



VIA CFTC PORTAL

18 November 2015

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

Dear Mr Kirkpatrick:

Pursuant to CFTC regulation §40.6(a), LCH.Clearnet Limited ("LCH.Clearnet"), a derivatives clearing organization registered with the Commodity Futures Trading Commission (the "CFTC"), is submitting for self-certification changes to its rules which will allow SwapClear Clearing Members ("SCMs") to elect to change the characterisation of their SwapClear Contracts from Collateralised to Market ("CTM") to Settled to Market ("STM"). These rule changes are not applicable to Futures Commissions Merchants ("FCMs").

Part I: Explanation and Analysis

LCH.Clearnet is proposing rule changes which will allow SCMs to opt to change their outstanding and new SwapClear Contracts from the current form (SwapClear CTM Contract) which operates on the basis of collateral in the form of variation margin begin held in relation to the mark-to-market of the original swap transaction throughout its life, to the new SwapClear STM Contract. SwapClear STM Contracts will be structured so that (i) all of the outstanding transaction exposure of either LCH.Clearnet or the SCM that arises from such SwapClear STM Contract will be fully and finally settled on a daily basis, and (ii) the terms of such SwapClear STM Contract will be reset daily so that the market value of such SwapClear STM Contract will be zero at each point at which the terms are so reset.

The rule changes will allow only SCM House Accounts to make this conversion. Once a contract has been converted it cannot be changed back.

The changes will go live on, or after, December 7th, 2015.

Part II: Description of Rule Changes

General Regulations

Several definitions have been updated and expanded to include SwapClear STM Contracts whilst a number have been added with respect to the contract.

Minor changes are required to Regulations 3, 20, 25, 52, 55, 58 and 60 to include reference to SwapClear STM Contracts, to correct references between Regulations pertaining to these contracts and to ensure that existing provisions extend to the contracts.

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Regulation 56, related to Compression, is being updated to require SCMs with mixed portfolios of SwapClear CTM Contracts and SwapClear STM Contracts to convert all contracts into SwapClear STM Contracts before the compression can continue. For SCMs with a book solely of either SwapClear CTM Contracts or SwapClear STM Contracts any trades resulting from the compression will be the same as the original trades. All SwapClear Contracts remain eligible for compression.

Regulation 57 has been updated throughout to make the provisions specific to SwapClear CTM Contracts only.

Regulation 57A and 57B have been added, each is specific to SwapClear STM Contracts. Regulation 57A sets out the requirements of LCH.Clearnet to once a day determine the change in the net present value ("NPV") of each SwapClear STM Contract and the Price Alignment Amount ("PAA") payable on such Business Day. It also sets out the payment obligations, and mechanism for payment, by either LCH.Clearnet or SCMs in respect of this process. Regulation 57A also sets out how SCMs can make a STM Conversion Request, in order to request that its contracts be converted. Regulation 57B sets out transitional provisions applicable to SwapClear STM Contracts and requires that any request be made in respect of all contracts.

Product Specific Contract Terms and Eligibility Criteria Manual

Part A of the Product Specific Contract Terms and Eligibility Criteria Manual has been updated to include SwapClear STM Contracts. Section 4 has been added to specifically set out two new provisions which will automatically apply to a contract which an SCM designates a SwapClear STM Contract. The first relates to NPV, and requires LCH.Clearnet to determine the NPV of a SwapClear STM Contract on at least a daily basis. On determination of this amount an amount of cash to the absolute value of the change in NPV becomes immediately payable to the SCM or LCH.Clearnet (depending on the direction of change to NPV) and the NPV of the contract will be reset to zero. The second provision relates to PAA, which is a new payment which is introduced to replicate the economics of the Price Alignment Interest ("PAI") currently paid or received on a daily basis in connection with SwapClear CTM Contracts. PAI, and consequently PAA, is a standard payment made in the cleared derivatives market to eliminate the basis risk that would otherwise arise between cleared swaps and uncleared swaps. The method of calculating PAA is set out in the revisions to the Product Specific Contract Terms and Eligibility Criteria Manual.

Procedures Section 2C (SwapClear)

Changes have been made throughout to add SwapClear STM Contracts and references to NPV and PAA calculations and payments. Particularly these changes are included at sections 1.7, 1.7.3, 1.7.5 and 1.12. Ability for SCMs to make conversions to SwapClear STM Contracts is set out in section 1.20.

Procedures Section 3 (Financial Transactions)

Section 1.1.3(g) has been updated to include as permissible account postings price alignment amounts and NPV payments. Section 1.6.1 has been updated to refer to Procedures Section 2C with regards to PAI.

The text of the changes to General Regulations are attached hereto as **Appendix I**, Product Specific Contract Terms and Eligibility Criteria Manual are at **Appendix II**, Procedures Section 2C (SwapClear) are at **Appendix III** and Procedures Section 3 (Financial Transactions) are at **Appendix IV**.



Part III: Core Principle Compliance

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

Part IV: Public Information

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

<http://www.lchclearnet.com/rules-regulations/proposed-rules-changes>

Part V: Opposing Views

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

Certification

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

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

Yours sincerely,

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

Julian Oliver
Chief Compliance Officer
LCH.Clearnet Limited



Appendix I
LCH.Clearnet General Regulations



**GENERAL REGULATIONS OF
LCH.CLEARNET LIMITED**

"Clearing House Applied Collateral"

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

"Clearing House Current Collateral Balance"

means, in respect of an account of a Clearing Member, all cash Collateral which has been transferred by the Clearing House to that Clearing Member (or which would, but for the application of Regulation 57(d) or another comparable payment netting provision applying in the ordinary course of business, have been transferred by the Clearing House to that Clearing Member) on account of the Clearing House's variation margin obligations relating to the relevant account pursuant to the Rulebook, less any Clearing House Applied Collateral and any Clearing House Returned Collateral in relation to that account; **provided that** any amounts transferred by the Clearing House to the Clearing Member for the purpose of settling an obligation in respect of daily settlement amounts pursuant to Regulation 23(c) or an obligation arising pursuant to a SwapClear STM Contract which is due and payable do not form part of the Clearing House Current Collateral Balance

"Clearing House Returned Collateral"

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

"Clearing House Prescribed Language"

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

"Clearing Member Applied Collateral"

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

"Clearing Member Current Collateral Balance"

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

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| "Compression Time" | means, on the date designated by the Clearing House for a Multilateral Compression Cycle, the time at which the Clearing House effects a Multilateral Compression by terminating the Terminating SwapClear Contracts and simultaneously registering the Post-Multilateral Compression Contracts in the names of the SwapClear Clearing Members participating in that Multilateral Compression Cycle in accordance with the Compression Proposal |
| "CMS" | means the Clearing House's collateral management system |
| "Collateral" | means cash, gold and/or securities which are denominated in currencies and of a description acceptable to the Clearing House as prescribed by these Regulations and the Procedures and which have been transferred, or are to be transferred, to or by the Clearing House in or towards discharge of margin obligations or anticipated margin obligations or otherwise as contemplated by the Rulebook, <u>provided that any amounts transferred to or by the Clearing House for the purpose of settling either (i) an obligation arising pursuant to a SwapClear STM Contract, or (ii) an obligation in respect of daily settlement amounts pursuant to Regulation 23(c) shall not be "Collateral"</u> . Where the context so permits, references to "Collateral" held by, or transferred to, the Clearing House shall include any cash proceeds resulting from the sale or disposal by the Clearing House of any non-cash Collateral pursuant to an exercise of its powers under a Deed of Charge, and such proceeds shall be considered cash Collateral |
| "Combined Omnibus Gross Segregated Clearing Clients" | means two or more Omnibus Gross Segregated Clearing Clients within the same Omnibus Gross Segregated Account who have elected to have their positions combined for the purposes of calculating applicable margin requirements (on a net basis as between such Omnibus Gross Segregated Clearing Clients as if such Omnibus Gross Segregated Clearing Clients together are a single Omnibus Gross Segregated Clearing Client for the purposes of the relevant calculations) |
| "Combined LSE Derivatives Markets Orderbook" | means the electronic Orderbook operated by LSE and one or more Co-operating Exchanges |
| "Commodities Business" | means any transaction, obligation or liability arising out of any Commodities Contract |
| "Commodities Contract" | means any commodities contract cleared by the Clearing House |
| "Commodities Clearing" | means a Clearing Member which engages in Commodities |

SwapClear DMP Annex, RepoClear DMP Annex and ForexClear DMP Annex), the FCM Default Fund Agreement, and any other document, rule or procedure as specified by the Clearing House from time to time, an FCM Contract

"contract for differences"

means a Cleared Exchange Contract, an LSE Derivatives Markets Cleared Exchange Contract, an OTC Contract or an LCH EnClear Contract which is to be performed by cash settlement only

"Contribution"

means the contribution of a Clearing Member to a default fund of the Clearing House and includes, in each case in relation to the relevant Service, a Commodities Contribution, an Equities Contribution, a ForexClear Contribution, a Listed Interest Rate Contribution, a RepoClear Contribution and a SwapClear Contribution

"Converting SwapClear Clearing Member"

has the meaning assigned to it in Regulation [57A]

"Co-operating Clearing House"

means a clearing house party to an agreement with the Clearing House in respect of the co-clearing of an Exchange pursuant to which such organisation co-clears specific types of Contract and agrees to be bound by these Regulations as a Member to the extent and subject to any variations agreed in such agreement

"Co-operating Clearing House Contract"

means, in respect of a Co-operating Clearing House, a class of contract, which is cleared by the Co-operating Clearing House from time to time, permitted to be made by members of the Co-operating Clearing House under Co-operating Clearing House Rules and which is the subject of a Link

"Co-operating Clearing House Rules"

means the provisions of a Co-operating Clearing House's Memorandum or Articles of Association or other constitutional documents, by-laws, rules, regulations, procedures, customs, practices, notices and resolutions in whatever form adopted by such Co-operating Clearing House that regulate Co-operating Clearing House Contracts and the members and markets cleared by the Co-operating Clearing House and any amendment, variation or addition thereto

"Co-operating Exchange"

means an exchange (which may also act as a central counterparty) which is party to a co-operation agreement with LSE

"Corrupted Data"

has the meaning assigned to it in Section 2C1.27 of the

Procedures

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| "Cover" | means an amount of cash or (with the approval of the Clearing House) non-cash Collateral, determined by the Clearing House, and in a form and currency acceptable to the Clearing House as prescribed in the Procedures |
| "Cross-Border Re-registration" | means the re-registration of LSE Derivatives Markets Cleared Exchange Contracts from an account of a Linked Member maintained with a Co-operating Exchange to an account of a Member with the Clearing House in accordance with Regulation 87 |
| "Cross-Border Transfers" | means the automatic transfers of LSE Derivatives Markets Cleared Exchange Contracts from an account of a Linked Member maintained with a Co-operating Exchange to an account of a Member with the Clearing House |
| "Crossing Transaction" | has the meaning assigned to it in Chapter XIV(1) |
| "Cross-ISA Client Excess Deduction " | means, where a Total Required Margin Amount relates to an Individual Segregated Account held by a Clearing Member on behalf of an Individual Segregated Account Clearing Client, if and to the extent that Client Excess is available in one or more other Individual Segregated Accounts held by such Clearing Member on behalf of the same Individual Segregated Account Clearing Client, a deduction by the Clearing House from the other Individual Segregated Account(s) of that Client Excess |
| <u>"Cumulative Net Present Value"</u> | <u>has the meaning assigned to it in Regulation [57A]</u> |
| "daily settlement amounts" | means amounts due to the Clearing House from a Member or to a Member from the Clearing House, as the case may be, arising out of settlement of open contracts pursuant to Regulation 23 or Regulation 75, and the Procedures |
| "Dealer" | means a ForexClear Dealer, RepoClear Dealer and/or SwapClear Dealer, as the context may require |
| "Dealer Clearing Agreement" | means a ForexClear Dealer Clearing Agreement, RepoClear Dealer Clearing Agreement, and/or SwapClear Dealer Clearing Agreement, as the context may require |
| "Dealer Register" | means one or more of the Register of ForexClear Dealers, the Register of RepoClear Dealers and/or the Register of SwapClear Dealers, as the context may require |

"Non-Identified Client Omnibus Net Segregated Account"

means, in relation to a Relevant Client Clearing Business, an account opened within the Clearing House by the relevant Clearing Member on behalf of its Non-Identified Omnibus Segregated Clearing Clients which is designated by the Clearing House as a Non-Identified Client Omnibus Net Segregated Account but, for the avoidance of doubt, does not include any Omnibus Segregated Account comprising Determined Omnibus Net Segregated Clients

"Non- Identified Omnibus Segregated Clearing Client"

means, in relation to a Relevant Client Clearing Business, certain Omnibus Segregated Clearing Clients of the relevant Clearing Member or FCM whose identities are not recorded by the Membership department of the Clearing House and who are grouped together in an Omnibus Segregated Account which is not an Identified Client Omnibus Segregated Account or an Affiliated Client Omnibus Segregated Account of the Clearing Member but, for the avoidance of doubt, does not include any Determined Omnibus Net Segregated Clients

"Non-Member Market Participant ("NCP")"

means, in respect of a particular Service, a person, other than a Clearing Member in such Service, who meets the criteria set out in Procedure 1 (*Clearing Member, Non-Member Market Participant and Dealer Status*) and has been notified to the Clearing House in accordance with Regulation 7 (Non-Member Market Participant Status)

"Non-performance Notice"

has the meaning assigned to it in Chapter XIV(m)

"Non-Performer"

has the meaning assigned to it in Section 2C1.27.4 of the Procedures

"NPV Reset"

has the meaning assigned to it in Regulation [57A]

"Off-Market Provider"

has the meaning assigned to it in Section 2C1.27.4 of the Procedures

"official quotation"

means a price determined by the Clearing House under Regulation 22

"premium" means the consideration for the selling of an option payable by the buyer in accordance with these Regulations and the Procedures

"Price" means in the case of:

