ~~cover~~Collateral need not be provided in the same currency as that of the liability. In such cases, currencies will be notionally converted with reference to quoted exchange rates determined at approximately 16:45 hours the previous business day.

Clearing Members must give LCH.Clearnet Limited Treasury Operations no less than two (2) business days notice of their intention to request withdrawal of cash used as ~~cover~~Collateral for margin and its replacement by the lodgement of ~~collateral~~non-cash Collateral. In the event that a Clearing Member seeks to withdraw such cash ~~cover~~Collateral without giving such notice, the Clearing House may decline to release such cash ~~cover~~Collateral until the end of the required notice period.

**3.3.2. Performance Bonds**

Certain banks are approved by the Clearing House to issue performance bonds on behalf of Clearing Members. Performance Bonds forms are available from LCH.Clearnet Limited Treasury Operations for use by the London branches of

approved banks. Approved banks which are also Clearing Members may not issue performance bonds on their own behalf. Nor may approved banks issue performance bonds on behalf of Clearing Members of which they are the parent, immediate or ultimate, or which belong to the same corporate group, or in which they have a shareholding greater than 20%.

**It is essential that Clearing Members agree their proposed arrangements with LCH.Clearnet Limited Treasury Operations in advance of making arrangements to lodge a performance bonds.**

### 3.3.3. Securities and Precious Metals

Please refer to the following pages on our website for both prevailing haircuts and notes on collateral acceptable for margin purposes:

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

### 3.3.4. Value Notification

Clearing Members may obtain details on the ~~cover~~ value of ascribed to non-cash collateral on their account for the purpose of calculating their current collateral value by viewing the relevant reports available on the Member Reporting Website.

### 3.3.5. Use of Credits as ~~Cover~~Collateral

The following ~~contingent margins~~ credit amounts are not paid in cash, but may, with (subject to the restrictions described below.) be used as ~~cover~~ offset against certain specific margin obligations, with the result that the relevant Clearing Member will need to provide less Collateral in respect of those margin obligations:

NYSE-LIFFE Commodity Products delivery credit margin may be used to offset NYSE-LIFFE Commodity Products delivery debit margin within the same currency;

NYSE-LIFFE equity delivery credit margin and credit Net Liquidating Value (NLV) may be used to offset NYSE-LIFFE equity initial margin, NYSE-LIFFE equity delivery debit margin and NYSE-LIFFE equity debit NLV across currencies;

LME credit variation margin may be used to offset LME debit variation margin and initial margin across currency;

EquityClear credit contingent margin may be used to offset EquityClear initial and debit contingent margin across currencies;

Turquoise Derivatives credit contingent variation margin (for forwards) and credit Net Liquidating Value may be used to offset Turquoise Derivatives debit initial margin, debit contingent variation margin and debit NLV across currency; and

EnClear credit variation margin may be used to offset EnClear debit variation margin and initial margin across currency.

### 3.4. DISTRIBUTION OF ~~COVER~~COLLATERAL

### 3.4.1. Overview

As different types of Cover Collateral attract different utilisation fees and different contracts are assessed for VAT in different ways (see section 3.5.4), the Clearing House identifies the Cover Collateral applied to liabilities in order to allow utilisation fees and VAT to be calculated correctly.

This is done by establishing a specified order for both types of liabilities and types of Cover Collateral and applying Cover Collateral sequentially; such that Cover Collateral type 1 is applied first to liability type 1, Cover Collateral type 2 to liability type 1 if there is a deficiency when Cover Collateral type 1 has been exhausted and so on.

**The following procedures are not in any way intended to restrict, vary, or alter the Clearing House's rights to apply Cover Collateral held (including any described in LCH.Clearnet Limited reports/records as "unutilised" or "excess") to meet the Clearing Member's liabilities/obligations to LCH.Clearnet Limited.**

### 3.4.2. Liability Order

**Note:** The following provision applies solely for the purpose of calculating fees. In case of default by a Clearing Member, please see section 3.4.7 below.

Liabilities will be covered in the order:

1. Secured debit cash balances (see section 3.2.1.10);
2. Variation and initial margin including offset of contingent credits (see section 3.4.6).

### 3.4.3. Cover Collateral Application

**Note:** The following provision applies solely for the purpose of calculating fees during the overnight offsetting of Clearing Members collateral against liabilities. In case of default by a Clearing Member, please see section 3.4.7 below.

The order in which Cover Collateral will be applied (in turn) to each liability is as follows:

1. Same currency collateral non-cash Collateral (performance bonds and securities), in the Collateral Order;
2. Different currency collateral non-cash Collateral (performance bonds and securities), in the Collateral Order and in the Currency Order;
3. Cash Collateral in the same currency as the liability;
4. Cash Collateral in a different currency from the liability, in the Currency Order.

Clearing Members may make the following choices:

- whether to have cash Collateral applied before or after ~~collateral~~non-cash Collateral;
- whether to apply ~~collateral~~non-cash Collateral to liabilities in a different currency;
- whether to apply cash Collateral to liabilities in a different currency.

#### 3.4.4. Currency Order

**Note:** The following provision applies solely for the purpose of calculating fees. In case of default by a Clearing Member, please see section 3.4.7 below.

This defines the order in which different currency liabilities will be covered, as well as the order in which cash/~~collateral~~ and non-cash Collateral in different currencies will be used as cover. The order is:

1. GBP;
2. USD;
3. CHF;
4. EUR;
5. JPY;
6. SEK;
7. CAD;
8. NOK;
9. DKK;

#### 3.4.5. Collateral Order

**Note:** The following provision applies solely for the purpose of calculating fees. In case of default by a Clearing Member, please see section 3.4.6 below.

A Clearing Member may override this sequence with its own, on request to LCH.Clearnet Limited Treasury Operations.

1. Performance Bonds;
2. Treasury bills;
3. European (and other international) Government Debt Securities (excluding Gilts);
4. US Treasury Government Debt Securities;
5. UK Gilts;
6. Triparty collateral;

## 7. Precious metals.

3.4.6. **Record of ~~Cover-Provided~~ Collateral Transferred**

Members can obtain details in the relevant reports available on the Member Reporting Website.

The order of priority (in which cash and ~~collateral~~ non-cash Collateral are applied to cover Clearing Members' liabilities), set out elsewhere in this section, does not necessarily reflect the order of priority of realisation or application of ~~cover~~ Collateral which the Clearing House may follow in the case of default by a Clearing Member. Post-default the Clearing House is entitled to realise and/or apply ~~cover~~ Collateral in whatever order it deems appropriate.

3.5. **INTEREST AND ACCOMMODATION CHARGE STRUCTURE**3.5.1. **Interest rates**

The Clearing House applies interest to Clearing Member's cleared cash balances.

The following rates are applied:

LDR – London Deposit Rate—the rate at which the Clearing House will pay or charge interest on credit cash balances (excluding DF Contributions and SwapClear Client Financial account).

CDR – Client Deposit Rate – the rate at which the Clearing House will pay or charge interest on credit cash balances on SwapClear Client financial accounts.

Default Fund – The rate at which the Clearing House will pay or charge interest on default fund contributions.

Rates are available from the Member Reporting Website.

The Clearing House reserves the right to alter the basis of calculating interest rates. Any alteration will be effective on the date notified.

3.5.2. **Price Alignment Interest (PAI) Rate**

To minimise the impact of daily cash Collateral payments in respect of variation margin payments obligations on the pricing of interest rate swaps, the Clearing House will charge interest on cumulative cash Collateral received by way of variation margin received by the clearing member and pay interest on cumulative cash Collateral paid in by way of variation margin paid-in by the clearing member in respect of these instruments. This interest element is known as price alignment interest ("PAI").

The calculation of PAI shall use the interest rates specified as below. The amount of PAI for each currency shall be calculated as:

The amount of NPV in such currency from the previous day's COB, multiplied by the relevant interest rate in effect for that day; divided by 360 or in the case of AUD, CAD, GBP, HKD, JPY, NZD, PLN, SGD and ZAR, 365.



In the case of the currencies marked below with an asterisk, the Clearing House, as provided in Regulation 34(b), specifies that it will not change the PAI rate without the consent of all SwapClear members holding open contracts in such currencies.

Currency	PAI Rate
USD	The rate used shall be the Effective Federal Funds rate, the rate published by the Board of Governors of the Federal Reserve System as such rate appears on Reuters page "FEDFUNDS1" or Telerate 120 or on any successor page(s) thereto.
EUR	The rate used shall be the EONIA rate, the rate published by the European Banking Federation and ACI – The Financial Market Association as such rate appears on Reuters page "EONIA" or Telerate 247 or on any successor page(s) thereto..
GBP	The rate used shall be the SONIA rate, the rate published by the Wholesale Markets Broker Association as such rate appears on Reuters page "SONIA" or on any successor page(s) thereto.
JPY	The rate used shall be the Mutan call rate, the rate published by the Bank of Japan as such rate appears on Reuters page "TONAR" or on any successor page(s) thereto.
CHF	The rate used shall be the TOIS rate, the T/N interbank fixing as such rate appears on Reuters page "CHFTOIS" or Telerate 3450 or any successor page(s) thereto.
AUD	The rate used shall be the "AONIA" rate, the rate published by the Reserve Bank of Australia – as such rate appears on Reuters page "RBA30" or any successor page(s) thereto.
CAD	The rate used shall be the "CORRA" rate, the rate published by the Bank of Canada website – as such rate appears on Reuters page "CORRA" or any successor page(s) thereto.
DKK	The rate used shall be the "DKKOIS" rate, the rate published by the Danish Central Bank – as such rate appears on Reuters page "DKNA14" or any successor page(s) thereto.
HKD	The rate used shall be the "HONIX" rate, the rate published by the Hong Kong Brokers Association – as such rate appears on Reuters page "HONIX" or any successor page(s) thereto.
NZD	The rate used shall be the "NZIONA" rate, the rate published by the Reserve bank of New Zealand – as such rate appears on Reuters page "RBNZ02" or any successor page(s) thereto.

Currency	PAI Rate
PLN	The rate used shall be the "POLONIA" rate, the rate published by the National Bank of Poland – as such rate appears on Reuters page "NBPS" or any successor page(s) thereto.
SEK	The rate used shall be the "SIOR" rate, the rate published by the OMX Exchange – as such rate appears on Reuters page "SIOR" or any successor page(s) thereto.
ZAR	The rate used shall be the SFX ZAR OND rate, the rate published by SAFEX JIBAR – as such rate appears on Reuters page "SFXROD" or any successor page(s) thereto.
CZK	The rate used shall be the "CZEONIA" rate, the rate published by the Czech National Bank – as such rate appears on Reuters page "CZEONIA" or any successor page(s) thereto.
HUF	The rate used shall be the "HUFONIA" rate, the rate published by the National Bank of Hungary – as such rate appears on Reuters page "HUFONIA" or any successor page(s) thereto.
SGD	The rate used shall be the "SONAR" rate, the rate published by the Association of Banks in Singapore – as such rate appears on Reuters page "ABSIRFIX01" or any successor page(s) thereto.
NOK	The rate used shall be the NOK sight deposit rate, the rate published by Norges Bank – as such rate appears on Reuters page "NOINTR=ECI" or any successor page(s) thereto.

### 3.5.3. Interest/Accommodation Structure

Application of Cover/Collateral	Type of Cover/Collateral					
	Credit Variation Margin	Performance Bonds	Securities	Cash	Foreign Cash	Forward Cash
Initial & Variation margin after offset	No charge or payment	Charge 0.10%	Charge 0.10%	Pay/Charge relevant rate	Pay/Charge relevant rate of Cover/Collateral currency	No charge or payment
Excess or Surplus	No charge or payment	No charge or payment	No charge or payment	Pay/Charge relevant rate	Pay/Charge relevant rate	No charge or payment

**Note:**

- "Foreign Cash" means cash in a currency other than that of the liability.
- "Forward Cash" means cash which has been credited to an account for later value, e.g. an

Application of Cover Collateral	Type of Cover Collateral					
	Credit Variation Margin	Performance Bonds	Securities	Cash	Foreign Cash	Forward Cash

amount called via PPS for next-day value.

#### 3.5.4. **Payment of Interest and Charges**

Interest and accommodation charges are calculated on a daily basis and the resultant monthly total is posted to Clearing Members' cover accounts at the beginning of the following calendar month. A VAT invoice is issued monthly detailing the interest and accommodation charges applicable for the previous month. Separate invoices are issued for each currency.

VAT is charged, dependent on contract, on accommodation charges and collateral utilisation fees at current rates. On foreign currency amounts VAT is charged in sterling on the converted value of any relevant charges. The sterling cover/collateral account shows separate postings for sterling VAT amounts arising from foreign currency charges.

The net invoice value for each currency is posted to the relevant cover/collateral account for value on the second working day of the month succeeding the month in which the charges arose.

The invoice provides detail in respect of:

- Interest due to be credited or debited; and
- Accommodation charges.

VAT on accommodation charges is subject to the standard rate, some markets may be excluded.

#### 3.6. **FEES**

Details of fees and refunds pending are collated during the month.

An invoice or credit note is produced detailing the fees to be posted to the house cover/collateral account.

The invoice/credit note displays the type of fee, contract, future or option type, currency, fee rate, volume, fee amount, VAT amount, sub totals for each fee class and the overall total posted to the cover/collateral account.

Monthly postings are processed via the cover/collateral account at the beginning of the following month, on the third working day. Other postings, such as various Market Maker Scheme rebates, are processed by the Clearing House following receipt of data from the relevant exchange.

##### 3.6.1. **VAT Status**

By default a member will be charged VAT for transactions on applicable markets. If the member's registered address is outside of the UK, or the member is acting out of their non-UK operations, they will be required to provide a written

declaration that their place of operations is also outside the UK for VAT purposes.

If a member extends to a VAT applicable market the member will be requested to provide written confirmation that the operations address is the same as that stated on their application form. If the address is different, and is outside the UK the member will also be asked to confirm that in writing so they will not be charged VAT on transactions on that market.

### 3.7. **PARTICIPATION MONIES**

#### 3.7.1. **Share Subscriptions**

Clearing Member share subscriptions will be called via PPS on a date advised by the Clearing House. They will be called from Clearing Members' house PPS account and subscriptions will be debited from the house ~~cover~~collateral account.

#### 3.7.2. **DF Contributions**

For all market with the exception of ForexClear DF contributions will be called via PPS normally on the fourth working day ("Reset Day") of the quarter (i.e. early February, May, August and November). Contribution requirements will be notified to Clearing Members at least two working days prior to each Reset Day on Member Reporting Website. For ForexClear – contributions are reset monthly and paid in USD,

Excess DF amounts due to Clearing Members following the adjustment to DF accounts and the crediting or debiting of interest will be repaid to Clearing Members' PPS accounts on the Reset Days.

**APPENDIX 3A****LCH.CLEARNET BANK ACCOUNTS IN HONG KONG**

Note: accounts are operated in USD only.

The Clearing Member will be mandated to hold an account with one of the following banks in order to facilitate margin calls during the Hong Kong day for certain markets.

When requested the Clearing Member must make a payment to the Clearing House's account at the same bank.

Clearing House bank in Hong Kong	LCH.Clearnet account details to which payments must be made.
Bank of America NA	84936018
Citibank NA	1168383025
HSBC Ltd	808 692818 201

For more information on Hong Kong PPS Banks please contact LCH.Clearnet Limited Treasury Operations on +44 (0)20 7426 7505 or [lchoperations-treasury@lchclearnet.com](mailto:lchoperations-treasury@lchclearnet.com) [lchoperations-treasury@lchclearnet.com](mailto:lchoperations-treasury@lchclearnet.com).

Exhibit A-9

Section 4 of the Clearing House Procedures

**SECTION 4****CONTENTS**

4.	COLLATERAL .....	1
4.1	General Information .....	1
4.2	Documentation .....	4
4.3	Settlement Procedures – Securities .....	5
4.4	Tax Arrangements .....	8
4.5	References .....	10
4.6	Contingency Arrangements.....	10
4.7	Performance Bonds .....	10
4.8	Lodgement Procedure .....	11
4.9	Amendment Procedure .....	11
4.10	Increase in Value of Performance Bonds .....	11
4.11	Decrease in Value of a Performance Bond .....	11
4.12	Amendment of Term .....	11
4.13	Release Procedure .....	11
4.14	Expiry .....	12
4.15	Triparty Service with Euroclear and Clearstream .....	12
	APPENDIX 4A.....	17
	Performance Bond Form.....	17
	APPENDIX 4B.....	22
	Guarantee (“Performance Bond”) Amendment Form .....	22
	APPENDIX 4C.....	25
	Client Consent Form – To be replaced with catch-all form .....	25
	APPENDIX 4DF .....	26
	Member Triparty Lodgement Form.....	26
	APPENDIX 4EG .....	27
	Member Triparty Amendment Form .....	27
	APPENDIX 4FH .....	28
	Member Triparty Closing Form.....	28
	APPENDIX 4G .....	29
	Member Triparty Lodgement Form.....	29
	APPENDIX 4H.....	30
	Member Triparty Amendment Form .....	30

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APPENDIX 4I .....	31
Member Triparty Closing Form.....	31
APPENDIX 4J .....	32
Contingency Collateral Lodgement Form .....	32
APPENDIX 4K.....	33
Contingency Collateral Release Form.....	33
Appendix 4L .....	35
LCH.Clearnet Accounts for Delivery of Margin Collateral excluding FCM Client .....	35



#### 4. COLLATERAL

##### 4.1 General Information

The Clearing House is, at its sole discretion, entitled to determine what will be acceptable to it as eCollateral and to determine when collateral will cease to be acceptable as eCollateral.

If any instrument or security, lodged in accordance with any of the following procedures, is in any way found to be unacceptable, it will immediately be given a zero value ~~in for the purposes of calculating the value of the Clearing Member's cover account with the Member Current Collateral Balance (the "Current Collateral Value") in respect of the relevant Clearing House Member.~~ Replacement ~~cover~~Collateral may be required immediately from the Clearing Member.

##### 4.1.1 Instructions

The Clearing House accepts instructions to lodge, release and transfer cash, securities and ~~Triparty~~ collateral via the online Collateral Management ~~system~~System ("CMS"). Instructions for other types of eCollateral must be sent via fax using the appropriate form in the annex. The lodgement/release forms must be sent in by fax and email to:

Email to: [teamcollateral@collateral.ops.uk@lchclearnet.com](mailto:teamcollateral@collateral.ops.uk@lchclearnet.com)

Fax: +44 (0)20 7375 3518

~~Treasury~~Collateral Operations can be contacted on +44 (0)20 7426 7593

Originals of faxed instructions need to be sent into the Clearing House within fourteen days.

The Clearing House is entitled to act upon ~~Collateral Management system~~CMS instructions and faxed instructions or communications appearing to have been issued by, on behalf of, or have come from, a Clearing Member. These will be accepted by the Clearing House as genuine, even if, for example, they are later found:

- (a) to be inaccurate, whether in whole or in part; or
- (b) not to have been given by the Clearing Member or a client or with the authority of the Clearing Member or client.

The Clearing House will only accept delivery of non-cash eCollateral in accordance with these procedures, and will not sell, or purchase or encash non-cash eCollateral for Clearing Members, except in so far as it is acting under its Default Rules and related ~~General Regulations or in relation to exchange rules~~Exchange Rules.

The Clearing House reserves the right to require a Clearing Member to execute revised versions of the Form of Charge and Client Consent documentation whenever the Clearing House, at its sole discretion, considers that it would be appropriate to do so.

The Clearing House reserves the right to change the information required on instructions received via the ~~Collateral Management system~~CMS, whenever the Clearing House, at its sole discretion, considers that it would be appropriate to do so.

##### 4.1.2 Excess Collateral

The Clearing House shall, at least once on each business day, notify each Clearing Member of its Required Margin Amount.

If a Clearing Member's Current Collateral Value exceeds that Clearing Member's Required Margin Amount (such excess being referred to in this Rule 4.1.2 as the "excess collateral value"), then that Clearing Member may, in accordance with Rules 4.3 and 4.4, request that some or all of the Collateral comprising its Clearing Member Current Collateral Balance having a value not exceeding the excess collateral value (such Collateral being referred to in this Rule 4.1.2 as "excess collateral") be returned or repaid by the Clearing House to, or to the order of, that Clearing Member.

In the event that the Clearing House at any time determines expressly notifies the Clearing Member that it is holding ~~has an~~ excess collateral (as defined below) from a Clearing Member, ~~value and that the Clearing House may notify that Clearing Member of the intention~~ intends to levy a charge in respect of ~~that~~ excess collateral with effect from ~~such a~~ date as is notified to the Clearing Member. ~~In the event in that notification, and the Clearing Member does not remove~~ make a request for the return of the excess collateral before the date so notified, the Clearing House may, in its discretion ~~but only from the date so notified~~, charge the Clearing Member in respect of such excess collateral at the rate of 1 basis point per day until ~~the~~ excess collateral is ~~removed by the Clearing Member through use of a release instruction~~ eliminated. Payment of this charge shall be collected on a monthly basis through that Clearing Member's PPS sterling account.

For the purposes of this section, "excess collateral" means that collateral identified by the Clearing House as being collateral over and above that which is required by the Clearing House in order to cover the obligations to the Clearing House of that Member. The Clearing House shall have absolute discretion to decide whether and to what extent it is holding excess collateral at any time.

Lodgement of- If the Clearing House has received a request to return excess collateral, the Clearing House shall promptly take such steps as are necessary in accordance with Rule 4.4 to transfer the amount of excess collateral specified in that request to or to the order of the relevant Clearing Member, *provided that* (i) the Clearing House shall only be obliged to take such steps with respect to any Collateral pursuant to this Rule 4.1.2 to the extent that it constitutes excess collateral and (ii) where the Clearing Member has requested that Collateral of a particular type be transferred, the Clearing House shall transfer such Collateral unless it determines, acting in a commercially reasonable manner, that transferring such Collateral would result in the Clearing House being unable to satisfy its policies on concentration limits in respect of the various types of Collateral held by it from time to time, in which case it shall transfer Collateral of a different type which has the same value as the requested Collateral and which, in the case of non-cash Collateral, has been transferred to the Clearing House by that Clearing Member.

Whether or not an excess collateral value exists in respect of a Clearing Member, a Clearing Member may request that any cash Collateral that is subject to the Deed of Charge to which that Clearing Member is a party be released from such charge and transferred to the Clearing House to be held as cash Collateral in respect of that Clearing Member (a "Cash Transfer Request").

If the Clearing House has received a Cash Transfer Request, the Clearing House may, in its sole discretion, release the cash amount to which that Cash Transfer Request relates from the charge referred to in Rule 4.2.1 and treat that cash as having been transferred to the Clearing House by the relevant Clearing Member as cash Collateral.

#### 4.1.3 Substitution of non-cash Collateral

At any time, a Clearing Member may notify the Clearing House in accordance with Rules 4.3 and 4.4 that it wishes to substitute any non-cash Collateral that is subject to the Deed of Charge to which that Clearing Member is a party (the "Original Collateral") for replacement Collateral having a value not less than the Original Collateral (the "New Collateral") (such request being a "Substitution Request").

If the Clearing House has received a Substitution Request, it shall, promptly following the Clearing House being satisfied that the New Collateral has been transferred or paid to the Clearing House in accordance with Rules 4.3 and 4.4, take such steps as are necessary to transfer such Original Collateral to or to the order of the Clearing Member, provided that, if the Clearing House determines, acting in a commercially reasonable manner, that following such substitution, the Clearing House would be unable to satisfy its policies on concentration limits in respect of the various types of Collateral held by it from time to time, it shall notify the Clearing Member thereof and shall not be obliged to transfer the Original Collateral.

#### 4.1.34.1.4 Lodgement of Non-Cash Collateral as Replacement for Cash Cover for Margin Collateral

Clearing Members should note that they must give Treasury Operations no less than two (2) business days notice of their intention to lodge collateral transfer non-cash Collateral to the Clearing House with a value of £50 million sterling or more, and which is reasonably likely to have the effect that cash collateral of a similar value is repayable by the Clearing House to that Clearing Member as a result of such lodgement transfer. Treasury Operations must be advised no later than 15:30 two business days prior to lodgement the transfer. In the event that a Clearing Member seeks to withdraw requests the return of such cash cover Collateral without giving such notice, the Clearing House will decline to release such cash cover Collateral until the end of the required notice period.

#### 4.1.44.1.5 Force Majeure

The Clearing House will not be liable for any failure, hindrance or delay in the performance (in whole or in part) of any of its obligations to Clearing Members with regard to non-cash collateral accepted as collateral Collateral where such failure, hindrance or delay arises from causes beyond the control of the Clearing House, such as but not limited to the failure (whether partial or total,) interruption or suspension of any Collateral Agent, depository or custodian or other service ("depository") that the Clearing House is using, the termination or suspension of the Clearing House's membership or use of the depository or any variation of the depository's operational timetable, whether or not occasioned by action of the depository operator or other party, or any embargo, unavailability or restriction of bank transfer systems or wires, malfunction or overload of the depository or any other emergency. This provision is without prejudice to the force majeure provisions of Clearing Members' agreements with the Clearing House.

#### 4.1.54.1.6 Regulatory and Supervisory Information

In every case, the Clearing House will be entitled to supply a depository or Collateral Agent with all the information it requires for any purposes relating to a Clearing Member, or relating to non-cash collateral received by the Clearing House from a Clearing Member which are or may at any time have been held by the depository or Collateral Agent. Non-cash collateral will be lodged and held within such depository or other

systems as the Clearing House may select or allow, subject to the conditions of such systems and to any applicable law and subordinate rules relating thereto as well as to the terms of LCH.Clearnet Limited's form of charge and charge documentation the Deed of Charge and these procedures.

#### 4.1.64.1.7 Interest Payments (coupons)

The Clearing House will remit interest amounts, taking into account any withheld tax, to Clearing Members' PPS banks on the appropriate value date. These are processed using "Tender" sub-accounts designated "I" for house or "L" for segregated client.

#### 4.1.74.1.8 Other Charges

The Clearing House will collect any other charges incurred as deemed necessary using PPS. Examples of such charges may include a Collateral Agent's overnight custody charge, transfer charges or any charges relating to the movement of non-cash Collateral. For a list of the Clearing House's Custody services fees, please see here, refer to <http://www.lchclearnet.com/fees/ltd/default.asp>.

#### 4.1.84.1.9 Insurance

It is the Clearing Member's responsibility to have appropriate insurance for any Collateral in the form of a precious metal collateral-pledged held with the Clearing House.

## 4.2 Documentation

### 4.2.1 Form Deed of Charge

Clearing Members wishing to ledge transfer non-cash collateral with Collateral to the Clearing House must first complete a Form Deed of Charge document for the relevant type of collateral e.g. securities, precious metals. This document establishes a fixed charge over the Clearing Member's interests pursuant to the custody relationship which arises upon specified non-cash collateral Collateral being transferred into an account with the Clearing House by the Clearing Member. The document is required to be executed in accordance with the instructions which accompany it. The Form Deed of Charge document covers non-cash Collateral that is transferred to the Clearing House via bilateral settlement, Precious Metals Settlement Agents or via Triparty arrangements. To operate Triparty arrangements with the Clearing House an additional Collateral Services Agreement (CSA) must also be executed with the relevant ICSD.

The Deed of Charge documentation is available from the Clearing House Risk Department and should be returned on completion to that Department.

### 4.2.2 Segregation Rules

Where a Clearing Member edges collateral transfers non-cash Collateral to cover both house and client accounts it must execute two separate charges Deeds of Charge. Forms relating to ledgements transfers and releases of collateral requests for the return of Collateral must indicate the particular account to which they relate. Any collateral ledged with non-cash Collateral transferred to the Clearing House will be applied as cover against the Clearing Member's (house proprietary or client) margin liabilities as per the relevant documentation.

~~Non-cash Collateral charged~~transferred to the Clearing House in respect of a Clearing Member's client account will not be applied by the Clearing House to his liabilities on a ~~house account~~Proprietary Account (see regulation 5(d)).

~~Non-cash Collateral charged~~transferred to the Clearing House in respect of a Clearing Member's ~~house account~~Proprietary Account may be applied by the Clearing House towards the ~~payment~~discharge of any sum whatsoever ~~due~~which is secured by the ~~Clearing Member to the Clearing House~~relevant Deed of Charge, save that no ~~collateral~~Collateral (other than House Excess) charged in respect of a Clearing Member's ~~house account~~Proprietary Account shall be applied on or towards payment or satisfaction of any of the Clearing Member's liabilities to the Clearing House on any of the Clearing Member's client accounts.

#### 4.2.3 Client Collateral

Where a Clearing Member wishes to ~~pass~~transfer a client's ~~collateral~~non-cash Collateral to the Clearing House, the Clearing Member must, inter alia, ensure that at all times it remains expressly agreed with the client that the Clearing Member may charge the ~~collateral~~non-cash Collateral to the Clearing House, on the Clearing House's terms and free of the client's or other owner's interest, to secure the Clearing Member's obligations to the Clearing House.

Where a client's ~~collateral~~non-cash Collateral is to be ~~passed to~~transferred to the Clearing House, the Clearing Member must ensure that a *Client Consent Form* is completed by the beneficial owner (see Appendix 4C).

The Clearing House gives no undertaking that, on the default of a Clearing Member, it will not utilise clients' ~~collateral~~non-cash Collateral which has been ~~passed~~transferred to it by a Clearing Member, before utilising any other form of ~~cover~~Collateral the Clearing House may hold.

Clause 78 of the ~~charge~~Deed of Charge prohibits the existence of any other charge or security interest, whether created before or after the Clearing House's interest, without the Clearing House's prior written consent (except a deferred charge in favour of the Clearing Member himself). The Clearing House consents to certain such other charges as follows.

Where a Clearing Member accepts business from a non-clearing broker and ~~charges~~transfers to the Clearing House, as ~~cover for margin~~Collateral, securities belonging to a client of that broker with the client's express agreement, clause 78(2) of the ~~charge~~Deed of Charge will allow the Clearing Member to have a security interest in the securities deferred to that of the Clearing House. In addition, by the notification issued under clause 7(48(2)) of the ~~charge~~Deed of Charge, the Clearing House consents to the non-clearing broker also obtaining or retaining a security interest in the same securities, provided always that:

- (a) the broker's interest is expressly deferred to that of the Clearing House; and
- (b) the broker is an authorised person within the meaning of the Financial Services and Markets Act 2000.

The consent given above allows a security interest only in favour of a broker from whom a Clearing Member accepts business. Where there is a chain of transactions involving other brokers, those other brokers may not hold security interests in reliance on this notification. If such brokers wish to hold security interests in ~~collateral~~charged Collateral

transferred to the Clearing House, the Clearing Member should apply to the Clearing House under clause ~~78(1)-(i)(ii)~~ of the Deed of Charge for written consent in their particular case.

**Clearing Members are warned that the taking of Collateral is a complex legal matter. These procedures, and any communication with the Clearing House, whether of an oral or written nature, are not to be taken as containing legal advice. A Clearing Member or broker who contemplates taking an interest in securities belonging to a client should seek independent professional advice on the matter.**

#### 4.3 Instructions via ~~Collateral-Management-system~~CMS

Instructions for cash, securities and triparty instructions may be entered using the ~~Collateral-Management-system~~CMS. The Clearing House will action instructions that have been input and authorised via the ~~Collateral-Management-system~~CMS. The details input on ~~Collateral-Management-system~~the CMS will form the basis of the matching instruction sent to the relevant CSD/custodian. Clearing Members must ensure that the details are input correctly in order to avoid unmatched transactions.

It is the responsibility of the Clearing Member to input a cancellation request of any incorrectly input instruction and then subsequently input the correct details in a new instruction. Please note that it may not be possible to cancel an instruction, please see section 4.4.7 below for further details.

The Clearing House will update the status of the instruction in the ~~Collateral-Management-system~~CMS in relation to the status of the instruction at the CSD/Custodian. On settlement of the transaction the Clearing House will reflect the balance of the securities on the Clearing Member's account and ~~provide value~~take them into account for the purposes of ~~ever~~calculating the Clearing Member's Current Collateral Value.

The Clearing House will notify Clearing Members of the relevant account details for matching. Clearing Members should refer to Appendix 4I to establish the correct place(s) of settlement for a particular security.

The Clearing House will not be liable for any losses ~~of to~~ Clearing Members or third parties caused by non-settlement or by a delay in settlement as a result of the actions or omissions of a CSD/custodian or the Clearing Member (save for any liability which by law may not be excluded).

#### 4.4 Settlement Procedures – Securities

All transactions to ~~deposit or withdraw~~transfer securities Collateral to or from the Clearing House will be executed free of payment.

##### 4.4.1 Instruction Deadlines

Clearing Members may input security instruction via the ~~Collateral-Management-system~~CMS at any time. Instructions will only be actioned by the Clearing House during operational hours.

The Collateral Team operational hours are: Monday – to Friday 08:00 – 20:00hrs UK time.

Instruction deadlines for same day settlement:

CSD/custodian	Deadline for instructions
Euroclear UK/IE (CREST)	14.00
Euroclear internal	16:30
Fedwire - Citi and BNY Mellon BNYMellon	19:00

The Clearing House will input matching instructions to the relevant CSD/custodian for same day settlement when the instructions are received prior to the deadlines above.

#### 4.4.2 Deliveries to and from Local Markets

The Clearing House is bound by the settlement deadlines of the relevant CSD/custodian, Clearing Members should refer to the relevant CSD/custodian for these deadlines. Note that for transactions from local markets the settlement deadline may be earlier than the Clearing House hours of operation and should therefore be instructed the day before the settlement date i.e. on S-1. Instructions to the Clearing House must be provided at least one hour before the market deadline for same day settlement.

For example:

Deliveries from Local Market	Custodian Deadline	Instruction Deadline to Clearing House
Japan	02.45	16.30 on S-1
Belgium	14.50	13.50 on S
Italy	15.00	14.00 on S

#### 4.4.3 Lodging Transfer of Securities to the Clearing House

~~Lodge instructions~~ Instructions for the transfer of securities to the Clearing House must be input via the Collateral Management system CMS prior to the deadlines above for same day settlement. Settled transactions will be added to Clearing Members cover balances taken into account for the purposes of calculating the Clearing Member's Current Collateral Value following settlement.

~~Lodge Transfer~~ Transfer instructions for future settlement dates will be instructed same day if received prior to the deadlines. Instructions received after the deadlines will be instructed the following day.

#### 4.4.4 Releasing Transfer of Securities from the Clearing House

##### 4.4.4.1 Release where sufficient cover Sufficient Collateral is a Available

~~Release instructions input~~ Instructions to transfer any Collateral comprised in the Clearing Member Current Collateral Balance in respect of a Clearing Member to that Clearing Member via the Collateral Management system CMS prior to the deadlines above for same day settlement will be removed from the Clearing Member's cover balance on instruction actioned (subject to Rule 4.1.2) on confirmation of those

instructions by the Clearing House and, once transferred, the relevant Collateral will no longer be included when calculating the Clearing Member's Current Collateral Value.

#### 4.4.4.2 Release where ~~sufficient cover is unavailable~~ Sufficient Collateral is Unavailable

~~Release instructions~~ Instructions to transfer any Collateral comprised in the Clearing Member Current Collateral Balance in respect of a Clearing Member to that Clearing Member must be input via the Collateral Management system CMS before 09:30 UK time. The Clearing Member will then be ~~called for~~ requested to transfer additional cash ~~to~~ Collateral. Following confirmation of receipt of the requested cash ~~call~~ Collateral, the settlement instruction will (subject to Rule 4.1.2) be sent to the CSD/custodian and removed from the Clearing Member's cover balance by the Clearing House, and the Collateral specified in those instructions will (subject to Rule 4.1.2) be transferred to that Clearing Member and, once transferred, will no longer be included when calculating the Clearing Member's Current Collateral Value.

#### 4.4.5 Substitutions

Substitution instructions may be input via the Collateral Management system CMS, and will, subject to Rule 4.1.3 and to confirmation of those instructions by the Clearing House, be actioned on the same day if input prior to the deadlines above.

Clearing Member's must first input the relevant lodge instruction(s) first and then link the associated release instruction(s) to the lodge instruction(s).

#### 4.4.6 Transfers

Transfer instructions may be input via the Collateral Management system CMS and will be actioned on the same day during operational hours.

Note: transfers are only permitted between mnemonics of the same Clearing Member and are subject to client segregation rules.

#### 4.4.7 Settlement Cancellations

Clearing Members may request the cancellation of an instruction via the Collateral Management system CMS. The Clearing House will cancel any instruction that has not yet been processed. The Clearing House will ~~make~~ seek, using its best endeavours, to cancel any settlement instructions already sent to the CSD/custodian but cannot guarantee that the transaction will not settle.

#### 4.4.8 Instruction Statuses

The status of an instruction can be monitored via the Collateral Management system CMS. Statuses reflect the status of the instruction at the Clearing House and not at the CSD/custodian. Please refer to the Collateral Management system CMS User Guide for status definitions.

### 4.5 Tax Arrangements

#### 4.5.1 US Securities

For tax reasons, the Clearing House is required to segregate foreign (i.e. non-US) owners' securities from US owners' securities. Clearing Members must deliver



securities to the correct account. The Clearing House operates accounts with Citibank N.A and Bank of New York Mellon. See annex 4I for account details.

In order to reduce or eliminate US withholding tax, the correct tax documentation must have been provided in respect of each owner. To this end, Clearing Members will be expected to provide one of the forms noted below to the Clearing House. A current form will be required for each owner (i.e. the Clearing Member or the person named in the Client Consent Form).

The relevant forms will normally be one of:

- (a) 'W-9 (Request for Taxpayer Identification Number and Certification)'—Applies which applies to a US corporation including a foreign branch of a US corporation and is valid indefinitely; or
- (b) 'W-8BEN (Certificate of Foreign Status)'—
- (b) Applies which applies to non-resident alien individuals, foreign corporations, partnerships and estates; and is valid for three calendar years.

Clearing Members may obtain originals of forms W-8BEN and W-9 from Treasury Operations.

**Note:** The Clearing House's arrangements with its Custodians only allow for securities holdings of US corporations or foreign (i.e. non-US) entities or individuals. Clearing Members who wish to discuss the possibility of lodging securities belonging to owners excluded from this arrangement should contact Treasury Operations.

Unless the Clearing House has already received the appropriate tax form, lodgements transfers into A/c #090401 or #735136 must be accompanied by form W-9 and lodgements transfers into A/c #090372 or #735137 normally by form W-8BEN.

**The Clearing House's acceptance of US securities does not indicate any responsibility for the adequacy or otherwise of tax documentation. Any queries in relation to these tax forms should be referred to your company accountant or professional advisers.**

Completed tax forms should be returned to Treasury Operations for onward transmission to ~~its~~ the Custodians.

#### 4.5.2 Italian Securities

For tax purposes the Clearing House operates an account with Euroclear Bank specifically for deliveries of Italian securities – account 91737.

This account is operated by the Clearing House in accordance with "Euroclear Procedures to Obtain Exemption from Italian Withholding Tax on Italian Domestic Debt Securities".

Beneficial owners are entitled to exemption at source from Italian Withholding Tax on Italian securities if they are:

- (a) resident in a country that has entered into a double taxation agreement with Italy (except Black list countries/countries that do not have a tax treaty with Italy); or
- (b) a corporation resident in Italy; or
- (c) a supranational organisation recognised by Italian Law.

Beneficial owners are required to supply duly completed and executed official forms as proof of eligibility of exemption, and where applicable supply additional documentation, before a delivery can be made into this account.

Official forms are available on request from the Treasury Operations Department.

Original forms are to be received by the Clearing House before Italian securities can be accepted within the gross account 91737.

The effective date depends on the type and terms of the security:

- Debt securities (BTPs, CCTs and CTOs)  
The new regime applies to the interest on these securities that starts to run on or after 1 January 1997, regardless of the issue date.
- Zero coupon debt securities with a maturity of less than one year (BOTs)  
The regime applies to all securities issued on or after 1 January 1997.

**Clearing Members should consult their own tax advisers before lodging Collateral to the Clearing House or submitting any tax documentation.**

#### 4.5.3 Withholding tax – CSDs/Custodians

CSDs/Custodians may offer a recovery service for overseas taxes on Government Bonds. The Clearing House will assist in the recovery process and remit to Clearing Members any recovery in withholding tax credited to the Clearing House's account by CSDs/custodians.

In certain cases the CSDs/custodian and Clearing House will withhold tax on a coupon if the correct documentation is not lodged with either CSDs/Custodian and the Clearing House at the time when a coupon is due.

#### 4.6 References

These procedures should be read in conjunction with the relevant user guides and/or manuals of the relevant CSD/custodian. Please also refer the each CSD/custodian for the relevant settlement deadlines in particular those for deliveries from local markets to Clearing House accounts.

#### 4.7 Contingency Arrangements

In the event of an outage of the Collateral Management system CMS, Clearing Members will be able to send instructions by fax to the Clearing House.

Clearing Member will be notified of a Collateral Management system CMS outage via Member Circular that will notify Clearing Members of the switch to contingency

arrangements. Clearing member should then revert to the fax forms for securities found in the annex.

Normal service hours and deadlines will apply to faxed instructions.

Clearing Members will be notified via Member Circular when normal service resumes.

#### 4.8 **Performance Bonds**

Clearing Members must first consult LCH.Clearnet Limited Treasury Operations ("Treasury Operations") about which issuing bank(s) they intend to use for the provision of a performance bond(s). Treasury Operations will advise on whether the proposed arrangements (bank(s) and size of performance bond) are acceptable or not.

When the arrangements have been agreed, a standard form available from Treasury Operations (Appendix 4A) should be completed by the issuing bank and returned to Treasury Operations.

If a Clearing Member chooses to cover house and client liabilities using performance bonds, separate performance bonds must be provided for each account. Each performance bond must state the type of account it covers.

The Clearing House gives no undertaking that on the default of a Clearing Member it will not call and utilise a performance bond provided to it before utilising any other form of cover the Clearing House may hold.

The Clearing House only accepts Performance Bonds from a limited range of issuers and limits are applied to the total accepted from any single issuer,

#### 4.9 **Lodgement Procedure**

By 16:30 hours the issuing bank delivers the performance bond to Treasury Operations.

If it is in an acceptable form, the performance bond will be entered into the Clearing Member's cover account.

If it is unacceptable, Treasury Operations will contact the issuing bank and the Clearing Member (beneficiary) to inform them that the performance bond has been rejected. The performance bond will not be entered into the Clearing Member's cover account in the banking system.

#### 4.10 **Amendment Procedure**

Amendment letters (see Appendix 4B) must be delivered to Treasury Operations before 16:30 hours on any business day. They can be sent by fax to the following number: +44 (0)20 7375 3518 or scanned and emailed to [teamcollateral@lchclearnet.com](mailto:teamcollateral@lchclearnet.com) [teamcollateral@lchclearnet.com](mailto:teamcollateral@lchclearnet.com).

Issuing banks should submit amendment letters, in duplicate, on their headed paper. Originals must be forwarded to the Clearing House within two business days of the fax transmission. The Clearing House will sign and return one original.

**4.11 Increase in Value of Performance Bonds**

Any Clearing Member wishing to increase the value of a performance bond must first establish whether the increase is within limits and is acceptable to Treasury Operations. If it is, the relevant amendment letters have to be completed and submitted to Treasury Operations by the issuing bank. Upon receipt of these letters (completed to the satisfaction of the Clearing House) increases in the value of the Clearing Member's performance bond (s) will be put into effect.

**4.12 Decrease in Value of a Performance Bond**

If the proposed decrease in the value of a performance bond leaves the Clearing Member with sufficient cover for liabilities and the relevant amendment letters are in acceptable form, the decrease in value will become effective. If the proposed decrease leaves the Clearing Member with insufficient cover, the cover balance will be reduced accordingly and the overnight cover calculation will assume the smaller amount. The Clearing House will not sign the amendment letter until the next morning's margin call is complete.

**4.13 Amendment of Term**

An amendment to the term will become effective when the Clearing House signs the amendment letter.

**4.14 Release Procedure**

By 16:30 hours the issuing bank should contact Treasury Operations to arrange for the release of the performance bond.

Under normal circumstances, fourteen calendar days' notice will be required in order to release the performance bond. However, if the performance bond is not being used to cover margins, it may, at the sole discretion of the Clearing House, be released earlier.

The performance bond will be amended in the Clearing Member's cover account to expire in fourteen calendar days, or at an earlier date if the Clearing House so permits.

On expiry or cancellation, the performance bond is returned to the issuing bank by the Clearing House.

**4.15 Expiry**

Overnight before the Termination Date of the performance bond its value will be deducted from the amount of cover available in the relevant Clearing Member's account.

**4.16 Triparty Service with Euroclear and Clearstream****4.16.1 General Information**

In order to pledge/transfer securities at the Clearing House using an ICSD Triparty arrangement, Clearing Members, the ICSD and the Clearing House must have completed and signed the relevant documentation. Please contact Treasury Operations on +44 (0)207 426 7237 for more information.

Clearing members may execute a 'Triparty' trade denominated in Euro, Sterling or United States Dollars to cover initial margin requirements at the Clearing House. Triparty instructions must be provided to the Clearing House via the Collateral Management system CMS.

Under the triparty arrangement beneficial ownership for all securities must belong to the clearing member.

The Clearing House recommends that Clearing Members prioritise Clearing House trades avoiding any calls for cash ~~calls. Cash calls~~ Collateral. Calls for cash Collateral in relation to deficits will be made on a separate buffer account within the Clearing House, this account will be set up for automatic repayment and will be interest bearing.

Clearing Members must use the relevant triparty forms found in the Appendices to this Section 4

**Note:** In these procedures, "S" refers to the settlement day, "S-1" to the working day before settlement day.

#### 4.16.2 Lodgement and Increase Procedure

	Last instruction deadline to the Clearing House for (London Time):	
	Euroclear Bank	Clearstream
Same day settlement	16.00	15.00
Next day settlement	16.00* (S-1)	15.00* (S-1)

\*The Clearing House will assume settlement of the transaction and include the amount ~~infor the purpose of calculating~~ the Clearing Member's ~~cover-account~~ Current Collateral Value for next day value only if the settlement instructions are matched by 17.30 (London time). The Clearing House will check that the transaction has been fulfilled by 08.00 on ~~Settlement Date~~ settlement date. Any shortfall will be called in cash via the PPS system and will not be returned the same day.

#### 4.16.3 Decrease and Closing Procedure

	Last instruction deadline to the Clearing House for (London Time):	
	Euroclear Bank	Clearstream
Same day settlement	16.00	15.00
Next day settlement	16.00 (S-1)	15.00 (S-1)

Sufficient ~~cover~~ Collateral:

Where the Clearing Member has sufficient ~~cover~~ Collateral available the release or closure of the triparty transaction will be processed on the same day and the

~~cover~~reduction will be taken into account ~~balance~~for the purpose of calculating the Clearing Member ~~will be decreased accordingly~~Member's Current Collateral Value.

Insufficient ~~cover~~Collateral:

Where the Clearing Member has insufficient ~~cover~~Collateral to release the triparty transaction the ~~cover account~~Clearing Member's Current Collateral Value will be deemed to be decreased overnight. The following morning the Clearing House will only release the triparty transaction after 09.00 when any PPS cash calls have been confirmed.

#### 4.17 **Precious Metals**

##### 4.17.1 General information

Only Clearing Members who have been approved to ~~clear LCH~~clear LCH EnClear OTC Contracts in the Precious Metals Division and/or HKMEx Service Clearing Members are eligible to provide Precious Metals as ~~a~~Collateral to cover liabilities.

Clearing Members may lodge Precious Metals in unallocated form via a London Precious Metals Clearing Ltd (LPMCL) Clearing Member (referred to as Collateral Agents in this procedure) by transferring to the LCH.Clearnet Ltd Unallocated Precious Metals account:

- Barclays Bank plc (SWIFT BARCGB22PMD)
- a/c LCH Collateral Account
- a/c 32989

Once the Clearing House has converted it into allocated form, the Precious Metals can then be used as ~~cover~~Collateral. The Clearing House Collateral Agent may allocate the Precious Metals to more than one vault and the value of the Precious Metals shall be determined by the Clearing House upon allocation.

In these procedures, "S" refers to settlement day, "S-1" to the business day prior to settlement day, "S+1" to the business day after the settlement day.

This service will not be operational on UK Bank Holidays.

Please refer Appendix 4M and 4N for information on Lodgement and Release forms.

##### 4.17.2 Lodgement Procedure

The Clearing Member should complete a separate Lodgement Form for each transfer of a precious metal lodgement to the Clearing House.

##### 4.17.3 Lodgement Form submitted on S

- (a) By 11:00 hours (London time) on S.

The Clearing Member must submit to the Clearing House a completed Lodgement Form (Appendix 4M) and ensure that a "pay" transfer instruction has been given to ~~their~~its Collateral Agent to credit the Clearing House's Unallocated Precious Metals account with its Collateral Agent.

Lodgement forms will not be accepted after 11:00 hours (London time) on S for lodgement that day.

(b) By 16:00 hours.

If the lodgement is approved the Clearing House will enter an unallocated precious metals transfer instruction to the Clearing House Collateral Agent to receive the Unallocated Precious Metal.

Upon approval of the lodgement it is the Clearing Member's responsibility to ensure that their Collateral Agent has entered a transfer instruction to pay the Clearing House.

The cut off time to match the unallocated gold bullion is 16:00 hours.

- (i) If the Clearing Member's transfer instruction fails to match the Clearing House's transfer instruction by 16:00, the Clearing House will withdraw its transfer instruction.
- (c) Once the transfer instructions have been matched and the Precious Metal credited to the Clearing House's account its Collateral Agent will, by the end of the day, allocate the Precious Metal.
  - (i) Only upon completion of the allocation of the precious metal is will value be given overnight to cover margin liabilities so that the precious metal will be taken into account for calculating the Clearing Member's Current Collateral Value on the following business day.

#### 4.17.4 Release Procedure

The Clearing Member should complete a separate Release Form for each request for a transfer of precious metal release request metals from the Clearing House.

##### 4.17.4.1 Release Form submitted on S-1

- (a) By 15:30 hours (London time) the day prior to release date (S-1), the Clearing Member must submit to Treasury Operations a completed Release Form (Appendix 4N) and ensure that a "receipt" transfer instruction has been given to their Collateral Agent to receive Precious Metal from the Clearing House's Unallocated Precious Metals account for the next value date (S):
- (b) The Clearing House will adjust the member's collateral calculation of the Clearing Member's Current Collateral Value based on their utilisation:
  - (i) Where the Precious Metal is utilised as to cover existing margin cover obligations, it may be released on S, provided that:
    - The Clearing Member has submitted a completed Release Form to the Collateral teams by 15:30 hours S-1 day; and
    - The Clearing House has received confirmation of any PPS Calls for cover from the PPS Banks and that all calls are met on S at 09:00.

#### 4.17.4.2 On S (Release day)

- (a) After 09:00 when any necessary overnight margin liabilities have been met, the Clearing House will submit transfer instructions to its Collateral Agent to credit the member's unallocated precious metals account ~~as per~~ on the basis of the details submitted in the Release form.
- (b) It is the Clearing Member's responsibility to ensure that its Collateral Agent matches this transfer as soon as possible.
  - (i) If ~~Members~~ Members fail to submit their transfer instructions and match with the Clearing House by 16:00, the Unallocated Gold Bullion will remain in the Clearing House's Unallocated account.

#### 4.17.5 Precious Metal Substitutions

Clearing Members wishing to substitute their utilised Precious Metal for alternative ~~e~~ Collateral types should follow the standard ~~L~~ lodgement procedures for the new ~~e~~ Collateral types. The new ~~e~~ Collateral should be of equal or greater value than the Precious Metal the Clearing Member is wishing to ~~withdrawn~~ have returned. Following a successful ~~Lodgement~~ lodgement ~~the of the alternative Collateral~~, the Clearing House will ~~withdraw~~ transfer the requested Precious Metal to the Clearing Member.

#### 4.17.6 Deliveries

Clearing Members wishing to deliver for settlement precious metals, which have been ~~lodged~~ transferred to the Clearing House as ~~e~~ Collateral, for a delivery will have to release the Precious Metals or perform a ~~e~~ Collateral substitution (cash or non-cash), as set out above. Clearing Members must familiarise themselves with the various options available and the timings that must be adhered to. Collateral Release Forms should be submitted **by latest 15:30 hours (London time)** on the day prior to delivery and ~~R~~ release. Failure to do so may result in the Clearing House being unable to release the Precious Metal in order for the Clearing Member to make delivery.

#### 4.17.7 Transfer and Custody fees

Clearing Members remain liable for any transfer and custody fees owed on the allocated precious metals held on the Clearing House account, as ~~e~~ Collateral with the Clearing House.

The Clearing House will invoice the custody fees associated with holding and allocating the unallocated precious metal to the Clearing member on a quarterly basis together with the unallocated precious metal transfer fees for both delivery and receipt.

The Clearing House invoices will be sent to members each quarter and will be called by PPS on the next business day.

#### 4.17.8 Special cases

##### 4.17.8.1 Suspension of Precious Metal:

The Clearing House may choose to limit the acceptance of certain types of Precious Metal from time to time as ~~margin collateral~~ Collateral in respect of Clearing Members' margin obligations at its discretion. Such limits may be based on precious metal source, type, location, brand or any other quality or characteristic that the Clearing House



deems appropriate, which includes any characteristics of the Clearing Members themselves.

If necessary the Clearing House will post a notice of the suspension/rejection on its website and the same procedure with regards to calling ~~cover-collateral~~ Collateral as per Collateral substitution will be followed.

#### 4.17.9 Intraday margin calls

Intraday Margin calls will continue to be fulfilled using cash via PPS within 1 hour.

**APPENDIX 4A**

**PERFORMANCE BOND FORM**

From: \_\_\_\_\_ Date: \_\_\_\_\_

On behalf of: \_\_\_\_\_

Account: \_\_\_\_\_

To: LCH.Clearnet Limited  
Aldgate House  
33 Aldgate High Street  
London EC3N 1EA

Attention: LCH.Clearnet Limited Treasury Operations

Dear Sirs

**PERFORMANCE BOND NO.....**

1. At the request of [.....] ("Clearing Member") and in consideration of LCH.Clearnet Limited ("the Clearing House") confirming or continuing the membership of the Clearing Member on such basis as the Clearing House may determine we hereby undertake to pay to the Clearing House on the Clearing House's written demand or demands from time to time without set-off or counterclaim or deduction such sum or sums (not exceeding in aggregate the amount and in the currency specified in the proviso below) as the Clearing House may certify in such demand as being any one or more of:
  - 1.1 a sum owed to the Clearing House by the Clearing Member and unpaid and/or the amount of any loss, damage, expense or cost of whatsoever nature suffered or incurred by the Clearing House as a result of the failure by the Clearing Member to pay any amounts due to the Clearing House, or
  - 1.2 the Clearing House's estimate of the amount likely to become due following any default by the Clearing Member, or
  - 1.3 the balance finally established by the Clearing House as being due from the Clearing Member to the Clearing House and which is in excess of any principal amount already paid to the Clearing House by us together with (but without prejudice to our obligation to make prompt payment) interest at the Specified Rate from the date of receipt by us of demand until the date of payment.
- 2 Any demand or demands hereunder shall be in the form of the Schedule, as nearly as circumstances admit and amended as appropriate.

- 3 Any demand of the nature set out in paragraph 1.2 above must state that it is an estimate and incorporate an undertaking to repay to us the excess (if any) of the amount paid by us over the amount of the liability of the Clearing Member when finally established together with interest on such excess from receipt thereof by the Clearing House until repayment to us. Such interest shall be calculated at the consecutive monthly deposit rates offered by HSBC Bank plc for equivalent amounts throughout the period in question.
- 4 Any such demands as aforesaid shall be conclusive evidence as between the Clearing House and us of our liability to the Clearing House for the amount stated therein, PROVIDED ALWAYS that:-
  - 4.1 Our maximum aggregate liability in respect of all demands hereunder shall not exceed [currency.....] [amount.....] exclusive of interest due in respect of late payment by us.
  - 4.2 This undertaking shall remain in force until the Termination Date, which shall be the earlier of:
    - 4.2.1 [.....]; or
    - 4.2.2 14.00 hours in London immediately following the expiry of 14 clear days' notice (disregarding the day of service itself) by us to the Clearing House in writing to that effect. We agree that any such notice to the Clearing House, marked for the attention of LCH.Clearnet Limited Treasury Operations, will be delivered by us to the Clearing House during its normal business hours for the conduct of such business at the Clearing House's address stated above (or at such address notified to us by the Clearing House in writing).
  - 4.3 After the Termination Date we shall not be liable except that in respect of a Clearing Member in relation to which a demand shall have been received by us (not being expressly described as a final demand pursuant to paragraph 1.3 above) prior to the Termination Date the Clearing House shall be entitled to make further demands (but not so as to cause our maximum aggregate liability hereunder to be exceeded) not later than 3 months from the Termination Date.
  - 4.4 Any demand must be received by us during our normal business hours for the conduct of such business and at [.....]  
 .....  
 .....  
 ](or such other address in London as we may from time to time notify you for the purpose and which you accept in writing) prior to the Termination Date or the expiry of the 3 month period mentioned in paragraph 3.3, where applicable.
- 5 For avoidance of doubt our liability hereunder shall not be affected by any time or indulgence given to or compounding with the Clearing Member or any illegality or invalidity in relation to the purported obligations to the Clearing House of the Clearing Member or by any changes from time to time in relation to any rules or regulations

from time to time affecting the Clearing House's relations with the Clearing Member or by any act matter or thing which but for this provision might have operated to exonerate us as a surety.

