

Via Electronic mail

June 13, 2014

Ms. Melissa Jurgens
Secretary of the Commission
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, N.W.
Washington, DC 20581

RE: Amendments to LCH.Clearnet's rules and regulations

Dear Ms. Jurgens:

Pursuant to §40.6(a) of the Commission Regulations, LCH.Clearnet Limited ("LCH.Clearnet"), a Derivatives Clearing Organization ("DCO") registered with the Commodity Futures Trading Commission ("CFTC"), hereby submits changes to its Rulebook.

The changes will be implemented with effect from June 30, 2014.

Part I: Explanation and Analysis

LCH.Clearnet is removing rules and procedures for inflation swaps from its Rulebook after identification of administrative errors in LCH.Clearnet's Rulebook. These rule amendments were previously submitted for self-certification, however, the provisions detailing the rules and procedures for inflation swaps were in draft and relate to a service not yet offered and removal will have no effect.

Part II: Description of Rule Changes

The following provisions of the LCH.Clearnet rules and regulations have been removed and previously erroneously deleted regulations have been re-instated as follows:

General Regulations: Definitions and deletion of Regulation 60A.

The amendments to the General Regulations are attached in blackline as **Appendix A-1**.

Default Rules: Definitions, Regulations 2.1, 2.3(f), 2.3(g), 2.4(b)(ii), 2.5(c)(i), 2.5(c)(ii), 2.5(c)(iii), 2.5(d), 2.5(e), 2.5(f)(i), 2.5(f)(ii), 2.5(f)(iii), 2.5(g), 2.5(h), 2.6.

The amendments to the Default Rules are attached in blackline as **Appendix A-2**.

Procedure Section 2C: Sections 1.8.13 and 1.12.

The amendments to the Procedures Section 2C are attached in blackline as **Appendix A-3**.

Product Specific Contract Terms And Eligibility Criteria Manual

Schedule 2 – Part A – SwapClear Contract Terms – Sections 1 and 2.5.

Schedule 2 – Part B - Product Eligibility Criteria for Registration of a SwapClear Contract – Section 1.2 (d), 2.1.2 and 2.1.3.

The amendments to the Product Specific Contract Terms And Eligibility Criteria Manual are attached in blackline as **Appendix A-4**.

Part III: Public Information

LCH.Clearnet posted a notice of pending certification with the CFTC and a copy of the submission on LCH.Clearnet's website at http://www.lchclearnet.com/rules_and_regulations/ltd/proposed_rules.asp

Part IV: Compliance with Core Principles

LCH.Clearnet will continue to comply with all Core Principles following the introduction of these rule amendments. LCH.Clearnet has concluded that its compliance with Core Principles would not be adversely affected by these changes.

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.

Part VI: Certification

LCH.Clearnet Limited 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.iyer@lchclearnet.com

Sincerely yours,



Jay Iyer, Chief Compliance Officer
LCH Clearnet Limited

cc: Shawn Durrani, CFTC
cc: Eileen Chotiner, CFTC

Appendix A-1 (General Regulations)



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LCH.CLEARNET LIMITED**

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Clearing Client"	Clearing Clients comprising an Indirect Omnibus Segregated Account
"Individual Segregated Account"	means an account opened within the Clearing House by a Clearing Member or an FCM which enables the relevant Clearing Member or FCM (as applicable) to distinguish the assets and positions held for the account of an Individual Segregated Account Clearing Client from the assets and positions held for the account of its other clients, and which is designated by the Clearing House as an Individual Segregated Account
"Individual Segregated Account Balance"	means, in respect of an Individual Segregated Account Clearing Client, the Clearing Member Current Collateral Balance of the Individual Segregated Account 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)
"Individual Segregated Account Clearing Client"	means a Clearing Client in respect of whom the relevant Clearing Member clears Contracts with the Clearing House in an Individual Segregated Account
"Inflation FCM SwapClear Contract"	has the meaning assigned to it in the FCM Regulations
"Inflation SwapClear Contract"	means a SwapClear Contract of the type of Contracts which are identified as being Inflation SwapClear Contracts in the Product Specific Contract Terms and Eligibility Criteria Manual, which includes, in the case of the Default Rules (including the SwapClear DMP Annex but excluding, for the avoidance of doubt, the Client Clearing Annex), the FCM Default Fund Agreement and any other document, rule or procedure as specified by the Clearing House from time to time, an Inflation FCM SwapClear Contract
"initial margin"	means 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 transfer to the Clearing House Collateral 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

"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 L10 of the Listed Interest Rate Default Fund Supplement, Rule S11 of the SwapClear Default Fund Supplement, Rule F11 of the ForexClear Default Fund Supplement, or Rule R11 of the RepoClear Default Fund Supplement, as applicable
"IRS FCM SwapClear Contract"	has the meaning assigned to it in the FCM Regulations
"IRS SwapClear Contract"	means a SwapClear Contract of the type of Contracts which are identified as being IRS SwapClear Contracts in the Product Specific Contract Terms and Eligibility Criteria Manual, which includes, in the case of the Default Rules (including the SwapClear DMP Annex but excluding, for the avoidance of doubt, the Client Clearing Annex), the FCM Default Fund Agreement and any other document, rule or procedure as specified by the Clearing House from time to time, an IRS FCM SwapClear Contract
"LCH Approved Outsourcing Party"	means a party approved for these purposes by the Clearing House, as set out in the FCM Procedures
"LCH.Clearnet Group"	means the group of undertakings consisting of LCH.Clearnet Limited, LCH.Clearnet Group Limited, LCH.Clearnet LLC, LCH.Clearnet (Luxembourg) S.a.r.l, LCH.Clearnet Service Company Limited and Banque Centrale de Compensation S.A. trading as LCH.Clearnet SA. (any references to a " member " of LCH.Clearnet Group Limited within these Regulations is to be construed accordingly)
"LCH EnClear OTC Clearing Client"	means, in respect of LCH EnClear OTC Client Clearing Business, an Individual Segregated Account Clearing Client or an Omnibus Segregated Clearing Client
"LCH EnClear OTC Clearing House Business"	means LCH EnClear OTC Contracts entered into by a LCH EnClear OTC Clearing Member with the Clearing House on a proprietary basis and for its own account
"LCH EnClear OTC Clearing Member"	means a Member who is designated by the Clearing House as an LCH EnClear OTC Clearing Member eligible to clear LCH EnClear OTC Contracts
"LCH EnClear OTC Client Clearing Business"	means the provision of LCH EnClear OTC Client Clearing Services by a LCH EnClear OTC Clearing Member