- (a) a contract on the terms of an exchange contract which is to be performed by delivery of a commodity, the consideration to be paid by the buyer in cash in the currency prescribed by the terms of the exchange contract, and in the case of an exchange contract which is a contract for differences, the valuation quoted as a price under its terms: or
- (b) an OTC Contract, the price calculated by the Clearing House in accordance with the Regulations and the Procedures; or
- (c) an EquityClear Contract, the consideration to be paid by the buyer in cash in the currency as set out in the ATP Match or EquityClear Novation Transaction information received by the Clearing House or its relevant approved agent; or
- (d) an LCH EnClear Contract, the price calculated by the Clearing House in accordance with the Regulations and Procedures

"Price Alignment Amount" [has the meaning assigned to it in Regulation \[57A\]](#)

"Price Alignment Amount Rate" [has the meaning assigned to it in Regulation \[57A\]](#)

"Procedures" means Section 1 (*Clearing Member, Non-Member Market Participant and Dealer Status*), Section 2B (*RepoClear Service*) to Section 2J (*NLX Service*) and Sections 3 (*Financial Transactions*) to 8 (*Complaints*) of the Rulebook and the procedures for application for and regulation of membership of the Clearing House and in respect of SwapClear Dealers, RepoClear Dealers, and ForexClear Dealers respectively, for:

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| | Regulations as a Member, to the extent and subject to any variations agreed in such Clearing Membership Agreement |
| "Specified Exchange" | means London Stock Exchange plc, Nodal Exchange LLC, Hong Kong Mercantile Exchange Limited or any Exchange succeeding to any such person |
| "Standard Terms" | means that part of the SwapClear Contract Terms, the RepoClear Contract Terms, the LCH EnClear Contract Terms, or the ForexClear Contract Terms designated as Standard Terms by the Clearing House from time to time |
| <u>"STM Conversion Contracts"</u> | <u>has the meaning assigned to it in Regulation [57A]</u> |
| <u>"STM Conversion Date"</u> | <u>has the meaning assigned to it in Regulation [57A]</u> |
| <u>"STM Conversion Request"</u> | <u>has the meaning assigned to it in Regulation [57A]</u> |
| "strike price" | means the price specified in an option contract which becomes the price of the commodity under a contract for the future sale and purchase of that commodity for future delivery or, as the case may be, under a delivery contract, in either case on the exercise of the option the subject of such option contract, in accordance with Exchange Rules, these Regulations and the Procedures |
| "Supplement" | means a supplement specific to a particular Service and includes the Commodities Default Fund Supplement, the Equities Default Fund Supplement, the ForexClear Default Fund Supplement, the Listed Interest Rate Default Fund Supplement, the RepoClear Default Fund Supplement and the SwapClear Default Fund Supplement |
| "Supplementary Contribution" | means a supplementary Contribution of a Clearing Member, provided for under Rule C7(b), E7(b), F7(c), L7(b), R7(c) or S7(c) (as applicable), and referable to the relevant Service provided by the Clearing House |
| "SwapClear Amendment" | has meaning assigned to it in Rule S12 of the SwapClear Default Fund Supplement |
| "SwapClear Business" | means any transaction, obligation or liability arising out of any SwapClear Contract |
| "SwapClear Clearing Client" | means, in respect of SwapClear Client Clearing Business, an Individual Segregated Account Clearing Client or an Omnibus Segregated Clearing Client |

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| "SwapClear Clearing House Business" | means SwapClear Contracts entered into by a SwapClear Clearing Member with the Clearing House on a proprietary basis and for its own account |
| "SwapClear Clearing Member" or "SCM" | means a Member who is designated by the Clearing House as a SwapClear Clearing Member eligible to clear SwapClear Contracts which includes, in the case of the Default Rules (including the SwapClear DMP Annex), the FCM Default Fund Agreement and any other document, rule or procedure as specified by the Clearing House from time to time, an FCM Clearing Member |
| "SwapClear Client Clearing Business" | means the provision of SwapClear Client Clearing Services by a SwapClear Clearing Member |
| "SwapClear Client Clearing Services" | means the entering into of SwapClear Contracts by a SwapClear Clearing Member in respect of its Individual Segregated Account Clearing Clients and/or its Omnibus Segregated Clearing Clients |
| "SwapClear Contract" | means a Contract entered into by the Clearing House with a SwapClear Clearing Member on the SwapClear Contract Terms which includes, in the case of the Default Rules (including the SwapClear DMP Annex but excluding, for the avoidance of doubt, the Client Clearing Annex), the FCM Default Fund Agreement and any other document, rule or procedure as specified by the Clearing House from time to time, an FCM SwapClear Contract |
| "SwapClear Contract Terms" | means the terms applicable to each SwapClear Contract as set out from time to time in the Product Specific Contract Terms and Eligibility Criteria Manual |
| "SwapClear Contribution" | means the amount of an SCM's Contribution determined in accordance with the SwapClear Default Fund Supplement and shall include any SwapClear Unfunded Contributions and any relevant Supplementary Contribution deposited and made by the SCM with the Clearing House |
| <u>"SwapClear CTM Contract"</u> | <u>means a SwapClear Contract that is not a SwapClear STM Contract</u> |
| "SwapClear Dealer Clearing Agreement" | means a written agreement, in the form and on the terms prescribed by the Clearing House between a SwapClear Dealer, a SwapClear Clearing Member and the Clearing House |
| "SwapClear Dealer" or "SD" | means a person admitted by the Clearing House to the Register of SwapClear Dealers and who has not been removed from the Register |

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| "SwapClear Default Fund Supplement" | means the Supplement relating to the SwapClear Business |
| "SwapClear Default Management Process" | has the meaning assigned to it in the SwapClear DMP Annex in the Default Rules |
| "SwapClear Default Management Process Completion Date" | has the meaning assigned to it in the SwapClear DMP Annex in the Default Rules |
| "SwapClear Default Period" | has the meaning ascribed to it in Rule S2 of the SwapClear Default Fund Supplement |
| "SwapClear Determination Date" | has the meaning assigned to it in Rule S2 of the SwapClear Default Fund Supplement |
| "SwapClear DMG" | has the meaning assigned to it in the SwapClear DMP Annex in the Default Rules |
| "SwapClear DMP" | has the meaning assigned to it in the Default Rules |
| "SwapClear Eligibility Criteria" | means the product eligibility criteria in respect of SwapClear Transactions as set out in the Product Specific Contract Terms and Eligibility Criteria Manual as published on the Clearing House's website from time to time |
| "SwapClear End of Day Price" | Has the meaning assigned to it in Chapter XIV(l) |
| "SwapClear Excess Loss" | means the net sum or aggregate of net sums certified to be payable by a Defaulter by a Rule 19 Certificate in respect of SwapClear Business less (a) the proportion of the Capped Amount applicable to SwapClear Business under Rule 15(c) of the Default Rules and (b) any sums then immediately payable in respect of SwapClear Business Default Losses owed by such Defaulter by any insurer or provider of analogous services under any policy of insurance or analogous instrument written in favour of the Clearing House |
| "SwapClear Regulations" | means those Regulations which apply to SwapClear Contracts as specified in Regulation 54 |
| "SwapClear Segregated Fund Amount" | means the amount as determined in accordance with Rule S2(b) of the SwapClear Default Fund Supplement |
| "SwapClear Service" | the service provided by the Clearing House under the SwapClear Regulations |
| <u>"SwapClear STM Contract"</u> | <u>Means a SwapClear Contract that is either registered at the Clearing House as a SwapClear STM Contract pursuant to</u> |

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| <p><u>"SwapClear STM Terms"</u></p> | <p><u>Regulation 55(b), is converted into a SwapClear STM Contract by the Clearing House pursuant to Regulation [57A] , or is a SwapClear STM Contract through novation pursuant to Regulation 12(b), in each case the terms of which therefore include the SwapClear STM Terms.</u></p> <p><u>means the part of the SwapClear Contract Terms designated as the SwapClear STM Terms by the Clearing House from time to time</u></p> |
| <p>"SwapClear Tolerance"</p> | <p>has the meaning assigned to it in Section 1.3.3 (<i>Trade Registration Facilitation: SwapClear Tolerance, Client Buffer and MER (Minimum Excess Requirement)</i>) of Procedure 2C (<i>SwapClear Clearing Service</i>) of the Clearing House's Procedures</p> |
| <p>"SwapClear Tolerance Utilisation"</p> | <p>means, in respect of each SCM, the value of the SwapClear Tolerance utilised by that SCM at any particular time, as determined by the Clearing House in its sole discretion</p> |
| <p>"SwapClear Transaction"</p> | <p>means any transaction the details of which are presented to the Clearing House via an Approved Trade Source System for the purpose of having such transaction registered at the Clearing House as two SwapClear Contracts or one SwapClear Contract and one FCM SwapClear Contract (as the case may be), regardless of whether such transaction (a) is an existing swap transaction, (b) was entered into in anticipation of clearing, or (c) is contingent on clearing</p> |
| <p>"SwapClear Unfunded Contribution"</p> | <p>has the meaning assigned to it in Rule S8 of the SwapClear Default Fund Supplement</p> |
| <p>"SwapClear Unfunded Contribution Notice"</p> | <p>has the meaning assigned to it in Rule S8 of the SwapClear Default Fund Supplement</p> |
| <p>"SwapClear Voluntary Payment"</p> | <p>has the meaning assigned to it in Rule S10 of the SwapClear Default Fund Supplement</p> |
| <p>"SwapClear Voluntary Payment Notice"</p> | <p>has the meaning assigned to it in Rule S10 of the SwapClear Default Fund Supplement</p> |
| <p>"TARGET2"</p> | <p>means the Trans-European Automated Real-Time Gross Settlement Express Transfer payment system which utilises a single shared platform and which was launched on 19 November 2007</p> |
| <p>"Target Settlement Day"</p> | <p>means any day on which TARGET2 is open for the settlement of payments in euro</p> |
| <p>"tender"</p> | <p>means a notice given by or on behalf of a seller (or buyer where Exchange Rules so require) pursuant to Exchange Rules, these Regulations and the Procedures, of an</p> |

REGULATION 3 PERFORMANCE BY THE CLEARING HOUSE OF ITS OBLIGATIONS UNDER THE TERMS OF AN OPEN CONTRACT

The Clearing House's obligations under the terms of an open contract shall be performed (a) in the manner and form and by such day and time as may be prescribed in Exchange Rules (where applicable), these Regulations or the Procedures, and (b) in the case of an open contract to which the Clearing House is party with a Member which is a Co-operating Clearing House, in accordance with the terms of any agreement made with such Member, save that (i) where Exchange Rules specify a time by which the seller or the buyer shall perform its obligations under the terms of an exchange contract, the Clearing House shall be deemed to have complied with Exchange Rules if it performs its obligations under the terms of an open contract, as seller or buyer, as the case may be, promptly after such time, unless Exchange Rules expressly provide that performance must be made by the Clearing House by such time; and (ii) where the Economic Terms of an OTC Contract, or the [SwapClear STM Terms, or the](#) EquityClear Contract Terms, or the LCH EnClear Contract Terms specify a time by which a party thereto shall perform its obligations, the Clearing House shall be deemed to have complied with the Economic Terms, or the [SwapClear STM Terms, or the](#) EquityClear Contract Terms or the LCH EnClear Contract Terms, as applicable, if it performs its obligations promptly after such time.

CHAPTER IV – CONTRACT FORMATION, REGISTRATION AND TRANSFER

REGULATION 12 NOVATION

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

CHAPTER V – COLLATERAL AND VALUATIONS

REGULATION 20 MARGIN AND COLLATERAL

- (a) The Clearing House may in accordance with the Procedures require a Member to transfer Collateral to the Clearing House, and to maintain a Clearing Member Current Collateral Balance, in an amount or of a value determined by the Clearing House, as security for the performance by such Member of its obligations to the Clearing House in respect of all contracts from time to time to be registered in his name as open contracts pursuant to these Regulations. The obligation upon a Member to transfer Collateral to the Clearing House pursuant to this paragraph shall be in addition to any other obligation of the Member to transfer Collateral or make any other payment to the Clearing House pursuant to these Regulations or any OTC Contract Terms.
- (b) The Clearing House may in accordance with the Procedures require a Member to transfer Collateral to the Clearing House in respect of initial or variation margin in circumstances prescribed by the Regulations and the Procedures in respect of any open contract registered in the Member's name, such Collateral to be transferred by the Member in such form and manner and by such time or times as may be prescribed by the Procedures.
- (c) If insufficient Collateral is standing to the credit of a Member's account, or if any assets or monies transferred by a Member to the Clearing House as Collateral are determined by the Clearing House in accordance with the Procedures to be insufficient, such Collateral as the Member is required to transfer to the Clearing House pursuant to paragraph (b) above or Regulation 16 or the SwapClear Regulations, the RepoClear Regulations, the EquityClear Regulations, the LCH EnClear Regulations, or LCH EnClear Regulations, the LSE Derivatives Markets Regulations or the ForexClear Regulations, as applicable, shall be transferred to the Clearing House by the Member in such form and manner and by such time or times as may be prescribed by the Procedures.
- (d)
- (i) The Clearing House shall be entitled to assume that all securities and other assets transferred by a Member to the Clearing House as Collateral pursuant to these Regulations or under the terms of any agreement made with the Member are the sole legal and beneficial property of the Member or are transferred for the purposes of these Regulations with the legal and beneficial owner's unconditional consent and free of such owner's interest. A Member may not transfer securities or other assets to the Clearing House as Collateral otherwise than in conformity to this paragraph. It shall be accepted by every person dealing on the terms of these Regulations that a Member has such person's unconditional consent to transfer to the Clearing House as Collateral for the purposes of these Regulations any securities or other assets of such person in the Member's possession, free of such person's interest.
- (ii) Each Member represents and warrants to the Clearing House as at each date on which such Member transfers securities or other assets to the Clearing House as Collateral pursuant to these Regulations (a) that such Member is the sole legal and beneficial owner of those securities or other assets or, as the case may be, those securities or other assets are so transferred with the legal

REGULATION 25 OTHER MODES OF SETTLEMENT AND REVALUATION

Settlement, revaluation and collateralisation procedures (other than those contained in Regulation 23 ~~and~~ Regulation 24, Regulation 57 and Regulation [57A]) may be prescribed, in respect of open contracts on the terms of certain exchange contracts and in respect of open contracts which are OTC Contracts, EquityClear Contracts or LCH EnClear Contracts in the Procedures or where agreed with, an Exchange, in Exchange Rules. The relevant settlement, revaluation and collateralisation procedures (as applicable) may be effected by the Clearing House in accordance with such provisions.

