



VIA CFTC PORTAL

24 March 2015

Mr Christopher Kirkpatrick
Commodity Futures Trading Commission
1155 21st Street NW
Three Lafayette Centre
Washington DC 20581

Dear Mr Kirkpatrick:

Pursuant to CFTC regulation §40.6(a), LCH.Clearnet Limited ("LCH.Clearnet"), a derivatives clearing organization ("DCO") registered with the Commodity Futures Trading Commission (the "CFTC"), is submitting for self-certification a number of minor changes to its Rulebook.

LCH.Clearnet intends to implement these rule changes on, or after, April 13, 2015.

Part I: Explanation and Analysis

LCH.Clearnet has identified a number of minor rule changes which it intends to make to its Rulebook, the rule changes have been identified during reviews of the Rulebook and are corrections and clarifications.

Part II: Description of Rule Changes

General Regulations

The definitions of both Client Clearing Services and ForexClear Participant have been clarified, the former to reflect requirements of European Market Infrastructure Regulation ("EMIR") Article 39 and the latter to broaden registration language. Regulation 55(e) has also been updated to broaden the registration language applicable to SwapClear.

Regulation 12 has been clarified to reflect DCO Core Principle requirements and states that Original Transactions are "Extinguished".

FCM Procedures

2.1.7(e) and 3.5.2 have been clarified with regards to the impact of negative interest rates on Price Alignment Interest ("PAI") payments. LCH.Clearnet would normally charge PAI on variation margin amounts paid to an FCM Clearing Member. Where interest rates are negative, LCH.Clearnet will pay

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interest on variation margin paid. This rulebook change describes a practice that LCH.Clearnet already engages in and has been included for clarification only.

2.1.8(b) has been amended to include a new provision confirming how losses incurred on hedging and closing out bunched orders, prior to allocation, will be calculated.

2.1.15(g) has been added to require Clearing Members to provide contact details for individuals that LCH.Clearnet should contact following a Clearing Member Default.

3.2.1(e) has been amended to include a commitment to return excess margin intra-day where LCH.Clearnet has sufficient available funds to do so.

Procedures Section 2C (SwapClear)

1.7.4 has been clarified with regards to the impact of negative interest rates on PAI payments. LCH.Clearnet would normally charge PAI on variation margin amounts paid to an SCM Clearing Member. Where interest rates are negative, LCH.Clearnet will pay interest on variation margin paid. This rulebook change describes a practice that LCH.Clearnet already engages in and has been included for clarification only.

1.25.9 has been added to require Clearing Members to provide contact details for individuals that LCH.Clearnet should contact following a Clearing Member Default.

1.27 has been added to provide for the introduction of multiple Approved Compression Service Providers ("ACSP"), and details the process surrounding their introduction.

The changes to the General Regulations are included at Appendix I, the FCM Procedures at Appendix II and Procedures Section 2C (SwapClear) at Appendix III.

Part III: Core Principle Compliance

LCH.Clearnet has concluded that compliance with the Core Principles will not be adversely affected by this change.

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-regulations/proposed-rules-changes>

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

Should you have any questions please contact me at julian.oliver@lchclearnet.com.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Julian Oliver".

Julian Oliver
Chief Compliance Officer
LCH.Clearnet Limited



Appendix I
General Regulations



**GENERAL REGULATIONS OF
LCH.CLEARNET LIMITED**

"Clearing House Applied Collateral"

means, in respect of an account of a Clearing Member, any cash Collateral provided by the Clearing House in respect of which the Clearing Member's obligation to return such Collateral has been discharged pursuant to the Rulebook by means of that return obligation having been set-off against an obligation owed by the Clearing House to that Clearing Member, as contemplated by Regulation 20(v)

"Clearing House Current Collateral Balance"

means, in respect of an account of a Clearing Member, all cash Collateral which has been transferred by the Clearing House to that Clearing Member (or which would, but for the application of Regulation 57(d) or another comparable payment netting provision applying in the ordinary course of business, have been transferred by the Clearing House to that Clearing Member) on account of the Clearing House's variation margin obligations relating to the relevant account pursuant to the Rulebook, less any Clearing House Applied Collateral and any Clearing House Returned Collateral in relation to that account; **provided that** any amounts transferred by the Clearing House to the Clearing Member for the purpose of settling an obligation in respect of daily settlement amounts pursuant to Regulation 23(c) which is due and payable do not form part of the Clearing House Current Collateral Balance; ~~**provided further that:** (x) any Collateral standing to the credit of a Client Buffer Account shall, except where the relevant Clearing Member is a Defaulter or where a Termination Date specified by the relevant Clearing Member has occurred under Regulation 45, not form part of the Clearing Member Current Collateral Balance in respect of the relevant Proprietary Account; and (y) any Collateral transferred from a Client Buffer Account to a Client Account shall form part of the Clearing Member Current Collateral Balance in respect of the relevant Client Account unless and until it is transferred back to the Client Buffer Account (whereupon it shall cease to form part of the Clearing Member Current Collateral Balance in respect of the relevant Client Account)~~