~~REGULATION 60A PROVISION OF INFLATION SWAP MARKET DATA~~

- ~~(a) Regulation 60A(c) applies to any SwapClear Clearing Member who transacts in SwapClear Contracts of a type identified as being Inflation SwapClear Contracts in the Product Specific Contract Terms and Eligibility Criteria Manual and whose business involving such Contracts exceeds the threshold specified in [Regulation 60A(b)].~~
- ~~(b) [Drafting to be inserted specifying the circumstances in which a SwapClear Clearing Member will be required to provide inflation swap market data (relevant thresholds to be calculated by reference to actual or expected levels of clearing activity of the relevant SwapClear Clearing Member in relation to Inflation SwapClear Contracts entered into by way of SwapClear Clearing House Business). If a SwapClear Clearing Member is required to provide inflation swap market data then the provisions set out in [Regulation 60A(c)] (as may be amended from time to time) will take effect between the Clearing House and the SwapClear Clearing Member for as long as the SwapClear Clearing Member is required to provide the market data.]~~
- ~~(c) Where this [Regulation 60A(c)] applies to a SwapClear Clearing Member:~~
- ~~(i) that SwapClear Clearing Member shall (or shall procure that one of its affiliates does) provide to the Clearing House in such manner as the Clearing House may specify from time to time such inflation market data as the Clearing House may specify from time to time in respect of those indices that are both (a) eligible for clearing by the Clearing House and (b) an index in respect of which the SwapClear Clearing Member is an active market participant (the "**Market Data**"). The SwapClear Clearing Member represents and warrants that it (or, if applicable, the affiliate providing the data) is authorised to provide the Market Data to the Clearing House on the terms set out in this [Regulation 60A(c)];~~
 - ~~(ii) that SwapClear Clearing Member will retain all ownership rights, Intellectual Property Rights (as defined below) and all other rights in respect of its Market Data;~~
 - ~~(iii) the Clearing House may combine that SwapClear Clearing Member's Market Data with equivalent market data received from other SwapClear Clearing Members (such combined data and any further data derived from such combined data, the "**Derived Data**"). In producing the Derived Data, the Market Data will be anonymised so that it is not possible to analyse the Derived Data in such a way as to identify the Market Data originating from any particular SwapClear Clearing Member. Subject to sub-paragraphs (v) and (vii) below, the Clearing House may not use a SwapClear Clearing Member's Market Data for any purpose other than the compilation of the Derived Data;~~
 - ~~(iv) subject to sub-paragraph (v) below, the Clearing House will retain all ownership rights, Intellectual Property Rights and all other rights in respect of the Derived Data;~~
 - ~~(v) the Clearing House may use:~~

- ~~(A) Market Data and Derived Data for the purposes of SwapClear clearing and settlement, including calculation of margin, trade and portfolio valuation, and SwapClear Clearing Member end-of-day price and valuation reporting; and~~
- ~~(A) Derived Data as a data source for other Clearing House clearing services;~~
- ~~(vi) the Clearing House may disclose or provide Derived Data to third parties on terms to be determined by the Clearing House. In the event that the Clearing House provides Derived Data to a SwapClear Clearing Member or its Representatives (as defined below), it grants such SwapClear Clearing Member or Representative a worldwide, non-exclusive, non-transferable, non-sublicensable, revocable license to use the Derived Data solely for the purposes of the relevant SwapClear Clearing Member's internal risk management and clearing processes. For the purposes of this sub-paragraph (vi), "**Representatives**" shall include: (A) the SwapClear Clearing Member's affiliates; and (B) any other entity approved in writing by the Clearing House. The Clearing House consents to SwapClear Clearing Members disclosing the Derived Data to their regulators and auditors;~~
- ~~(vii) the Clearing House may (A) use or disclose Market Data where it is required to do so by law or by a regulatory authority; and (B) use (but not disclose) Market Data where it is required to do so by a direction of the Clearing House Risk Committee;~~
- ~~(viii) the Clearing House may share the Market Data and Derived Data with LCH.Clearnet LLC on condition that LCH.Clearnet LLC adheres to the same restrictions on use and disclosure of such data as the Clearing House is subject to. LCH.Clearnet LLC may use and disclose the Market Data and Derived Data in the same way and to the same extent as the Clearing House is permitted; and~~
- ~~(ix) other than as permitted by this [Regulation 60A] or as agreed in writing with the relevant SwapClear Clearing Member, the Clearing House shall not use and/or share the Market Data with third parties (whether for fees or otherwise).~~

For the purposes of this [Regulation 60A(c)], "**Intellectual Property Rights**" means any right, title and interest in patents, trademarks, copyright, typography rights, database rights (including rights of extraction), registered designs and unregistered design rights, trade secrets and the right to keep information confidential, and all rights or forms of protection of a similar nature or having equivalent or similar effect to any of them which may subsist anywhere in the world, whether or not any of them are registered and including applications for registration of any of them.

