

**Via CFTC Portal**

13<sup>th</sup> May 2015

22nd May 2015

Mrs. Parisa Abadi  
Commodity Futures Trading Commission  
1155 21<sup>st</sup> Street NW  
Three Lafayette Centre  
Washington DC 20581

Dear Mrs. Abadi,

Pursuant to CFTC regulation §40.6(a), LCH.Clearnet SA (“LCH.Clearnet”), a derivatives clearing organization registered with the Commodity Futures Trading Commission (the “CFTC”), is submitting for self-certification some amendments to the CDS Clearing Rules (the “Rules”) related to (i) the removal of fax and email as means of instruction from clearing members for collateral movements and (ii) the extension of the notice period for collateral requests in case of atypical market conditions.

The submission changes made to the Rules (procedures only) are attached hereto as appendices.

**Part I: Explanation and Analysis**

LCH.Clearnet intends to amend: (i) the means of access for Clearing Members to notify their instructions regarding collateral; and (ii) the collateral deposit and withdrawal notice period that could be extended in certain circumstances.

The Collateral Management System (CMS) is the web tool of the LCH.Clearnet Group for collateral management enabling Clearing Members to:

- allow cash collateral deposit and withdrawal,
- allow securities collateral deposit, transfer and withdrawal,
- allow access to members’ collateral accounts and balances.

On December 8<sup>th</sup>, 2014, the CMS tool was introduced and as from that date, Clearing Members sent their instructions through fax, emails, together with CMS.

In addition, in the event of atypical market conditions (*i.e.* periods of time with reduced activity and lowered liquidity), Clearing Members willing to deposit or withdraw any type of eligible collateral will be required to give a 5-day notice through CMS.

As from June 1<sup>st</sup> 2015, only CMS instructions will be accepted by LCH.Clearnet and the 5-day notice period in the event of atypical market conditions will be implemented, as reflected in the proposed changes.

**Part II: Description of Rule Changes**

The Section 3 (*Collateral and Cash Payment*) of the CDS Clearing Procedures has been amended to remove all mentions to fax and email as means of instruction from clearing members for collateral movements and to provide for the new notice period applicable in case of atypical market conditions.

The following rules have been modified:

- 3.7 (*Euro Denominated Cash Collateral*) (f) and (g)
- 3.8 (*Non-Euro Denominated Cash Collateral*) (f); (g); (h) and (i)

- 3.10 (*Eligible Collateral transferred with full title*) (b) and (c)
- 3.15 (*Eligible Collateral transfer pursuant to the Pledge Agreement*) (a) and (b)
- 3.16 (*Transfer of Client Pledged Eligible Collateral following an Event of Default*) (a)
- 3.17 (*Transfer of US T-Bills on behalf of FCM Clients*) (a) and (b)
- *Additional minor amendments for clarity purposes*

### **Part III: Core Principle Compliance**

LCH.Clearnet will continue to comply with all Core Principles following the introduction of this change and has concluded that its compliance with the Core Principles would not be adversely affected by this change.

### **Part IV: Public Information**

LCH.Clearnet has posted a notice of pending certifications 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 that were not incorporated into the rule.

### **Certification**

LCH.Clearnet SA 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: [françois.faure@lchclearnet.com](mailto:françois.faure@lchclearnet.com).



Francois Faure  
Chief Compliance Officer  
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## APPENDIX

LCH.Clearnet SA - CDS Clearing Procedures - Section 3 – Collateral and Cash Payment  
As of May 19th

CDS Clear

## LCH.Clearnet SA

## CDS Clearing Procedures

## Section 3 – Collateral and Cash Payment

[28] 2015



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Capitalised terms used in this Collateral and Cash Payment Procedures and not otherwise defined herein shall have the meaning given pursuant to the remainder of the CDS Clearing Documentation, as such term is defined in the document entitled "CDS Clearing Rule Book" published by LCH.Clearnet SA, as amended from time to time and including, for the avoidance of doubt, in the case of FCM Clearing Members, the FCM CDS Clearing Regulations.

For the purpose of this Section 3, any failure, unavailability, impairment, defect, interruption, delay or improper functioning of any technical system, access, connection, solution, specification, equipment, communication network or other resource used by LCH.Clearnet SA and/or a Clearing Member, as applicable, to calculate, instruct, process, communicate and more generally perform its obligation under this Section 3, shall be deemed to constitute an "exceptional circumstance" which shall not give rise to a LCH Default and shall be promptly notified by LCH.Clearnet SA to the relevant Clearing Member.

### 3.1 TYPES OF COLLATERAL

A Clearing Member's obligation to provide Collateral should be fulfilled in accordance with the following table and the remainder of this Section 3 of the Procedures.

Purpose of transfer	Collateral type
Payment of Margins (other than Variation Margin)	Cash Collateral and/or Eligible Collateral
Maintenance of House Excess Collateral and Client Excess Collateral	Cash Collateral and/or Eligible Collateral
Maintenance of Client Collateral Buffer	Cash Collateral
Payment of Contribution and Additional Contribution Amount	Euro denominated Cash Collateral

It should be noted that, notwithstanding the above table any Margin Shortfall must be covered by an automatic debit of Euro denominated Cash Collateral.

### 3.2 MARGIN BALANCE AND CLIENT COLLATERAL BUFFER

The price of Eligible Currencies (other than Euro) and Eligible Collateral (the "**Applicable Price**"), which is taken into account for the purposes of calculating the Margin Balance for each Margin Account of a Clearing Member and the Client Collateral Buffer, is determined by LCH.Clearnet SA at 14:00 and 22:00 CET on each Business Day on the basis of the latest market prices (as published by Reuters, Interactive Data or such other provider as is notified in a Clearing Notice).

LCH.Clearnet SA will calculate: (i) the Margin Balance for each Margin Account of a Clearing Member; and (ii) the Client Collateral Buffer each Business Day (prior to 07:45 CET and whenever a position corresponding to the relevant trade leg of an Eligible Intraday Transaction is pre-registered in the relevant Clearing Member's

Account Structure, in accordance with Section 3.1.7 of the CDS Clearing Rule Book), by determining:

- i) the value of all Collateral recorded in the relevant Collateral Account on the basis of the Applicable Price; or
- ii) in respect of the FCM Margin Balance for each FCM Client Margin Account of an FCM Clearing Member, the Legally Segregated Value recorded in the relevant FCM Client Financial Account on the basis of the Applicable Price, in accordance with Section 2.2 (f) of the Procedures.

LCH.Clearnet SA will recalculate the: (i) Margin Balance for each Margin Account of a Clearing Member; and (ii) Client Collateral Buffer, following each Collateral Call.

Where Pledged Eligible Collateral is recorded in a Clearing Member's Collateral Account, LCH.Clearnet SA shall use the most recent Collateral Holding Report received from Euroclear Bank, in accordance with Paragraph 5.13(f) of Section 5 of the Procedures, to determine what Pledged Eligible Collateral should be taken into account for the purposes of calculating the Margin Balance in respect of a particular Margin Account in accordance with this Paragraph 3.2.

Where Eligible Collateral consisting of U.S. Treasury Bills (the "**US T-Bills**") is recorded in a FCM Clearing Member's FCM Client Collateral Account, LCH.Clearnet SA shall use the most recent collateral holding report received from Bank of New York Mellon ("**BNYM US**"), in accordance with Paragraph 5.13(f) of Section 5 of the Procedures, to determine what US T-Bills should be taken into account for the purposes of calculating the FCM Client Margin Balance in respect of each of its FCM Client Margin Account(s) in accordance with this Paragraph 3.2.

### 3.3 ACCOUNT STRUCTURE

- (a) Collateral Accounts in respect of a CCM

In the books of LCH.Clearnet SA, each CCM has:

- i) one CCM House Collateral Account in which (x) Collateral provided to cover its CCM House Margin Requirement and (y) CCM House Excess Collateral which can be used to novate House Trade Legs of Eligible Intraday Transactions, is recorded;
- ii) a CCM Client Collateral Account in respect of each CCM Client Account Structure and in which (x) Collateral provided to cover the relevant CCM Client Margin Requirement and (y) CCM Client Excess Collateral which can be used to novate the relevant Client Trade Legs of Eligible Intraday Transactions, is recorded;
- iii) a Buffer Collateral Account in which the CCM Client Collateral Buffer is recorded; and
- iv) a CCM Unallocated Client Collateral Account in which CCM Unallocated Client Collateral is recorded.

In accordance with Article 5.2.3.1 of the CDS Clearing Rule Book, CCMs are permitted to offer a CCM Individual Segregated Account Structure and/or a CCM Omnibus Segregated Account Structure to CCM Clients.

Where:

- i) a CCM Individual Segregated Account Structure is offered, the relevant CCM Client Collateral Account will record (x) the value and denomination of Cash Collateral and (y) the precise Eligible Collateral provided by the CCM in respect of that CCM Individual Segregated Account Client; and
- ii) a CCM Omnibus Segregated Account Structure is offered, the relevant CCM Client Collateral Account will record (x) the value and denomination of Cash Collateral and (y) the precise Eligible Collateral

provided by the CCM in respect of each CCM Omnibus Segregated Account Client in that CCM Omnibus Client Set.

To the extent a CCM transfers additional Euro-denominated Cash Collateral, non-Euro denominated Cash Collateral or Eligible Collateral to LCH.Clearnet SA, such CCM must identify which CCM Client Collateral Account Collateral is provided for in accordance with Paragraphs 3.7 to 3.10 below.

- (b) Collateral Accounts in respect of an FCM Clearing Member

In the books of LCH.Clearnet SA, each FCM Clearing Member has:

- i) one FCM House Collateral Account in which (x) Collateral provided to cover its FCM House Margin Requirement and (y) FCM House Excess Collateral which can be used to novate House Trade Legs of Eligible Intraday Transactions, is recorded; and
- ii) one FCM Client Collateral Account to record the Collateral held by LCH.Clearnet SA for the benefit of such FCM Clearing Member's FCM Clients, the aggregate value of such Collateral being divided amongst, and recorded in:
  - (x) the FCM Client Financial Account(s);
  - (y) the FCM Buffer Financial Account; and
  - (z) the FCM Unallocated Client Collateral Financial Account,

- (c) Segregation of Contribution Balance

The Cash Collateral transferred by a Clearing Member to satisfy its Contribution Requirement is not recorded in any of the Collateral Accounts.

The Contribution Balance is segregated from (x) the Margin Balance for each Margin Account; (y) the Client Collateral Buffer; and (z) the CCM Unallocated Client Collateral, by crediting the Cash Collateral comprising the Contribution Balance to a dedicated LCH.Clearnet SA TARGET2 Account.



### 3.4 TRANSFER OF COLLATERAL

The type and nature of the Collateral as well as the positions being secured will determine how a Clearing Member is required to transfer Collateral to LCH.Clearnet SA:

- (a) Euro denominated Cash Collateral:
  - i) may be transferred by any Clearing Member to be recorded in any of its Collateral Accounts; and
  - ii) must be transferred to LCH.Clearnet SA TARGET2 Accounts (as such term is defined in Paragraph 3.7(a)) in accordance with the procedure set out in Paragraph 3.7.
- (b) Non-Euro denominated Cash Collateral:
  - i) may be transferred by any Clearing Member to be recorded in any of its Collateral Accounts; and
  - ii) must be credited to accounts opened in the name of LCH.Clearnet SA with Euroclear Bank in accordance with the procedure set out in Paragraph 3.8 (f).
- (c) USD denominated Cash Collateral:
  - i) may be transferred by a Clearing Member to be recorded in any of its Collateral Accounts; and
  - ii) must be credited:
    - (x) if USD denominated Cash Collateral is transferred to be recorded in its House Collateral Account, or in the case of a CCM, in any of its CCM Client Collateral Accounts, to accounts opened in the name of LCH.Clearnet SA with Euroclear Bank in accordance with the procedure set out in Paragraph 3.8 (f); or
    - (y) if USD denominated Cash Collateral is transferred to be recorded in the FCM Client Collateral Account of an FCM Clearing Member, to an account opened in the name of LCH.Clearnet SA with BNYM US in accordance with the procedure set out in Paragraph 3.8 (g).
- (d) Subject to the special provisions for US T-Bills transferred by an FCM Clearing Member on behalf of FCM Clients set out in Paragraph 3.4 (e) below, Eligible Collateral must be provided:
  - i) by way of full title transfer to be recorded in its House Collateral Account, and in the case of a CCM only, in any of its CCM Client Collateral Accounts, in which case the relevant securities will be transferred to LCH.Clearnet SA, its nominated custodian or Central Securities Depository by instruction through Euroclear Bank or ESES

- (Euroclear France) in accordance with the procedure set out in Paragraph 3.10; or
- ii) by way of security interest under the Pledge Agreement to be recorded in its House Collateral Account, and in the case of a CCM only, in any of its CCM Client Collateral Accounts, in which case relevant securities will be transferred to the relevant LCH.Clearnet SA pledged account(s) opened in the books of Euroclear Bank by instruction through Euroclear Bank, in accordance with the procedure set out in Paragraph 3.15.
- (e) US T-Bills transferred by an FCM Clearing Member on behalf of FCM Clients must be provided by way of security interest to be recorded in its FCM Client Collateral Account, in which case relevant US T-Bills will be deposited in LCH.Clearnet SA's relevant segregated depository account opened in the books of BNYM US in accordance with the procedure set out in Paragraph 3.17.
  - (f) LCH.Clearnet SA will hold all Collateral transferred on behalf of FCM Clients in accordance with the requirements set out in the FCM CDS Clearing Regulations.

