



VIA EMAIL TO: SECRETARY@CFTC.GOV

June 30, 2014

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

Dear Ms. Jurgens:

Pursuant to CFTC regulation §40.6(a), LCH.Clearnet LLC ("LCH.Clearnet"), a derivatives clearing organization registered with the Commodity Futures Trading Commission (the "CFTC"), is submitting for self-certification changes to the Clearing House Rulebook described in full below. The Rulebook changes will be effective on July 15th, 2014.

A black-lined version of the relevant pages of the Clearing House Procedures and Regulations (together the Clearing House Rulebook) are attached hereto as appendices.

Part I: Explanation and Analysis

Introduction

LCH.Clearnet is making a number of changes to the Clearing House Rulebook as described below:

Part II: Description of rule changes

- Security Interest (Regulation 106 and associated Definitions): The Rulebook requires certain corrections vis-à-vis the treatment of cash collateral and default fund contributions as there is currently some ambiguity as to whether cash collateral and default fund contributions are delivered by way of title transfer or pledge. While it is clear in most of the Rulebook that cash collateral can be invested (subject to applicable laws), and that default fund contributions are delivered by way of title transfer, clarifications are needed to remove contradictory language and remove any ambiguity.
- FDICIA (Regulation 117): The Federal Deposit Insurance Corporation Improvement Act (FDICIA) clarifies the nature of the relationship between a clearing organization and its clearing members in several contexts, most significantly in the bankruptcy of a U.S. clearing member. In this regard, FDICIA is the legislation that provides for the enforceability of netting and security enforcement provisions. We have included an additional FDICIA provision in order to facilitate the issuance of clean legal opinions under U.S. Federal law.
- Removal of Ballot Provisions (Regulation 321): LCH.Clearnet Limited recently removed provisions in its documentation that required a ballot of clearing members be carried out when certain changes were made to its default funds. In order to ensure harmonization between LCH.Clearnet Limited and LCH.Clearnet, similar changes are now being made for LCH.Clearnet.

- Bankruptcy Representations (Procedures – sections 1.7 and 1.8): LCH.Clearnet obliges clearing members (FCM and non-FCM) to comply with certain legislation in connection with the signing of the Clearing Membership Agreement and the entering into of transactions that are submitted for clearing. These representations relate to clearing members' internal approvals and record keeping requirements.
- Investment Act (Procedures – section 2A.19): In order to clear for a registered investment company, as defined under the Investment Company Act 1940 (a "40 Act Fund"), LCH.Clearnet is required by the U.S. Securities and Exchange Commission to ensure that FCM Clearing Members include certain provisions in their agreements with those 40 Act Funds. These are now being included as an explicit rulebook requirement.

Part III: Core Principle Compliance

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

Part IV: Public Information

LCH.Clearnet has posted a notice of pending certification with the CFTC and a copy of the submission on LCH.Clearnet's website at:

http://www.lchclearnet.com/rules_and_regulations/lc/default.asp.

Part V: Opposing Views

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

Certification

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

Should you have any questions please contact me at suprio.chaudhuri@lchclearnet.com

Yours sincerely,



Suprio Chaudhuri
Chief Compliance Officer
US Contact: +1 212.513.8264

cc: Shawn Durrani, CFTC



Appendix I
Submission Cover Sheet



Appendix II
LCH.Clearnet LLC Rulebook

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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.

- 1.5.3 Pursuant to and in accordance with Regulation 106(n), where a Client enters into a SwapClear Transaction which results in a SwapClear Contract that is non-hedging in nature, the FCM Clearing Member shall collect from such Client additional Client Funds with a value that is 10% above the Clearing House's level of Required Margin in respect of the relevant SwapClear Contract (such total increased margin requirement being the "**Core Additional Requirement**"). In the event that, subsequently, the level of Required Margin in respect of a SwapClear Contract (without regard to the Core Additional Requirement) exceeds the Core Additional Requirement with respect to such SwapClear Contract (such subsequent margin requirement being the "**Revised Margin Requirement**"), the FCM Clearing Member shall collect Client Funds from its Client with a value that is 10% above the Revised Margin Requirement and going forward the Revised Margin Requirement shall henceforth constitute the Core Additional Requirement for purposes of this provision.

For the avoidance of doubt, this section and Regulation 106(m) do not require that FCM Clearing Members furnish the Clearing House with Excess Margin.

1.6 **Other Conditions**

The Clearing House may, at any time, impose additional conditions relating to continued Clearing Member status or SwapClear Dealer status, and at any time vary or withdraw any such conditions. These conditions may include, but are not limited to, a requirement to deposit additional security in cash or other collateral as determined by the Clearing House.

1.7 **12 U.S.C. § 5390(a)(6) and 12 U.S.C. § 5381(a)(11)**

Where a Clearing Member is a financial company as such term is defined in 12 U.S.C. § 5381(a)(11) it shall comply the requirements 12 U.S.C. § 5390(a)(6) with respect to the execution of the Clearing Membership Agreement and each Transaction that is cleared pursuant to the Clearing Membership Agreement and the Rulebook (and the grant of any related security interest to the Clearing House) and it shall be deemed to have confirmed that it complies with 12 U.S.C. § 5390(a)(6) each time that an transaction is submitted for clearing and it delivers Collateral to the Clearing House. For the avoidance of doubt, individual transactions need not be specifically approved by the Clearing Member's board of directors or any committee thereof so long as they are entered into pursuant to a Clearing Membership Agreement which was approved by the Clearing Member's board or the loan committee thereof

A Clearing Member that is a financial company as such term is defined in 12 U.S.C. § 5381(a)(11) is further required: (i) from the date of entry into the Clearing Membership Agreement (and the grant of any related security interest), to maintain the Clearing Membership Agreement continuously as an official record of that Clearing Member; and (B) from the date of submission of a transaction for clearing (and the grant of any related security interest), maintain each agreement evidencing each such transaction continuously as an official record of that Clearing Member.