- ~~(d) [Provisions will be included pursuant to which the Clearing House may, in certain circumstances, instruct a Clearing Member to enter into a transaction of a specified notional amount at the price quoted by that Clearing Member in the inflation market data it submitted to the Clearing House.]~~

Appendix A-2 (Default Rules)



LCH.CLEARNET LIMITED
DEFAULT RULES

SCHEDULE 2 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 Annex.
- 1.3 The initial margining process 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(b) of this Annex;

"Auction Portfolio" means (i) a Portfolio; or (ii) a group of SwapClear 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;

~~"Auction Portfolio Category" means in relation to an Auction Portfolio, the SwapClear Contract Category to which the SwapClear Contracts in the Auction Portfolio belong, provided that in the case of an Auction Portfolio containing both~~

~~IRS SwapClear Contracts and Inflation SwapClear Contracts, the relevant Auction Portfolio Category shall be deemed to be the Inflation SwapClear Contract Category;~~

~~"Auction Portfolio Currency" means in relation to an Auction Portfolio, the SwapClear currency in which the SwapClear Contracts in the Auction Portfolio are denominated;~~

"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(e) of this Annex;

~~"Expected Auction Participant" means, in respect of an Auction Portfolio, any Non-Defaulting SCM who, at the time the Clearing House declares a Default, has at least one Resembling Contract registered in its name;~~

"FCM SwapClear Client Business" means the provision of FCM SwapClear Client 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(c) of this Annex;

~~"Inflation SwapClear Contract Category" means the category of SwapClear Contracts which comprises Inflation SwapClear Contracts registered with the Clearing House;~~

"Initial Resources" has the meaning given in Rule 2.5(b) of this Annex;

~~"IRS SwapClear Contract Category" means the category of SwapClear Contracts which comprises IRS SwapClear Contracts registered with the Clearing House;~~

"Losing AP Type Currency" has the meaning given in Rule 2.5(d) of this Annex;

"**Losing Currency Original SCM**" has the meaning given in Rule 2.5(d) of this Annex;

"**Losing Currency Unfunded SCM**" has the meaning given in Rule 2.5(g) of this Annex;

"**Margin Cover**" has the meaning given in Rule 15(a) of the Default 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(c) of this Annex;

"**Portfolio**" means, in respect of each SwapClear currency, the SwapClear Contracts in such currency registered in the name of a Defaulting SCM in respect of House Clearing Business or the SwapClear Contracts in such currency registered in the name of a Defaulting SCM in respect of Client Clearing Business and, in both such cases includes, where relevant, any hedging trades connected to the relevant SwapClear Contracts concluded by the Clearing House through Risk Neutralisation. For the avoidance of doubt, a Portfolio containing SwapClear Contracts relating to the Client Clearing Business of a Defaulting SCM will only contain SwapClear Contracts relating to Client Clearing Business. The Clearing House shall not be entitled to combine client and house positions in a single Portfolio;

"**Potential Unfunded Contributions**" has the meaning given in Rule 2.4(b) 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(c) of this Annex;

"**Relevant Unfunded Contributions**" has the meaning given to it in Rule 2.5(f) of this Annex;

"**Remaining Original Short Bidder**" has the meaning given in Rule 2.5(c) of this Annex;

"**Remaining Unfunded Short Bidder**" has the meaning given to it in Rule 2.5(f) of this Annex;

~~"**Resembling Contract**" means, in respect of the SwapClear Contracts in a specific Auction Portfolio, a SwapClear Contract registered in the name of a Non-Defaulting SCM that (i) is denominated in the same Portfolio Currency as such SwapClear Contracts and (ii) belongs to the SwapClear Contract Category which corresponds to the Auction Portfolio Category of such Auction Portfolio;~~

"**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(c) of this Annex;

~~"SwapClear Contract Category" means a category of SwapClear Contracts, being either the Inflation SwapClear Contract Category or the IRS SwapClear Contract Category;~~

"**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 ~~(i) the SwapClear Contracts in~~ an Auction Portfolio or ~~(ii) the Resembling Contracts~~ all of a particular 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 2,500 historical scenarios (10 years history) and a holding period of 5 days.

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 with 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 behind the portfolio splitting process 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, ~~(including in terms of combining or separating (i) SwapClear Contracts belonging to different SwapClear Contract Categories or (ii) Inflation SwapClear Contracts having different underlying indices)~~, except that, subject to overriding risk procedures, it is broadly anticipated that: ~~(a) the parameters of any Auction Portfolio shall not be materially different to those set out in the Clearing House's fire drill and (b) an Auction Portfolio containing Inflation SwapClear Contracts will often also contain SwapClear Contracts which are not Inflation SwapClear Contracts, for the purposes of interest rate risk neutralisation.~~

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*

- (a) 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 15 (*Reduction of Losses on Default*) of the Default 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.
- (b) 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.
- (c) The auction process may take place over a number of days and Auctions of different Auction Portfolios may take place at different times.
- (d) 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.

- (e) 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 in respect of initial margin and, subject to their availability, the Clearing House resources as set out in Rule 15 of the Default 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.
- (f) 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:
 - (i) in the event that a bid was accepted, the Clearing House will notify those Currency Participants in the ~~Expected~~relevant Auction ParticipantsCurrency 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;
 - (ii) in the event that no bid was accepted, the Clearing House will notify all SCMs of the details of any further Auction.
- (g) 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 ~~an Expected Auction~~a Currency Participant.

2.4 *Auction Incentive Pools*

- (a) 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.
- (b) For each AIP, the resources shall be allocated as follows:
 - (i) 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 15(a) of the Default Rules and (ii) the SwapClear Contribution made by the Defaulting SCM to the SwapClear Default Fund) available pursuant to Rule 15(b) of the Default 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 15(c) of the Default 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

- (ii) 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 Rules (the "**Potential Unfunded Contributions**") will, subject to Schedule 22.4(c) below, be allocated between ~~each AIP~~ the AIPs relating to ~~an~~ the Auction Portfolios in ~~respect of~~ which the relevant SCM ~~has Resembling Contracts~~ is a Currency Participant based on the proportion that: (a) the risk of the Resembling SwapClear Contracts of such SCM ~~related to~~ denominated in the relevant Auction Portfolio currency bears to (b) the aggregate of the amounts calculated in (a) ~~for all of the Resembling Contracts of such SCM; provided that where there is more than one Auction Portfolio that corresponds to the same Resembling Contracts, the Non-Defaulter's Contributions and Potential Unfunded Contributions allocated to the AIP related to those Resembling Contracts will be further divided for the purposes of allocation into AIPs relating to the~~ in respect of each currency in which 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 (SCM; is a)~~ for each of the Auction Portfolios corresponding to the relevant Resembling Contracts Currency Participant.
- (c) 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*

- (a) 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 Rule 2.5(b) to 2.5(h) of this Annex.
- (b) For each Auction Portfolio, losses to the Clearing House will be met using the resources as set out in Rule 15. 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 (i) and (ii) of Rule 2.4(b) 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 Rules 15(a), 15(b) and 15(c) until such time as all Initial Resources have been fully utilised.