### 3.5 ELIGIBLE CURRENCIES

The following currencies are Eligible Currencies:

- (a) Euro;
- (b) GBP; and
- (c) USD.

LCH.Clearnet SA may amend this list in accordance with Article 4.2.6.1 and Article 4.4.2.3 of the CDS Clearing Rule Book.

### 3.6 SUBSTITUTION OF ELIGIBLE CURRENCIES

If an Eligible Currency is substituted by another currency, the conversion of the replaced currency to the substitute currency shall be effected on the basis of the Applicable Price and taking into account market practice and/or industry determinations at LCH.Clearnet SA's reasonable discretion. The results of any calculations to be made under this Paragraph 3.6 shall be rounded up to the fourth decimal place. If the fifth decimal is equal to or more than five, the fourth decimal shall be rounded up, and if the fifth decimal is less than five, the fourth decimal shall be rounded down, respectively.

### 3.7 EURO DENOMINATED CASH COLLATERAL

(a) LCH.Clearnet SA TARGET2 Accounts

LCH.Clearnet SA performs its Collateral Calls by using the following three TARGET2 Accounts opened in its name:

- i) a TARGET2 Account used to make Collateral Calls in relation to the House Margin Requirement, the House Excess Collateral Threshold and in respect of a CCM only, the CCM Client Collateral Buffer Threshold (the “**LCH House TARGET2 Account**”); and
- ii) with respect to Clients of a Clearing Member:
  - (x) a TARGET2 Account used to make Collateral Calls in relation to the Total Client Margin Requirement of each CCM (the “**LCH CCM Client TARGET2 Account**”); or
  - (y) a TARGET2 Account used to make Collateral Calls in relation to the Total Client Margin Requirement and FCM Client Collateral Buffer Threshold of each FCM Clearing Member (the “**LCH FCM Client TARGET2 Account**”), which for the avoidance of doubt forms part of the LCH Cleared Swaps Client Segregated Depository Account for purposes of the FCM CDS Clearing Regulations,

together referred to as the “**LCH Client TARGET2 Accounts**” and individually as a “**LCH Client TARGET2 Account**”.

The LCH House TARGET2 Account and the LCH Client TARGET2 Accounts shall be together referred to as the “**LCH TARGET2 Accounts**”.

(b) Clearing Member TARGET2 Accounts

A CCM has no obligation to hold two TARGET2 Accounts (or arrange its TARGET2 Payment Agent to hold two cash account(s)) for the purposes of the Collateral Calls in respect of (i) its CCM House Margin Requirement, CCM House Excess Collateral Threshold and CCM Client Collateral Buffer Threshold and (ii) its Total Client Margin Requirement. It may either:

- i) hold one TARGET2 Account (or one cash account of its TARGET2 Payment Agent), in which case such TARGET2 Account will be used for the debits and credits made out of both the LCH Client TARGET2 Account and the LCH House TARGET2 Account; or
- ii) hold two TARGET2 Accounts (or two cash accounts of its TARGET2 Payment Agent), in which case one TARGET2 account will be used for the debits and credits made out of the LCH Client TARGET2 Account and the other will be used for the debits and credits made out of the LCH House TARGET2 Account.

An FCM Clearing Member has an obligation to hold two TARGET2 Accounts (or arrange its TARGET2 Payment Agent to hold two cash account(s)) for the purposes of the Collateral Calls in respect of (i) its FCM House Margin Requirement and FCM House Excess Collateral Threshold and (ii) its Total Client Margin Requirement and FCM Client Collateral Buffer Threshold (which for the avoidance of doubt forms part of the FCM Cleared Swaps Client Segregated Depository Accounts for purposes of the FCM CDS Clearing Regulations). Therefore, an FCM Clearing Member will hold two TARGET2 Accounts (or two cash accounts of its TARGET2 Payment Agent), in which case one TARGET2 account will be used for the debits and credits made out of the LCH FCM Client TARGET2 Account and the other will be used for the debits and credits made out of the LCH House TARGET2 Account.

If a Clearing Member wishes to add a new TARGET2 Account or replace an existing TARGET2 Account with another for the purposes of the Collateral Calls, it may do so by providing LCH.Clearnet SA with the details of the relevant TARGET2 Account with at least 15 days' prior notice.

(c) Timing of Collateral Calls

Where a Clearing Member is required to transfer Euro denominated Cash Collateral at a Collateral Call, LCH.Clearnet SA will automatically debit such Clearing Member's relevant TARGET2 Account(s) (or the relevant cash account(s) of its TARGET2 Payment Agent) on the basis of its Power of Attorney and credit the relevant LCH TARGET2 Account with the corresponding amounts.

Where a Clearing Member is due to receive Euro denominated Cash Collateral, LCH.Clearnet SA will automatically credit such Clearing Member's TARGET2 Account(s) (or the relevant cash account(s) of its TARGET2 Payment Agent) with the relevant amounts.

The debits or credits on each Clearing Member's TARGET2 Account(s) (or the relevant cash account(s) of its TARGET2 Payment Agent) will occur in accordance with the following time slots:

- i) initial slot: 08:00-08:55 CET (used for the purposes of the Morning Call) (the "**Initial Slot**");
- ii) first intraday slot: 11:25-11:50 CET (used for the purposes of the First Intraday Call) (the "**First Intraday Slot**");
- iii) additional specific collateral slot: 12:25-12:55 CET (used for the purposes of Collateral substitution upon a Clearing Member's request) (the "**Additional Specific Collateral Slot**");
- iv) second intraday slot: 15:25-15:55 CET (used for the purposes of the Second Intraday Call) (the "**Second Intraday Slot**"); or
- v) any other slot available to LCH.Clearnet SA in exceptional circumstances (the "**Exceptional Slot**");

Once the Euro denominated Cash Collateral has been debited by LCH.Clearnet SA it will immediately form part of the Margin Balance for the relevant Margin Account and/or the Client Collateral Buffer or the Contribution Balance, as applicable.

(d) Netting of payments made through TARGET2

i) Aggregation of payments made in respect of a CCM

At the times set out in Paragraph 3.7(c) above LCH.Clearnet SA will aggregate:

(x) in respect of the CCM House Margin Account:

(A) the Cash Payments (being the House Variation Margin Requirement plus any other Cash Payments due in respect of the House Account Structure) and Euro denominated Cash Collateral transfers (being the CCM House Margin Shortfall, the CCM House Excess Collateral Shortfall, the CCM Client Collateral Buffer Shortfall and the Contribution Shortfall) which are due to be made by a CCM to LCH.Clearnet SA through TARGET2; and

(B) the Cash Payments due to be made, and Euro denominated Cash Collateral due to be returned, by LCH.Clearnet SA to a CCM through TARGET2; and

(y) in respect of the CCM Client Margin Accounts:

(A) the Cash Payments (being the Total Client Variation Margin Requirement plus any other Cash Payments due in respect of the CCM Client Account Structure) and Euro denominated Cash Collateral transfers (being the Total Client Margin Shortfall) which are due to be made by a CCM to LCH.Clearnet SA through TARGET2; and

(B) the Cash Payments due to be made, and Euro denominated Cash Collateral due to be returned, by LCH.Clearnet SA to a CCM through TARGET2.

ii) Aggregation of payments made in respect of an FCM Clearing Member

At the times set out in Paragraph 3.7(c) above LCH.Clearnet SA will aggregate:

(x) in respect of the FCM House Margin Account:

(A) the Cash Payments (being the House Variation Margin Requirement plus any other Cash Payments due in respect of the House Account Structure) and Euro denominated Cash Collateral transfers (being the FCM House Margin Shortfall, the FCM House Excess Collateral Shortfall and

- the Contribution Shortfall) which are due to be made by an FCM Clearing Member to LCH.Clearnet SA through TARGET2; and
- (B) the Cash Payments due to be made, and Euro denominated Cash Collateral due to be returned, by LCH.Clearnet SA to an FCM Clearing Member through TARGET2; and
- (y) in respect of the FCM Client Margin Accounts:
- (A) the Cash Payments due in respect of the FCM Client Account Structure (other than the Total Client Variation Margin Requirement due in respect of the FCM Client Account Structure) and Euro denominated Cash Collateral transfers (being the Total Client Margin Shortfall and the FCM Client Buffer Collateral Shortfall) which are due to be made by an FCM Clearing Member to LCH.Clearnet SA through TARGET2; and
- (B) the Cash Payments due to be made (other than the Total Client Variation Margin Requirement due in respect of the FCM Client Account Structure), and Euro denominated Cash Collateral due to be returned, by LCH.Clearnet SA to an FCM Clearing Member through TARGET2.

With the exception of the Total Client Variation Margin Requirement of an FCM Clearing Member (as set out in Paragraph 3.7(e)(ii)(y) above) which shall never be netted with other amounts for the purposes of making a payment through TARGET2, if the aggregate amount that would be payable by one party (in respect either of the House Margin Account, the CCM Client Margin Accounts or the FCM Client Margin Accounts of a Clearing Member) exceeds the amount that would otherwise have been payable by the other party (in respect of such House Margin Account, CCM Client Margin Accounts or FCM Client Margin Accounts), then the obligations of each party pursuant to this Paragraph 3.7 and Paragraph 3.18 below shall be automatically satisfied and discharged on payment by the party by whom the larger aggregate amount would have been payable to the other party of the excess of the larger aggregate amount over the smaller aggregate amount.

Notwithstanding the payment netting contemplated by this Paragraph 3.7(e), LCH.Clearnet SA shall ensure that its books and records properly reflect the transfer of Euro-denominated Cash Collateral and payment of Cash Payments, made in respect of each Margin Account, on a gross basis.

(e) Interest

LCH.Clearnet SA pays interest on Euro denominated Cash Collateral.

The applicable interest rate is published by LCH.Clearnet SA on the Website.

## (f) Transfer of Euro denominated Cash Collateral

On a given Business Day (“Day”) (before 17:15 CET)

If:

- (i) a Clearing Member wishes to transfer Euro denominated Cash Collateral to be recorded in its House Collateral Account and in the case of a CCM, in any of its CCM Client Collateral Accounts (other than in the case that a Clearing Member is called to transfer Euro denominated Cash Collateral to LCH.Clearnet SA to satisfy the Required Collateral Amount pursuant to a Collateral Call, in accordance with Article 4.2.3.2 of the CDS Clearing Rule Book); or
- (ii) a Clearing Member wishes to transfer Euro denominated Cash Collateral to be recorded in any of its Collateral Accounts for the purpose of substituting such Euro denominated Cash Collateral for any Collateral recorded in its Collateral Accounts,

it shall notify LCH.Clearnet SA by submitting the relevant form by any means as specified in a Clearing Notice. The Clearing Member must specify to which Collateral Account(s) such Euro denominated Cash Collateral should be recorded. The process that a Clearing Member and LCH.Clearnet SA must follow to process the return of substituted Collateral to the Clearing Member is set out in paragraph 3.8(h) (for non-Euro denominated Cash Collateral), 3.8(i) (for USD denominated Cash Collateral), 3.10(c) (for Eligible Collateral transferred with full title), 3.15(b) (for Pledged Eligible Collateral) and 3.17(b) (for US T-Bills transferred on behalf of FCM Clients), as applicable.