1.8 Insured Depository Institutions

Where a Clearing Member is a financial company as such term is defined in U.S. Federal Deposit Insurance Act it shall comply the requirements of 12 U.S.C. § 1823(e) and the policy statements adopted by the Board of Directors of the Federal Deposit Insurance Corporation thereunder with respect to the execution of the Clearing Membership Agreement and each transaction that is cleared pursuant to the Clearing Membership Agreement and the Rulebook (and the grant of any related security interest to the Clearing House) and it shall be deemed to have confirmed that it complies with the requirements of 12 U.S.C. § 1823(e) and the policy statements adopted by the Board of Directors of the Federal Deposit Insurance Corporation thereunder each time that a transaction is submitted for clearing and that Clearing Member delivers Collateral to the Clearing House.

A Clearing Member that is a financial company as such term is defined in 12 U.S. Federal Deposit Insurance Act it is further required: (i) from the date of entry into the Clearing Membership Agreement (and the grant of any related security interest), to maintain the Clearing Membership Agreement continuously as an official record of that Clearing Member; and (B) from the date of submission of a transaction for clearing (and the grant of any related security interest), maintain each agreement evidencing each such transaction continuously as an official record of that Clearing Member.

in which a branch or office through which it is acting is located or by any other jurisdiction.

If any Clearing Member fails to pay a Tax required to be paid pursuant to the previous paragraph and a liability resulting from such Tax is assessed directly against the Clearing House, then, except to the extent the Clearing Member has satisfied or then satisfies the liability resulting from such Tax, the Clearing Member will promptly pay to the Clearing House the amount of such liability (including any related liability for interest, penalties and cost) plus any Tax imposed on the Clearing House with respect to the indemnity payment under this paragraph.

2A.19 Prescribed Terms

Pursuant to Regulation 103 the Clearing House may prescribe certain provisions that an FCM Clearing Member must include in its agreement with a Client.

Where an FCM Clearing Member provides Clearing Services to a Client that is a registered investment company, as defined in the Investment Company Act 1940, it shall include provisions in its agreement with that Client to the following effect:

- (a) the FCM Clearing Member shall comply with applicable law relating to the segregation of Client Funds including without limitation Part 22 of the CFTC Regulations;
- (b) Client Funds delivered by the Client shall be held in accordance with the CEA and the CFTC Regulations and the FCM Clearing Member shall obtain an acknowledgement, to the extent required by Parts 1.20 and 22 of the CFTC Regulations, that those Client Funds are being held in accordance with the CEA and the CFTC Regulations;
- (c) the FCM Clearing Member will promptly furnish copies of or extracts from its records or such other information pertaining to the Client's assets as the Securities Exchange Commission, through its employees or agents, may request;
- (d) any gains on SwapClear Contracts held on behalf of a Client (other than de minimis amounts) may be maintained by the FCM Clearing Member only until the next Business Day following receipt; and
- (e) the Client has the ability to withdraw its assets from the FCM Clearing Member as soon as reasonably practicable if the FCM Clearing Member's custody of Client Funds no longer meets the requirements of Rule 17f-6 under the Investment Company Act 1940.

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“Clearing House” means LCH.Clearnet LLC whose principal place of business is located at 17 State Street, 28th Floor, New York, NY 10004.

“Clearing Member” means a person that has been approved by the Clearing House as a “Clearing Member” and for the clearing of one or more categories of Contracts, in accordance with a Clearing Membership Agreement and the Rulebook.

“Clearing Membership Agreement” means the agreement so designated under which, inter alia, the Clearing House agrees to make available Clearing Services to a Clearing Member in respect of Contracts together with any ancillary agreements.

“Clearing Services” means SwapClear Clearing Services.

“Client” means a client of an FCM Clearing Member (but not including Affiliates of such FCM Clearing Member) with positions in Cleared Swaps, including Contracts, on behalf of which the FCM Clearing Member provides Clearing Services and clears Contracts; provided, that any such client is only a Client with respect to its positions in Cleared Swaps.

“Client Business” means the provision of Clearing Services by an FCM Clearing Member to its Clients.

“Client Funds” means all cash, securities, receivables, rights, intangibles and any other collateral or assets held by an FCM Clearing Member (i.e., not deposited with the Clearing House) on behalf of its Clients.

“Client Sub-Account” means an individual segregated sub-account on behalf of an individual Client, established on the books of the Clearing House as a sub-account of the relevant Omnibus Client Swaps Account with LCH of the relevant FCM Clearing Member, which shall reflect the relevant Margin balance attributable to such sub-account, and the relevant Contracts registered to such sub-account and carried for such Client by its FCM Clearing Member.

“Client Sub-Account Balance” means, at any given time, the Margin balance attributable to a Client Sub-Account of a Client, as determined by the Clearing House in accordance with the Rulebook. For the avoidance of doubt, a Client Sub-Account Balance at no time reflects the value of any Buffer (including Encumbered Buffer) or the value of any Unallocated Excess.

“Collateral” means the cash, securities or other collateral or assets deposited with or to be deposited with (as the context may require) the Clearing House by a Clearing Member or otherwise furnished or to be furnished (as the context may require), including any proceeds therefrom, to a Clearing Member’s Proprietary Account or its Omnibus Client Swaps Account with LCH for the purpose of margining, guaranteeing and/or securing Contracts for such accounts. The Clearing House will only credit deposited securities or other noncash collateral or assets as Collateral to the extent such securities or other noncash collateral or assets are acceptable forms of collateral as set forth in the Procedures or as otherwise explicitly permitted by the Clearing House. For the avoidance of doubt, Collateral will not include, and will not be comprised of, a Clearing Member’s Contribution.