- (c) 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:
- (i) the Auction Losses will be attributed to the Relevant Original Contributions of those SCMs who are ~~Expected-Auction-Currency~~ Participants in ~~respect of the relevant Auction Portfolio~~ 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 ~~Expected-Auction~~ Currency Participants in respect of the relevant Auction ~~Portfolio~~ Currency and who did not bid in the relevant Auction;
- (ii) 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)(f) of Rule 2.5(f) of this Annex the term "**Short Bidder**" means any SCM who is ~~an Expected-Auction-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(d) 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 ~~Portfolio~~-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 Portfolio 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

- (iii) 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 ~~was~~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; ~~and~~.

~~(iv) 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 ~~containing SwapClear Contracts denominated in the same Auction Portfolio Currency and belonging to the same Auction Portfolio Category as the relevant Auction Portfolio~~ in which the Relevant Original Contributions have not been fully utilised, the Clearing House shall attribute the remaining Auctions Losses amongst such Remaining Original Contributions through the attribution process set out in sub-paragraphs (i) to (iii) above.

- (d) If and to the extent that there are Auction Losses outstanding following the attribution process referred to in Rule 2.5(c) above, those Auction Losses will be attributed to the Original Contributions of those SCMs ~~(each a "Losing Original SCM")~~ who ~~have Resembling Contracts~~are Currency Participants in

~~respect of any of the other~~ Auction ~~Portfolios~~Currency in relation to which Auction Losses have arisen to the extent that Non-Defaulters' Contributions must be utilised (each a "Losing AP Type 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(d) based upon the proportion that: (a) the risk of all of the ~~Resembling Swap Clear~~ Contracts of such SCM denominated in respect each of ~~all such the~~ Losing AP Types 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(d) until the first to occur of (a) the Auction Losses being fully met; and (b) the Original Contributions of all Losing Original SCMs being fully attributed.

- (e) If and to the extent that there are Auction Losses outstanding following the attribution process referred to in 2.5(d) above, those remaining Auction Losses will be allocated to the Original Contributions of each SCM who is not a ~~Losing Original SCM~~Currency Participant in ~~respect of~~ any of the Losing AP Types 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.
- (f) If and to the extent that there are Auction Losses outstanding following the attribution process referred to in Rule 2.5(d) 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:
 - (i) the Auction Losses will be attributed to the Relevant Unfunded Contributions of those SCMs who are ~~Expected Auction Currency~~ Participants in ~~respect of the relevant~~ Auction ~~Portfolio~~Currency and who did not bid in the relevant Auction. Auction Losses will be attributed to the Relevant Unfunded Contribution 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 ~~Expected Auction Currency~~ Participants in ~~respect of the relevant~~ Auction ~~Portfolio~~Currency and who did not bid in the relevant Auction;
 - (ii) 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 ~~Portfolio~~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 ~~Portfolio~~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

- (iii) 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 ~~was~~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; ~~and~~

~~(iv) if~~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 ~~containing SwapClear Contracts denominated~~ in the same Auction Portfolio Currency ~~and belonging to the same Auction Portfolio Category as the relevant Auction Portfolio~~ 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.

- (g) If and to the extent that there are Auction Losses outstanding following the attribution process referred to in Rule 2.5(f) above, those Auction Losses will be attributed to the SwapClear Unfunded Contributions of those SCMs ~~(each a "Losing Unfunded SCM")~~ who ~~have Resembling Contracts~~are Currency Participants in ~~respect of any of the other~~ Losing AP Types 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(g) based upon the proportion that: (a) the risk of all of the ~~Resembling SwapClear~~ Contracts of such SCM denominated in respect each of all such the Losing ~~AP Types~~ 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(g) 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.

(h) If and to the extent that there are Auction Losses outstanding following the attribution process referred to in Rule 2.5(g) above, those remaining Auction Losses will be allocated to the SwapClear Unfunded Contributions of each SCM who is not a ~~Losing Unfunded SCM~~ Currency Participant in ~~respect of~~ any of the Losing ~~AP Types~~ 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 ~~(i) the SwapClear Contracts in an Auction Portfolio or (ii) the Resembling Contracts 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 Client Clearing 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 Client Clearing Business shall involve the stages described in the Client Clearing Annex (which such stages, for the avoidance of doubt, will result in a SwapClear Contract in respect of SwapClear Client Clearing Business being dealt with in accordance with Rule 2 above in the event that it cannot be ported by the Clearing House).

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 13(e) (*Transfer*). The provisions of Default Rule 10 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 paid or received in respect of variation margin in relation to the SwapClear Contracts of the Defaulting SCM representing such new positions.

Appendix A-3 (Procedure Section 2C)



LCH.CLEARNET LIMITED

PROCEDURES SECTION 2C

SWAPCLEAR CLEARING SERVICE

in Section 1.8.4, 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.

(b) *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.

(c) *Negative Interest Rate Method*

SCMs should note the provisions of section 3.3 of Part A of the Product Specific Contract Terms and Eligibility Criteria Manual as published on the Clearing House's website 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.

~~1.8.13 Calculation of Inflation Indices~~

~~(a) The Index level used for calculating the Floating Rate is determined according to the 2008 ISDA Inflation Definitions. The descriptions of the relevant Indices for the purposes of these calculations are as follows:~~

~~(i) "EUR Excluding Tobacco Non-revised Consumer Price Index" means the "Non-revised Index of Consumer Prices excluding Tobacco", or relevant Successor Index, measuring the rate of inflation in the European Monetary Union excluding tobacco, expressed as an index and published by the relevant Index Sponsor. The first publication or announcement of a level of such index for a Reference Month shall be final and conclusive and later revisions to the level for such Reference Month will not be used in any calculations.~~

~~(ii) "FRC Excluding Tobacco Non-Revised Consumer Price Index" means the "Non-revised Index of Consumer Prices excluding Tobacco", or relevant Successor Index, measuring the rate of inflation in France excluding tobacco expressed as an index and published by the relevant Index Sponsor. The first publication or announcement of a level of such index for a~~