"Clearing House Returned Collateral"

means, in respect of an account of a Clearing Member, any cash Collateral: (i) which a Clearing Member has returned to the Clearing House; or (ii) in respect of which the obligation to return such Collateral has been discharged as a result of the operation of Regulation 23(c) or as a result of the operation of Regulation 57(d) or another comparable payment netting provision applying in the ordinary course of business

"Clearing House Prescribed Language"

means, in relation to Client Clearing Business, the wording prescribed by the Clearing House for inclusion in the

Clearing Agreements from time to time

"Clearing Member Applied Collateral"

means, in respect of an account of a Clearing Member: (i) any cash Collateral in respect of which the Clearing House's obligation to return such Collateral has been discharged pursuant to the Rulebook by means of that return obligation having been set-off against an obligation owed by that Clearing Member to the Clearing House, as contemplated by Regulation 20(u); (ii) any non-cash Collateral (including in the form of securities or gold) that has been appropriated and retained by the Clearing House pursuant to an exercise of its powers under a Deed of Charge and applied in or towards discharge of the Clearing Member's obligations to the Clearing House; and (iii) any non-cash Collateral that has been sold or otherwise disposed of by the Clearing House pursuant to an exercise of its powers under a Deed of Charge

"Clearing Member Current Collateral Balance"

means, in respect of an account of a Clearing Member: (A) the sum of (i) all Collateral which has been transferred by that Clearing Member to the Clearing House (or which would, but for the application of Regulation 57(d) or another comparable payment netting provision applying in the ordinary course of business, have been transferred by that Clearing Member to the Clearing House) on account of any type of that Clearing Member's margin obligations relating to the relevant account pursuant to the Rulebook; (ii) the cash proceeds of any non-cash Collateral relating to the relevant account which has been sold or otherwise disposed of by the Clearing House pursuant to an exercise of its powers under a Deed of Charge, the Default Rules or otherwise, to the extent that those proceeds have not been applied in or towards discharge of an obligation owed by the Clearing Member to the Clearing House; and (iii) any Applied Collateral Excess Proceeds credited to the relevant account; less (B) any Clearing Member Applied Collateral and any Clearing Member Returned Collateral in relation to that account; **provided that** any amounts transferred by the Clearing Member to the Clearing House for the purpose of settling an obligation in respect of daily settlement amounts pursuant to Regulation 23(c) which is due and payable do not form part of the Clearing Member Current Collateral Balance; **provided further that: (x) any Collateral standing to the credit of a Client Buffer Account shall, except where the relevant Clearing Member is a Defaulter or where a Termination Date specified by the relevant Clearing Member has occurred under Regulation 45, not form part of the Clearing Member Current Collateral Balance in respect of the relevant Proprietary Account; and (y) any Collateral transferred from a Client**

Buffer Account to a Client Account shall form part of the Clearing Member Current Collateral Balance in respect of the relevant Client Account unless and until it is transferred back to the Client Buffer Account (whereupon it shall cease to form part of the Clearing Member Current Collateral Balance in respect of the relevant Client Account)

"Clearing Member Returned Collateral"

means, in respect of an account of a Clearing Member, any Collateral: (i) which the Clearing House has returned to a Clearing Member (provided that the Clearing House shall only be treated as having returned any non-cash Collateral to a Clearing Member if the security in respect of that Clearing Member's interest in that non-cash Collateral pursuant to the relevant Deed of Charge has been released); or (ii) in respect of which the obligation to return such Collateral has been discharged as a result of the operation of Regulation 23(c) or as a result of the operation of Regulation 57(d) or another comparable payment netting provision applying in the ordinary course of business.

"Clearing Membership Agreement"

means the agreement so designated under which, *inter alia*, the Clearing House agrees to make available clearing services in respect of Contracts together with any extension letter or other agreement; in these Regulations and the Procedures the expressions "**Clearing Member Agreement**", "**Member Agreement**" and "**Membership Agreement**" shall have the same meaning as "**Clearing Membership Agreement**"; and in the Default Rules "**Clearing Membership Agreement**" includes the FCM Clearing Membership Agreement and the FCM Default Fund Agreement

"ClearLink API"

means a messaging standard used by market participants to interact with the Clearing House's clearing services