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“Consent Required Clearing Member” has the meaning assigned to it in the Procedures.

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“Derivatives Clearing Organization” means an organization designated and registered as such by way of 7 U.S.C.A. § 1a(15).

“DF Collateral Agent” has the meaning assigned to it in Regulation 322321(b)(i).

“DF Security and Intercreditor Agreement” has the meaning assigned to it in Regulation 322321(b)(i).

“DMG” means the advisory Default Management Group which relates to both the SwapClear US Service and the SwapClear service of LCH.Clearnet Ltd., established jointly by the Clearing House and LCH.Clearnet Ltd. pursuant to the terms of Regulation 204(i) and the applicable provisions of the rules and regulations of LCH.Clearnet Ltd.

“Economic Terms” means that part of the SwapClear Contract Terms designated as Economic Terms by the Clearing House from time to time.

“Eligible US Trading Venue” means, in respect of a Clearing Member, a US Trading Venue for which the Clearing House’s records reflect that such Clearing Member has completed the Clearing House’s process for enabling the Clearing Member to be eligible to submit (or have submitted on its behalf) a transaction executed on such US Trading Venue to the Clearing House for registration.

“Encumbered Buffer” has the meaning assigned to it in Regulation 106(g)(iv)(A).

“End of Day” has the meaning assigned to it in Regulation 117(a)(i).

“Equal Bid” has the meaning assigned to it in Regulation 204(b)(iii)(E).

“Excess Loss” means the net sum or aggregate of net sums certified to be payable by a Defaulter by a Recourse Certificate less (x) the proportion of the Deductible applicable to Contract Business under Regulation 302(3) and (y) any sums then immediately payable in respect of Default Losses owed by such Defaulter by any insurer or provider of analogous services under any policy of insurance or analogous instrument written in favor of the Clearing House in relation to Default Losses.

“Excess Margin” means, (i) in respect of a Client Sub-Account, the amount (if any) by which the corresponding Client Sub-Account Balance exceeds the Required Margin applicable to the Contracts registered to such Client Sub-Account, and (ii) in respect of a Clearing Member’s Proprietary Account, the amount (if any) by which the Margin balance of such Proprietary Account exceeds the Required Margin applicable to the Contracts registered to such Proprietary Account, each as determined by the Clearing House in accordance with the Rulebook.

“Executing Party” means any party to a swap transaction (including swap transactions which are contingent on or pending clearing), whether executed bilaterally or on or through an Approved Trade Source System, that is presented to the Clearing House as a Transaction and with respect to which each party to such transaction applies to have its respective side of such transaction registered with the Clearing House (through a Clearing Member or on its own behalf as a Clearing Member, as applicable) as a Contract.

“FCM” means a futures commission merchant, as defined in the CEA and the CFTC Regulations thereunder, that is registered in such capacity with the CFTC.

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Regulation 106 Margin; Other Obligations

- (a) The Clearing House may in accordance with the Procedures require a Clearing Member to furnish it with Margin (by the deposit of Collateral), and to keep the Clearing House furnished with Margin in an amount no less than the Required Margin at all times, such amount determined by the Clearing House in accordance with the Rulebook, as security for the performance by such Clearing Member of its obligations to the Clearing House in respect of all Contracts from time to time registered, or to be registered, in its name. The obligation upon a Clearing Member to furnish Margin to the Clearing House pursuant to this paragraph shall be in addition to any other obligation of the Clearing Member to furnish Margin to the Clearing House pursuant to these Regulations.
- (b) The Clearing House shall establish and modify margin requirements in respect of Contracts from time to time in its sole discretion and as set out in the Procedures. Margin shall be furnished by the Clearing Member in such form and manner and by such time or times as may be prescribed by the Procedures or otherwise communicated to a Clearing Member by the Clearing House.
- (c) Beneficial Ownership of Collateral Furnished.
 - (i) The Clearing House shall be entitled to assume that all Collateral furnished by a Clearing Member to the Clearing House pursuant to these Regulations or under the terms of any agreement made with the Clearing Member are the sole legal and beneficial property of the Clearing Member or are furnished for the purposes of these Regulations with the legal and beneficial owner's unconditional consent and with the authority granted to the Clearing Member to repledge such property to the Clearing House. A Clearing Member may not furnish Collateral to the Clearing House otherwise than in conformance with this paragraph. It shall be accepted by every person (including Clients and SwapClear Dealers) subject to or dealing on the terms of these Regulations that a Clearing Member has such person's unconditional consent to furnish to the Clearing House any securities or other assets of such person in the Clearing Member's possession as Collateral for the purposes of these Regulations.
 - (ii) Each Clearing Member represents and warrants to the Clearing House as at each date on which such Clearing Member furnishes Collateral to the Clearing House pursuant to these Regulations (A) that such Clearing Member is the sole legal and beneficial owner of such Collateral or, as the case may be, such Collateral is so furnished or deposited with the legal and beneficial owner's unconditional consent and with the authority granted to the Clearing Member to repledge such property to the Clearing House, and (B) that the provision to the Clearing House of such Collateral 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 Clearing Member to furnish other securities or assets to the Clearing House in substitution of any Collateral furnished to the Clearing House pursuant to this Regulation 106.

