

VIA CFTC PORTAL

9 September 2016

Mr Christopher Kirkpatrick
Commodity Futures Trading Commission
115 21st Street NW
Three Lafayette Centre
Washington DC 20581

LCH.Clearnet Limited Self-Certification: clarification changes to rules applicable to the Listed Rates clearing service and SwapClear BAU transfers

Dear Mr Kirkpatrick,

Pursuant to Commodity Futures Trading Commission (the "CFTC") Regulation §40.6(a), LCH.Clearnet Limited ("LCH"), a derivatives clearing organization registered with the CFTC, is submitting for self-certification clarification changes to the rules applicable to the Listed Interest Rates clearing service ("Listed Rates service" hereafter) and SwapClear BAU transfers.

Part I: Explanation and Analysis

This submission covers two separate changes to LCH's rulebook.

In order to reflect the upcoming market launch of CurveGlobal, the LSE plc regulated market for which the Listed Rates will clear listed interest rates derivatives, LCH proposes to amend its rules to remove any references specific to NASDAQ OMX NLX ("NLX") in various sections of the Rulebook. NLX is currently the only exchange for which the Listed Rates service clears such derivatives. This change is only relevant to non-FCM Clearing Members and their Clients.

Second, a rulebook change is proposed to clarify that currently LCH does not accommodate the intraday movement of associated collateral, when making BAU transfers of SwapClear contracts. In addition, the proposed rules clarify that, in order for LCH to permit such transfers, clients must meet certain conditions which are also applicable to Clearing Members. These changes affect contracts of both SCMs and FCMs, as well as contracts of their respective Clients.

The changes will go live on, or after, September 26, 2016.

Part II: Description of Rule Changes

Listed Rates service

The term “NLX” in Part B of the Default Rules (Rates Service Default Fund Supplement) and Procedure Section 3 (Financial Transactions) have been replaced with “Rates Exchange” or “Rates Exchanges”.

Procedure Section 2C (SwapClear Clearing Service) has been revised in sub-section 1.27.9 (Procedures for Liquidation of Rates Service Contracts of Clearing Clients) and section 2.5 (Portfolio Margining Arrangements) to replace references to NLX Contract/s and NLX service with Listed Interest Rates Contract/s and Listed Interest Rates service.

Procedure Section 1 (Clearing Member, Non-Member Market Participant and Dealer Status) has been changed in section 1.7 to reflect that Category B of Clearing Members in respect to net capital requirements includes members of the Rates Exchange, instead of the NLX Exchange.

A new reference has been added to section 2 (Portfolio Margining Service) of Procedures Section 2J (Listed Interest Rates clearing service) to note that a list of Listed Interest Rates Products eligible for such service may be found on LCH’s website. As a result of this change Part C (Portfolio Margining Service) of Schedule 7 in the Product Specific Contract Terms and Eligibility Criteria Manual will be deleted.

The texts of the changes related to the Listed Rates service are attached hereto as:

- **Appendix I** - Default Rules
- **Appendix II** - Procedure Section 3
- **Appendix III** - Procedure Section 2C
- **Appendix IV** - Procedure Section 1
- **Appendix V** - Procedures Section 2J
- **Appendix VI** - Product Specific Contract Terms and Eligibility Criteria Manual

SwapClear BAU transfers

The definition of “Intra-Day Full Bulk Transfer” in the General Regulations has been updated to note that such position transfer does not include the movement of associated collateral. Further, Procedures Section 2C includes clarifying additions in subsection 1.15.5 (Conditions Precedent to Permitted Transfer) noting that the following conditions must be met by clients, in addition to Clearing Members, ahead of transfers taking effect; the clients need to provide their consent, be solvent and execute all relevant documentation. The equivalent provisions applicable to FCMs and their clients have not changed as these refer to the General Regulations and Procedures Section 2C in respect to the processing of BAU SwapClear transfers.