"Client Account"

means any Individual Segregated Account and any Omnibus Segregated Account

"Client Buffer"

means an amount of Collateral (taking the form of cash in a currency acceptable to the Clearing House) held in a Client Buffer Account which is intended to be used to provide a pool of available Collateral to support the registration of, or to meet any other intraday margin requirements in connection with, SwapClear Contracts in Client Accounts opened in connection with SwapClear Client Clearing Business

"Client Buffer Account"

means a sub-account of a SwapClear Clearing Member's Proprietary Account opened for the purpose of recording

"Client Clearing Default Management Process"	means the processes of the Clearing House outlined in the Client Clearing Annex to the Default Rules and includes the SwapClear DMP in relation to any Contract which is a SwapClear Contract in respect of SwapClear Client Clearing Business, the RepoClear DMP in relation to any Fixed Income Contract in respect of RepoClear Client Clearing Business and the ForexClear DMP in relation to any Contract which is a ForexClear Contract in respect of ForexClear Client Clearing Business
"Client Clearing End-User Notice"	means the Client Clearing End-User Notice as specified by the Clearing House from time to time
"Client Clearing Entitlement"	has the meaning assigned to it in the Client Clearing Annex to the Default Rules
"Client Clearing Services"	means SwapClear Client Clearing Services, RepoClear Client Clearing Services, EquityClear Client Clearing Services, LCH EnClear Client Clearing Services, LSE Derivatives Markets Client Clearing Services, NODAL Client Clearing Services, ForexClear Client Clearing Services, and/or NLX Client Clearing Services <u>or FCM Clearing Services</u>
"Client Excess"	means (i) in respect of a Client Account other than an Omnibus Gross Segregated Account, that part of the Clearing Member Current Collateral Balance which is in excess of the Total Required Margin Amount for such account; and (ii) in respect of an Omnibus Gross Segregated Clearing Client or a group of Combined Omnibus Gross Segregated Clearing Clients, that portion of the amount by which the Clearing Member Current Collateral Balance for such account exceeds the Total Required Margin Amount for such account which is referable to such Omnibus Gross Segregated Clearing Client or Combined Omnibus Gross Segregated Clearing Clients (as applicable) as notified to the Clearing House by the relevant Clearing Member in the relevant Client Excess Spreadsheet
"Client Excess Spreadsheet"	has the meaning given to the term in Section 1.10 (<i>Client Excess Spreadsheet</i>) of Procedure 4 (<i>Margin and Collateral</i>) of the Clearing House's Procedures
"Client to Client Porting"	means the transfer to the appointed Backup Client of all of the open Related Contracts and the balance of the Collateral recorded by the Clearing House as being credited to the relevant Indirect Omnibus Segregated Account
"closing-out contract"	means for the purposes of these Regulations, a contract effected by or on behalf of the Clearing House and

"ForexClear Excess Loss"	means the net sum or aggregate of net sums certified to be payable by a Defaulter in respect of ForexClear Business by a Rule 19 Certificate less (a) the proportion of the Capped Amount applicable to ForexClear Business under Rule 15(c) and (b) any sums then immediately payable in respect of ForexClear Business Default Losses owed by such Defaulter by any insurer or provider of analogous services under any policy of insurance or analogous instrument written in favour of the Clearing House
"ForexClear Fund Amount"	means the amount as determined in accordance with Rule F2(c) of the ForexClear Default Fund Supplement
"ForexClear Loss Distribution Process"	has the meaning assigned to it in Rule F9 of the ForexClear Default Fund Supplement
"ForexClear Matcher"	means a party which has been notified in writing by the Clearing House to ForexClear Participants from time to time as being a matching provider for the ForexClear Service
"ForexClear Participants (FXPs)"	means ForexClear Clearing Members, and ForexClear Dealers; <u>and ForexClear Clearing Clients</u> and "ForexClear Participant" means either <u>any</u> of them
"ForexClear Regulations"	means those Regulations which apply to ForexClear Contracts as specified in Regulation 90
"ForexClear Service"	means the service provided by the Clearing House under the ForexClear Regulations
"ForexClear Transaction"	means a contract, meeting the ForexClear Eligibility Criteria for registration as a ForexClear Contract, entered into between two ForexClear Participants, of which particulars are presented to the Clearing House for registration in the name of ForexClear Clearing Members in accordance with the Regulations. In addition, a ForexClear Transaction shall include an FCM ForexClear Transaction where the relevant ForexClear Clearing Member is an executing party
"ForexClear Unfunded Contribution"	has the meaning assigned to it in Rule F8 of the ForexClear Default Fund Supplement
"ForexClear Unfunded Contribution Notice"	has the meaning assigned to it in Rule F8 of the ForexClear Default Fund Supplement
"ForexClear Voluntary Payment"	has the meaning assigned to it in Rule F10 of the ForexClear Default Fund Supplement