REGULATION 52 EXCLUSION OF LIABILITY

- (a) Without prejudice to the provisions of Regulations 2 and 32 and 52(e) neither the Clearing House, nor any other member of the LCH.Clearnet Group shall have any liability whatsoever to any Member or to any other person (including, without limitation, any Clearing Client of a Member) in contract, tort (including, without limitation, negligence), trust, as a fiduciary or under any other cause of action in respect of any damage, loss, cost or expense of whatsoever nature suffered or incurred by a Member or any other person, as the case may be, as a result of: any suspension, restriction or closure of the market administered by an Exchange, an ATP or a Co-operating Clearing House, whether for a temporary period or otherwise or as a result of a decision taken on the occurrence of a market emergency; any failure by the Clearing House or an Exchange or a Co-operating Clearing House or an ATP or its operator or the relevant approved agent or the Approved EquityClear Settlement Provider to supply each other with data or information in accordance with arrangements from time to time established between any or all of such persons; the failure of any systems, communication facilities or technology supplied, operated or used by the Clearing House, an Exchange, or a Co-operating Clearing House; any event which is outside the control of the Clearing House; any act or omission of an Exchange, or a Co-operating Clearing House in connection with a Co-operating Clearing House Contract or any contracts made on such terms, including, without limitation, any error in the establishment of a settlement price made by an Exchange; any act or omission of the Clearing House, an Exchange, or a Co-operating Clearing House (as the case may be) in connection with the operation of a Link or the arrangement for the transfer of Contracts under a Link.
- (b) Neither the Clearing House nor any other member of the LCH.Clearnet Group shall have any liability to a Member or any other person (including without limitation a SwapClear Dealer, or a RepoClear Dealer or a ForexClear Dealer) in respect of any dispute arising from or in relation to any OTC Transaction, Eligible EnClear Trade, or an ATP Match including, but not limited to, any dispute as to the validity or otherwise of such OTC Transaction, Eligible EnClear Trade, the terms of such OTC Transaction, Eligible EnClear Trade, trade or ATP Match, or whether any alleged agreement or arrangement constitutes an OTC Transaction or Eligible EnClear Trade.
- (c) Without prejudice to the provisions of Regulation 2 and Regulation 52(e), neither the Clearing House nor any other member of the LCH.Clearnet Group shall have any liability whatsoever to any SwapClear Clearing Member, RepoClear Clearing Member, EquityClear Clearing Member, LCH EnClear Clearing Member, ForexClear Participant or to any other person (including, without limitation, a SwapClear Dealer or a RepoClear Dealer) in contract, tort (including without limitation, negligence), trust, as a fiduciary or under any other cause of action in respect of any damage, loss, cost or expense of whatsoever nature suffered or incurred as a result of: any suspension of an OTC Service or the EquityClear Service or the LCH EnClear Services (or any part thereof), whether for a temporary period or otherwise, a step taken by the Clearing House under Regulation 16(i), Regulation 37, Regulation 38, Regulation 55(gh), or Regulation 72 or any failure or malfunction of any systems, communication lines or facilities, software or technology supplied, operated or used by the Clearing House or the relevant approved agent; the occurrence of any event which is outside the control of the Clearing House; or any exercise by the Clearing

REGULATION 55 REGISTRATION OF SWAPCLEAR CONTRACTS

- (a) A SwapClear Transaction may be presented to the Clearing House for registration as two SwapClear Contracts or one SwapClear Contract, and one FCM SwapClear Contract (in accordance with the other provisions of the Rulebook).
- (b) Once a SwapClear Transaction has been presented to the Clearing House, the Clearing House shall (where applicable in accordance with paragraph (ed) below and Section 1.3 (*Registration*) of Procedure 2C (the SwapClear Service) request the consent of each of the relevant SwapClear Clearing Members with whom a SwapClear Contract shall be registered as a result thereof to such registration. Upon each such SwapClear Clearing Member providing its consent, such SwapClear Transaction shall be deemed to have been submitted (as such term is defined in the Procedures) to the Clearing House for registration. Any such consent shall be provided in accordance with the Procedures.
- (c) Each SwapClear Contract shall be registered by the Clearing House either as a SwapClear CTM Contract or a SwapClear STM Contract, and a SwapClear Transaction may be registered as two SwapClear CTM Contracts, two SwapClear STM Contracts or one SwapClear CTM Contract and one SwapClear STM Contract (in accordance with the other provisions of the Rulebook). The registration of a SwapClear Contract as a SwapClear CTM Contract or a SwapClear STM Contract shall be determined by the Clearing House on the basis of an election made by the relevant SwapClear Clearing Member either generally, with reference to a particular account or on a case-by-case basis in accordance with the Procedures. In the absence of any such election, the Clearing House shall register the SwapClear Contract as a SwapClear CTM Contract.
- ~~(e)~~(d) A SwapClear Clearing Member which has been nominated to clear the SwapClear Contract arising from the registration of a SwapClear Transaction on behalf of a third party Executing Party other than a SwapClear Dealer will (only where such SwapClear Transaction is not a US Trading Venue Transaction) be notified by the Clearing House of the relevant SwapClear Transaction and shall choose whether to grant or refuse consent to the registration of such SwapClear Transaction and the SwapClear Contract(s) resulting from such SwapClear Transaction. In circumstances where (i) a SwapClear Clearing Member is an Executing Party in relation to a SwapClear Transaction and shall clear one of the SwapClear Contracts resulting from such SwapClear Transaction; or (ii) or a SwapClear Transaction is a US Trading Venue Transaction, the consent of that SwapClear Clearing Member to the registration of the relevant SwapClear Transaction will occur automatically and without the need for any further action by such SwapClear Clearing Member.
- ~~(d)~~(e) The Clearing House shall register or reject the registration of a SwapClear Contract in respect of a SwapClear Transaction presented for registration subject to, and in accordance with these Regulations and Procedures as quickly as would be technically practicable if fully automated systems were used (the standard required in Part 39 of the CFTC Regulations), **provided that:**
- (i) both sides of the relevant SwapClear Transaction have been properly presented and submitted for clearing by (or on behalf of the) the Executing Parties;

- (ii) the relevant SwapClear Transaction meets the eligibility criteria as prescribed on the Clearing House's website at the time the particulars of the SwapClear Transaction are presented to the Clearing House and continues to meet such criteria at the Registration Time;
- (iii) such SwapClear Contract is consented to by the relevant SwapClear Clearing Member (to the extent such consent is required) in accordance with paragraph (c) above and Section 2C3.2 of the Procedures;
- (iv) the applicable SwapClear Clearing Member has transferred, upon request of the Clearing House and in accordance with Regulation 20 and such other applicable provisions of the Rulebook, all required Collateral in respect of such SwapClear Contract prior to registration (taking into account any available MER and/or SwapClear Tolerance, if any); provided that such Collateral need not be transferred prior to registration as a condition to the registration of such SwapClear Contract unless such SwapClear Contract results from a SwapClear Transaction that is a Block IRS Trade;
- (v) all the conditions applicable (under the terms of the Rulebook or the FCM Rulebook, as the case may be) for the registration of the other SwapClear Contract or the FCM SwapClear Contract (as the case may be) deriving from the relevant SwapClear Transaction have been satisfied.

~~(e)~~(f) From the time of registration by the Clearing House of two SwapClear Contracts or one SwapClear Contract and one FCM SwapClear Contract (as the case may be) (the "**Registration Time**") in respect of a SwapClear Transaction in accordance with the Procedures:

(i) the Executing Parties shall be released and discharged from all rights and obligations thereunder which fall due for performance on or after the Registration Time and, in all other cases, the rights and obligations of the Executing Parties to the SwapClear Transaction shall be governed by the applicable Execution Terms, or as otherwise agreed by such Executing Parties;

~~and~~

(ii) the relevant SwapClear Clearing Member(s) will be deemed to be and will be bound by the SwapClear Contract(s) with the Clearing House automatically and without any further action on its part, on terms that, without limitation, incorporate all applicable terms of the Rulebook (including the SwapClear Contract Terms applicable to the relevant SwapClear Contract~~); and~~ and

(iii) if the SwapClear Contract applicable to a SwapClear Clearing Member is designated as a SwapClear STM Contract pursuant to Regulation 55(b), the SwapClear Contract Terms applicable to that SwapClear STM Contract will automatically, and without any further action by either party, include the SwapClear STM Terms.

~~(f)~~(g) The Economic Terms shall be such that: (A) a SwapClear Clearing Member paying (or clearing on behalf of a person paying) Rate X and receiving (or clearing on behalf of a person receiving) Rate Y under a SwapClear Transaction shall have such rights against, and owe such obligations to, the Clearing House under the corresponding

SwapClear Contract registered by it in respect of such SwapClear Transaction as further provided for in the final paragraph of this sub-paragraph (fg) and (B) a SwapClear Clearing Member paying (or clearing on behalf of a person paying) Rate Y and receiving (or clearing on behalf of a person receiving) Rate X under a SwapClear Transaction shall have such rights against, and owe such obligations to, the Clearing House under the corresponding SwapClear Contract registered by it in respect of such SwapClear Transaction as further provided for in the final paragraph of this sub-paragraph (fg).

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

~~(g)~~(h) If at any time after registration of a SwapClear Contract, the Clearing House determines that the corresponding SwapClear Transaction of which details were presented for registration did not, at the Registration Time, meet the SwapClear Eligibility Criteria in existence at the Registration Time (an "**Ineligible SwapClear Transaction**"), the Clearing House shall, immediately set aside both SwapClear Contracts (or, in the case of a SwapClear Transaction that resulted in a SwapClear Contract and an FCM SwapClear Contract, such SwapClear Contract) arising from such Ineligible SwapClear Transaction. Upon a SwapClear Contract (an "**Ineligible SwapClear Contract**") being set aside under this paragraph (gh): (1) the Clearing House will notify the SwapClear Clearing Member party to such Ineligible SwapClear Contract via the Approved Trade Source System through which details of the relevant Ineligible SwapClear Transaction were originally presented to the Clearing House that such Ineligible SwapClear Contract has been set aside; and (2) such Ineligible SwapClear Contract shall immediately be deemed to be terminated and shall thereafter have no force or effect. Where an Ineligible SwapClear Contract is set aside pursuant to this paragraph (gh), all payments (including, without limitation, variation margin) (if any) paid by the Clearing House or by a SwapClear Clearing Member in respect of such ineligible SwapClear Contract up to and including the time when such Ineligible SwapClear Contract was set aside shall be retained by the receiving party upon termination as a termination payment. Any other payment obligations in respect of an Ineligible SwapClear Contract and/or the relevant Ineligible SwapClear Transaction shall be as agreed between the Executing Parties to such Ineligible SwapClear Transaction and shall not be paid by or to the Clearing House.

~~(h)~~(i) Notwithstanding anything to the contrary in this Rulebook, the Clearing House may decline to register a SwapClear Transaction as a SwapClear Contract or a SwapClear Contract and a FCM SwapClear Contract (as the case may be) where it considers such

action advisable for its own protection or the protection of the relevant market; **provided that** the Clearing House may (subject to the provisions of the Rulebook) register any SwapClear Contract which reduces the risk exposure of the Clearing House and the applicable SwapClear Clearing Member, as determined in the discretion of the Clearing House. The Clearing House may, subject to sub-paragraph ~~(de)~~ above and without assigning any reason, make the registration of any SwapClear Transaction subject to any conditions stipulated by the Clearing House including, without limitation, the transfer to the Clearing House of additional Collateral by any SwapClear Clearing Member in whose name any such SwapClear Transaction is to be registered.

⊕(j) Any SwapClear Transaction of which details have been presented for registration and which are not so registered will be governed by the applicable Execution Terms among the relevant parties, and the Clearing House shall have no obligations or liability in relation thereto.

⊕(k) If a SwapClear Transaction is revoked, avoided or otherwise declared invalid for any reason after particulars of it have been accepted by the Clearing House for registration such revocation, avoidance or invalidity shall not affect any SwapClear Contract arising under this Regulation 55, Regulation 12(b) or Regulation 18.

(l) Where a transfer of an open contract (the **Original Contract**) which is a SwapClear Contract takes place pursuant to Regulation 12(b), if so instructed by the SwapClear Clearing Member into whose name the contract was transferred the Clearing House may, in its sole and absolute discretion, and subject to any conditions stipulated by it, register the new open contract as a SwapClear STM Contract notwithstanding that the Original Contract was registered as a SwapClear CTM Contract. If the Clearing House makes such a designation, the new open contract shall automatically, and without any further action from either party, be a SwapClear STM Contract that is subject to the SwapClear STM Terms. For the avoidance of doubt, the transfer of an Original Contract (including a transfer that is made pursuant to the Default Rules) shall be effected by that Original Contract being closed-out and a new SwapClear Contract being established, and the applicable provisions of this Regulation 55 shall apply to the registration of such new SwapClear Contract.

In the case of a SwapClear Contract registered by the Clearing House pursuant to Rule 6(a) of the Default Rules, the Registration Time shall be deemed to be the time chosen by the Clearing House whereupon this Regulation 55 shall take effect.