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- (d) The Clearing House shall be entitled to, in its absolute discretion in accordance with the Procedures and without assigning any reason and without prior notice to a Clearing Member, modify its margin requirements applicable to a Contract or to call for larger or additional amounts of Initial Margin to be furnished to it by a Clearing Member, either before registration of a Contract or at any time after registration. Without limitation of the foregoing, the Clearing House shall attempt to provide advance notice of the modified margin requirements to the applicable Clearing Member where reasonably practicable. Any Margin called by the Clearing House pursuant to this paragraph shall be furnished by the Clearing Member on demand and in such form as the Clearing House may require.
- (e) The Clearing House shall be entitled at any time to demand immediate provision of Margin from a Clearing Member in an amount deemed necessary by the Clearing House without reference to an NPV in respect of any Contract in the Clearing Member's name, if, in the opinion of the Clearing House, the furnishing of such Margin by the Clearing 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 Clearing 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.
- (f) Without prejudice to the requirements of paragraph (c) above or any other applicable requirements contained in the Rulebook, the Clearing House may at its absolute discretion accept Collateral in an agreed amount and 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 in accordance with its standard risk management procedures and with 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.
- (g) If, in the sole discretion of the Clearing House, any Collateral which has been furnished to it by a Clearing Member 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 Collateral from such Clearing Member. Such Collateral shall be furnished by such Clearing Member on demand in a form prescribed by the Procedures; provided, that at any time the Clearing House shall be entitled to require the Clearing Member to furnish it with Collateral in a specified form and to demand that the Clearing Member replace the whole or part of any Collateral furnished by a Clearing Member pursuant to these Regulations with collateral in the form of cash.
- (h) Without prejudice to the requirements of paragraph (c) above or any other applicable requirements contained in the Rulebook, and subject to Regulation 106A below and the settlement of any other obligations of a Clearing Member to the Clearing House, upon the close-out or termination of a Contract in accordance with the Rulebook, the Clearing House shall return all (or the applicable portion of) Initial Margin attributable to such Contract to the respective Clearing Member to the extent such Initial Margin has become Excess Margin following the close-out or termination of the relevant Contract; provided, that such Clearing Member is not a Defaulter.

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- (i) If the Clearing House takes any step under the Default Regulations in relation to a Clearing Member, any sum (including 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 Clearing Member) standing to the credit of any of the Clearing Member's accounts shall be treated as Margin; provided, that under no circumstances will any Margin maintained in an Omnibus Client Swaps Accounts with LCH (in the case of an FCM Clearing Member) be applied to satisfy proprietary obligations of the FCM Clearing Member or any other obligations not related to such FCM Clearing Member's Client Business.
- (j) Each Clearing Member shall be entitled to the return of any amounts due to it (after all obligations of such Clearing Member to the Clearing House have been satisfied) pursuant to the Rulebook.
- (k) Unless the Clearing House otherwise agrees in writing, Collateral provided to the Clearing House in the form of cash shall not be capable of assignment by any person. Any purported assignment by a Clearing Member (whether by way of security or otherwise) of Collateral in the form of cash shall be void. A Clearing Member shall not otherwise encumber (or seek to encumber) any Collateral in the form of cash.

(l) Creation of Security Interest.

(i) Each Clearing Member hereby grants the Clearing House a first priority security interest in and a first priority and unencumbered first lien upon any and all Collateral, Margin, cash, securities, receivables, rights and intangibles and any other collateral or assets deposited with or transferred to the Clearing House, or otherwise held by the Clearing House (including without limitation all property deposited in or attributable to a Proprietary Account, an Omnibus Client Swaps Account with LCH, the LCH Swaps Client Segregated Depository Account, or any amounts owing to a Clearing Member in a Proprietary Account), including all substitutions for and proceeds of, any such property, in connection with any Contracts cleared for such Clearing Member, its Affiliates or its Clients, as security for unconditional payment and satisfaction of the obligations and liabilities of the Clearing Member to the Clearing House under the Rulebook, but excluding any property deposited in or transferred to the Clearing House in respect of a Clearing Member's Contribution to the Default Fund.

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(ii) The Clearing Member agrees to take any and all actions, including but not limited to the execution of any and all documents, requested by the Clearing House in order to perfect, maintain or enforce the security interest granted to the Clearing House hereunder.

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(iii) The Clearing House may exercise any and all rights available to it with respect to the security interest granted hereunder, in accordance with the Rulebook and applicable laws.

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(iv) ~~Notwithstanding any other provision of this Regulation 106(l), the foregoing,~~ in no event shall the Clearing House's security interest in the property attributable to a Clearing Member's Omnibus Client Swaps Accounts with LCH be security for, or be exercised to satisfy any obligations or liabilities of: (A) such Clearing Member other than in connection with

obligations or liabilities relating to such Clearing Member's Omnibus Client Swaps Accounts with LCH; or (B#) a Client with a Client Sub-Account by application of Margin attributable to the Client Sub-Account of another Client.