6 The expression "Specified Rate" shall mean:-

6.1 in relation to an amount expressed in Sterling, the Base Rate for the time being of HSBC Bank Plc, and

6.2 in relation to an amount expressed in another currency, the day to day Bid Rate quoted by HSBC Bank Plc at or about 11.00 hours in London for overnight deposits of such currency in the London Interbank Market.

7 This undertaking shall be governed by and construed in accordance with English Law. The International Standby Practices (ICC Publication ISP 98) apply except to the extent of any inconsistency with the terms of this letter.

Full Name: \_\_\_\_\_

Position: \_\_\_\_\_

Signed: \_\_\_\_\_

\* Insert 14.00 hours in London on specific termination date, if required. If no date is stated, the guarantee will remain in force until determined at 14.00 hours in London immediately after the expiry of 14 clear days' notice by us to the Clearing House in writing to that effect in accordance with paragraph 4.2.2 above.

**SCHEDULE**

**[On Clearing House Notepaper]**

To: **[NAME OF BANK]**

**[ADDRESS PER PARA 4.4 OF BOND]**

Dear Sirs

**[NAME OF CLEARING MEMBER] (the "Clearing Member")**

**PERFORMANCE BOND NO [.....]**

1. We refer to your Performance Bond referenced above. Terms defined in the Performance Bond have the same meanings where used in this letter.

2. **[WHERE DEMAND MADE UNDER PARAGRAPH 1.1 OF BOND]**

We now demand payment of [currency/amount]. We certify that this represents a sum owing to the Clearing House by the Clearing Member which remains unpaid and/or the amount of any loss, damage, expense or cost of whatsoever nature suffered or incurred by the Clearing House as a result of the failure by the Clearing Member to pay any amounts due to the Clearing House.

AND/OR

**[WHERE DEMAND MADE UNDER PARAGRAPH 1.2 OF BOND]**

We now demand payment of [currency/amount]. This represents our estimate of the amount likely to become due following a default by the Clearing Member. We confirm that this amount represents an estimate and we undertake to repay to you the excess (if any) of the amount paid by you over the amount of the liability of the Clearing Member when finally established. Any such refund shall be paid together with interest in compliance with the terms of paragraph 3 of the Performance Bond.

AND/OR

**[WHERE DEMAND MADE UNDER PARAGRAPH 1.3 OF BOND]**

We now demand payment of [currency/amount]. We certify that this represents the balance finally established by the Clearing House as the amount due from the Clearing Member to the Clearing House which is in excess of any amount paid by you to the Clearing House pursuant to paragraph 1.2 of the Performance Bond.

3. Payment should be made to our account as follows:

Bank:

Address:

Clearing Code:

Account Number:

[Other details as appropriate]

Yours faithfully

For and on behalf of

LCH Clearnet Limited

**APPENDIX 4B****GUARANTEE ("PERFORMANCE BOND") AMENDMENT FORM**

[Bank's Headed Paper]

Date:

To: LCH.Clearnet Limited  
 Aldgate House  
 33 Aldgate High Street  
 London EC3N 1EA

Re: Guarantee No: [ ]  
 Date of Issue: [ ]  
 Amount: [ ]  
 On behalf of: [Insert the Clearing Member's Name]  
 Account: [State "House" or "Client"]

In consideration of your continuing the membership of [ ] (the "Clearing Member") on such basis as you may determine, we hereby agree to amendments to the terms of the above mentioned guarantee (the "Performance Bond") as set out in this letter.

- \* Our maximum aggregate liability in respect of all demands under the Performance Bond, previously stated in the Performance Bond as [ ], shall be [increased] [decreased] to [ ], exclusive of interest due in respect of late payment by us. The period of our undertaking under the Performance Bond previously stated in the Performance Bond to terminate on [ ] shall be extended and such undertaking shall remain in force until [ ] unless otherwise terminated by notice as provided in the Performance Bond.
- \* The period of our undertaking under the Performance Bond previously stated in the Performance Bond to remain in force until 14 days' notice by us shall terminate on the earlier of [ ] or upon 14 days notice by us as provided in the Performance Bond.
- \* The period of our undertaking under the Performance Bond previously stated in the Performance Bond to terminate on [ ] shall continue until the expiry of 14 days' notice by us to you in writing to the effect that the Performance Bond shall expire upon the date specified in such notice.

The amendments agreed between us and set out in this letter shall come into effect upon the date of your signing and returning the attached copy letter to us. This letter amends, supplements and shall be construed as part of the Performance Bond. Subject to the amendments set out in this letter, the Performance Bond shall remain in full force and effect.

This letter shall be governed by and construed in accordance with English law.

(\*) One or more of these paragraphs to be included as applicable.

Signed: \_\_\_\_\_

**Guarantee ("Performance Bond") Amendment Form**

[Bank's Headed Paper]

Date:

To: LCH.Clearnet Limited  
 Aldgate House  
 33 Aldgate High Street  
 London EC3N 1EA

Re: Guarantee No: [ ]  
 Date of Issue: [ ]  
 Amount: [ ]  
 On behalf of: [Insert the Clearing Member's Name]  
 Account: [State "House" or "Client"]

In consideration of your continuing the membership of [ ] (the "Clearing Member") on such basis as you may determine, we hereby agree to amendments to the terms of the above mentioned guarantee (the "Performance Bond") as set out in this letter.

- \* Our maximum aggregate liability in respect of all demands under the Performance Bond, previously stated in the Performance Bond as [ ], shall be [increased] [decreased] to [ ], exclusive of interest due in respect of late payment by us.
- \* The period of our undertaking under the Performance Bond previously stated in the Performance Bond to terminate on [ ] shall be extended and such undertaking shall remain in force until [ ] unless otherwise terminated by notice as provided in the Performance Bond.
- \* The period of our undertaking under the Performance Bond previously stated in the Performance Bond to remain in force until 14 days' notice by us shall terminate on the earlier of [ ] or upon 14 days notice by us as provided in the Performance Bond.
- \* The period of our undertaking under the Performance Bond previously stated in the Performance Bond to terminate on [ ] shall continue until the expiry of 14 days' notice by us to you in writing to the effect that the Performance Bond shall expire upon the date specified in such notice. The amendments agreed between us and set out in this letter shall come into effect upon the date of your signing and returning the attached copy letter to us. This letter amends, supplements and shall be construed as part of the Performance Bond. Subject to the amendments set out in this letter, the Performance Bond shall remain in full force and effect.

This letter shall be governed by and construed in accordance with English law.

(\* One or more of these paragraphs to be included as applicable.)

Signed: \_\_\_\_\_



ON DUPLICATE

We have read the above letter and agree to its terms.

For and on behalf of LCH.Clearnet Limited

Signature: \_\_\_\_\_

Name/Position: \_\_\_\_\_

Date: \_\_\_\_\_

**APPENDIX 4C**

**CLIENT CONSENT FORM**

Client Consent Form can be found at the following link:

[http://www.lchclearnet.com/Images/Client%20Consent%20Form\\_tcm6-60957.pdf](http://www.lchclearnet.com/Images/Client%20Consent%20Form_tcm6-60957.pdf)

**APPENDIX 4DF**

**CONTINGENCY MEMBER TRIPARTY LODGEMENT FORM**



**MEMBER TRIPARTY LODGEMENT FORM**

**EUROCLEAR**

Version 1: July 2007

To LCH.Clearnet Limited ("the Clearing House")

LCH.Clearnet Limited RefNo: 00001ATS

From Clearing Member (full name) \_\_\_\_\_

House/Client\* Mnemonic \_\_\_\_\_ \*Please delete as appropriate

We are entitled to the entire beneficial interest in these securities.

We acknowledge that these securities may be held by any custodian in any depository, securities clearing or settlement system (in the United Kingdom or elsewhere) which may for the time being be customarily used in connection with securities of similar kinds on a fungible basis and subject to the rules of the relative system and the terms and conditions of its operator, and the Clearing House has no responsibility for the performance of any such custodian, system or operator and in particular we consent to the securities being held in the Euroclear clearance system subject to fungibility regime organised by the Belgian Royal Decree No.62 of 10 November 1967 promoting the circulation of securities as amended from time to time.

Execution Date	Currency	Nominal Amount	Collateral Giver Account Number	Collateral Taker Account Number

Signatories for and on behalf of  
The Clearing Member

1. \_\_\_\_\_  
(Signature) (Print Name) (Position)

2. \_\_\_\_\_  
(Signature) (Print Name) (Position)

Date: \_\_\_\_\_

**APPENDIX 4EG**

**CONTINGENCY MEMBER TRIPARTY AMENDMENT FORM**



**MEMBER TRIPARTY AMENDMENT FORM**

**EUROCLEAR**

Version 1: May 2007

To LCH.Clearnet Limited ("the Clearing House")

From Clearing Member (full name) \_\_\_\_\_

House/Client\* Mnemonic \_\_\_\_\_ \*Please delete as appropriate

We are entitled to the entire beneficial interest in these securities.

We acknowledge that these securities may be held by any custodian in any depository, securities clearing or settlement system (in the United Kingdom or elsewhere) which may for the time being be customarily used in connection with securities of similar kinds on a fungible basis and subject to the rules of the relative system and the terms and conditions of its operator, and the Clearing House has no responsibility for the performance of any such custodian, system or operator and in particular we consent to the securities being held in the Euroclear clearance system subject to fungibility regime organised by the Belgian Royal Decree No.62 of 10 November 1967 promoting the circulation of securities as amended from time to time.

Execution Date	Lodgement Number	Increase/Decrease	Amount of Increase/Decrease	Currency	New Nominal Amount	Collateral Giver Account Number	Collateral Taker Account Number

Signatories for and on behalf of The Clearing Member

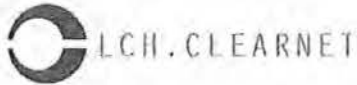
1. \_\_\_\_\_  
 (Signature) (Print Name) (Position)

2. \_\_\_\_\_  
 (Signature) (Print Name) (Position)

Date: \_\_\_\_\_

**APPENDIX 4FH**

**CONTINGENCY MEMBER TRIPARTY CLOSING FORM**



**MEMBER TRIPARTY CLOSING FORM**

**EUROCLEAR**

Version 1: May 2007

To LCH.Clearnet Limited ("the Clearing House")

From Clearing Member (full name) \_\_\_\_\_

House/Client\* Mnemonic \_\_\_\_\_ \*Please delete as appropriate

Lodgement Number	Closing Date & Execution Date	Currency	Nominal Amount	Collateral Giver Account Number	Collateral Taker Account Number

Signatories for and on behalf of  
The Clearing Member

1. \_\_\_\_\_  
(Signature) (Print Name) (Position)

2. \_\_\_\_\_  
(Signature) (Print Name) (Position)

Date: \_\_\_\_\_

**APPENDIX 4G**

**CONTINGENCY MEMBER TRIPARTY LODGEMENT FORM**



**MEMBER TRIPARTY LODGEMENT FORM**

**CLEARSTREAM**

Version 1: July 2007

To LCH.Clearnet Limited ("the Clearing House")

LCH.Clearnet Limited Ref No:

From Clearing Member (full name) \_\_\_\_\_

House/Client\* Mnemonic \_\_\_\_\_ \*Please delete as appropriate

We are entitled to the entire beneficial interest in these securities.

We acknowledge that these securities may be held by any custodian in any depository, securities clearing or settlement system (in the United Kingdom or elsewhere) which may for the time being be customarily used in connection with securities of similar kinds on a fungible basis and subject to the rules of the relative system and the terms and conditions of its operator, and the Clearing House has no responsibility for the performance of any such custodian, system or operator and in particular we consent to the securities being held in the Clearstream clearance system subject to the fungibility regime organised by the Luxembourg Law of 1 August 2001 on the circulation of securities and other financial instruments as amended from time to time.

Execution Date	Currency	Nominal Amount	Collateral Giver Account Number	Collateral Taker Account Number

Signatories for and on behalf of  
The Clearing Member

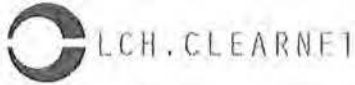
1. \_\_\_\_\_  
(Signature) (Print Name) (Position)

2. \_\_\_\_\_  
(Signature) (Print Name) (Position)

Date: \_\_\_\_\_

**APPENDIX 4H**

**CONTINGENCY MEMBER TRIPARTY AMENDMENT FORM**



**MEMBER TRIPARTY AMENDMENT FORM**

**CLEARSTREAM**

Version 1: May 2007

To LCH.Clearnet Limited ("the Clearing House")

From Clearing Member (full name) \_\_\_\_\_

House/Client\* Mnemonic ..... \*Please delete as appropriate

We are entitled to the entire beneficial interest in these securities.

We acknowledge that these securities may be held by any custodian in any depository, securities clearing or settlement system (in the United Kingdom or elsewhere) which may for the time being be customarily used in connection with securities of similar kinds on a fungible basis and subject to the rules of the relative system and the terms and conditions of its operator, and the Clearing House has no responsibility for the performance of any such custodian, system or operator and in particular we consent to the securities being held in the Clearstream clearance system subject to the fungibility regime organised by the Luxembourg Law of 1 August 2001 on the circulation of securities and other financial instruments as amended from time to time.

Execution Date	Lodgement Number	Increase/Decrease	Amount of Increase/Decrease	Currency	New Nominal Amount	Collateral Giver Account Number	Collateral Taker Account Number

Signatories for and on behalf of  
The Clearing Member

1. \_\_\_\_\_  
(Signature) (Print Name) (Position)

2. \_\_\_\_\_  
(Signature) (Print Name) (Position)

Date: \_\_\_\_\_

**APPENDIX 4I**

**CONTINGENCY MEMBER TRIPARTY CLOSING FORM**



**MEMBER TRIPARTY CLOSING FORM**

**CLEARSTREAM**

Version 1: May 2007

To LCH.Clearnet Limited ("the Clearing House")

From Clearing Member (full name) \_\_\_\_\_

House/Client\* Mnemonic \_\_\_\_\_ \*Please delete as appropriate

Lodgement Number	Closing Date & Execution Date	Currency	Nominal Amount	Collateral Giver Account Number	Collateral Taker Account Number

Signatories for and on behalf of The Clearing Member

1. \_\_\_\_\_  
(Signature) (Print Name) (Position)

2. \_\_\_\_\_  
(Signature) (Print Name) (Position)

Date: \_\_\_\_\_



**APPENDIX 4J**

**CONTINGENCY COLLATERAL LODGEMENT FORM**



LCH.CLEARNET

**CONTINGENCY COLLATERAL LODGEMENT FORM**

Version 1: December 2011

To: LCH.Clearnet Limited (the "Clearing House") LCH.Clearnet Limited Ref No:

From: Clearing Member (full name).....

House/Client/Buffer\* Mnemonic: ..... \*Please delete as appropriate

We are/A client is\* entitled to the entire beneficial interest in these securities. (If a client is entitled to the entire beneficial interest, a Client Consent Form must be completed by the client and submitted to the Clearing House.)

\*Please delete as appropriate

Beneficial Owner Name (full name) \_\_\_\_\_

We acknowledge that these securities may be held by any custodian in any depository, securities clearing or settlement system (in the United Kingdom or elsewhere) which may for the time being be customarily used in connection with securities of similar kinds on a fungible basis and subject to the rules of the relative system and the terms and conditions of its operator, and the Clearing House has no responsibility for the performance of any such custodian, system or operator and in particular we consent to the securities being held in the Euroclear clearance system subject to the fungibility regime organised by the Belgian Royal Decree No. 62 of 10 November 1967 promoting the circulation of securities as amended from time to time.

Security Code Number	Settlement Date	Trade Date	Amount/Nominal Value	Description of Security
----------------------	-----------------	------------	----------------------	-------------------------

Delivery from: Depository/Agent

(for US Securities, Broker Code):

Account Holder:

Account Number:

Beneficial Owner Italian Tax ID:

Delivery to:

BONY (US Owners)	BONY (Non-US Owners)	Citibank (US Owners)	Citibank (Non-US Owners)	Euroclear Bank (Global)	Euroclear Bank (Italian)	Euroclear UK & Ireland (Crestco)
735136	735137	090401	090372	91205	91737	5165


Signatories for and on behalf of the Clearing Member:

1. (Signature) (Print Name) (Position)
2. (Signature) (Print Name) (Position)

Date:

**APPENDIX 4K**

**CONTINGENCY COLLATERAL RELEASE FORM**

 <span style="font-size: 24px; font-weight: bold; vertical-align: middle;">LCH.CLEARNET</span>				
<p><b>CONTINGENCY COLLATERAL RELEASE FORM</b></p> <p style="text-align: right;">Version 1: February 2011</p>				
<p>To: LCH.Clearnet Limited (the "Clearing House")</p> <p>From: Clearing Member (full name).....</p> <p>House/Client Account                      Mnemonic: .....                      *Please delete as appropriate</p> <p>We hereby request you to release the securities described below.</p>				
<p><b>Security Code Number</b> (e.g.: ISIN)</p>	<p><b>Delivery Date</b></p>	<p><b>Trade Date</b></p>	<p><b>Amount/Nominal Value(Issue - Coupon - Maturity)</b></p>	<p><b>Description of Security</b></p>
<p>(The Clearing House Ref No: ..... (from lodgement form)</p> <p>Delivery to: Depository/Agent</p> <p>US Securities, Broker Code</p> <p>Account Holder:</p> <p>Account Number</p>				
<p>Signatories for and on behalf of the Clearing Member:</p> <p style="margin-left: 100px;">1.                      (Signature)                      (Print Name)                      (Position)</p> <p style="margin-left: 100px;">2.                      (Signature)                      (Print Name)                      (Position)</p> <p style="margin-left: 100px;">Date:</p>				
<p>To: THE ABOVE-NAMED CLEARING MEMBER</p> <p style="margin-left: 40px;">The release of the above-mentioned securities is agreed.</p> <p>For and on behalf of LCH.Clearnet Limited                      Date                      Time</p> <p>(Authorised Signatory)</p>				

**APPENDIX 4L****LCH.CLEARNET ACCOUNTS FOR DELIVERY OF MARGIN COLLATERAL EXCLUDING FCM CLIENT**

	Margin Collateral						
	Bank of New York		Citibank		Euroclear Bank		Euroclear UK & Ireland
	735136	735137	090401	090372	91205	91737	5165
Australia					X		
Austria					X		
Belgium					X		
Canada					X		
Denmark					X		
EUR Agencies					X		
Finland					X		
France					X		
Germany					X		
Italy						X	
Japan					X		
Luxembourg					X		
Netherlands					X		
Norway					X		
Spain					X		
Sweden					X		
United Kingdom							X
United States	X	X	X	X			
US Agencies	X	X	X	X			

**APPENDIX 4M**

**PRECIOUS METAL COLLATERAL LODGEMENT FORM**



**Precious Metal Collateral Lodgement Form**

Version 11: April 2011

LCH.Clearnet Limited Ref No: \_\_\_\_\_

To: LCH.Clearnet Limited (the "Clearing House")

From Clearing Member (full name): \_\_\_\_\_

House/Client Account\* Mnemonic: \_\_\_\_\_ \*Please delete as appropriate

We are entitled to the entire beneficial interest in the Precious Metal described below and wish to provide it by way of security for the arrangements described in this Lodgement Form

We acknowledge that (i) the Precious Metals may be held by the Clearing House in an unallocated account and/or through an allocated account via vault of the Clearing House held with or through an institution ("LPMCL Precious Metals Agent") which is a member of London Precious Metals Clearing Limited ("LPMCL"), (ii) the Precious Metals may be held subject to the terms of AURUM (the electronic matching and settlement system operated by LPMCL), (iii) the Clearing House has no responsibility for the performance of, or any default on the part of, any such LPMCL Precious Metals Agent, LPMCL or any associated custodian, system or operator and (iv) we consent to the Precious Metals being held in or through an unallocated and/or allocated account on the terms just described.

Description of Precious Metal	Weight Oz (round 400oz lots, minimum 10,000oz)	Lodgement date	Member Ref

AURUM Client name	AURUM Client ID	AURUM Client Account Ref	AURUM members Clearer ID

AURUM account details	
Clearing House Account No	To Barclays Bank plc (SWIFT BARCGB22PMD) a/c LCH Collateral Account a/c 32989

Signatories for and on behalf of the Clearing Member:

1. \_\_\_\_\_  
(Signature) (Print Name) (Position)

2. \_\_\_\_\_  
(Signature) (Print Name) (Position)

Date: \_\_\_\_\_

To: **THE ABOVE-NAMED CLEARING MEMBER**

We accept the Precious Metal as "Charged Property" transferred to us under the Charge over Precious Metals which you have executed in our favour and, where necessary or appropriate for these purposes, the Precious Metal shall be included in the Schedule to the Form of Charge over Precious Metals as Charged Property in order to complete the collateral arrangements.

For and on behalf of LCH Clearnet Limited Date: \_\_\_\_\_ Time: \_\_\_\_\_

(Authorised Signatory): \_\_\_\_\_

**APPENDIX 4N**


	<p><b>Precious Metal Collateral Release Form</b></p> <p>Version 11: April 2011</p> <p>LCH.Clearnet Limited Ref No: _____</p>								
<p>To: LCH.Clearnet Limited (the "Clearing House")</p> <p>From Clearing Member (full name): _____</p>									
<p><b>House/Client Account*</b></p>	<p><b>Mnemonic:</b> _____</p>								
<p><small>*Please delete as appropriate</small></p>									
<p>We hereby request you to delete the Precious Metal described below from The Schedule of the Charge over Precious Metals which we have executed in your favour.</p>									
<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: center;">Description of Precious Metal</th> <th style="text-align: center;">Weight Oz (round 400oz lots, minimum 10,000oz)</th> <th style="text-align: center;">Release date</th> <th style="text-align: center;">Member Ref</th> </tr> </thead> <tbody> <tr> <td style="height: 20px;"> </td> <td> </td> <td> </td> <td> </td> </tr> </tbody> </table>	Description of Precious Metal	Weight Oz (round 400oz lots, minimum 10,000oz)	Release date	Member Ref					
Description of Precious Metal	Weight Oz (round 400oz lots, minimum 10,000oz)	Release date	Member Ref						
<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: center;">AURUM Client name</th> <th style="text-align: center;">AURUM Client ID</th> <th style="text-align: center;">AURUM Client Account Ref</th> <th style="text-align: center;">AURUM members Clearer ID</th> </tr> </thead> <tbody> <tr> <td style="height: 20px;"> </td> <td> </td> <td> </td> <td> </td> </tr> </tbody> </table>	AURUM Client name	AURUM Client ID	AURUM Client Account Ref	AURUM members Clearer ID					
AURUM Client name	AURUM Client ID	AURUM Client Account Ref	AURUM members Clearer ID						
<p><b>AURUM account details</b></p>									
<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 30%;"> <p>Clearing House Account No</p> </td> <td> <p>To Barclays Bank plc (SWIFT BARCGB22PMD) a/c LCH Collateral Account a/c 32989</p> </td> </tr> </table>	<p>Clearing House Account No</p>	<p>To Barclays Bank plc (SWIFT BARCGB22PMD) a/c LCH Collateral Account a/c 32989</p>							
<p>Clearing House Account No</p>	<p>To Barclays Bank plc (SWIFT BARCGB22PMD) a/c LCH Collateral Account a/c 32989</p>								
<p>Signatories for and on behalf of the Clearing Member:</p> <p>1. _____</p> <p style="margin-left: 150px;">(Signature)                      (Print Name)                      (Position)</p> <p>2. _____</p> <p style="margin-left: 150px;">(Signature)                      (Print Name)                      (Position)</p> <p>Date: _____</p>									
<p>To: <b>THE ABOVE-NAMED CLEARING MEMBER</b></p> <p>The deletion of the above-mentioned Precious Metal from The Schedule of the Charge over Precious Metals which you have executed in our favour is agreed.</p> <p>For and on behalf of LCH Clearnet Limited                      Date: _____                      Time: _____</p> <p>(Authorised Signatory): _____</p> <p>Registered in England No. 25932 Registered Office: Aldgate House, 33 Aldgate High Street, London EC3N 1EA Recognised as a Clearing House under the Financial Services and Markets Act 2000.                      LCH.CLEARNET LIMITED COPY</p>									

Exhibit A-10

Section 8 of the Clearing House Procedures

**SECTION 8**

**CONTENTS**

8.	DISCIPLINARY PROCEEDINGS .....	2
8.1	SCOPE OF THIS PROCEDURE.....	2
8.2	INVESTIGATION PROCEDURE.....	2
8.3	IMMEDIATE MEASURE .....	7
8.4	SANCTIONS.....	8
8.5	DISPUTING A DECISION.....	8
8.6	REPORTING AND PUBLICATION .....	9
8.7	INFRINGEMENT OF APPLICABLE LAW.....	9

## 8. **DISCIPLINARY PROCEEDINGS**

### 8.1 **SCOPE OF THIS PROCEDURE**

All Clearing Members are subject to Disciplinary Proceedings pursuant to Section 8 of these Procedures (the "**Disciplinary Procedures**").

Any alleged breach by a Clearing Member of an obligation set out in the Rulebook (the "**Alleged Breach**") may be dealt with in accordance with the provisions of these Disciplinary Procedures.

These Disciplinary Procedures are without prejudice to:

- (a) any action and/or measures that may be taken by the Clearing House based on any other procedure set out in the Rulebook including, without limitation, the right of the Clearing House to issue a Default Notice under the Default Rules;
- (b) the Clearing House's right to take no action where it considers that taking action would be disproportionate or otherwise, in its discretion;
- (c) any provision of Applicable Law concerning enforcement by the Regulatory Body.

### 8.2 **INVESTIGATION PROCEDURE**

Subject to the provisions of Paragraph 8.3, the investigation of an Alleged Breach pursuant to these Disciplinary Proceedings shall be handled in accordance with this Paragraph 8.2.

#### (a) Opening of the Investigation Procedure

When the Clearing House commences proceedings to investigate an Alleged Breach:

- (i) the Clearing House shall send a written notice to the Clearing Member, setting out details of the Alleged Breach, including a summary of the facts relied on in sufficient detail for a reasonable person in the Clearing Member's position to properly understand and respond to the allegations made against it;
- (ii) the Clearing House shall identify a suitably senior representative of any entity of the LCH.Clearent group organisation that shall lead the investigation procedure on behalf of the Clearing House and shall inform the Clearing Member who this representative will be in the written notice which is sent in accordance with sub-paragraph (i) above;
- (iii) Following receipt of the written notice sent in accordance with sub-paragraph (i) above, the Clearing Member shall be permitted to (x) raise objections in writing to the Alleged Breach of which it has been notified and/or (y) raise objections to the identity of the representative that is to lead the investigation procedure, on grounds of conflicts of interest, within 48 hours. Where an objection is raised, either the Chief Executive Officer of the Clearing House or the Chief Compliance



Officer shall discuss the perceived conflict of interest with the Clearing Member within 24 hours and shall make a decision on whether an alternative representative needs to be identified for the purposes of sub-paragraph (ii) above;

- (iv) the Clearing Member shall be required to provide any information, copies or records and documents that may be reasonably requested, in connection with the examination of the Alleged Breach, to the Clearing House, save that the Clearing Member shall not be compelled to disclose any information which it is prohibited from disclosing by virtue of Applicable Law or regulation, as a result of agreements signed with third parties or as a result of legal professional privilege (in which case the Clearing Member shall provide the Clearing House with proof of such prohibition). The Clearing Member is permitted to request that the Clearing House provides to it copies of the documentation it relies on during the investigation, provided that the Clearing House shall not be required to reveal any information which it deems to be confidential;
- (v) the Clearing House may send a representative (being either the representative identified as leading the investigation procedure on behalf of the Clearing House or another representative) to the Clearing Member's offices at any time during normal business hours, having provided reasonable notice (being proportionate to the seriousness of the Alleged Breach) to the Clearing Member as part of the investigation procedure. The Clearing Member shall only be entitled to refuse access to such representative in the event of a substantiated conflict of interest. The Clearing Member shall make available all information, records, and documents kept by the Clearing Member, that may be reasonably required for the examination of the Alleged Breach, to the Clearing House's representative; and
- (vi) the Clearing Member shall exercise best endeavours to procure the attendance of any of its directors, officers, employees, agents and representatives, as may be reasonably requested, at a specified time on reasonable notice (at either the offices of the Clearing House or those of the Clearing Member) in order to answer questions or provide explanations that may be relevant for the examination of the Alleged Breach.

(b) Report

Following the conclusion of the investigation procedure, the Clearing House shall: (i) notify the Clearing Member; and (ii) produce a written report (the "Report") in relation to the Alleged Breach and provide it to the Clearing Member, within no more than 14 days as from the notification by the Clearing House of the conclusion of the investigation procedure.

The Report shall contain the findings of the investigation, reference the provision of the Rulebook allegedly breached by the relevant Clearing Member and indicate the Clearing House's intended course of action in relation to the Alleged Breach, being either:

- (i) to proceed with Disciplinary Proceedings, in accordance with these Disciplinary Procedures, if the Clearing House believes there to be prima facie evidence of the Alleged Breach having been committed;
- (ii) to discontinue these Disciplinary Proceedings and refer the matter to the Chief Executive Officer of the Clearing House to take action in accordance with the provisions of the Rulebook if the Clearing House believes there to be prima facie evidence of the Alleged Breach having been committed but the sanctions set out in Paragraph 8.4 of these Disciplinary Procedures are, in the Clearing House's reasonable opinion, inadequate; or
- (iii) to take no further action.

(c) Disciplinary Committee Formation

Where the Clearing House determines that it wishes to proceed with Disciplinary Proceedings in accordance with Paragraph 8.2(b)(i) above, it will convene a "**Disciplinary Committee**" consisting of:

- (i) The Chairman of the Risk Committee of the Clearing House, or his representative;
- (ii) The Chief Compliance Officer, or his representative;
- (iii) The Chief Risk Officer, or his representative, and
- (iv) Two members of the Executive Committee of LCH.Clearnet Group Limited.

Details of the precise composition of the Disciplinary Committee shall be provided to the Clearing Member as part of the Report, as appropriate.

(d) Clearing Member Response

The Clearing Member shall respond to the Disciplinary Committee, within 14 days of receiving a Report which indicates that the Clearing House intends to proceed with Disciplinary Proceedings, providing a statement of defence responding to the allegations.

If no response has been received by the Disciplinary Committee within 14 days or such extended period as has been agreed between the Clearing Member and the Disciplinary Committee, the Clearing House shall be relieved of its obligations to follow the remaining steps of the investigation procedure (as set out in Paragraph 8.2(e) below) and the Disciplinary Committee may instead make a determination in respect of the Alleged Breach and issue its Recommendation to the Clearing House as provided for in Paragraphs 8.2(g) and 8.2(h) below.

(e) Exploratory Meetings

Once the Clearing Member has responded to the Report, either the Clearing Member or the Disciplinary Committee can, within 7 days, request a meeting with the other party to ask further questions and discuss the Alleged Breach (the "Meeting").

Unless otherwise agreed between the Clearing Member and the Disciplinary Committee, the Meeting will be held at the Clearing House's offices in London, provided that, if appropriate, the Meeting may take place at the Clearing House's offices in New York, within 14 days from the request for a Meeting.

The Disciplinary Committee and the relevant Clearing Member are each entitled to bring to the Meeting any person relevant to the Disciplinary Proceedings which includes but is not limited to the following:

- (i) relevant experts;
- (ii) legal advisors; and
- (iii) accounting advisors.

the Clearing House and/or the Clearing Member shall only be entitled to object to the attendance by any of the above if there is a substantiated conflict of interest.

The Disciplinary Committee shall, in addition, invite the Clearing House representative that led the investigation procedure to attend the Meeting.

The Disciplinary Committee shall, subject to the provisions of these Disciplinary Proceedings, decide upon its own procedure for conducting the Meeting and considering and determining the matters to be discussed in the course of the Meeting, on the basis of the Report, the Clearing Member's response to the Report, and such other information and documentation as the Disciplinary Committee considers appropriate. A secretary will be appointed to keep minutes of the Meeting.

The Disciplinary Committee may reasonably request further or other documentation and information from the Clearing Member, save that the Clearing Member shall not be compelled to disclose any information which it is prohibited from disclosing by virtue of Applicable Law or regulation, as a result of agreements signed with third parties or as a result of legal professional privilege (in which case the Clearing Member shall provide the Clearing House with proof of such prohibition).

The matters discussed at the Meeting are confidential. The Disciplinary Committee and the Clearing Member must ensure that any persons attending the Meeting are subject to a confidentiality agreement.

To ensure the efficiency of the Meeting, neither the Disciplinary Committee nor the Clearing Member shall bring more than six representatives, unless otherwise agreed.

(f) Determination

Having considered the Report, the Clearing Member's response to the Report, any other information and documentation provided to the Disciplinary Committee in accordance with Paragraph 8.2(e) above and conducted the Meeting, the Disciplinary Committee must determine whether, in its view, the Alleged Breach has been committed.

The Disciplinary Committee shall make its determination, in accordance with this Paragraph 8.2(f), by a majority of the attendees, provided that no determination shall be made without a quorum of three (3) Disciplinary Committee members being in attendance.

In the event of a tie, the Chairman shall have a casting vote.

For the avoidance of doubt, the Disciplinary Committee shall not be bound to comply with any rule of Applicable Law or court procedure in respect of the admissibility of evidence and may, in its discretion, accept, any finding of fact by:

- (i) a relevant Regulatory Body;
- (ii) a Governmental Authority; or
- (iii) the courts of England and Wales in connection with a Dispute.

(g) Recommendation

Within 7 days of the later of:

- (i) the Clearing Member's response to the Report; and
- (ii) the date of the Meeting, if applicable,

the Disciplinary Committee shall communicate its determination, made in accordance with Paragraph 8.2(f) above, to the Clearing House (the "**Recommendation**").

The Disciplinary Committee shall set out in its Recommendation the grounds on which the Disciplinary Committee has determined that the Alleged Breach has or has not been committed and its proposal as to the sanctions, if any, that should be imposed by the Clearing House upon the Clearing Member pursuant to Paragraph 8.4 of these Disciplinary Procedures.

This Paragraph 8.2(g) is without prejudice to the rights of the Disciplinary Committee to recommend that these Disciplinary Proceedings be discontinued and refer the matter to the Chief Executive Officer of the Clearing House to take action in accordance with the provisions of the Rules if the Disciplinary Committee has determined that the Alleged Breach has been committed but the sanctions set out in Paragraph 8.4 of these Disciplinary Procedures are, in the Disciplinary Committee's reasonable opinion, inadequate

(h) Decision Notice

Following receipt of a Recommendation, pursuant to Paragraph 8.2(g) above, the Clearing House must decide whether or not to sanction the Clearing Member in accordance with Paragraph 8.4 of these Disciplinary Procedures or otherwise in accordance with the provisions of the Rules.

For the avoidance of doubt, the Clearing House shall not be bound by the terms of the Recommendation of the Disciplinary Committee.

A decision by the Clearing House in accordance with this Paragraph 8.2(h) will be made by the Chief Executive Officer of the Clearing House or another suitably senior executive of the Clearing House.

Within 14 days of receiving a Recommendation, the Clearing House must notify the Clearing Member of its decision by registered mail to the address notified to the Clearing House in its admission application (the "**Decision Notice**").

A Decision Notice shall include details of the grounds on which the Clearing House has come to its decision and the sanction(s), if any, to be imposed against the Clearing Member by the Clearing House pursuant to Paragraph 8.4 below or otherwise in accordance with the provisions of the Rules.

(i) Action

Notwithstanding any decision by the Clearing House to convene a Disciplinary Committee and proceed with Disciplinary Proceedings in accordance with Paragraphs 8.2(c) to 8.2(i) above, the Clearing House may at any time choose to:

- (i) discontinue the Disciplinary Proceedings;
- (ii) determine that, in light of the relevant facts and circumstances, no sanction should be imposed upon the relevant Clearing Member pursuant to Paragraph 8.4 below or otherwise in accordance with the provisions of the Rules;
- (iii) take alternative action in accordance with the provisions of the Rules (including, without limitation, suspension or termination of the Clearing Member's membership of the Clearing House pursuant to the Rulebook and/or the issuance of a Default Notice in respect of such Clearing Member in respect of the Clearing Member pursuant to the Default Rules), in which case the Clearing House shall be deemed to have instituted Disciplinary Proceedings in respect of the Alleged Breach; or
- (iv) amend the scope of matters being considered by the Disciplinary Committee by amending the Report to add, delete or alter any detail of the Alleged Breach or to add detail of an additional Alleged Breach. For the avoidance of doubt, where the Report is amended in this way, the provisions of this Paragraph 8.2 will apply (and, unless otherwise agreed between the Clearing Member and the Disciplinary Committee, any timing specified in this Paragraph 8.2 will restart) in respect of the amended Report.

### 8.3 **IMMEDIATE MEASURE**

Where the Alleged Breach comprises a breach of:

- (a) any of a Clearing Member's obligations set out in the Rulebook when such breach constitutes a threat to the integrity or safety of the Clearing House or increases the risk exposure of the Clearing House or other Clearing Members;

- (b) a Clearing Member's obligation to satisfy the relevant membership criteria pursuant to Section 1 of the Procedures;
- (c) a Clearing Member's obligation to provide information and reporting to the Clearing House pursuant to Section 1 of the Procedures;
- (d) a Clearing Member's obligations to submit its clearing activity to audits and inspections pursuant to Section 1 of the Procedures;
- (e) a Clearing Member's obligations to satisfy its record keeping requirements pursuant to Section 1 of the Procedures;
- (f) a Clearing Member's obligation to ~~FURNISH~~transfer Collateral to the Clearing House ~~with Margin~~ by the required time in accordance with Regulation 12 of the Rulebook and Section 3 of the Procedures,

the Chief Executive Officer of the Clearing House or the Chief Compliance Officer shall be entitled at their sole discretion to, (a) issue a letter to the relevant Clearing Member, reminding such member of their obligations under the Rulebook or (b) impose a fine on the Clearing Member in accordance with Paragraph 8.4, without being required to follow the procedure set out in Paragraph 8.2 above. In such circumstances the Clearing House must notify the Clearing Member of its decision and the sanction that is to be imposed by way of a Decision Notice.

#### 8.4 **SANCTIONS**

The Clearing House shall be entitled, in its absolute discretion, to impose the following sanctions against a Clearing Member, pursuant to these Disciplinary Procedures, provided that any such sanction is proportionate and commensurate with the seriousness of the Alleged Breach:

- (a) to impose a fine or require the Clearing Member to make any other form of payment in an amount which it considers appropriate;
- (b) public censure, by way of publishing all or part of the decision taken by the Clearing House pursuant to Disciplinary Proceedings on the Website;
- (c) suspension for a fixed period, as determined by LCH.Clearnet Limited in its sole discretion from anyone or all of the clearing services offered by the Clearing House;
- (d) issuance of a private warning or reprimand;
- (e) termination of the Clearing Membership Agreement; and/or
- (f) any combination of the above.

#### 8.5 **DISPUTING A DECISION**

Where a Clearing Member wishes to dispute the Clearing House's decision to impose sanctions listed in Paragraph 8.3 or 8.4, a Clearing Member may, within 28 days (or such longer period as the Chief Executive Officer of the Clearing House or the Chief Compliance Officer may, at their discretion, direct) of receiving the Decision Notice in accordance with Paragraph 8.2(h) or 8.3, file an Appeal in accordance with Section 11 of the Procedures. In the event that the Clearing Member does not lodge

an appeal within the relevant timeframe, the decision rendered by the Clearing House in connection with the Alleged Breach shall be final and binding. In the event that the Clearing Member does lodge an appeal, the results of the appeal process shall be final and binding.

**8.6 REPORTING AND PUBLICATION**

The Clearing House shall:

- (a) report on its monitoring procedures in respect of the Rulebook, compliance and breaches of the Rulebook to its Regulatory Body pursuant to Applicable Law and/or on the basis of any arrangements between the Clearing House and any Regulatory Body;
- (b) immediately notify the Regulatory Body of a decision to suspend or terminate a Clearing Member's membership rights or declare a Clearing Member to be subject to an Event of Default (in each case in accordance with the Rulebook); and
- (c) prepare and publish a general report on the application of these Disciplinary Proceedings, from time to time but at least once a year, provided however that only the details of those Clearing Members who have defaulted or whose membership rights have been suspended or terminated by the Clearing House shall be disclosed.

**8.7 INFRINGEMENT OF APPLICABLE LAW**

If the Clearing House finds, in the course of the investigation procedure, or otherwise, serious indications of a possible infringement of Applicable Law, it shall report the matter to the relevant Regulatory Body as soon as possible

Exhibit A-11

Section 10 of the Clearing House Procedures



**SECTION 10**

**CONTENTS**

10.	BUSINESS RECOVERY .....	2
10.1	RECOVERY SITUATIONS .....	2
10.2	RECOVERY SITUATIONS AFFECTING MEMBERS' OFFICES.....	2
10.3	ALDGATE HOUSE EVACUATION .....	2
10.4	CLEARING HOUSE DATA CENTRE.....	5
10.5	COMPLIANCE WITH BUSINESS CONTINUITY TESTING .....	5

**10. BUSINESS RECOVERY****10.1 RECOVERY SITUATIONS**

The Procedures set out in this section are intended to provide Clearing Members with a guide to the changes in working practices which would follow the invocation of the Clearing House's Business Continuity Plans.

Due to the uncertain nature of the events which would lead to the need for Business Recovery the Clearing House reserves the right to depart from these Procedures to meet the characteristics of specific business recovery situations.

These procedures provide for the evacuation or decommissioning of Aldgate House. The procedures detail the alterations to the Clearing House's operations and also the action to be taken on invocation of the Business Continuity Plans.

**10.2 RECOVERY SITUATIONS AFFECTING MEMBERS' OFFICES****10.2.1 During Office Hours**

Clearing Members that are unable to gain access to their principal office accommodation and as a result require the Clearing House assistance should contact the Help Desk on **+44 (0)20 7426 7200**.

**10.2.2 Outside Office Hours**

Clearing Members should telephone the Clearing House on **+44 (0)20 7426 7545**, leaving the following information:

Name:

Company Name:

Contact Telephone Number:

Brief Details of the Nature of the Problem:

A member of the Clearing House operational staff will then make contact regarding any assistance that can be given.

**10.3 ALDGATE HOUSE EVACUATION****10.3.1 Communicating with Clearing Members**

Should the Clearing House be forced to evacuate Aldgate House it will need to inform its Clearing Members as soon as practicable. The following sections detail a number of different messages that the Clearing House may wish to communicate. However, in all cases the means by which information will be disseminated is the same. Information will be communicated to Clearing Members by the following methods:

- broadcast messages on TRS/CPS, and LME Matching and Clearing;
- facsimile transmissions to Clearing Members designated fax machines;
- posting messages on [www.lchclearnet.com](http://www.lchclearnet.com);

- posting messages on the following toll free number 0800 1 69 69 09;
- Joint Exchange Committee (JEC) Incident Information Exchange hosted by Euronext Liffe.

Some of the above communications methods can only be used to disseminate very short messages. However the toll free number is capable of recording a message of up to ten minutes duration, and handling unlimited concurrent connections. It is therefore likely to be the main method used for providing Clearing Members with progress reports following an initial broadcast message.

### 10.3.2 **Evacuation of Aldgate House**

If it is necessary for the Clearing House to evacuate Aldgate House, and if re-entry to the building is unlikely within thirty minutes, Clearing Members will be informed by disseminating the following message using the methods described in section 10.3.1 above.

*"The Clearing House has been forced to evacuate Aldgate House. Please refer to Clearing House Procedures - Business Continuity Arrangements for further information."*

At this time all of the activities normally carried out at Aldgate House will have ceased, if only temporarily. Clearing Members will be kept informed of developments as further details become available.

**Please note that the reason for broadcasting the above message is to provide Clearing Members with early notification of an evacuation of Aldgate House. At this stage no decision will have been taken to invoke Business Continuity Plans. See section 10.3.3 below for advice on how Clearing Members will be notified of an invocation of the recovery plan.**

### 10.3.3 **Invoking of Business Continuity Plans**

The Clearing House is contracted with a specialist provider for dedicated and syndicated work area recovery facilities. The agreement between the Clearing House and the provider stipulates that dedicated work area recovery positions will be available immediately. Syndicated recovery positions will be available within four hours of invocation.

Depending on the severity of an incident a full or partial invocation of the service may be required.

### 10.3.4 **Limited Invocation**

If the Clearing House's assessment of the incident suggests that reoccupation of Aldgate House will be possible within two hours, then it is likely that only the mission critical activities (MCA) will be recovered to the recovery site. All other activities will cease until Aldgate House becomes available.

The following message will be posted:

*"The Clearing House has invoked business continuity plans for its MCA's. Please refer to the Clearing House's Procedures - Business Continuity Arrangements for further information."*

### 10.3.5 **Full Invocation**

Once a decision has been taken to proceed with full invocation of business continuity plans Clearing Members will be informed at the earliest opportunity. This will be achieved by disseminating the following message using the methods described in section 10.3.1 above.

*"The Clearing House has invoked all business continuity plans. Please refer to the Clearing House's Procedures - Business Continuity Arrangements for further information."*

It is anticipated that a period of approximately two hours will elapse between the invocation of full business continuity plans and relocation of recovery teams. During this time most of the activities normally carried out at Aldgate House will cease.

Please note that the Clearing House's primary data centre is not located at Aldgate House and so an evacuation of the site will not affect Clearing Members' ability to access IT applications.

### 10.3.6 **Delivery Deadlines**

If the incident occurs close to delivery deadline(s), Clearing Members will, on a reasonable endeavours basis, be notified, as appropriate through TRS/CPS or LME Matching and Clearing, of any amendment to the delivery procedures.

### 10.3.7 **Imminent Expiry of Options**

**Clearing Members are reminded that the responsibility for exercising options prior to their expiry deadline lies solely with them and that any assistance given by the Clearing House is purely on a 'reasonable endeavours' basis. If an evacuation of Aldgate House coincides with an option expiry, this assistance may cease.**

If the Clearing House's invocation of Business Continuity Plans coincides with an option expiry, the notification of Clearing Members' option allocations and the deadline for the entry of option exercises may be delayed.

### ~~10.3.8 **Cover-Calling**~~

### 10.3.8 **Collateral**

In order to simplify the Treasury process, it is likely that a number of routine Treasury Procedures may be amended or suspended. The Clearing House will advise Clearing Members of these changes, through TRS/CPS and LME Matching and Clearing as necessary. These may include but are not limited to:

- the acceptance/release of securities and guarantees;
- the conversion of currencies;
- the ability to cover liabilities using Collateral denominated in other currencies other than their original currency.

**10.3.9 Registration of Contracts**

The Clearing House will register new business in accordance with the Clearing House procedure in section 2A.5.3. However, the Clearing House reserves the right, at its discretion, to amend the timing of registration as it deems necessary. In the event that registration is to be delayed the Clearing House will notify Clearing Members as soon as practically possible.

**10.3.10 New Address for Document Delivery**

Following invocation of the business continuity plans the Clearing House will provide new address details for document delivery. Will arrange to have its mail forwarded to its office recovery site.

**10.3.11 Permanent Change of Address**

The Clearing House is able to occupy the recovery site for a maximum of ninety consecutive days. If the incident is so serious that the Clearing House is unable to reoccupy Aldgate House within this time period, Clearing Members will be informed of the proposed new office location and contact numbers prior to occupation of the premises. This information will be communicated via the methods described in section 10.3.1.

Clearing Members will be informed of the date when the new arrangements will take effect.

**10.3.12 Return to Normal**

When the Clearing House is able to resume a normal service a message will be disseminated using the methods described in section 10.3.1 above. Assuming that it has been possible to return to Aldgate House the following message will be broadcast.

*"The Clearing House has returned to Aldgate House. Please revert to normal contact telephone numbers and procedures."*

If normal working is being resumed at a site other than Aldgate House Clearing Members will already have been informed of the new office location and contact numbers see section 10.3.11 above. The following message will be broadcast.

*"The Clearing House is resuming normal service at <insert location name>. Please use the new contact numbers previously supplied."*

**10.4 CLEARING HOUSE DATA CENTRE****10.4.1 Failure of LCH's Data Centre**

If the Clearing House's primary data centre fails during business hours, those Clearing House IT systems that are used by Clearing Members will be temporarily unavailable while processing is transferred to the secondary data centre.

**10.5 COMPLIANCE WITH BUSINESS CONTINUITY TESTING**

Clearing Members are required to participate in the Clearing House's Business Continuity Planning (BCP) coordination and testing programs, as required by CFTC Regulation § 39.18. The Clearing House will notify Clearing Members when it intends to carry out any such test via a member circular and via a posting on [www.lchclearnet.com](http://www.lchclearnet.com), at least 90 days in advance. The Clearing House will, prior to the date of any such test, provide Clearing Members with further details of the steps that will be required under the relevant program.

Exhibit A-12

Default Fund Rules

**LCH.CLEARNET LIMITED****(The Financial Services and Markets Act 2000 (Recognition Requirements for Investment Exchanges and Clearing Houses) Regulations 2001, Part IV)****DEFAULT FUND RULES**

14. These Default Fund Rules form part of the Default Rules and the Clearing House Rulebook.

The Default Fund Rules comprise:

- these general Default Fund Rules (Rules 14 to 37 inclusive); and
- Supplements specific to the following Services: Commodities, Equities, ForexClear, Listed Interest Rate Derivatives, RepoClear and SwapClear.

Each Supplement establishes a separate default fund specific to the Service to which the Supplement relates. The Supplements establish the size of each default fund, the basis for calculating Contributions to each default fund, and include supplementary provisions addressing cases where the relevant default fund has been utilised. The general default fund rules establish the mechanisms, which apply severally to each default fund, for utilisation of the default funds, and for other matters common to all default funds.

The allocation by the Risk Committee of the Clearing House of a Contract to a particular Service to which a Supplement applies shall be done in accordance with the definitions set out in the Supplements, and each decision of the Risk Committee in this respect is conclusive.

**Interpretation**

15. Words and expressions assigned meanings in the Clearing House Rulebook shall have the same meanings in these Default Fund Rules.

For the purposes of Rules 15 to 37 (inclusive), the following terms have the following meanings:

**"Aggregate Excess Loss"** means, in relation to a Default, the aggregate amount of all Excess Losses attributable to all types of Relevant Business in which the defaulter was engaged;

**"Business"** means any transactions, liabilities or obligations arising out of any contract and includes, in relation to the relevant Services, Commodities Business, Equities Business, ForexClear Business, Listed Interest Rate Business, RepoClear Business and SwapClear Business;

**"Capped Amount"** has the meaning assigned to it in Rule 16(c);

**"Contribution"** means the contribution of a Clearing Member to a default fund of the Clearing House and includes, in relation to the relevant Services, a Commodities Contribution, an Equities Contribution, a ForexClear Contribution, a Listed Interest Rate Contribution, a RepoClear Contribution and a SwapClear Contribution;



**"Default"** means the issue, in respect of a Clearing Member, of a Default Notice as provided for by Rule 3 or the occurrence, in respect of a Clearing Member, of an Automatic Early Termination Event;

**"Default Loss"** has the meaning assigned to it in Rule 23(b);

**"Determination Date"** means the date for calculation of a Contribution, as provided for in a Supplement, and includes a Commodities Determination Date, an Equities Determination Date, a ForexClear Determination Date, a Listed Interest Rate Determination Date, a RepoClear Determination Date and a SwapClear Determination Date;

**"EquityClear Fund Amount"** definition no longer in force;

**"Excess Loss"** means, in relation to any Relevant Business and any Default, the net sum or aggregate of net sums certified to be payable by the defaulter by a Rule 26 Certificate in respect of the Relevant Business, less (a) the proportion of the Capped Amount applicable to the Relevant Business under Rule 16(c) and (b) any sums then immediately payable in respect of Default Losses for that Relevant Business by any insurer or provider of analogous services under any policy of insurance or analogous instrument written in favour of the Clearing House, and includes, in relation to the relevant Services, a Commodities Excess Loss, an Equities Excess Loss, a ForexClear Excess Loss, a Listed Interest Rate Excess Loss, a RepoClear Excess Loss and a SwapClear Excess Loss;

**"Exchange Fund Amount"** definition no longer in force;

**"Insufficient Resources Determination"** has the meaning assigned to it in Rule C10 of the Commodities Default Fund Supplement, Rule E10 of the Equities Default Fund Supplement, Rule F11 of the ForexClear Default Fund Supplement, Rule L10 of the Listed Interest Rate Default Fund Supplement, Rule R11 of the RepoClear Default Fund Supplement or Rule S11 of the SwapClear Default Fund Supplement, as applicable;

**"Net Recovery"** means any sum received by the Clearing House from or for the account of a defaulter after the issue by the Clearing House of a Rule 26 Certificate in respect of losses arising upon the defaulter's Default less any amount payable to any insurer or provider of analogous services in respect of any amount due from but not previously paid by the defaulter;

**"New Member"** means, on the day as at which any Contribution is to be calculated, any Clearing Member which either has become a Clearing Member, or has commenced clearing in respect of the relevant Service, since the immediately preceding day prescribed for calculating similar Contributions;

**"Relevant Business"** means Commodities Business, Equities Business, ForexClear Business, Listed Interest Rate Business, RepoClear Business or SwapClear Business;

**"Relevant Service"** has the meaning given to such term in Rule 33;

**"Resigning Member"** has the meaning given to such term in Rule 33;

**"Retiring Member"** means at any time any Clearing Member or, as the context may require, any former Clearing Member who has given notice to terminate its Clearing

Member status to the Clearing House or in respect of whom the Clearing House has terminated or given notice to terminate its Clearing Member status;

"**Rule 26 Certificate**" has the meaning assigned to it in Rule 26;

"**Service Closure Payment**" has the meaning given to such term at Rule R11(c) of the RepoClear Default Fund Supplement;

"**Supplement**" means a supplement specific to a particular Service and includes the Commodities Default Fund Supplement, the Equities Default Fund Supplement, the ForexClear Default Fund Supplement, the Listed Interest Rate Default Fund Supplement, the RepoClear Default Fund Supplement and the SwapClear Default Fund Supplement; and

"**Unfunded Contribution**" means the unfunded contribution of a Clearing Member referable to a specific Service provided by the Clearing House.