The texts of the changes related to the SwapClear BAU transfers are attached hereto as:

- **Appendix VII** – General Regulations
- **Appendix VIII** - Procedure Section 2C

Part III: Core Principles Compliance

LCH has reviewed the changes to its rules against the Core Principles and finds that these will continue to comply with all the requirements and standards therein.

Part IV: Public Information

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

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

Part V: Opposing Views

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

Certification

LCH hereby certifies to the Commodity Futures Trading Commission, pursuant to the procedures set forth in 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@lch.com.

Yours sincerely



Julian Oliver
Chief Compliance Officer
LCH.Clearnet Limited

Appendix I
Default Rules



LCH.CLEARNET LIMITED
DEFAULT RULES

PART B

RATES SERVICE DEFAULT FUND SUPPLEMENT – LISTED INTEREST RATES

L1. In this Part B to the Rates Service Default Fund Supplement, subject to any contrary indication or where the context otherwise requires, references to:

the "**Business**" means the Listed Interest Rates Business of a Member

a "**Contract**" means a Listed Interest Rates Contract, a contract cleared pursuant to a Service and such other listed interest rate derivative contract as the Clearing House may from time to time specify by notice to the Members

a "**Contribution**" means a Listed Interest Rates Contribution

a "**Determination Date**" means a Listed Interest Rates Determination Date

the "**Excess Loss**" means the Listed Interest Rates Excess Loss

a "**Member**" means a Listed Interest Rates Clearing Member and a Clearing Member approved to clear a Specified Market

a "**Minimum Contribution**" means GBP 500,000

a "**Non-Defaulting Clearing Member**" means a Member that is not a Defaulter under Rule 4 of the Default Rules

"**Service**" means the listed interest rate derivatives and listed interest rate derivatives-related services provided by the Clearing House pursuant to its rules governing the clearing of the Specified Markets and includes the Listed Interest Rates Service

"**Specified Markets**" means ~~NLX~~ [the Rates Exchanges](#) and any other markets from time to time specified by the Clearing House

and calculations of "**End of Day Margin Weight**", "**Peak Intra-Day Margin Weight**" and "**Weight Factor**" are carried out in accordance with this Part B of the Rates Service Default Supplement only.

Capitalised terms not otherwise defined in this Part B of the Rates Service Default Fund Supplement shall have the meanings assigned to them in the General Regulations or the Default Rules, as applicable.

L2. **Listed Interest Rates Contributions to the Rates Service Fund**

(a) The amount of each Member's Contribution shall be determined by the Clearing House at the close of business on the first business day of each month, and otherwise in accordance with paragraph (d) below (each a "**Listed Interest Rates Determination Date**") on the basis of information available as at close of business on the immediately preceding business day and notified to such Member as soon as practicable after such determination in accordance with the Procedures. However, determinations of Contributions under the methodology of this Rule are suspended for the duration of the period (the

Appendix II
Procedures Section 3 (Financial Transactions)



LCH.CLEARNET LIMITED
PROCEDURES SECTION 3
FINANCIAL TRANSACTIONS

1.4.3 *Value Notification*

Clearing Members may obtain details on the value ascribed to non-cash Collateral on their account for the purpose of calculating their Current Collateral Value by viewing the relevant reports available on the Member Reporting Website. The value of Collateral can be viewed on the Clearing Management System. Details of Collateral balances, valuations and instructions are also available using the on-line Collateral Management System (CMS).

1.4.4 *Use of Credits as Collateral*

The following credit amounts are not paid in cash, but may (subject to the restrictions described below) be offset against certain specific margin obligations, with the result that the relevant Clearing Member will need to provide less Collateral in respect of those margin obligations:

- (a) EquityClear credit contingent margin may be used to offset EquityClear debit contingent variation margin and initial margin across currencies;
- (b) LSEDM credit contingent variation margin (for forwards) and credit net liquidating value may be used to offset LSEDM debit contingent variation margin, debit net liquidating value and initial margin across currencies; and
- (c) EnClear credit net liquidating value may be used to offset EnClear debit net liquidating value and initial margin across currencies; and
- (d) ~~NLX~~ [Rates Exchange](#) credit contingent variation margin may be used to offset ~~NLX~~ [Rates Exchange](#) debit contingent variation margin and initial margin across currencies.