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- (v) Provided that the Clearing House is not subject to the procedures of Regulation 117 and is not otherwise insolvent, the Clearing House will, notwithstanding Section 9-207 of the New York Uniform Commercial Code, have the right to sell, pledge, rehypothecate, assign, invest, use or otherwise dispose of, or otherwise use in its business any cash Collateral it holds on behalf of a Clearing Member with respect to such Clearing Member's Proprietary Account, free from any claim or right of any nature whatsoever of the relevant Clearing Member, including any equity or right of redemption by such Clearing Member, subject only to any restrictions under applicable law (including bankruptcy law). Except to the extent otherwise specified for in the Rulebook, the Clearing House shall retain any and all income, distributions, returns, profits or any other monies received with respect to any such investments or use. For purposes of determining the amount of Collateral held pursuant to the Rulebook by the Clearing House with respect to a Clearing Member's Proprietary Account, the Clearing House will be deemed to continue to hold all such Collateral and to receive any distributions or proceeds therefrom, regardless of whether the Clearing House has exercised any rights with respect to the Collateral listed in the immediately preceding sentence.
- (vi) The Clearing House will, notwithstanding Section 9-207 of the New York Uniform Commercial Code, have the right to maintain or otherwise handle Collateral held by the Clearing House on behalf of Clients (including Collateral deposited in or attributable to an Omnibus Client Swaps Account with LCH or any LCH Swaps Client Segregated Depository Account) in the manner provided in the Rulebook, including investing such Collateral in accordance with Regulation 103(k). Except to the extent otherwise provided for in the Rulebook, the Clearing House shall retain any and all income, distributions, returns, profits or any other monies received with respect to any such investments or use.
- (#)(vii) For the avoidance of doubt, the security interest granted pursuant to this Regulation 106(l) does not extend to, or apply to, any property deposited in, or transferred to, the Clearing House in respect of a Clearing Member's Contribution to the Default Fund of the Clearing House. Although each Clearing Member and the Clearing House intend the payment of a Contribution by the Clearing Member to the Clearing House to be an outright payment or transfer by the Clearing Member to the Clearing House (subject to the Clearing House's obligation to repay Contributions pursuant to the Default Fund Regulations), in the event that any or all of a Contribution is deemed to be collateral posted to the Clearing House by the Clearing Member (in which the Clearing Member retains an ownership interest), then, notwithstanding the immediately preceding sentence, the Clearing Member shall be deemed to have pledged to the Clearing House as security for unconditional payment and satisfaction of each and every obligation and liability of the Clearing Member to the Clearing House under the Rulebook, and the Clearing Member shall be

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deemed to have granted the Clearing House a first priority security interest in, the amount of any Contribution that has been deemed to be collateral and any income thereon and other proceeds thereof, and the Clearing House shall have all of the rights of use in respect of such Contributions as referenced in Regulation 106(l)(v) and any other additional rights provided for under the Rulebook.

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(h)(m) Each FCM Clearing Member shall ensure that where a Transaction results in the registration of a Contract on behalf of a Client that is of a “non-hedging nature” (as such term is used in Part 39 of the CFTC Regulations), it shall collect and/or remain furnished with additional Client Funds from the relevant Client in respect of such non-hedging Contract in an amount which shall be no less than the minimum percentage as required by the Clearing House and as notified to the relevant FCM Clearing Member from time to time, as further specified in the Procedures.

(h)(n) A Clearing Member shall provide the Clearing House with all information required under the Procedures regarding its Contracts, Client Funds and Collateral, and shall instruct the Clearing House as to the Contracts and Collateral to be reflected in the applicable Client Sub-Account. In addition, a Clearing Member shall, as soon as reasonably practicable following a request from the Clearing House, provide the Clearing House with any other information which the Clearing House may reasonably require in relation to the Clients or Affiliates of the Clearing Member, or the clearing of Contracts by such Clearing Member on behalf of its Clients, its Affiliates, or on its own behalf.

(h)(o) No Clearing Member may withdraw any amount from its Omnibus Client Swaps Account with LCH or its Proprietary Account if such withdrawal would cause the account’s Margin balance to be less than the Required Margin then attributable to such Omnibus Client Swaps Account with LCH or Proprietary Account, as applicable, as determined by the Clearing House in accordance with the provisions of the Rulebook; provided, further, that the Clearing House may prohibit an FCM Clearing Member from withdrawing any amount from its Proprietary Account if the Client Sub-Account Balance in any of its Client Sub-Accounts would be less than the Required Margin then attributable to any such Client Sub-Account and there is an insufficient amount of Buffer available to offset any such deficiencies.

(h)(p) Each FCM Clearing Member shall ensure that no Client withdraws Client Funds from the FCM Swaps Client Segregated Depository Account unless the “net liquidating value” (as such term is used in Part 39 of the CFTC Regulations) plus the Client Funds attributable to such Client remaining in the FCM Swaps Client Segregated Depository Account after such withdrawal is sufficient to meet the level of Required Margin, as calculated by the Clearing House in respect of all Contracts entered into on behalf of that Client.

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Regulation 117 Default or Bankruptcy of the Clearing House

- (a) Clearing House Default. Each of the following events shall constitute an “LCH Default”:
- (i) the Clearing House fails to make an undisputed payment or collateral delivery to a Clearing Member (other than a Clearing Member that is a Defaulter) that is due and payable or deliverable under a Contract in accordance with the Rulebook and such Clearing Member has delivered written notice to the Clearing House of such failure, and either (A) such failure has not been remedied by the close of business (as specified in Section 2A.2.2 of the Procedures) on the thirtieth day (or, in the event that such thirtieth day is not a Business Day, the immediately following Business Day) following the date when the obligation to pay fell due (such time on such day, the “End of Day”) or (B) the Clearing House has provided written notice (by electronic circular) to all Clearing Members that it cannot remedy such failure and that it intends to pursue a bankruptcy or liquidation; or
 - (ii) 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 the Clearing House takes corporate action to authorize any of the foregoing in any such case other than for the purposes of corporate restructuring (including any consolidation, amalgamation or merger); or
 - (iii) if any of the foregoing cases or procedures referred to in paragraph (ii) above is commenced in relation to the Clearing House, and any such procedure (A) results in a judgment of insolvency or bankruptcy or the entry of an order for relief or the making of an order for the winding-up or liquidation of the Clearing House or (B) is not dismissed, discharged, stayed or restrained within 30 days of the institution of such procedure.