CHAPTER IV – CONTRACT FORMATION, REGISTRATION AND TRANSFER

REGULATION 12 NOVATION

- (a) Upon registration of an original contract by the Clearing House, such contract shall be replaced by novation (without prejudice to the Clearing House's rights to effect further novation under paragraph (b) below) by two open contracts, one between the seller and the Clearing House as buyer, as principals to such contract, and one between the buyer and the Clearing House as seller, as principals to such contract. Following such novation the original contract shall be extinguished. Each open contract shall be subject to the Regulations including the restrictions on the Clearing House's obligations and liabilities set out in the Regulations (including, without limit, Regulation 32 and Regulation 52) and otherwise on the same terms as the original contract replaced by such open contracts.
- (b) Upon the transfer of an open contract (including, for the avoidance of doubt, Relevant Contracts transferred to a Backup Clearing Member pursuant to the Client Clearing Annex) pursuant to these Regulations such open contract shall be discharged and replaced by novation by an open contract between the Member into whose name the contract was transferred and the Clearing House, as principals to such open contract. Such open contract shall be subject to the Regulations and otherwise on the same terms as the open contract which it replaced.
- (c) Upon the exercise of an option by or on behalf of a Member or, as the case may be, by the Clearing House or upon the deemed exercise of such option pursuant to these Regulations, the option contract shall be replaced by novation by an open contract on the terms specified in the option contract at the strike price or at some other price in accordance with the terms of such option contract.

REGULATION 55 REGISTRATION OF SWAPCLEAR CONTRACTS

- (a) A SwapClear Transaction may be presented to the Clearing House for registration as two SwapClear Contracts or one SwapClear Contract, and one FCM SwapClear Contract (in accordance with the other provisions of the Rulebook).
- (b) Once a SwapClear Transaction has been presented to the Clearing House, the Clearing House shall (where applicable in accordance with paragraph (c) below and Section 1.3 (*Registration*) of Procedure 2C (the SwapClear Service) request the consent of each of the relevant SwapClear Clearing Members with whom a SwapClear Contract shall be registered as a result thereof to such registration. Upon each such SwapClear Clearing Member providing its consent, such SwapClear Transaction shall be deemed to have been submitted (as such term is defined in the Procedures) to the Clearing House for registration. Any such consent shall be provided in accordance with the Procedures.
- (c) A SwapClear Clearing Member which has been nominated to clear the SwapClear Contract arising from the registration of a SwapClear Transaction on behalf of a third party Executing Party other than a SwapClear Dealer will (only where such SwapClear Transaction is not a US Trading Venue Transaction) be notified by the Clearing House of the relevant SwapClear Transaction and shall choose whether to grant or refuse consent to the registration of such SwapClear Transaction and the SwapClear Contract(s) resulting from such SwapClear Transaction. In circumstances where (i) a SwapClear Clearing Member is an Executing Party in relation to a SwapClear Transaction and shall clear one of the SwapClear Contracts resulting from such SwapClear Transaction; or (ii) or a SwapClear Transaction is a US Trading Venue Transaction, the consent of that SwapClear Clearing Member to the registration of the relevant SwapClear Transaction will occur automatically and without the need for any further action by such SwapClear Clearing Member.
- (d) The Clearing House shall register or reject the registration of a SwapClear Contract in respect of a SwapClear Transaction presented for registration subject to, and in accordance with these Regulations and Procedures as quickly as would be technically practicable if fully automated systems were used (the standard required in Part 39 of the CFTC Regulations), **provided that:**
 - (i) both sides of the relevant SwapClear Transaction have been properly presented and submitted for clearing by (or on behalf of the) the Executing Parties;
 - (ii) the relevant SwapClear Transaction meets the eligibility criteria as prescribed on the Clearing House's website at the time the particulars of the SwapClear Transaction are presented to the Clearing House and continues to meet such criteria at the Registration Time;
 - (iii) such SwapClear Contract is consented to by the relevant SwapClear Clearing Member (to the extent such consent is required) in accordance with paragraph (c) above and Section 2C3.2 of the Procedures;
 - (iv) the applicable SwapClear Clearing Member has transferred, upon request of the Clearing House and in accordance with Regulation 20 and such other

applicable provisions of the Rulebook, all required Collateral in respect of such SwapClear Contract prior to registration (taking into account any available MER and/or SwapClear Tolerance, if any); provided that such Collateral need not be transferred prior to registration as a condition to the registration of such SwapClear Contract unless such SwapClear Contract results from a SwapClear Transaction that is a Block IRS Trade;

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

In this sub-paragraph (f), a reference to the "**rights**" and "**obligations**" is a reference to rights and obligations, falling due for exercise or performance after the Registration Time, and which are the same in nature and character as the rights or obligations set out in the Economic Terms of the corresponding SwapClear Transaction (it being assumed, for this purpose, that such SwapClear Transaction was a legal, valid, binding and enforceable obligation of the parties thereto and that the Economic Terms thereof were as presented to the Clearing House for registration), notwithstanding the



Appendix II
FCM Procedures



**FCM PROCEDURES OF
THE CLEARING HOUSE**

LCH.CLEARNET LIMITED

On all subsequent days, the change in the Net Present Value from one Business Day to the next will be credited to or debited from such FCM Clearing Member's financial accounts in cash in denomination currency.