1.5 **Distribution of Collateral**

The following procedures are not in any way intended to restrict, vary, or alter the Clearing House's rights to apply Collateral held (including any described in Clearing House reports/records as "unutilised" or "excess") to meet the Clearing Member's liabilities/obligations to the Clearing House.

1.5.1 *Collateral Application*

In the absence of a Clearing Member election, the Clearing House will apply a Clearing Member's Collateral (in turn) to each liability in the following order:

- (a) non-cash Collateral denominated in the same currency as the liability;
- (b) non-cash Collateral denominated in other currencies, in the following order:
 - (i) GBP;

Appendix III
Procedure Section 2C (SwapClear Clearing service)



LCH.CLEARNET LIMITED

PROCEDURES SECTION 2C

SWAPCLEAR CLEARING SERVICE

equally to any such Hedged Account. Additionally, no Contracts other than Rates Service Contracts will be transferred into a Hedged Account established for liquidating Rates Service Contracts.

A Clearing Client whose Rates Service Contracts are transferred into a Hedged Account is referred to as a “**Non-Porting Client**”. The Clearing House shall hold the relevant Collateral in the relevant Client Account, in each case until the liquidation of the entire Hedged Account and all Rates Service Contracts and other positions therein, as described below. At the time that the Rates Service Contracts of a Non-Porting Client are transferred into a Hedged Account, any outstanding and accrued but unpaid Variation Margin in respect of such Rates Service Contracts shall be discharged as of the time such Rates Service Contracts are transferred into the Hedged Account, by (i) in the event that Variation Margin is accrued but unpaid in favor of the Clearing House, debiting the relevant Client Account, or (ii) in the event that Variation Margin is accrued but unpaid in favor of the FCM Client, crediting the relevant Client Account.

- (i) Administration of a Hedged Account. The Clearing House may enter into hedge transactions and liquidate and/or auction the Rates Service Contracts and hedges for the account of the Hedged Account, and may take related actions with respect to a Hedged Account (and the positions held therein), in its sole discretion as permitted by the Rulebook and applicable law, or as directed by an applicable Regulatory Body.
- (ii) Allocation of Gains and Losses in a Hedged Account to Non-Porting Clients. The Clearing House will allocate losses and gains (including further variation margin changes, hedging costs including the gains and losses associated with hedging transactions, and liquidation/auction costs and losses) to Non-Porting Clients in a Hedged Account in accordance with the following provisions:
 - (A) At the time a Clearing Client becomes a Non-Porting Client, such Non-Porting Client is assigned a separate risk factor in respect of its set of SwapClear Contracts (if any) and its set of ~~NLX~~ Listed Interest Rates Contracts (if any) (each, an “**Account Class Risk Factor**”). The value of each Account Class Risk Factor is calculated as the proportion that the Required Margin in respect of each set of contracts bears to the aggregate Required Margin of all contracts that are transferred into the Hedged Account at the time such Clearing Client became a Non-Porting Client (*i.e.*, at the time of transfer into the Hedged Account).
 - (B) On the first day that Clearing Clients become Non-Porting Clients, gains and losses in the Hedged Account on such day shall be allocated on a pro rata basis among such Non-Porting Clients based on their individual Account Class Risk Factors. The allocation of gains and losses on subsequent days shall be made in the same manner until the occurrence of a day (if

applicable) in which additional Non-Porting Clients are included in the Hedged Account. Additional Non-Porting Clients that are included in the Hedged Account on a subsequent day, until further additional Non-Porting Clients are included in the Hedged Account on a further subsequent day, are referred to as “**New Non-Porting Clients**”.