15A. The following terms which are principally used in the Supplements have the following meanings:

"**Commodities Business**" means any transaction, obligation or liability arising out of any Commodities Contract;

"**Commodities Clearing Member**" means, for the purposes of these Default Fund Rules and the Commodities Default Fund Supplement, a Clearing Member which engages in Commodities Business;

"**Commodities Contracts**" includes, for the purposes of these Default Fund Rules, all commodities contracts cleared by the Clearing House;

"**Commodities Contribution**" means the amount of a Commodities Clearing Member's Contribution determined in accordance with the Commodities Default Fund Supplement and shall include any relevant Unfunded Contributions deposited and made by the Commodities Clearing Member with the Clearing House;

"**Commodities Default Fund Supplement**" means the supplement to these Default Fund Rules relating to Commodities Business;

"**Commodities Determination Date**" has the meaning assigned to "Determination Date" in Rule C2(c);

"**Commodities Excess Loss**" means the net sum or aggregate of net sums certified to be payable by a defaulter by a Rule 26 Certificate in respect of Commodities Business, less (a) the proportion of the Capped Amount applicable to Commodities Business under Rule 16(c) and (b) any sums then immediately payable in respect of Commodities Business Default Losses owed by such defaulter by any insurer or provider of analogous services under any policy of insurance or analogous instrument written in favour of the Clearing House;

"**Commodities Fund Amount**" means the amount of the commodities default fund established from time to time pursuant to the Commodities Default Fund Supplement;

"**Commodities Service**" means the clearing service of the Clearing House relating to Commodities Business;

**"Defaulting FXCCM"** means an FXCCM who is a defaulter under Rule 4;

**"Defaulting RCM"** means an RCM who is a defaulter under Rule 4;

**"Defaulting SCM"** means an SCM who is a defaulter under Rule 4;

**"EONIA"** means, in relation to a RepoClear Contribution, the overnight rate as calculated by the European Central Bank and appearing on the Reuters Screen EONIA Page or, if such rate is not available, such EONIA-linked rate as may be determined in light of market conditions at such time by the Clearing House and notified by the Clearing House to Clearing Members;

**"Equities Business"** means any transaction, obligation or liability arising out of any Equities Contract;

**"Equities Clearing Member"** includes, for the purposes of these Default Fund Rules, a Clearing Member which engages in Equities Business and includes an EquityClear Clearing Member;

**"Equities Contracts"** includes, for the purposes of these Default Fund Rules, all cash equity contracts, CFDs and equity derivative contracts cleared by the Clearing House;

**"Equities Contribution"** means the amount of an Equities Clearing Member's Contribution determined in accordance with the Equities Default Fund Supplement and shall include any relevant Unfunded Contributions deposited and made by the Equities Clearing Member with the Clearing House;

**"Equities Default Fund Supplement"** means the supplement to these Default Fund Rules relating to Equities Business;

**"Equities Determination Date"** has the meaning assigned to "Determination Date" in Rule E2(c);

**"Equities Excess Loss"** means the net sum or aggregate of net sums certified to be payable by a defaulter by a Rule 26 Certificate in respect of Equities Business, less (a) the proportion of the Capped Amount applicable to Equities Business under Rule 16(c) and (b) any sums then immediately payable in respect of Equities Business Default Losses owed by such defaulter by any insurer or provider of analogous services under any policy of insurance or analogous instrument written in favour of the Clearing House;

**"Equities Fund Amount"** means the amount of the equities default fund established from time to time pursuant to the Equities Default Fund Supplement;

**"Equities Service"** means the clearing service of the Clearing House relating to Equities Business;

**"Fed Funds Rate"** means the Federal Funds Rate as published by the Federal Reserve Bank of New York or, if such rate is not available, such Fed Funds-linked rate as may be determined in light of market conditions at such time by the Clearing House and notified by the Clearing House to Clearing Members;

**"ForexClear Amendment"** has the meaning assigned to it in Rule F12 of the ForexClear Default Fund Supplement;

**"ForexClear Business"** means any transaction, obligation or liability arising out of any ForexClear Contract;

**"ForexClear Clearing Member"** or **"FXCCM"** means, for the purposes of these Default Fund Rules and the ForexClear Default Fund Supplement, a Clearing Member which engages in ForexClear Business;

**"ForexClear Contribution"** means the amount of an FXCCM's Contribution determined in accordance with the ForexClear Default Fund Supplement and shall include any ForexClear Unfunded Contributions deposited and made by the FXCCM with the Clearing House;

**"ForexClear Default Fund Supplement"** means the supplement to these Default Fund Rules relating to ForexClear Business;

**"ForexClear Default Management Process"** has the meaning assigned to it in the ForexClear DMP Annex;

**"ForexClear Default Management Process Completion Date"** has the meaning assigned to it in the ForexClear DMP Annex;

**"ForexClear Default Period"** has the meaning ascribed to it in Rule F2 of the ForexClear Default Fund Supplement;

**"ForexClear Determination Date"** has the meaning assigned to it in Rule F2 of the ForexClear Default Fund Supplement;

**"ForexClear DMG"** has the meaning assigned to it in the ForexClear DMP Annex;

**"ForexClear Excess Loss"** means the net sum or aggregate of net sums certified to be payable by a defaulter in respect of ForexClear Business by a Rule 26 Certificate less (a) the proportion of the Capped Amount applicable to ForexClear Business under Rule 16(c) and (b) any sums then immediately payable in respect of ForexClear Business Default Losses owed by such defaulter by any insurer or provider of analogous services under any policy of insurance or analogous instrument written in favour of the Clearing House;

**"ForexClear Fund Amount"** means the amount as determined in accordance with Rule F2(c) of the ForexClear Default Fund Supplement;

**"ForexClear Loss Distribution Process"** has the meaning assigned to it in Rule F9 of the ForexClear Default Fund Supplement;

**"ForexClear Unfunded Contribution"** has the meaning assigned to it in Rule F8 of the ForexClear Default Fund Supplement;

**"ForexClear Unfunded Contribution Notice"** has the meaning assigned to it in F8 of the ForexClear Default Fund Supplement;

**"ForexClear Voluntary Payment"** has the meaning assigned to it in Rule F10 of the ForexClear Default Fund Supplement;

**"ForexClear Voluntary Payment Notice"** has the meaning assigned to it in Rule F10 of the ForexClear Default Fund Supplement;

**"Listed Interest Rate Business"** means any transaction, obligation or liability arising out of a Listed Interest Rate Contract;

**"Listed Interest Rate Clearing Member"** means, for the purposes of these Default Fund Rules and the Listed Interest Rate Default Fund Supplement, a Clearing Member which engages in Listed Interest Rate Business;

**"Listed Interest Rate Contract"** includes, for the purposes of these Default Fund Rules, all listed interest rate derivative contracts cleared by the Clearing House;

**"Listed Interest Rate Contribution"** means the amount of a Listed Interest Rate Clearing Member's Contribution determined in accordance with the Listed Interest Rate Default Fund Supplement and shall include any relevant Unfunded Contributions deposited and made by the Listed Interest Rate Clearing Member with the Clearing House;

**"Listed Interest Rate Default Fund Supplement"** means the supplement to these Default Fund Rules relating to the Listed Interest Rate Business;

**"Listed Interest Rate Determination Date"** has the meaning assigned to "Determination Date" in Rule L2(c);

**"Listed Interest Rate Excess Loss"** means the net sum or aggregate of net sums certified to be payable by a defaulter by a Rule 26 Certificate in respect of Listed Interest Rate Business, less (a) the proportion of the Capped Amount applicable to Listed Interest Rate Business under Rule 16(c) and (b) any sums then immediately payable in respect of Listed Interest Rate Business Default Losses owed by such defaulter by any insurer or provider of analogous services under any policy of insurance or analogous instrument written in favour of the Clearing House;

**"Listed Interest Rate Fund Amount"** means the amount of the listed interest rate default fund established from time to time pursuant to the Listed Interest Rate Default Fund Supplement;

**"Listed Interest Rate Service"** means the clearing service of the Clearing House relating to Listed Interest Rate Business;

**"Minimum ForexClear Contribution"** means, subject to Rule F2 of the ForexClear Default Fund Supplement, USD 5,000,000;

**"Minimum RepoClear Contribution"** means, subject to Rule R2 of the RepoClear Default Fund Supplement, EUR 2,500,000;

**"Minimum RepoClear Contribution Member"** means an RCM in respect of which the Preliminary RepoClear Contribution calculated under Rule R2 of the RepoClear Default Fund Supplement is equal to or less than the Minimum RepoClear Contribution for the time being;

**"Minimum SwapClear Contribution"** means, subject to Rule S2 of the SwapClear Default Fund Supplement, £10,000,000;

**"Minimum SwapClear Contribution Member"** means an SCM in respect of which the Preliminary SwapClear Contribution calculated under Rule S2 of the SwapClear Default Fund Supplement is equal to or less than the Minimum SwapClear Contribution for the time being;

**"Non-Defaulting FXCCM"** means an FXCCM which is not a defaulter under Rule 4;

**"Non-Defaulting RCM"** means an RCM which is not a defaulter under Rule 4;

**"Non-Defaulting SCM"** means an SCM which is not a defaulter under Rule 4;

**"Relevant Default"** has the meaning ascribed to it in Rule S2 of the SwapClear Default Fund Supplement, Rule F2 of the ForexClear Default Fund Supplement or Rule R2 of the RepoClear Default Fund Supplement, as applicable;

**"RepoClear Additional Payments Cap"** means, in respect of an RCM on any date, an amount equal to the total amount of Collateral transferred by that RCM in respect of its initial margin obligations and in respect of additional margin posted by that RCM as at that date of the Default causing losses leading to an Insufficient Resources Determination (or, where such an Insufficient Resources Determination is made following concurrent Defaults, the date of the earliest Default);

**"RepoClear Amendment"** has the meaning assigned to it in Rule R12 of the RepoClear Default Fund Supplement;

**"RepoClear Business"** means any transaction, obligation or liability arising out of any Fixed Income Contract (as defined in Rule 6(d));

**"RepoClear Clearing Member"** or **"RCM"** means, for the purposes of these Default Fund Rules and the RepoClear Default Fund Supplement, a Clearing Member participating in any part of the RepoClear Service;

**"RepoClear Contribution"** means the amount of an RCM's Contribution determined in accordance with the RepoClear Default Fund Supplement and shall include any RepoClear Unfunded Contributions deposited and made by the RCM with the Clearing House;

**"RepoClear Default Fund Supplement"** means the supplement to these Default Fund Rules relating to the RepoClear Business;

**"RepoClear Default Management Process"** has the meaning assigned to it in the RepoClear DMP Annex;

**"RepoClear Default Management Process Completion Date"** has the meaning assigned to it in the RepoClear DMP Annex;

**"RepoClear Determination Date"** has the meaning assigned to it in Rule R2 of the RepoClear Default Fund Supplement;

**"RepoClear Excess Loss"** means the net sum or aggregate of net sums certified to be payable by a defaulter by a Rule 26 Certificate in respect of RepoClear Business less (a) the proportion of the Capped Amount applicable to RepoClear Business under Rule 16(c) and (b) any sums then immediately payable in respect of RepoClear Business Default Losses owed by such defaulter by any insurer or provider of analogous services under any policy of insurance or analogous instrument written in favour of the Clearing House;

**"RepoClear Loss Distribution Process"** has the meaning assigned to it in Rule R9 of the RepoClear Default Fund Supplement;

**"RepoClear Segregated Fund Amount"** means the amount as determined in accordance with Rule R2 and R3 of the RepoClear Default Fund Supplement;

**"RepoClear Unfunded Contribution"** has the meaning assigned to it in Rule R8 of the RepoClear Default Fund Supplement;

**"RepoClear Unfunded Contribution Notice"** has the meaning assigned to it in Rule R8 of the RepoClear Default Fund Supplement;

**"SONIA"** means the overnight rate as calculated by the Wholesale Market Broker's Association and appearing on the Reuters Screen SONIA Page (or, if such a rate is not available, such SONIA-linked rate as may be determined in light of market conditions at such time by the Clearing House and notified by the Clearing House to Clearing Members);

**"SwapClear Amendment"** has meaning assigned to it in Rule S12 of the SwapClear Default Fund Supplement;

**"SwapClear Business"** means any transaction, obligation or liability arising out of any SwapClear Contract;

**"SwapClear Clearing Member"** or **"SCM"** means, for the purposes of these Default Fund Rules and the SwapClear Default Fund Supplement, a Clearing Member participating in any part of the SwapClear Service;

**"SwapClear Contribution"** means the amount of an SCM's Contribution determined in accordance with the SwapClear Default Fund Supplement and shall include any SwapClear Unfunded Contributions deposited and made by the SCM with the Clearing House;

**"SwapClear Default Fund Supplement"** means the supplement to these Default Fund Rules relating to the SwapClear Business;

**"SwapClear Default Management Process"** has the meaning assigned to it in the SwapClear DMP Annex;

**"SwapClear Default Management Process Completion Date"** has the meaning assigned to it in the SwapClear DMP Annex;

**"SwapClear Default Period"** has the meaning ascribed to it in Rule S2 of the SwapClear Default Fund Supplement;

**"SwapClear Determination Date"** has the meaning assigned to it in Rule S2 of the SwapClear Default Fund Supplement;

**"SwapClear DMG"** has the meaning assigned to it in the SwapClear DMP Annex;

**"SwapClear Excess Loss"** means the net sum or aggregate of net sums certified to be payable by a defaulter by a Rule 26 Certificate in respect of SwapClear Business less (a) the proportion of the Capped Amount applicable to SwapClear Business under Rule 16(c) and (b) any sums then immediately payable in respect of SwapClear Business Default Losses owed by such defaulter by any insurer or provider of analogous services under any policy of insurance or analogous instrument written in favour of the Clearing House;

"**SwapClear Loss Distribution Process**" has the meaning assigned to it in Rule S9 of the SwapClear Default Fund Supplement;

"**SwapClear Segregated Fund Amount**" means the amount as determined in accordance with Rule S2(b) of the SwapClear Default Fund Supplement;

"**SwapClear Unfunded Contribution**" has the meaning assigned to it in Rule S8 of the SwapClear Default Fund Supplement;

"**SwapClear Unfunded Contribution Notice**" has the meaning assigned to it in Rule S8 of the SwapClear Default Fund Supplement;

"**SwapClear Voluntary Payment**" has the meaning assigned to it in Rule S10 of the SwapClear Default Fund Supplement; and

"**SwapClear Voluntary Payment Notice**" has the meaning assigned to it in Rule S10 of the SwapClear Default Fund Supplement.

- 15B For the purposes of a ballot under clause 9.4(c) of the Clearing Membership Agreement, "**Quarter Day**" shall be construed as referring to a Determination Date.

#### Reduction of Losses on Default

16. Subject to any contrary provision of the Rulebook, where a defaulter fails to pay any sum payable to the Clearing House, the Clearing House shall reduce or bear its loss in the manner provided by this Rule:-
- (a) first, to the extent the Clearing House determines appropriate, in applying any ~~cover for margin~~ Collateral held by the Clearing House in respect of the defaulter and any other sum owed to the defaulter other than any Contribution (together, "**Margin Cover**"), provided that Margin Cover related to each type of Business of the defaulter is to be applied first to any loss attributable to that type of Business until such loss is absorbed;
  - (b) second, by (i) recourse to the defaulter's relevant Contribution in respect of the type of Business to which the loss relates, followed by (ii) recourse to any other Contribution made by the defaulter to the extent not utilised under (i) above. The Clearing House will exercise its rights of recourse under this Rule 16(b) by set-off against the Clearing House's obligation to repay the relevant Contributions to the defaulter;
  - (c) third, by payment from the Clearing House's own account of an amount up to a maximum of £20,000,000 (or such greater amount (if any) as may be determined from time to time by the Board of the Clearing House) (the "**Capped Amount**"). For the avoidance of doubt, amounts will only be paid under this stage (c) if and to the extent that to do so would not result in the Clearing House being unable to meet all its other liabilities (taking into account for these purposes the obligation of the Clearing House to return cash Collateral transferred to it by Clearing Members in respect of their initial margin provided in the form of cash obligations and to repay the Contributions of all Clearing Members).

Where there are amount due from the defaulter at this stage in respect of more than one type of business, the Capped Amount shall be applied to these amounts *pro rata*.



- (d) fourth, to the extent that any insurance or analogous arrangement is not available to the Clearing House, by recourse to the indemnities given under Rule 28 by Clearing Members other than the defaulter (which shall be satisfied by set-off against the Clearing House's obligation to repay the relevant Contributions of such Clearing Members). If the criteria specified in a relevant Supplement for calling any Unfunded Contributions have been satisfied, then References to the Contributions of Clearing Members other than the defaulter in this Rule 16(d) shall include such Unfunded Contributions;
- (e) fifth, by recourse to any insurance cover or analogous arrangement;
- (f) sixth, by recourse to the indemnities given under Rule 28 by Clearing Members other than the defaulter (which shall be satisfied by set-off against the Clearing House's obligation to repay the relevant Contributions of such Clearing Members). If the criteria specified in a relevant Supplement for calling any Unfunded Contributions have been satisfied, then References to the Contributions of Clearing Members other than the defaulter in this Rule 16(f) shall include such Unfunded Contributions;
- (g) seventh, by recourse to any other indemnities, guarantees, undertakings or monies provided by Clearing Members;
- (h) eighth, in respect of RepoClear Business only, by recourse to the Service Closure Payments set out in Rule R11; and
- (i) ninth, in respect of a RepoClear Excess Loss only, as a loss borne by the Clearing House for its own account. For the avoidance of doubt, amounts will only be paid under this stage (i) if and to the extent that to do so would not result in the Clearing House being unable to meet all its other liabilities (taking into account for these purposes the obligation of the Clearing House to return cash Collateral transferred to it by Clearing Members in respect of their initial margin provided in the form of cash obligations and to repay the Contributions of all Clearing Members).

This Rule has effect without prejudice to any rights of the Clearing House or any other person against the defaulter. Any Excess Loss remaining in respect of particular Business after application of the available resources under stages (a) to (g) under this Rule 16 shall be addressed as provided under the relevant Supplement, and without recourse to Service Closure Payments (except with regard to RepoClear only) or other loss-allocation provisions under any other Supplement or (except as provided in stage (i) with regard to RepoClear only) to the capital of the Clearing House.

Where a defaulter is engaged in more than one type of Relevant Business, the completion of the default management processes in respect of such Relevant Businesses may occur at different times. The Clearing House may be required to make a determination in respect of one Relevant Business (including certification of a Default Loss under Rule 23(b), certification of a net sum payable under Rule 26(a) or the value of an Excess Loss) in order to manage the default at a time when (a) the determination is contingent on an outcome of the default management process in respect of some other Relevant Business, and (b) that outcome has not yet been reached. In the interests of efficient resolution, the Clearing House may at such point make assumptions about that outcome, and proceed with the relevant process on that basis. Where any such assumptions have been made, the Clearing House shall,

on the completion of the default management processes in respect of all Relevant Businesses, make such credits to the default funds relating to the Relevant Businesses and such distributions to former Clearing Members as may be necessary to put the default funds and those firms which had contributed to such default funds at the time of the relevant default in the position that they would have been in if the correct outcomes had been used and the relevant assumptions had not been made.

17. – 22. Rules no longer in force

#### Terms on which Contribution is held

23. (a) Subject to Rules (b) and (c), the outstanding balance of a Clearing Member's Contribution (or, as appropriate, part thereof) shall be repayable to the Clearing Member on the earliest to occur of the following events:
- (i) if the Clearing Member is not a defaulter, (or the Clearing Member is a defaulter and has validly exercised its rights under Regulation 39A(e)), the effective date of termination of the Clearing Member's status as a Clearing Member (including a Termination Date under General Regulation 39A or under FCM Regulation 24A);
  - (ii) if the Clearing Member has become a defaulter, the date or event appointed by the Clearing House for repayment of sums due to the Clearing Member under Rule 9;
  - (iii) the amount of the Contribution being reduced by virtue of the recalculation of its amount in accordance with the provisions of a Supplement (in which case the Contribution shall be repayable only to the extent of such reduction);
  - (iv) the Clearing House making an Insufficient Resources Determination in accordance with the provisions of the Supplement to which the Contribution relates; and
  - (v) the expiry of a period of 50 years from the date on which the Contribution was paid to the Clearing House.
- (b) If a Clearing Member becomes a defaulter, the Clearing House shall as soon as practicable after any Margin Cover has been applied pursuant to Rule 16, certify one or more net sums then payable by the defaulter to the Clearing House in respect of each type of Business (each a "**Default Loss**"), disregarding for this purpose any of the defaulting Clearing Member's Contributions. If the Clearing House certifies any Default Loss, the defaulter's Contribution in respect of the relevant Business shall immediately become due and repayable, but only in an amount not exceeding that Default Loss. Insofar as the Default Loss exceeds the defaulter's Contribution in respect of the relevant Business, the defaulter's Contributions (if any) made in respect of other types of Business shall become due and repayable, in an amount in aggregate not exceeding the total Default Loss remaining after deducting the defaulter's Contribution in respect of the Business to which the Default Loss relates.
- (c) If an amount becomes payable by the Clearing Member under Rule 28, the Clearing Member's relevant Contribution shall immediately become due and repayable, but only to the extent of such amount.

24. Interest shall accrue on the amount of a Contribution at such rate and in such manner as provided in the relevant Supplement. Interest shall not be regarded as part of a Contribution.
25. A Clearing Member's entitlement to repayment of any of its Contributions or any part of them shall not be capable of assignment by the Clearing Member, nor shall Contributions be capable of being charged or subject to any other form of security whether purporting to rank in priority over, *pari passu* with or subsequent to the rights of the Clearing House. Any purported charge or assignment by a Clearing Member (whether by way of security or otherwise) of its Contributions shall be void. A Clearing Member shall not otherwise encumber (or seek to encumber) its Contributions.

#### **Application of defaulter's Contribution, and Certification of Aggregate Excess Losses**

26. Without prejudice to any other right of set-off or application of funds to which the Clearing House may be entitled, in the event of a Default and the certification by the Clearing House of a Default Loss under Rule 23(b) in respect thereof the Clearing House shall without notice set off in or towards satisfaction of any sums payable to the Clearing House from the defaulter any amount of any Contribution of the defaulter which has become due and repayable in accordance with Rule 23(b). If the Clearing House is to have recourse, in accordance with Rule 16, to the indemnities, guarantees, undertakings or monies provided by Clearing Members other than the defaulter, as soon as practicable the Clearing House shall certify (by a "**Rule 26 Certificate**"):-

- (a) the amount of the defaulter's Contribution applied under this Rule and the net sum (if any), or each net sum (if more than one), then immediately payable by the defaulter to the Clearing House in respect of the types of Business undertaken by the defaulter, taking into account for this purpose the defaulter's Contribution; and
- (b) the extent to which any sums so payable by the defaulter to the Clearing House but unpaid may be claimed by the Clearing House under a policy of insurance or analogous instrument relating to losses arising upon a Default.

The Clearing House may issue more than one Rule 26 Certificate in relation to losses arising upon any Default.

Where a Rule 26 Certificate is to be issued, the Clearing House may assume that no recoveries will be made in respect of obligations of the defaulter (beyond the value of its Contributions).

27. The Clearing House may in the exercise of the right conferred by Rule 26 set off the amount due (in accordance with Rule 23(b)) to a defaulter in respect of the defaulter's Contribution or any part thereof against sums owing on any account whether or not it is a client account, and the Clearing House shall have unfettered discretion in this regard.

#### **Application of Fund and Indemnity**

28. By virtue of this Rule and its agreement with the Clearing House, and subject to Rule 29, each Clearing Member (for these purposes, a "**Non-Defaulting Clearing Member**") grants a separate limited-recourse indemnity to the Clearing House in respect of each type of Relevant Business in which it participates. In relation to each type of Relevant Business, the indemnity is granted in respect of each Excess Loss

arising in respect of the Relevant Business upon the Default of another Clearing Member. The amount of an indemnity is limited to an aggregate amount not exceeding the amount of the Non-Defaulting Clearing Member's Contribution in respect of the Relevant Business as calculated at the Determination Date immediately before the relevant Default, together with any amount of Unfunded Contribution and any Loss Distribution Charge in respect of the Relevant Business that the Clearing House has called or would be entitled to call from the Non-Defaulting Clearing Member in relation to that Default.

The amount due by a Non-Defaulting Clearing Member in respect of an Excess Loss shall, save as otherwise provided under the ForexClear DMP Annex, the SwapClear DMP Annex or the RepoClear DMP Annex, be the Non-Defaulting Clearing Member's *pro rata* share of such loss arising upon the relevant Default calculated as the proportion of such Member's relevant Contribution relative to the aggregate relevant Contributions of all Clearing Members engaged in the relevant Business other than the relevant defaulter at the time of the relevant Default. The amount so due shall become immediately payable automatically (without any obligation on the part of the Clearing House to make demand on the Clearing Member) upon the issue by the Clearing House of the applicable Rule 26 Certificate. Without prejudice to any other right of set-off or application of funds to which the Clearing House may be entitled, the Clearing House shall forthwith without notice set off any amount due in accordance with Rule 23(c) to a Clearing Member in respect of the relevant Contribution of such Clearing Member in or towards satisfaction of the amount payable by such Clearing Member under this Rule 28.

29. This Rule applies to a defaulter (the "**First defaulter**") where the Contribution of the First defaulter has not been repaid to the First defaulter or applied by the Clearing House under Rule 26, and Aggregate Excess Losses arise upon the Defaults of other Clearing Members. Where this Rule applies, Rule 28 shall have effect with the following modifications:-
- (a) the balances (if any) of the First defaulter's relevant Contributions may be applied under Rule 28 in respect of such relevant Aggregate Excess Losses up to and including the date three months after the date of issue of the Default Notice in respect of the First defaulter's Default; and
  - (b) after the date three months after the date of issue of such Default Notice, the balances (if any) of the First defaulter's relevant Contributions may not be applied under Rule 28 in respect of such relevant Aggregate Excess Losses, but they may be retained on account of losses arising upon the First defaulter's own Default and, for the purposes of Rule 28, they shall be disregarded.
30. The Clearing House shall give notice to each Clearing Member as soon as practicable after an amount has become due in accordance with Rule 28 and of the manner in which it has been satisfied.
31. If, in relation to a Default, the Clearing House has not yet certified in any Rule 26 Certificates issued on or before the Determination Date occurring immediately after the Default all sums which may be or become due to the Clearing House from the defaulter (because such sums will not or may not become liquidated or for any other reason payable until a later date), the Clearing House shall maintain a Contribution from each Clearing Member (other than the defaulter) as cover for the performance by such Clearing Member of its obligation to indemnify the Clearing House in relation to any Aggregate Excess Loss not yet certified. In fulfilment of this requirement the

Clearing House may take any step which appears to the Clearing House to be appropriate, and the steps so taken may include any (including a combination) of the following:-

- (a) postponement of the date for adjustment of Clearing Members' Contributions under Rules C5(a), E5(a), F5, L5(a), S5 or R5, as applicable in the case;
- (b) reduction of the amounts payable to some or all Clearing Members under Rules C5(a)(i), E5(a)(i), F5(a), L5(a)(i), S5(a) or R5(a), as applicable in the case; and
- (c) estimation of the amount of Aggregate Excess Losses which may become certified after the relevant Determination Date as appropriate, and application of Rule 28 as if such estimated amount were already realised as an Aggregate Excess Loss.

The Clearing House shall notify Clearing Members of any steps taken under this Rule.

### 32. – 32A. Rules no longer in force

#### Effect of cessation of Clearing Member status

33. Subject to Rule 34, if a date for calculation of a Clearing Member's Contribution occurs after the giving of notice: (i) by or in respect of any Retiring Member; (ii) by a Clearing Member to the Clearing House for the purposes of resigning from a particular Service; or (iii) by the Clearing House to a Clearing Member for the purposes of requiring such Clearing Member to resign from a particular Service (the "**Relevant Service**") (a Clearing Member for the purposes of (ii) and (iii) of this paragraph, a "**Resigning Member**"), and before the termination of such Retiring Member's Clearing Member status or the Resigning Member's resignation from the Relevant Service (as the case may be):-

- (a) if the Retiring Member or Resigning Member is not a defaulter, the amount of such Retiring Member's Contribution or such Resigning Member's Contribution in respect of the Relevant Service shall be determined by the Clearing House on the basis set out in the relevant Supplement without regard to the impending termination of such Retiring Member's Clearing Member status or Resigning Member's resignation (as the case may be), and the provisions of the relevant Supplement as to payment following adjustment of amounts of Contributions shall apply in respect of such Contribution accordingly;
- (b) if the Retiring Member or Resigning Member is a defaulter, the balance of such Retiring Member's Contribution or such Resigning Member's Contribution in respect of the Relevant Service (as the case may be) after any part of it has been applied under Rule 26 or Rule 28 shall not be subject to adjustment under the relevant Supplement, and the provisions of the relevant Supplement as to payment following adjustment of amounts of Contributions shall not apply to such Retiring Member or Resigning Member in respect of the Relevant Service.

Notwithstanding the foregoing, in such circumstances, when the amounts of the respective Contributions of all Clearing Members other than any Retiring Member or any Resigning Member in respect of the Relevant Service are determined in

- accordance with the relevant Supplement, the Clearing House shall disregard any Clearing Member which is a Retiring Member or, in relation to a Relevant Service, any Resigning Member in respect of that Relevant Service, in particular disregarding such Clearing Member's daily margin requirement~~-for-margin~~ and such Clearing Member's daily number of Contracts and treating any such Retiring Member as no longer being a Clearing Member or any such Resigning Member as no longer being a Clearing Member in respect of the Relevant Service.
34. This Rule applies at any date for calculation of a Clearing Member's Contribution falling after a Retiring Member has given notice of the termination of its Clearing Member status, where another Clearing Member (the "**Continuing Member**") has arranged to undertake clearing on behalf of the Retiring Member. If, in the opinion of the Clearing House, the Contribution of the Continuing Member determined under the relevant Supplement does not fairly reflect the Continuing Member's share of clearing activity, the Clearing House may determine the Contribution of the Continuing Member as if the relevant Business carried on by the Retiring Member were part of the relevant Business carried on by the Continuing Member. If the Clearing House determines the amount of a Continuing Member's Contribution under this Rule, the Clearing House shall give notice to the Continuing Member, and the provisions of Rule 33 shall not apply.
35. A Retiring Member and a Resigning Member in respect of a Relevant Service shall, until the completion of the process set out in Rule 8 in relation to any Default, continue to be liable under its Rule 28 indemnity in respect of Aggregate Excess Losses arising upon such Default, notwithstanding that the Clearing Member status of the Retiring Member has terminated or that the Resigning Member has resigned in respect of the Relevant Service before that time. While a Retiring Member or Resigning Member continues to be so liable, it shall provide~~transfer~~ such cover~~Collateral~~ as the Clearing House shall require in respect of its liability in relation to any Aggregate Excess Losses not yet certified, subject to such cover not exceeding the Retiring Member's Contribution at the time of the termination of its clearing membership, or the Resigning Member's Contribution to the Relevant Service at the time of its resignation. In fulfilment of this requirement, the Clearing House may take any step which appears to the Clearing House to be appropriate, including postponement of the date for repayment of part or all of the Retiring Member's Contribution or Resigning Member's Contribution in respect of the Relevant Service (as the case may be). The Clearing House shall notify the Retiring Member or Resigning Member of any steps taken under this Rule.

#### Recoveries from defaulters

36. If all or part of the Contributions of any Clearing Member shall have been applied in accordance with Rule 28, the Clearing House shall (except as otherwise provided in a Supplement) account to each such Clearing Member (whether or not it remains at the relevant time a Clearing Member of the Clearing House) in respect of any Net Recovery, pro rata to the respective amounts applied in accordance with Rule 28 in relation to the relevant Default and in an amount not exceeding, in relation to each such Clearing Member, the amount of its Contributions so applied.
37. Rules no longer in force

**ForexClear Default Fund Supplement**

- F1. In accordance with and subject to Rule F2, the amount of each ForexClear Clearing Member's ForexClear Contributions shall be determined by the Clearing House as soon as practicable after each ForexClear Determination Date as appropriate on the basis of information available as at close of business on such ForexClear Determination Date and notified to such FXCCM as soon as practicable after such determination in accordance with the Procedures.
- F2. Each FXCCM's ForexClear Contribution (other than a ForexClear Unfunded Contribution) shall be determined by the Clearing House in accordance with the following provisions:
- (a) determinations will be made by the Clearing House on the date that an FXCCM joins the ForexClear Service, and at the close of business on the first business day of each subsequent month, and otherwise in accordance with paragraph (g) below, (each a "**ForexClear Determination Date**") provided, however, that following a Default, any such determinations and any such ForexClear Determination Date which might otherwise have occurred under this Rule F2 shall be suspended for the duration of the period (the "**ForexClear Default Period**") commencing on the date of such Default and terminating on the last to occur of the following dates:
    - (i) the date which is the close of business on the day falling 30 calendar days after the ForexClear Default Management Process Completion Date in relation to such Default (or, if such day is not a business day, the next succeeding business day); and
    - (ii) where, prior to the to the end of the period referred to in (i) above (or such period as has already been extended pursuant to this subparagraph (ii)) one or more subsequent Defaults (each a "**Relevant Default**") occur, the date which is the close of business on the day falling 30 calendar days after the ForexClear Default Management Process Completion Date in relation to a Relevant Default which falls latest in time (or, if such day is not a business day, the next succeeding business day);
  - (b) On each business day, the Clearing House will determine a "**Combined Loss Value**" in respect of each of the 30 preceding business days. The Combined Loss Value in respect of a particular day will be the sum of the largest and the second largest stress-testing loss incurred on that day in relation to ForexClear Business (for a given scenario).
  - (c) the "**ForexClear Fund Amount**" shall be calculated in United States Dollars ("**USD**"), and, for a given ForexClear Determination Date, shall be the largest of the 30 Combined Loss Values determined under Rule (b) plus 10%. The ForexClear Fund Amount shall not be less than USD 70 million (the "**ForexClear Fund Floor**");
  - (d) the FXCCM's "**ForexClear Margin Weight**" shall be calculated by dividing the average daily ~~requirement~~ for initial margin requirement (as calculated under the Procedures or other arrangements applicable) which has applied to the FXCCM during the reference period in Rule F2(b), above, in respect of all ForexClear Contracts to which the FXCCM is a party by the total of such average daily requirements applied to all Non-Defaulting FXCCMs;

- (e) the FXCCM's "**Preliminary ForexClear Contribution**" shall be calculated by multiplying the ForexClear Fund Amount by the FXCCM's ForexClear Margin Weight;
- (f) if the FXCCM's Preliminary ForexClear Contribution is below the Minimum ForexClear Contribution for the time being, the FXCCM's ForexClear Contribution shall be the Minimum ForexClear Contribution; and
- (g) subject to a suspension pursuant to Rule F2(a), the Clearing House may recalculate the ForexClear Fund Amount on any business day if the Combined Loss Value differs by more than 25% from the figure on which the previous ForexClear Contribution determination was based.

F3. For the purposes of the calculations under Rule F2

- (a) references to "ForexClear Clearing Members" or "FXCCMs" do not include references to Defaulting FXCCMs (apart from any Defaulting FXCCM in respect of which the Clearing House permits the application of Rule F2) or persons which were formerly FXCCMs but are not FXCCMs at the ForexClear Determination Date at which the relevant determination is made;
- (b) Contributions shall be rounded upwards, if not already such a multiple, to the next integral multiple of one thousand US dollars; and
- (c) no account shall be taken, in calculating the initial margin requirement or ForexClear Margin Weight under Rule F2 of any offsets in the initial margin required for ForexClear Contracts from an FXCCM, which may otherwise be permissible under the Procedures or other arrangements applicable.

Provided that the FXCCM is not a defaulter, the amount of its ForexClear Contribution shall be calculated in accordance with and subject to Rule F2. The provisions of Rule F1, Rule F2, this Rule F3 and Rule F5 do not apply to a Defaulting FXCCM, unless the Clearing House so permits in any particular case.

F4. Without prejudice to any other requirements which the Clearing House may impose, the amount of the ForexClear Contribution of a New Member shall be the sum of (a) the Minimum ForexClear Contribution and (b) any supplementary sum determined by the Clearing House in its discretion and notified to the New Member. The Clearing House shall determine the amount of such supplementary sum by reference to the actual or expected level of clearing activity of the New Member.

F5. Upon determination of the amount of a ForexClear Contribution in accordance with Rule F2:

- (a) if the amount of the ForexClear Contribution of an FXCCM immediately before close of business on the relevant ForexClear Determination Date exceeds the amount of the FXCCM's ForexClear Contribution as determined under Rule F2 as at close of business on that day, the excess shall be paid by the Clearing House to such FXCCM in USD in accordance with the Procedures;
- (b) if the amount of the ForexClear Contribution of an FXCCM immediately before close of business on the relevant ForexClear Determination Date is the same as the amount of the FXCCM's ForexClear Contribution as so



determined under Rule F2 as at close of business on that day, no sum shall then be payable by or to such FXCCM in respect of its Contribution; and

- (c) if the amount of the ForexClear Contribution of an FXCCM immediately before close of business on the relevant ForexClear Determination Date is less than the amount of the FXCCM's ForexClear Contribution as so determined under Rule F2 as at close of business on that day, the shortfall shall be paid by such FXCCM to the Clearing House in USD in accordance with the Procedures

The provisions of this Rule do not apply to a Defaulting FXCCM, unless the Clearing House so permits in any particular case.

- F6. On any day, interest shall accrue on the amount of each ForexClear Contribution then held by the Clearing House, to the extent that it has not been applied under Rule 26 or Rule 28, at such rate and in such manner as provided by the Procedures, provided that the rate of interest for any particular day shall not be less than the Fed Funds Rate published on that day (or, in relation to any day for which the Fed Funds Rate is not available, the Fed Funds Rate most recently published before such day). Interest shall be payable in arrear and shall be paid on the date or dates specified by the Procedures. In these Default Fund Rules, any interest which has accrued under this Rule shall not be regarded as part of the ForexClear Contribution.
- F7. Where, after a Default, the Clearing House has applied part or all of a ForexClear Contribution under Rule 26 or Rule 28, the ForexClear Fund Amount shall be reduced forthwith by the aggregate amount of the ForexClear Contributions or parts of ForexClear Contributions so applied and the amount of the ForexClear Contribution that each FXCCM must maintain with the Clearing House shall be reduced by the amount of its ForexClear Contribution which has been applied pursuant to Rule 28, in each case until the next ForexClear Determination Date. Unless and until the Clearing House has repaid a defaulter's ForexClear Contribution (or remaining part thereof, as applicable), the ForexClear Fund Amount shall be treated as having been reduced by the amount of the defaulter's ForexClear Contribution (if any), regardless of whether the Clearing House has applied part or all of that ForexClear Contribution under Rule 26.
- F8. Where, after a Default, the Clearing House determines that (i) by reason of a reduction in accordance with Rule F7, the value of the ForexClear Fund Amount has been reduced by at least 25%; or (ii) by the time of the ForexClear Default Management Process Completion Date in relation to the relevant Default, the value of the ForexClear Fund Amount will be reduced by at least 25%, the Clearing House may, by notice in writing (the "*ForexClear Unfunded Contribution Notice*"), require each Non-Defaulting FXCCM to deposit and maintain an amount (each a "*ForexClear Unfunded Contribution*") in accordance with the following provisions:
  - (a) ForexClear Unfunded Contributions will only be payable in circumstances where the relevant ForexClear Unfunded Contribution Notice is delivered by the Clearing House to FXCCMs prior to the ForexClear Default Management Process Completion Date in relation to the relevant Default;
  - (b) the value of the ForexClear Unfunded Contribution payable by each individual FXCCM shall be the product of (i) the percentage by which the value of the ForexClear Fund Amount has been reduced and (ii) the value of the ForexClear Contribution of such FXCCM as determined by the Clearing

House at the last ForexClear Determination Date prior to the date when the relevant Default occurred;

- (c) the Clearing House may, by the delivery of one or more further ForexClear Unfunded Contribution Notices, require each Non-Defaulting FXCCM to pay one or more further ForexClear Unfunded Contributions in respect of the same Default, provided that the total value of the ForexClear Unfunded Contributions payable by an individual FXCCM in respect of a particular Default (determined in accordance with paragraph (b) above) may not exceed the value of the ForexClear Contribution of such FXCCM as at the last ForexClear Determination Date prior to the date when the relevant Default occurred; and
- (d) following a Default in respect of which ForexClear Unfunded Contributions were paid (the "**First Default**"), the Clearing House may require the payment of further ForexClear Unfunded Contributions in respect of subsequent Defaults (which, for the avoidance of doubt, can never be a First Default), provided that ForexClear Unfunded Contributions will not be payable in respect of any more than three Defaults in any six month period (commencing on the date of delivery of the first ForexClear Unfunded Contribution Notice in respect of the First Default).

FXCCMs will be required to deposit the full amount of their ForexClear Unfunded Contributions (without exercising any rights of set-off or counterclaim) with the Clearing House on the business day following receipt of a ForexClear Unfunded Contribution Notice.

For the avoidance of doubt, references to "FXCCMs" for the purposes of this Rule F8 include any FXCCM (other than a Defaulting FXCCM) who is: (i) a Retiring Member but whose status as a Clearing Member has not yet been terminated; and (ii) a Resigning Member whose resignation from the ForexClear Service is not yet effective.

#### F9. ForexClear Loss Distribution Process

Where, after a Default, the Clearing House determines that the ForexClear Excess Loss resulting from the Default will exceed the amounts to be applied to it under Rule 16(a) to (g), the Clearing House may implement the process (the "**ForexClear Loss Distribution Process**") described in this Rule F9.

- (a) For the purposes of this Rule F9 and for Rule F11, the following definitions will apply:

**"Actual Base Currency Gains, Losses and Realised Cash Flows by Cash Payment"** means, in respect of each Cash Payment and any business day, the sum of the Pre Haircut Base Currency Gains, Losses and Realised Cash Flows by Cash Payment and any Cash Gainer Base Currency Adjustment to Cash Payment or Cash Loser Base Currency Adjustment to Cash Payment.

**"Auction Portfolio"** has the meaning assigned to it in the ForexClear DMP Annex.

**"Available Resources"** means, in respect of any Loss Distribution Period, the amounts available to the Clearing House for application in meeting any loss suffered or incurred by the Clearing House in accordance with Rule 16(a) to (g) as at the relevant Last Call Prior to Default.

**"Cash Gain"** means, in respect of any Cash Gainer and any Loss Distribution Day, the amount of positive Cumulative Pre Haircut Base Currency Gains Losses and Realised Cash Flows in respect of such Cash Gainer in respect of such Loss Distribution Day.

**"Cash Gainer"** means, in respect of any Loss Distribution Day, each Margin Account in respect of which the value of the Cumulative Pre Haircut Base Currency Gains Losses and Realised Cash Flows on such Loss Distribution Day is greater than zero.

**"Cash Gainer Payment Currency Adjustment to Cash Payment"** has the meaning set out in paragraph (b)(i) of this Rule F9.

**"Cash Loser"** means, in respect of any Loss Distribution Day, each Margin Account in respect of which the value of the Cumulative Pre Haircut Base Currency Gains Losses and Realised Cash Flows on such Loss Distribution Day is equal to or less than zero.

**"Cash Loser Base Currency Adjustment to Cash Payment"** has the meaning set out in paragraph (b)(ii) of this Rule F9.

**"Cash Loser Payment Currency Adjustment to Cash Payment"** has the meaning set out in paragraph (b)(ii) of this Rule F9.

**"Cash Payment"** means, in respect of any business day, the aggregated amount which would be paid by the Clearing House to a Non-Defaulting FXCCM (expressed as a positive number) or by such FXCCM to the Clearing House (expressed as a negative number) in respect of a Cash Payment Type in a Cash Payment Currency on such business day.

**"Cash Payment Currency"** means each of the currencies in which payments made between the Clearing House and an FXCCM may be denominated.

**"Cash Payment Type"** means each of the Price Alignment Interest (as defined in the ForexClear Procedures), consideration (fee) payments and cash Collateral in respect of variation margin payable obligations transferrable in respect of a Margin Account of a Non-Defaulting FXCCM.

**"Cumulative Actual Base Currency Gains, Losses and Realised Cash Flows"** means in respect of each Margin Account of each Non-Defaulting FXCCM and any business day, the sum of the Cumulative Actual Base Currency Gains, Losses and Realised Cash Flows by Cash Payments payable on such Margin Account.

**"Cumulative Actual Base Currency Gains, Losses and Realised Cash Flows by Cash Payment"** means, in respect of each Cash Payment and any business day, the aggregate amount, if any, paid by the Clearing House to a Non-Defaulting FXCCM (expressed as a positive number) or by such FXCCM to the Clearing House (expressed as a negative number) in respect of Actual Base Currency Gains, Losses and Realised Cash Flows by Cash Payment from but excluding the relevant Last Call Prior to Default to and including such business day.

**"Cumulative LCH Transfer Cost"** means, on any business day during any Loss Distribution Period, the sum of any LCH Transfer Cost for each day from but excluding the relevant Last Call Prior to Default to and including such business day.

**"Cumulative Pre Haircut Base Currency Gains Losses and Realised Cash Flows"** means, in respect of each Margin Account of each Non-Defaulting FXCCM and any business day, the sum of the Cumulative Pre Haircut Base Currency Gains Losses and Realised Cash Flows by Cash Payments payable on such Margin Account.

**"Cumulative Pre Haircut Base Currency Gains Losses and Realised Cash Flows by Cash Payment"** means, in respect of each Cash Payment and any business day, the sum of the Pre Haircut Base Currency Gains, Losses and Realised Cash Flows by Cash Payment for such Cash Payment for each day from but excluding the relevant Last Call Prior to Default to and including such business day.

**"Distribution Haircut"** or **"DH"** means, on each Loss Distribution Day, the fraction determined by the Clearing House in accordance with the following formula:

$$DH(t) = LUL(t) / TCG(t)$$

where:

**"LUL"** means the LCH Uncovered Loss; and

**"TCG"** means the Total Cash Gains.

**"FXCCM Adjustment Amount"** means in respect of the Margin Account(s) of any Non-Defaulting FXCCM and any Loss Distribution Day, an amount equal to the sum of the Cumulative Pre Haircut Base Currency Gains Losses and Realised Cash Flows in respect of such Margin Account(s) of such FXCCM less the sum of the Cumulative Actual Base Currency Gains, Losses and Realised Cash Flows in respect of such Margin Account(s) of such Clearing Member, in each case in respect of the Loss Distribution Period in which such Loss Distribution Day falls.

**"Last Call Prior to Default"** means the most recent business day on which ~~payments~~the margin obligations of cover ~~required to be made by~~the FXCCMs were ~~made~~discharged in full.

**"LCH Transfer Cost"** means the cost (converted, where applicable, into USD at a rate of exchange determined by the Clearing House in its sole discretion) to the Clearing House of transferring the rights and obligations arising out of the Auction Portfolios of a Defaulting FXCCM to those FXCCMs who have successfully bid for such Auction Portfolios in Auctions.

**"LCH Uncovered Loss"** means, in respect of the Clearing House on any business day in any Loss Distribution Period, the amount calculated in accordance with the following formula:

$$LCH \text{ Uncovered Loss}(t) = \text{Max} (0, (TCPH (t) + CLC(t) - TAR))$$

where:

**"TCPH"** means the Total Cumulative Pre Haircut Base Currency Gains losses and Realised Cash Flows;

**"CLC"** means the Cumulative LCH Transfer Cost;

**"TAR"** means the Total Available Resources; and

the LCH Uncovered Loss as at the Last Call Prior to Default shall be zero.

**"Loss Distribution Cap Amount"** means, in respect of each Non-Defaulting FXCCM and any Loss Distribution Period, an amount equal to the higher of (i) USD 100,000,000; (ii) the product of (a) 100 per cent. and (b) the ForexClear Contribution of such Non-Defaulting FXCCM as at the last ForexClear Determination Date prior to the date when the Default occurred at the beginning of that Loss Distribution Period; and (iii) any adjusted cap as may be agreed pursuant to paragraph (d) of this Rule F9.

**"Loss Distribution Day"** means any business day in a Loss Distribution Period on which the Clearing House, in consultation with the ForexClear DMG, prior to calling for: (i) ~~ever~~ Collateral in respect of margin obligations in accordance with the provisions of the Procedures; and (ii) Required Collateral, on such business day, determines that the LCH Uncovered Loss for that business day is greater than zero.

**"Loss Distribution Period"** means the period from, but excluding, the day on which a Default occurs with respect to an FXCCM to but excluding the earlier of: (i) the business day on which (a) the rights and obligations arising out of the Auction Portfolios of the Defaulting FXCCM are transferred to those FXCCMs which have successfully bid for such Auction Portfolios in Auctions, or, if any Default occurs with respect to any other FXCCM prior to the end of a Loss Distribution Period, the rights and obligations arising out of the Auction Portfolios of any subsequent Defaulting FXCCM are transferred to those FXCCMs who have successfully bid for such Auction Portfolios in Auctions and (b) all payments required to be made by such FXCCMs and/or the Clearing House in respect of such Auction(s) have been made in full; or (ii) any Loss Distribution Day in respect of which the Clearing House determines that the FXCCM Adjustment Amount for any FXCCM would be equal to or greater than the Loss Distribution Cap Amount for such Loss Distribution Day.

**"Margin Account"** means each Proprietary Account and each FCM Client Segregated Sub-Account related to the ForexClear Service of an FXCCM.

**"Payment Currency Adjustment to Cash Payment"** means one or more Cash Gainer Payment Currency Adjustment to Cash Payment(s) and/or one or more Cash Loser Payment Currency Adjustment to Cash Payment(s).

**"Pre Haircut Base Currency Gains, Losses and Realised Cash Flows by Cash Payment"** means, in respect of each Cash Payment and any business day, the amount (converted, where applicable, into USD at the Rate of Exchange which would be paid by the Clearing House to a Non-Defaulting FXCCM (expressed as a positive number) or by such FXCCM to the Clearing House (expressed as a negative number) on such business day in the absence of the application of the Distribution Haircut.

**"Rate of Exchange"** means, for any day, the applicable rate of exchange for converting one currency into another as determined by the Clearing House by reference to Reuters;

**"t"** means, in respect of any determination made in relation to a business day, such business day.

**"t-1"** means, in respect of any determination made in relation to a business day, the business day immediately prior to such business day.

**"Total Available Resources"** means, on any business day during a Loss Distribution Period the sum of (i) the Available Resources and (ii) any Unfunded Contributions deposited with the Clearing House since the relevant Last Call Prior to Default.

**"Total Cash Gains"** means, in respect of any business day, the sum of the Cash Gain in respect of all Cash Gainers on such business day.

**"Total Cumulative Pre Haircut Base Currency Gains losses and Realised Cash Flows"** means, in respect of any business day the sum of all Total Cumulative Pre Haircut Base Currency Gains Losses and Realised Cash Flows by Cash Payments.

**"Total Cumulative Pre Haircut Base Currency Gains Losses and Realised Cash Flows by Cash Payment"** means, in respect of any business day, the sum of the Total Pre Haircut Base Currency Gains Losses and Realised Cash Flows by Cash Payment for each business day from but excluding the relevant Last Call Prior to Default to and including such business day.

**"Total Pre Haircut Base Currency Gains Losses and Realised Cash Flows by Cash Payment"** means, in respect of any business day, the sum of the Pre Haircut Base Currency Gains Losses and Realised Cash Flows by Cash Payment in respect of all Margin Accounts of all Non-Defaulting SCMs on such business day.

**"Underlying Cash Payment"** means, in respect of a Cash Gainer Base Currency Adjustment to Cash Payment or a Cash Loser Base Currency Adjustment to Cash Payment, the Cash Payment in respect of which such Cash Gainer Base Currency Adjustment to Cash Payment or Cash Loser Base Currency Adjustment to Cash Payment is calculated.

(b) **Adjustment of Underlying Cash Payments**

(i) **Cash Gainer**

On each Loss Distribution Day for each Margin Account of each Non-Defaulting FXCCM which is deemed to be a Cash Gainer, the relevant FXCCM shall be required to pay the Clearing House an amount equal to each positive amount determined as follows or, as applicable, the Clearing House shall be required to pay the relevant FXCCM the absolute value of each negative amount determined as follows (in each case, such amount the "**Cash Gainer Payment Currency Adjustment to Cash Payment**"): The Cash Gainer Payment Currency Adjustment to Cash Payment is the value of the amount determined in accordance with the formula below (the "**Cash Gainer Base Currency Adjustment to Cash Payment**") converted at the Rate of Exchange into the Cash Payment Currency in which the relevant Underlying Cash Payment is denominated:

where:

Cash Gainer Base Currency Adjustment to Cash Payment (t) = PHG(t) – (CHG(t) \* Max (0, 1 - DH(t)) – CAG(t-1))

**"PHG"** means the Pre Haircut Base Currency Gains Losses and Realised Cash Flows by Cash Payment;

**"CHG"** means the Cumulative Pre Haircut Base Currency Gains Losses and Realised Cash Flows by Cash Payment;

"**DH**" means the Distribution Haircut; and

"**CAG**" means the Cumulative Actual Base Currency Gains, Losses and Realised Cash Flows by Cash Payment and where "CAG" as at the Last Call Prior to Default shall be zero.

(ii) Cash Loser

On each Loss Distribution Day for each Margin Account of each Non-Defaulting FXCCM which is deemed to be a Cash Loser, the Clearing House shall be required to pay the absolute value of each amount (the "**Cash Loser Payment Currency Adjustment to Cash Payment**") determined as follows: The Cash Loser Payment Currency Adjustment to Cash Payment is the value of the amount determined in accordance with the formula below (the "**Cash Loser Base Currency Adjustment to Cash Payment**") converted at the Rate of Exchange into the Cash Payment Currency in which the relevant Underlying Cash Payment is denominated:

where

$$\text{Cash Loser Base Currency Adjustment to Cash Payment}(t) = \text{PHG}(t) - (\text{CHG}(t) - \text{CAG}(t-1))$$

"**PHG**" Pre Haircut Base Currency Gains Losses and Realised Cash Flows by Cash Payment;

"**CHG**" means the Cumulative Pre Haircut Base Currency Gains Losses and Realised Cash Flows by Cash Payment; and

"**CAG**" means the Cumulative Actual Base Currency Gains, Losses and Realised Cash Flows by Cash Payment and where "CAG" as at the Last Call Prior to Default shall be zero.

(iii) Application of Payment Currency Adjustment to Cash Payment

On each Loss Distribution Day, the Clearing House shall apply the payment or receipt of any Payment Currency Adjustment to Cash Payment as an offset against any payments denominated in the same Cash Payment Currency as the relevant Payment Currency Adjustment to Cash Payment due from or receivable by the relevant FXCCM.

(c) **Application of Cash Gainer Payment Currency Adjustment to Cash Payment**

The Clearing House shall apply all payments it receives in respect of Cash Gainer Payment Currency Adjustment to Cash Payments solely for the purposes of meeting any loss incurred by the Clearing House following, and in relation to, each Default, as contemplated in accordance with Rule 16(a) to (g).

(d) **Adjustment to Loss Distribution Cap Amount**

If, during a Loss Distribution Period, the Clearing House considers that the Cash Gainer Payment Currency Adjustment to Cash Payments applied to a particular Margin Account of an FXCCM are, or are about to be equal to or greater than the Loss Distribution Cap Amount, the Clearing House may

propose an adjustment to such Loss Distribution Cap Amount. If agreed by all Non-Defaulting FXCCMs, the Loss Distribution Cap Amount as adjusted pursuant to this paragraph (d) shall be applicable for the remainder of the relevant Loss Distribution Period.

(e) **No Rebate**

The payment to the Clearing House by any FXCCM of any Cash Gainer Payment Currency Adjustment to Cash Payment shall be final and shall not give rise to any obligation of the Clearing House to repay any such amount or to pay any interest thereon.

(f) **Application of any Recoveries**

If the ForexClear Loss Distribution Process has been invoked by the Clearing House in accordance with this Rule F9, the Clearing House shall reimburse the FXCCMs (irrespective of whether they remain FXCCMs at the time of the recovery) and the Clearing House on a *pro rata* basis by reference to the resources which have been applied pursuant to Rule 16(a) to (g) and including the net amount of any one or more FXCCM Adjustment Amounts paid by the relevant FXCCMs:

- (i) any amounts received from the Defaulting FXCCM as a result of the Clearing House being a creditor of the Defaulting FXCCM in respect of the ForexClear Business of such Defaulting FXCCM in the context of the occurrence of any of the events under Rule 5(i) to (p) in respect of the Defaulting FXCCM or otherwise, other than in respect of sums due to the Clearing House for its own account; or
- (ii) any other amounts howsoever obtained or recovered in the course of the Clearing House's operation of the ForexClear Default Management Process or which are otherwise referable to the Defaulting FXCCM,

in each case net of any related expenses incurred by the Clearing House or other sums owing to the Clearing House by the Defaulting FXCCM in connection with the ForexClear Service. For the avoidance of doubt, nothing in this paragraph (f) shall oblige the Clearing House to pursue any litigation or other action in order to recover the amounts contemplated above and if another default fund of the Clearing House has also been applied as a result of the FXCCM's Default, any amounts recovered shall be applied *pari passu* as between the relevant default funds

- F10. Where, after the Default of one or more FXCCMs, the Clearing House determines that, notwithstanding the availability of any resources remaining under Rule 16(a) to (g) and the availability of the ForexClear Loss Distribution Process in accordance with the terms of Rule F9, it is clear that the Clearing House does not have sufficient resources to meet its obligations and liabilities arising in respect of those ForexClear Contracts to which it is party with Non-Defaulting FXCCMs, the Clearing House will by notice in writing (a "*ForexClear Voluntary Payment Notice*"); (i) inform all Non-Defaulting FXCCMs that it has insufficient resources and that it is likely to invoke Rule F11; and (ii) invite each Non-Defaulting FXCCM to make a payment of funds (a "*ForexClear Voluntary Payment*"), in accordance with Rule 16(g), to make up for the relevant shortfall.



ForexClear Voluntary Payments will be made on the following terms:

- (a) no FXCCM shall be obliged to make a ForexClear Voluntary Payment;
- (b) any ForexClear Voluntary Payment will be made by an FXCCM by the close of business on the business day after receipt of the relevant ForexClear Voluntary Payment Notice;
- (c) no ForexClear Voluntary Payment may be withdrawn once made; and
- (d) the Clearing House shall have full discretion whether or not to accept a particular ForexClear Voluntary Payment.

Any failure by the Clearing House to deliver a ForexClear Voluntary Payment Notice pursuant to this Rule F10 will not invalidate any action taken by the Clearing House pursuant to Rule F11 nor give rise to any liability whatsoever on the part of the Clearing House.

Any ForexClear Voluntary Payments remaining unused at the time of the expiry of the relevant ForexClear Default Period will be accounted for rateably by the Clearing House as if they were amounts paid in respect of the ForexClear Contributions by those FXCCMs from whom ForexClear Voluntary Payments were accepted.