Separate Variation Margin calculations are performed in respect of an FCM Clearing Member's house "H" account and in respect of an FCM Clearing Member's client "C" account. No offset between the "C" and the "H" accounts is permitted. The Clearing House shall make or receive a separate Variation Margin payment in respect of each house "H" account and each client "C" account (subject to the Default Rules) of each FCM Clearing Member.

(e) *Price Alignment Interest (PAI)*

In order to compensate for the payment of changes in NPV on a daily basis for FCM SwapClear Transactions cleared through the Clearing House, the Clearing House will for each FCM Clearing Member either charge interest on cumulative variation margin received, or pay interest on cumulative variation margin paid (see Section 3.5.2). In a negative interest rate environment, where PAI rates are negative, the Clearing House will pay interest on cumulative amounts received in respect of variation margin obligations and charge interest on cumulative amounts paid. PAI Price Alignment Interest is debited, credited and netted in accordance with the Clearing House's normal practices.

2.1.8 *Coupon Payments*

(a) *Calendars and Coupons*

Payment dates for coupon payments will be set based on the SwapsMonitor Financial Calendar (see Section 2.1.2(c)). Changes to the calendar that affect FCM SwapClear Contracts will be published and made available to FCM Clearing Members by the Clearing House in an FCM Clearing Member Report. The central control and publication of these calendars will assist the reconciliation of coupon payments between FCM Clearing Members and the Clearing House. Coupon payments will be adjusted, in the event of a holiday amendment, in accordance with the FCM SwapClear Contract Terms.

(b) *Calculation of Fixed Amount*

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

- (i) if an amount is specified for the FCM SwapClear Contract as the Fixed Amount payable by that party for that Payment Date or for the related Calculation Period, such amount; or
- (ii) if an amount is not specified for the FCM SwapClear Contract as the Fixed Amount payable by that party for that Payment

2.1.15 *Default Management*

(a) *Portfolio Splitting:*

As part of the SwapClear DMP, the Clearing House may divide an Auction portfolio into two or more individual Auction Portfolios. In circumstances where such portfolio splitting is adopted, the Clearing House will, in consultation with the SwapClear DMG (which, as defined in the Default Rules, refers to the advisory Default Management Group established by the Clearing House pursuant to the terms of the SwapClear DMP Annex to the Default Rules), seek to create:

- (i) one or more individual Sub-portfolios which have comparatively greater levels of risk associated with them, thereby isolating such Sub portfolios from those which are more risk neutral; and
- (ii) one or more individual Sub portfolios which are more risk neutral.

(b) *Acceptance of Bids*

In deciding whether to accept a bid, the Clearing House will generally accept the best bid in respect of any individual Auction. However, the Clearing House is entitled to reject a bid in the event that it considers, in its reasonable discretion that accepting the bid may:

- (i) cause the Clearing House to breach any legal or regulatory requirement applicable to it by virtue of its being a Recognised Clearing House or a Derivatives Clearing Organization;
- (ii) cause the Clearing House or its membership any reputational harm;
- (iii) cause legal action or proceedings to be taken against the Clearing House;
- (iv) endanger the Clearing House, any of its clearing members or the financial markets in which the Clearing House operates.

Where the Clearing House receives more than one bid from the same FCM Clearing Member and in respect of the same Auction the Clearing House is entitled to accept the last bid received by it in respect of that Auction. Where the Clearing House does not receive a bid that was made by an FCM Clearing Member or SwapClear Clearing Member for operational, technological or other similar reasons and as a result of which a bid does not reach the Clearing House, the Clearing House will be unable to accept a bid and shall not be liable for any failure to accept such bid.

as adjusted by a “**auction value adjustment**”. For purposes of this clause (v), (1) “**unit value**” means the value applied to each FCM SwapClear Contract, based on the net present value and outstanding notional value associated with each such FCM SwapClear Contract, and (2) “**auction value adjustment**” means a ratio applied to an FCM SwapClear Contract based on the aggregate auction/liquidation costs incurred in auctioning/liquidating the Hedged Account and the aggregate notional value of all FCM SwapClear Contracts in the Hedged Account, each of clauses (1) and (2) as determined by the Clearing House. The allocations described in this clause (v) are without reference to any Risk Factor or Existing Non-Porting Clients Combined Risk Factor.