For the avoidance of doubt, a payment or delivery to a Clearing Member by the Clearing House under a Contract is due and payable in accordance with the Rulebook, for purposes of paragraph (i) above, only to the extent that the obligations of the Clearing House in respect of such Contract are not limited, modified, cancelled, terminated, discharged or otherwise altered by any applicable provisions of the Rulebook (including, *e.g.*, Regulation 109, Regulation 320 and the Default Regulations).

- (b) Default Notice; LCH Default Time; Termination Date.
- (i) Notice. The Clearing House shall publish notice of an LCH Default (and specifying the Termination Date in accordance with paragraph (iii) below) by electronic circular simultaneously to all Clearing Members, and shall promptly thereafter publish notice of such LCH Default prominently on its website:
 - (A) in the case of an LCH Default under Regulation 117(a)(i)(A), at the End of Day, or, at the discretion of the Clearing House, at an earlier time on such day;

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- (B) in the case of an LCH Default under Regulation 117(a)(i)(B), at the time the Clearing House provides the notice referred to therein;
- (C) in the case of an LCH Default under Regulation 117(a)(ii), as promptly as practicable following the event referred to in Regulation 117(a)(ii); or
- (D) in the case of an LCH Default under Regulation 117(a)(iii), as promptly as practicable following the event referred to in Regulation 117(a)(iii).

(ii) LCH Default Time. The “**LCH Default Time**” means:

- (A) in the case of an LCH Default under Regulation 117(a)(i)(A), at the time of transmission of the electronic notice delivered in accordance with paragraph (i)(A) above, or, in the event that no such notice is delivered despite the requirement of the Clearing House to so deliver it in accordance with paragraph (i)(A) above, at the End of Day;
- (B) in the case of an LCH Default under Regulation 117(a)(i)(B), at the time of transmission of the electronic notice delivered in accordance with such Regulation 117(a)(i)(B);
- (C) in the case of an LCH Default under Regulation 117(a)(ii), at the time the event referred to in Regulation 117(a)(ii) occurs, notwithstanding whether or not the Clearing House has published notice in accordance with paragraph (i)(C) above; or
- (D) in the case of an LCH Default under Regulation 117(a)(iii), at the time the event referred to in Regulation 117(a)(iii) occurs, notwithstanding whether or not the Clearing House has published notice in accordance with paragraph (i)(D) above.

(iii) Termination Date. The “**Termination Date**” shall be the first Business Day immediately following the date of the LCH Default Time determined in accordance with paragraph (ii) above.

(c) Upon the LCH Default Time. Effective as of the LCH Default Time:

- (i) the Clearing House shall no longer accept Transactions submitted to it for clearing or register any Contracts;
- (ii) all open Contracts, regardless of whether such Contracts are related to House Business or Client Business, shall be terminated immediately upon and as of the LCH Default Time;
- (iii) neither the Clearing House nor any Clearing Member shall be obliged to make any further payments or deliveries under any Contract between them which would, but for this Regulation 117, have accrued on or after the LCH Default Time other than by settlement of the Termination Amount, and any obligations to make further payments or deliveries which would otherwise have accrued

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shall be satisfied by settlement (whether by payment, set off or otherwise) of the Termination Amount; and

- (iv) all other payment and delivery obligations, present or future, (other than as set out in paragraph (iii) above) in relation to any Contracts and any other obligations pursuant to the Rulebook shall be payable or deliverable as of the Termination Date and in accordance with the provisions of this Regulation 117.

The Clearing House shall, to the extent possible, return or redeliver all amounts received after the LCH Default Time in respect of a Clearing Member's attempted registration of any Contract after the LCH Default Time.

- (d) Set Off and Netting. Following an LCH Default in accordance with this Regulation 117:

- (i) Each Clearing Member shall, as promptly as reasonably practicable on or after the Termination Date, but in any event within ninety days of the Termination Date (such ninetieth day, the "**Final Calculation Date**"), determine as of the Termination Date, (A) the value of each Contract (including its losses or gains associated with each Contract) and (B) the value of all other amounts which it owes to the Clearing House and which the Clearing House owes to it, in each case whether present or future, liquidated or unliquidated, actual or contingent, pursuant to the Contract Terms and in accordance with this Regulation 117(d), and promptly provide such determination to the Clearing House. In the case of an FCM Clearing Member, all obligations between the Clearing House and the FCM Clearing Member in respect of the FCM Clearing Member's Omnibus Client Swaps Account with LCH shall be set off and netted separately on a Client Sub-Account by Client Sub-Account basis, in accordance with the CEA and the CFTC Regulations, from any other obligations between the Clearing House and such FCM Clearing Member.

- (ii) Each Clearing Member shall calculate the value, as of the Termination Date, of:

- (A) the obligation of the Clearing Member or the Clearing House to pay Variation Margin;
- (B) the obligation of the Clearing House to repay or redeliver any Collateral, without applying any haircuts to the valuation of the applicable collateral held as Collateral;
- (C) the obligation of the Clearing House to repay such Clearing Member an amount equal to its Contribution, as adjusted in accordance with the Default Fund Regulations;
- (D) in the event that the Clearing Member is a Cash Gainer as at the last successful margin run prior to the LCH Default Time, the value of any Cash Gainer Adjustments under Regulation 318; and