F11. Where, following the process for inviting ForexClear Voluntary Payments in accordance with Rule F10, the Clearing House makes a determination (an "*Insufficient Resources Determination*") that it is clear that the Clearing House does not have sufficient resources to meet its obligations and liabilities arising in respect of those ForexClear Contracts to which it is party with Non-Defaulting FXCCMs, the following provisions shall have effect:

- (a) All outstanding ForexClear Contracts shall be closed out as of the clearing day following the date the Insufficient Resources Determination was made and any further obligations to make any payments under or in respect of such ForexClear Contracts shall cease. The closing prices used shall be mid prices calculated by the Clearing House in accordance with the methodology used by it to carry out end of day margin runs in respect of the outstanding ForexClear Contracts. Where such data is not available to the Clearing House, the closing price shall be the last price used by the Clearing House to calculate the variation margin requirement for the position to be closed out.
- (b) On the basis of the close out values established for each outstanding ForexClear Contract, an account shall be taken (as at the time of close out) of what is due in respect of each FXCCM, from that FXCCM to the Clearing House and from the Clearing House to that FXCCM, as well as all other amounts owing under or in respect of ForexClear Contracts and any other amounts that may be due in respect of the ForexClear Service (including for these purposes, a proportionate share of any amounts owed generally to or from the Clearing House), and the sums due from the FXCCM shall be set off against the sums due from the Clearing House and only the balance of the account shall be payable. For the avoidance of doubt, amounts in respect of ForexClear Contracts shall include, but not be limited to, returns of cash collateral held by the Clearing House in respect of the FXCCM's variation margin associated therewith ~~obligations~~ and the repayment of any Net Cash Gainer Payment Currency Adjustment to Cash Payments made in the ForexClear Default Period to which the Insufficient Resources Determination

relates (and in respect of which F9(e) shall be specifically disappplied), but shall exclude the repayment of any cash Collateral held by the Clearing House in respect of the FXCCM's initial margin obligations or any outstanding ForexClear Contributions.

To the extent that the aggregate of all of the amounts owed to the Clearing House by FXCCMs plus all of those other resources applicable to the ForexClear Clearing Service under Rule 16(a) to (g) that have not been applied towards a ForexClear Excess Loss is less than the aggregate of the amounts owed to FXCCMs by the Clearing House, each amount owed to FXCCMs by the Clearing House shall be reduced pro rata the shortfall.

- (c) The Clearing House shall determine any amounts due to each FXCCM in respect of cash Collateral held by the Clearing House in respect of any ~~cash~~ the initial margin obligations of the FXCCM and outstanding ForexClear Contributions to be repaid. The claim of each such FXCCM in respect ~~to~~ of the foregoing shall be reduced in proportion to an amount by which (i) the value of the assets available to the Clearing House to meet the return obligations referred to in (b)(i) bears to (ii) the value of what would be due from the Clearing House to ~~each~~ the Clearing Members in aggregate in respect of the return of ~~initial margin received from each such~~ cash Collateral held by the Clearing Member House in the form respect of cash ~~the Clearing Members' initial margin obligations and in respect of~~ outstanding Contributions.
- (d) For each FXCCM, the amount due to it or due from it as determined pursuant to (b) shall be aggregated with its claim determined pursuant to (c) above and only the net sum shall be payable. Where the result of such calculations is that an FXCCM owes an amount to the Clearing House, that FXCCM shall pay that amount to the Clearing House immediately. Where the result of such calculations is that an FXCCM is owed an amount by the Clearing House, the Clearing House shall pay that amount to the FXCCM immediately, subject to (f) below.
- (e) The payment of such amount to an FXCCM, pursuant to (d) above subject to any re-calculations performed pursuant to (f) below, shall constitute the full and final payment in respect of the ForexClear Service and such FXCCM shall not be permitted to make any further claims on the Clearing House in respect of amounts relating to the ForexClear Service, nor shall it be permitted to notify the Clearing House of a Termination Date pursuant to Regulation 39A for a failure to pay any amounts in relation to the ForexClear Service.
- (f) The Clearing House may make the payments due under (d) above in one or more instalments to the FXCCMs in proportion to the value of their claims on the Clearing House under (b) above if some but not all of the amounts due under (d) or Rule 16(a) to 16(g) above have not yet been received. The Clearing House shall take reasonable steps to recover such amounts and may deduct therefrom reasonable administration costs for such recovery. To the extent that the Clearing House determines that any such amounts will not in fact be recoverable, it shall re-determine the amounts due to FXCCMs in accordance with this Rule F11.

- (g) This Rule F11 shall not be applied in the event that a Termination Date has been specified in relation to the Clearing House in accordance with Regulation 39A.
- (h) Nothing in the foregoing shall override the obligation of the Clearing House to return non-cash Collateral transferred to it in respect of initial margin ~~provided by way of security to a FXCCM pursuant to its~~ the Regulations and Procedures.

## F12. Ballot Arrangements

- (a) Notwithstanding anything to the contrary in clauses 9.4 and 9.5 of the Clearing Membership Agreement, no proposal for any of the amendments set out in paragraphs (i), (ii) and (iii) below (each a "**ForexClear Amendment**") shall be capable of coming into effect unless first approved in a ballot of FXCCMs:
  - (i) any amendment to the value of the ForexClear Fund Floor as provided for in paragraph (c) of Rule F2 or as subsequently approved in a ballot under this Rule F12;
  - (ii) any amendment providing for a change in the nature of the liabilities for which an FXCCM's indemnity is given by virtue of paragraph (b) of Rule 28; and
  - (iii) any amendment which, in the opinion of the Board of Directors of the Clearing House would represent a significant change in the commitments of the FXCCMs but not in the commitments of any other Clearing Members,
- (b) For the purposes of a ballot conducted pursuant to this Rule F12, the provisions of clauses 9.4, 9.6 and 9.7 of the Clearing Membership Agreement shall apply with the following amendments:
  - (i) the words "major amendment to the Default Fund Rules" in the first line of clause 9.4 of the Clearing Membership Agreement shall be replaced with the words "ForexClear Amendment";
  - (ii) all references to "Clearing Members" shall be replaced with references to "FXCCMs";
  - (iii) in paragraph (c) of clause 9.4 of the Clearing Membership Agreement, the reference to "Contributions" shall be replaced with a reference to "ForexClear Contributions" and the reference to "Quarter Day" shall be replaced with a reference to "ForexClear Determination Date";
  - (iv) references to "Fund Amount" in clauses 9.6 and 9.7 of the Clearing Membership Agreement shall be replaced with references to "ForexClear Fund Amount";
  - (v) the reference to "clause 9.4" in clause 9.6 of the Clearing Membership Agreement shall be replaced with a reference to "Rule F12 of the ForexClear Default Fund Supplement to the Default Fund Rules"; and

- (vi) the references to "Contribution" in clauses 9.6 and 9.7 of the Clearing Membership Agreement shall be replaced with references to "ForexClear Contribution".
  - (c) Only General Clearing Members shall be entitled to vote in a ballot conducted under clauses 9.4 and 9.5 of the Clearing Membership Agreement in relation to an amendment which affects exclusively any one or combination of: (i) the EquityClear Fund Amount; (ii) the Exchange Fund Amount; (iii) the nature of the liabilities for which a General Clearing Member's indemnity is given by virtue of paragraph (b) of Rule 28; or (iv) any amendment which, in the opinion of the Board of Directors of the Clearing House would represent a significant change in the commitments of the General Clearing Members but not in the commitments of any other Clearing Members. As a result, for the purposes of a ballot conducted under clauses 9.4 and 9.5 of the Clearing Membership Agreement other than a Cross-Service Ballot, references to "Clearing Members" shall not include FXCCMs who are not also General Clearing Members and ForexClear Contributions shall not count as "Contributions".
- F13. For the purposes of this paragraph (c) of this Rule F12, a "Cross-Service Ballot" shall mean: (i) a ballot in relation to an amendment which represents a significant change in the commitments of all of the Clearing Members of the Clearing House or of a significant section of such Clearing Members of the Clearing House who are so categorised together, irrespective of and independently from, the Services which they clear; and, as such (ii) a ballot which falls within paragraph (c) of clause 9.5 of the Clearing Membership Agreement (because, in the opinion of the Board of Directors of the Clearing House, it is an amendment which "would represent a significant change in the commitments of... a significant section of the Clearing Members") but does not fall within paragraph (a)(iii) of this Rule F12, paragraph (a)(iii) of Rule S12 and/or paragraph (a)(ii) of Rule R12 (because the relevant section of the Clearing Members is not restricted to Clearing Members acting in the capacity of Clearing Members in ForexClear, SwapClear and/or RepoClear).

**SwapClear Default Fund Supplement**

- S1. On each business day, the Clearing House will determine a "**Combined Loss Value**" in respect of each of the 60 preceding business days. The Combined Loss Value in respect of a particular day will be the sum of the largest and the second largest stress-testing loss incurred on that day in relation to SwapClear Business (for a given scenario).
- S2. Each SCM's SwapClear Contribution (other than a SwapClear Unfunded Contribution) shall be determined by the Clearing House in accordance with the following provisions:
- (a) determinations will be made by the Clearing House at the close of business on the first business day of each month, and otherwise in accordance with paragraph (p) below (each a "**SwapClear Determination Date**"). In addition, the amount payable in respect of the SwapClear Contribution of an SCM which is a New Member will be determined on the date that the relevant New Member joins the SwapClear Service. Notwithstanding the foregoing, following a Default, any determinations on a SwapClear Determination Date and any such SwapClear Determination Date which might otherwise have occurred under this Rule S2 shall be suspended for the duration of the period (the "**SwapClear Default Period**") commencing on the date of such Default and terminating on the last to occur of the following dates:
    - i the date which is the close of business on the day falling 30 calendar days after the SwapClear Default Management Process Completion Date in relation to such Default (or, if such day is not a business day, the next succeeding business day); and
    - ii where, prior to the end of the period referred to in (i) above (or such period as has already been extended pursuant to this sub-paragraph (ii)) one or more subsequent Defaults (each a "**Relevant Default**") occur, the date which is the close of business on the day falling 30 calendar days after the SwapClear Default Management Process Completion Date in relation to a Relevant Default which falls latest in time (or, if such day is not a business day, the next succeeding business day);
  - (b) the "**SwapClear Segregated Fund Amount**" shall be denominated in pounds sterling, and, for a given SwapClear Determination Date, shall be the largest of the 60 Combined Loss Values determined under Rule S1 plus 10%. The SwapClear Segregated Fund Amount shall not be less than £1 billion pounds (the "**SwapClear Fund Floor**") and shall not be more than £5 billion pounds (the "**SwapClear Fund Cap**");
  - (c) the "**SwapClear Tolerance Amount**" shall be the value of that portion of the SwapClear Segregated Fund Amount which relates to those SwapClear default fund resources which have been determined by the Clearing House as being required in relation to SwapClear Tolerance;
  - (d) the "**SwapClear Tolerance Weight**" of an SCM (other than an SCM which is a New Member) shall be calculated by dividing (i) the average SwapClear Tolerance Utilisation of the relevant SCM during the 20 business day period preceding the relevant SwapClear Determination Date in respect of all SwapClear Contracts to which such SCM is a party, which average shall be

calculated by adding together the peak SwapClear Tolerance Utilisation of such SCM for each relevant business day and then dividing such sum by 20 provided that: (x) for SCMs where the peak SwapClear Tolerance Utilisation does not yet exist or is otherwise unavailable in respect of a business day, the Clearing House shall estimate the relevant peak SwapClear Tolerance Utilisation by reference to the actual or expected level of clearing activity of the relevant SCM in relation to SwapClear Contracts; by (ii) the total of such average SwapClear Tolerance Utilisations of all Non-Defaulting SCMs other than SCMs which are New Members;

- (e) the value of the "**SwapClear Tolerance Contribution Amount**" of: (x) an SCM (other than an SCM which is a New Member) shall be calculated by multiplying the SwapClear Tolerance Amount by the SCM's SwapClear Tolerance Weight, provided that (i) where that calculation results in a value which is less than or equal to £3 million pounds, or in the case of a New Member, the value of the relevant SCM's SwapClear Tolerance Contribution Amount shall be £3 million pounds; and (ii) where that calculation results in a value which is greater than or equal to £30 million pounds, the value of the relevant SCM's SwapClear Tolerance Contribution Amount shall be £30 million pounds; and (y) a New Member shall be £3 million pounds PROVIDED FURTHER that where, as a result of the adjustments in individual SCM SwapClear Tolerance Contribution Amounts as described in this paragraph, the aggregate of the SwapClear Tolerance Contribution Amounts is greater or less than the SwapClear Tolerance Amount the Clearing House will adjust SCMs individual SwapClear Tolerance Contribution Amounts such that the aggregate of the SwapClear Tolerance Contributions equals the SwapClear Tolerance Amount;
- (f) the "**SwapClear Non-Tolerance Amount**" shall be the value of that portion of the SwapClear Segregated Fund Amount which relates to SwapClear default fund resources other than those which have been determined by the Clearing House as being required in relation to SwapClear Tolerance;
- (g) the "**SwapClear Non-Tolerance Weight**" of an SCM (other than an SCM which is a New Member) shall be calculated by dividing (i) the average daily ~~requirement for initial margin requirement~~ (as calculated under the Procedures or other arrangements applicable) which has applied to the SCM during the 20 business day period preceding the relevant SwapClear Determination Date in respect of all SwapClear Contracts to which such SCM is a party by (ii) the total of such average daily requirements applied to all Non-Defaulting SCMs other than SCMs which are New Members;
- (h) the "**SwapClear Non-Tolerance Contribution Amount**" of an SCM other than an SCM which is a New Member shall be calculated by multiplying that SCM's SwapClear Non-Tolerance Weight by the SwapClear Non-Tolerance Amount;
- (i) the "**SwapClear Contribution**" of: (x) an SCM (other than an SCM which is a New Member) shall be the sum of (i) that SCM's SwapClear Non-Tolerance Contribution Amount adjusted, where applicable, in accordance with paragraph (j) or (o) below; and (ii) that SCM's Tolerance Contribution Amount; and (y) an SCM which is a New Member shall be calculated in accordance with S4.

- (j) if an SCM's SwapClear Non-Tolerance Contribution Amount (calculated in accordance with paragraph (h) above) is below the Minimum Non-Tolerance SwapClear Contribution for the time being, the SCM's SwapClear Non-Tolerance Contribution Amount shall be adjusted so as to the Minimum Non-Tolerance SwapClear Contribution. Provided that where, as a result of the adjustments in individual SCM SwapClear Non-Tolerance Contributions Amounts as described in this paragraph, the aggregate of the SwapClear Non-Tolerance Contribution Amounts is greater than the SwapClear Non-Tolerance Amount the Clearing House will adjust individual SwapClear Non-Tolerance Contribution Amounts such that the aggregate of the SwapClear Non-Tolerance Contributions equals the SwapClear Non-Tolerance Amount;
- (k) the "**SwapClear Actual Total**" shall be calculated by adding together (i) the amount which is the product of the Minimum Non-Tolerance SwapClear Contribution and the number of Minimum SwapClear Contribution Members; and (ii) the aggregate SwapClear Non-Tolerance Contribution Amounts (calculated in accordance with paragraph (h) above) of those SCMs which are not Minimum SwapClear Contribution Members; (iii) the aggregate SwapClear Tolerance Contribution Amounts of all SCMs other than SCMs which are New Members; and (iv) the aggregate SwapClear Contributions of all SCMs which are New Members;
- (l) where the SwapClear Actual Total is greater than the SwapClear Fund Cap, the "**SwapClear Excess**" shall be the arithmetical difference between the SwapClear Actual Total and the SwapClear Fund Cap;
- (m) where the SwapClear Actual Total is less than the SwapClear Fund Floor, the "**SwapClear Shortfall**" shall be the arithmetical difference between the SwapClear Fund Floor and the SwapClear Actual Total;
- (n) for each SCM other than a Minimum SwapClear Contribution Member or a New Member: (i) the SCM's "**SwapClear Discount**" (if any) shall be such SCM's *pro rata* share of the SwapClear Excess calculated as the proportion of such SCM's SwapClear Non-Tolerance Contribution Amount relative to the aggregate SwapClear Non-Tolerance Contribution Amounts of all SCMs other than Minimum SwapClear Contribution Members and New Members; and (ii) the SCM's "**SwapClear Increase**" (if any) shall be such SCM's *pro rata* share of the SwapClear Shortfall calculated as the proportion of such SCM's SwapClear Non-Tolerance Contribution Amount relative to the aggregate SwapClear Non-Tolerance Contribution Amounts of all SCMs other than Minimum SwapClear Contribution Members and New Members;
- (o) for each SCM other than a Minimum SwapClear Contribution Member or a New Member, the SCM's SwapClear Non-Tolerance Contribution Amount shall be adjusted by (i) the subtraction of any SwapClear Discount applicable to the SCM; or (ii) plus the addition of any SwapClear Increase applicable to the SCM; provided that if the application of any SwapClear Discount would result in a SwapClear Non-Tolerance Contribution Amount of an SCM that is less than the Minimum Non-Tolerance SwapClear Contribution, such SCM shall pay the Minimum Non-Tolerance SwapClear Contribution in respect of the SwapClear Non-Tolerance Contribution Amount applicable to it, notwithstanding that the arithmetical sum of SwapClear Contributions paid by all SCMs may thereby exceed the SwapClear Fund Cap; and

- (p) the Clearing House may recalculate the SwapClear Segregated Fund Amount and the SwapClear Contributions due from each SCM on any business day if the largest of the 60 Combined Loss Values determined under Rule S1 on that day differs by more than 25% from the Combined Loss Value on which the previous SwapClear Contribution determination was based and, on such business day, the Clearing House shall be entitled to require those SCMs whose portfolios have caused the increase in the Combined Loss Value to pay an additional amount in respect of their SwapClear Contributions.
- S3. For the purposes of the calculations under Rule S2:
- (a) references to "SwapClear Clearing Members" or "SCMs" do not include references to Defaulting SCMs (apart from any Defaulting SCM in respect of which the Clearing House permits the application of Rule S2) or persons which were formerly SCMs but are not SCMs at the SwapClear Determination Date at which the relevant determination is made;
- (b) Contributions shall be rounded upwards, if not already such a multiple, to the next integral multiple of one thousand pounds, notwithstanding that the arithmetical sum of SwapClear Contributions paid by all SCMs may thereby exceed the SwapClear Fund Cap; and
- (c) no account shall be taken, in calculating the initial margin requirement or SwapClear Non-Tolerance Weight under Rule S2 of any offsets in the initial margin required for SwapClear Contracts from an SCM, which may otherwise be permissible under the Procedures or other arrangements applicable.
- Provided that the SCM is not a defaulter, the amount of its SwapClear Contribution shall be calculated in accordance with and subject to Rule S2. The provisions of Rule S2 and this Rule do not apply to a Defaulting SCM, unless the Clearing House so permits in any particular case.
- S4. Without prejudice to any other requirements which the Clearing House may impose, the amount of the SwapClear Contribution of a New Member shall be the sum of (a) the Minimum Non-Tolerance SwapClear Contribution; (b) the SwapClear Tolerance Contribution Amount; -and (c) any supplementary sum determined by the Clearing House in its discretion and notified to the New Member. The Clearing House shall determine the amount of such supplementary sum by reference to the actual or expected level of clearing activity of the New Member.
- S5. Upon determination of the amount of a SwapClear Contribution in accordance with Rule S2:
- (a) If the amount of the SwapClear Contribution of an SCM immediately before close of business on the relevant SwapClear Determination Date exceeds the amount of the SCM's SwapClear Contribution as determined under Rule S2 as at close of business on that day, the excess shall be paid by the Clearing House to such SCM in accordance with the Procedures;
- (b) if the amount of the SwapClear Contribution of an SCM immediately before close of business on the relevant SwapClear Determination Date is the same as the amount of the SCM's SwapClear Contribution as so determined, no sum shall then be payable by or to such SCM in respect of its Contribution; and



- (c) If the amount of the SwapClear Contribution of an SCM immediately before close of business on the relevant SwapClear Determination Date is less than the amount of the SCM's SwapClear Contribution as so determined, the shortfall shall be paid by such SCM to the Clearing House in accordance with the Procedures.

The provisions of this Rule do not apply to a Defaulting SCM, unless the Clearing House so permits in any particular case.

- S6. On any day interest shall accrue on the amount of each SwapClear Contribution then held by the Clearing House, to the extent that it has not been applied under Rule 26 or Rule 28, in such manner as provided by the Procedures and at a SONIA-linked rate determined, in light of market conditions at such time, by the Clearing House from time to time and notified by the Clearing House to SwapClear Clearing Members. Interest shall be payable in arrear and shall be paid on the date or dates specified by the Procedures. In these Default Fund Rules any interest which has accrued under this Rule shall not be regarded as part of the SwapClear Contribution. For the avoidance of doubt, if the rate of interest payable on SwapClear Contributions is negative, interest shall be payable by SwapClear Clearing Members to the Clearing House.
- S7. Where, after a Default, the Clearing House has applied part or all of a SwapClear Contribution under Rule 26 or Rule 28, the SwapClear Segregated Fund Amount shall be reduced forthwith by the aggregate amount of the SwapClear Contributions or parts of SwapClear Contributions so applied and the amount of the SwapClear Contribution that each SCM must maintain with the Clearing House shall be reduced by the amount of its SwapClear Contribution which has been applied pursuant to Rule 28, in each case until the next SwapClear Determination Date. Unless and until the Clearing House has repaid a defaulter's SwapClear Contribution (or remaining part thereof, as applicable), the SwapClear Segregated Fund Amount shall be treated as having been reduced by the amount of the defaulter's SwapClear Contribution (if any), regardless of whether the Clearing House has applied part or all of that SwapClear Contribution under Rule 26.
- S8. Where, after a Default, the Clearing House determines that (i) by reason of a reduction in accordance with Rule S7, the value of the SwapClear Segregated Fund Amount has been reduced by at least 25%; or (ii) by the time of the SwapClear Default Management Process Completion Date in relation to the relevant Default the value of the SwapClear Segregated Fund Amount will be reduced by at least 25%, the Clearing House may, by notice in writing (the "**SwapClear Unfunded Contribution Notice**"), require each Non-Defaulting SCM to deposit and maintain an amount (each a "**SwapClear Unfunded Contribution**") in accordance with the following provisions:
  - (a) SwapClear Unfunded Contributions will only be payable in circumstances where the relevant SwapClear Unfunded Contribution Notice is delivered by the Clearing House to SCMs prior to the SwapClear Default Management Process Completion Date in relation to the relevant Default;
  - (b) the value of the SwapClear Unfunded Contribution payable by each individual SCM shall be the product of (i) the percentage by which the value of the SwapClear Segregated Fund Amount has been reduced and (ii) the value of the SwapClear Contribution of such SCM as at the last SwapClear Determination Date prior to the date when the relevant Default occurred;

- (c) the Clearing House may, by the delivery of one or more further SwapClear Unfunded Contribution Notices, require each Non-Defaulting SCM to pay one or more further SwapClear Unfunded Contributions in respect of the same Default, provided that the total value of the SwapClear Unfunded Contributions payable by an individual SCM in respect of a particular Default (determined in accordance with paragraph (b) above) may not exceed the value of the SwapClear Contribution of such SCM as at the last SwapClear Determination Date prior to the date when the relevant Default occurred; and
- (d) following a Default in respect of which SwapClear Unfunded Contributions were paid (the "**First Default**"), the Clearing House may require the payment of further SwapClear Unfunded Contributions in respect of subsequent Defaults, (which, for the avoidance of doubt, can never be a First Default), provided that SwapClear Unfunded Contributions will not be payable in respect of any more than three Defaults in any six month period (commencing on the date of delivery of the first SwapClear Unfunded Contribution Notice in respect of the First Default).

SCMs will be required to deposit the full amount of their SwapClear Unfunded Contributions (without exercising any rights of set-off or counterclaim) with the Clearing House on the business day following receipt of a SwapClear Unfunded Contribution Notice.

For the avoidance of doubt, references to "SCMs" for the purposes of this Rule S8 include any SCM (other than a Defaulting SCM) who is: (i) a Retiring Member but whose status as a Clearing Member has not yet been terminated; and (ii) a Resigning Member whose resignation from the SwapClear Service is not yet effective.

#### **S9. SwapClear Loss Distribution Process**

Where, after a Default, the Clearing House determines that the SwapClear Excess Loss resulting from the Default will exceed the amounts to be applied to it under Rule 16(a) to (g), the Clearing House may implement the process (the "**SwapClear Loss Distribution Process**") described in this Rule S9.

- (a) For the purposes of this Rule S9 and for Rule S11, the following definitions will apply:

**"Actual Base Currency Gains, Losses and Realised Cash Flows by Cash Payment"** means, in respect of each Cash Payment and any business day, the sum of the Pre Haircut Base Currency Gains, Losses and Realised Cash Flows by Cash Payment and any Cash Gainer Base Currency Adjustment to Cash Payment or Cash Loser Base Currency Adjustment to Cash Payment.

**"Auction Portfolio"** has the meaning assigned to it in the SwapClear DMP Annex.

**"Available Resources"** means, in respect of any Loss Distribution Period, the amounts available to the Clearing House for application in meeting any loss suffered or incurred by the Clearing House in accordance with Rule 16(a) to (g) as at the relevant Last Call Prior to Default.

**"Cash Gain"** means, in respect of any Cash Gainer and any Loss Distribution Day, the amount of positive Cumulative Pre Haircut Base Currency Gains Losses and

Realised Cash Flows in respect of such Cash Gainer in respect of such Loss Distribution Day.

"**Cash Gainer**" means, in respect of any Loss Distribution Day, each Margin Account in respect of which the value of the Cumulative Pre Haircut Base Currency Gains Losses and Realised Cash Flows on such Loss Distribution Day is greater than zero.

"**Cash Gainer Base Currency Adjustment to Cash Payment**" has the meaning set out in paragraph (b)(i) of this Rule S9.

"**Cash Gainer Payment Currency Adjustment to Cash Payment**" has the meaning set out in paragraph (b)(i) of this Rule S9.

"**Cash Loser**" means, in respect of any Loss Distribution Day, each Margin Account in respect of which the value of the Cumulative Pre Haircut Base Currency Gains Losses and Realised Cash Flows on such Loss Distribution Day is equal to or less than zero.

"**Cash Loser Base Currency Adjustment to Cash Payment**" has the meaning set out in paragraph (b)(ii) of this Rule S9.

"**Cash Loser Payment Currency Adjustment to Cash Payment**" has the meaning set out in paragraph (b)(ii) of this Rule S9.

"**Cash Payment**" means, in respect of any business day, the aggregated amount which would be paid by the Clearing House to a Non-Defaulting SCM (expressed as a positive number) or by such SCM to the Clearing House (expressed as a negative number) in respect of a Cash Payment Type in a Cash Payment Currency on such business day.

"**Cash Payment Currency**" means each of the 17 currencies in which payments made between the Clearing House and an SCM may be denominated.

"**Cash Payment Type**" means each of the Price Alignment Interest, coupon payments, consideration (fee) payments and cash Collateral transferable in respect of variation margin payable obligations in respect of a Margin Account of a Non-Defaulting SCM.

"**Cumulative Actual Base Currency Gains, Losses and Realised Cash Flows**" means in respect of each Margin Account of each Non-Defaulting SCM and any business day, the sum of the Cumulative Actual Base Currency Gains, Losses and Realised Cash Flows by Cash Payments payable on such Margin Account.

"**Cumulative Actual Base Currency Gains, Losses and Realised Cash Flows by Cash Payment**" means, in respect of each Cash Payment and any business day, the aggregate amount, if any, paid by the Clearing House to a Non-Defaulting SCM (expressed as a positive number) or by such SCM to the Clearing House (expressed as a negative number) in respect of Actual Base Currency Gains, Losses and Realised Cash Flows by Cash Payment from but excluding the relevant Last Call Prior to Default to and including such business day.

"**Cumulative LCH Transfer Cost**" means, on any business day during any Loss Distribution Period, the sum of any LCH Transfer Cost for each day from but excluding the relevant Last Call Prior to Default to and including such business day.

**"Cumulative Pre Haircut Base Currency Gains Losses and Realised Cash Flows"** means, in respect of each Margin Account of each Non-Defaulting SCM and any business day, the sum of the Cumulative Pre Haircut Base Currency Gains Losses and Realised Cash Flows by Cash Payments payable on such Margin Account.

**"Cumulative Pre Haircut Base Currency Gains Losses and Realised Cash Flows by Cash Payment"** means, in respect of each Cash Payment and any business day, the sum of the Pre Haircut Base Currency Gains, Losses and Realised Cash Flows by Cash Payment for such Cash Payment for each day from but excluding the relevant Last Call Prior to Default to and including such business day.

**"Distribution Haircut"** or **"DH"** means, on each Loss Distribution Day, the fraction determined by the Clearing House in accordance with the following formula:

$$DH(t) = LUL(t) / TCG(t)$$

where:

**"LUL"** means the LCH Uncovered Loss; and

**"TCG"** means the Total Cash Gains.

**"Last Call Prior to Default"** means the most recent business day on which ~~payments the margin obligations of cover required to be made by the~~ SCMs were made/discharged in full.

**"LCH Transfer Cost"** means the cost (converted, where applicable, into pounds sterling at a rate of exchange determined by the Clearing House in its sole discretion) to the Clearing House of transferring the rights and obligations arising out of the Auction Portfolios of a Defaulting SCM to those SCMs who have successfully bid for such Auction Portfolios in Auctions.

**"LCH Uncovered Loss"** means, in respect of the Clearing House on any business day in any Loss Distribution Period, the amount calculated in accordance with the following formula:

$$LCH \text{ Uncovered Loss}(t) = \text{Max} (0, (TCPH (t) + CLC(t) - TAR))$$

where:

**"TCPH"** means the Total Cumulative Pre Haircut Base Currency Gains losses and Realised Cash Flows;

**"CLC"** means the Cumulative LCH Transfer Cost;

**"TAR"** means the Total Available Resources; and

the LCH Uncovered Loss as at the Last Call Prior to Default shall be zero.

**"Loss Distribution Cap Amount"** means, in respect of each Non-Defaulting SCM and any Loss Distribution Period, an amount equal to the higher of (i) £100,000,000; (ii) the product of (a) 100 per cent. and (b) the SwapClear Contribution of such Non-Defaulting SCM as at the last SwapClear Determination Date prior to the date when

the Default occurred at the beginning of that Loss Distribution Period; and (iii) any adjusted cap as may be agreed pursuant to paragraph (d) of this Rule S9.

**"Loss Distribution Day"** means any business day in a Loss Distribution Period on which the Clearing House, in consultation with the SwapClear DMG, prior to calling for: (i) ~~cover~~ Collateral in respect of margin obligations in accordance with the provisions of the Procedures; and (ii) Required Collateral, on such business day, determines that the LCH Uncovered Loss for that business day is greater than zero.

**"Loss Distribution Period"** means the period from, but excluding, the day on which a Default occurs with respect to an SCM to but excluding the earlier of: (i) the business day on which (a) the rights and obligations arising out of the Auction Portfolios of the Defaulting SCM are transferred to those SCMs which have successfully bid for such Auction Portfolios in Auctions, or, if any Default occurs with respect to any other SCM prior to the end of a Loss Distribution Period, the rights and obligations arising out of the Auction Portfolios of any subsequent Defaulting SCM are transferred to those SCMs who have successfully bid for such Auction Portfolios in Auctions and (b) all payments required to be made by such SCMs and/or the Clearing House in respect of such Auction(s) have been made in full; or (ii) any Loss Distribution Day in respect of which the Clearing House determines that the SCM Adjustment Amount for any SCM would be equal to or greater than the Loss Distribution Cap Amount for such Loss Distribution Day.

**"Margin Account"** means each Proprietary Account, Individual Segregated Account, Omnibus Net Segregated Account and each FCM Client Segregated Sub-Account related to the SwapClear Service of an SCM.

**"Payment Currency Adjustment to Cash Payment"** means one or more Cash Gainer Payment Currency Adjustment to Cash Payment(s) and/or one or more Cash Loser Payment Currency Adjustment to Cash Payment(s).

**"Pre Haircut Base Currency Gains, Losses and Realised Cash Flows by Cash Payment"** means, in respect of each Cash Payment and any business day, the amount (converted, where applicable, into pounds sterling at the Rate of Exchange which would be paid by the Clearing House to a Non-Defaulting SCM (expressed as a positive number) or by such SCM to the Clearing House (expressed as a negative number) on such business day in the absence of the application of the Distribution Haircut.

**"Rate of Exchange"** means, for any day, the applicable rate of exchange for converting one currency into another as determined by the Clearing House by reference to Reuters;

**"SCM Adjustment Amount"** means in respect of the Margin Account(s) of any Non-Defaulting SCM and any Loss Distribution Day, an amount equal to the sum of the Cumulative Pre Haircut Base Currency Gains Losses and Realised Cash Flows in respect of such Margin Account(s) of such SCM less the sum of the Cumulative Actual Base Currency Gains, Losses and Realised Cash Flows in respect of such Margin Account(s) of such Clearing Member, in each case in respect of the Loss Distribution Period in which such Loss Distribution Day falls.

**"t"** means, in respect of any determination made in relation to a business day, such business day.

"**t-1**" means, in respect of any determination made in relation to a business day, the business day immediately prior to such business day.

"**Total Available Resources**" means, on any business day during a Loss Distribution Period the sum of (i) the Available Resources and (ii) any Unfunded Contributions deposited with the Clearing House since the relevant Last Call Prior to Default.

"**Total Cash Gains**" means, in respect of any business day, the sum of the Cash Gain in respect of all Cash Gainers on such business day.

"**Total Cumulative Pre Haircut Base Currency Gains losses and Realised Cash Flows**" means, in respect of any business day the sum of all Total Cumulative Pre Haircut Base Currency Gains Losses and Realised Cash Flows by Cash Payments.

"**Total Cumulative Pre Haircut Base Currency Gains Losses and Realised Cash Flows by Cash Payment**" means, in respect of any business day, the sum of the Total Pre Haircut Base Currency Gains Losses and Realised Cash Flows by Cash Payment for each business day from but excluding the relevant Last Call Prior to Default to and including such business day.

"**Total Pre Haircut Base Currency Gains Losses and Realised Cash Flows by Cash Payment**" means, in respect of any business day, the sum of the Pre Haircut Base Currency Gains Losses and Realised Cash Flows by Cash Payment in respect of all Margin Accounts of all Non-Defaulting SCMs on such business day.

"**Underlying Cash Payment**" means, in respect of a Cash Gainer Base Currency Adjustment to Cash Payment or a Cash Loser Base Currency Adjustment to Cash Payment, the Cash Payment in respect of which such Cash Gainer Base Currency Adjustment to Cash Payment or Cash Loser Base Currency Adjustment to Cash Payment is calculated.

(b) Adjustment of Underlying Cash Payments

i Cash Gainer

On each Loss Distribution Day for each Margin Account of each Non-Defaulting SCM which is deemed to be a Cash Gainer, the relevant SCM shall be required to pay the Clearing House an amount equal to each positive amount determined as follows or, as applicable, the Clearing House shall be required to pay the relevant SCM the absolute value of each negative amount determined as follows (in each case, such amount the "**Cash Gainer Payment Currency Adjustment to Cash Payment**"):

The Cash Gainer Payment Currency Adjustment to Cash Payment is the value of the amount determined in accordance with the formula below (the "**Cash Gainer Base Currency Adjustment to Cash Payment**") converted at the Rate of Exchange into the Cash Payment Currency in which the relevant Underlying Cash Payment is denominated

where:

Cash Gainer Base Currency Adjustment to Cash Payment (t) =  $PHG(t) - (CHG(t) * \text{Max}(0, 1 - DH(t)) - CAG(t-1))$

"**PHG**" means the Pre Haircut Base Currency Gains Losses and Realised Cash Flows by Cash Payment;

"**CHG**" means the Cumulative Pre Haircut Base Currency Gains Losses and Realised Cash Flows by Cash Payment;

"**DH**" means the Distribution Haircut; and

"**CAG**" means the Cumulative Actual Base Currency Gains, Losses and Realised Cash Flows by Cash Payment and where "CAG" as at the Last Call Prior to Default shall be zero.

ii **Cash Loser**

On each Loss Distribution Day for each Margin Account of each Non-Defaulting SCM which is deemed to be a Cash Loser, the Clearing House shall be required to pay the absolute value of each amount (the "**Cash Loser Payment Currency Adjustment to Cash Payment**") determined as follows:

The Cash Loser Payment Currency Adjustment to Cash Payment is the value of the amount determined in accordance with the formula below (the "**Cash Loser Base Currency Adjustment to Cash Payment**") converted at the Rate of Exchange into the Cash Payment Currency in which the relevant Underlying Cash Payment is denominated

Where

Cash Loser Base Currency Adjustment to Cash Payment(t) = PHG(t) – (CHG(t) – CAG(t-1))

"**PHG**" Pre Haircut Base Currency Gains Losses and Realised Cash Flows by Cash Payment;

"**CHG**" means the Cumulative Pre Haircut Base Currency Gains Losses and Realised Cash Flows by Cash Payment; and

"**CAG**" means the Cumulative Actual Base Currency Gains, Losses and Realised Cash Flows by Cash Payment and where "CAG" as at the Last Call Prior to Default shall be zero.

iii **Application of Payment Currency Adjustment to Cash Payment**

On each Loss Distribution Day, the Clearing House shall apply the payment or receipt of any Payment Currency Adjustment to Cash Payment as an offset against any payments denominated in the same Cash Payment Currency as the relevant Payment Currency Adjustment to Cash Payment due from or receivable by the relevant SCM.

iv **Adjustment for exchange of Notional Amounts on maturity**

an exchange of Notional Amounts is applicable to any SwapClear Contract on any business day during a Loss Distribution Period, the Clearing House may, following consultation with its risk committee or the SwapClear DMG, as appropriate, make such adjustments as are necessary to the calculation of a Payment Currency Adjustment to Cash Payment to reflect the payment flows

arising from such exchange of Notional Amounts, keeping in mind the principle that the calculation of a Payment Currency Adjustment to Cash Payment is designed to capture all profits and/or losses on positions during the relevant Loss Distribution Period.

(c) **Application of Cash Gainer Payment Currency Adjustment to Cash Payment**

The Clearing House shall apply all payments it receives in respect of Cash Gainer Payment Currency Adjustment to Cash Payments solely for the purposes of meeting any loss incurred by the Clearing House following, and in relation to, each Default, as contemplated in accordance with Rule 16(a) to (g).

(d) **Adjustment to Loss Distribution Cap Amount**

If, during a Loss Distribution Period, the Clearing House considers that the Cash Gainer Payment Currency Adjustment to Cash Payments applied to a particular Margin Account of an SCM are, or are about to be equal to or greater than the Loss Distribution Cap Amount, the Clearing House may propose an adjustment to such Loss Distribution Cap Amount. If agreed by all Non-Defaulting SCMs, the Loss Distribution Cap Amount as adjusted pursuant to this paragraph (d) shall be applicable for the remainder of the relevant Loss Distribution Period.

(e) **No Rebate**

The payment to the Clearing House by any SCM of any Cash Gainer Payment Currency Adjustment to Cash Payment shall be final and shall not give rise to any obligation of the Clearing House to repay any such amount or to pay any interest thereon.

(f) **Application of any Recoveries**

If the SwapClear Loss Distribution Process has been invoked by the Clearing House in accordance with this Rule S9, the Clearing House shall reimburse the SCMs (irrespective of whether they remain SCMs at the time of the recovery) and the Clearing House on a *pro rata* basis by reference to the resources which have been applied pursuant to Rule 16(a) to (g) and including the net amount of any one or more paid by the relevant SCMs:

- i any amounts received from the Defaulting SCM as a result of the Clearing House being a creditor of the Defaulting SCM in respect of the SwapClear Business of such Defaulting SCM in the context of the occurrence of any of the events under Rule 5(i) to (p) in respect of the Defaulting SCM or otherwise, other than in respect of sums due to the Clearing House for its own account; or
- ii any other amounts howsoever obtained or recovered in the course of the Clearing House's operation of the SwapClear Default Management Process or which are otherwise referable to the Defaulting SCM,

in each case net of any related expenses incurred by the Clearing House or other sums owing to the Clearing House by the Defaulting SCM in connection with the SwapClear clearing service. For the avoidance of doubt, nothing in



this paragraph (f) shall oblige the Clearing House to pursue any litigation or other action in order to recover the amounts contemplated above and if another default fund of the Clearing House has also been applied as a result of the SCM's Default, any amounts recovered shall be applied *pari passu* as between the relevant default funds.

S10. Where, after the Default of one or more SCMs, the Clearing House determines that, notwithstanding the availability of any resources remaining under Rule 16(a) to (g) and the availability of the SwapClear Loss Distribution Process in accordance with the terms of Rule S9, it is clear that the Clearing House does not have sufficient resources to meet its obligations and liabilities arising in respect of those SwapClear Contracts to which it is party with Non-Defaulting SCMs, the Clearing House will by notice in writing (a "**SwapClear Voluntary Payment Notice**"): (i) inform all Non-Defaulting SCMs that it has insufficient resources and that it is likely to invoke Rule S11; and (ii) invite each Non-Defaulting SCM to make a payment of funds (a "**SwapClear Voluntary Payment**"), in accordance with Rule 16(g), to make up for the relevant shortfall.

- (a) SwapClear Voluntary Payments will be made on the following terms:
- (b) no SCM shall be obliged to make a SwapClear Voluntary Payment;
- (c) any SwapClear Voluntary Payment will be made by an SCM by the close of business on the business day after receipt of the relevant SwapClear Voluntary Payment Notice;
- (d) no SwapClear Voluntary Payment may be withdrawn once made; and
- (e) the Clearing House shall full discretion whether or not to accept a particular SwapClear Voluntary Payment.

Any failure by the Clearing House to deliver a SwapClear Voluntary Payment Notice pursuant to this Rule S10 will not invalidate any action taken by the Clearing House pursuant to Rule S11 nor give rise to any liability whatsoever on the part of the Clearing House.

Any SwapClear Voluntary Payments remaining unused at the time of the expiry of the relevant SwapClear Default Period will be accounted for rateably by the Clearing House as if they were amounts paid in respect of the SwapClear Contributions of those SCMs from whom SwapClear Voluntary Payments were accepted.

S11. Where, following the process for inviting SwapClear Voluntary Payments in accordance with Rule S10, the Clearing House makes a determination (an "**Insufficient Resources Determination**") that it is clear that the Clearing House does not have sufficient resources to meet its obligations and liabilities arising in respect of those SwapClear Contracts to which it is party with Non-Defaulting SCMs, the following provisions shall have effect:

- (a) All outstanding SwapClear Contracts shall be closed out as of the clearing day following the date the Insufficient Resources Determination was made and any further obligations to make any payments under or in respect of such SwapClear Contracts shall cease. The closing prices used shall be mid prices calculated by the Clearing House in accordance with the methodology used by it to carry out end of day margin runs in respect of the outstanding SwapClear Contracts. Where such data is not available to the Clearing

House, the closing price shall be the last price used by the Clearing House to calculate the variation margin requirement for the position to be closed out.

- (b) On the basis of the close out values established for each outstanding SwapClear Contract, an account shall be taken (as at the time of close out) of what is due in respect of each SCM, from that SCM to the Clearing House and from the Clearing House to that SCM, as well as all other amounts owing under or in respect of SwapClear Contracts and any other amounts that may be due in respect of the SwapClear Service (including for these purposes, a proportionate share of any amounts owed generally to or from the Clearing House), and the sums due from the SCM shall be set off against the sums due from the Clearing House and only the balance of the account shall be payable. For the avoidance of doubt, amounts in respect of SwapClear Contracts shall include, but not be limited to, returns of cash Collateral held by the Clearing House in respect of the SCM's variation margin associated therewith obligations and the repayment of any Net Cash Gainer Payment Currency Adjustment to Cash Payments made in the SwapClear Default Period to which the Insufficient Resources Determination relates (and in respect of which S9(e) shall be specifically disapplied), but shall exclude the repayment of any cash Collateral transferred to the Clearing House in respect of the SCM's initial margin obligations or any outstanding SwapClear Contributions.

To the extent that the aggregate of all of the amounts owed to the Clearing House by SCMs plus all of those other resources applicable to the SwapClear Business under Rule 16(a) to (g) that have not been applied towards a SwapClear Excess Loss is less than the aggregate of the amounts owed to SCMs by the Clearing House, each amount owed to SCMs by the Clearing House shall be reduced pro rata the shortfall.

- (c) The Clearing House shall determine any amounts due to each SCM in respect of the repayment of any cash Collateral held by the Clearing House in respect of the SCM's initial margin obligations and outstanding SwapClear Contributions to be repaid. The claim of each such SCM in respect ~~to~~ of the foregoing shall be reduced in proportion to an amount by which (i) the value of the assets available to the Clearing House to meet the return obligations referred to in (ii) bears to (ii) the value of what would be due from the Clearing House to ~~each~~ the Clearing Members in aggregate in respect of the return of ~~initial margin received from each such~~ cash Collateral held by the Clearing Member House in the form respect of cash the Clearing Members' initial margin obligations and in respect of outstanding Contributions.
- (d) For each SCM, the amount due to it or due from it as determined pursuant to (b) shall be aggregated with its claim determined pursuant to (c) above and only the net sum shall be payable. Where the result of such calculations is that an SCM owes an amount to the Clearing House, that SCM shall pay that amount to the Clearing House immediately. Where the result of such calculations is that an SCM is owed an amount by the Clearing House, the Clearing House shall pay that amount to the SCM immediately, subject to (f) below.
- (e) The payment of such amount to an SCM, pursuant to (d) above subject to any re-calculations performed pursuant to (f) below, shall constitute the full and final payment in respect of the SwapClear Service and such SCM shall not be permitted to make any further claims on the Clearing House in respect of

amounts relating to the SwapClear Service nor shall it be permitted to notify the Clearing House of a Termination Date pursuant to Regulation 39A for a failure to pay any amounts in relation to the SwapClear Service.

- (f) The Clearing House may make the payments due under (d) above in one or more instalments to the SCMs in proportion to the value of their claims on the Clearing House under (b) above if some but not all of the amounts due under (d) or Rule 16(a) to 16(g) above have not yet been received. The Clearing House shall take reasonable steps to recover such amounts and may deduct therefrom reasonable administration costs for such recovery. To the extent that the Clearing House determines that any such amounts will not in fact be recoverable, it shall re-determine the amounts due to SCMs in accordance with this Rule S11.
- (g) This Rule S11 shall not be applied in the event that a Termination Date has been specified in relation to the Clearing House in accordance with Regulation 39A.
- (h) Nothing in the foregoing shall override the obligation of the Clearing House to return non-cash Collateral transferred to it in respect of initial margin ~~provided by way of security to a SCM pursuant to its~~ the Regulations and Procedures.

#### S12. Ballot Arrangements

Notwithstanding anything to the contrary in clauses 9.4 and 9.5 of the Clearing Membership Agreement, no proposal for any of the amendments set out in paragraphs (i), (ii) and (iii) below (each a "**SwapClear Amendment**") shall be capable of coming into effect unless first approved in a ballot of SCMs:

- i any amendment to the value of the SwapClear Fund Floor and/or the value of the SwapClear Fund Cap, in each case as provided for in paragraph (b) of Rule S2 or as subsequently approved in a ballot under this Rule S12;
  - ii any amendment providing for a change in the nature of the liabilities for which an SCM's indemnity is given by virtue of paragraph (c) of Rule 28; and
  - iii any amendment which, in the opinion of the Board of Directors of the Clearing House would represent a significant change in the commitments of the SCMs but not in the commitments of any other Clearing Members,
- (a) For the purposes of a ballot conducted pursuant to this Rule S12, the provisions of clauses 9.4, 9.6 and 9.7 of the Clearing Membership Agreement shall apply with the following amendments:
- i the words "major amendment to the Default Fund Rules" in the first line of clause 9.4 of the Clearing Membership Agreement shall be replaced with the words "SwapClear Amendment";
  - ii all references to "Clearing Members" shall be replaced with references to "SCMs";

- iii in paragraph (c) of clause 9.4 of the Clearing Membership Agreement, the reference to "Contributions" shall be replaced with a reference to "SwapClear Contributions" and the reference to "Quarter Day" shall be replaced with a reference to "SwapClear Determination Date";
  - iv references to "Fund Amount" in clauses 9.6 and 9.7 of the Clearing Membership Agreement shall be replaced with references to "SwapClear Fund Amount";
  - v the reference to "clause 9.4" in clause 9.6 of the Clearing Membership Agreement shall be replaced with a reference to "Rule S12 of the SwapClear Default Fund Supplement to the Default Fund Rules"; and
  - vi the references to "Contribution" in clauses 9.6 and 9.7 of the Clearing Membership Agreement shall be replaced with references to "SwapClear Contribution".
- (b) Only General Clearing Members shall be entitled to vote in a ballot conducted under clauses 9.4 and 9.5 of the Clearing Membership Agreement in relation to an amendment which affects exclusively any one or combination of: (i) the EquityClear Fund Amount; (ii) the Exchange Fund Amount; (iii) the nature of the liabilities for which a General Clearing Member's indemnity is given by virtue of paragraph (b) of Rule 28; or (iv) any amendment which, in the opinion of the Board of Directors of the Clearing House would represent a significant change in the commitments of the General Clearing Members but not in the commitments of any other Clearing Members. As a result, for the purposes of a ballot conducted under clauses 9.4 and 9.5 of the Clearing Membership Agreement other than a Cross-Service Ballot, references to "Clearing Members" shall not include SCMs who are not also General Clearing Members and SwapClear Contributions shall not count as "Contributions".

For the purposes of this paragraph (c) of this Rule S12, a "Cross-Service Ballot" shall mean: (i) a ballot in relation to an amendment which represents a significant change in the commitments of all of the Clearing Members of the Clearing House or of a significant section of such Clearing Members of the Clearing House who are so categorised together, irrespective of and independently from, the Services which they clear; and, as such (ii) a ballot which falls within paragraph (c) of clause 9.5 of the Clearing Membership Agreement (because, in the opinion of the Board of Directors of the Clearing House, it is an amendment which "would represent a significant change in the commitments of... a significant section of the Clearing Members") but does not fall within paragraph (a)(iii) of Rule F12, paragraph (a)(iii) of this Rule S12 and/or paragraph (a)(ii) of Rule R12 (because the relevant section of the Clearing Members is not restricted to Clearing Members acting in the capacity of Clearing Members in ForexClear, SwapClear and/or RepoClear).

**RepoClear Default Fund Supplement**

- R.1 On each business day, the Clearing House will determine the "**Combined Loss Value**" in respect of each of the 20 preceding business days. The Combined Loss Value in respect of a particular day will be the sum of the STLIEOMs for the RCMs which have the largest and the second largest STLIEOM on that day. For this purpose, the "**STLIEOM**" means, in respect of each RCM and any day, the stress-tested loss in excess of the value of the Collateral transferred by that RCM in respect of its initial margin requirement (determined for a given scenario determined by the Clearing House) which could be incurred by the Clearing House in respect of that RCM's RepoClear Business if that RCM became a Defaulting RCM on that day (but taking into account any Collateral in respect of additional margin called pursuant to R2(k) in respect of such RCM).
- R.2 Each RCM's RepoClear Contribution (other than a RepoClear Unfunded Contribution) shall be determined by the Clearing House in accordance with the following provisions:
- (a) determinations will be made by the Clearing House initially on a date determined by the Clearing House and thereafter on the date that an RCM joins the RepoClear Service, and at close of business on the first business day of each subsequent month (each a "**RepoClear Determination Date**") provided, however, that, following a Default, any such determinations and any such RepoClear Determination Date which might otherwise have occurred under this Rule R.2 shall be suspended for the duration of the period (the "**RepoClear Default Period**") commencing on the date of such Default and terminating on the last to occur of the following dates:
- i the date which is the close of business on the day falling 30 calendar days after the RepoClear Default Management Process Completion Date in relation to such Default (or, if such day is not a business day, the next succeeding business day); and
  - ii where, prior to the to the end of the period referred to in (i) above (or such period as has already been extended pursuant to this subparagraph (ii)) one or more subsequent Defaults (each a "**Relevant Default**") occur, the date which is the close of business on the day falling 30 calendar days after the RepoClear Default Management Process Completion Date in relation to a Relevant Default which falls latest in time (or, if such day is not a business day, the next succeeding business day);
- (b) the "**RepoClear Segregated Fund Amount**" shall be denominated in euro, and, for a given RepoClear Determination Date, shall be the largest of the 20 Combined Loss Values determined under Rule R.1 plus 10%. The RepoClear Segregated Fund Amount shall not be less than EUR 500 million or such greater amount as shall be determined by the LCH Risk Committee (the "**RepoClear Fund Floor**") and shall not be more than EUR 620 million or such greater amount as shall be determined by the LCH Risk Committee from time to time on the basis of the stress tests applied to current positions of RCMs (the "**RepoClear Fund Current Maximum Amount**") except that the LCH Risk Committee may not increase the RepoClear Segregated Fund Amount above EUR 1,500 million (the "**RepoClear Fund Cap**") without a ballot of RCMs pursuant to Rule R12;

- (c) the RCM's "**RepoClear Margin Weight**" shall be calculated by dividing the average daily ~~requirement for initial margin~~ requirement (as calculated under the Procedures or other arrangements applicable) which has applied to the RCM during the 20 business day period preceding the relevant RepoClear Determination Date in respect of all Fixed Income Contracts to which such RCM is a party by the total of such average daily requirements applied to all Non-Defaulting RCMs;
- (d) the RCM's "**Preliminary RepoClear Contribution**" shall be calculated by multiplying the RepoClear Segregated Fund Amount by the RCM's RepoClear Margin Weight;
- (e) if the Clearing Member's Preliminary RepoClear Contribution is below the Minimum RepoClear Contribution for the time being, the Clearing Member's RepoClear Contribution shall be the Minimum RepoClear Contribution;
- (f) the "**RepoClear Actual Total**" shall be calculated by adding together (i) the amount which is the product of the Minimum RepoClear Contribution and the number of Minimum RepoClear Contribution Members; and (ii) the aggregate Preliminary RepoClear Contributions of those RCMs which are not Minimum RepoClear Contribution Members;
- (g) where the RepoClear Actual Total is greater than the RepoClear Fund Current Maximum Amount, the "**RepoClear Excess**" shall be the arithmetical difference between the RepoClear Actual Total and the RepoClear Fund Current Maximum Amount;
- (h) where the RepoClear Actual Total is less than the RepoClear Fund Floor, the "**RepoClear Shortfall**" shall be the arithmetical difference between the RepoClear Fund Floor and the RepoClear Actual Total;
- (i) for each RCM other than a Minimum RepoClear Contribution Member: (i) the RCM's "**RepoClear Discount**" (if any) shall be such RCM's *pro rata* share of the RepoClear Excess calculated as the proportion of such RCM's Preliminary RepoClear Contribution relative to the aggregate Preliminary RepoClear Contributions of all RCMs other than Minimum RepoClear Contribution Members; and (ii) the RCM's "**RepoClear Increase**" (if any) shall be such RCM's *pro rata* share of the RepoClear Shortfall calculated as the proportion of such RCM's Preliminary RepoClear Contribution relative to the aggregate Preliminary RepoClear Contributions of all RCMs other than Minimum RepoClear Contribution Members;
- (j) for each RCM other than a Minimum RepoClear Contribution Member, the RCM's RepoClear Contribution shall be the Preliminary RepoClear Contribution (i) less any RepoClear Discount applicable to the RCM or (ii) plus any RepoClear Increase applicable to the RCM; provided that if the application of any RepoClear Discount would result in a RepoClear Contribution less than the Minimum RepoClear Contribution, such RCM shall pay the Minimum RepoClear Contribution notwithstanding that the arithmetical sum of RepoClear Contributions paid by all RCMs may thereby exceed the RepoClear Fund Current Maximum Amount; and
- (k) notwithstanding paragraphs (a) to (j), if any RCM has a STLEIOM which is equal to or greater than 45% of the RepoClear Segregated Fund Amount, the Clearing House may require such RCM to ~~pay~~transfer an amount ~~as of~~

Collateral in respect of additional margin sufficient to reduce STLIEOM for that RCM to less than 45% of the RepoClear Segregated Fund Amount and where such RCMs STLIEOM would be less than 45% excluding any such Collateral in respect of additional margin that has been called, then such ~~additional margin~~ Collateral shall be returned.

- R.3 For the purposes of the calculations under Rules R.1 and R2:
- (a) references to "RepoClear Clearing Members" or "RCMs" do not include references to Defaulting RCMs (apart from any Defaulting RCM in respect of which the Clearing House permits the application of Rule R.2) or persons which were formerly RCMs but are not RCMs at the RepoClear Determination Date at which the relevant determination is made;
  - (b) no account shall be taken, in calculating the initial margin requirement or RepoClear Margin Weight under Rule R.2 of any offsets in the initial margin required for Fixed Income Contracts from an RCM, which may otherwise be permissible under the Procedures or other arrangements applicable;
  - (c) provided that the RCM is not a Defaulting RCM, the amount of its RepoClear Contribution shall be calculated in accordance with and subject to Rule R.2. The provisions of Rule R.2 and this Rule do not apply to a Defaulting RCM, unless the Clearing House so permits in any particular case; and
  - (d) notwithstanding Rule 33, if a RCM notifies the Clearing House on the RepoClear Default Management Process Completion Date that it wishes to resign from the RepoClear Service, such RCM, assuming all other requirements for termination of membership have been satisfied by the next following RepoClear Determination Date, shall cease to be a RCM for the purpose of Rule R.2 on and from the date upon which its RepoClear Contribution is repaid to it by the Clearing House and such payment will be made by the Clearing House following the subsequent RepoClear Determination Date in accordance with the Procedures.
- R.4 Without prejudice to any other requirements which the Clearing House may impose, the amount of the RepoClear Contribution of a New Member on becoming a New Member shall be the sum of (a) the Minimum RepoClear Contribution and (b) any supplementary sum determined by the Clearing House in its discretion and notified to the New Member. The Clearing House shall determine the amount of such supplementary sum by reference to the actual or expected level of clearing activity of the New Member.
- R.5 Upon determination of the amount of a RepoClear Contribution in accordance with Rule R.2:
- (a) if the amount of the RepoClear Contribution of an RCM immediately before close of business on the relevant RepoClear Determination Date exceeds the amount of the RCM's RepoClear Contribution as determined under Rule R.2 as at close of business on that day, the excess shall be paid by the Clearing House to such RCM in accordance with the Procedures;
  - (b) if the amount of the RepoClear Contribution of an RCM immediately before close of business on the relevant RepoClear Determination Date is the same as the amount of the RCM's RepoClear Contribution as so determined, no

sum shall then be payable by or to such RCM in respect of its Contribution;  
and

- (c) if the amount of the RepoClear Contribution of an RCM immediately before close of business on the relevant RepoClear Determination Date is less than the amount of the RCM's RepoClear Contribution as so determined, the shortfall shall be paid by such RCM to the Clearing House in accordance with the Procedures.