~~Reference Month shall be final and conclusive and later revisions to the level for such Reference Month will not be used in any calculations.~~

~~(iii) “GBP Non-revised Retail Price Index (UKRPI)” means the “Non-revised Retail Price Index All Items in the United Kingdom”, or relevant Successor Index, measuring the all items rate of inflation in the United Kingdom expressed as an index and published by the relevant Index Sponsor. The first publication or announcement of a level of such index for a Reference Month shall be final and conclusive and later revisions to the level for such Reference Month will not be used in any calculations.~~

~~(iv) “USA Non-revised Consumer Price Index – Urban (CPI-U)” means the “Non-revised index of Consumer Prices for All Urban Consumers (CPI-U) before seasonal adjustment”, or relevant Successor Index, measuring the rate of inflation in the United States expressed as an index and published by the relevant Index Sponsor. The first publication or announcement of a level of such index for such Reference Month shall be final and conclusive and later revisions to the level for such Reference Month will not be used in any calculations.~~

~~1.8.14 Index Final~~

~~The Clearing House will calculate the Index Final by taking the relevant Index level for the applicable Reference Month. In the event of no Index being available the Clearing House will, at its sole discretion, determine a value for the Index level.~~

1.9 Initial Margin

The Clearing House will require SCMs to 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 Proprietary Accounts and for each Individual Segregated Client Account and Omnibus Segregated Account (other than an Affiliated Client Omnibus Gross Segregated Account). In respect of each Omnibus Gross Segregated Clearing Client (other than a Combined Omnibus Gross Segregated Clearing Client) separate initial margin calculations are performed in respect of the SwapClear Contracts entered into by the relevant SCM on behalf of such Omnibus Gross Segregated Clearing Client. In respect of a group of Combined Omnibus Gross Segregated Clearing Clients a single initial margin calculation is performed in respect of SwapClear Contracts entered into by the relevant SCM on behalf of such Combined Omnibus Gross Segregated Clearing Clients.

1.9.5 Calculation of Initial Margin

(a) Portfolio Approach to Interest Rate Scenarios (PAIRS)

PAIRS is a historical model which takes historical events that occurred within the look-back period and from these calculates initial margin in line with the Clearing House's risk policies (which also take into account regulatory requirements). All positions in each currency are revalued under a series of scaled historical market moves and initial margin is calculated as the Expected Shortfall (ES) of the portfolio. 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 SwapClear Risk on +44 (0)20 7 426 7549.

1.10 Tenor Basis Risk Margin Add-on

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

1.11 Intra-Day Margin Call: Collateral Management

The methods for covering intra-day margin calls are set out in Section 1.11 of Procedure 4 (*Margin and Collateral*).

1.12 Price Alignment Interest (PAI) Rate

To minimise the impact of daily cash variation margin payments on the pricing of interest rate ~~swaps and inflation~~ swaps, the Clearing House will charge interest on cumulative amounts in respect of variation margin received by the Clearing Member and pay interest on cumulative amounts in respect 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 and published on the Clearing House's website.

The Clearing House shall not change the interest rates used for the calculation of PAI in respect of USD, EUR, GBP, JPY and CHF without the consent of all SwapClear Clearing Members holding open contracts in such currencies.

1.13 Transfer of SwapClear Contracts between Client Accounts and Proprietary Accounts

1.13.1 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 (i) is a party to Related SwapClear Contracts and (ii) at the time of such early termination date, is not a Defaulting SCM, that SwapClear Clearing Member may instruct the Clearing House to transfer the relevant Related SwapClear Contracts from its Client Account to its Proprietary Account.

Appendix A-4 (Product Specific Contract Terms And Eligibility Criteria Manual)

**PRODUCT SPECIFIC CONTRACT TERMS AND ELIGIBILITY CRITERIA
MANUAL**

SCHEDULE 2 SWAPCLEAR

PART A SWAPCLEAR CONTRACT TERMS

The terms of a registered SwapClear Contract shall include these SwapClear Contract Terms which shall comprise:

- (1) Interpretation; and
- (2) Economic Terms; and
- (3) Standard Terms.

In the event of any inconsistency between the Economic Terms and the Standard Terms, the Standard Terms will prevail.

Subject to the Regulations and the Procedures, the Clearing House will use the SwapClear Contract Terms applicable to a SwapClear Contract to calculate the amounts due under the SwapClear Contract to, or from, the Clearing House in accordance with the Procedures.

1. Interpretation

- 1.1 "ISDA 2000 Definitions" means the 2000 ISDA Definitions as published by the International Swaps and Derivatives Association, Inc. ("ISDA"), and the same are incorporated by reference herein; "ISDA 2006 Definitions" means the 2006 ISDA Definitions as published by ISDA, ~~and the same are incorporated by reference herein; and "ISDA 2008 Inflation Definitions" means the 2008 ISDA Inflation Derivatives Definitions as published by ISDA,~~ and the same are incorporated by reference herein.
- 1.2 Words and expressions used in these SwapClear Contract Terms which are not defined in the Regulations and the Procedures but which are defined in the "ISDA 2000 Definitions"; or the "ISDA 2006 Definitions" ~~or the "ISDA 2008 Inflation Definitions"~~ shall have the same meaning herein as in the ISDA 2000 Definitions, ~~the ISDA 2006 Definitions or the ISDA 2008 Inflation~~ 2006 Definitions as the case may be, unless expressly provided otherwise. For the avoidance of doubt where the SwapClear Contract identifies the ISDA 2000 Definitions as being applicable to that SwapClear Contract then those definitions will apply; and where the SwapClear Contract identifies the ISDA 2006 Definitions as being applicable to that SwapClear Contract then those definitions will apply ~~and where the SwapClear Contract identifies the ISDA 2008 Inflation Definitions as being applicable to that SwapClear Contract then those definitions will apply.~~
- 1.3 In the event of an inconsistency between the Regulations and the Procedures and any of the ISDA 2000 Definitions; or the ISDA 2006 Definitions ~~or the ISDA 2008 Inflation Definitions~~, the Regulations and Procedures will prevail. ~~In the event of an inconsistency between either the ISDA 2000 Definitions or the ISDA 2006 Definitions and the ISDA 2008 Inflation Definitions, the ISDA 2008 Inflation Definitions will (where they are applicable) prevail.~~