REGULATION 56 COMPRESSION

- (a) Notwithstanding any other provision of these Regulations if:
- (i) one or more SwapClear Contracts registered by a SwapClear Clearing Member in accordance with the Rulebook has substantially the same Economic Terms as one or more other SwapClear Contracts registered for the account of such SwapClear Clearing Member, and
 - (ii) all such SwapClear Contracts are either (a) registered on the SwapClear Clearing Member's own behalf or (b) registered on behalf of the same SwapClear Clearing Client,

then, to the extent permitted in the Procedures and this Regulation 56, the SwapClear Clearing Member may request that the Clearing House compress and combine all such SwapClear Contracts by terminating the relevant existing SwapClear Contracts and in some instances, compressing them into one or more SwapClear Contracts having a net future cash flow equal to the net future cash flow of such original SwapClear Contracts (including, for the purposes of determining the net future cash flow of a SwapClear STM Contract, the payment obligations of the SwapClear Clearing Member and the Clearing House under the SwapClear STM Terms applicable to such SwapClear STM Contract). For the avoidance of doubt, in no circumstances can a SwapClear Contract registered in the Proprietary Account of a SwapClear Clearing Member be compressed pursuant to this Regulation 56 with a SwapClear Contract registered in the Client Account of that SwapClear Clearing Member.

- (b) For purposes of paragraph (a) above, two or more SwapClear Contracts may be deemed by the Clearing House to have "substantially the same Economic Terms" if they are based on the same underlying currencies and the Clearing House considers them, in its sole discretion, to have substantially the same fundamental economic attributes which influence the amount, value date and direction of all coupon cash flows. For the avoidance of doubt, the Clearing House may determine that two or more SwapClear Contracts have "substantially the same Economic Terms" even if (i) they have differing fixed rates or (ii) they include at least one each of a SwapClear CTM Contract and a SwapClear STM Contract. Two or more SwapClear Contracts that are compressed under the terms of this paragraph and paragraph (a) above shall be aggregated if the position of the SwapClear Clearing Member is in the same direction on each such SwapClear Contract (i.e., obligations to make payment aggregated and rights to receive payment aggregated), such that the SwapClear Contract that replaces the compressed SwapClear Contracts shall have a notional amount equal to the total notional amount of the compressed SwapClear Contracts. Two or more SwapClear Contracts that are compressed under the terms of this paragraph and paragraph (a) above shall be netted if the position of the SwapClear Clearing Member is in the opposite direction on two or more of each such SwapClear Contracts (i.e., obligations to make payment netted against rights to receive payment). In most such cases the SwapClear Contract (if any) that replaces the compressed SwapClear Contracts shall have a notional amount equal to the net notional amount of the compressed SwapClear Contracts, however, in some cases the replacement SwapClear Contracts will have an aggregate notional amount that is greater than the net notional amount of the compressed SwapClear Contracts **provided that** in no

event will the aggregate notional amounts of the replacement SwapClear Contracts be greater than the aggregate notional amounts of the compressed SwapClear Contracts, and **provided further** that in the event that the net notional amount and net future cash flows are equal to zero such compression shall result in no replacement SwapClear Contracts. The Clearing House shall determine (in its sole discretion) whether SwapClear Contracts that are the subject of a request for compression from the SwapClear Clearing Member may be compressed and, if such SwapClear Contracts are compressed, the Clearing House shall determine the resulting terms of the SwapClear Contract(s) (if any) that replaces the compressed SwapClear Contracts, and such determination shall be binding on the SwapClear Clearing Member, absent manifest error. It is a condition for compression of SwapClear Contracts that the amount of Collateral that the Clearing House requires in respect of the original SwapClear Contracts is equal to that which is required by the Clearing House in respect of the replacement SwapClear Contract(s).

(c) If:

(i) the SwapClear Contracts that are the subject of a SwapClear Clearing Member's compression request pursuant to (a) above comprise only SwapClear CTM Contracts, then the one or more SwapClear Contracts that come into existence immediately following, and as a result of, the compression shall all be SwapClear CTM Contracts;

(ii) the SwapClear Contracts that are the subject of a SwapClear Clearing Member's compression request pursuant to (a) above comprise only SwapClear STM Contracts, then the one or more SwapClear Contracts that come into existence immediately following, and as a result of, the compression shall all be SwapClear STM Contracts; and

(iii) the SwapClear Contracts that are the subject of a SwapClear Clearing Member's compression request pursuant to (a) above comprise both SwapClear CTM Contracts and SwapClear STM Contracts, then:

(A) the SwapClear Clearing Member's compression request pursuant to (a) above shall be deemed to be a STM Conversion Request in respect of those SwapClear Contracts that are SwapClear CTM Contracts, and accordingly Regulation [57A(l)-(o)] (inclusive) shall apply; and

(B) it shall be a condition precedent to the occurrence of the compression requested under this Regulation 56 that the SwapClear CTM Contracts that are the subject of the SwapClear Clearing Member's compression request have been converted into SwapClear STM Contracts in accordance with Regulation [57A].

(d) In addition, the Clearing House may, from time to time in its absolute discretion, make available in accordance with this Regulation 56, Multilateral Compression on the basis of a Multilateral Compression Cycle which is either:

(i) an ACSP Compression Cycle, available to SwapClear Clearing Members; or

- (ii) a Member Compression Cycle, where so requested by two or more SwapClear Clearing Members and agreed to by the Clearing House.

~~(d)~~(e) In participating in any Multilateral Compression Cycle, a SwapClear Clearing Member:

- (i) must be party to relevant Compression Documentation with the Clearing House and/or any nominated ACSP at such time as is contemplated in the Compression Documentation and from such time up to and including the Compression Time for that Multilateral Compression Cycle and at all relevant times must be accepted by the Clearing House and/or any nominated ACSP as an entity eligible to participate in such Multilateral Compression Cycle;
- (ii) in relation to an ACSP Compression Cycle, shall nominate those SwapClear Contracts (which may be SwapClear CTM Contracts, SwapClear STM Contracts or a combination of the same) which it wishes to make available for Multilateral Compression in accordance with the relevant Compression Documentation;
- (iii) in relation to a Member Compression Cycle, shall together with the other requesting SwapClear Clearing Member(s) provide to the Clearing House details of the proposed Terminating SwapClear Contracts (which may be SwapClear CTM Contracts, SwapClear STM Contracts or a combination of the same) and, where the Member Compression Cycle also includes the registration of Post-Multilateral Compression Contracts, details of those SwapClear Contracts (in such form as the Clearing House may require from time to time) which shall, subject to the Clearing House's confirmation, constitute the Compression Proposal;

(iv) agrees and acknowledges that:

(A) if the Terminating SwapClear Contracts that form part of the Compression Proposal comprise both SwapClear CTM Contracts and SwapClear STM Contracts, then:

(1) the SwapClear Clearing Member's identification of the SwapClear Contracts that it wishes to make available for Multilateral Compression pursuant to (ii) and/or (iii) above shall be deemed to be a STM Conversion Request in respect of those SwapClear Contracts so identified that are SwapClear CTM Contracts, and accordingly Regulation [57A(l)-(o)] (inclusive) shall apply; and

(2) it shall be a condition precedent to the occurrence of the Multilateral Compression requested under this Regulation 56 that the SwapClear CTM Contracts that are the subject of the proposed compression have been converted into SwapClear STM Contracts in accordance with Regulation [57A].

(B) if the Terminating SwapClear Contracts that form part of the Compression Proposal comprise only SwapClear CTM Contracts, the

Post-Multilateral Compression Contracts shall also all be SwapClear CTM Contracts; and

(C) if the Terminating SwapClear Contracts that form part of the Compression Proposal comprise only SwapClear STM Contracts, the Post-Multilateral Compression Contracts shall also all be SwapClear STM Contracts.

~~(iv)~~(v) warrants and represents to the Clearing House that the terms of its participation in the proposed Multilateral Compression Cycle are in compliance with all applicable laws and regulation; and

~~(v)~~(vi) agrees and acknowledges that the Multilateral Compression Cycle will operate, and Multilateral Compression shall take place, in accordance with this Regulation 56, the relevant Compression Proposal as accepted by such SwapClear Clearing Member, relevant Compression Documentation and such other processes and procedures as may be notified by the Clearing House from time to time.

~~(e)~~(f) Where the Clearing House intends to run an ACSP Compression Cycle, it shall nominate an ACSP to facilitate that ACSP Compression Cycle and produce the Compression Proposal. Such ACSP shall notify SwapClear Clearing Members meeting the criteria at ~~(d)~~(i) above of the timing and procedure for such ACSP Compression Cycle and invite such SwapClear Clearing Members to confirm their interest. The Compression Documentation for such Multilateral Compression Cycle shall include any documentation relevant to that ACSP. Additional information on the administrative procedures for any Multilateral Compression Cycle may be included in the Compression Documentation or other procedures published by the Clearing House or a nominated ACSP from time to time or in connection with a particular Multilateral Compression Cycle.

~~(f)~~(g) In any Multilateral Compression Cycle, Multilateral Compression shall only take place in accordance with the terms of a Compression Proposal which has been established and accepted by all participating SwapClear Clearing Members in accordance with this Regulation 56. Notwithstanding the other provisions of this Regulation 56, the Clearing House shall determine (in its sole discretion) whether SwapClear Contracts proposed for inclusion in a Compression Proposal may be so included.

~~(g)~~(h) A Compression Proposal shall:

- (i) in relation to an ACSP Compression Cycle, be generated by the nominated ACSP in accordance with the relevant Compression Documentation and details submitted to the ACSP by participating SwapClear Clearing Members, and be communicated by the ACSP to each participating SwapClear Clearing Member in the manner contemplated in the relevant Compression Documentation for acceptance;
- (ii) in relation to a Member Compression Cycle, be constituted by the details submitted to the Clearing House by the requesting SwapClear Clearing Members (subject to the Clearing House's determination that such proposed

details are eligible for Multilateral Compression), and shall form the basis for the subsequent acceptance by each requesting SwapClear Clearing Member; and

- (iii) in all cases include only those SwapClear Contracts that are eligible for Multilateral Compression in the relevant Multilateral Compression Cycle and that are registered in a SwapClear Clearing Member's Proprietary Account.

~~(h)~~(i) Where it wishes to participate in a Multilateral Compression Cycle, each participating SwapClear Clearing Member shall confirm its acceptance of a Compression Proposal in the manner and by the time specified by the Clearing House or otherwise contemplated in the relevant Compression Documentation. In relation to an ACSP Compression Cycle, each participating SwapClear Clearing Member agrees and acknowledges that the ACSP's confirmation to the Clearing House that such SwapClear Clearing Member has confirmed its acceptance of the Compression Proposal to the ACSP shall constitute a binding acceptance by such SwapClear Clearing Member to the Clearing House for the purposes of this Regulation 56. Upon a SwapClear Clearing Member's acceptance of a Compression Proposal in accordance with this paragraph, such SwapClear Clearing Member shall be irrevocably bound to the terms of that Compression Proposal and the Multilateral Compression contemplated thereunder.

~~(i)~~(j) The Clearing House may require margin, subsequent to a SwapClear Clearing Member's acceptance of a Compression Proposal but prior to the Compression Time, in connection with the Multilateral Compression Cycle and the SwapClear Clearing Member's positions thereunder.

~~(j)~~(k) Each SwapClear Clearing Member that confirms its acceptance of a Compression Proposal in accordance with relevant Compression Documentation agrees and acknowledges for the benefit of the Clearing House that, by its acceptance, such SwapClear Clearing Member:

- (i) shall be bound by and act in accordance with the terms of this Regulation 56, the Compression Documentation and any notifications made by the Clearing House or any nominated ACSP pursuant thereto;
- (ii) shall meet any margin calls from the Clearing House made prior to the Compression Time, and shall pay to the Clearing House any amounts that have become due and payable to the Clearing House under the SwapClear STM Terms at or prior to the Compression Time, in connection with the Multilateral Compression Cycle. Any such margin will be called, and any such amounts shall be paid, in accordance with the Procedures; and
- (iii) is bound by the terms of the Compression Proposal and the terminations and, where applicable, registrations of SwapClear Contracts comprised therein.

~~(k)~~(l) Following acceptance of the Compression Proposal by all participating SwapClear Clearing Members, the Clearing House shall effect Multilateral Compression at such time as it may determine. For the avoidance of doubt, the irrevocable acceptance of a Compression Proposal by participating SwapClear Clearing Members shall not bind or require the Clearing House to proceed with a Multilateral Compression Cycle. At

any time prior to the Compression Time, the Clearing House may, in its sole and absolute discretion, decide not to proceed with a Multilateral Compression Cycle.

~~(m)~~ Without prejudice to the rights of the Clearing House set out in paragraph ~~(k)~~ above, a Compression Proposal shall be rejected by the Clearing House if:

- (i) a SwapClear Clearing Member which has accepted a Compression Proposal is not eligible to participate in the relevant Multilateral Compression Cycle;
- (ii) any of the SwapClear Contracts included as a Post-Multilateral Compression Contract or a Terminating SwapClear Contract are not eligible for such Multilateral Compression Cycle;
- (iii) in relation to a Member Compression Cycle, the proposals submitted by the relevant SwapClear Clearing Members do not match; or
- (iv) any SwapClear Clearing Member due to participate in a Multilateral Compression Cycle rejects the Compression Proposal or does not provide the margin, or make any other payments, as required by the Clearing House.

~~(n)~~ When the Clearing House effects a Multilateral Compression, it shall terminate all Terminating SwapClear Contracts and, where the Multilateral Compression includes the registration of Post-Multilateral Compression Contracts, simultaneously with and contingent upon the termination of the Terminating SwapClear Contracts, shall register the Post-Multilateral Compression Contracts in the Proprietary Accounts of the relevant SwapClear Clearing Members. The Clearing House shall notify the participating SwapClear Clearing Members once the Multilateral Compression has been effected.

~~(o)~~ The Clearing House shall have no involvement in and accepts no responsibility or liability in relation to any Multilateral Compression-related balancing, termination or ancillary payments or fees that participating SwapClear Clearing Members may agree between themselves in accordance with relevant Compression Documentation or otherwise.