RepoClear Contributions shall at all times be denominated in EUR. However, a RCM may pay its RepoClear Contribution in either EUR or GBP in accordance with the Procedures.

The provisions of this Rule do not apply to a Defaulting RCM, unless the Clearing House so permits in any particular case.

- R.6 On any day interest shall accrue on the amount of each RepoClear Contribution then held by the Clearing House, to the extent that it has not been applied under Rule 26 or Rule 28, at such rate and in such manner as provided by the Procedures, provided that the rate of interest for any particular day shall not be less than the EONIA or SONIA rate (as applicable) published on that day (or, in relation to any day for which a EONIA or SONIA rate (as applicable) is not available, the EONIA or SONIA rate (as applicable) most recently published before such day). Interest shall be payable in arrear and shall be paid on the date or dates specified by the Procedures. In these Default Fund Rules any interest which has accrued under this Rule shall not be regarded as part of the RepoClear Contribution.
- R.7 Where, after a Default, the Clearing House has applied part or all of a RepoClear Contribution under Rule 26 or Rule 28, the RepoClear Segregated Fund Amount shall be reduced forthwith by the aggregate amount of the RepoClear Contributions or parts of RepoClear Contributions so applied and the amount of the RepoClear Contribution that each RCM must maintain with the Clearing House shall be reduced by the amount of its RepoClear Contribution which has been applied pursuant to Rule 28, in each case until the next RepoClear Determination Date. Unless and until the Clearing House has repaid a defaulter's RepoClear Contribution (or remaining part thereof, as applicable), the RepoClear Segregated Fund Amount shall be treated as having been reduced by the amount of the defaulter's RepoClear Contribution (if any), regardless of whether the Clearing House has applied part or all of that RepoClear Contribution under Rule 26.
- R.8 Where, after a Default, the Clearing House determines that (i) by reason of a reduction in accordance with Rule R.7, the value of the RepoClear Segregated Fund Amount has been reduced by at least 25%; or (ii) by the time of the RepoClear Default Management Process Completion Date in relation to the relevant Default the value of the RepoClear Segregated Fund Amount will be reduced by at least 25%, the Clearing House may, by notice in writing (the "**RepoClear Unfunded Contribution Notice**"), require each Non-Defaulting RCM to deposit and maintain an amount (each a "**RepoClear Unfunded Contribution**") in accordance with the following provisions:
  - (a) RepoClear Unfunded Contributions will only be payable in circumstances where the relevant RepoClear Unfunded Contribution Notice is delivered by the Clearing House to RCMs prior to the RepoClear Default Management Process Completion Date in relation to the relevant Default;



- (b) the value of the RepoClear Unfunded Contribution payable by each individual RCM shall be the product of (i) the percentage by which the value of the RepoClear Segregated Fund Amount has been reduced and (ii) the value of the RepoClear Contribution of such RCM as at the last RepoClear Determination Date prior to the date when the relevant Default occurred;
- (c) following the payment of a RepoClear Unfunded Contribution in accordance with paragraphs R8(a) and (b), the Clearing House may, by the delivery of one or more further RepoClear Unfunded Contribution Notices, require each Non-Defaulting RCM to pay one or more further RepoClear Unfunded Contributions in respect of the same Default, provided that the total value of the RepoClear Unfunded Contributions payable by an individual RCM in respect of a particular Default (determined in accordance with paragraph (b) above) may not exceed the value of the RepoClear Contribution of such RCM as at the last RepoClear Determination Date prior to the date when the relevant Default occurred; and
- (d) following a Default in respect of which RepoClear Unfunded Contributions were paid (the "**First Default**"), the Clearing House may require the payment of further RepoClear Unfunded Contributions in respect of subsequent Defaults, (which, for the avoidance of doubt, can never be a First Default), provided that RepoClear Unfunded Contributions will not be payable in respect of any more than three Defaults in any six month period (commencing on the date of delivery of the first RepoClear Unfunded Contribution Notice in respect of the First Default).

RCMs will be required to deposit the full amount of their RepoClear Unfunded Contributions (without exercising any rights of set-off or counterclaim) with the Clearing House on the business day following receipt of a RepoClear Unfunded Contribution Notice.

For the avoidance of doubt, references to "RCMs" for the purposes of this Rule R.8 include any RCM (other than a Defaulting RCM) who is: (i) a Retiring Member but whose status as a Clearing Member has not yet been terminated; and (ii) a Resigning Member whose resignation from the RepoClear Service is not yet effective.

#### R.9 RepoClear Loss Distribution Process

Where, after a Default, the Clearing House determines that the RepoClear Excess Loss resulting from the Default will exceed the amounts to be applied to it under Rule 16(a) to (g), the Clearing House may implement the process (the "**RepoClear Loss Distribution Process**") described in this Rule R.9.

- (a) For the purposes of this RepoClear Default Fund Supplement, the following definitions will apply.

"**Additional Margin**" means any ~~margin~~ Collateral other than Initial Margin, Variation Margin and Delivery Margin which is called in order to mitigate default risk across the life of a Contract.

"**Available Resources**" means, in respect of any Loss Distribution Period or Service Closure Period, the aggregated amount which is available to be paid by the Clearing House for application in meeting any loss suffered or incurred

by the Clearing House in accordance with Rule 16(a) to (g) as at and including the relevant Last Call Prior to Default.

**"Cash Payment"** means, in respect of any business day, the aggregated amount which would be paid by the Clearing House to a Non-Defaulting RCM (expressed as a positive number) or by such RCM to the Clearing House (expressed as a negative number) in a Cash Payment Currency on such business day.

**"Cash Payment Currency"** means, in respect of each RCM, the Currency in which it paid its RepoClear Contribution.

**"Cumulative LCH Transfer Cost"** means, as determined on any business day during any Loss Distribution Period or Service Closure Period, the sum of any LCH Transfer Cost for each day from but excluding the relevant Last Call Prior to Default to and including such business day.

**"Final Determination Date"** means the business day subsequent to an Insufficient Resources Determination Date when a Shortfall Allocation (as defined in R11(c)(i)) is to be determined;

**"Insufficient Resources Determination Date"** means the day on which an Insufficient Resources Determination (as defined in R11) is made by the Clearing House;

**"Last Call Prior to Default"** means the most recent business day on which ~~payments~~ the margin obligations of ~~ever required to be made by~~ the RCMs were made discharged in full.

**"LCH Transfer Cost"** means any cost (converted, where applicable, into EUR at a Rate of Exchange determined by the Clearing House in its sole discretion) to the Clearing House arising out of transferring the rights and obligations arising out of the Fixed Income Contracts of a Defaulting RCM to any other RCM or third parties

**"LCH Final Uncovered Loss"** means the aggregate of LCH Uncovered Losses arising on each day in a Service Closure Period.

**"LCH Uncovered Loss"** means, in respect of the Clearing House, as determined on any business day in any Loss Distribution Period or Service Closure Period, the amount greater than zero calculated in accordance with the following formula:

$$(TRCMCP + CLC) - (TAR + TLD)$$

where:

**"TRCMCP"** means the TRCM Cash Payment;

**"CLC"** means the Cumulative LCH Transfer Cost;

**"TAR"** means the Total Available Resources; and

**"TLD"** means Total Loss Distribution; and

the LCH Uncovered Loss as at the Last Call Prior to Default shall be zero.

**"Loss Distribution Cap Amount"** means, in respect of each Non-Defaulting RCM and any Loss Distribution Period, an amount equal to the product of (i) 100 per cent. and (ii) the RepoClear Contribution of such Non-Defaulting RCM as at the last RepoClear Determination Date prior to the date when the Default occurred at the beginning of that Loss Distribution Period;

**"Loss Distribution Day"** means any business day in a Loss Distribution Period on which the Clearing House, prior to calling for: (i) ~~cover~~ Collateral in respect of margin obligations in accordance with the provisions of the Procedures; and (ii) Required Collateral, on such business day, determines that the LCH Uncovered Loss for that business day is greater than zero.

**"Loss Distribution Period"** means the period from, but excluding, the day on which a Default occurs with respect to an RCM to the business day on which all Loss Distribution Charges in respect of such Default have been paid in full.

**"Rate of Exchange"** means, for any day, the applicable rate of exchange for converting one currency into another as determined by the Clearing House by reference to Reuters;

**"RCM Cash Payment"** means, in respect of any Cash Payment (converted, where applicable into EUR at a Rate of Exchange determined by the Clearing House in its sole discretion) and any business day (a) the amount of any such Cash Payment which would be paid by the Clearing House to a Non-Defaulting RCM in respect of the Fixed Income Contracts of a Defaulting RCM on such business day (expressed as a positive number) excluding any cash payments made by the Clearing House to such Non-Defaulting RCM in respect (i) of delivery versus payment transfers and (ii) all ~~margin payments~~ transfers of Collateral other than in respect of Variation Margin; and (b) the amount of any Cash Payments made by the relevant Non-Defaulting RCM to the Clearing House in respect of the Fixed Income Contracts of a Defaulting RCM on such business day (expressed as a negative number) excluding any cash payments made by the relevant Non-Defaulting RCM to the Clearing House in respect (i) of delivery versus payment transfers and (ii) all ~~margin payments~~ transfers of Collateral other than in respect of Variation Margin.

**"Service Closure Period"** means the period from and including an Insufficient Resources Determination Date to, but including, a Final Determination Date

**"Total Available Resources"** means, during a Loss Distribution Period or Service Closure Period the sum of (i) the Available Resources and (ii) any Unfunded Contributions.

**"Total Loss Distribution"** means, as determined on the day an LCH Uncovered Loss is being determined, the sum of any Loss Distribution Charges paid by Non-Defaulting RCMs from but excluding relevant Last Call Prior to Default to and excluding such day.

**"TRCM Cash Payment"** means the total of all cumulative RCM Cash Payments for each business day from but excluding the relevant Last Call

Prior to Default up to and including the business day upon which LCH Uncovered Losses are being determined.

(b) Loss Distribution Charges

On each Loss Distribution Day, each Non-Defaulting RCM shall be required to pay to the Clearing House a "**Loss Distribution Charge**" which is equal to the product of (x) the LCH Uncovered Loss in respect of that Loss Distribution Day and (y) the proportion which that Non-Defaulting RCM's RepoClear Contribution bears to the aggregate of the RepoClear Contributions of all Non-Defaulting RCMs, *provided that*, the aggregate of all such Loss Distribution Charges shall not be greater than the Loss Distribution Cap Amount in respect of that Non-Defaulting RCM.

Any Loss Distribution Charge shall be paid by the RCM to the Clearing House in accordance with the Procedures.

(c) Application of Loss Distribution Charges to Cash Payment

The Clearing House shall apply all payments it receives in respect of Loss Distribution Charges to Cash Payments solely for the purposes of meeting any loss incurred by the Clearing House following, and in relation to, each Default, as contemplated in accordance with Rule 16(a) to (g).

(d) No Rebate

The payment to the Clearing House by any RCM of any Loss Distribution Charge shall be final and shall not give rise to any obligation of the Clearing House to repay any such amount or to pay any interest thereon.

(e) Application of any Recoveries

If the RepoClear Loss Distribution Process has been invoked by the Clearing House in accordance with this Rule R.9, the Clearing House shall reimburse the RCMs (irrespective of whether they remain RCMs at the time of the recovery) and the Clearing House on a *pro rata* basis by reference to the resources which have been applied pursuant to Rule 16(a) to (g) (including any RepoClear Unfunded Contributions) and including the net amount of any one or more paid by the relevant RCMs:

- i any amounts received from the Defaulting RCM as a result of the Clearing House being a creditor of the Defaulting RCM in respect of the RepoClear Business of such Defaulting RCM in the context of the occurrence of any of the events under Rule 5(i) to (p) in respect of the Defaulting RCM or otherwise, other than in respect of sums due to the Clearing House for its own account; or
- ii any other amounts howsoever obtained or recovered in the course of the Clearing House's operation of the RepoClear Default Management Process or which are otherwise referable to the Defaulting RCM,

in each case net of any related expenses incurred by the Clearing House or other sums owing to the Clearing House by the Defaulting RCM in connection with the RepoClear clearing service. For the avoidance of doubt, nothing in this paragraph (f) shall oblige the Clearing House to pursue any litigation or

other action in order to recover the amounts contemplated above and if another default fund of the Clearing House has also been applied as a result of the RCM's Default, any amounts recovered shall be applied *pari passu* as between the relevant default funds.

- R.10 Where, after the Default of one or more RCMs, the Clearing House determines that, notwithstanding the availability of any resources remaining under Rule 16(a) to (g) and the availability of the RepoClear Loss Distribution Process in accordance with the terms of Rule R.9, it is clear that the Clearing House does not have sufficient resources to meet its obligations and liabilities arising in respect of those Fixed Income Contracts to which it is party with Non-Defaulting RCMs, the Clearing House shall conduct a ballot of Non-Defaulting RCMs to determine whether or not to repeat the RepoClear Loss Distribution Process in Rule R.9. The quorum for such a ballot shall be 95% of all Non-Defaulting RCMs, and any such ballot shall only be carried if it all those RCMs who vote have voted in favour of repeating the procedures in Rule R.9. For the avoidance of doubt, where the Loss Distribution Process in Rule R.9 is repeated following a vote in favour of such under this Rule R.10, no Loss Distribution Charges paid by Non-Defaulting RCMs under previous applications of the Loss Distribution Process shall be included in determining whether the Loss Distribution Cap Amount for such current application of the RepoClear Loss Distribution Process has been reached.
- R.11 Where, following the conclusion of the Loss Distribution Process (including any repeat of the RepoClear Loss Distribution Process following a ballot pursuant to Rule R10), the Clearing House makes a determination (an "**Insufficient Resources Determination**") that the Clearing House would not in future have sufficient resources to meet its contractual obligations arising in respect of those Fixed Income Contracts to which it is party with Non-Defaulting RCMs were this Rule R11 not to apply, the following provisions shall have effect:
- (a) All outstanding Fixed Income Contracts shall be closed out as of the clearing day following the date the Insufficient Resources Determination was made.
- (b) On the basis of the close out values established for each outstanding Fixed Income Contract by the Clearing House acting in a commercially reasonable manner, an account shall be taken (as at the time of close out) of what is due in respect of each RCM, from that RCM to the Clearing House and from the Clearing House to that RCM in respect of Fixed Income Contracts and any other amounts that may be due in respect of the RepoClear Service (including for these purposes, a proportionate share of any amounts owed generally to or from the Clearing House), and the sums due from the RCM shall be set off against the sums due from the Clearing House and, subject to paragraph (c), below, only the balance of the account shall be payable. For the avoidance of doubt, amounts in respect of Fixed Income Contracts shall include, but not be limited to, returns of cash Collateral held by the Clearing House in respect of the RCM's variation margin obligations (but shall exclude the repayment of any cash Collateral held by the Clearing House in respect of the RCM's initial margin obligations or additional margin) and amounts due in respect of the RepoClear Service shall include, but not be limited to, any Loss Distribution Charges payable by that RCM pursuant to Rule R.9 (but shall exclude the repayment of any outstanding RepoClear Contributions).
- (c) To the extent that (x) the aggregate of all of the net amounts owed to the Clearing House by RCMs pursuant to paragraph (b), above, plus all of those other resources applicable to the RepoClear Clearing Service under Rule

16(a) to (g) (excluding for these purposes ~~assets representing initial~~ Collateral held by the Clearing House in respect of RCMs' initial margin obligations and additional margin) that have not been applied towards a RepoClear Excess Loss (the "**RepoClear Final Resources**") are less than (y) the LCH Final Uncovered Losses, the amount by which (y) exceeds (x) shall be the "**LCH Closure Shortfall**":

i the LCH Closure Shortfall (as defined above) shall be allocated between the RCMs based upon the proportion that (i) the value of each RCM's RepoClear Additional Payments Cap bears to (ii) the aggregate of the RepoClear Additional Payments Caps of all RCMs (the amount allocated to each such RCM being the "**Shortfall Allocation**" in respect of that RCM); and each RCM shall (subject to sub-paragraph (ii) and (iii) below) make a new cash payment to the Clearing House in respect of its Shortfall Allocation, which shall be the lower of its Shortfall Allocation and the RepoClear Additional Payments Cap in respect of such RCM (a "**Service Closure Payment**");

ii the Service Closure Payment owed by an RCM in sub-paragraph (c)(i) above shall be set off against the sums owed by the Clearing House in sub-paragraph (b) above to that RCM and only the balance (subject to sub-paragraph (iii) below) shall be payable in cash by either the RCM or the Clearing House, as applicable (the "**Final Net Payment**"); and

iii the Clearing House shall determine any amounts due to each RCM in respect of ~~repayments~~ the repayment of any cash Collateral held by the Clearing House in respect of the RCM's initial margin obligations and additional margin. The Clearing House and the RCMs hereby agree that ~~cash initial and additional margin Collateral held by the Clearing House in respect of an RCM's initial margin obligations and in respect of additional margin transferred by that RCM shall~~ operationally net in the PPS against the cash payment of the Final Net Payment in accordance with the processes of the PPS.

(d) Where an RCM owes an amount to the Clearing House under Rule R11(b) or if there is an LCH Closure Shortfall under Rule R11(c)(iii), that RCM shall pay that amount to the Clearing House immediately. Where an RCM is owed an amount by the Clearing House under Rule R11(b) or if there is an LCH Closure Shortfall under Rule R11(c)(ii) and/or (iii), the Clearing House shall pay that amount to the RCM immediately, subject to (e) below.

(e) The Clearing House may make the payments due under paragraph (d) above in one or more instalments to the RCMs in proportion to the value of their claims on the Clearing House under paragraphs (b) or (c) above if some but not all of the amounts due under paragraph (d) or Rule 16(a) to 16(h) above have not yet been received. No interest will be payable by the Clearing House on any instalments. The Clearing House may take reasonable steps to recover such amounts and may deduct therefrom reasonable administration costs for such recovery. To the extent that the Clearing House determines that any such amounts will not in fact be recoverable, it shall re-determine the amounts due to RCMs in accordance with this Rule R11. To the extent that the Clearing House ultimately recovers amounts in excess of the LCH Closure Shortfall it shall return such amounts to the relevant RCMs (other than a Defaulting RCM) and to the extent that such amounts have been

received as Service Closure Payments, it shall return such amounts to the RCMs (other than a Defaulting RCM) in proportion to their Shortfall Allocations.

(f) This Rule R11 shall not be applied in the event that a Termination Date has been specified in relation to the Clearing House in accordance with Regulation 39A.

(g) Nothing in the foregoing shall override the obligation of the Clearing House to return non-cash Collateral transferred to it in respect of initial margin provided by way of security to a RCM pursuant to its Regulations and Procedures.

## R12 Ballot Arrangements

(a) Notwithstanding anything to the contrary in clauses 9.4 and 9.5 of the Clearing Membership Agreement, no proposal for any of the amendments set out in paragraphs (i) or (ii) below (each a "**RepoClear Amendment**") shall be capable of coming into effect unless first approved in a ballot of RCMs:

ii. any amendment providing for a change in the nature of the liabilities for which an RCM's indemnity is given by virtue of paragraph (d) of Rule 28;

iii. any amendment which, in the opinion of the Board of Directors of the Clearing House would represent a significant change in the commitments of the RCMs but not in the commitments of any other Clearing Members, and

iii. any increase in the RepoClear Fund Cap

(b) For the purposes of a ballot conducted pursuant to this Rule R12, the provisions of clauses 9.4, 9.6 and 9.7 of the Clearing Membership Agreement shall apply with the following amendments:

ii. the words "major amendment to the Default Fund Rules" in the first line of clause 9.4 of the Clearing Membership Agreement shall be replaced with the words "RepoClear Amendment";

iii. all references to "Clearing Members" shall be replaced with references to "RCMs";

iii. in paragraph (c) of clause 9.4 of the Clearing Membership Agreement, the reference to "Contributions" shall be replaced with a reference to "RepoClear Contributions" and the reference to "Quarter Day" shall be replaced with a reference to "RepoClear Determination Date";

iv. references to "Fund Amount" in clauses 9.6 and 9.7 of the Clearing Membership Agreement shall be replaced with references to "RepoClear Fund Amount";

v. the reference to "clause 9.4" in clause 9.6 of the Clearing Membership Agreement shall be replaced with a reference to "Rule R12 of the RepoClear Default Fund Supplement to the Default Fund Rules"; and

- viii. \_\_\_\_\_ the references to "Contribution" in clauses 9.6 and 9.7 of the Clearing Membership Agreement shall be replaced with references to "RepoClear Contribution".
- (c) Only General Clearing Members shall be entitled to vote in a ballot conducted under clauses 9.4 and 9.5 of the Clearing Membership Agreement in relation to an amendment which affects exclusively any one or combination of: (i) the EquityClear Fund Amount; (ii) the Exchange Fund Amount; (iii) the nature of the liabilities for which a General Clearing Member's indemnity is given by virtue of paragraph (b) of Rule 28; or (iv) any amendment which, in the opinion of the Board of Directors of the Clearing House would represent a significant change in the commitments of the General Clearing Members but not in the commitments of any other Clearing Members. As a result, for the purposes of a ballot conducted under clauses 9.4 and 9.5 of the Clearing Membership Agreement other than a Cross-Service Ballot, references to "Clearing Members" shall not include RCMs who are not also General Clearing Members and RepoClear Contributions shall not count as "Contributions".

For the purposes of this paragraph (c) of this Rule R12, a "Cross-Service Ballot" shall mean: (i) a ballot in relation to an amendment which represents a significant change in the commitments of all of the Clearing Members of the Clearing House or of a significant section of such Clearing Members of the Clearing House who are so categorised together, irrespective of and independently from, the Services which they clear; and, as such (ii) a ballot which falls within paragraph (c) of clause 9.5 of the Clearing Membership Agreement (because, in the opinion of the Board of Directors of the Clearing House, it is an amendment which "would represent a significant change in the commitments of... a significant section of the Clearing Members") but does not fall within paragraph (a)(iii) of Rule F12, paragraph (a)(iii) of Rule S12 and/or paragraph (a)(ii) of this Rule R12 (because the relevant section of the Clearing Members is not restricted to Clearing Members acting in the capacity of Clearing Members in ForexClear, SwapClear and/or RepoClear).



**Commodities Default Fund Supplement**

**C1.** In this Supplement, subject to any contrary indication or where the context otherwise requires, references to:

the "**Business**" means the Commodities Business of a Member

a "**Contract**" means a Commodities Contract, a contract cleared pursuant to a Service and such other commodities or commodity-related contract as the Clearing House may from time to time specify by notice to the Members

a "**Contribution**" means a Commodities Contribution

the "**Default Fund**" means the fund established by this Commodities Default Fund Supplement

a "**Determination Date**" means a Commodities Determination Date

the "**Excess Loss**" means the Commodities Excess Loss

the "**Fund Amount**" means the Commodities Fund Amount

a "**Member**" means a Commodities Clearing Member and a Clearing Member approved to clear a Specified Market

a "**Minimum Contribution**" means USD 750,000

a "**Non-Defaulting Clearing Member**" means a Member that is not a defaulter under Rule 4 of the Default Rules

"**Service**" means the commodities and commodity-related services provided by the Clearing House pursuant to its rules governing the clearing of the Specified Markets and includes the Commodities Service

"**Specified Markets**" means Nodal, LME and any other markets from time to time specified by the Clearing House, and includes the market in Contracts registered with the Clearing House pursuant to the LCH EnClear OTC service

and calculations of "**Combined Loss Value**", "**End of Day Margin Weight**", "**Peak Intra-Day Margin Weight**", "**STLIEOM**" and "**Weight Factor**" are carried out in accordance with this Supplement only.

Capitalised terms not otherwise defined in this Supplement shall have the meanings assigned to them in the General Regulations, Rule 15 of the Default Fund Rules or Rule 15A of the Default Fund Rules, as applicable.

**C2.** Fund Amount

(a) The Default Fund is denominated in USD, and all amounts referable to it shall be denominated, calculated, called and payable in USD.

(b) On each business day, the Clearing House will determine the "Combined Loss Value" in respect of each of the three preceding calendar months. The Combined Loss Value in respect of a particular day will be the sum of the STLIEOMs for the Members which have the largest and the second largest STLIEOM on that day. For this purpose, the "STLIEOM" means, in respect of each Member and in respect of any day, the stress-tested loss in excess of

initial margin (determined for a given scenario determined by the Clearing House) which could be incurred by the Clearing House in respect of that Member's Business if that Member became a defaulter on that day.

- (c) The Fund Amount shall be determined by the Clearing House on the first business day of each calendar month (the "Determination Date") in accordance with this Rule.
- i The Fund Amount is, for a given Determination Date, the largest of the Combined Loss Values as determined during the three calendar month period under Rule C2(b), plus 10%, subject to the following provisions of this Rule.
  - ii On any Determination Date, if the Fund Amount as determined under Rule C2(c)(i) would be lower than three times the Minimum Contribution, the Fund Amount will be deemed to be three times the Minimum Contribution (the "Fund Floor").
  - iii On any Determination Date: (a) if the Fund Amount as determined would exceed USD 1,500,000,000, the Fund Amount will be deemed to be USD 1,500,000,000 unless the Risk Committee of the Clearing House has resolved that an increase in the Fund Amount is warranted, in which case the Fund Amount shall be as determined by the Risk Committee; (b) if the Fund Amount as determined would exceed USD 2,500,000,000, the Fund Amount will be deemed to be USD 2,500,000,000, notwithstanding any determination by the Risk Committee, unless an increase has been approved by ballot in accordance with Rule C11.
  - iv In the case of a Default in relation to which the Clearing House does not apply Contributions under Rule 26 or Rule 28, determinations of the Fund Amount under the methodology of this Rule are suspended from the date of the occurrence of a Default until the completion of the management of such Default. Where other such Defaults have commenced during the period of suspension, the suspension will end at the completion of the management of the last of such Defaults.

In the case of any Default in relation to which the Clearing House applies Contributions under Rule 26 or Rule 28, determinations of the Fund Amount under the methodology of this Rule are suspended from the date of the occurrence of a Default until the expiry of the Cooling Off Period under Rule C7. Where other such Defaults have commenced during the period of suspension, the suspension will end at the expiry of the Cooling Off Period following the Default Management Completion Notice in respect of the last of those Defaults.

### **C3. Contributions to Fund**

- (a) The amount of each Member's Contribution shall be determined by the Clearing House on each Determination Date on the basis of information available as at close of business on the immediately preceding business day and notified to such Member as soon as practicable after such determination in accordance with the Procedures. However, determinations of Contributions under the methodology of this Rule are suspended after the occurrence of a Default in accordance with Rule C2(c)(iv).

- (b) A Member's Contribution shall be determined with reference to business conducted by it on the Specified Markets in Contracts as follows:
- i the Member's "**End of Day Margin Weight**" shall be calculated by dividing the average daily ~~requirement for initial margin~~ requirement at the end of each day (as calculated under the Procedures or other arrangements applicable) which has applied to the Member during the Reference Period in respect of all Contracts by the total of such average daily requirements applied to all Members other than defaulters;
  - ii the Member's "**Peak Intra-Day Margin Weight**" shall be calculated by dividing the average maximum intra-day ~~requirement for initial margin~~ requirement arising at any point during each day during the Reference Period (as calculated under the Procedures or other arrangements applicable) which has applied to the Member in respect of all Contracts by the total of such average maximum intra-day requirements applied to all Members other than defaulters;
  - iii the Member's "**Weight Factor**" shall be calculated by adding one-half of its End of Day Margin Weight to one-half of its Peak Intra-Day Margin Weight,

and the Member's Contribution shall be the amount arrived at by multiplying the Fund Amount by the Member's Weight Factor, provided that (x) if the amount calculated for a particular Member pursuant to the foregoing would, when aggregated with the Contributions of all other Members, produce a Fund Amount that is in excess of that permitted under Rule C2(c)(iii), then such excess amount, as calculated by the Clearing House, shall be iteratively notionally allocated to such Member pro rata to its Contribution as originally calculated and such proportionate excess shall be deducted from the amount originally calculated and the Member's Contribution shall be adjusted accordingly; and provided further that (y) in no case shall a Member's Contribution be less than the Minimum Contribution (notwithstanding that the Fund Amount may, taking into account all Contributions as adjusted in accordance with the provisos to this paragraph, exceed the level specified in Rule C2(c)(iii)).

For the purposes of these calculations:

- iv "**Reference Period**" means the period of three calendar months immediately before the Determination Date;
- v references to "Members" do not include references to defaulters (apart from any defaulter in respect of which the Clearing House permits the application of this Rule) or persons which were formerly Members but are not Members on the date on which the relevant calculation is made;
- vi Contributions shall be rounded upwards, if not already such a multiple, to the next integral multiple of one thousand dollars; and
- vii no account shall be taken, in calculating the initial margin requirement or Margin Weight under this Rule C3(b) of any offsets in the initial

margin required for Contracts from a Member which may otherwise be permissible under the Procedures or other arrangements applicable.

- (c) Without prejudice to any other requirements which the Clearing House may impose, the amount of the Contribution of a New Member shall be the sum of:
  - i the Minimum Contribution; and
  - ii any supplementary sum determined by the Clearing House in its discretion and notified to the New Member. The Clearing House shall determine the amount of such supplementary sum by reference to the actual or expected level of clearing activity of the New Member.
- (d) Except to the extent that one or other of the caps specified in Rule C2(c)(iii) would be exceeded, the Clearing House may recalculate the Contributions due from certain Members on any business day other than one falling between the application of a Contribution and the end of the Cooling Off Period, as set out at Rule C7, in the following circumstances:
  - i if the Combined Loss Value determined under Rule C2(b) on that day deviates by more than 25% upwards or downwards from the Combined Loss Value on which the previous Contribution determination was based, on such business day, the Clearing House shall be entitled to make an adjustment upwards or downwards to the Fund Amount commensurate with the deviation;
  - ii where the Risk Committee considers (for any reason) that a recalculation is warranted between Determination Dates.

#### **C4. Interest on Contributions**

On each day interest shall accrue on the amount of each Contribution then held by the Clearing House, to the extent that it has not been applied under Rule 26 or Rule 28, at such rate and in such manner as provided by the Procedures, provided that the rate of interest for any particular day shall be based on a market-recognised benchmark rate plus or minus a spread. Such rate and such spread shall be determined, in light of market conditions at such time, by the Clearing House from time to time and notified by the Clearing House to Members. Interest on Contributions shall be payable in arrear and shall be paid on the date or dates specified by the Procedures. Any interest which has accrued under this Rule shall not be regarded as part of a Contribution.

#### **C5. Payment of Contributions**

- (a) Upon determination of the amount of a Contribution on a Determination Date:
  - i if the amount of the Contribution of a Member at close of business on the business day immediately before the Determination Date exceeds the amount of the Member's Contribution as determined on the Determination Date, the excess shall be paid by the Clearing House to the Member in accordance with the Procedures;
  - ii if the amount of the Contribution of a Member at close of business on the business day immediately before the Determination Date is the same as the amount of the Member's Contribution as determined on the Determination Date, no sum shall then be payable by or to the Member in respect of its Contribution; and

- iii if the amount of the Contribution of a Member at close of business on the business day immediately before the Determination Date is less than the amount of the Member's Contribution as determined on the Determination Date, the shortfall shall be paid by the Member to the Clearing House in accordance with the Procedures.
- (b) The provisions of this Rule do not apply to a Member which is a defaulter, unless the Clearing House so requires in any particular case.

**C6. Unfunded Contributions**

- (a) On any business day after the occurrence of a Default, if the Clearing House determines that by reason of reduction in accordance with Rule C7, (i) the Fund Amount (minus any Contribution of the defaulter) has been reduced by at least 25%, or (ii) by the time of issue of a Default Management Completion Notice in relation to that Default the Fund Amount will have been so reduced, the Clearing House may, by notice in writing (each an "**Unfunded Contribution Notice**"), require each Non-Defaulting Clearing Member to deposit and maintain an amount (each an "**Unfunded Contribution**") in accordance with this Rule.
- (b) Unfunded Contributions will only be payable in circumstances where the relevant Unfunded Contribution Notice is delivered by the Clearing House to Members before a Default Management Completion Notice in relation to the relevant Default.
- (c) The amount of an Unfunded Contribution payable by a Member in respect of a Default shall be payable pro rata by reference to the proportion which that Member's Contribution bears to the aggregate of Contributions of all Non-Defaulting Clearing Members, and shall not exceed the value of the Contribution of that Member as calculated on the last Determination Date prior to the date when the relevant Default occurred.
- (d) Following the payment of an Unfunded Contribution in accordance with Rule C6(a), (b) and (c), the Clearing House may, by the delivery of one or more further Unfunded Contribution Notices, require each Non-Defaulting Clearing Member to pay one or more further Unfunded Contributions in respect of the same Default, provided that the total value of the Unfunded Contributions payable by any Member in respect of a particular Default may not exceed the value of the Contribution of such Member as calculated on the last Determination Date prior to the date when the relevant Default occurred.
- (e) Following a Default in respect of which Unfunded Contributions were paid (the "**First Default**"), the Clearing House may require the payment of further Unfunded Contributions in respect of subsequent Defaults, (which, for the avoidance of doubt, can never be a First Default), provided that Unfunded Contributions will not be payable in respect of any more than three Defaults in any six month period (commencing on the date of delivery of the first Unfunded Contribution Notice in respect of the First Default).
- (f) Members shall deposit the full amount of each Unfunded Contribution (without exercising any rights of set-off or counterclaim) with the Clearing House on the business day following receipt of an Unfunded Contribution Notice.

For the avoidance of doubt, references to "Members" for the purposes of this Rule include any Member (other than a defaulter) who is: (i) a Retiring Member but whose

status as a Member has not yet been terminated; and (ii) a Resigning Member whose resignation from the Service is not yet effective.

**C7. Cooling Off and Replenishment of Fund**

- (a) This Rule applies where, after a Default, the Clearing House has applied part or all of a Contribution under Rule 26 or Rule 28. Upon such application the Fund Amount shall be reduced forthwith by the aggregate amount of the Contributions or parts of Contributions so applied, and (subject to the following provisions of this Rule) the amount of the Contribution that each Member must maintain with the Clearing House shall be reduced by the amount of its Contribution which has been applied pursuant to Rule 28, in each case until the next Determination Date. Unless and until the Clearing House has repaid a defaulter's Contribution, the Fund Amount shall be treated as having been reduced by the amount of the defaulter's Contribution (if any) regardless of whether the Clearing House has applied part or all of that Contribution under Rule 26.
- (b) If following the issuance of a notice to the effect that it has completed the management of a Default (a "**Default Management Completion Notice**") the aggregate amount of Fund Amount determined in accordance with paragraph (a) of this Rule E7 is less than the Fund Floor, the Clearing House may notify each Non Defaulting Clearing Member that it is required to make a supplementary Contribution until the next Determination Date, based on the proportion that the value of its Contribution as at the last Determination Date prior to the date when the relevant Default occurred bears to the value of the aggregate Contributions of all Non-Defaulting Clearing Members as at such date, so as to maintain the Fund Amount at no less than the Fund Floor. Supplementary Contributions required hereunder shall be paid within two business days after notification and in accordance with the Procedures.
- (c) For a further period (a "**Cooling Off Period**") of 30 calendar days from (and including) any day on which the Clearing House has issued a Default Management Completion Notice after an application pursuant to Rule 26 or Rule 28, calculation of the Fund Amount and the Contributions of Members in accordance with Rule C3 shall be suspended.
- (d) Each Member's Contribution during a Cooling Off Period shall be no less than the Minimum Contribution.
- (e) Notwithstanding Rule 33, if a Member which is not a defaulter notifies the Clearing House within two business days after the issue of a Default Management Completion Notice that it wishes to resign from the Service: assuming all other requirements for termination of its membership have been satisfied by the end of the Cooling Off Period, such Member shall cease to be treated as a Member for the purpose of Rule C3 on the next Determination Date, and its Contribution shall (unless utilised in the interim in accordance with Rule 28) be repaid by the Clearing House following that Determination Date in accordance with the Procedures. A Member which has notified its wish to resign remains liable under Rule C8 until the effective date of its resignation.
- (f) The first business day after a Cooling Off Period shall exceptionally be a Determination Date; and the Fund Amount determined on such exceptional Determination Date shall remain in effect until the first business day of the next calendar month.

- (g) There may not be more than three exceptional Determination Dates of the type described in (f) above in any period of six months.

#### **C8. Loss Allocation**

- (a) At any time after a Default, the Clearing House may determine that the Excess Loss resulting from the Default will exceed the resources available to be applied to it under Rule 16(a) to (g). If the Clearing House makes such a determination then the Clearing House may implement the process (the "Loss Distribution Process") described in this Rule C8 in order to mitigate the LCH Uncovered Loss. For these purposes, the difference between the Excess Loss as determined by the Clearing House on that day and such resources remaining available on that day shall be the "LCH Uncovered Loss".

- (b) Definitions

In this Rule C8, the following definitions apply:

**"Loss Distribution Day"** means any business day in a Loss Distribution Period on which the Clearing House, prior to calling for ~~cover~~ Collateral in respect of margin obligations in accordance with the provisions of the Procedures on such business day, determines that the LCH Uncovered Loss for that business day is greater than zero.

**"Loss Distribution Period"** means the period from, but excluding, the day on which a Default occurs with respect to a Member to the business day on which all Loss Distribution Charges in respect of such Default have been paid in full.

- (c) Loss Distribution Charges

i On each Loss Distribution Day, each Non-Defaulting Clearing Member shall pay to the Clearing House a "**Loss Distribution Charge**" which is equal to the product of (x) the LCH Uncovered Loss in respect of that Loss Distribution Day and (y) the proportion which that Member's Contribution bears to the aggregate of the Contributions of all Non-Defaulting Clearing Members, provided that the cumulative total of all such Loss Distribution Charges that a Non-Defaulting Clearing Member is required to pay in respect of all Loss Distribution Days relating to that Default shall not be greater than the Loss Distribution Cap Amount in respect of that Non-Defaulting Clearing Member. For this purpose, "**Loss Distribution Cap Amount**" means an amount equal to the Contribution of such Member as calculated at the last Determination Date (disregarding any Determination Date arising after the Default occurred).

ii Any Loss Distribution Charge shall be paid by the Member to the Clearing House in accordance with the Procedures.

- (d) Application of Loss Distribution Charges

The Clearing House shall apply all payments it receives in respect of Loss Distribution Charges solely for the purposes of meeting any loss incurred by the Clearing House in relation to the defaulter's Contracts.

- (e) No Rebate

Subject to Rule C9 and Rule C10(c) the payment to the Clearing House by any Member of any Loss Distribution Charge shall be final and shall not give rise to any obligation of the Clearing House to repay any such amount or to pay any interest thereon.

(f) Ballot

If on a Loss Distribution Day, the LCH Uncovered Loss exceeds the aggregate amount of Loss Distribution Charges which the Clearing House may be entitled to receive under paragraph (c), the Clearing House may seek approval of Non-Defaulting Clearing Members for a proposal to increase the Loss Distribution Cap Amount for the purposes of the relevant Default to an amount beyond that specified in paragraph (c). Approval shall only be treated as given if, in a ballot: (i) at least 95% by number (rounding fractions upwards to the next 5%) of Members eligible to vote have voted, and no Member which has voted has voted against the proposal; or (ii) in the event that there are more than two but fewer than 20 Members, no more than one Member eligible to vote has voted against the proposal.

**C9. Application of Recoveries**

(a) The Clearing House will apply any recovery, first to the reimbursement of payers of Loss Distribution Charges, and then to reimburse any Members or other persons to whom recourse has been made under Rule 16(d) to (g), but in reverse order to that in which they appear in Rule 16. In relation to payers of Loss Distribution Charges, any partial recovery will be distributed pro rata to the aggregate payments made by those payers. For the purposes of this Rule, a recovery comprises:

- i any amounts received from the defaulter as a result of the Clearing House being a creditor of the defaulter in respect of the Business of such defaulter in the context of the occurrence of any of the events under Rule 5(i) to (p) in respect of the defaulter or otherwise, other than in respect of sums due to the Clearing House for its own account; or
- ii any other amounts howsoever obtained or recovered in the course of the management of the Default or which are otherwise referable to the Default or the defaulter,

in each case net of any related expenses incurred by the Clearing House or other sums owing to the Clearing House by the defaulter in connection with the Service.

- (b) Nothing in this Rule C9 shall oblige the Clearing House to pursue any litigation or take other action in order to recover the amounts contemplated hereby.
- (c) If a Contribution made by a defaulter to another default fund of the Clearing House has been applied to losses in respect of Contracts registered to an account of the defaulter, any amounts recovered shall be applied *pari passu* as between the relevant default funds.

**C10. Service Closure**

- (a) Where, after the Default of one or more Members, the Clearing House determines that, notwithstanding the availability of any resources remaining



under Rule 16(a) to (g) and the availability of the Loss Distribution Process under Rule C8, the Clearing House does not have sufficient resources to meet its obligations and liabilities arising in respect of Contracts to which it is party with Non-Defaulting Clearing Members, the Clearing House shall make a further determination (an "**Insufficient Resources Determination**") that the Clearing House does not have sufficient available resources under Rule 16(a) to (g) and via the Loss Distribution Process under Rule C8 to meet its obligations and liabilities arising in respect of those Contracts to which it is party with Non-Defaulting Clearing Members, and the provisions of this Rule shall have effect.

- (b) All outstanding Contracts shall be closed out as of the business day following the date of the Insufficient Resources Determination and any further obligations to make any payments under or in respect of such Contracts shall cease. The closing prices used shall be prices calculated by the Clearing House in accordance with the methodology used by it to carry out end of day margin runs in respect of the outstanding Contracts. Where such data is not available to the Clearing House, the closing price shall be the last price used by the Clearing House to calculate the variation margin requirement for the position to be closed out.
- (c) On the basis of the close out values established for each outstanding Contract, an account shall be taken (as at the time of close out) of what is due, in respect of each Member, from that Member to the Clearing House and from the Clearing House to that Member, as well as all other amounts owing under or in respect of such Contracts and any other amounts that may be due in respect of the Service (including for these purposes, a proportionate share of any amounts owed generally to or from the Clearing House), and the sums due from the Member shall be set off against the sums due from the Clearing House and only the balance of the account shall be payable. Amounts due in respect of such Contracts shall include, but not be limited to, returns of cash Collateral held by the Clearing House in respect of the Member's variation margin associated therewith obligations and returns of Loss Distribution Charges, but shall exclude the repayment of any cash Collateral held by the Clearing House in respect of the Member's initial margin obligations or any Contributions.
- (d) To the extent that the aggregate of all of the amounts owed to the Clearing House by Members plus all of those other resources applicable to the Service under Rule 16(a) to (g) that have not been applied towards an Excess Loss is less than the aggregate of the amounts owed to Members by the Clearing House, each amount owed to Members by the Clearing House shall be reduced pro rata the shortfall.
- (e) The Clearing House shall determine any amounts due to each Member in respect of cash Collateral held by the repayment Clearing House in respect of any cash the initial margin obligations of the Member and outstanding Contributions to be repaid. The claim of each such Member in respect of the foregoing shall be limited to a pro rata share of the assets available to the Clearing House to satisfy those amounts.
- (f) For each Member, the amount due to it or due from it as determined pursuant to (c) above shall be aggregated with its claim determined pursuant to (d) above and only the net sum shall be payable. Where the result of such calculations is that a Member owes an amount to the Clearing House, that

Member shall pay that amount to the Clearing House immediately. Where the result of such calculations is that a Member is owed an amount by the Clearing House, the Clearing House shall pay that amount to the Member immediately, subject to (g) below.

- (g) The payment of such amount to a Member pursuant to (e) above, subject to any re-calculations performed pursuant to (g) below, shall constitute the full and final payment in respect of the Service and such Member shall not be permitted to make any further claims on the Clearing House in respect of amounts relating to the Service nor shall it be permitted to notify the Clearing House of a Termination Date pursuant to Regulation 39A for a failure to pay any amounts in relation to the Service.
- (h) The Clearing House may make the payments due under (e) above in one or more instalments to the Members in proportion to the value of their claims on the Clearing House under (c) above if some but not all of the amounts due under (e) above or Rule 16(a) to 16(g) have not yet been received. The Clearing House shall take reasonable steps to recover such amounts and may deduct therefrom reasonable administration costs for such recovery. To the extent that the Clearing House determines that any such amounts will not in fact be recoverable, it shall re-determine the amounts due to Members in accordance with this Rule.
- (i) This Rule shall not be applied in the event that a Termination Date has been specified in relation to the Clearing House in accordance with Regulation 39A.
- (j) Nothing in the foregoing shall override the obligation of the Clearing House to return non-cash Collateral transferred to it in respect of initial margin provided by way of security to a Member pursuant to its Regulations and Procedures.

#### C11. Ballot Arrangements

- (a) No proposal for any of the amendments set out in paragraphs (i), (ii), (iii), or (iv) below (each a "**Commodities Default Fund Amendment**") shall be capable of coming into effect unless first approved in a ballot of Members:
  - i any amendment providing for a change in the nature of the liabilities for which a Member's indemnity is given in respect of Commodities Business by virtue of Rule 28;
  - ii any amendment which, in the opinion of the Board of Directors of the Clearing House would represent a significant change in the commitments of the Commodities Clearing Members but not in the commitments of any other Members;
  - iii any increase in the maximum size of the Fund Amount for the purposes of Rule C2 beyond USD 2,500,000,000 (or such other level as has been approved in a ballot); and
  - iv any amendment to the amount of the Minimum Contribution or the definition of the Fund Floor.
- (b) For the purposes of a ballot conducted pursuant to this Rule, the provisions of clauses 9.4, 9.6 and 9.7 of the Clearing Membership Agreement shall apply with the following amendments:

- i the words "major amendment to the Default Fund Rules" in the first line of clause 9.4 of the Clearing Membership Agreement shall be read as "Commodities Default Fund Amendment";
- ii all references to "Clearing Members" shall be read as references to "Commodities Clearing Members";
- iii in paragraph (c) of clause 9.4 of the Clearing Membership Agreement, the reference to "Quarter Day" shall be replaced with a reference to Determination Date, as such term is used in the Commodities Default Fund Supplement to the Default Fund Rules;
- iv references to "Contributions" and "Fund Amount" shall be read in accordance with the Commodities Default Fund Supplement to the Default Fund Rules; and
- v the reference to "clause 9.4" in clause 9.6 of the Clearing Membership Agreement shall be construed accordingly.

### Equities Default Fund Supplement

**E1.** In this Supplement, subject to any contrary indication or where the context otherwise requires, references to:

the "**Business**" means the Equities Business of a Member

a "**Contract**" means an EquityClear Contract, an Equities Contract, a contract cleared pursuant to a Service and such other cash equity or equity derivative contract as the Clearing House may from time to time specify by notice to the Members

a "**Contribution**" means an Equities Contribution

the "**Default Fund**" means the fund established by this Equities Default Fund Supplement

a "**Determination Date**" means an Equities Determination Date

the "**Excess Loss**" means the Equities Excess Loss

the "**Fund Amount**" means the Equities Fund Amount

a "**Member**" means an Equities Clearing Member and a Clearing Member approved to clear a Specified Market and except where stated otherwise, includes a Co-operating Clearing House

a "**Minimum Contribution**" means GBP 500,000

a "**Non-Defaulting Clearing Member**" means a Member that is not a defaulter under Rule 4 of the Default Rules

"**Service**" means equities and equities-related services provided by the Clearing House pursuant to its rules governing the clearing of the Specified Markets and includes the Equities Service

"**Specified Markets**" means an EquityClear ATP, the TGHL market and any other markets from time to time specified by the Clearing House

and calculations of "**Combined Loss Value**", "**End of Day Margin Weight**", "**Peak Intra-Day Margin Weight**", "**STLIEOM**" and "**Weight Factor**" are carried out in accordance with this Supplement only.

Capitalised terms not otherwise defined in this Supplement shall have the meanings assigned to them in the General Regulations, Rule 15 of the Default Fund Rules or Rule 15A of the Default Fund Rules, as applicable.

**E2. Fund Amount**

(a) The Default Fund is denominated in GBP, and all amounts referable to it shall be denominated, calculated, called and payable in GBP.

(b) On each business day, the Clearing House will determine the "Combined Loss Value" in respect of each of the three preceding calendar months. The Combined Loss Value in respect of a particular day will be the sum of the STLIEOMs for the Members which have the largest and the second largest STLIEOM on that day. For this purpose, the "STLIEOM" means, in respect of

each Member and in respect of any day, the stress-tested loss in excess of initial margin (determined for a given scenario determined by the Clearing House) which could be incurred by the Clearing House in respect of that Member's Business if that Member became a defaulter on that day. References in this Rule E2 to Member include a Co-operating Clearing House and the STLIEOM of a Co-operating Clearing House is included in the calculations under this Rule E2.

- (c) The Fund Amount shall be determined by the Clearing House on the first business day of each calendar month (the "Determination Date") in accordance with this Rule.
- i The Fund Amount is, for a given Determination Date, the largest of the Combined Loss Values as determined during the three calendar month period under Rule E2(b), plus 10%, subject to the following provisions of this Rule.
  - ii On any Determination Date, if the Fund Amount as determined under Rule E2(c)(i) would be lower than three times the Minimum Contribution, the Fund Amount will be deemed to be three times the Minimum Contribution (the "**Fund Floor**").
  - iii On any Determination Date: (a) if the Fund Amount as determined would exceed GBP 150,000,000, the Fund Amount will be deemed to be GBP 150,000,000 unless the Risk Committee of the Clearing House has resolved that an increase in the Fund Amount is warranted, in which case the Fund Amount shall be as determined by the Risk Committee; (b) if the Fund Amount as determined would exceed GBP 500,000,000, the Fund Amount will be deemed to be GBP 500,000,000, notwithstanding any determination by the Risk Committee, unless an increase has been approved by ballot in accordance with Rule E11.
  - iv In the case of a Default in relation to which the Clearing House does not apply Contributions under Rule 26 or Rule 28, determinations of the Fund Amount under the methodology of this Rule are suspended from the date of the occurrence of a Default until the completion of the management of such Default. Where other such Defaults have commenced during the period of suspension, the suspension will end at the completion of the management of the last of such Defaults.

In the case of any Default in relation to which the Clearing House applies Contributions under Rule 26 or Rule 28, determinations of the Fund Amount under the methodology of this Rule are suspended from the date of the occurrence of a Default until the expiry of the Cooling Off Period under Rule E7. Where other such Defaults have commenced during the period of suspension, the suspension will end at the expiry of the Cooling Off Period following the Default Management Completion Notice in respect of the last of those Defaults.

### **E3. Contributions to Fund**

- (a) The amount of each Member's Contribution shall be determined by the Clearing House on each Determination Date on the basis of information available as at close of business on the immediately preceding business day

and notified to such Member as soon as practicable after such determination in accordance with the Procedures. However, determinations of Contributions under the methodology of this Rule are suspended after the occurrence of a Default in accordance with Rule E2(c)(iv).

- (b) A Member's Contribution shall be determined with reference to business conducted by it on the Specified Markets in Contracts as follows:
- i the Member's "**End of Day Margin Weight**" shall be calculated by dividing the average daily ~~requirement for initial margin~~ requirement at the end of each day (as calculated under the Procedures or other arrangements applicable) which has applied to the Member during the Reference Period in respect of all Contracts by the total of such average daily requirements applied to all Members other than defaulters;
  - ii the Member's "**Peak Intra-Day Margin Weight**" shall be calculated by dividing the average maximum intra-day ~~requirement for initial margin~~ requirement arising at any point during each day during the Reference Period (as calculated under the Procedures or other arrangements applicable) which has applied to the Member in respect of all Contracts by the total of such average maximum intra-day requirements applied to all Members other than defaulters;
  - iii the Member's "**Weight Factor**" shall be calculated by adding one-half of its End of Day Margin Weight to one-half of its Peak Intra-Day Margin Weight,

and the Member's Contribution shall be the amount arrived at by multiplying the Fund Amount by the Member's Weight Factor, provided that (x) if the amount calculated for a particular Member pursuant to the foregoing would, when aggregated with the Contributions of all other Members, produce a Fund Amount that is in excess of that permitted under Rule E2(c)(iii), then such excess amount, as calculated by the Clearing House, shall be iteratively notionally allocated to such Member pro rata to its Contribution as originally calculated and such proportionate excess shall be deducted from the amount originally calculated and the Member's Contribution shall be adjusted accordingly; and provided further that (y) in no case shall a Member's Contribution be less than the Minimum Contribution (notwithstanding that the Fund Amount may, taking into account all Contributions as adjusted in accordance with the provisos to this paragraph, exceed the level specified in Rule E2(c)(iii)).

For the purposes of these calculations:

- iv "**Reference Period**" means the period of three calendar months immediately before the Determination Date;
- v references to "**Members**" do not include references to defaulters (apart from any defaulter in respect of which the Clearing House permits the application of this Rule) or persons which were formerly Members but are not Members on the date on which the relevant calculation is made;

- vi Contributions shall be rounded upwards, if not already such a multiple, to the next Integral multiple of one thousand pounds; and
  - vii no account shall be taken, in calculating the initial margin requirement or Margin Weight under this Rule E3(b) of any offsets in the initial margin required for Contracts from a Member which may otherwise be permissible under the Procedures or other arrangements applicable.
- (c) Without prejudice to any other requirements which the Clearing House may impose, the amount of the Contribution of a New Member shall be the sum of:
- i the Minimum Contribution; and
  - ii any supplementary sum determined by the Clearing House in its discretion and notified to the New Member. The Clearing House shall determine the amount of such supplementary sum by reference to the actual or expected level of clearing activity of the New Member.
- (d) Except to the extent that one or other of the caps specified in Rule E2(c)(iii) would be exceeded, the Clearing House may recalculate the Contributions due from certain Members on any business day other than one falling between the application of a Contribution and the end of the Cooling Off Period, as set out at Rule E7, in the following circumstances:
- i if the Combined Loss Value determined under Rule E2(b) on that day deviates by more than 25% upwards or downwards from the Combined Loss Value on which the previous Contribution determination was based, on such business day, the Clearing House shall be entitled to make an adjustment upwards or downwards to the Fund Amount commensurate with the deviation;
  - ii where the Risk Committee considers (for any reason) that a recalculation is warranted between Determination Dates.
- (e) A Co-operating Clearing House is not required to contribute to the Default Fund and references in this Rule E3 to a Member do not include a Co-operating Clearing House.

#### **E4. Interest on Contributions**

On each day interest shall accrue on the amount of each Contribution then held by the Clearing House, to the extent that it has not been applied under Rule 26 or Rule 28, at such rate and in such manner as provided by the Procedures, provided that the rate of interest for any particular day shall be based on a market-recognised benchmark rate plus or minus a spread. Such rate and such spread shall be determined, in light of market conditions at such time, by the Clearing House from time to time and notified by the Clearing House to Members. Interest on Contributions shall be payable in arrears and shall be paid on the date or dates specified by the Procedures. Any interest which has accrued under this Rule shall not be regarded as part of a Contribution. References in this Rule E4 to a Member do not include a Co-operating Clearing House.

#### **E5. Payment of Contributions**

- (a) Upon determination of the amount of a Contribution on a Determination Date:

- i if the amount of the Contribution of a Member at close of business on the business day immediately before the Determination Date exceeds the amount of the Member's Contribution as determined on the Determination Date, the excess shall be paid by the Clearing House to the Member in accordance with the Procedures;
  - ii if the amount of the Contribution of a Member at close of business on the business day immediately before the Determination Date is the same as the amount of the Member's Contribution as determined on the Determination Date, no sum shall then be payable by or to the Member in respect of its Contribution; and
  - iii if the amount of the Contribution of a Member at close of business on the business day immediately before the Determination Date is less than the amount of the Member's Contribution as determined on the Determination Date, the shortfall shall be paid by the Member to the Clearing House in accordance with the Procedures.
- (b) The provisions of this Rule do not apply to a Member which is a defaulter, unless the Clearing House so requires in any particular case.
  - (c) References in this Rule E5 to a Member do not include a Co-operating Clearing House.