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

The Clearing House shall allocate gains and losses to FCM SwapClear Contracts registered in the FCM SwapClear Suspension Sub-Account in the same manner as it allocates to an individual FCM Client and as described above.

(g) Contact Information

Each FCM Clearing Member is required to provide the Clearing House with contact details for those persons that the Clearing House should contact in the event of a Clearing Member Default. FCM Clearing Members are required to ensure that contact details remain up to date and to notify the Clearing House of any changes in such details.

2.1.16 *Payment of Stamp Tax*

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

Only USD will be called by default during the hours of UK PPS for each mnemonic/sub-account. FCM Clearing Members may request a change to the default currency no later than 09:30 London time in order for the change to be undertaken the following day. FCM Clearing Member's may submit a request to change their currency at the following link:

www.lchclearnet.com/risk_management/ltd/preferential_currency_for_intraday_margin_calls_form.asp

The Clearing House has the ability to call US dollars in respect of an intra-day margin call up until 16:00 New York time (21:00 London time).

The Clearing House must receive confirmation of payment from the FCM Clearing Member's nominated PPS bank(s) within one hour of receipt of the intra-day call by the relevant bank branch.

Failure of a bank to confirm a PPS call within one hour may result in the FCM Clearing Member being declared in default. Late confirmation of PPS calls are reported to the regulators of the LCH.Clearnet Group.

(e) *Auto repay*

FCM Clearing Members may request that they are automatically repaid any excess **USD** cash balances that remain on their accounts at the end of each day. FCM Clearing Members must contact Treasury Operations in order to have auto-repay applied to their accounts. (LCHOperations-Treasury@lchclearnet.com or telephone +44 (0)20 7426 7505). In certain circumstances and following notification to one or more Regulatory Bodies, the Clearing House may disable the auto-repay functionality for ~~one or more~~ **all** FCM Clearing Members **of a clearing service**. The Clearing House will notify ~~affected~~ FCM Clearing Members **via Clearing Member Circular** in the event that the functionality is disabled. This Section 3.2.1(e) only applies to Proprietary Accounts.

~~Those FCM Clearing Members not on auto repay may request any cash balances to be repaid on the same day, provided that such request is received by the Clearing House by 09:30 London time.~~

(f) *Value Date*

Although confirmation from the banks that PPS payments will be made must be received within the deadlines set out in Sections 3.2.1(c) and 3.2.1(d), subject to Section 3.2.1(h), all currency transactions are processed by PPS with next business day value with the exception of the following currencies: CAD, EUR, GBP and USD, which are processed with value for the same business day.

The Clearing House reserves the right to alter the basis of calculating each above listed interest rates. Any alteration will be effective on the date notified.

3.5.2 *Price Alignment Interest (PAI) Rate*

To minimize the impact of daily cash Variation Margin payments on the pricing of interest rate swaps, the Clearing House will charge interest on cumulative Variation Margin received by the FCM Clearing Member and pay interest on cumulative Variation Margin paid in by the FCM Clearing Member in respect of these instruments. In a negative interest rate environment where PAI rates are negative the Clearing House will pay interest on cumulative amounts received by an FCM Clearing Member in respect of variation margin obligations and charge interest on cumulative amounts paid to an FCM Clearing Member. This interest element is known as price alignment interest (“~~PAI~~”).

The calculation of PAI shall use the interest rates specified as below. The amount of PAI for each currency shall be calculated as:

The amount of NPV in such currency from the previous Business Day's close of business multiplied by:

- (a) The relevant interest rate in effect for that day; divided by
- (b) 360; or in the case of AUD, CAD, GBP, HKD, JPY, NZD, PLN, SGD and ZAR, 365.

In the case of the currencies marked below with an asterisk, the Clearing House, as provided in FCM Regulation 36(b) (*Alteration of FCM Regulations and the FCM Procedures*), specifies that it will not change the PAI rate without the consent of all SwapClear Clearing Members and applicable FCM Clearing Members holding open contracts in such currencies.

Currency	PAI Rate
USD*	The rate used shall be the Effective Federal Funds rate, the rate published by the Board of Governors of the Federal Reserve System as such rate appears on Reuters page “FEDFUNDS1” or Telerate 120 or on any successor page(s) thereto.
EUR*	The rate used shall be the EONIA rate, the rate published by the European Banking Federation and ACI – The Financial Market Association as such rate appears on Reuters page “EONIA” or Telerate 247 or on any successor page(s) thereto.
GBP*	The rate used shall be the SONIA rate, the rate published by the Wholesale Markets Broker Association as such rate appears on Reuters page “SONIA” or on any successor page(s) thereto.