~~(p)~~ Without prejudice to any other provisions of these Regulations, in particular Regulation 45, or any Compression Documentation, neither the Clearing House, nor any other member of LCH.Clearnet Group shall have any liability whatsoever to any SwapClear Clearing Member or to any other person in contract, tort (including, without limitation, negligence), trust, as a fiduciary or under any other cause of action in respect of any damage, loss, cost or expense of whatsoever nature suffered or incurred by a SwapClear Clearing Member or any other person, as the case may be:

- (i) as a result of any action the Clearing House takes under this Regulation 56, whether in accordance with a Compression Proposal, in reliance on information provided by SwapClear Clearing Members or any ACSP or otherwise;
- (ii) in relation to an ACSP Compression Cycle, as a result of any action or omission of an ACSP, including, without limitation, any error or omission in the terms of any Compression Proposal; or

REGULATION 57 COLLATERALISATION OF SWAPCLEAR CTM CONTRACTS

(a) The net present value of each SwapClear CTM Contract shall be calculated by the Clearing House for the purposes of determining required variation margin in such manner and at such times as may be provided in the Procedures. Except as prescribed in the Procedures, the net present value calculated by the Clearing House may in no circumstances be called in question.

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

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

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

provided that:

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

(iv) any time the calculation provided for in this Regulation 57(b) is performed for the first time in respect of any particular SwapClear CTM Contract that SwapClear CTM Contract shall for the purpose of sub-paragraphs (i) and (ii) above be deemed to have had a net present value of zero at the time of the preceding valuation; and

(v) the calculations under this Regulation 57(b) shall disregard any amount previously determined to be payable by one party to the other pursuant to Regulation 57(d) but which has not yet been so transferred.

(c) Cash provided by the Clearing House or a SwapClear Clearing Member under Regulation 57(b) is provided by way of title transfer and, other than where the provision of cash reduces a party's current balance of cash Collateral, for the purpose of collateralising the relevant party's obligations under the relevant SwapClear CTM Contract(s).

(d) In respect of all SwapClear CTM Contracts, on every Business Day, the Clearing House shall aggregate:

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

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

(in each case which are payable in the same currency and which are payable in respect of the same Client Account or the same Proprietary Account), and all such sums shall be automatically satisfied and discharged and only the excess of the larger aggregate amount over the smaller aggregate amount shall be payable by the party by whom the larger aggregate amount would otherwise have been payable.

(e) The parties acknowledge that effect of Regulation 57(d) is that any settlement payment obligation of a Clearing Member (or of the Clearing House) under a SwapClear CTM Contract and any obligation of the Clearing House's (or of the Clearing Member) on the date of such settlement to return same-currency cash Collateral provided to it by way of variation margin in respect of that SwapClear CTM Contract will be netted against each other, with only the balance being payable in accordance with Regulation 57(d).

REGULATION 57A SETTLEMENT OF SWAPCLEAR STM CONTRACTS AND CONVERSION TO SWAPCLEAR STM CONTRACTS

- (a) Notwithstanding anything to the contrary in Regulation 20, neither the Clearing House nor a SwapClear Clearing Member shall be obliged to make any payment by way of variation margin in respect of a SwapClear STM Contract. This Regulation [57A] shall be without prejudice to the Clearing House's other rights to require Collateral to be transferred to it under Regulation 20 (including, but not limited to, its right to require Collateral to be transferred to it in respect of a SwapClear Clearing Member's initial margin obligations in respect of a SwapClear STM Contract).
- (b) The Clearing House shall, at least once per Business Day, determine (i) the change in the net present value of each SwapClear STM Contract, and (ii) the Price Alignment Amount payable on such Business Day, in each case in such manner and at such times as may be provided in the Procedures. Immediately upon the Clearing House making each such determination of the net present value of a SwapClear STM Contract, an NPV Reset shall occur with respect to that SwapClear STM Contract.
- (c) Upon the occurrence of an NPV Reset in relation to a SwapClear STM Contract:
- (i) if the Clearing House has determined that the net present value of the SwapClear STM Contract has increased since the immediately preceding NPV Reset, an amount of cash denominated in the currency of the SwapClear STM Contract (as specified in the Economic Terms relating to that SwapClear STM Contract) equal to the amount of such increase shall immediately become due and payable by the SwapClear Clearing Member to the Clearing House under the SwapClear STM Terms;
- (ii) if the Clearing House has determined that the net present value of the SwapClear STM Contract has decreased since the immediately preceding NPV Reset, an amount of cash denominated in the currency of the SwapClear STM Contract (as specified in the Economic Terms relating to that SwapClear STM Contract) equal to the amount of such decrease shall immediately become due and payable by the Clearing House to the SwapClear Clearing Member under the SwapClear STM Terms;
- (iii) if the Clearing House has determined that the net present value of the SwapClear STM Contract has not changed since the immediately preceding NPV Reset, neither the Clearing House nor the SwapClear Clearing Member shall be obliged to make any payment; and
- (iv) the net present value of the SwapClear STM Contract shall for all purposes be equal to zero.
- (d) The SwapClear Clearing Member and the Clearing House hereby agree that:
- (i) for the avoidance of doubt, an "increase" in the net present value of a SwapClear STM Contract shall mean that the net present value of that

- SwapClear STM Contract has moved in favour of the Clearing House since the immediately preceding NPV Reset;
- (ii) for the avoidance of doubt, a “decrease” in the net present value of a SwapClear STM Contract shall mean that the net present value of that SwapClear STM Contract has moved in favour of the SwapClear Clearing Member since the immediately preceding NPV Reset; and
 - (iii) unless otherwise agreed between the SwapClear Clearing Member and the Clearing House, the net present value of a SwapClear STM Contract on the Trade Date (as such term is defined in the SwapClear STM Terms applicable to that SwapClear STM Contract) shall be equal to zero.
- (e) Except as prescribed in the Procedures, the net present value calculated by the Clearing House shall in no circumstances be called in question.
- (f) Upon the Clearing House’s determination of the Price Alignment Amount in relation to a SwapClear STM Contract:
- (i) if the Clearing House has determined that the Cumulative Net Present Value is greater than zero, then, subject to (iii) below, an amount of cash denominated in the currency of the SwapClear STM Contract (as specified in the Economic Terms relating to that SwapClear STM Contract) equal to the Price Alignment Amount shall immediately become due and payable by the Clearing House to the SwapClear Clearing Member;
 - (ii) if the Clearing House has determined that the Cumulative Net Present Value is less than zero, then, subject to (iii) below, an amount of cash denominated in the currency of the SwapClear STM Contract (as specified in the Economic Terms relating to that SwapClear STM Contract) equal to the Price Alignment Amount shall immediately become due and payable by the SwapClear Clearing Member to the Clearing House; and
 - (iii) if the Price Alignment Amount payable by a party on a Business Day (as such term is defined in the SwapClear STM Terms relating to that SwapClear STM Contract) is a negative amount, then the Price Alignment Amount payable by that party will be deemed to be zero, and the other party will pay to that party the absolute value of the negative Price Alignment Amount on such Business Day (as such term is defined in the SwapClear STM Terms relating to that SwapClear STM Contract).
- (g) For the purpose of determining the Cumulative Net Present Value of a SwapClear STM Contract that has been either (i) transferred to a Backup Clearing Member pursuant to the Default Rules in relation to SwapClear Contracts, or (ii) transferred to a Receiving Clearing Member pursuant to Regulation 60, the Trade Date of the SwapClear STM Contract that comes into existence immediately following such transfer shall be the Trade Date of the SwapClear STM Contract that was so transferred.
- (h) For the purpose of determining the Cumulative Net Present Value of a SwapClear STM Contract that has been converted from a SwapClear CTM Contract pursuant to

this Regulation [57(A)], the Trade Date of the SwapClear STM Contract that comes into existence immediately following such conversion shall be the Trade Date of the SwapClear CTM Contract that was so converted.

(i) The payment of each of the amounts due and payable under the SwapClear STM Terms applicable to a SwapClear STM Contract shall be made in such manner and at such times as may be provided in the Procedures.

(j) In respect of all SwapClear STM Contracts the Clearing House shall:

(i) on each Business Day (as such term is defined in the SwapClear STM Terms relating to that SwapClear STM Contract), and to the extent that the following amounts are payable in the same currency and in respect of the same Client Account or the same Proprietary Account (as applicable), aggregate:

(A) the amounts (if any) payable by the SwapClear Clearing Member to the Clearing House on such Business Day in accordance with Regulation [57A(c)];

(B) the Price Alignment Amount (if any) payable by the SwapClear Clearing Member to the Clearing House on such Business Day in accordance with Regulation [57A(f)];

(C) the amounts (if any) of the coupon payment payable by the SwapClear Clearing Member to the Clearing House on such Business Day in accordance with the Procedures; and

(D) any other amounts which are payable by the SwapClear Clearing Member to the Clearing House on such Business Day,

and the amount payable on a Business Day to one party (the **Payee**) by the other party (the **Payer**) under Regulation [57A(j)(i) or (ii)] (as applicable) shall be reduced by setting-off such amount against the amount (the **Other Amount**) payable by the Payee to the Payer under Regulation [57A(j)(i) or (ii)] (as applicable). To the extent the Other Amount is so applied, the Other Amount will be discharged promptly and in all respects.

(k) On each Business Day the Clearing House shall, to the extent that the following amounts are payable in the same currency and in respect of the same Client Account or the same Proprietary Account (as applicable) aggregate the amount that is payable by either the SwapClear Clearing Member or the Clearing House following the operation of the payment netting provision under Regulation 57(d) and the amount that is payable by either the SwapClear Clearing Member or the Clearing House following the operation of the payment netting provision under Regulation 57[A](j)], and only the excess of the larger amount over the smaller amount shall be payable by the party by whom the larger amount would otherwise have been payable. To the extent the smaller amount is so applied, the smaller amount will be discharged promptly and in all respects.

(l) The Clearing House and the SwapClear Clearing Member agree that satisfaction of the payment obligation arising under the SwapClear STM Terms by either party shall

discharge such obligation for the purpose of settling the then outstanding exposure under a SwapClear STM Contract.

- (m) A SwapClear Clearing Member (a **Converting SwapClear Clearing Member**) may, from time to time, submit a written request, or in the case of a compression of the type described in Regulation 56(c)(iii) or Regulation 56(e)(iv)(A) a Swap Clear Clearing Member shall be deemed to have submitted a written request (each such request, an **STM Conversion Request**) to the Clearing House requesting that the Clearing House converts one or more of its open SwapClear CTM Contracts to SwapClear STM Contracts. Such request shall identify those SwapClear CTM Contracts (the **STM Conversion Contracts**) which the SwapClear Clearing Member wishes to be converted to SwapClear STM Contracts. No open SwapClear CTM Contract shall be converted into a SwapClear STM Contract except as provided in this Regulation 57A or the Procedures.
- (n) Following its receipt of an STM Conversion Request made (or deemed to have been made) by a Converting SwapClear Clearing Member pursuant to (m) above, the Clearing House may, in its sole and absolute discretion, nominate a Business Day (the **STM Conversion Date**) from, and including which, some or all of the STM Conversion Contracts shall, subject to the satisfaction of the conditions specified in (o) below, cease to be registered as SwapClear CTM Contracts and shall immediately and automatically become registered as SwapClear STM Contracts which are subject to this Regulation [57A] and the SwapClear STM Terms. For the avoidance of doubt, if the Clearing House determines that it shall convert a SwapClear CTM Contract into a SwapClear STM Contract, such conversion shall be effected through the Clearing House and the Converting SwapClear Clearing Member agreeing to a modification of the terms of the relevant STM Conversion Contract, and such conversion shall not be effected through the Clearing House and the Converting SwapClear Clearing Member terminating the relevant STM Conversion Contract and entering into a new SwapClear STM Contract.
- (o) The occurrence of an STM Conversion Date in respect of an STM Conversion Contract shall be subject to the condition precedent that:
- (i) the Converting SwapClear Clearing Member is not a Defaulter;
 - (ii) no relevant SwapClear Clearing Client is insolvent;
 - (iii) the conversion of that STM Conversion Contract to a SwapClear STM Contract would not violate or result in the violation of any applicable law or regulation;
 - (iv) the Converting SwapClear Clearing Member has satisfied all of its obligations to meet any margin calls made by the Clearing House in respect of that STM Conversion Contract up to, but excluding, the STM Conversion Date. The Converting Clearing Member shall satisfy such margin calls in accordance with the Procedures and/or applicable Regulations, as would ordinarily be the case;
 - (v) the Converting SwapClear Clearing Member has paid to the Clearing House, or the Clearing House has paid to the Converting SwapClear Clearing Member

(as applicable), any cash settlement amount that the Clearing House determines (in its sole and absolute discretion) must be paid to ensure that the net present value of the STM Conversion Contract shall be equal to zero on the STM Conversion Date. Such amounts shall be determined and paid by the relevant party in accordance with the Procedures. The Converting SwapClear Clearing Member and the Clearing House agree that the Clearing House may, in its sole and absolute discretion, apply any Collateral held by it in respect of a STM Conversion Contract to satisfy (in whole or in part) the Converting SwapClear Clearing Member's obligation to pay the amount (if any) required under this Regulation [57A(o)(v)] in relation to that STM Conversion Contract. The Converting SwapClear Member and the Clearing House agree that any Collateral held by the Converting SwapClear Clearing Member in respect of a STM Conversion Contract shall be applied to satisfy (in whole or in part) the Clearing House's obligation to pay the amount (if any) required under this Regulation [57A(o)(v)] in relation to that STM Conversion Contract; and

(vi) all other conditions stipulated by the Clearing House have been complied with in a manner satisfactory to it.

(p) Each time a SwapClear Clearing Member delivers an STM Conversion Request that SwapClear Clearing Member:

(i) agrees and acknowledges for the benefit of the Clearing House that if an STM Conversion Date occurs in respect of an STM Conversion Contract, that STM Conversion Contract cannot, in any circumstance, be re-converted into a SwapClear CTM Contract; and

(ii) is deemed to represent to the Clearing House that the person, agent, officer, employee, or representative that delivers that STM Conversion Request is fully authorised by it to do so, and has the requisite power to bind the Converting SwapClear Clearing Member in this regard.