#### **E6. Unfunded Contributions**

- (a) On any business day after the occurrence of a Default, if the Clearing House determines that by reason of reduction in accordance with Rule E7, (i) the Fund Amount (minus any Contribution of the defaulter) has been reduced by at least 25%, or (ii) by the time of issue of a Default Management Completion Notice in relation to that Default the Fund Amount will have been so reduced, the Clearing House may, by notice in writing (each an "**Unfunded Contribution Notice**"), require each Non-Defaulting Clearing Member to deposit and maintain an amount (each an "**Unfunded Contribution**") in accordance with this Rule.
- (b) Unfunded Contributions will only be payable in circumstances where the relevant Unfunded Contribution Notice is delivered by the Clearing House to Members before a Default Management Completion Notice in relation to the relevant Default.
- (c) The amount of an Unfunded Contribution payable by a Member in respect of a Default shall be payable pro rata by reference to the proportion which that Member's Contribution bears to the aggregate of Contributions of all Non-Defaulting Clearing Members, and shall not exceed the value of the Contribution of that Member as calculated on the last Determination Date prior to the date when the relevant Default occurred.
- (d) Following the payment of an Unfunded Contribution in accordance with Rule E6(a), (b) and (c), the Clearing House may, by the delivery of one or more further Unfunded Contribution Notices, require each Non-Defaulting Clearing Member to pay one or more further Unfunded Contributions in respect of the same Default, provided that the total value of the Unfunded Contributions payable by any Member in respect of a particular Default may not exceed the



value of the Contribution of such Member as calculated on the last Determination Date prior to the date when the relevant Default occurred.

- (e) Following a Default in respect of which Unfunded Contributions were paid (the "**First Default**"), the Clearing House may require the payment of further Unfunded Contributions in respect of subsequent Defaults, (which, for the avoidance of doubt, can never be a First Default), provided that Unfunded Contributions will not be payable in respect of any more than three Defaults in any six month period (commencing on the date of delivery of the first Unfunded Contribution Notice in respect of the First Default).
- (f) Members shall deposit the full amount of each Unfunded Contribution (without exercising any rights of set-off or counterclaim) with the Clearing House on the business day following receipt of an Unfunded Contribution Notice.

For the avoidance of doubt, references to "Members" for the purposes of this Rule: (i) include any Member (other than a defaulter) who is a Retiring Member but whose status as a Member has not yet been terminated; (ii) include any Member (other than a defaulter) who is a Resigning Member whose resignation from the Service is not yet effective; and (iii) do not include a Co-operating Clearing House.

#### **E7. Cooling Off and Replenishment of Fund**

- (a) This Rule applies where, after a Default, the Clearing House has applied part or all of a Contribution under Rule 26 or Rule 28. Upon such application the Fund Amount shall be reduced forthwith by the aggregate amount of the Contributions or parts of Contributions so applied, and (subject to the following provisions of this Rule) the amount of the Contribution that each Member must maintain with the Clearing House shall be reduced by the amount of its Contribution which has been applied pursuant to Rule 28, in each case until the next Determination Date. Unless and until the Clearing House has repaid a defaulter's Contribution, the Fund Amount shall be treated as having been reduced by the amount of the defaulter's Contribution (if any) regardless of whether the Clearing House has applied part or all of that Contribution under Rule 26.
- (b) If following the issuance of a notice to the effect that it has completed the management of a Default (a "**Default Management Completion Notice**") the aggregate amount of Fund Amount determined in accordance with paragraph (a) of this Rule E7 is less than the Fund Floor, the Clearing House may notify each Non-Defaulting Clearing Member that it is required to make a supplementary Contribution until the next Determination Date, based on the proportion that the value of its Contribution as at the last Determination Date prior to the date when the relevant Default occurred bears to the value of the aggregate Contributions of all Non-Defaulting Clearing Members as at such date, so as to maintain the Fund Amount at no less than the Fund Floor. Supplementary Contributions required hereunder shall be paid within two business days after notification and in accordance with the Procedures.
- (c) For a further period (a "**Cooling Off Period**") of 30 calendar days from (and including) any day on which the Clearing House has issued a Default Management Completion Notice after an application pursuant to Rule 26 or Rule 28, calculation of the Fund Amount and the Contributions of Members in accordance with Rule E3 shall be suspended.

- (d) Each Member's Contribution during a Cooling Off Period shall be no less than the Minimum Contribution.
- (e) Notwithstanding Rule 33, if a Member which is not a defaulter notifies the Clearing House within two business days after the issue of a Default Management Completion Notice that it wishes to resign from the Service; assuming all other requirements for termination of its membership have been satisfied by the end of the Cooling Off Period, such Member shall cease to be treated as a Member for the purpose of Rule E3 on the next Determination Date, and its Contribution shall (unless utilised in the interim in accordance with Rule 28) be repaid by the Clearing House following that Determination Date in accordance with the Procedures. A Member which has notified its wish to resign remains liable under Rule E8 until the effective date of its resignation.
- (f) The first business day after a Cooling Off Period shall exceptionally be a Determination Date; and the Fund Amount determined on such exceptional Determination Date shall remain in effect until the first business day of the next calendar month.
- (g) There may not be more than three exceptional Determination Dates of the type described in (f) above in any period of six months.
- (h) References in this Rule E7 to a Member do not include a Co-operating Clearing House.

#### **E8. Loss Allocation**

- (a) At any time after a Default, the Clearing House may determine that the Excess Loss resulting from the Default will exceed the resources available to be applied to it under Rule 16(a) to (g). If the Clearing House makes such a determination then the Clearing House may implement the process (the "**Loss Distribution Process**") described in this Rule E8 in order to mitigate the LCH Uncovered Loss. For these purposes, the difference between the Excess Loss as determined by the Clearing House on that day and such resources remaining available on that day shall be the "**LCH Uncovered Loss**".

- (b) *Definitions and interpretation*

In this Rule E8, references to a Member do not include a Co-operating Clearing House and the following definitions apply:

**"Loss Distribution Day"** means any business day in a Loss Distribution Period on which the Clearing House, prior to calling for ~~cover~~Collateral in respect of margin obligations in accordance with the provisions of the Procedures on such business day, determines that the LCH Uncovered Loss for that business day is greater than zero.

**"Loss Distribution Period"** means the period from, but excluding, the day on which a Default occurs with respect to a Member to the business day on which all Loss Distribution Charges in respect of such Default have been paid in full.

- (c) *Loss Distribution Charges*

- i On each Loss Distribution Day, each Non-Defaulting Clearing Member shall pay to the Clearing House a "**Loss Distribution Charge**" which is equal to the product of (x) the LCH Uncovered Loss in respect of that Loss Distribution Day and (y) the proportion which that Member's Contribution bears to the aggregate of the Contributions of all Non-Defaulting Clearing Members, provided that the cumulative total of all such Loss Distribution Charges that a Non-Defaulting Clearing Member is required to pay in respect of all Loss Distribution Days relating to that Default shall not be greater than the Loss Distribution Cap Amount in respect of that Non-Defaulting Clearing Member, and provided such Loss Distribution Charge shall also include any liquidity amounts. For this purpose, "**Loss Distribution Cap Amount**" means an amount equal to the Contribution of such Member as calculated at the last Determination Date (disregarding any Determination Date arising after the Default occurred). For the purposes of this Rule E8, "**liquidity amounts**" means the gross amount paid or payable for borrowed or purchased assets solely to enable the physical settlement of Contracts.
- ii Any Loss Distribution Charge shall be paid by the Member to the Clearing House in accordance with the Procedures.

(d) *Application of Loss Distribution Charges*

Apart from liquidity amounts used to effect physical settlement in accordance with Rule E8(c)(i), the Clearing House shall apply all other payments it receives in respect of Loss Distribution Charges solely for the purposes of meeting any loss incurred by the Clearing House in relation to the defaulter's Contracts.

(e) *No Rebate*

- i Subject to Rule E8(e)(ii), Rule E9 and Rule E10(c), the payment to the Clearing House by any Member of any Loss Distribution Charge shall be final and shall not give rise to any obligation of the Clearing House to repay any such amount or to pay any interest thereon.
- ii Following the issuance of a Default Management Completion Notice, surplus amounts of Loss Distribution Charges comprising liquidity amounts for physical settlement shall, in the case of a Retiring Member or a Resigning Member, be returned to such Member, and, in the case of other Members, be set off against a Member's Contribution (provided any surplus liquidity amounts in excess of the Contribution shall be returned to such Member), in both cases, pro rata by reference to the proportion which the Loss Distribution Charge paid by the relevant Member bears to the aggregate of Loss Distribution Charges paid by all Non-Defaulting Clearing Members.

(f) *Ballot*

If on a Loss Distribution Day, the LCH Uncovered Loss exceeds the aggregate amount of Loss Distribution Charges which the Clearing House may be entitled to receive under paragraph (c), the Clearing House may seek approval of Non-Defaulting Clearing Members for a proposal to increase the Loss Distribution Cap Amount for the purposes of the relevant Default to an

amount beyond that specified in paragraph (c). Approval shall only be treated as given if, in a ballot: (i) at least 95% by number (rounding fractions upwards to the next 5%) of Members eligible to vote have voted, and no Member which has voted has voted against the proposal; or (ii) in the event that there are more than two but fewer than 20 Members, no more than one Member eligible to vote has voted against the proposal.

#### E9. Application of Recoveries

(a) The Clearing House will apply any recovery, first to the reimbursement of payers of Loss Distribution Charges, and then to reimburse any Members or other persons to whom recourse has been made under Rule 16(d) to (g), but in reverse order to that in which they appear in Rule 16. In relation to payers of Loss Distribution Charges, any partial recovery will be distributed pro rata to the aggregate payments made by those payers. For the purposes of this Rule, a recovery comprises:

- i any amounts received from the defaulter as a result of the Clearing House being a creditor of the defaulter in respect of the Business of such defaulter in the context of the occurrence of any of the events under Rule 5(i) to (p) in respect of the defaulter or otherwise, other than in respect of sums due to the Clearing House for its own account; or
- ii any other amounts howsoever obtained or recovered in the course of the management of the Default or which are otherwise referable to the Default or the defaulter,

in each case net of any related expenses incurred by the Clearing House or other sums owing to the Clearing House by the defaulter in connection with the Service.

- (b) Nothing in this Rule E9 shall oblige the Clearing House to pursue any litigation or take other action in order to recover the amounts contemplated hereby.
- (c) If a Contribution made by a defaulter to another default fund of the Clearing House has been applied to losses in respect of Contracts registered to an account of the defaulter, any amounts recovered shall be applied *pari passu* as between the relevant default funds.
- (d) References in this Rule E9 to a Member do not include a Co-operating Clearing House.

#### E10. Service Closure

- (a) Where, after the Default of one or more Members, the Clearing House determines that, notwithstanding the availability of any resources remaining under Rule 16(a) to (g) and the availability of the Loss Distribution Process under Rule E8, the Clearing House does not have sufficient resources to meet its obligations and liabilities arising in respect of Contracts to which it is party with Non-Defaulting Clearing Members, the Clearing House shall make a further determination (an "**Insufficient Resources Determination**") that the Clearing House does not have sufficient available resources under Rule 16(a) to (g) and via the Loss Distribution Process under Rule E8 to meet its

obligations and liabilities arising in respect of those Contracts to which it is party with Non-Defaulting Clearing Members, and the provisions of this Rule shall have effect.

- (b) All outstanding Contracts shall be closed out as of the business day following the date of the Insufficient Resources Determination and any further obligations to make any payments under or in respect of such Contracts shall cease. The closing prices used shall be prices calculated by the Clearing House in accordance with the methodology used by it to carry out end of day margin runs in respect of the outstanding Contracts. Where such data is not available to the Clearing House, the closing price shall be the last price used by the Clearing House to calculate the variation margin requirement for the position to be closed out.
- (c) On the basis of the close out values established for each outstanding Contract, an account shall be taken (as at the time of close out) of what is due, in respect of each Member, from that Member to the Clearing House and from the Clearing House to that Member, as well as all other amounts owing under or in respect of such Contracts and any other amounts that may be due in respect of the Service (including for these purposes, a proportionate share of any amounts owed generally to or from the Clearing House), and the sums due from the Member shall be set off against the sums due from the Clearing House and only the balance of the account shall be payable. Amounts due in respect of such Contracts shall include, but not be limited to, returns of cash Collateral held by the Clearing House in respect of the Member's variation margin associated therewith obligations and returns of Loss Distribution Charges, but shall exclude the repayment of any cash Collateral held by the Clearing House in respect of the Member's initial margin obligations or any Contributions.

To the extent that the aggregate of all of the amounts owed to the Clearing House by Members (including Co-operating Clearing Houses) plus all of those other resources applicable to the Service under Rule 16(a) to (g) that have not been applied towards an Excess Loss is less than the aggregate of the amounts owed to Members (including Co-operating Clearing Houses) by the Clearing House, each amount owed to Members by the Clearing House shall be reduced pro rata the shortfall. For the avoidance of doubt, no amount owed by the Clearing House to a Co-operating Clearing House is to be reduced pursuant to this Rule 10(c).

- (d) The Clearing House shall determine any amounts due to each Member in respect of the repayment of any cash Collateral held by the Clearing House in respect of the initial margin obligations of the Member and outstanding Contributions to be repaid. The claim of each such Member in respect of the foregoing shall be limited to a pro rata share of the assets available to the Clearing House to satisfy those amounts.
- (e) For each Member, the amount due to it or due from it as determined pursuant to (c) above shall be aggregated with its claim determined pursuant to (d) above and only the net sum shall be payable. Where the result of such calculations is that a Member owes an amount to the Clearing House, that Member shall pay that amount to the Clearing House immediately. Where the result of such calculations is that a Member is owed an amount by the Clearing House, the Clearing House shall pay that amount to the Member immediately, subject to (g) below.

- (f) The payment of such amount to a Member pursuant to (e) above, subject to any re-calculations performed pursuant to (g) below, shall constitute the full and final payment in respect of the Service and such Member shall not be permitted to make any further claims on the Clearing House in respect of amounts relating to the Service nor shall it be permitted to notify the Clearing House of a Termination Date pursuant to Regulation 39A for a failure to pay any amounts in relation to the Service.
- (g) The Clearing House may make the payments due under (e) above in one or more instalments to the Members in proportion to the value of their claims on the Clearing House under (c) above if some but not all of the amounts due under (e) above or Rule 16(a) to 16(g) have not yet been received. The Clearing House shall take reasonable steps to recover such amounts and may deduct therefrom reasonable administration costs for such recovery. To the extent that the Clearing House determines that any such amounts will not in fact be recoverable, it shall re-determine the amounts due to Members in accordance with this Rule.
- (h) This Rule shall not be applied in the event that a Termination Date has been specified in relation to the Clearing House in accordance with Regulation 39A.
- (i) Nothing in the foregoing shall override the obligation of the Clearing House to return non-cash Collateral transferred to it in respect of initial margin provided by way of security to a Member pursuant to its Regulations and Procedures.
- (j) Except for references to Non Defaulting Clearing Members in Rule 10(a), and except where otherwise stated, references in this Rule E10 to a Member do not include a Co-operating Clearing House.

#### **E11. Ballot Arrangements**

- (a) No proposal for any of the amendments set out in paragraphs (i), (ii), (iii) or (iv) below (each an "**Equities Default Fund Amendment**") shall be capable of coming into effect unless first approved in a ballot of Members:
  - i any amendment providing for a change in the nature of the liabilities for which a Member's indemnity is given in respect of Equities Business by virtue of Rule 28;
  - ii any amendment which, in the opinion of the Board of Directors of the Clearing House would represent a significant change in the commitments of the Equities Clearing Members but not in the commitments of any other Members;
  - iii any increase in the maximum size of the Fund Amount for the purposes of Rule E2 beyond GBP 500,000,000 (or such other level as has been approved in a ballot); and
  - iv any amendment to the amount of the Minimum Contribution or the definition of the Fund Floor.
- (b) For the purposes of a ballot conducted pursuant to this Rule, the provisions of clauses 9.4, 9.6 and 9.7 of the Clearing Membership Agreement shall apply with the following amendments:

- I the words "major amendment to the Default Fund Rules" in the first line of clause 9.4 of the Clearing Membership Agreement shall be read as "Equities Default Fund Amendment";
  - ii all references to "Clearing Members" shall be read as references to "Equities Clearing Members";
  - iii in paragraph (c) of clause 9.4 of the Clearing Membership Agreement, the reference to "Quarter Day" shall be replaced with a reference to Determination Date, as such term is used in the Equities Default Fund Supplement to the Default Fund Rules;
  - iv references to "Contributions" and "Fund Amount" shall be read in accordance with the Equities Default Fund Supplement to the Default Fund Rules; and
  - v the reference to "clause 9.4" in clause 9.6 of the Clearing Membership Agreement shall be construed accordingly.
- (c) References in this Rule E11 to a Member do not include a Co-operating Clearing House.

**Listed Interest Rate Default Fund Supplement**

- L1. In this Supplement, subject to any contrary indication or where the context otherwise requires, references to:

the "**Business**" means the Listed Interest Rate Business of a Member

a "**Contract**" means a Listed Interest Rate Contract, a contract cleared pursuant to a Service and such other listed interest rate derivative contract as the Clearing House may from time to time specify by notice to the Members

a "**Contribution**" means a Listed Interest Rate Contribution

the "**Default Fund**" means the fund established by this Listed Interest Rate Default Fund Supplement

a "**Determination Date**" means a Listed Interest Rate Determination Date

the "**Excess Loss**" means the Listed Interest Rate Excess Loss

the "**Fund Amount**" means the Listed Interest Rate Fund Amount

a "**Member**" means a Listed Interest Rate Clearing Member and a Clearing Member approved to clear a Specified Market

a "**Minimum Contribution**" means GBP 500,000

a "**Non-Defaulting Clearing Member**" means a Member that is not a defaulter under Rule 4 of the Default Rules

"**Service**" means the listed interest rate derivatives and listed interest rate derivatives-related services provided by the Clearing House pursuant to its rules governing the clearing of the Specified Markets and includes the Listed Interest Rate Service

"**Specified Markets**" means NLX and any other markets from time to time specified by the Clearing House

and calculations of "**Combined Loss Value**", "**End of Day Margin Weight**", "**Peak Intra-Day Margin Weight**", "**STLIEOM**" and "**Weight Factor**" are carried out in accordance with this Supplement only.

Capitalised terms not otherwise defined in this Supplement shall have the meanings assigned to them in the General Regulations, Rule 15 of the Default Fund Rules or Rule 15A of the Default Fund Rules, as applicable.

L2. **Fund Amount**

- (a) The Default Fund is denominated in GBP, and all amounts referable to it shall be denominated, calculated, called and payable in GBP.
- (b) On each business day, the Clearing House will determine the "**Combined Loss Value**" in respect of each of the three preceding calendar months. The Combined Loss Value in respect of a particular day will be the sum of the STLIEOMs for the Members which have the largest and the second largest STLIEOM on that day. For this purpose, the "**STLIEOM**" means, in respect of



each Member and in respect of any day, the stress-tested loss in excess of initial margin (determined for a given scenario determined by the Clearing House) which could be incurred by the Clearing House in respect of that Member's Business if that Member became a defaulter on that day.

- (c) The Fund Amount shall be determined by the Clearing House on the first business day of each calendar month (the "**Determination Date**") in accordance with this Rule.
- i The Fund Amount is, for a given Determination Date, the largest of the Combined Loss Values as determined during the three calendar month period under Rule L2(b), plus 10%, subject to the following provisions of this Rule.
  - ii On any Determination Date, if the Fund Amount as determined under Rule L2(c)(i) would be lower than three times the Minimum Contribution, the Fund Amount will be deemed to be three times the Minimum Contribution (the "**Fund Floor**").
  - iii On any Determination Date: (a) if the Fund Amount as determined would exceed GBP 500,000,000, the Fund Amount will be deemed to be GBP 500,000,000 unless the Risk Committee of the Clearing House has resolved that an increase in the Fund Amount is warranted, in which case the Fund Amount shall be as determined by the Risk Committee; (b) if the Fund Amount as determined would exceed GBP 1,500,000,000, the Fund Amount will be deemed to be GBP 1,500,000,000, notwithstanding any determination by the Risk Committee, unless an increase has been approved by ballot in accordance with Rule L11.
  - iv In the case of a Default in relation to which the Clearing House does not apply Contributions under Rule 26 or Rule 28, determinations of the Fund Amount under the methodology of this Rule are suspended from the date of the occurrence of a Default until the completion of the management of such Default. Where other such Defaults have commenced during the period of suspension, the suspension will end at the completion of the management of the last of such Defaults.

In the case of any Default in relation to which the Clearing House applies Contributions under Rule 26 or Rule 28, determinations of the Fund Amount under the methodology of this Rule are suspended from the date of the occurrence of a Default until the expiry of the Cooling Off Period under Rule L7. Where other such Defaults have commenced during the period of suspension, the suspension will end at the expiry of the Cooling Off Period following the Default Management Completion Notice in respect of the last of those Defaults.

### **L3. Contributions to Fund**

- (a) The amount of each Member's Contribution shall be determined by the Clearing House on each Determination Date on the basis of information available as at close of business on the immediately preceding business day and notified to such Member as soon as practicable after such determination in accordance with the Procedures. However, determinations of Contributions under the methodology of this Rule are suspended after the occurrence of a Default in accordance with Rule L2(c)(v).

- (b) A Member's Contribution shall be determined with reference to business conducted by it on the Specified Markets in Contracts as follows:
- i the Member's "**End of Day Margin Weight**" shall be calculated by dividing the average daily ~~requirement for initial margin~~ requirement at the end of each day (as calculated under the Procedures or other arrangements applicable) which has applied to the Member during the Reference Period in respect of all Contracts by the total of such average daily requirements applied to all Members other than defaulters;
  - ii the Member's "**Peak Intra-Day Margin Weight**" shall be calculated by dividing the average maximum intra-day ~~requirement for initial margin~~ requirement arising at any point during each day during the Reference Period (as calculated under the Procedures or other arrangements applicable) which has applied to the Member in respect of all Contracts by the total of such average maximum intra-day requirements applied to all Members other than defaulters;
  - iii the Member's "**Weight Factor**" shall be calculated by adding one-half of its End of Day Margin Weight to one-half of its Peak Intra-Day Margin Weight,

and the Member's Contribution shall be the amount arrived at by multiplying the Fund Amount by the Member's Weight Factor, provided that (x) if the amount calculated for a particular Member pursuant to the foregoing would, when aggregated with the Contributions of all other Members, produce a Fund Amount that is in excess of that permitted under Rule L2(c)(iii), then such excess amount, as calculated by the Clearing House, shall be iteratively notionally allocated to such Member pro rata to its Contribution as originally calculated and such proportionate excess shall be deducted from the amount originally calculated and the Member's Contribution shall be adjusted accordingly; and provided further that (y) in no case shall a Member's Contribution be less than the Minimum Contribution (notwithstanding that the Fund Amount may, taking into account all Contributions as adjusted in accordance with the provisos to this paragraph, exceed the level specified in Rule L2(c)(iii)).

For the purposes of these calculations:

- iv "**Reference Period**" means the period of three calendar months immediately before the Determination Date;
- v references to "**Members**" do not include references to defaulters (apart from any defaulter in respect of which the Clearing House permits the application of this Rule) or persons which were formerly Members but are not Members on the date on which the relevant calculation is made;
- vi Contributions shall be rounded upwards, if not already such a multiple, to the next integral multiple of one thousand pounds; and
- vii no account shall be taken, in calculating the initial margin requirement or Margin Weight under this Rule L3(b) of any offsets in the initial margin required for Contracts from a Member which may otherwise be permissible under the Procedures or other arrangements applicable.

- (c) Without prejudice to any other requirements which the Clearing House may impose, the amount of the Contribution of a New Member shall be the sum of:
  - i the Minimum Contribution; and
  - ii any supplementary sum determined by the Clearing House in its discretion and notified to the New Member. The Clearing House shall determine the amount of such supplementary sum by reference to the actual or expected level of clearing activity of the New Member.
- (d) Except to the extent that one or other of the caps specified in Rule L2(c)(iii) would be exceeded, the Clearing House may recalculate the Contributions due from certain Members on any business day other than one falling between the application of a Contribution and the end of the Cooling Off Period, as set out at Rule L7, in the following circumstances:
  - i if the Combined Loss Value determined under Rule L2(b) on that day deviates by more than 25% upwards or downwards from the Combined Loss Value on which the previous Contribution determination was based, on such business day, the Clearing House shall be entitled to make an adjustment upwards or downwards to the Fund Amount commensurate with the deviation;
  - ii where the Risk Committee considers (for any reason) that a recalculation is warranted between Determination Dates.

#### **L4. Interest on Contributions**

On each day interest shall accrue on the amount of each Contribution then held by the Clearing House, to the extent that it has not been applied under Rule 26 or Rule 28, at such rate and in such manner as provided by the Procedures, provided that the rate of interest for any particular day shall be based on a market-recognised benchmark rate plus or minus a spread. Such rate and such spread shall be determined, in light of market conditions at such time, by the Clearing House from time to time and notified by the Clearing House to Members. Interest on Contributions shall be payable in arrears and shall be paid on the date or dates specified by the Procedures. Any interest which has accrued under this Rule shall not be regarded as part of a Contribution.

#### **L5. Payment of Contributions**

- (a) Upon determination of the amount of a Contribution on a Determination Date:
  - i if the amount of the Contribution of a Member at close of business on the business day immediately before the Determination Date exceeds the amount of the Member's Contribution as determined on the Determination Date, the excess shall be paid by the Clearing House to the Member in accordance with the Procedures;
  - ii if the amount of the Contribution of a Member at close of business on the business day immediately before the Determination Date is the same as the amount of the Member's Contribution as determined on the Determination Date, no sum shall then be payable by or to the Member in respect of its Contribution; and

- iii if the amount of the Contribution of a Member at close of business on the business day immediately before the Determination Date is less than the amount of the Member's Contribution as determined on the Determination Date, the shortfall shall be paid by the Member to the Clearing House in accordance with the Procedures.
- (b) The provisions of this Rule do not apply to a Member which is a defaulter, unless the Clearing House so requires in any particular case.

#### L6. Unfunded Contributions

- (a) On any business day after the occurrence of a Default, if the Clearing House determines that by reason of reduction in accordance with Rule L7, (i) the Fund Amount (minus any Contribution of the defaulter) has been reduced by at least 25%, or (ii) by the time of issue of a Default Management Completion Notice in relation to that Default the Fund Amount will have been so reduced, the Clearing House may, by notice in writing (each an "**Unfunded Contribution Notice**"), require each Non-Defaulting Clearing Member to deposit and maintain an amount (each an "**Unfunded Contribution**") in accordance with this Rule.
- (b) Unfunded Contributions will only be payable in circumstances where the relevant Unfunded Contribution Notice is delivered by the Clearing House to Members before a Default Management Completion Notice in relation to the relevant Default.
- (c) The amount of an Unfunded Contribution payable by a Member in respect of a Default shall be payable pro rata by reference to the proportion which that Member's Contribution bears to the aggregate of Contributions of all Non-Defaulting Clearing Members, and shall not exceed the value of the Contribution of that Member as calculated on the last Determination Date prior to the date when the relevant Default occurred.
- (d) Following the payment of an Unfunded Contribution in accordance with Rule L6(a), (b) and (c), the Clearing House may, by the delivery of one or more further Unfunded Contribution Notices, require each Non-Defaulting Clearing Member to pay one or more further Unfunded Contributions in respect of the same Default, provided that the total value of the Unfunded Contributions payable by any Member in respect of a particular Default may not exceed the value of the Contribution of such Member as calculated on the last Determination Date prior to the date when the relevant Default occurred.
- (e) Following a Default in respect of which Unfunded Contributions were paid (the "**First Default**"), the Clearing House may require the payment of further Unfunded Contributions in respect of subsequent Defaults, (which, for the avoidance of doubt, can never be a First Default), provided that Unfunded Contributions will not be payable in respect of any more than three Defaults in any six month period (commencing on the date of delivery of the first Unfunded Contribution Notice in respect of the First Default).
- (f) Members shall deposit the full amount of each Unfunded Contribution (without exercising any rights of set-off or counterclaim) with the Clearing House on the business day following receipt of an Unfunded Contribution Notice.

For the avoidance of doubt, references to "Members" for the purposes of this Rule include any Member (other than a defaulter) who is: (i) a Retiring Member but whose status as a Member has not yet been terminated; and (ii) a Resigning Member whose resignation from the Service is not yet effective.

#### **L7. Cooling Off and Replenishment of Fund**

- (a) This Rule applies where, after a Default, the Clearing House has applied part or all of a Contribution under Rule 26 or Rule 28. Upon such application the Fund Amount shall be reduced forthwith by the aggregate amount of the Contributions or parts of Contributions so applied, and (subject to the following provisions of this Rule) the amount of the Contribution that each Member must maintain with the Clearing House shall be reduced by the amount of its Contribution which has been applied pursuant to Rule 28, in each case until the next Determination Date. Unless and until the Clearing House has repaid a defaulter's Contribution, the Fund Amount shall be treated as having been reduced by the amount of the defaulter's Contribution (if any) regardless of whether the Clearing House has applied part or all of that Contribution under Rule 26.
- (b) If following the issuance of a notice to the effect that it has completed the management of a Default (a "**Default Management Completion Notice**") the aggregate amount of Fund Amount determined in accordance with paragraph (a) of this Rule L7 is less than the Fund Floor, the Clearing House may notify each Non-Defaulting Clearing Member that it is required to make a supplementary Contribution until the next Determination Date, based on the proportion that the value of its Contribution as at the last Determination Date prior to the date when the relevant Default occurred bears to the value of the aggregate Contributions of all Non-Defaulting Clearing Members as at such date, so as to maintain the Fund Amount at no less than the Fund Floor. Supplementary Contributions required hereunder shall be paid within two business days after notification and in accordance with the Procedures.
- (c) For a further period (a "**Cooling Off Period**") of 30 calendar days from (and including) any day on which the Clearing House has issued a Default Management Completion Notice after an application pursuant to Rule 26 or Rule 28, calculation of the Fund Amount and the Contributions of Members in accordance with Rule L3 shall be suspended.
- (d) Each Member's Contribution during a Cooling Off Period shall be no less than the Minimum Contribution.
- (e) Notwithstanding Rule 33, if a Member which is not a defaulter notifies the Clearing House within two business days after the issue of a Default Management Completion Notice that it wishes to resign from the Service: assuming all other requirements for termination of its membership have been satisfied by the end of the Cooling Off Period, such Member shall cease to be treated as a Member for the purpose of Rule L3 on the next Determination Date, and its Contribution shall (unless utilised in the interim in accordance with Rule 28) be repaid by the Clearing House following that Determination Date in accordance with the Procedures. A Member which has notified its wish to resign remains liable under Rule L8 until the effective date of its resignation.

- (f) The first business day after a Cooling Off Period shall exceptionally be a Determination Date, and the Fund Amount determined on such exceptional Determination Date shall remain in effect until the first business day of the next calendar month.
- (g) There may not be more than three exceptional Determination Dates of the type described in (f) above in any period of six months.

#### L8. Loss Allocation

- (a) At any time after a Default, the Clearing House may determine that the Excess Loss resulting from the Default will exceed the resources available to be applied to it under Rule 16(a) to (g). If the Clearing House makes such a determination then the Clearing House may implement the process (the "**Loss Distribution Process**") described in this Rule L8 in order to mitigate the LCH Uncovered Loss. For these purposes, the difference between the Excess Loss as determined by the Clearing House on that day and such resources remaining available on that day shall be the "**LCH Uncovered Loss**".

- (b) *Definitions*

In this Rule L8, the following definitions apply:

"**Loss Distribution Day**" means any business day in a Loss Distribution Period on which the Clearing House, prior to calling for ~~ever~~Collateral in respect of margin obligations in accordance with the provisions of the Procedures on such business day, determines that the LCH Uncovered Loss for that business day is greater than zero.

"**Loss Distribution Period**" means the period from, but excluding, the day on which a Default occurs with respect to a Member to the business day on which all Loss Distribution Charges in respect of such Default have been paid in full.

- (c) Loss Distribution Charges

- i On each Loss Distribution Day, each Non-Defaulting Clearing Member shall pay to the Clearing House a "**Loss Distribution Charge**" which is equal to the product of (x) the LCH Uncovered Loss in respect of that Loss Distribution Day and (y) the proportion which that Member's Contribution bears to the aggregate of the Contributions of all Non-Defaulting Clearing Members, provided that the cumulative total of all such Loss Distribution Charges that a Non-Defaulting Clearing Member is required to pay in respect of all Loss Distribution Days relating to that Default shall not be greater than the Loss Distribution Cap Amount in respect of that Non-Defaulting Clearing Member, and provided such Loss Distribution Charge shall also include any liquidity amounts. For this purpose, "**Loss Distribution Cap Amount**" means an amount equal to the Contribution of such Member as calculated at the last Determination Date (disregarding any Determination Date arising after the Default occurred). For the purposes of this Rule L8, "**liquidity amounts**" means the gross amount paid or payable for borrowed or purchased assets solely to enable the physical settlement of Contracts.

- ii Any Loss Distribution Charge shall be paid by the Member to the Clearing House in accordance with the Procedures.
- (d) Application of Loss Distribution Charges

Apart from liquidity amounts used to effect physical settlement in accordance with Rule L8(c)(i), the Clearing House shall apply all other payments it receives in respect of Loss Distribution Charges solely for the purposes of meeting any loss incurred by the Clearing House in relation to the defaulter's Contracts.
- (e) No Rebate
  - i Subject to Rule L8(e)(ii), Rule L9 and Rule L10(c), the payment to the Clearing House by any Member of any Loss Distribution Charge shall be final and shall not give rise to any obligation of the Clearing House to repay any such amount or to pay any interest thereon.
  - ii Following the issuance of a Default Management Completion Notice, surplus amounts of Loss Distribution Charges comprising liquidity amounts for physical settlement shall, in the case of a Retiring Member or a Resigning Member, be returned to such Member, and, in the case of other Members, be set off against a Member's Contribution (provided any surplus liquidity amounts in excess of the Contribution shall be returned to such Member), in both cases, pro rata by reference to the proportion which the Loss Distribution Charge paid by the relevant Member bears to the aggregate of Loss Distribution Charges paid by all Non-Defaulting Clearing Members.
- (f) Ballot
  - i If on a Loss Distribution Day, the LCH Uncovered Loss exceeds the aggregate amount of Loss Distribution Charges which the Clearing House may be entitled to receive under paragraph (c), the Clearing House may seek approval of Non-Defaulting Clearing Members for a proposal to increase the Loss Distribution Cap Amount for the purposes of the relevant Default to an amount beyond that specified in paragraph (c). Approval shall only be treated as given if, in a ballot: (i) at least 95% by number (rounding fractions upwards to the next 5%) of Members eligible to vote have voted, and no Member which has voted has voted against the proposal, or (ii) in the event that there are more than two but fewer than 20 Members, no more than one Member eligible to vote has voted against the proposal.

#### **L9. Application of Recoveries**

- (a) The Clearing House will apply any recovery, first to the reimbursement of payers of Loss Distribution Charges, and then to reimburse any Members or other persons to whom recourse has been made under Rule 16(d) to (g), but in reverse order to that in which they appear in Rule 16. In relation to payers of Loss Distribution Charges, any partial recovery will be distributed pro rata to the aggregate payments made by those payers. For the purposes of this Rule, a recovery comprises:

- i any amounts received from the defaulter as a result of the Clearing House being a creditor of the defaulter in respect of the Business of such defaulter in the context of the occurrence of any of the events under Rule 5(i) to (p) in respect of the defaulter or otherwise, other than in respect of sums due to the Clearing House for its own account; or
- ii any other amounts howsoever obtained or recovered in the course of the management of the Default or which are otherwise referable to the Default or the defaulter,

in each case net of any related expenses incurred by the Clearing House or other sums owing to the Clearing House by the defaulter in connection with the Service.

- (b) Nothing in this Rule L9 shall oblige the Clearing House to pursue any litigation or take other action in order to recover the amounts contemplated hereby.
- (c) If a Contribution made by a defaulter to another default fund of the Clearing House has been applied to losses in respect of Contracts registered to an account of the defaulter, any amounts recovered shall be applied *pari passu* as between the relevant default funds.

#### L10. Service Closure

- (a) Where, after the Default of one or more Members, the Clearing House determines that, notwithstanding the availability of any resources remaining under Rule 16(a) to (g) and the availability of the Loss Distribution Process under Rule L8, the Clearing House does not have sufficient resources to meet its obligations and liabilities arising in respect of Contracts to which it is party with Non-Defaulting Clearing Members, the Clearing House shall make a further determination (an "**Insufficient Resources Determination**") that the Clearing House does not have sufficient available resources under Rule 16(a) to (g) and via the Loss Distribution Process under Rule L8 to meet its obligations and liabilities arising in respect of those Contracts to which it is party with Non-Defaulting Clearing Members, and the provisions of this Rule shall have effect.
- (b) All outstanding Contracts shall be closed out as of the business day following the date of the Insufficient Resources Determination and any further obligations to make any payments under or in respect of such Contracts shall cease. The closing prices used shall be prices calculated by the Clearing House in accordance with the methodology used by it to carry out end of day margin runs in respect of the outstanding Contracts. Where such data is not available to the Clearing House, the closing price shall be the last price used by the Clearing House to calculate the variation margin requirement for the position to be closed out.
- (c) On the basis of the close out values established for each outstanding Contract, an account shall be taken (as at the time of close out) of what is due, in respect of each Member, from that Member to the Clearing House and from the Clearing House to that Member, as well as all other amounts owing under or in respect of such Contracts and any other amounts that may be due in respect of the Service (including for these purposes, a proportionate share of any amounts owed generally to or from the Clearing House), and the sums due from the Member shall be set off against the sums due from the Clearing



House and only the balance of the account shall be payable. Amounts due in respect of such Contracts shall include, but not be limited to, returns of cash Collateral held by the Clearing House in respect of the Member's variation margin associated therewith obligations and returns of Loss Distribution Charges, but shall exclude the repayment of any cash Collateral held by the Clearing House in respect of the Member's initial margin obligations or any Contributions.

To the extent that the aggregate of all of the amounts owed to the Clearing House by Members plus all of those other resources applicable to the Service under Rule 16(a) to (g) that have not been applied towards an Excess Loss is less than the aggregate of the amounts owed to Members by the Clearing House, each amount owed to Members by the Clearing House shall be reduced pro rata the shortfall.

- (d) The Clearing House shall determine any amounts due to each Member in respect of cash Collateral held by the repayment-Clearing House in respect of any-cash the initial margin obligations of the Member and outstanding Contributions to be repaid. The claim of each such Member in respect ~~to~~ of the foregoing shall be limited to a pro rata share of the assets available to the Clearing House to satisfy those amounts.
- (e) For each Member, the amount due to it or due from it as determined pursuant to (c) above shall be aggregated with its claim determined pursuant to (d) above and only the net sum shall be payable. Where the result of such calculations is that a Member owes an amount to the Clearing House, that Member shall pay that amount to the Clearing House immediately. Where the result of such calculations is that a Member is owed an amount by the Clearing House, the Clearing House shall pay that amount to the Member immediately, subject to (g) below.
- (f) The payment of such amount to a Member pursuant to (e) above, subject to any re-calculations performed pursuant to (g) below, shall constitute the full and final payment in respect of the Service and such Member shall not be permitted to make any further claims on the Clearing House in respect of amounts relating to the Service nor shall it be permitted to notify the Clearing House of a Termination Date pursuant to Regulation 39A for a failure to pay any amounts in relation to the Service.
- (g) The Clearing House may make the payments due under (e) above in one or more instalments to the Members in proportion to the value of their claims on the Clearing House under (c) above if some but not all of the amounts due under (e) above or Rule 16(a) to 16(g) have not yet been received. The Clearing House shall take reasonable steps to recover such amounts and may deduct therefrom reasonable administration costs for such recovery. To the extent that the Clearing House determines that any such amounts will not in fact be recoverable, it shall re-determine the amounts due to Members in accordance with this Rule.
- (h) This Rule shall not be applied in the event that a Termination Date has been specified in relation to the Clearing House in accordance with Regulation 39A.
- (i) Nothing in the foregoing shall override the obligation of the Clearing House to return non-cash Collateral transferred to it in respect of initial margin ~~provided~~

~~by way of security to a Member pursuant to its~~ Regulations and Procedures.

#### L11. Ballot Arrangements

- (a) No proposal for any of the amendments set out in paragraphs (i), (ii), (iii) or (iv) below (each a "**Listed Interest Rate Default Fund Amendment**") shall be capable of coming into effect unless first approved in a ballot of Members:
- i any amendment providing for a change in the nature of the liabilities for which a Member's indemnity is given in respect of Listed Interest Rate Business by virtue of Rule 28;
  - ii any amendment which, in the opinion of the Board of Directors of the Clearing House would represent a significant change in the commitments of the Listed Interest Rate Clearing Members but not in the commitments of any other Members;
  - iii any increase in the maximum size of the Fund Amount for the purposes of Rule L2 beyond GBP 1,500,000,000 (or such other level as has been approved in a ballot); and
  - iv any amendment to the amount of the Minimum Contribution or the definition of the Fund Floor
- (b) For the purposes of a ballot conducted pursuant to this Rule, the provisions of clauses 9.4, 9.6 and 9.7 of the Clearing Membership Agreement shall apply with the following amendments:
- i the words "major amendment to the Default Fund Rules" in the first line of clause 9.4 of the Clearing Membership Agreement shall be read as "Listed Interest Rate Default Fund Amendment";
  - ii all references to "Clearing Members" shall be read as references to "Listed Interest Rate Clearing Members";
  - iii in paragraph (c) of clause 9.4 of the Clearing Membership Agreement, the reference to "Quarter Day" shall be replaced with a reference to Determination Date, as such term is used in the Listed Interest Rate Default Fund Supplement to the Default Fund Rules;
  - iv references to "Contributions" and "Fund Amount" shall be read in accordance with the Listed Interest Rate Default Fund Supplement to the Default Fund Rules; and
  - v the reference to "clause 9.4" in clause 9.6 of the Clearing Membership Agreement shall be construed accordingly.

LCH.Cleernet Rule Submission

Exhibit A-13

Default Rules

**LCH.CLEARNET LIMITED****The Financial Services and Markets Act 2000 (Recognition Requirements for  
Investment Exchanges and Clearing Houses) Regulations 2001, Part IV****DEFAULT RULES**

1. Save where expressly stated to the contrary these Default Rules ("Rules") have effect with regard to the provision of clearing services for all markets cleared by the Clearing House.
2.
  - (a) Words and expressions defined in the Clearing House's Rulebook shall have the same meanings in these Rules, save that in relation to the provision of clearing services by an FCM Clearing Member, words and expressions defined in the Clearing House's FCM Regulations shall have the same meanings in these Rules and such meanings shall prevail over any other meaning given to the relevant word or expression in the Clearing House's Rulebook;
  - (b) A reference to a numbered Regulation in these Rules is a reference to the Regulation so numbered in the Regulations section of the Rulebook and a reference to a numbered FCM Regulation is a reference to the FCM Regulation so numbered in the FCM Regulations. A reference to a numbered Rule is a reference to the Rule so numbered in these Rules;
  - (c) The expression "relevant office-holder" in these Rules has the meaning given to it by section 189 of the Companies Act 1989 and a reference to the defaulter shall include where the context permits a reference to the relevant office-holder; and
  - (d) A reference to an agreement in these Rules is a reference to that agreement as amended, modified or varied from time to time.
3. In the event of a Clearing Member appearing to the Clearing House to be unable, or to be likely to become unable, to meet its obligations in respect of one or more Contracts, the Clearing House may (or upon the occurrence of an Automatic Early Termination Event, in which case such contracts will automatically terminate, the Clearing House will) take such steps listed in Rule 6 as in the circumstances appear to it best calculated:
  - (a) to discharge all the Clearing Member's rights and liabilities under or in respect of all Contracts to which it is party or upon which it is or may be liable, and
  - (b) to complete the process set out in Rule 8.

Before taking any such step the Clearing House shall have regard to the interests of the members of any market that the Clearing Member may belong to and shall, where in the circumstances it is reasonably practicable to do so without prejudice to those interests if applicable or the interests of the Clearing House, consult any relevant Exchange to whose Exchange Rules open contracts registered in the name of the Clearing Member are subject. As soon as practicable after the Clearing House has elected to take any such step in relation to a Clearing Member (or in the case of an Automatic Early Termination Event (as described in Rule 5 below) as soon as practicable after the occurrence of such event) the Clearing House shall send to such

Clearing Member: (a) a notice of such step being taken or notice of the occurrence of an Automatic Early Termination Event (a "**Default Notice**"), and shall publish a copy of the Default Notice; and (b) in relation to a defaulter who is a SwapClear Clearing Member, copies of any written notices received from the Individual Segregated Account Clearing Client(s) and/or any of the Omnibus Net Segregated Clearing Client(s) of that defaulter confirming their instructions for the Clearing House to arrange for a transfer or termination, close-out and re-establishment of their open SwapClear Contracts to/with the relevant Back-up SwapClear Clearing Member(s), provided, however, that the Clearing House shall have no liability for any failure to deliver such notices.

4. A Clearing Member (i) in respect of whom the Clearing House has issued a Default Notice under Rule 3; or (ii) in respect of whom an Automatic Early Termination Event has occurred is in these Rules called a "defaulter".
5. Without prejudice to the generality of Rule 3, the Clearing House may take any or all of the events under paragraphs 5(a) to (q) below to show that a Clearing Member is or is likely to become unable to meet its obligations in respect of one or more Contracts. Also, the Clearing House may from time to time by publication in a circular to Clearing Members specify criteria (including but not limited to the jurisdiction of incorporation of a Clearing Member) according to which an event under paragraphs 5(i) to (p) below will constitute an Automatic Early Termination Event:
  - (a) the Clearing Member fails duly to perform its obligations under or is otherwise in breach of the Regulations, the FCM Regulations, the Procedures, or any of the terms of any agreement, understanding or arrangement with the Clearing House or the right of the Clearing Member to receive a transfer or termination, close-out and re-establishment of contracts pursuant to a Link has been suspended under Participating Exchange Rules, or a Clearing Member is a Defaulter (as defined in a Member Link Agreement to which the Clearing Member is a party);
  - (b) the Clearing Member is in breach of the terms of membership of, or is declared to be in default by, or is suspended or expelled from membership of, an Exchange, a Participating Exchange or any other recognised, designated or overseas investment exchange or clearing house;
  - (c) the Clearing Member is in breach of any Exchange Rules, Participating Exchange Rules or the rules of any recognised, designated or overseas investment exchange or clearing house;
  - (d) the Clearing Member is in breach of the terms of membership of, or is refused an application for or is suspended or expelled from membership of, a Regulatory Body or is in breach of the rules of a Regulatory Body to which it is subject or its authorisation by a Regulatory Body is suspended or withdrawn;
  - (e) a Regulatory Body takes or threatens to take action against or in respect of the Clearing Member under any statutory provision or process of law;
  - (f) the Clearing Member is in default in the payment of any sum whatsoever due and payable to the Clearing House;

- (g) the Clearing Member is in default in making or accepting a tender pursuant to Regulation 19 or in performing an open contract subject to tender or a delivery contract;
  - (h) the Clearing Member fails to pay any sum due and payable, or is otherwise in default under the terms of any agreement or threatens to suspend payment or to default under the terms of any agreement;
  - (i) in respect of the Clearing Member, a bankruptcy petition is presented or bankruptcy order made or a voluntary arrangement is approved;
  - (j) in respect of the Clearing Member, a receiver, manager or administrative receiver is appointed or a composition or scheme of arrangement is approved by the court;
  - (k) an assignment or composition is made by the Clearing Member for the benefit of creditors or any of them;
  - (l) a petition is presented for the winding up of the Clearing Member;
  - (m) an order is made for the winding up of the Clearing Member, or a resolution is passed for the winding up of the Clearing Member (save for the purpose of its amalgamation or reconstruction);
  - (n) in respect of the Clearing Member, a petition is presented or order made for the appointment of an administrator;
  - (o) the Clearing Member, being a partnership, is dissolved, or being a registered company, is dissolved or suffers its name to be struck off the register of companies;
  - (p) any step analogous to those mentioned in paragraphs (l) to (o) is taken in respect of the Clearing Member in any jurisdiction; or
  - (q) any distress, execution or other process is levied or enforced or served upon or against any property of the Clearing Member.
6. The steps which may be taken by the Clearing House under Rule 3 in respect of the defaulter or otherwise are:
- (a) to register an original contract or an FCM Transaction (as the case may be) in the name of the defaulter or to decline to register an original contract or an FCM Transaction (as the case may be) in the name of the defaulter or otherwise to exercise the Clearing House's discretion with regard to the defaulter under Regulation 9(c) or, in the case of an FCM Clearing Member, FCM Regulations 30(i) and 40(h);
  - (b) to effect a closing-out in respect of an open contract of the defaulter (whether by the entering into of a closing-out contract or otherwise) and at the option of the Clearing House to settle such contracts or to effect the transfer or termination, close-out and cash-settlement of an open contract of the defaulter by applying a price determined by the Clearing House in its discretion;

- (c) to settle any open contract of which settlement might have been requested by the defaulter pursuant to Regulation 15(e) or 16;
- (d) to invoice a Contract, other than a SwapClear Contract, an FCM SwapClear Contract, a ForexClear Contract, an FCM ForexClear Contract, a RepoClear Contract or a RepoClear GC Contract (a RepoClear Contract or RepoClear GC Contract being a "**Fixed Income Contract**"), of the defaulter back by way of compulsory settlement in accordance with Regulation 28 at a price or premium determined under paragraph (d) of that Regulation;
- (e) to sell any security ~~deposited~~transferred by the defaulter to the Clearing House pursuant to Regulation 12 or, in the case of a defaulter who is an FCM Clearing Member, FCM Regulation 9, or any agreement made between the defaulter and the Clearing House by public or private sale for account of the defaulter without being obliged to obtain the defaulter's consent or any order of a court of law, and to appoint any person to execute any document for such purpose in the name and on behalf of the defaulter;
- (f) subject to the Procedures, to exercise an option of the defaulter on its behalf notwithstanding that such exercise may take place on a day which is not a day prescribed for such exercise by any relevant Exchange Rules;
- (g) to transfer an open contract of the defaulter to the account of another Clearing Member or to close-out and terminate such open contract and re-establish it with another Clearing Member, being a Clearing Member entitled and willing to have such open contract registered in its name or to transfer an open contract from the account of another Clearing Member to the account of the defaulter for the purposes of closing out an open contract registered in an account of the defaulter or for any other reason which the Clearing House considers appropriate in the circumstances without requiring the consent of any relevant Exchange;
- (h) to take such steps as may be desirable, including crediting or debiting of accounts (including margin accounts), entry into new contracts, transfer of existing contracts, reversal of contracts, or termination, close-out and re-establishment of contracts, or any other step, to preserve as far as possible the position of any client of the Clearing Member. Where an open contract is transferred or closed-out, terminated, and re-established under paragraph (g), without requiring the consent of the relevant Exchange, to transfer (whether by way of transfer or by way of termination, close-out and re-establishment of positions) to the Clearing Member to whom the open contract is transferred (or with whom the replacement open contract is re-established) such ~~cover~~Collateral held as security for by the Clearing House in respect of the defaulter's margin obligations to the Clearing House on that account as the Clearing House may deem appropriate;
- (i) tender or receive a tender in the defaulter's name;
- (j) to perform an open contract subject to tender or a delivery contract by either delivery of or accepting delivery of the commodity the subject of such contract to or from, as the case may be, the defaulter, its agent or a third party in any manner permitted by the terms of the Contract and the Exchange Rules (if any);

- (k) where the defaulter is party to an open contract subject to tender, to declare the defaulter's rights and liabilities in respect of performance thereof discharged, whereupon the provisions of Rule 7 shall apply to the defaulter in respect of the open contract;
- (l) to make or procure the making of one or more contracts, including (without limitation) original contracts for the purpose of hedging market risk to which the defaulter is exposed, and to register the same in the defaulter's name under the Regulations or the FCM Regulations (as the case may be);
- (m) to make or procure the making of one or more contracts, whether or not in the terms of exchange contracts, for the sale, purchase or other disposition of a commodity, and to register the same in the defaulter's name under the Regulations;
- (n) to designate a currency as a currency of account, and at the defaulter's expense to convert any sum payable by or to the defaulter in another currency into the currency of account;
- (o) to take any step which in the circumstances is open to the Clearing House under any applicable Exchange Rules including, without limitation, to transfer (whether by way of transfer or by way of termination, close-out and re-establishment) an open contract of the defaulter to a Participating Exchange to be registered at the Participating Exchange in accordance with its rules;
- (p) without prejudice to any other right of the Clearing House under the Regulations, to take such action as the Clearing House may deem necessary for its protection in the name and at the expense of the defaulter with regard to any open contract standing in its name;
- (q) in respect of Contracts standing in the defaulter's name, to charge to its account the amount (or, if the amount is not finally known, the estimated amount) of any expenses incurred by the Clearing House with regard to or in consequence of the circumstances mentioned in Rule 3 or the steps which are or may be taken under this Rule, the Regulations or the FCM Regulations (as the case may be) and any expenses incurred with regard thereto under Rule 11 and the amount of any losses, costs or expenses incurred or suffered by the Clearing House referred to in paragraph (g) of Regulation 42 and any other amounts referred to in such paragraph;
- (r) any other step calculated by the Clearing House to complete the process set out in Rule 8; and
- (s) to obtain such advice or assistance, whether legal advice or otherwise, as the Clearing House may deem necessary and at the expense of the defaulter for any matter arising out of or in connection with the default,

PROVIDED that:

- (i) in the case of SwapClear Contracts, certain steps which shall be taken by related to SwapClear Clearing Client Business, the Clearing House shall be: (A) shall act in accordance with the provisions of Regulation 52B (which deals, amongst other things, with certain specific arrangements, procedures and steps for the transfer, termination, close-out and re-establishment or the close-out and/or settlement of



such SwapClear Contracts pursuant to this Rule 6); and (B) may also take any of the other steps set out in this Rule 6 to the extent that they do not conflict with the steps set out in Regulation 52B;

(ii) in the case of FCM SwapClear Contracts related to FCM SwapClear Client Business, (A) the SwapClear DMP shall be conducted in accordance with the provisions of FCM Regulation 8(f); and (B) the Clearing House may take any of the other steps set out in this Rule 6 to the extent that they do not conflict with the provisions of FCM Regulation 8(f);

(i)(iii) in the case of SwapClear Contracts, related to SwapClear Clearing House Business, FCM SwapClear Contracts related to FCM SwapClear House Business and SwapClear Contracts which are Relevant Contracts, the Clearing House: (A) shall act in accordance with the provisions of the SwapClear DMP Annex to these Default Rules,— (which deals amongst other things, with certain specific arrangements, procedures and steps for the close-out and/or settlement of such SwapClear Contracts pursuant to this Rule 6); and (B) may also take any of the other steps set out in this Rule 6 to the extent that they do not conflict with the steps set out in the SwapClear DMP Annex to these Default Rules;

(ii)(iv) in the case of ForexClear Contracts, certain steps which shall be taken by the Clearing House shall be set out in the ForexClear DMP Annex to these Default Rules; and

(iii)(v) in the case of Fixed Income Contracts, the steps which shall be taken by the Clearing House shall be set out in the RepoClear DMP Annex to these Default Rules.

7. (a) Where the Clearing House declares the defaulter's rights and liabilities under an open contract subject to tender discharged under Rule 6(k):
- (i) those rights and liabilities and the rights and liabilities of the Clearing House under the open contract shall be discharged, and,
  - (ii) there shall arise between the defaulter and the Clearing House in respect of the open contract an obligation to account, as directed by the Clearing House, for a settlement amount determined by the relevant Board under this Rule.
- (b) The settlement amount referred to in paragraph (a) shall be an amount which, at the request of the Clearing House, the relevant Board determines to represent adequate compensation (in the circumstances known to the Board) for the discharge of the mutual rights and liabilities of the defaulter and the Clearing House under the open contract. The Board's determination shall be conclusive. The Clearing House shall direct how the settlement amount is to be accounted for between the defaulter and itself.
- (c) Neither the Clearing House nor any relevant Board or Exchange shall have any liability whatsoever for anything done or omitted in the determination of a settlement amount under this Rule.