- (C) On a day when one or more New Non-Porting Clients are included in the Hedged Account, the Clearing House shall calculate a combined risk factor (the “**Existing Non-Porting Clients Combined Account Class Risk Factor**”) in respect of the SwapClear Contracts and Listed Interest Rates ~~NLX~~ Contracts, respectively, of the Non-Porting Clients that were previously included in the Hedged Account and are not New Non-Porting Clients (such existing Non-Porting Clients, “**Existing Non-Porting Clients**”). The Existing Non-Porting Clients Combined Account Class Risk Factors shall be based on the amount of Required Margin associated with the Hedged Account with respect to (x) all SwapClear Contract positions (including all SwapClear Contracts, hedges or other positions) and (y) all Listed Interest Rates ~~NLX~~ Contract positions (including all Listed Interest Rates ~~NLX~~ Contracts, hedges or other positions), respectively, held in the Hedged Account at the beginning of the day on which New Non-Porting Clients are included in the Hedged Account (i.e., at a time prior to the transfer of New Non-Porting Clients’ SwapClear Contracts and Listed Interest Rates ~~NLX~~ Contracts into the Hedged Account). For the avoidance of doubt, the Existing Non-Porting Clients Combined Account Class Risk Factor is calculated without respect to the Required Margin applicable to the transferred SwapClear Contracts and Listed Interest Rates ~~NLX~~ Contracts of the New Non-Porting Clients.
- (D) On any day on which New Non-Porting Clients are included in the Hedged Account, gains and losses in the Hedged Account that are incurred on that day will be allocated among the Existing Non-Porting Clients (as a group) and the New Non-Porting Clients (individually) on a pro rata basis based on the Existing Non-Porting Clients Combined Account Class Risk Factors (with respect to the Existing Non-Porting Clients as a group) and the individual Account Class Risk Factors of each New Non-Porting Client (with respect to each such New Non-Porting Client individually). The gains and losses allocated in such manner to the Existing Non-Porting Clients as a group shall be further allocated to each individual Existing Non-Porting Client on a pro rata basis based on the Account Class Risk Factor of each such Existing Non-Porting Client. The allocation of gains and losses on subsequent days shall occur in the same manner as set forth in this paragraph (D) until the occurrence of a day (if applicable) in which additional Non-

Porting Clients are included in the Hedged Account and thus become the New Non-Porting Clients. In such a case, (A) the Existing Non-Porting Clients shall continue to be treated as Existing Non-Porting Clients, (B) the Non-Porting Clients previously constituting the New Non-Porting Clients shall then constitute Existing Non-Porting Clients (in accordance with the definition of New Non-Porting Clients in paragraph (B) above), (C) the additional Non-Porting Clients included in the Hedged Account constitute the New Non-Porting Clients (in accordance with the definition of New Non-Porting Clients in paragraph (B) above), and (D) the Clearing House shall recalculate the Existing Non-Porting Clients Combined Account Class Risk Factor and the allocation of gains and losses shall be in accordance with paragraph (C) above and this paragraph (D).

- (E) Upon the liquidation of the Hedged Account and all Rates Service Contracts and other positions therein, by auction or otherwise, any gains or losses associated with such auction/liquidation shall be allocated among all Non-Porting Clients on a pro rata basis based on the “**unit value**” of each Rates Service Contract of each Non-Porting Client transferred into the Hedged Account, as adjusted by a “**auction value adjustment**”. For purposes of this clause (E), (1) “**unit value**” means, in respect of SwapClear Contracts, the value applied to each SwapClear Contract, based on the net present value and outstanding notional value associated with each such SwapClear Contract, and, in respect of [Listed Interest Rates NLX](#) Contracts, the net present value and outstanding notional value associated with such [Listed Interest Rates NLX](#) Contracts (being the Contract price times the number of Contracts), and (2) “**auction value adjustment**” means a ratio applied to an Rates Service Contract based on the aggregate auction/liquidation costs incurred in auctioning/liquidating the Hedged Account and the aggregate notional value of all Rates Service Contracts in the Hedged Account, each of clauses (1) and (2) as determined by the Clearing House. The allocations described in this clause (v) are without reference to any Account Class Risk Factor or Existing Non-Porting Clients Combined Account Class Risk Factor.