(q) For the purposes of this Regulation 57A;

(i) "**Cumulative Net Present Value**" means, in respect of a SwapClear STM Contract and a Business Day (as such term is defined in the SwapClear STM Terms relating to that SwapClear STM Contract) falling after the Trade Date, a hypothetical value, determined by the Clearing House acting in its sole and absolute discretion, equal to:

(A) the aggregate of the amounts (if any) payable by the SwapClear Clearing Member to the Clearing House (expressed as a positive number) under Section 4.1 of the SwapClear STM Terms from, and including, the Trade Date to, but excluding, that Business Day; plus

(B) if such SwapClear STM Contract has been converted from a SwapClear CTM Contract, the aggregate of the amounts (if any) of variation margin determined to be payable by the SwapClear Clearing Member to the Clearing House (expressed as a positive number) from,

and including, the Trade Date, to, and including, the STM Conversion Date relating to such SwapClear STM Contract; plus

(C) the aggregate of the amounts (if any) payable by the Clearing House to the SwapClear Clearing Member (expressed as a negative number) under Section 4.1 of the SwapClear STM Terms from, and including, the Trade Date, to, but excluding, that Business Day; plus

(D) if such SwapClear STM Contract has been converted from a SwapClear CTM Contract, the aggregate of the amounts (if any) of variation margin determined to be payable by the Clearing House to the SwapClear Clearing Member (expressed as a negative number) from, and including, the Trade Date, to, and including, the STM Conversion Date relating to the SwapClear STM Contract.

(ii) "NPV Reset" means, in relation to a SwapClear STM Contract, the point in time when LCH makes its determination of the net present value of that SwapClear STM Contract, and immediately following which the provisions of Regulation [57A(c)] shall apply.

(iii) "Price Alignment Amount" means, in respect of a Business Day (as such term is defined in the SwapClear STM Terms relating to that SwapClear STM Contract) falling after the Trade Date, the product of:

(iv) "Price Alignment Amount Rate" means the applicable rate that is specified and published by the Clearing House in accordance with the Procedures.

REGULATION 57B – TRANSITIONAL PROVISIONS APPLICABLE TO SWAPCLEAR STM CONTRACTS

- (a) This Regulation [57B] shall apply until SwapClear Clearing Members are otherwise notified by the Clearing House.
- (b) Notwithstanding Regulation 55(b), no SwapClear Clearing Member shall be entitled to elect that any of its then open SwapClear Contracts or future SwapClear Contracts be registered as SwapClear STM Contracts, unless such an election is made in respect of all of its then open SwapClear Contracts and future SwapClear Contracts that are, or will be, recorded in its Proprietary Account. For as long as this Regulation [57B] is applicable, any purported election that is not permitted in accordance with this Regulation [57B] shall be void, and the Clearing House shall be entitled to treat it as such.
- (c) Notwithstanding Regulation [57A(m)], and without prejudice to the right of a SwapClear Clearing Member to request a conversion in connection with an election of the type permitted under (b) above, no SwapClear Clearing Member shall be entitled to deliver (or be deemed to have delivered) a STM Conversion Request in respect of any SwapClear CTM Contract.

REGULATION 58 THE RESET RATE FOR, AND THE NET PRESENT VALUE OF, A SWAPCLEAR CONTRACT

The Clearing House may determine the reset rate for, and the net present value of, a SwapClear Contract for the purposes of these Regulations, ~~and~~ the Procedures and the SwapClear STM Terms of a SwapClear STM Contract in such manner and at such times as may be prescribed in the Procedures. Except as prescribed in the Procedures, neither the reset rate nor the net present value determined by the Clearing House may in any circumstances be challenged.

- (v) the Receiving Clearing Member has consented to the transfer of the Relevant SwapClear Contracts and, if applicable, the Associated Collateral Balance(s);
- (vi) the Receiving Clearing Member has transferred sufficient Collateral to the Clearing House in respect of its current SwapClear Contracts and the Relevant SwapClear Contracts;
- (vii) the Carrying Clearing Member has not rejected such transfer (it being presumed by the Clearing House that the Carrying Clearing Member has not so rejected the transfer unless evidenced to the contrary by the Carrying Clearing Member in the manner set forth in the Procedures or as otherwise reasonably determined by the Clearing House); and
- (viii) in the event that the transfer will lead to a requirement for the Carrying Clearing Member to transfer additional Collateral or make any other payment to the Clearing House, the Carrying Clearing Member transfers sufficient Collateral or makes such payment to the Clearing House.

By requesting a transfer of the Relevant SwapClear Contracts of a SwapClear Clearing Client and, if applicable, the Associated Collateral Balance(s) pursuant to this paragraph (b), the Receiving Clearing Member shall be deemed to have represented to the Clearing House that all of the conditions to such transfer set forth herein and in the Procedures have been satisfied.

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

- (c) A Receiving Clearing Member may (A) upon the instruction or at the request of an Individual Segregated Account Clearing Client or an individual Omnibus Gross Segregated Clearing Client (other than a Combined Omnibus Gross Segregated Clearing Client), request the Clearing House (as set out in the Procedures) to transfer a portion of that SwapClear Clearing Client's portfolio of SwapClear Contracts registered with a Carrying Clearing Member, or (B) upon the request or instruction of an Identified Omnibus Net Segregated Clearing Client, an Affiliated Omnibus Net Segregated Clearing Client or a Combined Omnibus Gross Segregated Clearing Client which is not otherwise covered by paragraph (b) above, request the Clearing House (as set out in the Procedures), to transfer either the whole or a part of such SwapClear Clearing Client's portfolio of SwapClear Contracts registered with the Carrying



Appendix II
Product Specific Contract Terms and Eligibility Criteria Manual

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

SCHEDULE 2 SWAPCLEAR

PART A SWAPCLEAR CONTRACT TERMS

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

- (1) Interpretation; ~~and~~
- (2) Economic Terms; ~~and~~
- (3) Standard Terms-; and
- (4) if the SwapClear Contract is a SwapClear STM Contract, the SwapClear STM Terms.

In the event of any inconsistency between the Economic Terms and the Standard Terms, the Standard Terms will prevail. In the event of any inconsistency between the SwapClear STM Terms (where applicable) and either or both of the Economic Terms and the Standard Terms, the SwapClear STM Terms will prevail.

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

1. Interpretation

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

3.4.10 The Clearing House shall provide such representations and documentation as are required and reasonably requested by each Clearing Member such that each Clearing Member can make payments to the Clearing House without deduction or withholding being applicable.

3.5 ***Payment of Stamp Tax***

Each SwapClear Clearing Member will pay any Stamp Tax or duty levied or imposed upon it in respect of any SwapClear Contract to which it is a party by a jurisdiction in which it is incorporated, organised, managed and controlled, or considered to have its seat, or in which a branch or office through which it is acting is located ("**Stamp Tax Jurisdiction**") or by any other jurisdiction, and will indemnify the Clearing House against any Stamp Tax or duty levied or imposed upon the Clearing House by any such Stamp Tax Jurisdiction or by any other jurisdiction in respect of any SwapClear Contract registered by the Clearing House and to which that SwapClear Clearing Member is a party.

3.6 ***Payments under a SwapClear Contract***

Payments under, and in respect of, a SwapClear Contract shall be calculated by the Clearing House and shall be made by, or to, the SwapClear Clearing Member in accordance with the provisions of the Procedures.

3.7 ***Regulations***

A SwapClear Contract shall be subject to the Regulations and the Procedures, which shall form a part of its terms. In the event of any inconsistency between these SwapClear Contract Terms and the Regulations and the Procedures, the Regulations and the Procedures will prevail.

3.8 ***Governing Law***

Each SwapClear Contract shall be governed by and construed in accordance with the laws of England and Wales and the parties irrevocably agree for the benefit of the Clearing House that the courts of England and Wales shall have exclusive jurisdiction to hear and determine any action or dispute which may arise here from. The SwapClear Clearing Member party hereto irrevocably submits to such jurisdiction and agrees to waive any objection it might otherwise have to such jurisdiction, save that this submission to the jurisdiction of the courts of England and Wales shall not (and shall not be construed so as to) limit the right of the Clearing House to take proceedings in any other court of competent jurisdiction, nor shall the taking of action in one or more jurisdictions preclude the Clearing House from taking action in any other jurisdiction, whether concurrently or not.

3.9 ***Third Party Rights***

A person who is not a party to this SwapClear Contract shall have no rights under or in respect of it. Rights of third parties to enforce any terms of this SwapClear Contract pursuant to the Contracts (Rights of Third Parties) Act 1999 are expressly excluded.

4. *SwapClear STM Terms*

The following terms are designated as the SwapClear STM Terms of a registered SwapClear STM Contract:

4.1 Net Present Value

- (a) The Clearing House shall, at least once per Business Day, determine the net present value of this SwapClear STM Contract in such manner and at such times as may be provided in the Procedures.
- (b) Immediately upon the Clearing House making such a determination of the net present value of this SwapClear STM Contract:
 - (i) an amount (determined in accordance with Regulation [57A]) of cash may become due and payable by the SwapClear Clearing Member or the Clearing House (as applicable, and as determined in accordance with Regulation [57A]) under these SwapClear STM Terms; and
 - (ii) the net present value of this SwapClear STM Contract shall for all purposes be reset to zero.
- (c) The amount (if any) referred to in (b)(i) above shall immediately become due and payable by the relevant party under the SwapClear STM Terms applicable to this SwapClear STM Contract and shall be made in such manner and at such times as may be provided in the Procedures.

4.2 Price Alignment Amount

- (a) The Clearing House shall, at least once per Business Day, determine the Price Alignment Amount in respect of this SwapClear STM Contract in such manner and at such times as may be provided in the Procedures.
- (b) Immediately upon the Clearing House making such a determination of the Price Alignment Amount in respect of this SwapClear STM Contract an amount (determined in accordance with Regulation [57A]) of cash may become due and payable by the SwapClear Clearing Member or the Clearing House (as applicable, and as determined in accordance with Regulation [57A]) under these SwapClear STM Terms.
- (c) The amount (if any) referred to in (b) above shall immediately become due and payable by the relevant party under the SwapClear STM Terms applicable to this SwapClear STM Contract and shall be made in such manner and at such times as may be provided in the Procedures.



Appendix III
LCH.Clearnet Procedures Section 2C (SwapClear)



LCH.CLEARNET LIMITED

PROCEDURES SECTION 2C

SWAPCLEAR CLEARING SERVICE

1. SWAPCLEAR CLEARING SERVICE

1.1 The Clearing Process

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

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

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

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

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

1.1.1 *SwapClear Service Functions*

The following functions are performed within the SwapClear Service:

- (a) processing and settlement of coupon payments;
- (b) processing and settlement of consideration (fee) payments;
- (c) calculation of initial and variation margin requirements;
- (d) calculation of the net present value of SwapClear Transactions;
- (e) calculation of the cumulative net present value of certain SwapClear Transactions;
- ~~(d)~~(f) calculation of MER requirements and SwapClear Tolerance Limits;
- ~~(e)~~(g) calculation of price alignment interest and price alignment amounts;

- (b) be available to enable the registration of, or to meet any other intraday margin requirements in connection with, other SwapClear Contracts entered into in connection with SwapClear Client Clearing Business.

As part of the end of day margin run and/or settlement process (as applicable), the Clearing House will call the SwapClear Clearing Member for Collateral and/or settlement payments (as applicable) to cover the liabilities which are, at that point, being covered by Collateral transferred from the Client Buffer Account to a Client Account. Where the SwapClear Clearing Member fails to provide such additional Collateral and/or settlement payments (as applicable), the Collateral previously transferred from the Client Buffer Account to the Client Account will continue to be recorded in the relevant Client Account and the Clearing House will not permit it to be transferred back to the Client Buffer Account in the manner envisaged above. In such circumstances, the SwapClear Clearing Member would be required to transfer the relevant Collateral out of and back into the Clearing House should it wish to return it to the Client Buffer Account (assuming such an arrangement would be consistent with the SwapClear Clearing Member's agreement with its client and that the Clearing House has not exercised any of its rights under the Default Rules following the Clearing Member's failure to meet the call for such additional Collateral).

For the avoidance of doubt, where a SwapClear Clearing Member has put Client Buffer arrangements in place, the Clearing House will transfer any available Client Buffer to the relevant Client Account before providing SwapClear Tolerance to that Client Account. Any additional Collateral transferred by a SwapClear Clearing Member to the Clearing House in respect of the relevant Client Account will be used to reduce the amount of SwapClear Tolerance utilised in respect of that Client Account to zero before any Collateral previously transferred from the Client Buffer Account is released and re-recorded to the Client Buffer Account.

Any Collateral released and re-recorded to the Client Buffer Account will immediately be used to replace and reduce the amount (if any) of SwapClear Tolerance utilised in respect of any other Client Account opened by the same SwapClear Clearing Member.

Where more than one relevant Client Account utilises SwapClear Tolerance at the time the relevant Collateral is re-recorded to the Client Buffer Account, the newly available Client Buffer shall be allocated to those Client Accounts pro rata to the sum of the Collateral transferred from the Client Buffer Account and currently recorded to the relevant Client Account (if any) and the amount of SwapClear Tolerance utilised by the relevant Client Account (if any) for each such Client Account at that time.

Conversely, any additional Collateral allocated to the Client Buffer Account by the SwapClear Clearing Member will remain in the Client Buffer Account until it is needed to enable the registration of, or to meet other intraday margin requirements in connection with, other SwapClear Contracts entered into in connection with SwapClear Client Clearing Business, irrespective of whether

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

1.3.5 *Registration of New Trades*

The following section does not apply to Backloaded Trades, which are dealt with in section 1.3.6 below.