In respect of a CCM only, if such CCM notifies to LCH.Clearnet SA that Euro denominated Cash Collateral will be transferred to the LCH CCM Client TARGET2 Account but the CCM does not specify to which CCM Client Collateral Account(s) some or all of such amounts should be recorded, LCH.Clearnet will proceed with the debit of the CCM’s relevant TARGET2 Account (or the relevant cash account of its TARGET2 Payment Agent) but will treat any amounts which have not been specifically identified as being for a particular CCM Client Collateral Account as CCM Unallocated Client Collateral and record such amounts in the CCM Unallocated Client Collateral Account.

A Clearing Member must notify LCH.Clearnet SA as set out above by no later than 10:45 CET in order for a Clearing Member’s request to be processed and the Euro denominated Cash Collateral called at the First Intraday Slot on the same day. A Clearing Member must notify LCH.Clearnet SA as set out above between 10:45 and 17:15 CET in order for a Clearing Member’s request to be processed and the Euro denominated Cash Collateral called at the next TARGET2 time slot, including any Exceptional Slot. It is the Clearing Member’s responsibility to ensure the due receipt by LCH.Clearnet SA of the relevant notification. Accordingly, the Clearing Member should confirm its request no later than 17:15 CET by a phone call to LCH.Clearnet SA’s collateral management team on (+33) (0)1 70 37 66 86/66 37/65 35, although

a failure to do so shall not invalidate any request actually received by LCH.Clearnet SA.

On Day at the relevant TARGET2 time slot:

LCH.Clearnet SA will debit the Clearing Member's relevant TARGET2 Account(s) (or the relevant cash account(s) of its TARGET2 Payment Agent) with the amount of Euro denominated Cash Collateral notified by the Clearing Member.

On Day at any time, a Clearing Member may transfer Euro denominated Cash Collateral by:

- i) notifying LCH.Clearnet SA through the relevant form by any means as specified in a Clearing Notice. The Clearing Member must specify to which Collateral Account(s) such Euro denominated Cash Collateral should be recorded, and
- ii) crediting LCH TARGET 2 Account before 18:00 CET.

Transfer of Euro denominated Cash Collateral at any time later than the First Intraday Slot will be subject to a cap as defined by LCH.Clearnet SA and made available on its website.

In respect of each Clearing Member, following the transfer of Euro denominated Cash Collateral:

- i) the Cash Collateral will be recorded in its House Collateral Account, its Buffer Collateral Account, the relevant Client Collateral Account(s) and/or its CCM Unallocated Client Collateral Account, as applicable; and
  - ii) to the extent Cash Collateral has been credited to its CCM Unallocated Client Collateral Account, such CCM must inform LCH.Clearnet SA by no later than the End of Real Time on Day how the CCM Unallocated Client Collateral should be recorded within its CCM Client Collateral Account(s). Where the CCM does not provide LCH.Clearnet SA with this information within this timeframe, the CCM Unallocated Client Collateral shall be returned to the CCM's relevant TARGET2 Account (or the relevant cash account(s) of its TARGET2 Payment Agent).
- (g) Return of Euro denominated Cash Collateral
- i) In respect of a Clearing Member's House Collateral Account
    - 1- A Clearing Member may request LCH.Clearnet SA to automatically credit Euro denominated Cash Collateral recorded in its House Collateral Account which is in an amount above the House Excess Collateral Threshold to the Clearing Member's TARGET2 Account (or the relevant cash account of its TARGET2 Payment Agent) provided the amount to be credited would not result in the relevant House Margin Requirement exceeding the Margin Balance for the House Margin Account . LCH.Clearnet SA



will credit the relevant amount of Euro denominated Cash Collateral at the next Initial Slot, or any TARGET2 time slot in which a Variation Margin payment is due to be performed.

A Clearing Member must notify LCH.Clearnet SA of its request to have Euro denominated Cash Collateral automatically credited to the Clearing Member's TARGET2 Account (or the relevant cash account of its TARGET2 Payment Agent) by submitting the relevant form by any means as specified in a Clearing Notice by no later than 16:00 CET on a Business Day in order for the Clearing Member's request to be processed on the next following Business Day.

Once a Clearing Member has notified LCH.Clearnet SA of its request to have Euro denominated Cash Collateral automatically credited, LCH.Clearnet SA will apply it, until such time as LCH.Clearnet SA has been otherwise instructed by the relevant Clearing Member.

2- A Clearing Member may request, on an ad hoc basis, LCH.Clearnet SA to return Euro denominated Cash Collateral recorded in its House Collateral Account provided the amount to be returned would not result in the relevant House Margin Requirement exceeding the Margin Balance for the House Margin Account, as determined at the time when the request is received and processed by LCH.Clearnet SA. Where this would be the case, the Clearing Member's request will be rejected.

3- Following receipt of a request in accordance with this Paragraph 3.7(g) i), 2, LCH.Clearnet SA will credit the relevant amount of Euro denominated Cash Collateral to the relevant TARGET2 Account of the Clearing Member (or the relevant cash account of its TARGET2 Payment Agent) at the next Initial Slot, or any TARGET2 time slot in which a Variation Margin payment is due to be performed.

ii) In respect of a CCM's Client Collateral Account(s)

A CCM may request LCH.Clearnet SA to return Euro denominated Cash Collateral recorded in any of its CCM Client Collateral Accounts provided the amount to be returned would not result in:

- (x) the relevant CCM Client Margin Requirement, plus
- (y) the CCM Allocated Client Collateral Buffer, if any,

exceeding the Margin Balance for the relevant CCM Client Margin Account, as determined at the time when the request is received and processed by LCH.Clearnet SA. Where this would be the case, the Clearing Member's request will be rejected.

Following receipt of a request in accordance with this Paragraph 3.7(g) ii), LCH.Clearnet SA will credit the relevant amount of Euro denominated Cash Collateral to the relevant TARGET2 Account of the Clearing Member (or the relevant cash account of its TARGET2 Payment Agent) at the next Initial Slot, or any TARGET2 time slot in which a Variation Margin payment is due to be performed.

iii) In respect of a CCM's Buffer Collateral Account

- 1- A CCM may request LCH.Clearnet SA to automatically credit Euro denominated Cash Collateral recorded in its Buffer Collateral Account which is in an amount above the CCM Client Collateral Buffer Threshold to the CCM's TARGET2 Account (or the relevant cash account of its TARGET2 Payment Agent) provided the amount does not exceed the CCM Available Client Collateral Buffer. LCH.Clearnet SA will credit the relevant amount of Euro denominated Cash Collateral at the next Initial Slot. A CCM must notify LCH.Clearnet SA of its request to have Euro denominated Cash Collateral automatically credited to the CCM's TARGET2 Account (or the relevant cash account of its TARGET2 Payment Agent) by submitting the relevant form by any means as specified in a Clearing Notice by no later than 16:00 CET on a Business Day in order for the CCM's request to be processed on the next following Business Day.

Once a CCM has notified LCH.Clearnet SA of its request to have Euro denominated Cash Collateral automatically credited, LCH.Clearnet SA will apply it, until such time as LCH.Clearnet SA has been otherwise instructed by the relevant CCM.

- 2- A CCM may request, on an ad hoc basis, LCH.Clearnet SA to return Euro denominated Cash Collateral recorded in its Buffer Collateral Account provided the amount does not exceed the CCM Available Client Collateral Buffer, as determined at the time when the request is received and processed by LCH.Clearnet SA. Where this would be the case, the CCM's request will be rejected.

Following receipt of a request in accordance with this Paragraph 3.7(g) iii), 2, LCH.Clearnet SA will credit the relevant amount of Euro denominated Cash Collateral to the relevant TARGET2 Account of the CCM (or the relevant cash account of its TARGET2 Payment Agent) at the next Initial Slot..

iv) In respect of an FCM Unallocated Client Collateral Financial Account

The FCM Clearing Member may also request LCH.Clearnet SA to return some or all FCM Unallocated Client Excess Collateral in the form of Euro denominated Cash Collateral provided that the requested amount does not exceed the FCM Unallocated Client Excess Collateral recorded in its FCM Client Collateral Account. Where this

would be the case, the FCM Clearing Member's request will be rejected.

LCH.Clearnet SA will credit the relevant amount of Euro denominated Cash Collateral to the relevant TARGET2 Account of the FCM Clearing Member (or the relevant cash account of its TARGET2 Payment Agent) at the next Initial Slot, or any TARGET2 time slot in which a Variation Margin payment is due to be performed

By exception to the time limits for notification as set out in paragraphs 3.7 (f) and (g), in case of atypical market conditions, (i.e. periods of time with reduced activity and lowered liquidity), including but not limited to the end of the year period (i.e. the period ~~of time~~ starting from 22 December of each year to 2 January of the ~~next~~following year), LCH.Clearnet SA may inform by any means the Clearing Members that notifications of movement (transfer or return) of Euro denominated Cash Collateral, for value on Day, must be received by LCH.Clearnet SA on Day minus five before 16.00 CET. Such information will contain the implementation measure of the extension of the notification period.

- (h) Transfer of Euro denominated Cash Collateral to satisfy a Contribution Shortfall

Where a Clearing Member is required to transfer Euro denominated Cash Collateral to LCH.Clearnet SA to satisfy a Contribution Shortfall, in accordance with Article 4.4.1.7 of the CDS Clearing Rule Book, it shall make arrangements to credit the LCH House TARGET2 Account with the required amount of Euro denominated Cash Collateral.

### 3.8 NON-EURO DENOMINATED CASH COLLATERAL

- (a) Multi-currency accounts held by LCH.Clearnet SA

LCH.Clearnet SA holds non-Euro Cash Collateral provided by Clearing Members in the following three multi-currency accounts opened in the books of an eligible commercial bank selected in accordance with Paragraph 3.8(c) below:

- i) a multi-currency account used to credit non-Euro Cash Collateral which is transferred by a Clearing Member to be recorded in its House Collateral Account (the "**LCH House Non-Euro Account**"); and
- ii) with respect to Clients of a Clearing Member:
  - (x) a multi-currency account used to credit non-Euro Cash Collateral which is transferred by a CCM to be recorded in its CCM Client Collateral Account(s) (the "**LCH CCM Client Non-Euro Account**"); or

- (y) a multi-currency account used to credit non-Euro, non-USD Cash Collateral which is transferred by an FCM Clearing Member to be recorded in its FCM Client Collateral Account (the “**LCH FCM Client Non-Euro Account**”), which for the avoidance of doubt forms part of the LCH Cleared Swaps Client Segregated Depository Account for purposes of the FCM CDS Clearing Regulations,

together referred to as the “**LCH Client Non-Euro Accounts**” and individually as a “**LCH Client Non-Euro Account**”.

The LCH House Non-Euro Account and the LCH Client Non-Euro Accounts shall be together referred to as the “**LCH Non-Euro Accounts**”.

LCH.Clearnet SA may invest non-Euro Cash Collateral in accordance with Paragraph 3.11(b).

- (b) USD cash account held by LCH.Clearnet SA

LCH.Clearnet SA holds USD Cash Collateral provided by FCM Clearing Members on behalf of their FCM Clients in an USD cash account:

- i) opened in the books of BNYM US; and
- ii) used to credit USD Cash Collateral which is transferred by FCM Clearing Members to be recorded in their FCM Client Collateral Account (the “**LCH FCM Client USD Account**”), which for the avoidance of doubt forms part of the LCH Cleared Swaps Client Segregated Depository Account for purposes of the FCM CDS Clearing Regulations.

LCH.Clearnet SA may invest USD Cash Collateral in accordance with Paragraph 3.11(b) and the FCM CDS Clearing Regulations.