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

1.27.10 Rates Service Default Management Disclosure Notice

Each SCM must ensure that each Clearing Client is provided with, or is directed to a copy of, the Rates Service Default Management Disclosure Notice and further must provide confirmation to the Clearing House, in the

The Nominated Accounts must fall into one of the following pairings:

- (i) Individual Segregated Accounts held on behalf of the same Individual Segregated Clearing Client; or
- (ii) the relevant sub-accounts of Omnibus Gross Segregated Accounts each of which is held on behalf of the same Omnibus Gross Segregated Clearing Client; or
- (iii) an Individual Segregated Account held on behalf of an Individual Segregated Clearing Client and the relevant sub-account of an Omnibus Gross Segregated Account which is held on behalf of that Individual Segregated Clearing Client.

2.5 Portfolio Margining Arrangements

2.5.1 *Portfolio Margining Calculation Tool*

The Clearing House has developed a risk management tool which identifies portfolio-margining opportunities as between SwapClear Contracts held in accounts in a SwapClear Eligible Account and Eligible Listed Interest Rates Contracts held in the paired Listed Interest Rates Eligible Account (the "**Portfolio Margining Calculation Tool**"). Portfolio Margining Clearing Members will receive certain information in relation to the operation of the Portfolio Margining Service, as described in more detail in paragraph 2.6 below.

A list of Eligible Listed Interest Rates Contracts is set out in the Product Specific Contract Terms and Eligibility Criteria Manual as published on the Clearing House's website from time to time.

2.5.2 Portfolio Margining Process

2.5.2.1 At a predetermined time following the close of the ~~NLX~~ Clearing relevant Listed Interest Rates Service on each business day, the Clearing House will run the Portfolio Margining Calculation Tool. The Portfolio Margining Calculation Tool will identify, in respect of each pair of Eligible Accounts, any off-setting positions between SwapClear Contracts and Eligible Listed Interest Rates Contracts including any eligible Listed Interest Rate Contracts that are Portfolio Margined Contracts (the "**Identified Off-Setting Listed Interest Rates Contracts**").

2.5.2.2 The Portfolio Margining Calculation Tool is a risk management tool which is not designed to provide Portfolio Margining Clearing Members with optimal margining treatment or reduce margin calls. Accordingly, the Clearing House makes no representations or assurances as to the impact of the Portfolio Margining Calculation Tool on the Portfolio Margining Clearing Member's margin calls. The Clearing House accepts no liability in respect of the operation of the Portfolio Margining Service of the Portfolio Margining Calculation

Appendix IV
Procedure Section 1
(Clearing Member, Non-Member Market Participant and Dealer Status)



LCH.CLEARNET LIMITED

PROCEDURES SECTION 1

**CLEARING MEMBER, NON-MEMBER MARKET
PARTICIPANT AND DEALER STATUS**

- Emissions and/or Freight divisions (see Section 2E) (clearing own business)
- NODAL Exchange - Individual Clearing Member (clearing own business)
- ~~NLX~~ Rates Exchange - Clearing Member (clearing own business)

Category C

- Turquoise Derivatives - General Clearing Member (clearing own business and/or the business of NCPs and/or Turquoise Client Clearing Business)
- NODAL Exchange - General Clearing Member (clearing own business and/or the business of NCPs and/or NODAL Client Clearing Business)
- ~~NLX~~ Rates Exchange - (clearing own business and/or the business of NCPs and/or ~~NLX~~ Listed Interest Rates Client Clearing Business)

Category D

Category no longer in use.

Category E

Category no longer in use.

Category F

RepoClear Clearing Member in respect of RepoClear Clearing House Business.

Category G

RepoClear Clearing Member in respect of RepoClear Clearing House Business and RepoClear Client Clearing Business.

Category H

SwapClear Clearing Member.

Category I

EquityClear Individual Clearing Member in respect of EquityClear Clearing House Business.