Prior to it registering a SwapClear Contract resulting from a SwapClear Transaction that is a Block IRS Trade, the Clearing House will require the SwapClear Clearing Member in whose name such SwapClear Contract is to be registered to transfer to the Clearing House adequate Collateral in respect of initial ~~and margin requirements~~, variation margin requirements, and/or the settlement payment obligations (as applicable) relating to such contract as a precondition to registration (taking into account any MER, Client Buffer and/or SwapClear Tolerance, if any). In accordance with Regulation 55(d)(iv) (*Registration of SwapClear Contracts*), a SwapClear Clearing Member becomes obligated to transfer such Collateral (taking into account any MER, Client Buffer and/or SwapClear Tolerance, if any) to the Clearing House at the time when both SwapClear Contracts, or the SwapClear Contract and the FCM SwapClear Contract (as applicable), relating to the relevant SwapClear Transaction that is a Block IRS Trade have been submitted or deemed to be submitted (as applicable) by the relevant SwapClear Clearing Member(s) or the relevant SwapClear Clearing Member and FCM Clearing Member (as the case may be) and such SwapClear Clearing Member(s) or such SwapClear Clearing Member and such FCM Clearing Member shall transfer such Collateral to the Clearing House prior to registration upon request of the Clearing House. In respect of a SwapClear Contract resulting from a SwapClear Transaction that is not a Block IRS Trade, the SwapClear Clearing Member in whose name such SwapClear Contract is registered shall transfer to the Clearing House sufficient Collateral in respect of such SwapClear Contract at such time after the registration of such SwapClear Contract as the Clearing House shall require.

Notwithstanding the foregoing, (i) if the Clearing House registers a Block IRS Trade where one or both of the relevant SwapClear Clearing Members has not provided sufficient Collateral prior to registration, the SwapClear Clearing Members shall be bound by the terms of the SwapClear Contract relating thereto arising under Regulation 47 (and in particular by paragraphs (c), (h) and (i) thereof) and any other applicable provision of the Rulebook; and (ii) if

Each client "C" position-keeping account and the client "C" collateral account of an SCM may hold any number of segregated sub-accounts. Each Individual Segregated Account of the SCM will map onto one such segregated sub-account in the client "C" position-keeping account and one such segregated sub-account in the client "C" collateral account and each Omnibus Segregated Account will map onto one such segregated sub-account in the client "C" position-keeping account and one such segregated sub-account in the client "C" collateral account.

In the case of Omnibus Gross Segregated Accounts, the relevant segregated sub-accounts of the client "C" collateral account and "C" position-keeping account will be further segregated into sub-accounts for each Omnibus Gross Segregated Clearing Client or, where applicable, a group of Combined Omnibus Gross Segregated Clearing Clients together.

1.6.2 *Further accounts*

At the Clearing House's discretion, further accounts may be opened from time to time.

1.6.3 *Client Excess*

A Clearing Member can transfer Client Excess in accordance with Section 1.10 of Procedure 4 (*Margin and Collateral*).

1.6.4 *Default Fund (DF) Account*

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

1.7 **Variation Margin and NPV Payments**

All SwapClear Transactions will, on submission to the Clearing House, be marked-to-market using the Clearing House's zero coupon yield curves. In accordance with Regulation 57 (*Collateralisation of SwapClear CTM Contracts*) and Regulations [57A] (Settlement of SwapClear STM Contracts and Conversion to SwapClear STM Contract), the Clearing House will use these curves to calculate the net present value of the SwapClear Transaction to the Clearing House or, as the case may be, to an SCM.

In respect of each SwapClear Transaction that is settled-to-market daily in accordance with Regulations [57A], the obligation of either the relevant SCM or the Clearing House to pay to the other an amount in respect of the change in the net present value of a SwapClear Transaction shall, for the purposes of this Procedure, be referred to as the "NPV Payment".

Separate-A single separate calculation in respect of the variation margin ~~calculations~~ are and/or NPV Payment owed by or to the relevant SCM shall be performed for (i) an SCM's Proprietary Accounts and (ii) for each Individual Segregated Client Account and Omnibus Segregated Account (other than an Affiliated Client Omnibus Gross Segregated Account).

In respect of each Omnibus Gross Segregated Clearing Client (other than a Combined Omnibus Gross Segregated Clearing Client) a single separate calculation in respect of the variation margin ~~calculations are~~ and/or NPV Payments owed by or to the relevant SCM shall be performed in respect of the SwapClear Contracts entered into by the relevant SCM on behalf of such Omnibus Gross Segregated Clearing Client.

In respect of a group of Combined Omnibus Gross Segregated Clearing Clients a single separate calculation in respect of the variation margin ~~calculation is~~ and/or NPV Payments owed by or to the relevant SCM shall be performed in respect of SwapClear Contracts entered into by the relevant SCM on behalf of such Combined Omnibus Gross Segregated Clearing Clients.

No offset between the "C" and the "H" accounts is allowed and, except pursuant to a Cross-ISA Client Excess Deduction, no offset is allowed between any Client Accounts.

Collateral and/or NPV Payments (as applicable) that are provided pursuant to this Procedure must, subject to intra-day registration, be in the form of cash in the currency of the SwapClear Transaction. Where a SwapClear Transaction is registered intra-day, and the variation margin obligation and/or NPV Payment obligations (as applicable) is covered with non-cash Collateral, the Clearing House will, the following business day, require the SCM to replace that non-cash amount with cash in the currency of the SwapClear Transaction.

All SwapClear Contracts will be marked-to-market or settled-to-market (as applicable) daily using the Clearing House's zero coupon yield curves. The daily change in the net present value will be credited to or debited from the relevant position account.

~~For the avoidance of doubt, a~~ Any transfers of cash Collateral by an SCM to the Clearing House in respect of the SCM's variation margin obligations in connection with a SwapClear CTM Contract, or by the Clearing House to an SCM in respect of the Clearing House's variation margin obligations in connection with a SwapClear CTM Contract shall be for the purposes of collateralisation and not settlement of the relevant party's obligations under the relevant SwapClear ~~Contracts~~ CTM Contract.

Any NPV Payment made by an SCM to the Clearing House under a SwapClear STM Contract, or by the Clearing House to an SCM under a SwapClear STM Contract, shall be for the purpose of settlement of the applicable party's obligation to pay the required NPV Amount pursuant to the terms of that SwapClear STM Contract and not for the purpose of collateralising any obligations of either party under that SwapClear STM Contract.

1.7.1 Zero Coupon Yield Curve Construction

The Clearing House will determine, at its sole discretion, appropriate instruments, points and market prices for the construction of zero coupon curves and portfolio valuation. Details of the construction method and

Instruments used are available on request from SwapClear Risk on +44 (0)20 7 426 7549, but may be subject to change without prior notification.

1.7.2 Official Quotations

Zero ~~Coupon-coupon~~ ~~Yield-yield~~ curves will use prices and rates taken at:

All times quoted are London time

| | |
|--------------------|-------|
| AUD | 12:00 |
| CAD | 20:00 |
| CHF LIBOR & OIS | 16:30 |
| CZK | 16:30 |
| DKK | 16:30 |
| EURO LIBOR | 16:30 |
| GBP LIBOR | 16:30 |
| HKD | 12:00 |
| HUF | 16:30 |
| JPY LIBOR & OIS | 12:00 |
| NOK | 16:30 |
| NZD | 12:00 |
| PLN | 16:30 |
| SEK | 16:30 |
| SGD | 12:00 |
| USD LIBOR & OIS | 20:00 |
| ZAR | 16:30 |
| EURO | 18:00 |

| | |
|-----|-------|
| OIS | |
| GBP | |
| OIS | 18:00 |

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

1.7.3 Net Present Value and Cumulative Net Present Value

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

On the basis of, amongst other things, the net present value so calculated in relation to a relevant SwapClear Contract, the Clearing House shall calculate the Cumulative Net Present Value of that SwapClear Contract.

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

1.7.4 Price Alignment Interest

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

1.7.5 Price Alignment Amount

The payment of NPV Payments by the applicable party on a daily basis would, without adjustment, distort the pricing for certain SwapClear Transactions cleared through the Clearing House. In order to minimise the impact of such

NPV Payments, the Clearing House will, for a SCM, either (i) charge a Price Alignment Amount if that SCM has, on a cumulative net basis, received NPV Payments from the Clearing House, or (ii) pay a Price Alignment Amount if that SCM has, on a cumulative net basis, paid NPV Payments to the Clearing House. In a negative interest rate environment where the applicable Price Alignment Amount Rate is negative, the Clearing House will, for a SCM, either (i) pay a Price Alignment Amount if that SCM has, on a cumulative net basis, received NPV Payments from the Clearing House, or (ii) charge a Price Alignment Amount if that SCM has, on a cumulative net basis, paid NPV Payments to the Clearing House.

1.8 Coupon Payments

1.8.1 Calendars and Coupons

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

1.8.2 Calculation of Fixed Amount

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

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

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

1.8.3 Calculation of Floating Amount

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

$$\text{Floating Amount} = \text{Calculation Amount (+/- Spread)} \times \text{Floating Rate} \times \text{Floating Rate Day Count Fraction}$$

- (iv) The Clearing House then analyses each participating SwapClear Clearing Member's portfolio (assuming that the IMMES Trades have been entered into) and determines the change in, initial margin and zero yield sensitivity from the IMMES Trades.
- (v) The SwapClear Clearing Members on either side of the trades (which may include an FCM SwapClear Clearing Member (as defined in the FCM Rulebook)) are advised of the economic details of the IMMES Trades, and their respective identities and contact details.
- (vi) The SwapClear Clearing Members may but are not required to enter into the IMMES Trades. Any IMMES Trades entered into must be submitted to the Clearing House for registration.

1.10 Tenor Basis Risk Margin Add-on

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

1.11 Intra-Day Margin Call: Collateral Management

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

1.12 Price Alignment Interest (PAI) Rate

~~To minimise the impact of daily cash variation margin payments on the pricing of interest rate swaps and inflation swaps, the Clearing House will charge interest on cumulative amounts in respect of variation margin received by the Clearing Member and pay interest on cumulative amounts in respect of variation margin paid in by the Clearing Member in respect of these instruments. This interest element is known as price alignment interest ("PAI").~~

The calculation of PAI and Price Alignment Amount shall use the applicable interest rates specified and published on the Clearing House's website.

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

1.13 Transfer of SwapClear Contracts between Client Accounts and Proprietary Accounts

1.13.1 If at any time an early termination date (howsoever described) occurs in respect of one or more of the transactions between a SwapClear Clearing Member and a SwapClear Clearing Client in respect of which such SwapClear Clearing Member (i) is a party to Related SwapClear Contracts and (ii) at the time of such early termination date, is not a Defaulting SCM, that SwapClear Clearing Member may instruct the Clearing House to transfer the relevant

each of the relevant Indirect Clearing Clients, designating the relevant early termination date or, if such early termination date has occurred automatically, evidence of the relevant event of default or termination event;

- (b) a copy of a notice served by the relevant SwapClear Clearing Member on the relevant SwapClear Clearing Client and copied to each of the relevant Indirect Clearing Clients, alerting that SwapClear Clearing Client and those Indirect Clearing Clients (i) of its intention to request a Client to Client Porting, a Direct Account Opening or an Initial Transfer (as applicable) in respect of the relevant Related SwapClear Contracts; and (ii) that, in the event of an Impossibility Determination in respect of a request for Porting or a Direct Account Opening, a Fallback Transfer is likely to occur; and
- (c) an indemnity from the relevant SwapClear Clearing Member in a form suitable to the Clearing House.

Unless contested by the relevant SwapClear Clearing Client, the Clearing House will usually arrange a transfer of Related SwapClear Contracts: (i) in the case of an Initial Transfer, within 24 hours of receipt (to the extent applicable) of the documents listed in paragraphs (a), (b) and (c) of this of 1.14.2; and (ii) in the case of a Fallback Transfer, within 24 hours of the relevant Impossibility Determination.

For the purposes of this Section 1.14 a "Related SwapClear Contract" has the same meaning as ascribed to such term in Section 1.13.1 save that, in this Section 1.14, the SwapClear Clearing Client is acting on behalf of Indirect Clearing Clients comprising an Indirect Omnibus Segregated Account.

1.15 Position Transfers

The SwapClear Clearing System provides functionality for transfer of positions between SCMs and from an SCM to an FCM Clearing Member. Other than transfers conducted pursuant to Regulation 60 (*Transfer*) and Section 1.2021.4, an SCM who wishes to effect a position transfer to another SCM should contact the Clearing House Risk Management Department.

SwapClear Dealers who wish to change their SCM will be required to execute a new SwapClear Dealer Clearing Agreement with their intended new SCM. The Clearing House will, if all parties are in agreement, effect a transfer of positions from one SCM to the other.

Other than in respect of a transfer to a Backup Clearing Member following a default of their existing SwapClear Clearing Member, transfers will only be effected once adequate Collateral (which, in the case of transfers conducted pursuant to Regulation 60(b) (*Transfer*), may include an Associated Collateral Balance) has been transferred to the Clearing House by both parties to the transfer.

1.15.1 Legal Documentation

the SwapClear clearing system will then be updated overnight following the close of business on that day.

1.19.3 *Legal Documentation*

The Clearing House will provide the requesting SwapClear Clearing Member with legal documentation in Clearing House standard form for that SwapClear Clearing Member to sign. No trade reference will be amended unless such documentation is completed and signed. The documentation must be signed by a person within the SCM with appropriate signing authority. Evidence of such authority may be required by the Clearing House. No amendment to such documentation will be accepted by the Clearing House.

1.19.4 *Notification*

Subject to the requesting SwapClear Clearing Member meeting all the Clearing House's requirements (including completion and submission of all documentation and such other additional requirements as the Clearing House may be set by the Clearing House in its discretion), the Clearing House will notify the SwapClear Clearing Member of its agreement to the amendment of its records of the SwapClear Clearing Member's trade reference in respect of the trades identified in the Trade Reference Amendment Request Form, and advise of the anticipated date of amendment (the "**anticipated date of amendment**").