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- (E) any other amounts that may be due to or from either the Clearing Member or the Clearing House to or from the other in relation to the Rulebook.
- (iii) The value of the loss or gain (as the case may be) associated with each Contract as referred to in paragraph (d)(i)(A) above shall include (i) losses or gains in respect of any payment or delivery required to have been made (assuming satisfaction of each applicable condition precedent) on or before the Termination Date; and (ii) 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 the Rulebook, of each payment which would otherwise have been required to be made under such Contract. Amounts determined pursuant to paragraphs (d)(i) to (ii) above shall be expressed in the lawful currency of the United States (the “**Base Currency**”) or the currency of the Relevant Contract where agreed by the Clearing House and the Clearing Member. For the purposes of any calculation required to be made under this Regulation 117, the Clearing 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.
- (iv) On the basis of the values determined pursuant to paragraphs (d)(i) to (iii) above, an account shall be taken by each Clearing Member (as at the Termination Date) of what is due from that Clearing Member to the Clearing House and from the Clearing House to that Clearing Member and the sums so due shall be set off against each other and only the balance of the account shall be payable by the party having the claim valued at the lower amount pursuant to the foregoing (such balance, the “**Termination Amount**”). If for any reason one or more Clearing Members fails to determine and notify the applicable Termination Amount to the Clearing House by the Final Calculation Date, the Clearing House shall post a notice on its website of such failure and shall make its own determination of any such Termination Amount(s) in respect of each such Clearing Member within thirty days of the Final Calculation Date. Following the calculation by the Clearing House of any such Termination Amounts which it is required to determine in accordance with the preceding sentence, the Clearing House shall promptly notify all Clearing Members that it has completed all such calculations and shall post such notice on its website. The date on which the Clearing House provides such notice shall be referred to as the “**Late Final Calculation Date**”.
- (v) The Termination Amount in respect of each Clearing Member shall be due and payable (by the party which owes the relevant Termination Amount) by no later than the second Business Day following the Final Calculation Date or, where a Late Final Calculation Date is applicable, no later than the second Business Day following the Late Final Calculation Date.
- (e) Rights not Exclusive. The Clearing Member’s rights under this Regulation 117 shall be in addition to, and not in limitation or exclusion of, any other rights which the Clearing Member may have (whether by agreement, operation of law or otherwise). This Regulation 117 is without prejudice to the rights that the Clearing House may

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have pursuant to the Rulebook against any Clearing Member prior to the occurrence of the LCH Default.

- (f) Interpretation in Relation to FDICIA. The Clearing House and each Clearing Member intend that certain provisions of the Rulebook (including this Regulation 117) be interpreted in relation to certain terms that are defined in FDICIA, as follows:
- (i) The Clearing House is a “clearing organization”.
 - (ii) An obligation of a Clearing Member to make a payment to the Clearing House, or of the Clearing House to make a payment to a Clearing Member, subject to a netting contract, is a “covered clearing obligation” and a “covered contractual payment obligation”.
 - (iii) An entitlement of a Clearing Member to receive a payment from the Clearing House, or of the Clearing House to receive a payment from a Clearing Member, subject to a netting contract, is a “covered contractual payment entitlement”.
 - (iv) The Clearing House is a “member”, and each Clearing Member is a “member”.
 - (v) The amount by which the covered contractual payment entitlements of a Clearing Member or the Clearing House exceed the covered contractual payment obligations of such Clearing Member or the Clearing House after netting under a netting contract is its “net entitlement”.
 - (vi) The amount by which the covered contractual payment obligations of a Clearing Member or the Clearing House exceed the covered contractual payment entitlements of such Clearing Member or the Clearing House after netting under a netting contract is its “net obligation”.
 - (vii) The Regulations and the Procedures, including this Regulation 117, constitute a “netting contract”.
 - (viii) For purposes of this Regulation 117(f), the term “payment” means “a payment of United States dollars, another currency, or a composite currency, and a noncash delivery, including a payment or delivery to liquidate an unmatured obligation.”
 - (~~viii~~)(ix) The provisions of the Regulations and the Procedures providing for the use and liquidation of Collateral, including Regulation 117, each constitute a “security agreement of arrangement or other credit enhancement related to one or more netting contracts between any 2 members of a clearing organization”.

CHAPTER 3 – DEFAULT FUND REGULATIONS

Regulation 301 Applicability; Default Fund

- (a) Applicability. Except as otherwise expressly stated, the Default Regulations and the Default Fund Regulations (which consist of Chapter 2 and Chapter 3, respectively, of these Regulations) are effective with respect to all Clearing Services offered by the Clearing House. In the Default Regulations and the Default Fund Regulations, the terms “trustee” or “receiver” have the meanings assigned to them under Chapter 7 of the Bankruptcy Code.
- (b) Default Fund. The Clearing House shall maintain a default fund (the “**Default Fund**”) which shall consist of cash or other assets in an amount equal to the Fund Amount (as adjusted from time to time in accordance with the Default Fund Regulations), and which shall be maintained in accordance with the Default Fund Regulations and the other applicable provisions of the Rulebook and in accordance with the CEA and the CFTC Regulations. The assets allocated by the Clearing House to the Default Fund account shall be separated from all other assets or accounts of the Clearing House or the Clearing Members, but there shall be no segregation or separation in respect of the amounts of any individual Contributions by Clearing Members. In the event that the value of the assets in the Default Fund falls below the aggregate amount of the Contributions of the Clearing Members (as adjusted from time to time in accordance with the Default Fund Regulations) due to investment losses realized on such assets, the Clearing House shall add cash or other assets to the Default Fund account in an amount sufficient to make the value of the Default Fund account at least equal to such aggregate amount.

In accordance with Regulation 303, the assets of the Default Fund shall be the sole property of the Clearing House and no Clearing Members or other persons shall have any legal or equitable interest therein except for the security interest as set forth in Regulation ~~322321~~. Without limitation of the foregoing, the Clearing House shall not be limited in its use or investment of its assets held in the Default Fund other than (i) as required by the CEA, the CFTC Regulations or other applicable law, or (ii) where the application or repayment of assets held in the Default Fund is required by the Default Fund Regulations. For the avoidance of doubt, (x) in respect of any investment of assets held in the Default Fund, the Clearing Members shall have no right, interest, participation, risk or liability in any gains or losses in respect of any investment or use of the assets held in the Default Fund by the Clearing House, which gains or losses shall be solely for the risk or benefit of the Clearing House, and (y) in the event that the value of the Clearing House’s assets held in the Default Fund exceed the aggregate amount of the Contributions of the Clearing Members, the Clearing House may remove any such excess at any time.