8. Upon the ~~discharge~~determination of the defaulter's outstanding rights and liabilities of the defaulter under or in respect of all Contracts to which it is party or upon which it is or may be liable (in accordance with Rule 6, the SwapClear DMP Annex, the ForexClear DMP Annex, the RepoClear DMP Annex and Regulation 52B (as applicable)), the following process shall, ~~subject to any contrary provision in Rule 16,~~ be completed by the Clearing House: in order to determine any net amounts which remain payable between the defaulter and the Clearing House in respect of each "kind of account" as described in Rule 10(b)
- (a) there shall be brought into account all sums payable:
- (i) by or to a defaulter in respect of Contracts (other than FCM Contracts); any other sum due under the Regulations; any sum due in respect of any breach of the Regulations; (except, if the Clearing House so determines at its discretion, any sum payable under a Contract as the price for the commodity the subject of such Contract delivered or to be delivered to the Clearing House by or on behalf of the defaulter); and/or any amount due from the defaulter to the Clearing House in respect of any Treasury Contract;
- (ii) by or to a defaulter in respect of FCM Contracts; any other sum due under the FCM Regulations; and/or any sum due in respect of any breach of the FCM Regulations;
- (b) the sums so payable shall be aggregated or set off so as to produce a net sum or as many net sums as required by Rule 10;
- (c) ~~such net sum, or each such net sum:~~
- (i) ~~if payable by the defaulter to the~~ any cash Collateral forming part of the Clearing House, ~~Current Collateral Balance in respect of the relevant kind of account~~ shall be set off against any ~~cover standing to the credit~~ cash Collateral forming part of the defaulter's Clearing Member ~~Current Collateral Balance in respect of the defaulter's relevant kind of account so as to produce a further net sum, or,~~ and the resulting amount shall be aggregated with any ~~debit balance of the defaulter's account, or~~
- (ii) ~~(c) if payable by the Clearing House to the defaulter, shall be aggregated with any cover standing to the credit of the defaulter's account, or shall be~~ or set off against any debit balance of the defaulter's account (as the case may be) any net sum payable under Rule 8(b) above, so as to produce a further net sum;
- (d) where an amount is payable by the Clearing House to the defaulter in respect of a balance on its Proprietary Account(s), and there are amounts due to the Clearing House in respect of any client account with LCH, including any FCM Omnibus Clearing Product Client Account with LCH (and any FCM Client Segregated Sub-Accounts therein) operated by it, the balance on the Proprietary Account(s) may be applied to meet the shortfall on the client account(s) with LCH, including any FCM Omnibus Clearing Product Client Account with LCH (and any FCM Client Segregated Sub-Accounts therein) in any way in which the Clearing House may determine;

- (e) notwithstanding anything to the contrary in the foregoing, in the case where the defaulter is an FCM Clearing Member, a net sum shall be calculated in respect of each applicable FCM Client Segregated Sub-Account, and with regards to any amount due to the Clearing House from the defaulter in respect of net sums attributable to FCM Client Segregated Sub-Accounts where there is inadequate ~~cover~~ Collateral (on a sub-account by sub-account basis) to fully set off such amount payable, the Clearing House shall have sole discretion with respect to the allocation of any available FCM Buffer or the reallocation of any Applied FCM Buffer in setting off any such amounts payable to the Clearing House;
- (f) in the event that the Clearing House elects to close out and liquidate FCM SwapClear Contracts attributable to FCM Clients of the defaulter (in accordance with the SwapClear DMP Annex), the Clearing House shall allocate any costs associated with such closing out and liquidation process (including hedging costs (including the gains and losses associated with hedging transactions) and liquidation/auction costs and losses) among the FCM Clients whose positions were liquidated, by allocation to such FCM Clients' FCM Client Segregated Sub-Accounts that are held in the defaulter's FCM Omnibus SwapClear Client Account with LCH, in the manner set out in Section 2A.15.6 of the FCM Procedures and in accordance with Part 22 and Part 190 of the CFTC Regulations;
- (g) in the event that the Clearing House elects to close out and liquidate FCM ForexClear Contracts attributable to FCM Clients of the defaulter (in accordance with the ForexClear DMP Annex), the Clearing House shall allocate any costs associated with such closing out and liquidation process (including hedging costs (including the gains and losses associated with hedging transactions) and liquidation/auction costs and losses) among the FCM Clients whose positions were liquidated, by allocation to such FCM Clients' FCM Client Segregated Sub-Accounts that are held in the defaulter's FCM Omnibus ForexClear Client Account with LCH, in the manner set out in Section 2B.23.6 of the FCM Procedures and in accordance with Part 22 and Part 190 of the CFTC Regulations; and
- (h) in the event that the Clearing House elects to close out and liquidate FCM EnClear Contracts attributable to FCM Clients of the defaulter, the Clearing House shall allocate any costs associated with such closing out and liquidation process (including hedging costs (including the gains and losses associated with hedging transactions) and liquidation/auction costs and losses) among the FCM Clients whose positions were liquidated, by allocation to such FCM Clients' FCM Client Segregated Sub-Accounts that are held in the defaulter's FCM Omnibus EnClear Client Account with LCH, in the manner set out in Section 2C.1.20 of the FCM Procedures and in accordance with Part 22 and Part 190 of the CFTC Regulations.

For the purposes of paragraph (a) of this Rule the Clearing House may assess the sum payable by or to the defaulter in respect of any breach of the Regulations or the FCM Regulations (as the case may be) in such reasonable manner as it thinks fit; provided, that in the case of breaches of the FCM Regulations, the assessment by the Clearing House shall not be in violation of the CFTC Regulations (including Part 22 thereof).

With respect to any Unallocated Excess deposited in the Unallocated Excess Sub-Account of the defaulter, the Clearing House shall not be permitted to apply any such

Unallocated Excess to the obligations of the defaulter to the Clearing House (on behalf of the defaulter's FCM Clients or otherwise) or take any such Unallocated Excess into account for purposes of determining net sums under this Rule 8, except to the extent required by applicable law or directed by the applicable bankruptcy trustee or Regulatory Body in accordance with applicable law.

9. The sum, or each sum, finally payable by the defaulter to the Clearing House or by the Clearing House to the defaulter (including any sums payable to the defaulter for the benefit of one or more of its FCM Clients), or the fact that no sum is finally payable by either such party to the other, as the case may be upon completion of the process set out in Rule 8, shall be forthwith certified by the Clearing House. The certificate of the Clearing House under this Rule shall be conclusive as to the discharge of the defaulter's rights and liabilities in respect of the Contracts to which it relates. The Clearing House shall, as soon as practicable after issuing a Default Notice in respect of a Clearing Member, appoint a day on which any net sums certified under this Rule to be due to the defaulter are to be paid by the Clearing House. The day so appointed may fall before or after the effective date of termination of the defaulter's Clearing Membership Agreement but shall not fall on a day before the process specified in Rule 8 can be completed.
- 9A This Rule 9A pertains to certain treatment of Variation Margin in connection with FCM Contracts attributable to FCM Clients of a defaulter (which is an FCM Clearing Member).
- (a) Where an FCM Contract held on behalf of an FCM Client is transferred to a transferee FCM Clearing Member (in accordance with FCM Regulation 8(f) and these Default Rules) for such FCM Client, the Clearing House shall, subject to the limitations of Rule 9A(c) below, ensure that an amount equal to the net Variation Margin that has accrued in favor of the FCM Client under such FCM Contract (including before and after the relevant default) through the time such FCM Contract is transferred, but which has not yet been paid by the Clearing House, is credited (but not yet paid or transferred to the defaulter, the FCM Client or any other person) by the Clearing House on its books for the benefit of the relevant FCM Client. Upon the transfer of all relevant FCM Contracts of an FCM Client to a transferee FCM Clearing Member, the Clearing House shall attribute any amounts (in respect of Variation Margin) so credited on the books of the Clearing House to the relevant FCM Client Segregated Sub-Account(s) of such FCM Client with the applicable transferee FCM Clearing Member; provided that the FCM Client has provided instructions, in form and substance reasonably satisfactory to the Clearing House, for payment and completed or supplied any agreement, form, representation or other information that the Clearing House may reasonably require in its sole discretion.
- (b) Where an FCM Contract held on behalf of an FCM Client is closed out and liquidated in accordance with the FCM Rulebook (including the Default Rules and Sections 2A.15.6, 2B.23.6 and 2C.1.20 of the FCM Procedures, as applicable), the Clearing House shall, subject to the limitations of Rule 9A(c) below, ensure that an amount equal to the net Variation Margin that has accrued in favour of the FCM Client under such FCM Contract (including before and after the relevant default) through the time the relevant FCM Contract is closed out and liquidated, but which has not yet been paid by the Clearing House, is credited (but not yet paid or transferred to the defaulter, the FCM Client or any other person) by the Clearing House on its books for the benefit of such FCM Client. Following certification pursuant to Rule 9 of

the net sum payable in respect of the relevant FCM Client Segregated Sub-Account of such FCM Client in which some or all of the FCM Contracts are closed out and liquidated, where (i) such FCM Client is not in default as described in Rule 9A(c)(i) below, and (ii) the Clearing House has credited, in the aggregate (netting all payments due or payable in respect of such FCM Client's Segregated Sub-Account and any Variation Margin accrued but not paid in respect of such FCM Client), a positive value (i.e., payable by the Clearing House) of accrued but unpaid Variation Margin on its books for the benefit of the FCM Client pursuant to this Rule 9A(b), the Clearing House shall, subject to the limitations of Rule 9A(c) below, pay an amount equal to any Variation Margin so credited for the benefit of the FCM Client directly to such FCM Client; provided, that the FCM Client has provided instructions, in form and substance reasonably satisfactory to the Clearing House, for payment and completed or supplied any agreement, form, representation or other information that the Clearing House may reasonably require in its sole discretion.

- (c) Certain Limitations:
- (i) Where an FCM Client has defaulted with respect to its obligations to the defaulter, the Clearing House may determine, in its sole discretion, to make, or to refuse to make, any payments or credits to or on behalf of such FCM Client in respect of Variation Margin pursuant to this Rule 9A, or may retain such amounts to the extent necessary to offset any unsatisfied obligations of such FCM Client to the defaulter or of the defaulter to the Clearing House in respect of such FCM Client, or any other obligations in respect of FCM Clients of the defaulter to the extent permitted by applicable law.
  - (ii) For the avoidance of doubt, where FCM Contracts in respect of an FCM Client are closed out and liquidated and/or are transferred to a Hedged Account, and the gains and losses (including hedging costs (including the gains and losses associated with hedging transactions) and liquidation/auction costs and losses) that are allocated to such FCM Client in connection therewith (pursuant to the FCM Rulebook, including Sections 2A.15.6, 2B.23.6 and 2C.1.20 of the FCM Procedures and including Rule 8 of the Default Rules) exceed the amount of ~~cover deposited with~~ Collateral held by the Clearing House on behalf of such FCM Client, the Clearing House shall be permitted to set off (in whole or in part, as applicable) any payments or credits in respect of Variation Margin owed by the Clearing House in respect of such FCM Client under this Rule 9A against any such excess costs.
- (d) Notwithstanding anything to the contrary in the FCM Rulebook, each FCM Client of a defaulter is hereby expressly made a third-party beneficiary of the provisions of this Rule 9A, solely for purposes of the Clearing House's obligations to such FCM Clients under this Rule 9A.
10. (a) Where the defaulter has more than one account with the Clearing House, the defaulter's accounts shall be combined for the purpose of Rules 8 and 9 as follows:
- (i) no account which is an FCM Client Segregated Sub-Account of an FCM Client may be combined with any other account, including any FCM Client Segregated Sub-Account of another FCM Client, any FCM

Omnibus Clearing Product Client Account with LCH or any Proprietary Account; provided, that in the event that an FCM Client were to have two FCM Client Segregated Sub-Accounts with the same defaulter, and both such accounts cleared the same Product, then such FCM Client Segregated Sub-Accounts may be combined;

- (ii) no account which is an FCM Omnibus Clearing Product Client Account with LCH of the defaulter may be combined with any other account, including any other FCM Omnibus Clearing Product Client Account with LCH or any Proprietary Account, except as provided in paragraph (iii) below;
- (iii) an account which is a Proprietary Account of the defaulter may be combined with any other Proprietary Accounts of the defaulter and (if the Clearing House so elects) Treasury Accounts of the defaulter (subject to Rule 8(d) and 10(d) of the Default Rules); and
- (iv) an account which is a Treasury Account of the defaulter may only be combined with other Treasury Accounts and (if the Clearing House so elects) Proprietary Accounts of the defaulter.

Notwithstanding the foregoing, in no circumstances may an account which is an Individual Segregated Account of the defaulter or an Omnibus Net Segregated Account of the defaulter be combined with any other account of the defaulter.

- (b) For the purposes of this Rule 10, each Individual Segregated Account of the defaulter, each Omnibus Net Segregated Account of the defaulter and the FCM Client Segregated Sub-Account(s) of a particular FCM Client within a particular FCM Omnibus Clearing Product Client Account with LCH of the defaulter shall constitute a separate "kind of account". Where the defaulter has more than one kind of account with the Clearing House, the process set out in Rule 8 shall be separately completed in respect of each kind of account. In the case of each kind of account of the defaulter which is not an Omnibus Net Segregated Account, the sum finally payable in respect of that kind of account following completion of the process set out in Rule 8 shall be separately certified under Rule 9. In the case of each kind of account of the defaulter which is an Omnibus Net Segregated Account, the sum finally payable in respect of that kind of account following completion of the process set out in Rule 8 will be allocated by the Clearing House (pro rata as it sees fit in its sole discretion) between the Omnibus Net Segregated Clearing Clients sharing in that Omnibus Net Segregated Account. Each sum so allocated to an Omnibus Net Segregated Clearing Client shall be separately certified under Rule 9.
- (c) In Rule 8(c) the "defaulter's account" means:
  - (i) with regard to a net sum produced by reference to Contracts registered in an Individual Segregated Account of the defaulter, that Individual Segregated Account;
  - (ii) with regard to a net sum produced by reference to Contracts registered in an Omnibus Net Segregated Account of the defaulter, that Omnibus Net Segregated Account;

- (iii) with regard to a net sum produced by reference to FCM SwapClear Contracts registered in one or more FCM Client Segregated Sub-Accounts of the defaulter held in the name of one particular FCM Client, that FCM Client Segregated Sub-Account, or (if there is more than one) all such FCM Client Segregated Sub-Accounts (containing FCM SwapClear Contracts) combined;
  - (iv) with regard to a net sum produced by reference to FCM ForexClear Contracts registered in one or more FCM Client Segregated Sub-Accounts of the defaulter held in the name of one particular FCM Client, that FCM Client Segregated Sub-Account, or (if there is more than one) all such FCM Client Segregated Sub-Accounts (containing FCM ForexClear Contracts) combined;
  - (v) with regard to a net sum produced by reference to FCM EnClear Contracts registered in one or more FCM Client Segregated Sub-Accounts of the defaulter held in the name of one particular FCM Client, that FCM Client Segregated Sub-Account, or (if there is more than one) all such FCM Client Segregated Sub-Accounts (containing FCM EnClear Contracts) combined;
  - (vi) with regard to a net sum produced by reference to Contracts registered in one or more Proprietary Accounts of the defaulter, that Proprietary Account or those Proprietary Accounts combined and (if the Clearing House has elected in accordance with Rule 10(a)) any Treasury Accounts of the defaulter; and
  - (vii) with regard to a net sum produced by reference to one or more Treasury Accounts of the defaulter, that Treasury Account or those Treasury Accounts combined, and (if the Clearing House has elected in accordance with Rule 10(a)) Proprietary Accounts.
- (d) Notwithstanding any provision of the Rulebook to the contrary, any loss which relates to a Treasury Account may not be treated as a Default Loss (as defined in Rule 23(b)), whether or not ~~ever~~Collateral has been applied in respect of such loss. Nothing in this Rule 10(d) requires the Clearing House to apply ~~ever~~Collateral in respect of any such loss instead of any other amount referred to in Rule 8(a), except that the Clearing House may not apply ~~ever~~Collateral in respect of any such loss to the extent that doing so would give rise to an Excess Loss (as defined in Rule 15).
11. Without further authorisation, permission or cooperation from the defaulter, the Clearing House may appoint any person to take or assist it in taking any step under these Rules or to complete or assist it in completing the process set out in Rule 8.
12. The Clearing House may co-operate, by the sharing of information and otherwise, with any Regulatory Body or relevant Exchange, any relevant office-holder acting in relation to the defaulter or its estate and any other authority or body having responsibility for, or any Clearing Member having an interest in, any matter arising out of or connected with the circumstances mentioned in Rule 3.
13. In addition to such copy report as it supplies under section 162(3) of the Companies Act 1989, the Clearing House shall report to the defaulter, or any relevant office-holder acting in relation to the defaulter or its estate, on steps taken in relation to the defaulter under Rule 6.

**SWAPCLEAR DMP ANNEX****1. Scope and Interpretation**

- 1.1 The Clearing House has established a SwapClear DMP which will apply to SwapClear Contracts following the issue of a Default Notice relating to a SwapClear Clearing Member and in respect of which, for the avoidance of doubt, the Clearing House will have no recourse to the process of invoicing-back. The fundamental principles of the SwapClear DMP are elaborated to the fullest extent possible in this Annex. Where exhaustive detail cannot be laid out in the provisions of this Annex, the SwapClear DMP will be undertaken on the basis of the principles contained herein.
- 1.2 The Clearing House has an obligation to ensure the on-going integrity of the SwapClear service and SwapClear Contracts in the interests of the Non-Defaulting SCMs. When a SwapClear Clearing Member defaults, Non-Defaulting SCMs are required to supply impartial expertise through the SwapClear DMG and to bid for the Auction Portfolios of a Defaulting SCM, as laid out in this Annex. In addition, most SCMs or their parent companies or subsidiaries or fellow subsidiaries, have direct interests in that integrity, notably as contributors to the various default funds of the Clearing House. Each SCM shall take all steps and execute all documents necessary or required by the Clearing House to comply with its obligations as a SCM arising out of this SwapClear DMP Annex.
- 1.3 The initial ~~margining~~margin requirements in respect of SwapClear Contracts will be such so as to ensure that the acceptance of bids for the Auction Portfolios of a Defaulting SCM will recognise risk premiums, and that equivalent premiums will be paid by the Clearing House in closing-out large positions in other Contracts traded on exchange or ATS-organised markets.
- 1.4 In this Annex:

"**AIP**" has the meaning given in Rule 2.4 of this Annex;

"**Auction**" means the process of bidding by SwapClear Clearing Members for an Auction Portfolio prescribed by the Clearing House following consultation with the SwapClear DMG from time to time in accordance with Rule 2.3 of this Annex;

"**Auction Currency**" means in relation to an Auction, the currency of an Auction Portfolio which is the subject of that Auction;

"**Auction Losses**" has the meaning given in Rule 2.5.2 of this Annex;

"**Auction Portfolio**" means (i) a Portfolio; or (ii) a group of SwapClear Contracts resulting from the splitting of a Portfolio pursuant Rule 2.1 of this Annex including any connected hedging trades concluded by the Clearing House through Risk Neutralisation;

"**Bankruptcy Code**" means the U.S. Bankruptcy Code, as amended;

"**CEA**" means the U.S. Commodity Exchange Act, as amended;

"**CFTC**" means the U.S. Commodity Futures Trading Commission;



**"Currency Participant"** means, in respect of a specific SwapClear currency, a Non-Defaulting SCM who at the time the Clearing House declares a Default has SwapClear Contracts for that SwapClear currency registered in its name;

**"Derivatives Clearing Organization"** means an organisation designated and registered as such by way of United States Code Title 7, Chapter 1, paragraph 7a-1;

**"Equal Bid"** has the meaning given in Rule 2.3.5 of this Annex;

**"FCM SwapClear Client Business"** means the provision of FCM SwapClear Clearing Services by an FCM Clearing Member to its FCM Clients;

**"FCM SwapClear House Business"** means the FCM SwapClear Contracts entered into by an FCM Clearing Member for its own account or for the account of an Affiliate;

**"Guidance"** means guidance, in the form of one or more written notices, issued from time to time pursuant to Rule 1.2 of this Annex by or on behalf of the Clearing House to SwapClear Clearing Members, supplementing the detail or conduct of any aspect of the SwapClear DMP;

**"Higher Bid"** and **"Higher Bidder"** have the meanings given in Rule 2.5.3 of this Annex;

**"Initial Resources"** has the meaning given in Rule 2.5.2 of this Annex;

**"Losing Currency"** has the meaning given in Rule 2.5.4 of this Annex;

**"Losing Currency Original SCM"** has the meaning given in Rule 2.5.4 of this Annex;

**"Losing Currency Unfunded SCM"** has the meaning given in Rule 2.5.7 of this Annex;

**"Margin Cover"** has the meaning given in Rule 16(1) of the Default Fund Rules;

**"Non-defaulters' Contributions"** means the SwapClear Contributions made by Non-Defaulting SCMs to the SwapClear Default Fund;

**"Original Contributions"** has the meaning given in Rule 2.5.3 of this Annex;

**"Portfolios"** means, in respect of each SwapClear currency, the SwapClear Contracts in such currency registered in the name of a Defaulting SCM, and, where relevant, includes any connected hedging trades concluded by the Clearing House through Risk Neutralisation;

**"Potential Unfunded Contributions"** has the meaning given in Rule 2.4.2 of this Annex;

**"Recognised Clearing House"** mean an organisation which is declared to be a recognised clearing house by a recognition order (that is for the time being in force) made under section 290(1)(b) of the Financial Services and Markets Act 2000;

**"Relevant Original Contributions"** has the meaning given to it in Rule 2.5.3 of this Annex;

**"Relevant Unfunded Contributions"** has the meaning given to it in Rule 2.5.6 of this Annex;

**"Remaining Original Short Bidder"** has the meaning given in Rule 2.5.3 of this Annex;

**"Remaining Unfunded Short Bidder"** has the meaning given to it in Rule 2.5.6 of this Annex;

**"Risk Neutralisation"** means the process of reducing the market risk associated with a Defaulting SCM's obligations to the Clearing House under SwapClear Contracts by hedging the exposure prior to the auction process as described in Rule 2.2 of this Annex;

**"Short Bidder"** has the meaning given in Rule 2.5.3 of this Annex;

**"SwapClear Default Management Process Completion Date"** means the date when the SwapClear Default Management Process in relation to a Default has been completed as determined by the Clearing House in consultation with the SwapClear DMG and notified to all SCMs;

**"SwapClear DMG"** means the advisory Default Management Group established by the Clearing House pursuant to the terms of this Annex;

**"SwapClear DMP or SwapClear Default Management Process"** means the processes of the Clearing House outlined in this Annex, as the same may be supplemented and/or amended from time to time in accordance with this Annex; and

**"Worst Case Loss"** means, in respect of an Auction Portfolio or all of the SwapClear Contracts of a Non-Defaulting SCM denominated in a particular currency, the largest loss which could be incurred by the Clearing House in respect of the relevant group of SwapClear Contracts, as determined by the Clearing House using the SwapClear PAIRS margining algorithm based on 1250 historical scenarios (5 years history) and a holding period of 5 days.

1.5 Terms used in this Annex which are not defined herein shall have the meanings given to them in the Regulations and in the FCM Regulations.

## 2. **SwapClear Clearing House Business and FCM SwapClear House Business**

The SwapClear Default Management Process in respect of SwapClear Clearing House Business and FCM SwapClear House Business shall involve the stages described in this Rule 2.

### 2.1 **Portfolio Splitting**

The Clearing House, in consultation with and the assistance of the SwapClear DMG, shall determine the composition of each Auction Portfolio and shall have the discretion to divide a Portfolio into two or more individual Auction Portfolios with the aim of facilitating the efficiency of, and reducing the risk associated with, the auction process provided for in Rule 2.3 of this Annex. The overriding principle is that the Clearing House will structure Auction Portfolios with the intention of ensuring a SwapClear DMP which best protects the resources of the Clearing House, subject to compliance with applicable provisions of the CEA and the CFTC Regulations regarding segregation of client assets. Therefore, nothing in this Rule 2.1 shall be deemed to imply: (a) that the Clearing House is under any obligation to split a particular Portfolio of a Defaulting SCM (regardless of the number of SwapClear Contracts that such Portfolio contains); or (b) any particular requirements as to the

composition of an individual Auction Portfolio, except that, subject to overriding risk procedures it is broadly anticipated that the parameters of any Auction Portfolio shall not be materially different to those set out in the Clearing House's fire drill.

## 2.2 Risk Neutralisation

The Clearing House will, in consultation with and with the assistance of the SwapClear DMG, reduce the market risk associated with a Defaulting SCM's obligations to the Clearing House so far as is reasonably practicable by hedging the Clearing House's exposure in open SwapClear Contracts to which the Defaulting SCM is party. All such hedging shall be undertaken by the Clearing House with SCMs, on the basis of separate agreements between the Clearing House and each such SCM. The aim of Risk Neutralisation is to reduce market exposure to within defined tolerance limits expressed as deltas or other measures of market risk and as established from time to time by the Clearing House in consultation with the SwapClear DMG or as may reasonably be determined by the Clearing House in consultation with the SwapClear DMG once a Default has been declared under the Default Rules. For the avoidance of doubt, Risk Neutralisation may happen prior to, concurrently with and/or subsequently to the splitting of a Portfolio pursuant to Rule 2.1 above.

## 2.3 Auction

- 2.3.1 Following the completion of Risk Neutralisation, the Clearing House shall auction each Auction Portfolio to Non-Defaulting SCMs in order to seek to re-establish the positions it had with the Defaulting SCM under the SwapClear Contracts in each Auction Portfolio with Non-Defaulting SCMs and to seek to determine the net value of those SwapClear Contracts for the purposes of determining the extent of any losses to the Clearing House which are to be reduced or borne in the manner provided by Rule 16 (Reduction of Losses on Default) of the Default Fund Rules or, as the case may be, the extent of any gains to the Clearing House which the Clearing House must pay to the Defaulting SCM. The Clearing House, in consultation with the SwapClear DMG, shall prescribe such procedures (in addition to those set out herein) for the conduct of the auction process as it considers reasonably appropriate from time to time.
- 2.3.2 The Clearing House shall notify each SCM of all details that may be reasonably required in relation to an Auction Portfolio prior to the relevant Auction.
- 2.3.3 The auction process may take place over a number of days and Auctions of different Auction Portfolios may take place at different times.
- 2.3.4 SCMs will submit bids to the Clearing House representatives on the SwapClear DMG, who will ensure that the identities of the bidders are not revealed to the SCM representatives on the SwapClear DMG. For the avoidance of doubt, an SCM shall be entitled to submit a bid on behalf of one or more affiliated SCMs. The SwapClear DMG will oversee the bidding process in a manner which it considers best protects the resources of the Clearing House and ensures an orderly process.
- 2.3.5 The Clearing House in consultation with the SwapClear DMG will have full discretion in deciding whether or not to accept a particular bid in an Auction and, in so deciding, will take into account the relevant factors that determine

risk premiums, as well as the range of bids received relative to the amount of Collateral held by the Clearing House in respect of initial margin held and, subject to their availability, the Clearing House resources as set out in Rule 16 of the Clearing House's Default Fund Rules. In the event that more than one SCM submits a bid of the same value (each an "Equal Bid"), the Clearing House will, subject to its discretion to reject all such Equal Bids, select the bid which was received first in time.

- 2.3.6 In the case of an Auction in which no bid is accepted or received (as the case may be), one or more further Auctions will be held in relation to the relevant Auction Portfolio. As soon as practicable following an Auction:
- (a) in the event that a bid was accepted, the Clearing House will notify those Currency Participants in the relevant Auction Currency together with any other SCMs who participated in the Auction that a bid was accepted and shall notify the SCM who submitted the accepted bid that its bid was accepted;
  - (b) in the event that no bid was accepted, the Clearing House will notify all SCMs of the details of any further Auction.
- 2.3.7 The SCM agrees to use all reasonable efforts to make a bid in an Auction for an Auction Portfolio in respect of which such SCM is a Currency Participant.

## 2.4 Auction Incentive Pools

- 2.4.1 Before commencing the auction process, the Clearing House will calculate an auction incentive pool (each an "AIP") for each individual Auction Portfolio for the purposes of providing an initial allocation of the resources potentially available to it to satisfy any loss incurred in the Auction of each such Auction Portfolio. Notwithstanding such initial allocation, any resources utilised by the Clearing House will be allocated in accordance with Rule 2.5 below.
- 2.4.2 For each AIP, the resources shall be allocated as follows:
- (a) the resources of the Defaulting SCM (in the form of: (i) that part of the Margin Cover for the SwapClear Contracts of the Defaulting SCM pursuant to Rule 16(1a) of the Default Fund Rules and (ii) the SwapClear Contribution made by the Defaulting SCM to the SwapClear Default Fund) available pursuant to Rule 16(2b) of the Default Fund Rules at the time of the auction process will be allocated to the AIPs based on the proportion that (a) the risk of the relevant Auction Portfolio bears to (b) the aggregate of the risks (on an absolute basis) for all Auction Portfolios; the portion of the Capped Amount applied to the SwapClear Business of the Defaulting SCM pursuant to Rule 16(3c) of the Default Fund Rules will be allocated to the AIPs based on the proportion that (a) the risk of the relevant Auction Portfolio bears to (b) the aggregate of the risks (on an absolute basis) for all Auction Portfolios; and
  - (b) the Non-defaulters' Contribution of each SCM and the total value of the SwapClear Unfunded Contributions which would be callable but have not been called by the Clearing House from the relevant SCM in respect of the relevant Default in accordance with Rule S8 of the Default Fund Rules (the "**Potential Unfunded Contributions**") will,

subject to Rule 2.4.3 below, be allocated between the AIPs relating to the Auction Portfolios in which the relevant SCM is a Currency Participant based on the proportion that: (a) the risk of the SwapClear Contracts of such SCM denominated in the relevant currency bears to (b) the aggregate of the amounts calculated in (a) in respect of each currency in which the relevant SCM is a Currency Participant.

- 2.4.3 Where a Portfolio for a particular Swapclear currency has been split into two or more Auction Portfolios, the Non-defaulters' Contributions and Potential Unfunded Contributions allocated to the AIP related to the relevant Portfolio will be further divided for the purposes of allocation into AIPs relating to the relevant Auction Portfolios based on the proportion that (a) the risk of the SwapClear Contracts in each such Auction Portfolio bears to (b) the aggregate of the amounts calculated in (a) for each of the Auction Portfolios in the relevant currency.

## 2.5 Loss Attribution

- 2.5.1 Following the completion of all Auctions of all Auction Portfolios of the Defaulting SCM, the Clearing House will determine whether losses incurred by it as a result of such Auctions are such that the Non-defaulters' Contributions must be utilised. Where applicable, such losses will be allocated to Non-defaulters' Contributions in accordance with the loss attribution process described in Rules 2.5.2 to 2.5.8 of this Annex.
- 2.5.2 For each Auction Portfolio, losses to the Clearing House will be met using the resources as set out in Rule 16. In applying those resources, the Clearing House will allocate the losses in respect of each Auction Portfolio (the "**Auction Losses**") by reference to the resources allocated to the AIPs related to such Auction Portfolios in accordance with Rule 2.4 of this Annex. Where there are no Auction Losses in respect of an Auction Portfolio or the Auction Losses in respect of an Auction Portfolio do not require the full amount of the resources referred to in sub-paragraphs (a) and (b) of Rule 2.4.2 of this Annex allocated to the AIP related to the relevant Auction Portfolio (the "**Initial Resources**") to be fully utilised, the relevant surplus Initial Resources will be allocated pro rata between those AIPs relating to Auction Portfolios in respect of which there are Auction Losses requiring the utilisation of resources beyond the Initial Resources available in the relevant AIP in accordance with Rule 16(1), 16(2) and 16(3) until such time as all Initial Resources have been fully utilised.
- 2.5.3 In the case of each Auction for which there are Auction Losses in respect of which the Non-defaulters' Contributions must be utilised, those Non-defaulter's Contributions, not including, for these purposes, any part of such Non-defaulters' Contributions that reflect any SwapClear Unfunded Contribution deposited with the Clearing House pursuant to the Default in respect of which the relevant Auction was held (the "**Original Contributions**") and which have been allocated to the AIP relating to the relevant Auction Portfolio (the "**Relevant Original Contributions**") will be used first in the following order:
- (a) The Auction Losses will be attributed to the Relevant Original Contributions of those SCMs who are Currency Participants in the Auction Currency and who did not bid in the relevant Auction. Auction Losses will be attributed to the Relevant Original Contribution of an

individual SCM pursuant to this sub-paragraph (i) based upon the proportion that: (a) the value of the Relevant Original Contribution of such SCM bears to (b) the total value of the Relevant Original Contributions of all SCMs who are Currency Participants in the Auction Currency and who did not bid in the relevant Auction;

- (b) If and to the extent that there are Auction Losses outstanding after the attribution process referred to in sub-paragraph (i) above, those Auction Losses will be attributed to the Relevant Original Contributions of the Short Bidders. For the purposes of this sub-paragraph (ii) and sub-paragraph (ii) of Rule 2.5.6 of this Annex the term "Short Bidder" means any SCM who is a Currency Participant in the Auction Currency and who submitted an unsuccessful bid in the relevant Auction save for any SCM who submitted a higher bid in an Auction than the bid accepted by the Clearing House in accordance with Rule 2.3.4 of this Annex (each such SCM, a "Higher Bidder" and each such bid, a "Higher Bid").

Auction Losses will be attributed to an individual Short Bidder pursuant to this sub-paragraph (ii) based upon the proportion that (a) the variance of the bid of such Short Bidder from the winning bid (denominated in units of the relevant Auction Currency) bears to (b) the sum of the variances of the bids of all Short Bidders from the winning bid (denominated in units of the relevant Auction Currency);

Where the value of the Auction Losses attributed to an individual Short Bidder pursuant to this sub-paragraph (ii) is greater than the value of the Relevant Original Contribution of such Short Bidder, the relevant excess Auction Losses will be attributed to each Short Bidder whose Relevant Original Contribution exceeds the value of the Auction Losses which have been attributed to it pursuant to this sub-paragraph (ii) (each a "Remaining Original Short Bidder") by (a) calculating the amount which is the bid of the relevant Remaining Original Short Bidder divided by the sum of the bids of all Remaining Original Short Bidders; and (b) multiplying such amount by the value of the relevant excess Auction Losses;

The Clearing House will repeat the loss attribution process described in this sub-paragraph (ii) until the first to occur of (a) the Auction Losses being fully met; and (b) the Relevant Original Contributions of all Short Bidders being fully attributed; and

- (c) If and to the extent that there are Auction Losses outstanding after the attribution process referred to in sub-paragraph (ii) above, those Auction Losses will be attributed to the Relevant Original Contribution of the SCM who submitted the winning bid, together with, where applicable, the Relevant Original Contribution of any SCM who submitted a bid which is an Equal Bid or a Higher Bid in relation to that winning bid. The outstanding Auction Losses will be attributed to the Relevant Original Contribution of an individual SCM pursuant to this sub-paragraph (iii) based upon the proportion that: (a) the value of the Relevant Original Contribution of such SCM bears to (b) the total value of the Relevant Original Contributions of (i) the SCM who submitted the winning bid; (ii) any SCMs who submitted an Equal Bid

to such winning bid; and (iii) any SCMs who were Higher Bidders, in the relevant Auction.

If, for an Auction Portfolio, there remain Auction Losses outstanding after the attribution process referenced to in sub-paragraph (iii) above, and there are AIPs relating to other Auction Portfolios in the same Auction Currency in which the Relevant Original Contributions have not been fully utilised, the Clearing House shall attribute the remaining Auction Losses amongst such Remaining Original Contributions through the attribution process set out in sub-paragraphs (i) to (iii) above.

- 2.5.4 If and to the extent that there are Auction Losses outstanding following the attribution process referred to in Rule 2.5.3 above, those Auction Losses will be attributed to the Original Contributions of those SCMs who are Currency Participants in any other Auction Currency in relation to which Auction Losses have arisen to the extent that Non-defaulters' Contributions must be utilised (each a "**Losing Currency**") and whose Original Contributions have not yet been fully utilised (each a "**Losing Currency Original SCM**"). Such remaining Auction Losses will be attributed to any remaining Original Contribution of each such SCM pursuant to this Rule 2.5.4 based upon the proportion that: (a) the risk of all of the SwapClear Contracts of such SCM denominated in each of the Losing Currencies bears to (b) the aggregate of the amounts calculated in (a) for all Losing Currency Original SCMs. The Clearing House will repeat the loss attribution process described in this Rule 2.5.4 until the first to occur of (a) the Auction Losses being fully met; and (b) the Original Contributions of all Losing Currency Original SCMs being fully attributed.
- 2.5.5 If and to the extent that there are Auction Losses outstanding following the attribution process referred to in Rule 2.5.4 above, those remaining Auction Losses will be allocated to the Original Contributions of each SCM who is not a Currency Participant in any of the Losing Currencies based upon the proportion that (a) the value of each such Original Contribution bears to (b) the aggregate of the amounts calculated in (a) for each of such SCMs.
- 2.5.6 If and to the extent that there are Auction Losses outstanding following the attribution process referred to in Rule 2.5.5 above, the SwapClear Unfunded Contributions which have been allocated to the AIP relating to the relevant Auction Portfolio (the "**Relevant Unfunded Contributions**") will be used first in the following order:
- (a) The Auction Losses will be attributed to the Relevant Unfunded Contributions of those SCMs who are Currency Participants in the Auction Currency and who did not bid in the relevant Auction. Auction Losses will be attributed to the Relevant Unfunded Contributions of an individual SCM pursuant to this sub-paragraph (i) based upon the proportion that: (a) the value of the Relevant Unfunded Contribution of such SCM bears to (b) the total value of the Relevant Unfunded Contributions of all SCMs who are Currency Participants in the Auction Currency and who did not bid in the relevant Auction;
  - (b) If and to the extent that there are Auction Losses outstanding after the attribution process referred to in sub-paragraph (i) above, those Auction Losses will be attributed to the Relevant Unfunded

Contributions of the Short Bidders in the relevant Auction. Auction Losses will be attributed to an individual Short Bidder pursuant to this sub-paragraph (ii) based upon the proportion that (a) the variance of the bid of such Short Bidder from the winning bid (denominated in units of the relevant Auction Currency) bears to (b) the sum of the variances of the bids of all Short Bidders from the winning bid (denominated in units of the relevant Auction Currency);

Where the value of the Auction Losses attributed to an individual Short Bidder pursuant to this sub-paragraph (ii) is greater than the value of the Relevant Unfunded Contribution of such Short Bidder, the relevant excess Auction Losses will be attributed to each Short Bidder whose Relevant Unfunded Contribution exceeds the value of the Auction Losses which have been attributed to it pursuant to this sub-paragraph (ii) (each a "**Remaining Unfunded Short Bidder**") by (a) calculating the amount which is the bid of the relevant Remaining Unfunded Short Bidder divided by the sum of the bids of all Remaining Unfunded Short Bidders; and (b) multiplying such amount by the value of the relevant excess Auction Losses;

The Clearing House will repeat the loss attribution process described in this sub-paragraph (ii) until the first to occur of (a) the Auction Losses being fully met; and (b) the Relevant Unfunded Contributions of all Short Bidders being fully attributed; and

- (c) If and to the extent that there are Auction Losses outstanding after the attribution process referred to in sub-paragraph (ii) above, those Auction Losses will be attributed to the Relevant Unfunded Contribution of the SCM who submitted the winning bid, together with, where applicable, the Relevant Unfunded Contribution of any SCM who submitted a bid which is an Equal Bid or a Higher Bid in relation to that winning bid. The outstanding Auction Losses will be attributed to the Relevant Unfunded Contribution of an individual SCM pursuant to this sub-paragraph (iii) based upon the proportion that: (a) the value of the Relevant Unfunded Contribution of such SCM bears to (b) the total value of the Relevant Unfunded Contributions of (i) the SCM who submitted the winning bid; (ii) any SCMs who submitted an Equal Bid to such winning bid; and (iii) any SCMs who were Higher Bidders, in the relevant Auction.

If, for an Auction Portfolio, there remain Auction Losses outstanding after the attribution process referenced to in sub-paragraph (iii) above, and there are AIPs relating to other Auction Portfolios in the same Auction Currency in which the Relevant Unfunded Contributions have not been fully utilised, the Clearing House shall attribute the remaining Auctions Losses amongst such Remaining Unfunded Contributions through the attribution process set out in sub-paragraphs (i) to (iii) above.

- 2.5.7 If and to the extent that there are Auction Losses outstanding following the attribution process referred to in Rule 2.5.6 above, those Auction Losses will be attributed to the SwapClear Unfunded Contributions of those SCMs who are Currency Participants in any other Losing Currency and whose SwapClear Unfunded Contributions have not yet been fully utilised (each a "**Losing Currency Unfunded SCM**"). Such remaining Auction Losses will be



attributed to any remaining SwapClear Unfunded Contributions of each such SCM pursuant to this Rule 2.5.7 based upon the proportion that: (a) the risk of all of the SwapClear Contracts of such SCM denominated in each of the Losing Currencies bears to (b) the aggregate of the amounts calculated in (a) for all Losing Currency Unfunded SCMs. The Clearing House will repeat the loss attribution process described in this Rule 2.5.7 until the first to occur of (a) the Auction Losses being fully met; and (b) the SwapClear Unfunded Contributions of all Losing Currency Unfunded SCMs being fully attributed.

2.5.8 If and to the extent that there are Auction Losses outstanding following the attribution process referred to in Rule 2.5.7 above, those remaining Auction Losses will be allocated to the SwapClear Unfunded Contributions of each SCM who is not a Currency Participant in any of the Losing Currencies based upon the proportion that (a) the value of each such SwapClear Unfunded Contribution bears to (b) the aggregate of the amounts calculated in (a) for each of such SCMs.

2.6 For the purposes of Rules 2.4 and 2.5 above, all references to the risk associated with an Auction Portfolio or with all of the SwapClear Contracts of a Non-Defaulting SCM denominated in a particular currency shall be references to such risk as determined by the Clearing House in its sole discretion on the basis of Worst Case Loss.

### **3. Default Management in respect of SwapClear Clearing Client Business and FCM SwapClear Client Business**

3.1 The SwapClear DMP in respect of any contract which is a SwapClear Contract in respect of SwapClear Clearing Client Business shall involve the stages described in Regulation 52B.

3.2 The SwapClear DMP in respect of any contract which is an FCM SwapClear Contract in respect of FCM SwapClear Client Business shall be conducted in accordance with FCM Regulation 8(f). The provisions of Default Rule 9A shall also apply.

### **4. Transfer of Cash Flows and Registration of Positions**

4.1 Following the disposal of an Auction Portfolio by way of Auction (and notwithstanding that other Auction Portfolios of the Defaulting SCM may not yet have been auctioned) the Clearing House, will, with the co-operation of the SCMs, transfer to the SCM whose bid won that Auction Portfolio the rights and obligations, from the Defaulting SCM, arising out of the positions which that SCM has successfully bid for under the SwapClear Default Management Process. Such transfer may take place by way of registration of new positions with the Clearing House in the name of the relevant SCM, or novation of rights and obligations to the relevant SCM. All such registrations shall be made in a way that recognises the Collateral transferred to or by the Clearing House in respect of variation margin ~~paid or received~~ in relation to the SwapClear Contracts of the Defaulting SCM representing such new positions.

4.2 In order to effect the transfer of positions, the Clearing House shall prescribe such procedures and timetable as it considers reasonably appropriate in the circumstances. SCMs will be required to exercise best endeavours to comply with such requirements as may be established by the Clearing House, after consultation with the SwapClear DMG, to effect the transfer of positions, including but not limited to the payment of any sums due as a result of the winning bid and the ~~provision~~ transfer of cover Collateral in an amount required by the Clearing House for

initial margin and variation margin obligations in respect of positions which are to be registered in their names. The Clearing House agrees that in such procedures it shall make provision for set-off by the Clearing House of amounts owed by the Clearing House to the SCM as a result of the operation of the SwapClear DMP against sums owed by the SCM to the Clearing House in respect thereof.

- 4.3 Where, as a result of an Auction, the Clearing House is required to make a payment to a SCM in respect of a winning bid, the Clearing House shall not be permitted to register any position, whether as a new position or as a novation of existing rights and obligations, to any such SCM if the Clearing House does not simultaneously credit that SCM with the requisite amount. If any position is so registered without such payment, such registration shall be deemed void ab initio and unenforceable against the relevant SCM. For the avoidance of doubt, the Clearing House will utilise the resources available to it pursuant to Rule 16 of the Default Fund Rules for the purposes of making such a payment notwithstanding that other Auction Portfolios of the Defaulting SCM may not yet have been auctioned and that the loss attribution process provided for by Rule 2.5 of this Annex has not yet occurred.

#### **5. Information Regarding the SwapClear DMP**

- 5.1 Whenever the SwapClear DMP is implemented by the Clearing House in respect of a Defaulting SCM, the Clearing House will, with the assistance of the SwapClear DMG, provide such ongoing information to SCMs as the Clearing House deems reasonably appropriate in respect of the progress of the SwapClear DMP.
- 5.2 Nothing in this Rule 5 shall require the Clearing House to disclose information in respect of the SwapClear DMP which, in the reasonable opinion of the Clearing House, may be subject to obligations of confidentiality, may constitute market sensitive data or is, in the Clearing House's reasonable opinion, inappropriate for disclosure to SCMs.

#### **6. Bankruptcy Code and Related Issues**

Notwithstanding any other provision of this Annex in the event of a Default by an FCM Clearing Member, the completion of any and all actions, including but not limited to any transfers or transactions, permitted or required to be taken by the Clearing House hereunder shall be subject in all respects to the provisions of the Bankruptcy Code, Part 190 and Part 22 of the CFTC Regulations, the Dodd-Frank Wall Street Reform and Consumer Protection Act 2010, and the receipt of any approvals required under the Bankruptcy Code or such regulations.

#### **7. CEA Issues**

Notwithstanding any other provision of this Annex in the event of a Default by an FCM Clearing Member, the operation of this Annex shall in all respects be subject to applicable provisions of the CEA and CFTC Regulations (including Part 22 thereof) regarding the handling, custody, liquidation, transfer and disposition of client positions and assets, including but not limited to those provisions requiring segregation of client assets and prohibiting application of the assets of non-defaulting clients to amounts owed by defaulting clients.

**8. Miscellaneous**

- 8.1 Subject to Rules 2.4 and 2.5 of this Annex, the resources available to the Clearing House and their order of use are defined in Rule 16 of the Default Fund Rules as modified and/or supplemented by the SwapClear Default Fund Supplement.
- 8.2 The Clearing House may from time to time supplement the details of any of the stages set out in Rule 2 of this Annex or any other aspects of the SwapClear DMP, in consultation with the SwapClear DMG, either by way of further Guidance or immediately on notice to SCMs on a case-by-case basis where the Clearing House deems it appropriate to do so in the circumstances of the Default, provided that the Clearing House may not take any such action that effects a material change to the terms of this Annex without the written consent of 50% of all SwapClear Clearing Members unless such change is invoked unilaterally against all SCMs and is necessary to manage the Clearing House's risk or otherwise to meet the Clearing House's continuing regulatory obligations including those applicable to it as a Recognised Clearing House and a Derivatives Clearing Organization. The Clearing House agrees that, in the ordinary course, it shall discuss any such Guidance with the SwapClear DMG prior to bringing the Guidance into effect except that it shall not be required to do so where (i) the Guidance is not material to the rights and obligations of the SCMs or (ii) the Clearing House deems it inappropriate to do so in the circumstances of the Default and it is not possible to convene the SwapClear DMG in timely fashion.
- 8.3 The timetable for implementation of the stages of the SwapClear Default Management Process following issue of a Default Notice by the Clearing House shall be either (1) as prescribed by the Clearing House from time to time in consultation with the SwapClear DMG and set out in Guidance; or (2) imposed by the Clearing House without prior notice to the SCMs on a case-by-case basis where the Clearing House, in consultation with the SwapClear DMG, deems it appropriate to do so in the circumstances of the Default.

**9. Role and Constitution of SwapClear DMG**

- 9.1 The SwapClear DMG shall meet at regular intervals in order to:
- 9.1.1 keep under review the SwapClear DMP, together with any Guidance issued in respect thereof;
  - 9.1.2 keep under review the terms of reference of the SwapClear DMG to ensure they remain appropriate;
  - 9.1.3 consider appropriate supplements or amendments to the SwapClear DMP and/or Guidance in order to improve the procedures in place; and
  - 9.1.4 consider any other business relevant to the SwapClear DMP which any member of the SwapClear DMG from time to time sees fit to raise at such meetings.
- 9.2 The members of the SwapClear DMG shall also meet within one hour, or as soon as reasonably practical, following notification by the Clearing House that a Default Notice has been served upon an SCM, and at sufficiently frequent intervals thereafter for so long as may be necessary to assist the Clearing House in the implementation of the SwapClear DMP as contemplated under this Agreement. Such implementation shall include, without limitation, the provision of general default management advice

with regard to: (1) the ongoing obligations of the Clearing House to its non-defaulting members; (2) the neutralisation and closing-out of the individual obligations of the Defaulting SCM; and (3) the splitting of Portfolios and the disposal of Auction Portfolios in accordance with the SwapClear DMP. Where it is not possible or practicable for the SCM to provide its nominated representative within an appropriate timeframe, it shall provide an alternate of suitable experience and expertise to participate on the SwapClear DMG.

- 9.3 The SwapClear DMG shall be made up of the following individuals who, unless stated otherwise, shall be appointed by the Clearing House which shall ensure that the composition is such as to provide effective review of the SwapClear DMP and suitable expertise and representation of market-making capacity in the event of a Default:
- 9.3.1 in the event of the issuance of a Default Notice, the chief executive or deputy chief executive of the Clearing House, who shall act as chairman;
  - 9.3.2 representatives of at least five SCMs, being senior executives with appropriate skills and expertise;
  - 9.3.3 at least one director (staff member of director grade) of the Clearing House's Risk Management department; and
  - 9.3.4 such other individuals as the SwapClear DMG considers appropriate from time to time in relation to individual meetings.
- 9.4 For the purpose of SwapClear DMG meetings convened to deal with a specific Defaulting SCM, the Clearing House may, after consultation with the SwapClear DMG, invite the Defaulting SCM to nominate one or more representatives to join the SwapClear DMG to assist it in carrying out its functions in the SwapClear DMP for that Defaulting SCM, and also request representatives from any other SCMs. In the event of receiving such request, the SCM shall be obliged to provide its nominated representative, or an alternate with appropriate skills, experience and expertise, as if the SCM were a member of the SwapClear DMG.
- 9.5 In establishing the SwapClear DMG, the Clearing House agrees that in the normal course of events (not including the Clearing House's declaration of a Default and the invocation of the processes as outlined in Rules 2, 3 and 4 of this Annex) it will, as far as practicable, and in accordance with the terms of reference of the SwapClear DMG, rotate the membership of the SwapClear DMG on a regular basis and amongst all SCMs. The SCM agrees that, when requested to do so by the Clearing House, it will make available a representative to participate in the SwapClear DMG. The Clearing House shall agree with the SCM the identity of such representative and shall be able to request a substitute where it believes the SCM's nominated representative does not have the requisite skills or expertise.
- 9.6 Each SCM who makes available a representative to serve on the SwapClear DMG agrees, and shall procure that, to the extent applicable, its representative agrees:
- 9.6.1 to ensure that such representative will be fully available, at any time and for such periods of time as the Clearing House may require during the course of a Default, to perform his function as a member of the SwapClear DMG including attending meetings, considering and advising the Clearing House upon aspects of the SwapClear DMP. The SCM shall ensure that a

- representative's other work commitments do not affect his availability for this purpose;
- 9.6.2 to take all steps to respect the confidential capacity in which such a representative receives information through the SwapClear DMG and to establish adequate procedures to prevent the disclosure or use for any commercial purpose outside the scope of the SwapClear DMP of any such confidential information by the SCM or its representative. Such procedures shall normally include, without limitation, the establishment of Chinese walls within the SCM; and
- 9.6.3 to be bound by and to ensure that it and any of its executives or directors serving on the SwapClear DMG complies with the requirements contained in the Procedures or the FCM Procedures (as the case may be).
- 9.7 Each SCM shall accept that:
- 9.7.1 representatives of SCMs serving on the SwapClear DMG are doing so in order to assist the Clearing House in ensuring the on-going integrity of the SwapClear service in the interests of Non-Defaulting SCMs; and
- 9.7.2 representatives of SCMs serving on the SwapClear DMG and their employers shall have no liability for any disinterested advice or actions, mandated or otherwise, that are undertaken as part of the SwapClear Default Management Process, provided, however, that nothing in this Rule 8.7.2 shall exclude the liability of such representatives and employers for any personal injury or death caused by their negligence or for any fraud or willful default on the part of such representatives and employers.
- 9.8 The Clearing House agrees that, in exercising its rights and obligations in consulting with the SwapClear DMG pursuant to this Agreement, it will use all reasonable commercial endeavours to agree a common position with the SwapClear DMG, provided that nothing in this Rule shall prevent the Clearing House acting in a way which it reasonably determines necessary to manage its risk or otherwise meet its continuing regulatory obligations including those applicable to it as a Recognised Clearing House and a Derivatives Clearing Organization.

**FOREXCLEAR DMP ANNEX****1. Scope and interpretation**

1.1 The Clearing House has established a ForexClear DMP which will apply to ForexClear Contracts following the issue of a Default Notice relating to a ForexClear Clearing Member and in respect of which, for the avoidance of doubt, the Clearing House will have no recourse to the process of invoicing-back. The fundamental principles of the ForexClear DMP are elaborated to the fullest extent possible in this Annex. Where exhaustive detail cannot be laid out in the provisions of this Annex, the ForexClear DMP will be undertaken on the basis of the principles contained herein.

1.2 The Clearing House has an obligation to ensure the on-going integrity of the ForexClear service and ForexClear Contracts in the interests of the Non-Defaulting FXCCMs. When a ForexClear Clearing Member defaults, Non-Defaulting FXCCMs are required to supply impartial expertise through the ForexClear DMG and to bid for the Auction Portfolios of a Defaulting FXCCM, as laid out in this Annex. In addition, most FXCCMs or their parent companies or subsidiaries or fellow subsidiaries, have direct interests in that integrity, notably as contributors to the various default funds of the Clearing House. Each FXCCM shall take all steps and execute all documents necessary or required by the Clearing House to comply with its obligations as a FXCCM arising out of this ForexClear DMP Annex.

1.3 The initial ~~margin~~margin requirements in respect of ForexClear Contracts will be such so as to ensure that the acceptance of bids for the Auction Portfolio of a Defaulting FXCCM will recognise risk premiums, and that equivalent premiums will be paid by the Clearing House in closing-out large positions in other Contracts traded on exchange or ATS-organised markets.

1.4 In this Annex:

"AIP" has the meaning given in Rule 2.4 of this Annex;

"Auction" means the process of bidding by FXCCMs for an Auction Portfolio, prescribed by the Clearing House, following consultation with the ForexClear DMG from time to time in accordance with Rule 2.3 of this Annex;

"Auction Currency Pair" means in relation to an Auction, the Currency Pair of an Auction Portfolio which is the subject of that Auction;

"Auction Losses" has the meaning given in Rule 2.5.2 of this Annex;

"Auction Portfolio" means (i) a Portfolio; or (ii) a group of ForexClear Contracts resulting from the splitting of a Portfolio pursuant to Rule 2.1 of this Annex including any connected hedging trades concluded by the Clearing House through Risk Neutralisation;

"Bankruptcy Code" means the U.S. Bankruptcy Code, as amended;

"CEA" means the U.S. Commodity Exchange Act, as amended;

"CFTC" means the U.S. Commodity Futures Trading Commission;

"Currency Pair" bears the meaning set out at Part A of the Schedule to the ForexClear Regulations;

**"Currency Pair Participant"** means, in respect of a specific Currency Pair, a Non-defaulting FXCCM who at the time the Clearing House declares a Default has ForexClear Contracts for that Currency Pair registered in its name;

**"Derivatives Clearing Organization"** means an organisation designated and registered as such by way of United States Code - Title 7, Chapter 1, paragraph 7a-1;

**"Equal Bid"** has the meaning given in Rule 2.3.5 of this Annex;

**"FCM ForexClear Client Business"** means the provision of FCM ForexClear Clearing Services by an FCM Clearing Member to its FCM Clients;

**"FCM ForexClear House Business"** means the FCM ForexClear Contracts entered into by an FCM Clearing Member for its own account or for the account of an Affiliate;

**"ForexClear Default Management Process"** or **"ForexClear DMP"** means the processes of the Clearing House outlined in this Annex, as the same may be supplemented and/or amended from time to time in accordance with this Annex;

**"ForexClear Default Management Process Completion Date"** means the date when the ForexClear Default Management Process in relation to a Default has been completed as determined by the Clearing House in consultation with the ForexClear DMG and notified to all FXCCMs;

**"ForexClear DMG"** means the advisory ForexClear Default Management Group established by the Clearing House pursuant to the terms of this Annex;

**"Guidance"** means guidance, in the form of one or more written notices, issued from time to time pursuant to Rule 8.2 of this Annex by or on behalf of the Clearing House to FXCCMs, supplementing the detail or conduct of any aspect of the ForexClear DMP;

**"Higher Bid"** and **"Higher Bidder"** have the meanings given in Rule 2.5.3 of this Annex;

**"Initial Resources"** has the meaning given in Rule 2.5.2 of this Annex;

**"Losing Currency"** has the meaning given in Rule 2.5.4 of this Annex;

**"Losing Currency Original FXCCM"** has the meaning given in Rule 2.5.4 of this Annex;

**"Losing Currency Unfunded FXCCM"** has the meaning given in Rule 2.5.7 of this Annex;

**"Margin Cover"** has the meaning given in Rule 16(1a) of the Default Fund Rules;

**"Non-defaulters' Contributions"** means the ForexClear Contributions made by Non-Defaulting FXCCMs to the ForexClear Default Fund;

**"Original Contributions"** has the meaning given in Rule 2.5.3 of this Annex;

**"Portfolio"** means, in respect of each Currency Pair, the ForexClear Contracts in such Currency Pair registered in the name of a Defaulting FXCCM, and, where

relevant, includes any connected hedging trades concluded by the Clearing House through Risk Neutralisation;

"**Potential Unfunded Contributions**" has the meaning given in Rule 2.4.2 of this Annex;

"**Recognised Clearing House**" mean an organisation which is declared to be a recognised clearing house by a recognition order (that is for the time being in force) made under section 290(1)(b) of the Financial Services and Markets Act 2000;

"**Relevant Original Contributions**" has the meaning given to it in Rule 2.5.3 of this Annex;

"**Relevant Unfunded Contributions**" has the meaning given to it in Rule 2.5.6 of this Annex;

"**Remaining Original Short Bidder**" has the meaning given in Rule 2.5.3 of this Annex;

"**Remaining Unfunded Short Bidder**" has the meaning given to it in Rule 2.5.6 of this Annex;

"**Risk Neutralisation**" means the process of reducing the market risk associated with a Defaulting FXCCM's obligations to the Clearing House under ForexClear Contracts by hedging the exposure prior to the auction process as described in Rule 2.2 of this Annex; and

"**Short Bidder**" has the meaning given in Rule 2.5.3 of this Annex.