- 1.4 References in the ISDA 2000 Definitions and the ISDA 2006 Definitions to a "Swap Transaction" ~~and references in the ISDA 2008 Inflation Definitions to an "Index Transaction"~~² shall be deemed to be references to a "SwapClear Transaction" for the purposes of SwapClear.
- 1.5 Except where expressly stated otherwise, all reference to "Articles" means Articles in the ISDA 2000 Definitions, ~~the ISDA 2006 Definitions~~ or the ISDA ~~2008 Inflation~~2006 Definitions as the case may be as published by ISDA.
- 1.6 In relation to any amendments to either the ISDA 2000 Definitions, ~~the ISDA 2006 Definitions~~ or the ISDA ~~2008 Inflation~~2006 Definitions, the Clearing House may from time to time, by notice delivered to the SwapClear Clearing Members and the SwapClear Dealers, give directions as to whether such amendment shall apply to SwapClear Contracts with immediate effect or with such deferred effect as the Clearing House shall determine. Any such notice may provide that the amendment to the ISDA 2000 Definitions, ~~the ISDA 2006 Definitions~~ or the ISDA ~~2008 Inflation~~2006 Definitions may take effect so as to apply to SwapClear Contracts registered in a SwapClear Clearing Member's name at the time such amendment comes into effect if the Clearing House so determines and the accidental omission to give notice under this provision to, or the non-receipt of notice under this provision by, any SwapClear Clearing Member or SwapClear Dealer shall not invalidate the amendment with which the notice is concerned.

2. Economic Terms

- 2.1 The Economic Terms of a SwapClear Contract shall be derived from the information presented to the Clearing House by the parties to the corresponding SwapClear Transaction in respect of the terms designated as Economic Terms in this Schedule.
- 2.2 It is part of the eligibility criteria for registration as a SwapClear Contract that the particulars of a SwapClear Transaction presented to the Clearing House must include matched information in respect of such designated Economic Terms, except that information in respect of (i) (viii) OR (ix) (not both) of 2.3 below for vanilla interest rate swaps with constant notional principal and variable notional swaps and (n) or (o) (not both) of 2.4 below in relation to forward rate agreements must be provided.
- 2.3 The Economic Terms for vanilla interest rate swaps with constant notional principal and variable notional swaps comprise:
- (a) Notional Amount (see Article 4.7) of the ISDA 2000 Definitions and Article 4.7 of the ISDA 2006 Definitions for definition) (for variable notional swaps, the Notional Amount can be set out in a Notional Amount Schedule)¹
 - (b) Currency (see Article 1.7 of the ISDA 2000 Definitions and Article 1.7 of the ISDA 2006 Definitions for definition);

¹ SwapClear will accept IRS, Basis or zero coupon swaps with a Notional Amount which for each payment calculation period may remain unchanged, increase or decrease relative to its previous value. The changes in notional can only take place at the calculation period start dates and must be pre-determined at the point of registration. The notional schedule will be applied at the start of the corresponding calculation period, adjusted (or unadjusted) with the calculation period calendar specified in the trade. Notional schedules need not be identical for the two legs of the trade.

- (ii) Floating Rate Payer 2 (see Article 2.2 of the ISDA 2000 Definitions and Article 2.2 of the ISDA 2006 Definitions for definition):
 - (a) Floating Rate Payer Payment Dates;
 - (b) Floating Rate Payer compounding dates (if applicable);
 - (c) Floating Rate Option (see Article 6.2(i) of the ISDA 2000 Definitions and Article 6.2(h) of the ISDA 2006 Definitions for definition)

(Note: The details of each such option are as provided in the Procedures)

 - (d) Designated Maturity (see Article 7.3(b) of the "Annex to the 2000 ISDA Definitions (June 2000 version)" and Article 7.3(b) of the ISDA 2006 Definitions for definition);
 - (e) Spread (see Article 6.2(f) of the ISDA 2000 Definitions and Article 6.2(e) of the ISDA 2006 Definitions for definition);⁵
 - (f) Reset Dates (see Article 6.2(b) of the ISDA 2000 Definitions and Article 6.2(b) of the ISDA 2006 Definitions for definition);
 - (g) Floating Rate Day Count Fraction (see Article 6.2(g) of the ISDA 2000 Definitions and Article 6.2(f) of the ISDA 2006 Definitions for definition)).

~~SwapClear Contracts registered by the Clearing House in respect of such vanilla interest rate swaps with constant notional principal or in respect of such variable notional swaps constitute "IRS SwapClear Contracts".~~

2.4 The Economic Terms for Forward Rate Agreements (using only the ISDA 2006 Definitions) comprise:

- (a) Notional Amount (see Article 4.7 for definition);
- (b) Currency (see Article 1.7 for definition);
- (c) Trade Date (see Article 3.7 for definition);
- (d) Effective Date (see Article 3.2 for definition);
- (e) Termination Date (see Article 3.3 for definition);
- (f) Additional Payments/Fees:
 - (i) the Payer of the Additional Payments/Fees (if any);

⁵ SwapClear will accept IRS, Basis or zero coupon variable notional swaps with a floating rate spread on the floating leg which for each calculation and/or compounding period may remain unchanged, increase or decrease relative to its previous value. The spread can be negative. Where such spread is variable it can be set out in a Spread schedule.

- (ii) the amount of the Additional Payments/Fees (specify zero if none).
- (g) Business Days (see Article 1.4 for definition);
- (h) Business Day Convention (see Article 4.12 for definition);
- (i) Fixed Rate Payer (see Article 2.1 for definition);
- (j) Fixed Rate Payer Payment Dates;
- (k) Fixed Rate
- (l) Floating Rate Payer (see Article 2.2 for definition);
- (m) Floating Rate Payer Payment Dates;
- (n) Floating Rate Option (see Article 6.2(i) for definition);
- (o) Designated Maturity (see Article 7.3(b) for definition);
- (p) Spread (see Article 6.2(f) for definition);
- (q) Reset Dates (see Article 6.2(b) for definition);
- (r) Floating Rate Day Count Fraction (see Article 6.2(g) for definition).
- (s) FRA Discounting (see Article 8.4(b) for definition):
- (t) Discount Rate (see Article 8.4(c) for definition):
- (u) Discount Rate Day Count Fraction (see Article 8.4(d) for definition):
- (v) FRA Yield Discounting (see Article 8.4(e) for definition):

In respect of forward rate agreements either (s) or (v) but not both should be selected.