1.20 SwapClear STM Contracts and SwapClear CTM Contracts – Elections and Conversions

If a SwapClear Clearing Member wishes to make an election pursuant to Regulation 55(c) or a conversion pursuant to Regulation 57A(m) it must complete and deliver to the Clearing House such documentation as the Clearing House shall make available for such purposes from time to time. A SwapClear Clearing Member wishing to make such an election or conversion should contact swapclearclientservices@lchclearnet.com.

~~1.20~~1.21 **SwapClear Client Clearing**

As part of the SwapClear Service, a SwapClear Clearing Member is able to provide certain clearing services to SwapClear Clearing Clients.

~~1.20~~1.21.1 *Security Deed*

Unless specified otherwise by the Clearing House, a SwapClear Clearing Member must enter into a Security Deed in respect of its Clearing Clients in relation to amounts due to it from the Clearing House pursuant to the Client Clearing Annex. Further information in relation to such Security Deed is prescribed by the Clearing House from time to time and published on the Clearing House's website.

Prescribed Language

Segregated Clearing Client) to receive a transfer of a portion of such SwapClear Clearing Client's portfolio of SwapClear Contracts held with a Carrying Clearing Member; or (ii) an Identified Omnibus Net Segregated Clearing Client, an Affiliated Omnibus Net Segregated Clearing Client or a Combined Omnibus Gross Segregated Clearing Client to receive a transfer of some or all of such SwapClear Clearing Client's portfolio of SwapClear Contracts held with a Carrying Clearing Member, which is otherwise not covered by paragraph (b) of Regulation 60 (*Transfer*), the Receiving Clearing Member shall provide the Clearing House with a SwapClear Clearing Client Partial Transfer Form (see Schedule 2), signed by or on behalf of the relevant SwapClear Clearing Client. Such form shall list all of the Relevant SwapClear Contracts that are to be transferred pursuant to this Procedure. Following receipt of a SwapClear Clearing Client Partial Transfer Form, the Clearing House shall notify the Carrying Clearing Member that a request has been received to transfer SwapClear Contracts. All partial transfers shall take place in accordance with the timing and notice requirements set out in Procedure 1.2021.4(d). In the event that such timing and notice requirements are not complied with, and unless agreed otherwise between the Clearing House and the relevant Clearing Members, the relevant partial transfer shall not take effect.

In the event that any of the conditions set forth in paragraph (c) of Regulation 60 (*Transfer*) are not satisfied, including where the Carrying Clearing Member notifies the Clearing House that certain of the conditions have not been satisfied using the Carrying Clearing Member Response Form, the Clearing House shall not proceed with the transfer of the Relevant SwapClear Contracts and shall promptly notify the Receiving Clearing Member of such outcome. If the Receiving Clearing Member wishes to proceed with such transfer, it shall be required to submit a new request to transfer in accordance with these Procedures.

(b) *Full Transfers*

Where, pursuant to paragraph (b) of Regulation 60 (*Transfer*): (A) a Receiving Clearing Member wishes, on behalf of an Individual Segregated Account Clearing Client or an individual Omnibus Gross Segregated Clearing Client (other than a Combined Omnibus Gross Segregated Clearing Client) to receive a transfer of the relevant SwapClear Clearing Client's portfolio (and not less than an entire portfolio) of SwapClear Contracts registered with the Carrying Clearing Member in a particular Client Account; or (B) a Receiving Clearing Member wishes, on behalf of (i) all of the Identified Omnibus Net Segregated Clearing Clients comprising a single Identified Client Omnibus Net Segregated Account held by a Carrying Clearing Member; (ii) all of the Affiliated Omnibus Net Segregated Clearing Clients comprising a single Affiliated Client Omnibus Net Segregated Account held by a Carrying Clearing Member; or (iii) all of the

Omnibus Gross Segregated Clearing Clients comprising a particular group of Combined Omnibus Gross Segregated Clearing Clients of a Carrying Clearing Member, to receive a transfer of the entire portfolio (and not less than an entire portfolio) of SwapClear Contracts registered with the Carrying Clearing Member in a particular Client Account on behalf of the relevant SwapClear Clearing Clients, such Receiving Clearing Member shall provide the Clearing House with a SwapClear Clearing Client Full Transfer Form (see Schedule 3), in respect of (and signed by or on behalf of) each SwapClear Clearing Client on behalf of whom the relevant transfer would be made. Each such form shall confirm that all SwapClear Contracts attributable to the applicable SwapClear Clearing Client shall be transferred pursuant to this Procedure. Where a Receiving Clearing Member submits a SwapClear Clearing Client Full Transfer Form, it must confirm whether or not the relevant SwapClear Clearing Client also wishes to transfer the Associated Collateral Balance in respect of the relevant SwapClear Clearing Client. Following receipt of a SwapClear Clearing Client Full Transfer Form, the Clearing House shall notify the Carrying Clearing Member that a request has been received to transfer SwapClear Contracts. All full transfers shall take place in accordance with the timing and notice requirements set out in Section 1.2021.4(d). In the event that such timing and notice requirements are not complied with, and unless agreed otherwise between the Clearing House and the relevant Clearing Members, the relevant transfer shall not take effect.

In the event that any of the conditions set forth in paragraph (b) of Regulation 60 (*Transfer*) are not satisfied, including where the Carrying Clearing Member notifies the Clearing House that certain conditions have not been satisfied using the Carrying Clearing Member Response Form, the Clearing House shall not proceed with the transfer of the Relevant SwapClear Contracts or the transfer of any Associated Collateral Balance (when applicable) and shall promptly notify the Receiving Clearing Member of such outcome. If the Receiving Clearing Member wishes to proceed with such transfer or any other transfer of Relevant SwapClear Contracts of the SwapClear Clearing Clients referred to in (A) or (B) in the preceding paragraph, it shall be required to submit a new request to transfer in accordance with these Procedures.

Following receipt by the Carrying Clearing Member of the notice that a SwapClear Clearing Client Full Transfer Form has been received, the Carrying Clearing Member shall not be permitted to submit additional SwapClear Contracts on behalf of the SwapClear Clearing Clients whose SwapClear Contracts are to be subject to transfer during the period commencing at the end of the SwapClear service operating hours on the day on which the relevant SwapClear Clearing Member received such notice and ending at the time at which the relevant transfer (including the transfer of any relevant Associated Collateral Balance, if applicable) is actually effected, fails or is rejected in accordance with Regulation 60 (*Transfer*) and these Procedures.

(c) *Collateral Transfers*

Where a Receiving Clearing Member notifies the Clearing House that a SwapClear Clearing Client wishes to transfer an Associated Collateral Balance from the Carrying Clearing Member to the Receiving Clearing Member, the Clearing House shall notify the Carrying Clearing Member of such request in accordance with the timetable below.

Following such notification and upon request from the Clearing House, the Carrying Clearing Member shall confirm to the Clearing House (using the Carrying Member Response Form) which collateral will comprise the Associated Collateral Balance to be transferred with the Relevant SwapClear Contracts. In the event that the Carrying Clearing Member fails to do so in accordance with the timetable below, the Clearing House shall determine (in its sole discretion) the Associated Collateral Balance that is to be transferred from the relevant Client Account of the Carrying Clearing Member. The Clearing House shall notify the Carrying Clearing Member and the Receiving Clearing Member of the Associated Collateral Balance that will be transferred in accordance with the timetable below. Following receipt of such notification by the Clearing House, the Receiving Clearing Member may elect to reject the transfer of some or all of the relevant Associated Collateral Balance in accordance with paragraph (d) of Regulation 60 (*Transfer*). The Clearing House shall transfer that part of the Associated Collateral Balance that has been identified and consented to by the Receiving Clearing Member. In the event that, for whatever reason, the Clearing House is unable to transfer the relevant Associated Collateral Balance, the Clearing House will not proceed with the transfer of the Relevant SwapClear Contracts.

In the event that any of the conditions set forth in paragraph (b) of Regulation 60 are not satisfied, including where the Carrying Clearing Member notifies the Clearing House that certain conditions have not been satisfied using the Carrying Clearing Member Response Form, such that the associated Relevant SwapClear Contracts will not be transferred, the Clearing House shall not proceed with the transfer of the relevant Associated Collateral Balance. In such circumstances, the Clearing House will notify the Receiving Clearing Member that the Associated Collateral Balance will not be transferred and, in order to proceed with the transfer of the associated Relevant SwapClear Contracts, the Receiving Clearing Member will have to furnish to the Clearing House sufficient collateral in respect of the Relevant SwapClear Contracts.

In the event that the Clearing House transfers an Associated Collateral Balance pursuant to these Procedures and the General Regulations, it will also transfer the aggregate balance held in respect of variation margin (where applicable) and next day settlement coupons and fees associated with the transferring Relevant SwapClear Contracts.

all requested information, each transfer shall be subject to the Clearing House's discretion. Transfer requests received before [17:00] hours (London time) will normally be processed by the Clearing House on the day of receipt. Requests received after 17:00 hours will normally be processed on the following Business Day.

In connection with each transfer of one or more SwapClear Contracts that a Clearing Member transfers between two of its Client Accounts, the Clearing Member shall be deemed to make the agreements, acknowledgements and representations set forth in the following paragraph to the Clearing House with respect to each such transfer.

The Clearing Member acknowledges and agrees that:

- (i) other than where the SwapClear Contract in question will (assuming such transfer is properly effected) change from, or to, a SwapClear STM Contract immediately following the requested transfer, the contractual terms of the relevant SwapClear Contracts will not change solely as a result of the Clearing House effecting the requested transfer;
- (ii) the Clearing Member will remain liable to the Clearing House for all obligations under the relevant SwapClear Contracts prior to, during and after the transfer;
- (iii) the Clearing House may require that certain changes be made to the books and records of one or more Approved Trade Source Systems in order to reflect the requested transfer;
- (iv) the Clearing House is acting solely upon the Clearing Member's instructions as detailed to the Clearing House in writing and in reliance on the Clearing Member's agreements and representations (including as set out in this Section [1.20.4(e)]) in connection therewith;
- (v) the requested transfer is permissible under applicable law and is not in violation of applicable law, and the Clearing Member has obtained any and all necessary and appropriate consents, authorisations and approvals, including from Clearing Clients, regulators or otherwise, and has taken any other actions required under applicable law, in connection with the requested transfer;
- (vi) Collateral will not be transferred and the transfer may be conditional upon Collateral being delivered to the Clearing House;
- (vii) if the Clearing House determines (in its sole discretion) to make the requested transfer, the Clearing House may refuse to carry out the transfer or any requested actions in connection therewith until the Clearing Member provides it with such



Appendix IV
LCH.Clearnet Procedures Section 3 (Financial Transactions)



LCH.CLEARNET LIMITED

PROCEDURES SECTION 3

FINANCIAL TRANSACTIONS

1. FINANCIAL TRANSACTIONS

1.1 Accounts and ledgers

1.1.1 *Proprietary Accounts*

Each Proprietary Account will map to two or more of the following sub-accounts:

- (a) a position account; and
- (b) a collateral account opened in relation to a Clearing Member's House Clearing Business (a "**House Collateral Account**"); and
- (c) where relevant, a collateral account opened for the purposes of recording Client Buffer (a Client Buffer Account).

A Clearing Member must identify the Proprietary Account and related collateral sub-account to which Collateral is to be credited. The Clearing House shall credit such Collateral to the relevant collateral sub-account of the relevant Proprietary Account.

1.1.2 *Client Accounts*

A Client Financial Account is comprised of one or more Client Accounts. Each Client Account will map to two or more sub-accounts:

- (a) one or more position account; and
- (b) one or more collateral accounts.

A Clearing Member must identify the Client Account to which Collateral is to be credited. The Clearing House shall credit such Collateral to the collateral account of the relevant Client Account.

1.1.3 *Collateral Account Postings*

Transactions posted to the collateral account include but are not limited to:

- (a) PPS calls and pays;
- (b) option premiums;
- (c) prompt day delivery amounts;
- (d) interest and accommodation charges;
- (e) Clearing House fees, charges and rebates;
- (f) exchange fees, levies and rebates;
- (g) amounts credited or debited in respect of variation margin, price alignment interest, price alignment amounts, NPV Payments and coupons;

any eligible currency to cover its liability (for example, a GBP liability can be covered in EUR cash).

Any changes to a Clearing Member's nominated currency sequence, or a request relating to excess cash currency balances in a particular currency, should be notified to the Clearing House by providing a minimum of two business days' notice.

1.5.3 ***Record of Collateral Provided***

Charges and interest shall be calculated in accordance with the information published on the website of the Clearing House.

1.5.4 ***Use of a Defaulter's Collateral***

The order of priority (in which cash and non-cash Collateral are applied to cover Clearing Members' liabilities), set out elsewhere in this Section 1.5, does not necessarily reflect the order of priority of realisation or application of Collateral which the Clearing House may follow in the case of default by a Clearing Member. Post-default the Clearing House is entitled to realise and/or apply Collateral in whatever order it deems appropriate.

1.6 **Interest**

1.6.1 ***Interest Rates***

The Clearing House applies interest to Clearing Member's cleared cash balances as published on the Clearing House's website. [This provision 1.6.1 does not deal with Price Alignment Interest, which is covered by the applicable provisions of Procedures Section 2C \(SwapClear Clearing Service\).](#)

1.6.2 ***Payment of Interest and Charges***

Interest and accommodation charges are charged monthly, from the last day of the previous month to the penultimate day of the current month. Interest and accommodation charges are calculated on a daily basis and the resultant monthly total is posted to the relevant collateral account(s) of the Clearing Member for value on the third business day following the penultimate day of the month. A VAT invoice is also issued on the third business day of each month detailing the interest and accommodation charges applicable for the previous month. Separate invoices are issued for each currency which can be found on the Member Reporting Website.

VAT is charged, dependent on contract and accommodation charges, at current rates. On foreign currency amounts VAT is charged in sterling on the converted value of any relevant charges. The sterling collateral account shows separate postings for sterling VAT amounts arising from foreign currency charges.

The net invoice value for each currency is posted to the relevant collateral account for value on the second working day of the month succeeding the month in which the charges arose.



Appendix V
Request for Confidential Treatment