- (c) Eligible commercial banks

LCH.Clearnet SA will hold:

- i) non-Euro Cash Collateral, where LCH.Clearnet SA does not invest it in accordance with Paragraph 3.11(a), in the LCH Non-Euro Accounts; and
- ii) USD Cash Collateral provided by FCM Clearing Members on behalf of their FCM Clients, where LCH.Clearnet SA does not invest it in accordance with Paragraph 3.11(b) and the FCM CDS Clearing Regulations, in the LCH FCM Client USD Account

opened in the books of any commercial bank which has been selected in accordance with the LCH.Clearnet Group Limited risk collateral policy (the “**LCH Group Risk Collateral Policy**”).

The LCH Group Risk Collateral Policy sets out, amongst other things, the principles that LCH.Clearnet SA must adhere to when arranging for the

custody of Cash Collateral and is kept under review by the Risk Committee. One of those principles is that LCH.Clearnet SA may select a commercial bank to act as custodian for Cash Collateral, subject to it meeting the following criteria:

- an average credit rating of at least A-, or a guarantee from a sovereign government or parent company with an average credit rating of at least A-. Where there is a subsequent downgrade of the bank's credit rating, reference will be made to the LCH Group Risk Collateral Policy and the Risk Committee's policy; and
- has demonstrable operational suitability (confirmed by LCH.Clearnet SA's own due diligence).

On the basis of these criteria, LCH.Clearnet SA has selected:

- i) Euroclear Bank to act as depository of non-Euro denominated Cash Collateral provided by Clearing Members; and
- ii) BNYM US to act as depository of USD Cash Collateral provided by FCM Clearing Members on behalf of their FCM Clients,

together referred to as the “**Eligible Commercial Banks**” and individually as an “**Eligible Commercial Bank**”.

- (d) FX conversion and discounts

Whenever LCH.Clearnet SA is required to convert non-Euro denominated Cash Collateral, transferred by a Clearing Member, to Euros such conversion shall be effected on the basis of the Applicable Price. LCH.Clearnet SA shall additionally be entitled to apply discounts to such non-Euro denominated Cash Collateral, at its discretion, as published on the Website.

- (e) Interest

LCH.Clearnet SA pays interest on non-Euro denominated Cash Collateral and USD Cash Collateral deposited in the Eligible Commercial Banks.

The applicable interest rate is published by LCH.Clearnet SA on the Website.

- (f) Transfer of non-Euro denominated Cash Collateral (other than USD denominated Cash Collateral to be recorded in the LCH FCM Client USD Account)

#### On Day minus one

If:

- (i) a Clearing Member wishes to transfer additional non-Euro denominated Cash Collateral to be recorded in its House Collateral Account and, in the case of a CCM, in any of its CCM Client Collateral Accounts; or

- (ii) a Clearing Member wishes to transfer non-Euro denominated Cash Collateral to be recorded in any of its Collateral Accounts for the purpose of substituting such non-Euro denominated Cash Collateral for any Collateral recorded in its Collateral Accounts,

it shall notify LCH.Clearnet SA by submitting the relevant form by any means as specified in a Clearing Notice. The Clearing Member must specify in such form to which Collateral Account(s) the non-Euro denominated Collateral should be recorded. The process that a Clearing Member and LCH.Clearnet SA must follow to process the return of substituted Collateral to the Clearing Member is set out in paragraph 3.7(g) (for Euro denominated Cash Collateral), 3.8(i) (for USD denominated Cash Collateral), 3.10(c) (for Eligible Collateral transferred with full title), 3.15(b) (for Pledged Eligible Collateral) or 3.17(b) (for US T-Bills), as applicable.

In respect of a CCM only, if such CCM notifies to LCH.Clearnet SA that non-Euro denominated Cash Collateral will be transferred to the LCH Client Non-Euro Account but the CCM does not specify to which CCM Client Collateral Account(s) some or all of such amounts should be recorded, LCH.Clearnet SA will treat such amounts which have not been specifically identified as being for a particular CCM Client Collateral Account as CCM Unallocated Client Collateral and record such amounts in the CCM Unallocated Client Collateral Account when they are received.

The Clearing Member must notify LCH.Clearnet SA as set out above by no later than 16:45 CET on Day minus one in order for the Clearing Member's request to be processed on the next following Business Day and to enable the transfer of non-Euro denominated Cash Collateral to occur on Day. It is the Clearing Member's responsibility to ensure the due receipt by LCH.Clearnet SA of the relevant notification. Accordingly, the Clearing Member should confirm its request no later than 16:45 CET by a phone call to LCH.Clearnet SA's collateral management team on (+33) (0)1 70 37 66 86/66 37/65 35, although a failure to do so shall not invalidate any request actually received by LCH.Clearnet SA.

#### On Day

The Clearing Member transfers the amount of the non-Euro denominated Cash Collateral notified to LCH.Clearnet SA on Day minus one to the relevant LCH Non-Euro Account opened with the Eligible Commercial Bank.

If non-Euro denominated Cash Collateral is received:

- i) before 10:30 CET on Day, such non-Euro denominated Cash Collateral (other than CCM Unallocated Client Collateral) will form part of the Margin Balance and be taken into account for the purposes of the First Intraday Call on Day;
- ii) at or after 10:30 CET but prior to 11:45 CET on Day, such non-Euro denominated Cash Collateral (other than CCM Unallocated Client Collateral) will form part of the relevant Margin Balance and be taken into account for the purposes of calculations in relation to a Collateral

substitution request which is to be effected using the Additional Specific Collateral Slot;

- iii) at or after 11:45 CET but prior to 14:30 CET on Day, such non-Euro denominated Cash Collateral (other than CCM Unallocated Client Collateral) will form part of the relevant Margin Balance and be taken into account for the purposes of the Second Intraday Call on Day;
- iv) at or after 14:30 CET on Day, such non-Euro denominated Cash Collateral (other than CCM Unallocated Client Collateral) will form part of the relevant Margin Balance and be taken into account for the purposes of the Morning Call on the next following Business Day.

In respect of a CCM only, to the extent Cash Collateral has been credited to its CCM Unallocated Client Collateral Account, the CCM must inform LCH.Clearnet SA by no later than 16:00 CET on Day how the CCM Unallocated Client Collateral should be recorded within its CCM Client Collateral Account(s). Where the CCM does not provide LCH.Clearnet SA with this information within this timeframe, the CCM Unallocated Client Collateral shall be returned to the relevant account of the CCM.

- (g) Transfer of USD denominated Cash Collateral to be recorded in the LCH FCM Client USD Account

On Day minus one (before 17:00 CET)

If an FCM Clearing Member wishes to transfer USD denominated Cash Collateral to be recorded in its FCM Client Collateral Account for the purpose of substituting such USD denominated Cash Collateral for any Collateral recorded in its FCM Client Collateral Account, it shall notify LCH.Clearnet SA by submitting the relevant form by any means as specified in a Clearing Notice. The process that an FCM Clearing Member and LCH.Clearnet SA must follow to process the return of substituted Collateral to the FCM Clearing Member is set out in paragraph 3.7(g) (for Euro denominated Cash Collateral), 3.8(h) (for non-Euro denominated Cash Collateral) or 3.17(b) (for US T-Bills transferred on behalf of FCM Clients), as applicable.

The form Clearing Member must notify LCH.Clearnet SA by no later than 17:00 CET on a Business Day ("Day minus one") in order for the FCM Clearing Member's request to be processed and to enable the transfer to occur no later than 18:00 CET on a Business Day ("Day minus one"). It is the FCM Clearing Member's responsibility to ensure the due receipt by LCH.Clearnet SA of the relevant notification. Accordingly, the FCM Clearing Member should confirm its request no later than 17:00 CET by a phone call to LCH.Clearnet SA's collateral management team on (+33) (0)1 70 37 66 86/66 37/65 35, although a failure to do so shall not invalidate any request actually received by LCH.Clearnet SA.

On Day minus one (before 18:00 CET)

A FCM Clearing Member transfers the amount of the USD denominated Cash Collateral, notified on Day minus one before 17:00 CET, to LCH.Clearnet SA's

relevant LCH FCM Client USD Account opened with the Eligible Commercial Bank.

If USD denominated Cash Collateral is received before 18:00 CET on Day minus one, such USD denominated Cash Collateral will be taken into account in the relevant FCM Margin Balance used for the Morning Margin Call on Day.

- (h) Return of non-Euro denominated Cash Collateral (other than USD denominated Cash Collateral to be recorded in the LCH FCM Client USD Account)

#### On Day minus one

A Clearing Member must notify LCH.Clearnet SA of its request to have non-Euro denominated Cash Collateral returned to it by submitting the relevant form by any means as specified in a Clearing Notice. A Clearing Member must specify, on this form, the account to which the non-Euro denominated Cash Collateral should be returned.

The Clearing Member must notify LCH.Clearnet SA as set out above by no later than 16:00 CET on a Day minus one in order for the Clearing Member's request to be processed on the next following Business Day and to allow LCH.Clearnet SA to give instructions (in the circumstances described below) to make the transfer on Day during the Additional Specific Collateral Slot. It is the Clearing Member's responsibility to ensure the due receipt by LCH.Clearnet SA of the relevant notification. Accordingly, the Clearing Member should confirm its request by 16:00 CET by a phone call to LCH.Clearnet SA's Treasury Operations team on +33 1 70 37 66 86/66 37/65 35, although a failure to do so shall not invalidate any request actually received by LCH.Clearnet SA.

Any request received by LCH.Clearnet SA pursuant to this Paragraph 3.8(h) shall be deemed firm and irrevocable.

#### On Day

- In respect of a Clearing Member's House Collateral Account and Client Collateral Account(s)

Following the First Intraday Slot and, in any event, by 12:00 CET at the latest, LCH.Clearnet SA will re-calculate the value of the non-Euro denominated Cash Collateral to be returned to the Clearing Member (the "**Non-Euro Cash Collateral Value**") and:

- 1- provided LCH.Clearnet SA holds sufficient Collateral (other than that which is to be returned) to cover the Margin Requirement for the relevant Margin Account and the Non-Euro Cash Collateral Value does not exceed the amount of non-Euro denominated Cash Collateral previously provided to LCH.Clearnet SA through a Collateral Call, LCH.Clearnet SA will process the return of the non-Euro denominated Cash Collateral to the Clearing Member in



accordance with the remaining provisions of this Paragraph 3.8(h);  
or

- 2- if LCH.Clearnet SA does not hold sufficient Collateral (other than that which is to be returned) to cover the Margin Requirement for the relevant Margin Account, LCH.Clearnet SA will debit an amount of Euro-denominated Cash Collateral equal to the Non-Euro Cash Collateral Value from the relevant TARGET2 Account of the Clearing Member (or the relevant cash account of its TARGET2 Payment Agent) during the Additional Specific Collateral Slot. Provided an amount of Euro-denominated Cash Collateral equal to the Non-Euro Cash Collateral Value is received by LCH.Clearnet SA, LCH.Clearnet SA will process the return of the non-Euro denominated Cash Collateral to the Clearing Member in accordance with the remaining provisions of this Paragraph 3.8(h).

- In respect of a CCM's Buffer Collateral Account

Following the First Intraday Slot and, in any event, by 12:00 CET at the latest, LCH.Clearnet SA will re-calculate the Non-Euro Cash Collateral Value and:

- 1- provided LCH.Clearnet SA holds Cash Collateral (other than that which is to be returned) in an amount at least equal to the CCM Available Client Collateral Buffer, as determined at the time when the request is received and processed by LCH.Clearnet SA, and the amount does not exceed the amount of non-Euro denominated Cash Collateral previously provided to LCH.Clearnet SA through a Collateral Call, LCH.Clearnet SA will process a return of the Non-Euro Cash Collateral Value in accordance with the remaining provisions of this Paragraph 3.8(h) ; or
- 2- if LCH.Clearnet SA holds Cash Collateral (other than that which is to be returned) in an amount below the CCM Available Client Collateral Buffer, LCH.Clearnet SA will debit an amount of Euro-denominated Cash Collateral equal to the Non-Euro Cash Collateral Value from the relevant TARGET2 Account of the CCM (or the relevant cash account of its TARGET2 Payment Agent) during the Additional Specific Collateral Slot. Provided an amount of Euro-denominated Cash Collateral equal to the Non-Euro Cash Collateral Value is received by LCH.Clearnet SA, LCH.Clearnet SA will process the return of the non-Euro denominated Cash Collateral to the CCM in accordance with the remaining provisions of this Paragraph 3.8(h).