Appendix V
Procedures Section 2J (Listed Interest Rates clearing service)



LCH.CLEARNET LIMITED

PROCEDURES SECTION 2J

LISTED INTEREST RATES CLEARING SERVICE

2. PORTFOLIO MARGINING SERVICE

The Portfolio Margining Service is an optional service which provides Joint Rates Service Clearing Members portfolio-margining functionality in respect of pairs of accounts which are held in the SwapClear and Listed Interest Rates Services by transferring Eligible Listed Interest Rates Contracts between such accounts.

The Portfolio Margining Service is only available to Listed Interest Rates Service Clearing Members who are also SwapClear Clearing Members and the details regarding the Portfolio Margining Service (including the relevant eligibility criteria and operational arrangements) are therefore described at Section 2C (*SwapClear*) of the Procedures, Section 2.

A Listed Interest Rates Clearing Member must (i) opt-in to the Portfolio Margining Service in accordance with the procedure set out in Section 2C (*SwapClear*) of the Procedures, Section 2.2 and (ii) meet the PM Eligibility Criteria (as defined in Section 2C (*SwapClear*) of the Procedures, Section 2.2.3, in order to benefit from the portfolio-margining functionality provided by the service. However, it should be noted that regardless of whether or not a Listed Interest Rates Clearing Member opts in, the SwapClear Service and Listed Interest Rates Service share a common default fund. Accordingly, the risk profile of participating in either one of such Services may be impacted by other Clearing Members participating in the other such Service whether or not as a Portfolio Margining Clearing Member. In particular, the resources of a Clearing Member that is a member of the SwapClear Service and the Listed Interest Rates Service will be made available to cover the Clearing House's losses in a different manner to those of a Clearing Member that is only a member of one of those Services, regardless of whether that Clearing Member opts-in to the Portfolio Margining Service. Listed Interest Rates Clearing Members should therefore familiarise themselves with the provisions of the Rulebook (including, but not limited to, the Default Rules).

For information in relation to the Portfolio Margining Service (including but not limited to, the impact of the Portfolio Margining Arrangements on (i) Listed Interest Rates Listed Interest Rates Derivatives Contracts for margining purposes and (ii) Listed Interest Rates Clearing Clients), please refer to Section 2C (*SwapClear*) of the Procedures. [A list of Listed Interest Rates Eligible Products may be found on the Clearing House's website \(http://www.lch.com\).](http://www.lch.com)

Appendix VI
Product Specific Contract Terms and Eligibility Criteria Manual



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

Part C
PORTFOLIO MARGINING SERVICE

~~The Clearing House has designated the following Listed Interest Rates Contracts as Eligible Listed Interest Rates Contracts for purposes of the Portfolio Margining Service as further described in Section 2 (“Portfolio Margining Service”) of the SwapClear Procedures.~~

<u>Venue</u>	<u>Contract</u>
NLX	Three Month EURIBOR Interest Rate Futures*
NLX	Three Month Sterling Interest Rate Futures*

~~* The NLX Contract Terms for these Contracts are set out in the NLX Rules, available at: <http://www.nasdaqomx.com/transactions/markets/nlx/products>.~~

Appendix VII
General Regulations

Eligible Transferor of a Carrying Clearing Member to the Transfer Account of an Eligible Transferee of a Receiving Clearing Member and which may, but is not required to, include the transfer of an Associated Collateral Balance (except that no transfer of an Associated Collateral Balance is permitted for transfers between a Proprietary Account of a Carrying Clearing Member to a Proprietary Account of a Receiving Clearing Member without the prior consent of the Clearing House)

“End-of-Day Partial Transfer” means an end-of-day transfer of some (but not all) of the SwapClear Contracts from the Transfer Account of an Eligible Transferor of a Carrying Clearing Member to the Transfer Account of an Eligible Transferee of a Receiving Clearing Member, where such transfer does not include the transfer of an Associated Collateral Balance

“Intra-Day Bulk Transfer” means an Intra-Day Full Bulk Transfer and an Intra-Day Partial Bulk Transfer, unless the context otherwise requires