The Clearing House reserves the right to require an FCM Clearing Member to execute revised versions of the Form of Charge and Client Consent documentation whenever the Clearing House, at its sole discretion, considers that it would be appropriate.

The Clearing House reserves the right to change the information required on instructions received via the CMS, whenever the Clearing House, at its sole discretion, considers that it would be appropriate to do so.

4.1.5 ***Excess Margin Maintained in Proprietary Accounts***

In accordance with FCM Regulation 14(v) (*Margin and Collateral*), FCM Clearing Members are permitted to maintain Excess Margin in their Proprietary Accounts (regardless of whether any such FCM Clearing Member has elected to have one or more of its FCM Omnibus Swaps Client Accounts with LCH subject to the With Excess Client Model), but subject to the right of the Clearing House, in its sole discretion, to return such Excess Margin to the FCM Clearing Member. Alternatively, the Clearing House may notify that FCM Clearing Member of the intention to levy a charge in respect of Excess Margin with effect from such date as is notified to the FCM Clearing Member. In the event that the FCM Clearing Member does not remove Excess Margin before the date so notified, the Clearing House may, in its discretion, charge the FCM Clearing Member at the rate of 1 basis point per day until Excess Margin is removed by the FCM Clearing Member through use of a release instruction. Payment of this charge shall be collected on a monthly basis through that FCM Clearing Member's PPS sterling account. This charge applies only to Margin lodged with respect to FCM Contracts registered to the FCM Clearing Member's Proprietary Account.

The Clearing House shall have absolute discretion to decide whether and to what extent it is holding Excess Margin at any time.

The ability of FCM Clearing Members to maintain Excess Margin in its FCM Omnibus Futures Client Accounts with LCh is governed by the provisions of the FCM Rulebook, including FCM Regulation 14(u)(ii) (*Margin and Collateral*).

The ability of FCM Clearing Members to maintain Excess Margin in its FCM Client Sub-Accounts is governed by the provisions of the FCM Rulebook, including FCM Regulation 15 (*Margining of Swap Product Client Accounts*).

4.1.6 ***Return and Provision of Cash Excess Margin***

Requests for the return of USD cash Excess Margin must be received by the Clearing House before 09:30 hours. ~~Requests received after 09:30 hours will be rejected.~~ (New York time) on a U.S. Business Day. In respect of any such request received by the Clearing House after 09:30 hours (New York time) on a U.S. Business Day, the Clearing House shall have sole discretion as to whether or not to return the relevant USD cash Excess Margin to the requesting FCM Clearing Member except with the consent of the Clearing House. Additionally, if the Clearing House does not repay the relevant excess

USD cash requested by an FCM Clearing Member after 09:30 hours (New York time) on a U.S. Business Day, such request shall be deemed void.

The Clearing House will not accept deposits of USD cash Collateral as Excess Margin on any date that is not a U.S. Business Day or at any time after 14:00 hours (New York time) on a U.S. Business Day.

4.1.7 ***Lodgment of Collateral as Replacement for Cash Cover for Margin***

This Section 4.1.7 applies only to Proprietary Accounts of FCM Clearing Members. FCM Clearing Members should note that they must give Treasury Operations no less than two (2) Business Days' notice of their intention to lodge Collateral with a value of £50 million sterling or more, and which is reasonably likely to have the effect that cash to a similar value is repayable by the Clearing House to that FCM Clearing Member as a result of such lodgment. In the event that an FCM Clearing Member seeks to withdraw such cash Collateral without giving such notice, the Clearing House will decline to release such cash Collateral until the end of the required notice period. The Clearing House may extend the required notice or vary the minimum Collateral value by written notice to FCM Clearing Members.

4.1.8 ***Force Majeure***

The Clearing House will not be liable for any failure, hindrance or delay in the performance (in whole or in part) of any of its obligations to FCM Clearing Members with regard to instruments or securities accepted as Collateral where such failure, hindrance or delay arises from causes beyond the control of the Clearing House, such as but not limited to the failure whether partial or total, interruption or suspension of any depository or custodian or other service (“**depository**”) that the Clearing House is using, the termination or suspension of the Clearing House's membership or use of the depository or any variation of the depository's operational timetable, whether or not occasioned by action of the depository operator or any other party; or any embargo, unavailability or restriction of bank transfer systems or wires, malfunction or overload of the depository; or any other emergency. This provision is without prejudice to the force majeure provisions of FCM Clearing Members' agreements with the Clearing House.

4.1.9 ***Regulatory and Supervisory Information***

In every case, the Clearing House will be entitled to supply a securities depository with all the information it requires for any purposes relating to an FCM Clearing Member, or to securities received by the Clearing House from an FCM Clearing Member which are or may at any time have been held by the depository. Securities will be lodged and held within such depository or other systems as the Clearing House may select or allow, subject to the conditions of such systems and to any applicable law and subordinate rules relating thereto as well as to the terms of the FCM Rulebook and these FCM Procedures.