- In respect of an FCM Unallocated Client Collateral Financial Account

Following the First Intraday Slot and, in any event, by 12:00 CET at the latest, LCH.Clearnet SA will re-calculate the Non-Euro Cash Collateral Value of the requested amount of FCM Unallocated Client Excess Collateral recorded in the FCM Unallocated Client Collateral Financial Account to be returned and will process a return of the Non-Euro Cash

Collateral Value in accordance with the remaining provisions of this Paragraph 3.8(h).

- Return of the Non-Euro Cash Collateral Value

In the event that LCH.Clearnet SA is required to, but has not been able to, debit an amount of Euro-denominated Cash Collateral equal to the Non-Euro Cash Collateral Value from the Clearing Member's TARGET2 Account(s) or the relevant cash accounts of its TARGET2 Payment Agent), the Clearing Member's request to have non-Euro denominated Cash Collateral returned to it will be deemed void and LCH.Clearnet SA shall retain the non-Euro denominated Cash Collateral which the Clearing Member requested to be returned. LCH.Clearnet SA's inability to debit Euro-denominated Cash Collateral equal to the Eligible Collateral Value intra-day through TARGET2 shall not constitute a Payment Failure in respect of the Clearing Member.

Save in the circumstances described above, LCH.Clearnet SA will give instructions to the Eligible Commercial Bank to credit the relevant account(s) of the Clearing Member (as notified in the form on Day minus one) with the non-Euro denominated Cash Collateral between 13:00 and 15:00 CET.

- (i) Return of USD denominated Cash Collateral recorded in the LCH FCM Client USD Account

On Day

An FCM Clearing Member must notify LCH.Clearnet SA of its request to have USD denominated Cash Collateral recorded in the LCH FCM Client USD Account returned to it by submitting the relevant form by any means as specified in a Clearing Notice. An FCM Clearing Member must specify, on this form, the FCM Cleared Swaps Client Segregated Depository Account to which the USD denominated Cash Collateral should be returned.

The FCM Clearing Member must notify LCH.Clearnet SA by no later than 17:00 CET on a Business Day ("Day ") in order for the FCM Clearing Member's request to be processed on the same Business Day ("Day") and to allow LCH.Clearnet SA to give instructions (in the circumstances described below) to make the transfer on Day. It is the FCM Clearing Member's responsibility to ensure the due receipt by LCH.Clearnet SA of the relevant notification. Accordingly, the FCM Clearing Member should confirm its request by 17:00 CET by a phone call to LCH.Clearnet SA's Treasury Operations team on +33 1 70 37 66 86/66 37/65 35, although a failure to do so shall not invalidate any request actually received by LCH.Clearnet SA.

Any request received by LCH.Clearnet SA pursuant to this Paragraph 3.8(i) shall be deemed firm and irrevocable.

On Day

- In respect of an FCM Clearing Member's FCM Client Collateral Account

By 17:00 CET at the latest, LCH.Clearnet SA will re-calculate the value of the USD denominated Cash Collateral to be returned to the FCM Clearing Member (the "**USD Cash Collateral Value**") and if:

1. LCH.Clearnet SA holds sufficient Collateral (other than that which is to be returned) to cover the FCM Client Margin Requirement for the relevant FCM Client Margin Account, LCH.Clearnet SA will process the return of the USD denominated Cash Collateral to the FCM Clearing Member (up to the amount of USD denominated Cash Collateral provided originally by the FCM Clearing Member) before 18:00 CET; or
2. LCH.Clearnet SA does not hold sufficient Collateral (other than that which is to be returned) to cover the FCM Client Margin Requirement for the relevant FCM Client Margin Account, LCH.Clearnet SA will reject FCM Clearing Member request to have USD denominated cash collateral returned to it.

If FCM Clearing Member's relevant FCM Margin Requirements are covered with sufficient alternative collateral (other than that which is to be returned), LCH.Clearnet SA will give instructions to the Eligible Commercial Bank to credit the FCM Clearing Member's relevant account(s) (as notified in the form on Day) with the USD denominated Cash Collateral immediately.

Such instructions will, in any event, be made on the same Business Day ("Day") at 18:00 CET, i.e. in advance of the relevant commercial bank's currency cut-off time (except in exceptional circumstances, as determined by LCH.Clearnet SA in an objective and commercially reasonable manner).

- In respect of an FCM Unallocated Client Collateral Financial Account Client Collateral Account

By 17:00 CET at the latest, LCH.Clearnet SA will re-calculate the USD Cash Collateral Value of the requested amount of FCM Unallocated Client Excess Collateral recorded in the FCM Unallocated Client Collateral Financial Account and will process a return of the USD Cash Collateral Value in accordance with the remaining provisions of this Paragraph 3.8(i).

By exception to the time limits for notification as set out in paragraphs 3.8 (f), (g), (h) and (i), in case of atypical market conditions, (i.e. periods of time with reduced activity and lowered liquidity), including but not limited to the end of the year period (i.e. the period ~~of time~~ starting from 22 December of each year to 2 January of the next following year) LCH.Clearnet SA may inform by any means the Clearing Members that notifications of movement (transfer or return) of non-Euro Cash Collateral, for value on Day, must be received by LCH.Clearnet SA on Day minus

five before 16.00 CET. Such information will contain the implementation measures of the extension of the notification period.

### 3.9 ELIGIBLE COLLATERAL

A list of the securities that constitute Eligible Collateral, together with applicable haircuts, is set out on the Website at <http://www.lchclearnet.com/risk-collateral-management/collateral-management/acceptable-collateral>.

LCH.Clearnet SA may amend this list in accordance with Article 4.2.7.1 of the CDS Clearing Rule Book and this Paragraph 3.9.

For risk management purposes, LCH.Clearnet SA does not permit a Clearing Member to transfer “self-issued securities” as Eligible Collateral (i.e. securities issued by such Clearing Member or by any of its Affiliates).

#### (a) Withholding tax

Each Clearing Member should ensure that the Eligible Collateral submitted to LCH.Clearnet SA's accounts with custodians or Central Securities Depositories or transferred to LCH.Clearnet SA's pledged account at Euroclear Bank pursuant to a collateral arrangement, or BNYM US pursuant to a security arrangement, is not subject to withholding tax.

If the Eligible Collateral is subject to withholding tax and a Clearing Member does not request the return of Eligible Collateral prior to the relevant record date of the securities to enable the Clearing Member to receive the gross coupon or dividend, any coupon or dividend will be paid to the Clearing Member by LCH.Clearnet SA net of withholding tax.

#### (b) FX conversion and discounts

A discount shall be applied to the value of Eligible Collateral transferred by a Clearing Member. The amount of the discount shall be notified on the Website. Such discounts may be modified at any time and at the sole discretion of LCH.Clearnet SA.

Whenever LCH.Clearnet SA is required to convert non-Euro denominated Eligible Collateral, transferred by a Clearing Member, to Euros such conversion shall be effected on the basis of the Applicable Price.

#### (c) Events affecting the eligibility of Eligible Collateral

Where a security which constitutes Eligible Collateral is affected by one of the following events (each, a “**Collateral Event**” and together, the “**Collateral Events**”):

- i) a suspension from trading of such security by an exchange, or

- ii) the public announcement of a take-over bid, public exchange offer, split or reverse split involving the entity issuing such security,

LCH.Clearnet SA will publish a Clearing Notice on the Website notifying Clearing Members that such security will no longer constitute Eligible Collateral. The Clearing Notice will specify the effective date, which shall be no later than 2 Business Days following the date of the Collateral Event, as of which the securities will no longer constitute Eligible Collateral.

Where a Clearing Member has transferred such securities to LCH.Clearnet SA with full title or to LCH.Clearnet SA's pledged account(s) at Euroclear Bank, or to LCH.Clearnet SA's segregated depository account(s) at BNYM US, such Clearing Member should request a return of the securities in accordance with Paragraph 3.10(c), 3.15 (b) or 3.17 (b), as appropriate, and transfer alternative Collateral to LCH.Clearnet SA in accordance with this Section 3 to satisfy any of its Margin Requirements and its obligation in respect of its House Excess Collateral Threshold.

Where the Clearing Member does not request a return of the securities and/or transfer alternative Collateral to LCH.Clearnet SA prior to the effective date specified in the Clearing Notice published in accordance with this Paragraph 3.9(c), LCH.Clearnet SA will calculate the Margin Balance of the Clearing Member's House Collateral Account and each of its affected Client Collateral Accounts, in accordance with Paragraph 3.2, on the effective date specified in such Clearing Notice, excluding the suspended securities. As a result of this calculation LCH.Clearnet SA shall determine whether or not there is a Margin Shortfall for any Margin Account of the Clearing Member. Where there is a Margin Shortfall this will be detailed in the AC0103E Report which is sent to the Clearing Member in accordance with Paragraph 5.13(b) of Section 5 of the Procedures and LCH.Clearnet SA shall be taken into account for the purposes of calculating the Required Collateral Amount for the purposes of the Morning Call on the next Business Day.

For the avoidance of doubt, LCH.Clearnet SA shall retain the suspended securities until such time as the Clearing Member requests their return in accordance with this Paragraph 3.9(c) but they shall not be taken into account for the purposes of calculating any Margin Balance of the Clearing Member on subsequent Business Days.

- (d) Transfer of Eligible Collateral (other than US T-Bills transferred by an FCM Clearing Member on behalf of FCM Clients)

Subject to the requirement applicable to US T-Bills transferred by an FCM Clearing Member on behalf of FCM Clients as set out in Paragraph 3.9 (e) below, a Clearing Member can transfer Eligible Collateral to LCH.Clearnet SA, either:

- i) with full title, in accordance with Paragraph 3.10 to be recorded in its House Collateral Account and the case of a CCM only, in any of its CCM Client Collateral Accounts; or

- ii) by way of security interest whereby the Eligible Collateral would be transferred to the relevant LCH.Clearnet SA pledged account at Euroclear Bank and held pursuant to a Belgian law pledge in accordance with Paragraph 3.15 and to be recorded in its House Collateral Account and in the case of a CCM only, in any of its CCM Client Collateral Accounts.
- (e) Transfer of US T-Bills provided by an FCM Clearing Member on behalf of FCM Clients

If an FCM Clearing Member wishes to transfer US T-Bills on behalf of FCM Clients, it shall be transferred by way of security interest and recorded in LCH.Clearnet SA's segregated depository account held at BNYM US in accordance with Paragraph 3.14.

### 3.10 ELIGIBLE COLLATERAL TRANSFERRED WITH FULL TITLE

- (a) Securities accounts

LCH.Clearnet SA holds Eligible Collateral transferred to it with full title in the following sets of accounts opened in the books of Euroclear Bank and Euroclear France:

- i) a security account in each of Euroclear Bank and Euroclear France used to credit Eligible Collateral which is transferred by Clearing Members to be recorded in their House Collateral Account (the "**LCH House Securities Account**"); and
- ii) a security account in each of Euroclear Bank and Euroclear France used to credit Eligible Collateral which is transferred by Clearing Members to be recorded in any of their Client Collateral Accounts (the "**LCH Client Securities Account**").

The LCH House Securities Account and the LCH Client Securities Account shall be together referred to as the "**LCH Securities Accounts**".

LCH.Clearnet SA may invest Eligible Collateral provided to LCH.Clearnet SA with full title in accordance with Paragraph 3.11(b).

- (b) Transfer of Eligible Collateral

#### On Day

If:

- (i) a Clearing Member wishes to transfer additional Eligible Collateral with full title to be recorded in its House Collateral Account, and in the case of a CCM, in any of its CCM Client Collateral Accounts; or
- (ii) a Clearing Member wishes to transfer Eligible Collateral with full title to be recorded in its House Collateral Account, and in the case of a CCM, in its CCM Client Collateral Account, for the purpose of substituting

such Eligible Collateral for any Collateral recorded in its Collateral Accounts,

it shall notify LCH.Clearnet SA of its request to transfer such Eligible Collateral with LCH.Clearnet SA by submitting the relevant form by any means as specified in a Clearing Notice. The process that a Clearing Member and LCH.Clearnet SA must follow to process the return of substituted Collateral to the Clearing Member is set out in paragraph 3.7(g) (for Euro denominated Cash Collateral), 3.8(h) (for non-Euro denominated Cash Collateral), 3.8(i) (for USD denominated Cash Collateral), 3.15(b) (for Pledged Eligible Collateral) or 3.17(b) (for US T-Bills transferred on behalf of FCM Clients), as applicable.