Clearing Members shall be provided a security interest in the assets held in the Default Fund account through the DF Security and Intercreditor Agreement, as described in Regulation ~~322321~~.

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Regulation 321 — Ballot Arrangements

(a) ~~Notwithstanding anything to the contrary in the Rulebook, no proposal for any of the amendments set out in paragraphs (i) and (ii) below (each an “Amendment”) shall be capable of coming into effect unless first approved in a vote by Clearing Members:~~

~~(i) any amendment to increase the value of the Fund Floor and/or the value of the Fund Cap, in each case as provided for in Regulation 303(e) or as subsequently approved in a ballot under paragraph (b) below; and~~

~~(ii) any amendment providing for a change in the nature of the liabilities for which a Clearing Member’s indemnity is given by virtue of Regulation 310.~~

~~Notwithstanding the foregoing in this Regulation 321, the Clearing House may take any of the actions described in clauses (i) and (ii) above without the vote or any other approval of any Clearing Member, provided, that any such change is invoked unilaterally against all Clearing Members and is necessary (in the Clearing House’s discretion) to comply with applicable law or regulation.~~

(b) ~~With respect to any Clearing Member vote on an Amendment as required by paragraph (a) above:~~

~~(i) The Clearing House shall send details of the Amendment to all Clearing Members together with an explanatory statement and a voting paper, specifying a closing date by which completed voting papers are to be received by the Clearing House;~~

~~(ii) the procedure for the conduct of the vote (including the closing date and the method for return of voting papers) shall be determined by the Clearing House in its sole discretion; and~~

~~(iii) the Amendment shall be treated as approved only if the votes in favor of the Amendment represent both (A) more than 50% of those Clearing Members actually casting votes and (B) at least 75% of the aggregate Contributions (as calculated at the Determination Date immediately preceding the date of the Clearing House sends details of the Amendment in accordance with paragraph (i) above) of those Clearing Members actually casting votes.~~

~~An Amendment approved in accordance with this Regulation 321(b) shall take effect on all Clearing Members immediately upon the Clearing House updating the Rulebook to reflect such Amendment. Any Clearing Member that did not vote in favor of the Amendment and provides notice to the Clearing House within one week of such Amendment being reflected in the Rulebook shall be permitted to terminate its Clearing Membership with the Clearing House in accordance with the terms of its Clearing Membership Agreement. Any such terminating Clearing Member shall not be deemed to be in breach of the Rulebook to the extent it does not comply with the additional obligations arising from the Amendment (but only such additional obligations) during the period of time commencing on the date of notification to the Clearing House and ending on date of the final termination of its Clearing Member status (as determined in accordance with the terms of its Clearing Membership Agreement); provided, that such Clearing Member is not otherwise in breach of the~~

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Rulebook (disregarding the application of the Amendment) or its Clearing Membership Agreement at any time during such period.

~~Regulation 322~~ Regulation 321 **Security Interests in Default Fund and Related Arrangements**

The provisions of this Regulation ~~322~~321, including the obligation of the Clearing House to provide Clearing Members a security interest in the assets held in the Default Fund account as provided in the Rulebook, shall not be in effect until such time as the Clearing House shall notify the Clearing Members via Clearing Member circular of their effectiveness, and the Clearing House shall have no obligation to comply with or satisfy any such obligations or provisions until such time.

(a) Security Interest. The Clearing House shall grant a security interest to each Clearing Member in the manner described in this Regulation ~~322~~321, and such security interest shall be consistent with the following provisions:

- (i) The security interest shall be a first security interest and shall attach only to the assets held in the segregated Default Fund account of the Clearing House and shall not attach to or be secured by any other accounts or assets of the Clearing House.
- (ii) The security interest granted to each Clearing Member shall secure (A) the Clearing House's obligation to repay an amount equal to each such Clearing Member's outstanding Contribution and (B) all obligations of the Clearing House to such Clearing Member relating to its Contracts.
- (iii) Each Clearing Member's security interest in the Default Fund account shall be on a *pro rata* basis with the other Clearing Members on the specific terms set out in the DF Security and Intercreditor Agreement.
- (iv) No Clearing Member shall have the right to foreclose on the secured assets unless and until one of the events described in Regulation 117(a)(i), Regulation 117(a)(ii) or Regulation 117(a)(iii) shall have occurred.

(b) DF Security and Intercreditor Agreement.

- (i) The Clearing House's grant of the security interests described in this Regulation ~~322~~321 shall be effected solely through a security and intercreditor agreement (including any successor or replacement agreement, the "**DF Security and Intercreditor Agreement**") among the Clearing House, the Clearing Members and a collateral agent appointed to represent the Clearing Members (the "**DF Collateral Agent**"). The DF Security and Intercreditor Agreement shall contain the security agreement relating to the security interests described in this Regulation ~~322~~321, the "intercreditor" agreements among the Clearing Members, the appointment of the DF Collateral Agent as representative of the Clearing Members and the duties and obligations of the DF Collateral Agent, and other applicable terms and agreements relating to the foregoing.
- (ii) Each Clearing Member, prior to it becoming a Clearing Member, shall be provided by the Clearing House with a copy of the DF Security and Intercreditor Agreement in effect as at such time. Each Clearing Member, by virtue of its execution and entering into of its Clearing Membership

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