“Intra-Day Full Bulk Transfer” means an intra-day transfer of all (but not some) of the SwapClear Contracts from the Transfer Account of an Eligible Transferor of a Carrying Clearing Member to the Transfer Account of an Eligible Transferee of a Receiving Clearing Member ~~and which may, in the Clearing House’s sole and absolute discretion, include the transfer of an Associated Collateral Balance (except that no transfer of an Associated Collateral Balance is permitted for transfers between a Proprietary Account of a Carrying Clearing Member to a Proprietary Account of a Receiving Clearing Member), where such transfer does not include the transfer of an Associated Collateral Balance~~ where such transfer does not include the transfer of an Associated Collateral Balance

“Intra-Day Non-Bulk Transfer” means an intra-day transfer of some or all of the SwapClear Contracts from the Transfer Account of an Eligible Transferor of a Carrying Clearing Member to the Transfer Account of an Eligible Transferee of a Receiving Clearing Member, where such transfer: (i) does not exceed the Bulk Threshold; and (ii) does not include the transfer of an Associated Collateral Balance

“Intra-Day Partial Bulk Transfer” means an intra-day transfer of some (but not all) of the SwapClear Contracts from the Transfer Account of an Eligible Transferor of a Carrying Clearing Member to the Transfer Account of an Eligible Transferee of a Receiving Clearing Member, where such transfer does not include the transfer of an Associated Collateral Balance

“Permitted Transfer” has the meaning ascribed to it in Section 2C of the Procedures

Appendix VIII
Procedure Section 2C (SwapClear Clearing Service)



LCH.CLEARNET LIMITED

PROCEDURES SECTION 2C

SWAPCLEAR CLEARING SERVICE

- (b) In respect of any Permitted Transfer that involves the transfer of all (and not some) of the SwapClear Contracts from the Transfer Account of an Eligible Transferor (with or without the transfer of an Associated Collateral Balance), once the Carrying Clearing Member receives notice that a Transfer Request has been received, the Carrying Clearing Member shall not be permitted to submit additional SwapClear Contracts in the Transfer Account of the Eligible Transferor whose SwapClear Contracts are to be subject to transfer until 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.

1.15.4 *Transfer Notice Period*

The timing for Transfer Requests pursuant to Regulation 60 (*Transfer*) and this Section 1.15 will be as prescribed by the Clearing House by way of a member circular.

1.15.5 *Conditions Precedent to Permitted Transfer*

It is a condition precedent to any Permitted Transfer from the Transfer Account of an Eligible Transferor to the Transfer Account of an Eligible Transferee pursuant to Regulation 60 (*Transfer*) and this Section 1.15 that:

- (a) the transfer is a Permitted Transfer as defined in Section 1.15.2;
- (b) the Receiving Clearing Member has provided the Clearing House with:
 - (i) a Transfer Request in the form and manner prescribed by the Clearing House; and
 - (ii) such evidence of the authorisation of the Permitted Transfer by the Eligible Transferor ~~and~~ Eligible Transferee and SwapClear Clearing Client, as applicable, as the Clearing House may require in its sole discretion;
- (c) neither the Eligible Transferor nor the Eligible Transferee nor the SwapClear Clearing Client, as applicable, has become insolvent (each Eligible Transferor ~~and~~ Eligible Transferee and SwapClear Clearing Client, as the case may be, will be presumed to be solvent by the Clearing House unless evidenced to the contrary by the Carrying Clearing Member in the manner reasonably determined by the Clearing House);
- (d) neither the Carrying Clearing Member nor the Receiving Clearing Member is a Defaulter;