~~SwapClear Contracts registered by the Clearing House in respect of such forward rate agreements constitute "IRS SwapClear Contracts".~~

~~2.5 The Economic Terms for vanilla inflation swaps with constant notional principal comprise:~~

- ~~(a) Notional Amount (see Article 4.7 of the ISDA 2000 Definitions and Article 4.7 of the ISDA 2006 Definitions for definition);~~
- ~~(b) Currency (see Article 1.7 of the ISDA 2000 Definitions and Article 1.7 of the ISDA 2006 Definitions for definition);~~
- ~~(c) Trade Date (see Article 3.7 of the ISDA 2000 Definitions and Article 3.7 of the ISDA 2006 Definitions for definition);~~

- ~~(d) — Effective Date (see Article 3.2 of the ISDA 2000 Definitions and Article 3.2 of the ISDA 2006 Definitions for definition);~~
- ~~(e) — Termination Date (see Article 3.3 of the ISDA 2000 Definitions and Article 3.3 of the ISDA 2006 Definitions for definition);~~
- ~~(f) — Additional Payments/Fees:

 - ~~(i) — the Payer of the Additional Payments/Fees (if any);~~
 - ~~(ii) — the amount of the Additional Payments/Fees (specify zero if none);~~~~
- ~~(g) — Business Days (see Article 1.4 of the ISDA 2000 Definitions and Article 1.4 of the ISDA 2006 Definitions for definition);~~
- ~~(h) — Business Day Convention (see Article 4.12 of the ISDA 2000 Definitions and Article 4.12 of the ISDA 2006 Definitions for definition);~~
- ~~(i) — Where Fixed Rate Floating Rate Swap:

 - ~~(i) — Fixed Rate Payer (see Article 2.1 of the ISDA 2000 Definitions and Article 2.1 of the ISDA 2006 Definitions for definition);

 - ~~(a) — Fixed Rate Payer Payment Date;~~
 - ~~(b) — Fixed Amount (see Article 4.4 of the ISDA 2006 Definitions for definition) [or Fixed Rate and Fixed Rate Day Count Fraction][or Fixed Rate Payer Schedule]~~~~
 - ~~(ii) — Floating Rate Payer (see Article 2.2 of the ISDA 2006 Definitions for definition);

 - ~~(a) — Floating Rate Payer Payment Date;~~
 - ~~(b) — Index (see Article 1, Section 1.4 of the ISDA 2008 Inflation Definitions for definition);~~
 - ~~(Note: The details of each Index are as provided in the Procedures);~~
 - ~~(c) — Index Initial (being the Index level for the specified Reference Month (see Article 1, Section 1.7 of the ISDA 2008 Inflation Definitions for definition) or the specified Index level);~~
 - ~~(d) — Index Final (being the Index level for the specified Reference Month (see Article 1, Section 1.7 of the ISDA 2008 Inflation Definitions for definition));~~
 - ~~(e) — Information source (if applicable); and~~
 - ~~(f) — Interpolation (if applicable);~~~~~~

~~Provided, however, that, as set out more particularly in Regulation 16, where the SwapClear Transaction specifies a SwapClear Dealer as the party paying Rate X (the~~

~~"First SwapClear Dealer"), with the other SwapClear Dealer as the party paying Rate Y (the "Second SwapClear Dealer"), the Clearing House, in respect of each SwapClear Contract it is party to pursuant to the corresponding SwapClear Transaction, shall be (i) the party paying Rate Y to the First SwapClear Dealer, or its SwapClear Clearing Member, as applicable, under the SwapClear Contract; and (ii) the party paying Rate X to the Second SwapClear Dealer, or its SwapClear Clearing Member, as applicable, under the SwapClear Contract.~~

~~SwapClear Contracts registered by the Clearing House in respect of such vanilla inflation swaps with constant notional principal constitute "Inflation SwapClear Contracts".~~

2.62.5 *Financial Centres*

Detail of the relevant financial centre/s must be provided using the appropriate Markitwire/FpML code as set out below:

Financial Centre	Markitwire/FpML
Sydney	AUSY
Brussels	BEBR
Montreal	CAMO
Toronto	CATO
Geneva	CHGE
Zurich	CHZU
Prague	CZPR
Frankfurt	DEFR
Copenhagen	DKCO
Madrid	ESMA
Helsinki	FIHE
Paris	FRPA
London	GBLO
Hong Kong	HKHK
Budapest	HUBU
Milan	ITMI
Rome	ITRO
Tokyo	JPTO
Luxemburg	LULU
Amsterdam	NLAM
Oslo	NOOS
Auckland	NZAU

PART B
PRODUCT ELIGIBILITY CRITERIA FOR REGISTRATION OF A SWAPCLEAR CONTRACT

1. SwapClear Transaction

Without prejudice to the Regulations and the Procedures, the Clearing House will only register a SwapClear Contract pursuant to receipt of particulars of a transaction where at the time of the particulars being presented:

- (a) the transaction meets the eligibility criteria, set out in paragraphs 1.2(a), (b), ~~(c)~~ or ~~(d)~~ and 1.3, below for a SwapClear Transaction; and
- (b) each party to the transaction is either a SwapClear Dealer or a SwapClear Clearing Member (including an SCM Branch),

and the requirements of (a) and (b) continue to be satisfied at Registration Time.