1.5 Terms used in this Annex which are not defined herein shall have the meanings given to them in the General Regulations and in the FCM Regulations.

## 2. FOREXCLEAR CLEARING HOUSE BUSINESS AND FCM FOREXCLEAR HOUSE BUSINESS

The ForexClear Default Management Process in respect of ForexClear Clearing House Business and FCM ForexClear House Business shall involve the stages described in this Rule 2.

### 2.1 Portfolio Splitting

The Clearing House, in consultation with and the assistance of the ForexClear DMG, shall determine the composition of each Auction Portfolio and shall have the discretion to divide a Portfolio into two or more individual Auction Portfolios with the aim of facilitating the efficiency of, and reducing the risk associated with, the auction process provided for in Rule 2.3 of this Annex. The overriding principle is that the Clearing House will structure Auction Portfolios with the intention of ensuring a ForexClear DMP which best protects the resources of the Clearing House, subject to compliance with applicable provisions of the CEA and the CFTC Regulations regarding segregation of client assets. Therefore, nothing in this Rule 2.1 shall be deemed to imply: (a) that the Clearing House is under any obligation to split a particular Portfolio of a Defaulting FXCCM (regardless of the number of ForexClear Contracts that such Portfolio contains); or (b) any particular requirements as to the composition of an individual Auction Portfolio, except that, subject to overriding risk



procedures it is broadly anticipated that the parameters of any Auction Portfolio shall not be materially different to those set out in the Clearing House's fire drill.

## 2.2 Risk Neutralisation

The Clearing House will, in consultation with and with the assistance of the ForexClear DMG, reduce the market risk associated with a Defaulting FXCCM's obligations to the Clearing House so far as is reasonably practicable by hedging the Clearing House's exposure in open ForexClear Contracts to which the Defaulting FXCCM is party. Hedging may be undertaken in a number of sessions, but should be undertaken as quickly as is compatible with efficient execution. All such hedging shall be undertaken by the Clearing House with FXCCMs, on the basis of separate agreements between the Clearing House and each such FXCCM. The aim of Risk Neutralisation is to reduce market exposure to within defined tolerance limits expressed as deltas or other measures of market risk and as established from time to time by the Clearing House in consultation with the ForexClear DMG or as may reasonably be determined by the Clearing House in consultation with the ForexClear DMG once a Default has been declared under the Default Rules. For the avoidance of doubt, Risk Neutralisation may happen prior to, concurrently with and/or subsequently to the splitting of a Portfolio pursuant to Rule 2.1 above.

## 2.3 Auction

- 2.3.1 Following the completion of Risk Neutralisation, the Clearing House shall calculate the AIP for each Auction Portfolio under Rule 2.4 and then shall auction each Auction Portfolio to Non-Defaulting FXCCMs in order to seek to re-establish the positions it had with the Defaulting FXCCM under the ForexClear Contracts in each Auction Portfolio with Non-Defaulting FXCCMs and to seek to determine the net value of those ForexClear Contracts for the purposes of determining the extent of any losses to the Clearing House which are to be reduced or borne in the manner provided by Rule 16 (Reduction of Losses on Default) of the Default Fund Rules or, as the case may be, the extent of any gains to the Clearing House which the Clearing House must pay to the Defaulting FXCCM. The Clearing House, in consultation with the ForexClear DMG, shall prescribe such procedures (in addition to those set out herein) for the conduct of the auction process as it considers reasonably appropriate from time to time.
- 2.3.2 The Clearing House shall notify each FXCCM of all details that may be reasonably required in relation to an Auction Portfolio prior to the relevant Auction.
- 2.3.3 The auction process may take place over a number of days and Auctions of different Auction Portfolios may take place at different times.
- 2.3.4 FXCCMs will submit bids to the Clearing House representatives on the ForexClear DMG, who will ensure that the identities of the bidders are not revealed to the FXCCM representatives on the ForexClear DMG. For the avoidance of doubt, an FXCCM shall be entitled to submit a bid on behalf of one or more affiliated FXCCMs. The ForexClear DMG will oversee the bidding process in a manner which it considers best protects the resources of the Clearing House and ensures an orderly process.
- 2.3.5 The Clearing House in consultation with the ForexClear DMG will have full discretion in deciding whether or not to accept a particular bid in an Auction

and, in so deciding, will take into account the relevant factors that determine risk premiums, as well as the range of bids received relative to the amount of Collateral held in respect of initial margin held and, subject to their availability, the Clearing House resources as set out in Rule 16 of the Clearing House's Default Fund Rules. In the event that more than one FXCCM submits a bid of the same value (each an "Equal Bid"), the Clearing House will, subject to its discretion to reject all such Equal Bids, select the bid which was received first in time.

2.3.6 In the case of an Auction in which no bid is accepted or received (as the case may be), one or more further Auctions will be held in relation to the relevant Auction Portfolio. As soon as practicable following an Auction:

- (a) in the event that a bid was accepted, the Clearing House will notify those Currency Pair Participants in the relevant Auction Currency Pair together with any other FXCCMs who participated in the Auction that a bid was accepted and shall notify the FXCCM who submitted the accepted bid that its bid was accepted;
- (b) in the event that no bid was accepted, the Clearing House will notify all FXCCMs of the details of any further Auction.

2.3.7 The FXCCM agrees to use all reasonable efforts to make a bid in an Auction for an Auction Portfolio in respect of which such FXCCM is a Currency Pair Participant.

## 2.4 Auction Incentive Pools

2.4.1 Before commencing the auction process, the Clearing House will calculate an auction incentive pool (each an "AIP") for each individual Auction Portfolio for the purposes of providing an initial allocation of the resources potentially available to it to satisfy any loss incurred in the Auction of each such Auction Portfolio. Notwithstanding such initial allocation, any resources utilised by the Clearing House will be allocated in accordance with Rule 2.5 below.

2.4.2 For each AIP, the resources shall be allocated as follows:

- (a) the resources of the Defaulting FXCCM (in the form of: (i) that part of the Margin Cover for the ForexClear Contracts of the Defaulting FXCCM pursuant to Rule 16(1a) of the Default Fund Rules and (ii) the ForexClear Contribution made by the Defaulting FXCCM to the ForexClear Default Fund) available pursuant to Rule 16(2b) of the Default Fund Rules at the time of the auction process will be allocated to the AIPs based on the proportion that (a) the risk of the relevant Auction Portfolio bears to (b) the aggregate of the risks (on an absolute basis) for all Auction Portfolios;
- (b) the portion of the Capped Amount applied to the ForexClear Business of the Defaulting FXCCM pursuant to Rule 16(3c) of the Default Fund Rules will be allocated to the AIPs based on the proportion that (a) the risk of the relevant Auction Portfolio bears to (b) the aggregate of the risks (on an absolute basis) for all Auction Portfolios; and
- (c) the Non-defaulters' Contribution of each FXCCM and the total value of the ForexClear Unfunded Contributions which would be callable but

have not been called by the Clearing House from the relevant FXCCM in respect of the relevant Default in accordance with Rule F8 of the Default Fund Rules (the "**Potential Unfunded Contributions**") will, subject to Rule 2.4.3 below, be allocated between the AIPs relating to the Auction Portfolios in which the relevant FXCCM is a Currency Pair Participant based on the proportion that: (a) the risk of the ForexClear Contracts of such FXCCM denominated in the Currency Pair bears to (b) the aggregate of the amounts calculated in (a) in respect of each Currency Pair in which the relevant FXCCM is a Currency Pair Participant.

- 2.4.3 Where a Portfolio for a particular Currency Pair has been split into two or more Auction Portfolios, the Non-defaulters' Contributions and Potential Unfunded Contributions allocated to the AIP related to the relevant Portfolio will be further divided for the purposes of allocation into AIPs relating to the relevant Auction Portfolios based on the proportion that (a) the risk of the ForexClear Contracts in each such Auction Portfolio bears to (b) the aggregate of the amounts calculated in (a) for each of the Auction Portfolios in the relevant Currency Pair.

## 2.5 Loss Attribution

- 2.5.1 Following the completion of all Auctions of all Auction Portfolios of the Defaulting FXCCM, the Clearing House will determine whether losses incurred by it as a result of such Auctions are such that the Non-defaulters' Contributions must be utilised. Where applicable, such losses will be allocated to Non-defaulters' Contributions in accordance with the loss attribution process described in Rules 2.5.2 to 2.5.8 below.
- 2.5.2 For each Auction Portfolio, losses to the Clearing House will be met using the resources as set out in Rule 16 of the Default Fund Rules. In applying those resources, the Clearing House will allocate the losses in respect of each Auction Portfolio (the "**Auction Losses**") by reference to the resources allocated to the AIPs related to such Auction Portfolios in accordance with Rule 2.4. Where there are no Auction Losses in respect of an Auction Portfolio or the Auction Losses in respect of an Auction Portfolio do not require the full amount of the resources referred to in sub-paragraphs (a) and (b) of Rule 2.4.2 allocated to the AIP related to the relevant Auction Portfolio (the "**Initial Resources**") to be fully utilised, the relevant surplus Initial Resources will be allocated pro rata between those AIPs relating to Auction Portfolios in respect of which there are Auction Losses requiring the utilisation of resources beyond the Initial Resources available in the relevant AIP in accordance with Rule 16(4a), 16(2b) and 16(3c) of the Default Fund Rules until such time as all Initial Resources have been fully utilised.
- 2.5.3 In the case of each Auction for which there are Auction Losses in respect of which the Non-defaulters' Contributions must be utilised, those Non-defaulter's Contributions, not including, for these purposes, any part of such Non-defaulters' Contributions that reflect any ForexClear Unfunded Contribution deposited with the Clearing House pursuant to the Default in respect of which the relevant Auction was held (the "**Original Contributions**") and which have been allocated to the AIP relating to the relevant Auction Portfolio (the "**Relevant Original Contributions**") will be used first in the following order:

- (a) The Auction Losses will be attributed to the Relevant Original Contributions of those FXCCMs who are Currency Pair Participants in the Auction Currency Pair and who did not bid in the relevant Auction. Auction Losses will be attributed to the Relevant Original Contribution of an individual FXCCM pursuant to this sub-paragraph (i) based upon the proportion that: (a) the value of the Relevant Original Contribution of such FXCCM bears to (b) the total value of the Relevant Original Contributions of all FXCCMs who are Currency Pair Participants in the Auction Currency Pair and who did not bid in the relevant Auction;
- (b) If and to the extent that there are Auction Losses outstanding after the attribution process referred to in sub-paragraph (i) above, those Auction Losses will be attributed to the Relevant Original Contributions of the Short Bidders. For the purposes of this sub-paragraph (ii) and sub-paragraph (ii) of Rule 2.5.6, the term "**Short Bidder**" means any FXCCM who is a Currency Pair Participant in the Auction Currency Pair and who submitted an unsuccessful bid in the relevant Auction save for any FXCCM who submitted a higher bid in an Auction than the bid accepted by the Clearing House in accordance with Rule 2.3.4 (each such FXCCM, a "**Higher Bidder**" and each such bid, a "**Higher Bid**").

Auction Losses will be attributed to an individual Short Bidder pursuant to this sub-paragraph (ii) based upon the proportion that (a) the variance of the bid of such Short Bidder from the winning bid in USD bears to (b) the sum of the variances of the bids of all Short Bidders from the winning bid in USD;

Where the value of the Auction Losses attributed to an individual Short Bidder pursuant to this sub-paragraph (ii) is greater than the value of the Relevant Original Contribution of such Short Bidder, the relevant excess Auction Losses will be attributed to each Short Bidder whose Relevant Original Contribution exceeds the value of the Auction Losses which have been attributed to it pursuant to this sub-paragraph (ii) (each a "**Remaining Original Short Bidder**") by (a) calculating the amount which is the bid of the relevant Remaining Original Short Bidder divided by the sum of the bids of all Remaining Original Short Bidders; and (b) multiplying such amount by the value of the relevant excess Auction Losses;

The Clearing House will repeat the loss attribution process described in this sub-paragraph (ii) until the first to occur of (a) the Auction Losses being fully met; and (b) the Relevant Original Contributions of all Short Bidders being fully attributed; and

- (c) If and to the extent that there are Auction Losses outstanding after the attribution process referred to in sub-paragraph (ii) above, those Auction Losses will be attributed to the Relevant Original Contribution of the FXCCM who submitted the winning bid, together with, where applicable, the Relevant Original Contribution of any FXCCM who submitted a bid which is an Equal Bid or a Higher Bid in relation to that winning bid. The outstanding Auction Losses will be attributed to the Relevant Original Contribution of an individual FXCCM pursuant to this sub-paragraph (iii) based upon the proportion that: (a) the value of the Relevant Original Contribution of such FXCCM bears to (b) the

total value of the Relevant Original Contributions of (i) the FXCCM who submitted the winning bid; (ii) any FXCCMs who submitted an Equal Bid to such winning bid; and (iii) any FXCCMs who were Higher Bidders in the relevant Auction.

If, for an Auction Portfolio, there remain Auction Losses outstanding after the attribution process referenced to in sub-paragraph (iii) above, and there are AIPs relating to other Auction Portfolios in the same Auction Currency Pair in which the Relevant Original Contributions have not been fully utilised, the Clearing House shall attribute the remaining Auction Losses amongst such Remaining Original Contributions through the attribution process set out in sub-paragraphs (i) to (iii) above.

- 2.5.4 If and to the extent that there are Auction Losses outstanding following the attribution process referred to in Rule 2.5.3 above, those Auction Losses will be attributed to the Original Contributions of those FXCCMs who are Currency Pair Participants in any other Auction Currency Pair in relation to which Auction Losses have arisen to the extent that Non-defaulters' Contributions must be utilised (each a "**Losing Currency Pair**") and whose Original Contributions have not yet been fully utilised (each a "**Losing Currency Pair Original FXCCM**"). Such remaining Auction Losses will be attributed to any remaining Original Contribution of each such FXCCM pursuant to this Rule 2.5.4 based upon the proportion that: (a) the risk of all of the ForexClear Contracts of such FXCCM denominated in any of the Losing Currency Pairs bears to (b) the aggregate risk of the amounts calculated in (a) for all Losing Currency Pair Original FXCCMs. The Clearing House will repeat the loss attribution process described in this Rule 2.5.4 until the first to occur of (a) the Auction Losses being fully met; and (b) the Original Contributions of all Losing Currency Pair Original FXCCMs being fully attributed.
- 2.5.5 If and to the extent that there are Auction Losses outstanding following the attribution process referred to in Rule 2.5.4 above, those remaining Auction Losses will be allocated to the Original Contributions of each FXCCM who is not a Currency Pair Participant in any of the Losing Currency Pairs based upon the proportion that (a) the value of each such Original Contribution bears to (b) the aggregate of the amounts calculated in (a) for each of such FXCCMs.
- 2.5.6 If and to the extent that there are Auction Losses outstanding following the attribution process referred to in Rule 2.5.5 above, the ForexClear Unfunded Contributions which have been allocated to the AIP relating to the relevant Auction Portfolio (the "**Relevant Unfunded Contributions**") will be used first in the following order:
- (a) The Auction Losses will be attributed to the Relevant Unfunded Contributions of those FXCCMs who are Currency Pair Participants in the Auction Currency Pair and who did not bid in the relevant Auction. Auction Losses will be attributed to the Relevant Unfunded Contributions of an individual FXCCM pursuant to this sub-paragraph (i) based upon the proportion that: (a) the value of the Relevant Unfunded Contribution of such FXCCM bears to (b) the total value of the Relevant Unfunded Contributions of all FXCCMs who are

Currency Pair Participants in the Auction Currency Pair and who did not bid in the relevant Auction;

- (b) If and to the extent that there are Auction Losses outstanding after the attribution process referred to in sub-paragraph (i) above, those Auction Losses will be attributed to the Relevant Unfunded Contributions of the Short Bidders in the relevant Auction. Auction Losses will be attributed to an individual Short Bidder pursuant to this sub-paragraph (ii) based upon the proportion that (a) the variance of the bid of such Short Bidder from the winning bid in USD bears to (b) the sum of the variances of the bids of all Short Bidders from the winning bid in USD;

Where the value of the Auction Losses attributed to an individual Short Bidder pursuant to this sub-paragraph (ii) is greater than the value of the Relevant Unfunded Contribution of such Short Bidder, the relevant excess Auction Losses will be attributed to each Short Bidder whose Relevant Unfunded Contribution exceeds the value of the Auction Losses which have been attributed to it pursuant to this sub-paragraph (ii) (each a "**Remaining Unfunded Short Bidder**") by (a) calculating the amount which is the bid of the relevant Remaining Unfunded Short Bidder divided by the sum of the bids of all Remaining Unfunded Short Bidders; and (b) multiplying such amount by the value of the relevant excess Auction Losses;

The Clearing House will repeat the loss attribution process described in this sub-paragraph (ii) until the first to occur of (a) the Auction Losses being fully met; and (b) the Relevant Unfunded Contributions of all Short Bidders being fully attributed; and

- (c) If and to the extent that there are Auction Losses outstanding after the attribution process referred to in sub-paragraph (ii) above, those Auction Losses will be attributed to the Relevant Unfunded Contribution of the FXCCM who submitted the winning bid, together with, where applicable, the Relevant Unfunded Contribution of any FXCCM who submitted a bid which is an Equal Bid or a Higher Bid in relation to that winning bid. The outstanding Auction Losses will be attributed to the Relevant Unfunded Contribution of an individual FXCCM pursuant to this sub-paragraph (iii) based upon the proportion that: (a) the value of the Relevant Unfunded Contribution of such FXCCM bears to (b) the total value of the Relevant Unfunded Contributions of (i) the FXCCM who submitted the winning bid; (ii) any FXCCMs who submitted an Equal Bid to such winning bid; and (iii) any FXCCMs who were Higher Bidders, in the relevant Auction.

If, for an Auction Portfolio, there remain Auction Losses outstanding after the attribution process referenced to in sub-paragraph (iii) above, and there are AIPs relating to other Auction Portfolios in the same Auction Currency Pair in which the Relevant Unfunded Contributions have not been fully utilised, the Clearing House shall attribute the remaining Auction Losses amongst such Remaining Unfunded Contributions through the attribution process set out in sub-paragraphs (i) to (iii) above.

- 2.5.7 If and to the extent that there are Auction Losses outstanding following the attribution process referred to in Rule 2.5.6 above, those Auction Losses will be attributed to the ForexClear Unfunded Contributions of those FXCCMs who are Currency Pair Participants in any other Losing Currency Pair and whose ForexClear Unfunded Contributions have not yet been fully utilised (each a "**Losing Currency Pair Unfunded FXCCM**"). Such remaining Auction Losses will be attributed to any remaining ForexClear Unfunded Contributions of each such FXCCM pursuant to this Rule 2.5.7 based upon the proportion that: (a) the risk of all of the ForexClear Contracts of such FXCCM denominated in any of the Losing Currency Pairs bears to (b) the aggregate risk of the amounts calculated in (a) for all Losing Currency Pair Unfunded FXCCMs. The Clearing House will repeat the loss attribution process described in this Rule 2.5.7 until the first to occur of (a) the Auction Losses being fully met; and (b) the ForexClear Unfunded Contributions of all Losing Currency Pair Unfunded FXCCMs being fully attributed.
- 2.5.8 If and to the extent that there are Auction Losses outstanding following the attribution process referred to in Rule 2.5.7 above, those remaining Auction Losses will be allocated to the ForexClear Unfunded Contributions of each FXCCM who is not a Currency Pair Participant in any of the Losing Currency Pairs based upon the proportion that (a) the value of each such ForexClear Unfunded Contribution bears to (b) the aggregate of the amounts calculated in (a) for each of such FXCCMs.
- 2.6 For the purposes of Rules 2.4 and 2.5 above, all references to the risk associated with a ForexClear Contract shall be references to such risk as determined by the Clearing House in its sole discretion for the purpose of calculating initial margin requirements in accordance with the Procedures.

### **3. DEFAULT MANAGEMENT IN RESPECT OF FCM FOREXCLEAR CLIENT BUSINESS**

The ForexClear DMP in respect of any contract which is an FCM ForexClear Contract in respect of FCM ForexClear Client Business shall be conducted in accordance with FCM Regulation 8(f). The provisions of Default Rule 9A shall also apply.

### **4. TRANSFER OF CASH FLOWS / REGISTRATION OF POSITIONS**

- 4.1 Following the disposal of an Auction Portfolio by way of Auction (and notwithstanding that other Auction Portfolios of the Defaulting FXCCM may not yet have been auctioned) the Clearing House, will, with the co-operation of the FXCCMs, transfer to the FXCCM whose bid won that Auction Portfolio the rights and obligations, from the Defaulting FXCCM, arising out of the positions which that FXCCM has successfully bid for under the ForexClear Default Management Process. Such transfer may take place by way of registration of new positions with the Clearing House in the name of the relevant FXCCM, or novation of rights and obligations to the relevant FXCCM. All such registrations shall be made in a way that recognises the Collateral transferred to or by the Clearing House in respect of variation margin ~~paid or received~~ in relation to the ForexClear Contracts of the Defaulting FXCCM representing such new positions.
- 4.2 In order to effect the transfer of positions, the Clearing House shall prescribe such procedures and timetable as it considers reasonably appropriate in the circumstances. FXCCMs will be required to exercise best endeavours to comply with

such requirements as may be established by the Clearing House, after consultation with the ForexClear DMG, to effect the transfer of positions, including but not limited to the payment of any sums due as a result of the winning bid and the ~~provision~~ transfer of ~~cover~~ Collateral in an amount required by the Clearing House for initial margin and variation margin obligations in respect of positions which are to be registered in their names. The Clearing House agrees that in such procedures it shall make provision for set-off by the Clearing House of amounts owed by the Clearing House to the FXCCM as a result of the operation of the ForexClear DMP against sums owed by the FXCCM to the Clearing House in respect thereof.

- 4.3 Where, as a result of an Auction, the Clearing House is required to make a payment to an FXCCM in respect of a winning bid, the Clearing House shall not be permitted to register any position, whether as a new position or as a novation of existing rights and obligations, to any such FXCCM if the Clearing House does not simultaneously credit that FXCCM with the requisite amount. If any position is so registered without such payment, such registration shall be deemed void *ab initio* and unenforceable against the relevant FXCCM. For the avoidance of doubt, the Clearing House will utilise the resources available to it pursuant to Rule 16 of the Default Fund Rules for the purposes of making such a payment notwithstanding that other Auction Portfolios of the Defaulting FXCCM may not yet have been auctioned and that the loss attribution process provided for by Rule 2.5 has not yet occurred.

## 5. INFORMATION REGARDING DEFAULT MANAGEMENT PROCESS

- 5.1 Whenever the ForexClear DMP is implemented by the Clearing House in respect of a Defaulting FXCCM, the Clearing House will, with the assistance of the ForexClear DMG, provide such ongoing information to FXCCMs as the Clearing House deems reasonably appropriate in respect of the progress of the ForexClear DMP.
- 5.2 Nothing in this Rule 5 shall require the Clearing House to disclose information in respect of the ForexClear DMP which, in the reasonable opinion of the Clearing House, may be subject to obligations of confidentiality, may constitute market sensitive data or is, in the Clearing House's reasonable opinion, inappropriate for disclosure to FXCCMs.

## 6. BANKRUPTCY CODE AND RELATED ISSUES

Notwithstanding any other provision of this Annex in the event of a Default by an FXCCM, the completion of any and all actions, including but not limited to any transfers or transactions, permitted or required to be taken by the Clearing House hereunder shall be subject in all respects to the provisions of the Bankruptcy Code, Part 190 and Part 22 of the CFTC Regulations, the Dodd-Frank Wall Street Reform and Consumer Protection Act 2010, and the receipt of any approvals required under the Bankruptcy Code or such regulations.

## 7. CEA ISSUES

Notwithstanding any other provision of this Annex, in the event of a Default by an FXCCM, the operation of this Annex shall in all respects be subject to applicable provisions of the CEA and CFTC Regulations (including Part 22 thereof) regarding the handling, custody, liquidation, transfer and disposition of client positions and assets, including but not limited to those provisions requiring segregation of client assets and prohibiting application of the assets of non-defaulting clients to amounts owed by defaulting clients.



**8. MISCELLANEOUS**

- 8.1 Subject to Rules 2.4 and 2.5 of this Annex, the resources available to the Clearing House and their order of use are defined in Rule 16 of the Default Fund Rules as modified and/or supplemented by the ForexClear Default Fund Supplement.
- 8.2 The Clearing House may from time to time supplement the details of any of the stages set out in Rule 2 of this Annex or any other aspects of the ForexClear DMP, in consultation with the ForexClear DMG, either by way of further Guidance or immediately on notice to FXCCMs on a case-by-case basis where the Clearing House deems it appropriate to do so in the circumstances of the Default, provided that the Clearing House may not take any such action that effects a material change to the terms of this Annex without the written consent of 50% of all ForexClear Clearing Members unless such change is invoked unilaterally against all FXCCMs and is necessary to manage the Clearing House's risk or otherwise to meet the Clearing House's continuing regulatory obligations including those applicable to it as a Recognised Clearing House and a Derivatives Clearing Organization. The Clearing House agrees that, in the ordinary course, it shall discuss any such Guidance with the ForexClear DMG prior to bringing the Guidance into effect except that it shall not be required to do so where (i) the Guidance is not material to the rights and obligations of the FXCCMs or (ii) the Clearing House deems it inappropriate to do so in the circumstances of the Default and it is not possible to convene the ForexClear DMG in timely fashion.
- 8.3 The timetable for implementation of the stages of the ForexClear Default Management Process following issue of a Default Notice by the Clearing House shall be either (1) as prescribed by the Clearing House from time to time in consultation with the ForexClear DMG and set out in Guidance; or (2) imposed by the Clearing House without prior notice to the FXCCMs on a case-by-case basis where the Clearing House, in consultation with the ForexClear DMG, deems it appropriate to do so in the circumstances of the Default.

**9. ROLE AND CONSTITUTION OF FOREXCLEAR DMG**

- 9.1 The ForexClear DMG shall meet at regular intervals in order to:
- 9.1.1 keep under review the ForexClear DMP, together with any Guidance issued in respect thereof;
  - 9.1.2 keep under review the terms of reference of the ForexClear DMG to ensure they remain appropriate;
  - 9.1.3 consider appropriate supplements or amendments to the ForexClear DMP and/or Guidance in order to improve the procedures in place; and
  - 9.1.4 consider any other business relevant to the ForexClear DMP which any member of the ForexClear DMG from time to time sees fit to raise at such meetings.
- 9.2 The members of the ForexClear DMG shall also meet within one hour, or as soon as reasonably practical, following notification by the Clearing House that a Default Notice has been served upon an FXCCM, and at sufficiently frequent intervals thereafter for so long as may be necessary to assist the Clearing House in the implementation of the ForexClear DMP as contemplated under this Agreement. Such implementation shall include, without limitation, the provision of general default

management advice with regard to: (1) the ongoing obligations of the Clearing House to its non-defaulting members; (2) the neutralisation and closing-out of the individual obligations of the Defaulting FXCCM; and (3) the splitting of Portfolios and the disposal of Auction Portfolios in accordance with the ForexClear DMP. Where it is not possible or practicable for the FXCCM to provide its nominated representative within an appropriate timeframe, it shall provide an alternate of suitable experience and expertise to participate on the ForexClear DMG.

- 9.3 The ForexClear DMG shall be made up of the following individuals who, unless stated otherwise, shall be appointed by the Clearing House which shall ensure that the composition is such as to provide effective review of the ForexClear DMP and suitable expertise and representation of market-making capacity in the event of a Default:
- 9.3.1 in the event of the issuance of a Default Notice, the chief executive or deputy chief executive of the Clearing House, who shall act as chairman;
  - 9.3.2 at least six representatives of at least four FXCCMs, being senior executives with appropriate skills and expertise;
  - 9.3.3 at least one director (staff member of director grade) of the Clearing House's Risk Management department; and
  - 9.3.4 such other individuals as the ForexClear DMG considers appropriate from time to time in relation to individual meetings.
- 9.4 For the purpose of ForexClear DMG meetings convened to deal with a specific Defaulting FXCCM, the Clearing House may, after consultation with the ForexClear DMG, invite the Defaulting FXCCM to nominate one or more representatives to join the ForexClear DMG to assist it in carrying out its functions in the ForexClear Default Management Process for that Defaulting FXCCM, and also request representatives from any other FXCCMs. In the event of receiving such request, the FXCCM shall be obliged to provide its nominated representative, or an alternate with appropriate skills, experience and expertise, as if the FXCCM were a member of the ForexClear DMG.
- 9.5 In establishing the ForexClear DMG, the Clearing House agrees that in the normal course of events (not including the Clearing House's declaration of a Default and the invocation of the processes as outlined in Rules 2, 3 and 4 of this Annex) it will, as far as practicable, and in accordance with the terms of reference of the ForexClear DMG, rotate the membership of the ForexClear DMG on a regular basis and amongst all FXCCMs. The FXCCM agrees that, when requested to do so by the Clearing House, it will make available a representative to participate in the ForexClear DMG. The Clearing House shall agree with the FXCCM the identity of such representative and shall be able to request a substitute where it believes the FXCCM's nominated representative does not have the requisite skills or expertise.
- 9.6 Each FXCCM who makes available a representative to serve on the ForexClear DMG agrees, and shall procure that, to the extent applicable, its representative agrees:
- 9.6.1 to ensure that such representative will be fully available, at any time and for such periods of time as the Clearing House may require during the course of a Default, to perform his function as a member of the ForexClear DMG including attending meetings, considering and advising the Clearing House upon aspects of the ForexClear DMP. The FXCCM shall ensure that a

- representative's other work commitments do not affect his availability for this purpose;
- 9.6.2 to take all steps to respect the confidential capacity in which such a representative receives information through the ForexClear DMG and to establish adequate procedures to prevent the disclosure or use for any commercial purpose outside the scope of the ForexClear DMP of any such confidential information by the FXCCM or its representative. Such procedures shall normally include, without limitation, the establishment of Chinese walls within the FXCCM; and
- 9.6.3 to be bound by and to ensure that it and any of its executives or directors serving on the ForexClear DMG complies with the requirements contained in the Procedures or the FCM Procedures (as the case may be).
- 9.7 Each FXCCM shall accept that:
- 9.7.1 representatives of FXCCMs serving on the ForexClear DMG are doing so in order to assist the Clearing House in ensuring the on-going integrity of the ForexClear Service in the interests of Non-Defaulting FXCCMs; and
- 9.7.2 representatives of FXCCMs serving on the ForexClear DMG and their employers shall have no liability for any disinterested advice or actions, mandated or otherwise, that are undertaken as part of the ForexClear Default Management Process, provided, however, that nothing in this Rule 9.7.2 shall exclude the liability of such representatives and employers for any personal injury or death caused by their negligence or for any fraud or willful default on the part of such representatives and employers.
- 9.8 The Clearing House agrees that, in exercising its rights and obligations in consulting with the ForexClear DMG pursuant to this Agreement, it will use all reasonable commercial endeavours to agree a common position with the ForexClear DMG, provided that nothing in this Rule shall prevent the Clearing House acting in a way which it reasonably determines necessary to manage its risk or otherwise meet its continuing regulatory obligations including those applicable to it as a Recognised Clearing House and a Derivatives Clearing Organization.

**REPOCLEAR DMP ANNEX****1. SCOPE AND INTERPRETATION**

1.1 The Clearing House has established a RepoClear DMP which will apply to Fixed Income Contracts following the issue of a Default Notice relating to a RCM and in respect of which, for the avoidance of doubt, the Clearing House will have no recourse to the process of invoicing-back. The fundamental principles of the RepoClear DMP are elaborated to the fullest extent possible in this Annex. Where exhaustive detail cannot be laid out in the provisions of this Annex, the RepoClear DMP will be undertaken on the basis of the principles contained herein.

1.2 The Clearing House has an obligation to ensure the on-going integrity of the RepoClear service and Fixed Income Contracts in the interests of the Non-Defaulting RCMs. When a RCM defaults, Non-Defaulting RCMs are required to supply impartial expertise through the Fixed Income DMG and may be invited to bid for the Auction Portfolios of a Defaulting RCM, as laid out in this Annex. In addition, most RCMs or their parent companies or subsidiaries or fellow subsidiaries, have direct interests in that integrity, notably as contributors to the various default funds of the Clearing House. Each RCM shall take all steps and execute all documents necessary or required by the Clearing House to comply with its obligations as a RCM arising out of this RepoClear DMP Annex.

1.3 In this Annex:

**"Auction"** means the process of bidding by RCMs for an Auction Portfolio prescribed by the Clearing House following consultation with the Fixed Income DMG from time to time in accordance with Rule 2.3 of this Annex;

**"Auction Currency"** means in relation to an Auction, the currency of an Auction Portfolio which is the subject of that Auction as determined in accordance with Rule 2.3.2 of this Annex;

**"Auction Losses"** has the meaning given in Rule 2.5.2 of this Annex;

**"Auction Portfolio"** means (i) a Portfolio; or (ii) a group of Fixed Income Contracts resulting from the splitting of a Portfolio pursuant Rule 2.1 of this Annex including any connected hedging trades concluded by the Clearing House through Risk Mitigation;

**"Derivatives Clearing Organization"** means an organisation designated and registered as such by way of United States Code Title 7, Chapter 1, paragraph 7a-1;

**"Equal Bid"** has the meaning given in Rule 2.3.6 of this Annex;

**"Fixed Income DMG"** means the advisory Default Management Group established by the Clearing House pursuant to the terms of this Annex;

**"Guidance"** means guidance, in the form of one or more written notices, issued from time to time pursuant to Rule 1.2 of this Annex by or on behalf of the Clearing House to RCMs, supplementing the detail or conduct of any aspect of the RepoClear DMP;

**"Initial Resources"** has the meaning given in Rule 2.5.2 of this Annex;

**"Margin Cover"** has the meaning given in Rule 16(a) of the Default Fund Rules;

**"Market Participant"** means, in respect of a specific RepoClear market, a Non-Defaulting RCM who at the time the Clearing House declares a Default has been authorised by the Clearing House in respect of that RepoClear market;

**"Non-defaulters' Contributions"** means the RepoClear Contributions made by Non-Defaulting RCMs to the RepoClear Default Fund;

**"Original Contributions"** has the meaning given in Rule 2.5.3 of this Annex;

**"Portfolios"** means, in respect of each RepoClear market, the Fixed Income Contracts in such market registered in the name of a Defaulting RCM, and, where relevant, includes any connected hedging trades concluded by the Clearing House through Risk Mitigation;

**"Recognised Clearing House"** mean an organisation which is declared to be a recognised clearing house by a recognition order (that is for the time being in force) made under section 290(1)(b) of the Financial Services and Markets Act 2000;

**"Risk Mitigation"** means the process of reducing the market risk associated with a Defaulting RCM's obligations to the Clearing House under Fixed Income Contracts by hedging the exposure prior to the auction process as described in Rule 2.2 of this Annex;

**"RepoClear Default Management Process Completion Date"** means the date when the RepoClear Default Management Process in relation to a Default has been completed as determined by the Clearing House in consultation with the Fixed Income DMG and notified to all RCMs;

**"RepoClear DMP or RepoClear Default Management Process"** means the processes of the Clearing House outlined in this Annex, as the same may be supplemented and/or amended from time to time in accordance with this Annex; and

- 1.4 Terms used in this Annex which are not defined herein shall have the meanings given to them in the Regulations.

## 2. REPOCLEAR CLEARING HOUSE BUSINESS

The RepoClear Default Management Process in respect of RepoClear Clearing House Business shall involve the stages described in this Rule 2.

### 2.1 Portfolio Combination and Splitting

The Clearing House, in consultation with and the assistance of the Fixed Income DMG, shall determine the composition of each Auction Portfolio and shall have the discretion to divide a Portfolio into two or more individual Auction Portfolios or to combine two or more Portfolios into a single Auction Portfolio with the aim of facilitating the efficiency of, and reducing the risk associated with, the auction process provided for in Rule 2.3 of this Annex. The overriding principle is that the Clearing House will structure Auction Portfolios with the intention of ensuring a RepoClear DMP which best protects the resources of the Clearing House. Therefore, nothing in this Rule 2.1 shall be deemed to imply that the Clearing House is under any obligation to split a particular Portfolio of a Defaulting RCM (regardless of the number of Fixed Income Contracts that such Portfolio contains).

## 2.2 Risk Mitigation

The Clearing House may, in consultation with and with the assistance of the Fixed Income DMG, reduce the market risk associated with a Defaulting RCM's obligations to the Clearing House by hedging the Clearing House's exposure in open Fixed Income Contracts to which the Defaulting RCM is party. In determining whether or not to engage in any hedging activities, the Clearing House shall take into account the associated costs of such hedging and the possibility that such hedging could result in the Clearing House's resources being put at risk. All such hedging shall be undertaken by the Clearing House with RCMs, on the basis of separate agreements between the Clearing House and each such RCM. For the avoidance of doubt, Risk Mitigation may happen prior to, concurrently with and/or subsequently to the splitting of a Portfolio pursuant to Rule 2.1 above. Any costs incurred from Risk Mitigation shall be considered costs of the relevant Auction and may therefore give rise to Auction Losses.

## 2.3 Auction

- 2.3.1 The Clearing House shall, in its discretion, but after consultation with the Fixed Income DMG, identify up to 15 Non-Defaulting RCMs who will be invited to bid in each Auction (the "**Invited Bidders**") and shall invite such Invited Bidders to submit bids for such Auction Portfolio.
- 2.3.2 The Clearing House, in consultation with the Fixed Income DMG, shall prescribe such procedures (in addition to those set out herein) for the conduct of the auction process, including selection of Invited Bidders, as it considers reasonably appropriate from time to time. The Clearing House and the Fixed Income DMG shall determine the Auction Currency in respect of the relevant Auction.
- 2.3.3 The Clearing House shall notify each Invited Bidder of all details that may be reasonably required in relation to an Auction Portfolio prior to the relevant Auction.
- 2.3.4 The auction process may take place over a number of days and Auctions of different Auction Portfolios may take place at different times.
- 2.3.5 Invited Bidders who decide to participate in an Auction will submit bids to the Clearing House representatives on the Fixed Income DMG, who will ensure that the identities of the bidders are not revealed to the RCM representatives on the Fixed Income DMG. Bids may be submitted for the entire Auction Portfolio or for a percentage of the Auction Portfolio. Bids shall be submitted as a price at which the relevant Invited Bidder is willing to take on a specified percentage of the Auction Portfolio, and all bids will be ranked in accordance with the price per percentage represented by that bid. The Fixed Income DMG will oversee the bidding process in a manner which it considers best protects the resources of the Clearing House and ensures an orderly process. The Clearing House shall be entitled to round up or round down nominal amounts received by successful Invited Bidders in order to ensure that successful bids comply with the Clearing House's requirements on minimum transaction sizes and this may impact the price paid by successful Invited Bidders.

- 2.3.6 The Clearing House in consultation with the Fixed Income DMG will have full discretion in deciding whether or not to accept one or more bids in an Auction for part or all of the Auction Portfolio and, in so deciding, will take into account the range of bids received relative to the amount of Collateral transferred to the Clearing House in respect of initial margin, variation margin, and additional margin and the Default Fund Contribution of the Defaulting RCM held and, subject to their availability, the Clearing House resources as set out in Rule 16 of the Clearing House's Default Fund Rules. If the Clearing House does accept one or more bids, the price paid by the relevant winning bidders will be the same. Therefore, if the Clearing House decides to accept more than one bid, the price payable by all such winning bidders will be the price of the lowest bid which is accepted by the Clearing House. In the event that more than one Invited Bidder submits a bid of the same value (each an "Equal Bid"), the Clearing House may, subject to its discretion to reject one or more such Equal Bids, split the relevant Auction Portfolio between the relevant Invited Bidders who submitted Equal Bids on an individual trade-by-trade basis. The Clearing House, in consultation with the Fixed Income DMG, may choose to accept a bid in respect of a smaller proportion of an Auction Portfolio than that which an Invited Bidder specified in its bid.
- 2.3.7 In the case of an Auction in which no bid is accepted or received (as the case may be), or in which the bids accepted by the Clearing House are for less than the whole Auction Portfolio, subject to Rule 2.3.9, one or more further Auctions may, at the discretion of the Clearing House, be held in relation to the relevant Auction Portfolio or that part of the Auction Portfolio which remains.
- As soon as practicable following an Auction;
- (a) in the event that one or more bids were accepted, the Clearing House will notify all the Invited Bidders who participated in the Auction that one or more bids were accepted and shall notify the Invited Bidders who submitted the accepted bids that their bids were accepted; and
  - (b) in the event that no bid was accepted, or the accepted bids were for less than the whole Auction Portfolio, the Clearing House will notify such RCMs as determined by the Clearing House in consultation with the Fixed Income DMG of the details of any further Auction.
- 2.3.8 All Invited Bidders agree to use all reasonable efforts to make a bid in an Auction for an Auction Portfolio in respect of which such RCM is a Market Participant.
- 2.3.9 The Clearing House may directly sell assets or Auction Portfolios outside of Auctions if an Auction fails or, in the opinion of the Clearing House in consultation with the Fixed Income DMG, is likely to fail or if the Clearing House determines (in consultation with the Fixed Income DMG) that it will not be possible to complete any relevant Auction in a timely and efficient manner and without putting the resources available to the Clearing House pursuant to paragraphs (c) to (h) of Rule 16 at risk.

## 2.4 Auction Resources and Reserve Price

- 2.4.1 Before commencing the auction process, the Clearing House will calculate a base price ("**Base Price**") for each individual Auction Portfolio based on an initial allocation of the resources potentially available to it from the Defaulting RCM to satisfy any loss incurred in the Auction of each such Auction Portfolio pursuant to paragraphs (a) to (c) of Rule 16 and, consequently, taking into account market prices, a reserve price ("**Reserve Price**") for such Auction. Notwithstanding such initial allocation, any resources utilised by the Clearing House will be allocated in accordance with Rule 2.5 below.
- 2.4.2 For each Auction Portfolio, the resources shall be allocated as follows:
- (a) the resources of the Defaulting RCM (in the form of: (i) the Margin Cover of the Defaulting RCM pursuant to Rule 16(a) of the Default Fund Rules and (ii) the Contributions made by the Defaulting RCM to the RepoClear Default Fund available pursuant to Rule 16(b) of the Default Fund Rules at the time of the auction process) will be allocated to the Auction Portfolios based on the proportion that (a) the risk of the relevant Auction Portfolio bears to (b) the aggregate of the risks (on an absolute basis) for all Auction Portfolios; and
  - (b) the portion of the Capped Amount applied to the RepoClear Business of the Defaulting RCM pursuant to Rule 16(c) of the Default Fund Rules will be allocated to the Auction Portfolios based on the proportion that (a) the risk of the relevant Auction Portfolio bears to (b) the aggregate of the risks (on an absolute basis) for all Auction Portfolios.

## 2.5 Loss Attribution

- 2.5.1 Following the completion of all Auctions of all Auction Portfolios of the Defaulting RCM, the Clearing House will determine whether losses incurred by it following such Auctions are such that the Non-Defaulters' Contributions must be utilised. Where applicable, such losses will be allocated to Non-defaulters' Contributions in accordance with the loss attribution process described in Rules 2.5.2 to 2.5.4 of this Annex.
- 2.5.2 For each Auction Portfolio, losses to the Clearing House will be met using the resources as set out in Rule 16. In applying those resources, the Clearing House will allocate the losses in respect of each Auction Portfolio (the "**Auction Losses**") by reference to the resources allocated to such Auction Portfolios in accordance with Rule 2.3.9 of this Annex. Where there are no Auction Losses in respect of an Auction Portfolio or the Auction Losses in respect of an Auction Portfolio do not require the full amount of the resources referred to in sub-paragraphs (a) and (b) of Rule 2.4.2 of this Annex allocated to the relevant Auction Portfolio (the "**Initial Resources**") to be fully utilised, the relevant surplus Initial Resources will be allocated pro rata between those Auction Portfolios in respect of which there are Auction Losses requiring the utilisation of resources beyond the Initial Resources available in the relevant Auction Portfolio in accordance with Rule 16(a), 16(b) and 16(c) until such time as all Initial Resources have been fully utilised.



- 2.5.3 In the case of each Auction for which there are Auction Losses, those Auction Losses will be allocated to those Non-defaulter's Contributions (the "**Original Contributions**") based upon the proportion that (a) the value of each such Original Contribution bears to (b) the aggregate of the amounts calculated in (a) for each of such RCMs.

If, for an Auction Portfolio, there remain Auction Losses outstanding after the attribution process referenced to in sub-paragraph (c) above, and there are Auction Portfolios relating to other Auction Portfolios in which the Original Contributions have not been fully utilised, the Clearing House shall attribute the remaining Auction Losses amongst such Original Contributions through the attribution process set out above.

- 2.5.4 If and to the extent that there are Auction Losses outstanding following the attribution process referred to in Rule 2.5.3 above, those Auction Losses will be allocated to the RepoClear Unfunded Contributions based upon the proportion that (a) the value of each such RepoClear Unfunded Contribution bears to (b) the aggregate of the amounts calculated in (a) for each of such RCMs until the first to occur of (i) the Auction Losses being fully met; and (ii) the RepoClear Unfunded Contributions being fully attributed.
- 2.5.5 If and to the extent that there are Auction Losses outstanding following the attribution process referred to in Rule 2.5.4 above, any Loss Distribution Charges payable by Non-Defaulting RCMs pursuant to Rule R9(b) of the Default Fund Rules shall be applied to reduce such Auction Losses.

### 3. TRANSFER OF CASH FLOWS AND REGISTRATION OF POSITIONS

- 3.1 Following the disposal of part or all of an Auction Portfolio by way of Auction (and notwithstanding that other Auction Portfolios of the Defaulting RCM may not yet have been auctioned) the Clearing House, will, with the co-operation of the RCMs, transfer to the RCMs whose bids were accepted in respect of that Auction Portfolio the positions for which that RCM has successfully bid under the RepoClear Default Management Process. Such transfer may take place by way of registration of new positions with the Clearing House in the name of the relevant RCM, or novation of rights and obligations to the relevant RCM.
- 3.2 In order to effect the transfer of positions, the Clearing House shall prescribe such procedures and timetable as it considers reasonably appropriate in the circumstances. RCMs will be required to exercise best endeavours to comply with such requirements as may be established by the Clearing House, after consultation with the Fixed Income DMG, to effect the transfer of positions, including but not limited to the payment of any sums due as a result of the winning bid and the ~~provision~~ transfer of ~~sever~~ Collateral in an amount required by the Clearing House ~~for~~ in respect of initial margin, variation margin and additional margin in respect of positions which are to be registered in their names. The Clearing House agrees that in such procedures it shall make provision for set-off by the Clearing House of amounts owed by the Clearing House to the RCM as a result of the operation of the RepoClear DMP against sums owed by the RCM to the Clearing House in respect thereof.
- 3.3 Where, as a result of an Auction, the Clearing House is required to make a payment to a RCM in respect of a winning bid, the Clearing House shall not be permitted to register any position, whether as a new position or as a novation of existing rights and obligations, to any such RCM if the Clearing House does not simultaneously

credit that RCM with the requisite amount. If any position is so registered without such payment, such registration shall be deemed void *ab initio* and unenforceable against the relevant RCM. For the avoidance of doubt, the Clearing House will utilise the resources available to it pursuant to Rule 16 of the Default Fund Rules for the purposes of making such a payment notwithstanding that other Auction Portfolios of the Defaulting RCM may not yet have been auctioned and that the loss attribution process provided for by Rule 2.5 of this Annex has not yet occurred.

#### 4. INFORMATION REGARDING THE REPOCLEAR DMP

Whenever the RepoClear DMP is implemented by the Clearing House in respect of a Defaulting RCM, the Clearing House will, with the assistance of the Fixed Income DMG, provide such ongoing information to RCMs as the Clearing House deems reasonably appropriate in respect of the progress of the RepoClear DMP.

Nothing in this Rule 4 shall require the Clearing House to disclose information in respect of the RepoClear DMP which, in the reasonable opinion of the Clearing House, may be subject to obligations of confidentiality, may constitute market sensitive data or is, in the Clearing House's reasonable opinion, inappropriate for disclosure to RCMs.

#### 5. MISCELLANEOUS

5.1 Subject to Rules 2.3.9 and 2.5 of this Annex, the resources available to the Clearing House and their order of use are defined in Rule 16 of the Default Fund Rules as modified and/or supplemented by the RepoClear Default Fund Supplement.

5.2 The Clearing House may from time to time supplement the details of any of the stages set out in Rule 2 of this Annex or any other aspects of the RepoClear DMP, in consultation with the Fixed Income DMG, either by way of further Guidance or immediately on notice to RCMs on a case-by-case basis where the Clearing House deems it appropriate to do so in the circumstances of the Default, provided that the Clearing House may not take any such action that effects a material change to the terms of this Annex without the written consent of 50% of all RCMs unless such change is invoked unilaterally against all RCMs and is necessary to manage the Clearing House's risk or otherwise to meet the Clearing House's continuing regulatory obligations including those applicable to it as a Recognised Clearing House. The Clearing House agrees that, in the ordinary course, it shall discuss any such Guidance with the Fixed Income DMG prior to bringing the Guidance into effect except that it shall not be required to do so where (i) the Guidance is not material to the rights and obligations of the RCMs or (ii) the Clearing House deems it inappropriate to do so in the circumstances of the Default and it is not possible to convene the Fixed Income DMG in timely fashion.

5.3 The timetable for implementation of the stages of the RepoClear Default Management Process following issue of a Default Notice by the Clearing House shall be either (1) as prescribed by the Clearing House from time to time in consultation with the Fixed Income DMG and set out in Guidance; or (2) imposed by the Clearing House without prior notice to the RCMs on a case-by-case basis where the Clearing House, in consultation with the Fixed Income DMG, deems it appropriate to do so in the circumstances of the Default.

**6. ROLE AND CONSTITUTION OF FIXED INCOME DMG**

- 6.1 The Fixed Income DMG shall meet at regular intervals in order to:
- 6.1.1 keep under review the RepoClear DMP, together with any Guidance issued in respect thereof;
  - 6.1.2 keep under review the terms of reference of the Fixed Income DMG to ensure they remain appropriate;
  - 6.1.3 consider appropriate supplements or amendments to the RepoClear DMP and/or Guidance in order to improve the procedures in place; and
  - 6.1.4 consider any other business relevant to the RepoClear DMP which any member of the Fixed Income DMG from time to time sees fit to raise at such meetings.
- 6.2 The members of the Fixed Income DMG shall also meet within one hour, or as soon as reasonably practical, following notification by the Clearing House that a Default Notice has been served upon an RCM, and at sufficiently frequent intervals thereafter for so long as may be necessary to assist the Clearing House in the implementation of the RepoClear DMP as contemplated under this Agreement. Such implementation shall include, without limitation, the provision of general default management advice with regard to: (1) the ongoing obligations of the Clearing House to its non-defaulting members; (2) the hedging and closing-out of the individual obligations of the Defaulting RCM; and (3) the splitting of Portfolios and the disposal of Auction Portfolios in accordance with the RepoClear DMP. Where it is not possible or practicable for the RCM to provide its nominated representative within an appropriate timeframe, it shall provide an alternate of suitable experience and expertise to participate on the Fixed Income DMG.
- 6.3 The Fixed Income DMG shall be made up of the following individuals who, unless stated otherwise, shall be appointed by the Clearing House which shall ensure that the composition is such as to provide effective review of the RepoClear DMP and suitable expertise and representation of market-making capacity in the event of a Default:
- 6.3.1 the Head of Fixed Income at the Clearing House (or his or her deputy), who shall act as chairman;
  - 6.3.2 representatives of at least four RCMs, being senior executives with appropriate skills and expertise, at least two of which shall be from organisations with membership of both LCH.Clearnet Ltd and LCH.Clearnet S.A.;
  - 6.3.3 the head of the Fixed Income Risk group at the Clearing House (or his or her deputy);
  - 6.3.4 a member of the Liquidity Management group at the Clearing House or other employee of the Clearing House authorised to represent the Liquidity Management group;

- 6.3.5 In the event of the issuance of a Default Notice, a representative of the Defaulting RCM may be invited to join the Fixed Income DMG to assist its work; and
- 6.3.6 such other individuals as the Fixed Income DMG considers appropriate from time to time in relation to individual meetings.

Where the Clearing House has appointed any representative of any RCM to be a member of the Fixed Income DMG, such RCM shall be obliged to make an appropriate representative of that RCM available for that purpose. It is expected that representation on the Fixed Income DMG will be preceded by participation in a DMP fire drill.

- 6.4 For the purpose of Fixed Income DMG meetings convened to deal with a specific Defaulting RCM, the Clearing House may, after consultation with the Fixed Income DMG, invite the Defaulting RCM to nominate one or more representatives to join the Fixed Income DMG to assist it in carrying out its functions in the RepoClear DMP for that Defaulting RCM, and also request representatives from any other RCMs. In the event of receiving such request, the RCM shall be obliged to provide its nominated representative, or an alternate with appropriate skills, experience and expertise, as if the RCM were a member of the Fixed Income DMG.
- 6.5 In establishing the Fixed Income DMG, the Clearing House agrees that in the normal course of events (not including the Clearing House's declaration of a Default and the invocation of the processes as outlined in Rules 2 and 3 of this Annex) it will, as far as practicable, and in accordance with the terms of reference of the Fixed Income DMG, rotate the membership of the Fixed Income DMG on a regular basis and amongst all RCMs. The RCM agrees that, when requested to do so by the Clearing House, it will make available a representative to participate in the Fixed Income DMG. The Clearing House shall agree with the RCM the identity of such representative and shall be able to request a substitute where it believes the RCM's nominated representative does not have the requisite skills or expertise.
- 6.6 Each RCM who makes available a representative to serve on the Fixed Income DMG agrees, and shall procure that, to the extent applicable, its representative agrees:
  - 6.6.1 to ensure that such representative will be fully available, at any time and for such periods of time as the Clearing House may require during the course of a Default, to perform his function as a member of the Fixed Income DMG including attending meetings, considering and advising the Clearing House upon aspects of the RepoClear DMP. The RCM shall ensure that a representative's other work commitments do not affect his availability for this purpose;
  - 6.6.2 to take all steps to respect the confidential capacity in which such a representative receives information through the Fixed Income DMG and to establish adequate procedures to prevent the disclosure or use for any commercial purpose outside the scope of the RepoClear DMP of any such confidential information by the RCM or its representative. Such procedures shall normally include, without limitation, the establishment of Chinese walls within the RCM; and

- 6.6.3 to be bound by and to ensure that it and any of its executives or directors serving on the Fixed Income DMG complies with the requirements contained in the Procedures.
- 6.7 Each RCM shall accept that:
- 6.7.1 representatives of RCMs serving on the Fixed Income DMG are doing so in order to assist the Clearing House in ensuring the on-going integrity of the RepoClear service in the interests of Non-Defaulting RCMs; and
- 6.7.2 representatives of RCMs serving on the Fixed Income DMG and their employers shall have no liability for any disinterested advice or actions, mandated or otherwise, that are undertaken as part of the RepoClear Default Management Process, provided, however, that nothing in this Rule 6.7.2 shall exclude the liability of such representatives and employers for any personal injury or death caused by their negligence or for any fraud or wilful default on the part of such representatives and employers.
- 6.8 The Clearing House agrees that, in exercising its rights and obligations in consulting with the Fixed Income DMG pursuant to this Agreement, it will use all reasonable commercial endeavours to agree a common position with the Fixed Income DMG, provided that nothing in this Rule shall prevent the Clearing House acting in a way which it reasonably determines necessary to manage its risk or otherwise meet its continuing regulatory obligations including those applicable to it as a Recognised Clearing House.
- 6.9 The Clearing House may run RepoClear DMP "fire-drills" from time to time. RCMs will be required to actively participate in a DMP fire-drill when requested to do so by the Clearing House. Those required to participate in a fire-drill will be limited to the top 90% of RCMs based on total Initial Margin of the previous three months. The fire-drill list of potential participant RCMs will be refreshed on a semi-annual basis by the Clearing House.