Appendix III
Procedures Section 2C (SwapClear)



LCH.CLEARNET LIMITED

PROCEDURES SECTION 2C

SWAPCLEAR CLEARING SERVICE

1.7.3 *Net Present Value*

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

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

1.7.4 *Price Alignment Interest*

The transfer of Collateral in respect of variation margin, or change in NPV, on a daily basis without adjustment would distort the pricing for SwapClear Transactions cleared through the Clearing House. In order to minimise the impact of variation margin, the Clearing House will for each SCM either charge interest on cumulative amounts received by the SCM in respect of variation margin obligations, or pay interest on cumulative amounts paid by the SCM in respect of variation margin obligations. In a negative interest rate environment where PAI rates are negative, the Clearing House will for each SCM either pay interest on cumulative amounts received by the SCM in respect of variation margin obligations, or charge interest on cumulative amounts paid by the SCM in respect of variation margin obligations. In addition, (see Section 1.6.2 of Procedure 3 (*Financial Transactions*)).

1.8 **Coupon Payments**

1.8.1 *Calendars and Coupons*

Payment dates for coupon payments will be set based on the SwapsMonitor Financial Calendar (see Section 1.2.3). Changes to the calendar that affect SwapClear Contracts will be published and made available to SCMs by the Clearing House in a Clearing Member Report. The central control and publication of these calendars will assist the reconciliation of coupon payments between SCMs and the Clearing House. Coupon payments will be adjusted, in the event of a holiday amendment, in accordance with the Contract Terms.

1.8.2 *Calculation of Fixed Amount*

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

- (a) if an amount is specified for the SwapClear Contract as the Fixed Amount payable by that party for that Payment Date or for the related Calculation Period, such amount; or

1.25.8 *SwapClear DMG*

The necessary involvement of SCMs and the SwapClear DMG in the SwapClear DMP entails the assessment and dissemination of information that could give rise to conflicts of interest. To ensure that such potential conflicts are demonstrably contained, Schedule 5 establishes binding obligations of confidentiality, anonymity and the extent of dissemination of information on SCMs (and their executives or directors who participate from time to time in the SwapClear DMG) and on the Clearing House.

Each SCM who makes available a representative to serve on the SwapClear DMG agrees, and shall procure that, to the extent applicable, its representatives agree to be bound by and to ensure that it and any of its executives or directors serving on the SwapClear DMG complies with Schedule 5 covering confidentiality, non-disclosure and other terms.

1.25.9 *Contact Information*

Each SCM is required to provide the Clearing House with contact details for those persons that the Clearing House should contact in the event of an SCM Default. SCMs are required to ensure that contact details remain up to date and to notify the Clearing House of any changes in such details.

1.26 **Provision of Tax Forms**

The Clearing House and each SwapClear Clearing Member shall provide to each SwapClear Clearing Member or the Clearing House, as relevant, (i) any forms or documents specified in the SwapClear Contract between the Clearing House and the SwapClear Clearing Member and (ii) any other form, document, statement or certification reasonably requested in writing by the SwapClear Clearing Member or the Clearing House in order to allow the SwapClear Clearing Member or the Clearing House to make a payment under the Clearing House rules or any SwapClear Contract without deduction or withholding for or on account of any tax or with such deduction or withholding at a reduced rate unless the Clearing House or the SwapClear Clearing Member can no longer deliver such form, document, statement or certification solely as a result of a change in law (including double tax treaty) or interpretation thereof after the date of the SwapClear Contract between the Clearing House and the SwapClear Clearing Member. In the case of the Clearing House, the forms required pursuant to item (ii) above include an Internal Revenue Service Form W-8BEN. Additionally, the Clearing House will take such further actions as necessary to ensure that payments made to it can be made without deduction or withholding for or on account of any Tax.

1.27 **Approved Compression Services Providers**

Applicants for Approved Compression Services Provider status should contact swapclearclientservices@lchclearnet.com. Approved Compression Services Providers will be required to meet the requirements of the Clearing House from time to time, including the provision of relevant information, execution of documents, and proof of operational capabilities. A list of Approved

Compression Services Providers currently approved by the Clearing House is available on the Clearing House's website. Where the Clearing House approves additional Approved Compression Services Providers, it will notify Clearing Members via member circular.

Notwithstanding the designation by the Clearing House of any applicant as an Approved Compression Services Provider, the Clearing House makes no warranty (and will accept no liability) as to the effectiveness, efficiency, performance or any other aspect of the services provided by any Approved Compression Services Provider. Such matters form part of the relationship between the Clearing Members and that Approved Compression Services Provider.