1.2 SwapClear Product Eligibility Criteria for a SwapClear Transaction

- (a) Vanilla interest rate swaps with constant notional principal having the characteristics set out in the table below:

Instrument	Acceptable Currencies	Acceptable Indices ⁶	Types		Maximum Residual Term	Notional Amount (Min - Max of the relevant currency unit)
Vanilla interest rate swaps with constant notional principal	Sterling (GBP)	GBP-LIBOR-BBA	Fixed vs. Floating	Single currency	18,275 days	0.01-99,999,999,999.99
		See Article 7.1w(vii) for definition	Floating vs. Floating			
		GBP-WMBA-SONIA-COMPOUND	Fixed vs. Floating	Single Currency	10,970 days	
	US Dollar (USD)	USD-LIBOR-BBA	Fixed vs. Floating	Single currency	18,275 days	0.01-99,999,999,999.99
		See Article 7.1(ab)(xxii) for definition	Floating vs. Floating			
		USD-Federal Funds H.15-OIS-COMPOUND	Fixed vs. Floating	Single currency	10,970 days	
Euro (EUR)	EUR-LIBOR-BBA	Fixed vs. Floating	Single currency	18,275 days	0.01-99,999,999,999.99-	
	See Article 7.1(f)(vii) for	Floating vs. Floating				

⁶ References in this column are to the 2006 ISDA Definitions

(d) ~~Vanilla inflation rate swaps with constant notional principal having the characteristics set out in the table below;~~

Instrument	Acceptable Currencies	Acceptable Indices⁷	Types		Maximum Residual Term	Notional Amount (Min–Max of the relevant currency unit)
Vanilla inflation rate swaps with constant notional principal	GBP	GBP—Non-revised Retail Price Index (UKRPI) See Annex A (oo)(i) for definition	Fixed vs. Floating	Single currency	18,275 Days	0.01–99,999,999,999.99
Vanilla inflation rate swaps with constant notional principal	USD	USD Non-revised Consumer Price Index—Urban (CPI-U) See Annex A (pp)(i) for definition	Fixed vs. Floating	Single currency	10,970 Days	0.01–99,999,999,999.99
Vanilla inflation rate swaps with constant notional principal	EUR	FRC—Excluding Tobacco-Non-Revised Consumer Price Index See Annex A (l)(i) for definition	Fixed vs. Floating	Single currency	10,970 Days	0.01–99,999,999,999.99
Vanilla inflation rate swaps with constant notional principal	EUR	EUR—Excluding Tobacco-Non-revised Consumer Price Index See Annex A (j)(i) for definition	Fixed vs. Floating	Single currency	10,970 Days	0.01–99,999,999,999.99

⁷ ~~References in this column are to the 2008 ISDA Inflation Derivatives Definitions~~

Fraction	SWIFT Code
Actual/365, Actual/Actual (See Article 4.16(b) for definition)	ACT/365
Actual/365 (Fixed) (See Article 4.16(c) for definition)	AFI/365
Actual/360 (See Article 4.16(d) for definition)	ACT/360
30/360,360/360, Bond Basis (See Article 4.16(e) for definition)	360/360
30E/360 (See Article 4.16(f) for definition)	30E/360

2.1.2 *Business Day Conventions*

The Business Day Convention specified in the Economic Terms must be one of the following:

Following (see Article 4.12(i) of the ISDA 2000 Definitions and Article 4.12 (i) of the ISDA 2006 Definitions for definition)

Modified Following (see Article 4.12(ii) of the ISDA 2000 Definitions and Article 4.12(ii) of the ISDA 2006 Definitions for definition)

Preceding (see Article 4.12(iii) of the ISDA 2000 Definitions and Article 4.12(iii) of the ISDA 2006 Definitions for definition)

For ~~inflation swaps and~~ vanilla interest rate swaps with constant notional principal SwapClear does not support trades where a different business day convention is used for:

fixed period end dates and the termination date

float period end dates and the termination date

2.1.3 *Minimum and Maximum Residual Term of the Trade (Termination date – Today)*

Trades in respect of vanilla interest rate swaps with constant notional principal and variable notional swaps are subject to a minimum and maximum Residual Term on the day they are received by SwapClear.

Minimum Residual Term of trade:

Termination date - Today \geq 1 + currency settlement lag

where currency settlement lag is:

1 day for EUR, USD, GBP and CAD denominated trades

2 days for JPY, CHF, AUD, DKK, HKD, NZD, SEK, NOK, PLN, ZAR, SAD, HUF & CZK denominated trades

Maximum Residual Term of trade:

Termination date - Today <= 3,670 days for DKK, HKD, NOK, PLN, ZAR, SGD, HUF & CZK (10 years)

Termination date - Today <= 5,495 days for NZD

Termination date - Today <= 10,970 days for AUD, CAD, CHF & SEK (30 years)

Termination date – Today <= 14,620 days for JPY (40 years)

Termination date – Today <= 18,275 days for GBP, EUR & USD (50 years)

Maximum Residual Term to Maturity for Forward Rate Agreements

The maximum residual term to maturity for forward rate agreements is as follows:

<u>Currency</u>	<u>Maximum Residual Term to Maturity</u>
EUR, JPY, USD, GBP	1105 days (3 years)
CHF, DKK, NOK, PLN, SEK, CZK, HUF	740 days (2 years)

~~The Clearing House will accept inflation swaps for registration: (a) in the case of uninterpolated indices, up to the end of the month prior to the final Reference Month; and (b) in the case of interpolated indices, up to the end of the final Reference Month.~~

2.1.4 *Designated Maturity*

The Designated Maturity must be no less than one month and no more than twelve months. The Clearing House will, excepting stub periods, only accept a Designated Maturity that is a whole calendar month.

2.1.5 *Calculation Periods*

(See Article 4.13 of the ISDA 2000 Definitions and Article 4.13 of the ISDA 2006 Definitions for definition.)

For vanilla interest rate swaps with constant notional principal and variable notional swaps the Clearing House will only accept non standard Calculation Periods ("**stub periods**") at either the start or end of the contract. Transactions with stub periods at both the start and end of the transaction will not be eligible as SwapClear Transactions.

For variable notional swaps the stub rate should be detailed either as a percentage (i.e. 5.5 per cent.), an interpolation (i.e. 1 month/3 months) or as a designated maturity (i.e. 1 month). Stub Rates within the Final Stub are calculated via interpolation or as a designated maturity.

For interpolated coupons, payment dates must fall between the rolled dates, according to the Modified Following business day convention, of the specified designated maturities. Where this does not occur and extrapolation would be required, SwapClear will reject the trade.