In respect of a CCM only, if such CCM notifies to LCH.Clearnet SA that Eligible Collateral will be transferred to the LCH Client Securities Account but the CCM does not specify to which CCM Client Collateral Account(s) some or all such Eligible Collateral should be recorded, LCH.Clearnet SA will not accept the request to transfer such Eligible Collateral.

The Clearing Member must notify LCH.Clearnet SA as set out above by no later than 17:15 CET on a Business Day ("Day") in order for the Clearing Member's request to be processed on Day and to enable the transfer to occur on Day. It is the Clearing Member's responsibility to ensure the due receipt by LCH.Clearnet SA of the relevant notification. Accordingly, the Clearing Member should confirm the request by 17:15 CET by a phone call to LCH.Clearnet SA's collateral management team on (+33) (0)1 70 37 66 86/66 37/65 35, although a failure to do so shall not invalidate any request actually received by LCH.Clearnet SA.

#### On Day

A Clearing Member must submit instructions (Franco or Sell Free of payment) via Euroclear Bank or ESES (Euroclear France), as applicable, and LCH.Clearnet SA must submit instructions (Buy free of payment) if Clearing Member uses Sell free of payment, for matching through Euroclear Bank or ESES (Euroclear France).

If LCH.Clearnet SA receives the confirmation of settlement from Euroclear Bank or ESES (Euroclear France):

- i) before 10:30 CET on Day, the Eligible Collateral will form part of the relevant Margin Balance and be taken into account for the purposes of the First Intraday Call on Day;
- ii) at or after 10:30 CET but prior to 11:45 CET on Day, the Eligible Collateral will form part of the relevant Margin Balance and be taken into account for the purposes of calculations in relation to a Collateral substitution request which is to be effected using Additional Specific Collateral Slot;

- iii) at or after 11:45 CET but prior to 14:30 CET on Day, the Eligible Collateral will form part of the relevant Margin Balance and be taken into account for the purposes of the Second Intraday Call on Day;
  - iv) at or after 14:30 CET but prior to 17:15 CET on Day, the Eligible Collateral will form part of the relevant Margin Balance and be taken into account solely for the purposes of novating Intraday Transactions;
  - iv) at or after 17:15 CET on Day, the Eligible Collateral will form part of the relevant Margin Balance and be taken into account for the purposes of the Morning Call on the next following Business Day.
- (c) Return of Eligible Collateral

On Day minus one

A Clearing Member must notify LCH.Clearnet SA of a request to have Eligible Collateral returned to it by submitting the relevant form by any means as specified in a Clearing Notice.

The Clearing Member must notify LCH.Clearnet SA by no later than 16:00 CET on a Business Day ("Day minus one") in order for the Clearing Member's request to be processed on the next following Business Day ("Day") and to allow LCH.Clearnet SA to give instructions (in the circumstances described below) to make the transfer to occur on Day during the Additional Specific Collateral Slot. It is the Clearing Member's responsibility to ensure the due receipt by LCH.Clearnet SA of the relevant notification. Accordingly, the Clearing Member should confirm the request by 16:00 CET by a phone call to LCH.Clearnet SA's collateral management team on +33 1 70 37 66 86/66 37/65 35, although a failure to do so shall not invalidate any request actually received by LCH.Clearnet SA.

Any request received by LCH.Clearnet SA pursuant to this process shall be deemed firm and irrevocable.

On Day

Following the First Intraday Slot and, in any event, by 12:00 CET at the latest, LCH.Clearnet SA will re-calculate the value of the Eligible Collateral to be returned (the "**Eligible Collateral Value**") and if:

- 1- LCH.Clearnet SA holds sufficient Collateral (other than that which is to be returned) to cover the Margin Requirement for the relevant Margin Account, LCH.Clearnet SA will process the return of the Eligible Collateral on request of the Clearing Member in accordance with the remaining provisions of this Paragraph 3.10(c); or
- 2- LCH.Clearnet SA does not hold Collateral (other than that which is to be returned) to cover the Margin Requirement for the relevant Margin Account, LCH.Clearnet SA will debit an amount of Euro-



denominated Cash Collateral equal to the Eligible Collateral Value from the relevant TARGET2 Account(s) of the Clearing Member (or the relevant cash accounts of its TARGET2 Payment Agent) during the Additional Specific Collateral Slot. Provided an amount of Euro-denominated Cash Collateral equal to the Eligible Collateral Value is received by LCH.Clearnet SA, LCH.Clearnet SA will process the return of the Eligible Collateral to the Clearing Member in accordance with the remaining provisions of this Paragraph 3.10(c).

In the event that LCH.Clearnet SA is required to, but has not been able to, debit an amount of Euro-denominated Cash Collateral equal to the Eligible Collateral Value from the Clearing Member's TARGET2 Account(s) or the relevant cash accounts of its TARGET2 Payment Agent), the Clearing Member's request to have Eligible Collateral returned to it will be deemed void and LCH.Clearnet SA shall retain the Eligible Collateral which the Clearing Member requested to be returned. LCH.Clearnet SA's inability to debit Euro-denominated Cash Collateral equal to the Eligible Collateral Value intra-day through TARGET2 shall not constitute a Payment Failure in respect of the Clearing Member.

Save in the circumstances described above, LCH.Clearnet SA will send instructions (Sell Free of Payment) submitted via Euroclear Bank or ESES (Euroclear France) and the Clearing Member shall submit instructions (Buy Free of Payment), for matching through Euroclear Bank or ESES (Euroclear France) between 13:00 and 15:00 CET.

Such instructions will, in any event, be sent on Day in advance of the relevant Central Securities Depository/International Central Securities Depository cut-off time (except in exceptional circumstances, as determined in an objective and commercially reasonable manner).

By exception to the time limits for notification as set out in paragraphs 3.10 (b) and (c), in case of atypical market conditions, (i.e. periods of time with reduced activity and lowered liquidity), including but not limited to the end of the year period (*i.e.* the period ~~of time~~ starting from 22 December of each year to 2 January of the next following year) LCH.Clearnet SA may inform by any means the Clearing Members that notifications of movement (transfer or return) of Eligible Collateral transferred with full title, for value on Day, must be received by LCH.Clearnet SA on Day minus five before 16.00 CET. Such information will contain the implementation measure of the extension of the notification period.

### 3.11 LCH.CLEARNET SA'S RIGHTS IN RESPECT OF COLLATERAL TRANSFERRED WITH FULL TITLE

(a) Full title

Collateral (except Pledged Eligible Collateral and US T-Bills recorded in LCH.Clearnet SA's segregated depository account at BNYM US) shall be transferred to LCH.Clearnet SA with full title.

(b) Use of Collateral

LCH.Clearnet SA may use Collateral (except Pledged Eligible Collateral and US T-Bills recorded in LCH.Clearnet SA's segregated depository account at BNYM US) in accordance with the principles set out in the LCH Group Risk Collateral Policy and all applicable legal and regulatory provisions governing Collateral applicable to LCH.Clearnet SA acting as a clearing house and/or a securities settlement system.

LCH.Clearnet SA shall, in its sole discretion, invest Cash Collateral in liquid principal protected assets, as detailed on the collateral management section of the Website, and in accordance with the principles set out in the LCH Group Risk Collateral Policy.

(c) French law restrictions on use

Collateral that is transferred with full title to LCH.Clearnet SA shall be subject to all applicable legal and regulatory provisions governing Collateral provided to a clearing house and securities settlement systems, including, without limitation, Article L. 330-2, and L. 440-7 and L. 440-8 of the French Monetary and Financial Code.

Under Articles L. 440-7 and L. 440-8 of the French Monetary and Financial Code:

- i) without prejudice to Paragraph 3.11(b), Collateral transferred for the purpose of meeting a Clearing Member's Margin Requirements shall only be used by LCH.Clearnet SA in the event that amounts are due in the context of the liquidation of such Clearing Member's Cleared Transactions (where it is a Defaulting Clearing Member) in accordance with Article 4.3.3.1 of the CDS Clearing Rule Book and/or in the event that any other sums are owed by the relevant Clearing Member to LCH.Clearnet SA; and
- ii) no creditor of either a Clearing Member or LCH.Clearnet SA, no representative of a Clearing Member and no insolvency official (*mandataire judiciaire*) appointed under French insolvency proceedings (under Book VI of the French Commercial Code) may claim any right over the Collateral transferred for the purpose of meeting a Clearing Member's Margin Requirements (even in the context of an LCH Insolvency Proceeding or insolvency proceedings opened outside of France which are equivalent or similar to those set out in Book VI of the French Commercial Code).

Under Article L. 330-2 of the French Monetary and Financial Code:

- i) without prejudice to Paragraph 3.11(b), Collateral transferred by a Clearing Member shall be used by LCH.Clearnet SA in accordance with the CDS Clearing Rules; and
- ii) no creditor of either a Clearing Member or LCH.Clearnet SA may claim any right over the Collateral transferred by a Clearing Member (even in the context of an LCH Insolvency Proceeding, insolvency proceedings opened outside France which are equivalent to those set out in Book VI of the French Commercial Code, civil enforcement proceedings or the exercise of an opposition right (*droit d'opposition*)).

In the event of any conflict between the provisions of Article L. 211-38, whereby Collateral may be enforced in accordance with the provisions of the Financial Collateral Directive as transposed into French law, and the provisions of Articles L. 440-7 and L. 440-8, the provisions of Articles L. 440-7 and L. 440-8 shall prevail.

(d) Governing law

Pursuant to Article 9(2) of the Settlement Finality Directive, the validity and enforceability of a guarantee on book entry securities is assessed according to the law of the Member State where the account, in which the rights with respect to the relevant securities are recorded, is located.

Accordingly, when Eligible Collateral is posted to one of the relevant LCH.Clearnet SA's accounts located in France, Belgium or Portugal, the related securities are transferred to LCH.Clearnet SA with full title, in accordance with applicable law as follows:

- i) France: Articles L. 440-7 and L. 330-2 of the French Monetary and Financial Code; or
- ii) Belgium: Article 12 of the Belgian law dated 15 December 2004 "relative aux sûretés financières et portant des dispositions fiscales diverses en matière de conventions constitutives de sûreté et de prêts portant sur des instruments financiers"; or
- iii) Portugal: Article 261 n°4 of the Portuguese Securities Code.

### 3.12 **CORPORATE EVENTS OCCURRING IN RESPECT OF ELIGIBLE COLLATERAL TRANSFERRED WITH FULL TITLE**

(a) Coupons and dividends

Dividends will be remitted to the Clearing Member in one of the following ways at the option of the Clearing Member:

- i) share dividends will be remitted to the Clearing Member's accounts with a depository as notified to LCH.Clearnet SA for this purpose; or

- ii) cash dividends and coupons will be credited to the relevant TARGET2 Account(s) of the Clearing Member (or the relevant cash account(s) of the Clearing Member's TARGET2 Payment Agent) or the Clearing Member's accounts with a central bank as notified to LCH.Clearnet SA for this purpose.

A minimum of 1 Business Day before the relevant record date, LCH.Clearnet SA will contact Clearing Members by telephone to the telephone number specified by the Clearing Member in its application for membership of the CDS Clearing Service to ask which of the above options the Clearing Member prefers. If a Clearing Member does not express a preference, or if LCH.Clearnet SA has insufficient time to process a Clearing Member's preference, the dividend or coupon will be credited (in accordance with Paragraph 3.7(b)) to the relevant TARGET2 Account(s) of the Clearing Member (or the relevant cash account(s) of the Clearing Member's TARGET2 Payment Agent).

Dividends and coupons will only be remitted or credited to the Clearing Member's account(s) once LCH.Clearnet SA has received the relevant dividends and coupons. Dividends and coupons are remitted on the same day if received before 16:00 CET, or the next Business Day if received after 16:00 CET.

- (b) Subscription or allotment rights

Where a subscription or allotment right can be detached from a security provided as Eligible Collateral it will be remitted to the Clearing Member's account with the relevant depository as soon as LCH.Clearnet SA has received the relevant right. The remittance will be performed in Euroclear Bank or Euroclear France on the same day if the right is received before 16:00 CET, or the next Business Day if received after 16:00 CET.

- (c) Maturity

If a security provided as Eligible Collateral is due to mature and a Clearing Member wishes it to be returned, then a Clearing Member should request the return of that security before the relevant maturity date in accordance with Paragraph 3.10.

Where a security provided as Eligible Collateral matures, LCH.Clearnet SA will credit (in accordance with Paragraph 3.7(b)) the Clearing Member's TARGET2 Accounts (or the relevant cash accounts of such Clearing Member's TARGET2 Payment Agent) on the same day if funds are received before 16:00 CET, or will credit the Clearing Member's TARGET2 Accounts (or the relevant cash accounts of such Clearing Member's TARGET2 Payment Agent) on the next day if the funds are received after 16:00 CET.

### 3.13 ELIGIBLE COLLATERAL TRANSFERRED TO LCH.CLEARNET SA'S PLEDGED ACCOUNTS AT EUROCLEAR BANK

A Clearing Member may provide Eligible Collateral by way of a collateral arrangement taking the form of a Pledge Agreement put in place in accordance with this Paragraph 3.13.

(a) Collateral arrangement in the form of a Pledge Agreement

The Pledge Agreement shall be implemented as follows:

- i) A Clearing Member wishing to post Eligible Collateral pursuant to the collateral arrangement will be required to enter into a Pledge Agreement with LCH.Clearnet SA which is governed by Belgian law (in particular the Belgian Royal Decree n° 62 of 10 November 1967 concerning the custody and clearing of fungible financial instruments (as coordinated in 2004) and the Law of 15 December 2004 on financial collateral implementing the Directive 2002/47/EC on financial collateral arrangements);
- ii) LCH.Clearnet SA and the Clearing Member will be required to enter into standard form documentation with Euroclear Bank, taking the form of the Single Pledgor Pledged Account Terms and Conditions ("**SPPA**") and the Terms and Conditions Governing Use of Euroclear;
- iii) Under the SPPA, Euroclear Bank agrees to act as pledge holder in accordance with the terms set out in the SPPA;
- iv) LCH.Clearnet SA and each Clearing Member willing to post Pledged Eligible Collateral under the Pledge Agreement will open the following separate special pledged accounts in Euroclear Bank's books:
  - (x) a pledged account which shall be used to register Pledged Eligible Collateral recorded in the House Collateral Account of such Clearing Member (the "**House Pledged Account**"), and
  - (y) in the case of a CCM, a pledged account which shall be used to register Pledged Eligible Collateral recorded in its CCM Client Collateral Account(s) (the "**Client Pledged Account**").

The House Pledged Account and the Client Pledged Account shall be together referred to as the "**Pledged Accounts**".

(b) Pledged Accounts

The Pledged Accounts shall be held in the name of LCH.Clearnet SA as pledgee. However, the title in the Pledged Eligible Collateral shall not be transferred to LCH.Clearnet SA (see Article 2 in fine and Article 13 of the Royal Decree 62 - the pledgee only acts as a "custodian" and does not become the owner of the securities (ownership stays with the pledgor (see in particular Article 2079 of the Belgian civil code))).

## (c) Use of Pledged Eligible Collateral

Subject to Paragraphs 3.13(d) and 3.13(e), LCH.Clearnet SA shall be prevented from using for any purpose, re-hypothecating or transferring Pledged Eligible Collateral which is pledged to LCH.Clearnet SA pursuant to the collateral arrangement described in this Paragraph 3.13.

## (d) Perfection and enforceability

Provided that LCH.Clearnet SA provides Euroclear Bank with a copy of the Default Notice issued by LCH.Clearnet SA in accordance with Article 4.3.1.3 of the CDS Clearing Rule Book, LCH.Clearnet SA shall be able to perfect and enforce the pledge on Pledged Eligible Collateral (meaning that it shall be entitled to apply the Pledged Eligible Collateral transferred by the Defaulting Clearing Member as envisaged by Article 4.3.3.1 of the CDS Clearing Rule Book), against the Defaulting Clearing Member, any other creditors of the Defaulting Clearing Member and/or the trustee in bankruptcy, without having to notify, or secure any further consent from the Defaulting Clearing Member or any other person, and without having to obtain any court approval (see article 8 of the Law of 15 December 2004).

In the event that LCH.Clearnet SA elects to enforce the pledge by appropriating the Client Pledged Eligible Collateral in accordance with the Article 4.3.2.6 of the CDS Clearing Rule Book, the Eligible Securities so appropriated shall be credited to the LCH Client Securities Account.

## (e) Transfer of Client Cleared Transactions and related Client Assets in respect of a CCM

Provided that:

- i) LCH.Clearnet SA provides Euroclear Bank with a copy of the Client Full Transfer Form transmitted by the Receiving Clearing Member to LCH.Clearnet SA, in accordance with Section 5 of the Procedures; and
- ii) the deadline for the Carrying Clearing Member to reject the transfer of Client Cleared Transactions and Client Assets, by submission of the Carrying Clearing Member Response Form in accordance with Section 5 of the Procedures, has expired,

LCH.Clearnet SA shall be able to instruct Euroclear Bank to transfer the relevant Client Pledged Eligible Collateral from the Carrying Clearing Member's Client Pledged Account to the Receiving Clearing Member's Client Pledged Account in accordance with the conditions and timeline set out in Section 5 of the Procedures.

### 3.14 **US T-BILLS TRANSFERRED TO LCH.CLEARNET SA'S DEPOSITORY ACCOUNT AT BNYM US**

An FCM Clearing Member may provide US T-Bills by way of security interest governed by laws of the State of New York in accordance with this Paragraph 3.14 and the FCM CDS Clearing Regulations.

- (a) Segregated depository account opened with BNYM US

To permit an FCM Clearing Member to transfer US T-Bills on behalf of its FCM Clients, LCH.Clearnet SA has opened a segregated depository account in BNYM US' books which shall be used to register US T-Bills in connection with FCM Cleared Transactions cleared for its FCM Clients (the "**LCH Client Depository Account**").

The LCH Client Depository Account forms part of the LCH Cleared Swaps Client Segregated Depository Account for purposes of the FCM CDS Clearing Regulations.

- (b) Transfer of FCM Client Cleared Transactions and related Account Assets

Provided that LCH.Clearnet SA provides BNYM US with a copy of the Client Full Transfer Form transmitted by the Receiving Clearing Member to LCH.Clearnet SA in accordance with Section 5 of the Procedures, LCH.Clearnet SA shall be able to transfer the relevant Eligible Collateral from the Carrying Clearing Member's LCH Client Depository Account to the Receiving Clearing Member's LCH Client Depository Account in accordance with the conditions and timeline set out in Section 5 of the Procedures.

### 3.15 **ELIGIBLE COLLATERAL TRANSFER PURSUANT TO THE PLEDGE AGREEMENT**

- (a) Transfer of Pledged Eligible Collateral

On Day

If:

- (i) a Clearing Member wishes to transfer additional Pledged Eligible Collateral to be recorded in its House Collateral Account and, in the case of a CCM, in any of its CCM Client Collateral Accounts; or
- (ii) a Clearing Member wishes to transfer Pledged Eligible Collateral to be recorded in any of its Collateral Accounts for the purpose of substituting such Pledged Eligible Collateral for any Collateral recorded in its Collateral Accounts,

it shall notify LCH.Clearnet SA of its request to transfer Pledged Eligible Collateral to the relevant Pledged Account by submitting the relevant form by any means as specified in a Clearing Notice. The process that a Clearing Member and LCH.Clearnet SA must follow to process the return of substituted Collateral to the Clearing Member is set out in paragraph 3.7(g) (for Euro

denominated Cash Collateral), 3.8(h) (for non-Euro denominated Cash Collateral), 3.8(i) (for USD denominated Cash Collateral), 3.10(c) (for Eligible Collateral transferred with full title) or 3.17(b) (for US T-Bills), as applicable.

In respect of a CCM only, if such CCM notifies to LCH.Clearnet SA that Pledged Eligible Collateral will be transferred to the Client Pledged Account but the CCM does not specify to which CCM Client Collateral Account(s) some or all such Pledged Eligible Collateral should be recorded, LCH.Clearnet SA will not accept the request to transfer such Pledged Eligible Collateral.

The Clearing Member must notify LCH.Clearnet SA as set out above by no later than 17:15 CET on a Business Day ("Day minus one") in order for the Clearing Member's request to be processed on the next following Business Day ("Day") and to enable the transfer to occur on Day. It is the Clearing Member's responsibility to ensure the due receipt by LCH.Clearnet SA of the relevant notification. Accordingly, the Clearing Member should confirm the request by 17:15 CET by a phone call to LCH.Clearnet SA's collateral management team on + 33 1 70 37 66 86/66 37/65 35, although a failure to do so shall not invalidate any request actually received by LCH.Clearnet SA.

#### On Day

A Clearing Member must submit instructions (Franco or Sell Free of payment) via Euroclear Bank and LCH.Clearnet SA must submit instructions (Buy free of payment) if Clearing Member uses Sell free of payment, for matching through Euroclear Bank.

If LCH.Clearnet SA receives the confirmation of settlement from Euroclear Bank:

- i) before 10:30 CET on Day, the Pledged Eligible Collateral will form part of the relevant Margin Balance and be taken into account for the purposes of the First Intraday Call on Day;
- ii) at or after 10:30 CET and prior to 11:45 CET on Day, the Pledged Eligible Collateral will form part of the relevant Margin Balance and be taken into account for the purposes of calculations in relation to a Collateral substitution request which is to be effected using the Additional Specific Collateral Slot;
- iii) before at or after 11:45 CET and prior to 14:30 CET on Day, the Pledged Eligible Collateral will form part of the relevant Margin Balance and be taken into account for the purposes of the Second Intraday Call on Day;
- iv) at or after 14:30 CET but prior to 17:15 CET on Day, the Pledged Eligible Collateral will form part of the relevant Margin Balance and be taken into account solely for the purposes of novating Intraday Transactions;



- v) if LCH.Clearnet SA receives the confirmation of settlement from Euroclear Bank at or after 17:15 CET on Day, the Pledged Eligible Collateral will form part of the relevant Margin Balance and be taken into account for the purposes of the Morning Call on the next following Business Day.
- (b) Release of Pledged Eligible Collateral

On Day minus one

A Clearing Member must notify LCH.Clearnet SA of a request to have Pledged Eligible Collateral released by submitting the relevant form by any means as specified in a Clearing Notice.

The Clearing Member must notify LCH.Clearnet SA by no later than 16:00 CET on a Business Day ("Day minus one") in order for the Clearing Member's request to be processed on the next following Business Day ("Day") and to allow LCH.Clearnet SA to give instructions (in the circumstances described below) to make the transfer to occur on Day. It is the Clearing Member's responsibility to ensure the due receipt by LCH.Clearnet SA of the relevant notification. Accordingly, the Clearing Member should confirm the request by 16:00 CET by a phone call to LCH.Clearnet SA's collateral management team on +33 1 70 37 66 86/66 37/65 35, although a failure to do so shall not invalidate any request actually received by LCH.Clearnet SA. Any request received by LCH pursuant to this process shall be deemed firm and irrevocable

On Day

Following the first intraday TARGET2 payment window (11:25-11:50 CET) and, in any event, by 12:00 CET latest, LCH.Clearnet SA will re-calculate the value of the Pledged Eligible Collateral to be released (the "**Pledged Eligible Collateral Value**") and if:

- 1- LCH.Clearnet SA holds Collateral (other than that which is to be released) to cover the Margin Requirement for the relevant Margin Account, LCH.Clearnet SA will process the release of the Pledged Eligible Collateral on request of the Clearing Member in accordance with the remaining provisions of this Paragraph 3.15(b); or
- 2- LCH.Clearnet SA does not hold sufficient Collateral (other than that which is to be released) to cover the Margin Requirement for the relevant Margin Account, LCH.Clearnet SA will notify the Clearing Member by 12:20 CET and debit an amount of Euro denominated Cash Collateral equal to the Pledged Eligible Collateral Value from the relevant TARGET2 Account(s) of the Clearing Member (or the relevant cash account(s) of its TARGET2 Payment Agent) during the Additional Specific Collateral Slot. Provided an amount of Euro-denominated Cash Collateral equal to the Pledged Eligible Collateral Value is received by LCH.Clearnet SA, LCH.Clearnet SA will process the return of the Pledged

Eligible Collateral to the Clearing Member in accordance with the remaining provisions of this Paragraph 3.15(b).

In the event that LCH.Clearnet SA is required to, but has not been able to, debit an amount of Euro-denominated Cash Collateral equal to the Pledged Eligible Collateral Value from the Clearing Member's TARGET2 Accounts or the relevant cash accounts of its TARGET2 Payment Agent), the Clearing Member's request to have Pledged Eligible Collateral released to it will be deemed void and LCH.Clearnet SA shall not release Pledged Eligible Collateral to the Clearing Member. LCH.Clearnet SA's inability to debit Euro-denominated Cash Collateral equal to the Pledged Eligible Collateral Value intra-day through TARGET2 shall not constitute a Payment Failure in respect of the Clearing Member.

Save in the circumstances described above, LCH.Clearnet SA will send instructions (Sell Free of Payment) submitted via Euroclear Bank and the Clearing Member shall submit instructions (Buy Free of Payment), for matching through Euroclear Bank between 13:00 and 15:00.

LCH.Clearnet SA's instructions via Euroclear Bank shall constitute the release of the relevant Pledged Eligible Collateral.

Such instructions will, in any event, be sent on the same Business Day in advance of the relevant International Central Securities Depository cut-off time (except in exceptional circumstances, as judged in an objective and commercially reasonable manner).

By exception to the time limits for notification as set out in paragraphs 3.15 (a) and (b), in case of atypical market conditions, (i.e. periods of time with reduced activity and lowered liquidity), including but not limited to the end of the year period (i.e. the period ~~of time~~ starting from 22 December of each year to 2 January of the ~~next~~following year) LCH.Clearnet SA may inform by any means the Clearing Members that notifications of movement (transfer or release) of Eligible Pledged Collateral, for value on Day, must be received by LCH.Clearnet SA on Day minus five before 16.00 CET. Such information will contain the implementation measure of the extension of the notification period.

### 3.16 TRANSFER OF CLIENT PLEDGED ELIGIBLE COLLATERAL FOLLOWING AN EVENT OF DEFAULT

In the event that a Defaulting Clearing Member or a Backup Clearing Member is a CCM, any transfer of Client Pledged Eligible Collateral shall be undertaken in accordance with this Paragraph 3.16 and the CDS Clearing Documentation.

- (a) Transfer of Client Pledged Eligible Collateral to LCH.Clearnet SA

In order to transfer Client Pledged Eligible Collateral to LCH.Clearnet SA, in order to satisfy a request made in accordance with Article 4.3.2.1(i) of the

CDS Clearing Rule Book, the Defaulting Clearing Member must provide LCH.Clearnet SA with its consent to the debit of Client Pledged Eligible Collateral from its Client Pledged Account by Euroclear, pursuant to an instruction of LCH.Clearnet SA, and credit of the Client Pledged Eligible Collateral to be credited to the LCH Client Securities Account. The Defaulting Clearing Member must evidence its consent by submitting the relevant form by any means as specified in a Clearing Notice.

Following the receipt of the consent of the Defaulting Clearing Member, LCH.Clearnet SA will submit instructions via Euroclear Bank. When LCH.Clearnet SA receives the confirmation of settlement from Euroclear Bank or Euroclear France, as applicable, LCH.Clearnet SA shall update the relevant CCM Client Collateral Account(s) of the Defaulting Clearing Member to reflect that such Eligible Collateral has been transferred with full title to LCH.Clearnet SA.

Provided the Defaulting Clearing Member has sent its consent in accordance with this Paragraph 3.16(a), within the timeframe specified by LCH.Clearnet SA pursuant to Article 4.3.2.1(i), the Defaulting Clearing Member shall be treated as having satisfied its obligation to transfer ownership in the Client Pledged Eligible Collateral to LCH.Clearnet SA as required by the CDS Admission Agreement. If, however, the Defaulting Clearing Member has not sent its consent within the timeframe specified by LCH.Clearnet SA pursuant to Article 4.3.2.1(i), LCH.Clearnet SA shall be entitled to enforce the security interest granted to it under, and in accordance with, the Pledge Agreement and, in accordance with the CDS Clearing Rule Book by appropriation of the Defaulting Clearing Member's Client Pledged Eligible Collateral.

(b) Transfer of Eligible Collateral to the Backup Clearing Member

On the day prior to the registration of the Relevant Client Cleared Transactions and the Ported Collateral in the CCM Client Account Structure of the Backup Clearing Member, in accordance with the CDS Client Clearing DMP, LCH.Clearnet SA will update its books and records so that the Eligible Collateral recorded in the LCH Client Securities Account is recorded as Eligible Collateral which has been transferred with full title by the Backup Clearing Member to be recorded in the relevant CCM Client Collateral Account(s) of the Backup Clearing Member.

Once the books and records update has been processed, the relevant Eligible Collateral will form part of the CCM Margin Balance for the relevant CCM Client Margin Account of the Backup Clearing Member to be taken into account for the purposes of the Morning Call on the next following Business Day. If the Backup Clearing Member wishes that such Eligible Collateral be transferred to its relevant Client Pledged Account, it shall follow the process to substitute the Eligible Collateral for Pledged Eligible Collateral as set out in Paragraph 3.10(c) and 3.15(a) of this Section 3.

**3.17 TRANSFER OF US T-BILLS ON BEHALF OF FCM CLIENTS**

- (a) Transfer of Eligible Collateral consisting of US T-Bills on behalf of FCM Clients

On Day

If an FCM Clearing Member wishes to transfer Eligible Collateral consisting of US T-Bills to be recorded in its FCM Client Collateral Account for the purpose of substituting such Eligible Collateral for any Collateral recorded in its FCM Client Collateral Account, it shall notify LCH.Clearnet SA of its request to transfer such Eligible Collateral to the LCH Client Depository Account by submitting the relevant form by any means as specified in a Clearing Notice. The process that an FCM Clearing Member and LCH.Clearnet SA must follow to process the return of substituted Collateral to the FCM Clearing Member is set out in paragraph 3.7(g) (for Euro denominated Cash Collateral), 3.8(h) (for non-Euro denominated Cash Collateral) or 3.8(i) (for USD denominated Cash Collateral), as applicable.

The FCM Clearing Member must notify LCH.Clearnet SA as set out above by no later than 17:15 CET on Day in order for the FCM Clearing Member's request to be processed before 18:00 CET on the same Day. It is the FCM Clearing Member's responsibility to ensure the due receipt by LCH.Clearnet SA of the relevant notification. Accordingly, the FCM Clearing Member should confirm the request by 17:15 CET by a phone call to LCH.Clearnet SA's collateral management team on + 33 1 70 37 66 86/66 37/65 35, although a failure to do so shall not invalidate any request actually received by LCH.Clearnet SA.

On Day

An FCM Clearing Member must submit instructions (Franco or Sell Free of payment) via BNYM US and LCH.Clearnet SA must submit instructions (Buy free of payment) if an FCM Clearing Member uses Sell free of payment, for matching through BNYM US.

If LCH.Clearnet SA receives the confirmation of settlement from BNYM US before 18:00 CET on Day, US T-Bills will be taken into account in the relevant Margin Balance.

- (b) Release of Eligible Collateral consisting of US T-Bills on behalf of FCM Clients

On Day

An FCM Clearing Member must notify LCH.Clearnet SA of a request to have US T-Bills released by submitting the relevant form by any means as specified in a Clearing Notice.

The FCM Clearing Member must notify LCH.Clearnet SA as set out above by no later than 17:00 CET on a Business Day ("Day") in order for the FCM Clearing Member's request to be processed and to allow LCH.Clearnet SA to give instructions (in the circumstances described below) to make the transfer

to occur on the Business Day (“Day”) before 18:00 CET. It is the FCM Clearing Member’s responsibility to ensure the due receipt by LCH.Clearnet SA of the relevant notification. Accordingly, the FCM Clearing Member should confirm the request by 17:00 CET by a phone call to LCH.Clearnet SA’s collateral management team on +33 1 70 37 66 86/66 37/65 35, although a failure to do so shall not invalidate any request actually received by LCH.Clearnet SA. Any request received by LCH pursuant to this process shall be deemed firm and irrevocable.

### On Day

By 17:00 CET at the latest, LCH.Clearnet SA will re-calculate the value of US T-Bills to be released (the “**Eligible Collateral Value**”) and if:

- 1- LCH.Clearnet SA holds Collateral (other than that which is to be released) to cover the FCM Client Margin Requirement for the relevant FCM Client Margin Account, LCH.Clearnet SA will process the release of the Eligible Collateral consisting of US T-Bills on request of the FCM Clearing Member; or
- 2- LCH.Clearnet SA does not hold sufficient Collateral (other than that which is to be released) to cover the FCM Client Margin Requirement for the relevant FCM Client Margin Account, LCH.Clearnet SA will reject the FCM Clearing Member’s request.

LCH.Clearnet SA will send instructions (Sell Free of Payment) submitted via BNYM US and the FCM Clearing Member shall submit instructions (Buy Free of Payment), for matching through BNYM US between 17:00 and 18:00.

LCH.Clearnet SA’s instructions via BNYM US shall constitute the release of the relevant US T-Bills.

Such instructions will, in any event, be made on the same Business Day (“Day”) at 18:00 CET, i.e. in advance of the BNYM US’s cut-off time (except in exceptional circumstances, as determined by LCH.Clearnet SA in an objective and commercially reasonable manner).

By exception to the time limits for notification as set out in paragraphs 3.17 (a) and (b), in case of atypical market conditions, (i.e. periods of time with reduced activity and lowered liquidity), including but not limited to the end of the year period (i.e. the period ~~of time~~ starting from 22 December of each year to 2 January of the ~~next~~following year) LCH.Clearnet SA may inform by any means the FCM Clearing Members that notifications of movement (transfer or release) of US T-Bills, for value on Day, must be received by LCH.Clearnet SA on Day minus five before 18.00 CET. Such information will contain the implementation measure of the extension of the notification period.

### 3.18 CASH PAYMENTS

#### (a) Currencies for Cash Payments

A Clearing Member is required to satisfy the following Cash Payment obligations through TARGET2 in accordance with the following table.

Cash Payment Type	Cash Payment
CDS-related payments (Initial Payment Amount, Fixed Amounts, cash amounts due upon the occurrence of Credit Events and cash amounts due in connection with an MTM change)	Cash in Euro
Variation Margin, Price Alignment Interest	Cash in Euro
Clearing House Adjustments	Cash in Euro
Fees, remuneration	Cash in Euro

#### (b) Timing for Cash Payments

Where a Clearing Member is required to make a Cash Payment its relevant TARGET2 Account(s) (or the relevant cash account(s) of its TARGET2 Payment Agent) will be automatically debited or credited by LCH.Clearnet SA using its Power of Attorney. Such debiting or crediting will occur in accordance with the mandatory time slots set out in Paragraph 3.7(b) above, except when such debiting or crediting relates to Cash Payments made by an FCM Clearing Member in respect of its Client Variation Margin Requirements and which will occur in accordance with the following time slots:

- i) FCM Client VM initial slot: 08:30-09:05 CET (the “**FCM Client VM Initial Slot**”); and
- ii) FCM Client VM first intraday slot: 11:30-12:00 CET (the “**FCM Client VM First Intraday Slot**”).

The Initial Slot and First Intraday Slot are used for the purposes of making Cash Payments (other than those made by an FCM Clearing Member in respect of its Client Variation Margin Requirements as mentioned above).

Once the relevant cash amount has been debited by LCH.Clearnet SA it is immediately available to satisfy the Clearing Member’s Cash Payment obligations.