- (e) such transfer would not violate or result in the violation of any Applicable Law or regulation, including:
 - (i) the authorisation, registration or other regulatory requirements, if any, that may apply to the Receiving Clearing Member as a consequence of the transfer; and
 - (ii) where the transfer leads to a change in beneficial ownership, the requirements, if any, that may apply to the method of execution by which the Eligible Transferor has sold the Transferring SwapClear Contracts to the Eligible Transferee;
- (f) the Eligible Transferor, Eligible Transferee, the Receiving Clearing Member ~~and~~, the Carrying Clearing Member and SwapClear Clearing Client, as applicable, have each executed all documents necessary or required by the Clearing House in order to effect such transfer (including, where applicable, a Security Deed, Deed of Charge, Clearing Membership Agreement and/or a Clearing Agreement);
- (g) the Receiving Clearing Member has consented to the transfer of the Transferring SwapClear Contracts and, where relevant, the Associated Collateral Balance(s);
- (h) the Receiving Clearing Member has transferred (or has made available) sufficient Collateral to the Clearing House in respect of its current SwapClear Contracts and the Transferring SwapClear Contracts;
- (i) the Carrying Clearing Member has not rejected such transfer in accordance with Section 1.15.6 (it being presumed that the Carrying Clearing Member has not so rejected the transfer unless evidenced to the contrary by the Carrying Clearing Member in accordance with this Section 1.15 or as otherwise reasonably determined by the Clearing House); and
- (j) in the event that the transfer will lead to a requirement for the Carrying Clearing Member to transfer (or make available) additional Collateral to the Clearing House, the Carrying Clearing Member transfers sufficient Collateral to the Clearing House.

In the event that any of the conditions of set forth above are not satisfied, including where the Carrying Clearing Member notifies the Clearing House that certain conditions have not been satisfied in a manner reasonably acceptable to the Clearing House, the Clearing House shall not proceed with the transfer of the Transferring SwapClear Contracts or, if applicable, the transfer of any Associated Collateral Balance, 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 Transferring SwapClear Contracts of the Eligible Transferor(s), it shall be required to submit a new Transfer Request in accordance with these Procedures.

By requesting a transfer of the Transferring SwapClear Contracts from the Transfer Account of an Eligible Transferor and, if applicable, the Associated Collateral Balance(s) pursuant to this Section 1.15, 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 have been satisfied.

1.15.6 *Rejection of Transfer Request*

For purposes of paragraph (i) of Section 1.15.5 above, the Carrying Clearing Member may be entitled to reject a particular Transfer Request by notifying the Clearing House (in either electronic or written form as prescribed by the Clearing House) only if:

- (a) the Eligible Transferor 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~~collateral that may result from the proposed transfer, where, with respect to obligations owed to Affiliates of the Carrying Clearing Member by an Eligible Transferor, “**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 Transferring SwapClear Contracts of that Eligible Transferor that are being transferred or that Eligible Transferor’s related ~~Collateral~~collateral;
- (b) the transfer of the Transferring SwapClear Contracts of that Eligible Transferor would result in the Eligible Transferor 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 Eligible Transferor.

1.15.7 *Right to Call Collateral*

Permitted Transfers will only be effected once adequate Collateral is available (which may be as a consequence of margin forbearance or the transfer of an Associated Collateral Balance) in respect of both Transfer Accounts affected by the transfer. In connection with any Permitted Transfer, the Clearing House may call for Collateral in respect of initial and/or variation margin to be deposited in such amounts and at such times as the Clearing House, in its sole discretion, requires. Any Collateral so called and deposited shall be reserved and made available solely in connection with the Permitted Transfer.

1.15.8 *Transfer of Associated Collateral Balance*

- (i) the Carrying Clearing Member shall relinquish all rights to such Associated Collateral Balance (including, for the avoidance of doubt, any beneficial interest and/or equity of redemption in respect thereof);
 - (ii) such Associated Collateral Balance shall immediately upon such relinquishment be held by the Clearing House on behalf of the Receiving Clearing Member;
 - (iii) where the Receiving Clearing Member is not an FCM Clearing Member, its rights to such Associated Collateral Balance arising as described in sub-paragraph (a)(ii) above shall become, in respect of the Transferring SwapClear Contracts, subject to the [relevant](#) Deed of Charge entered into between the Receiving Clearing Member and the Clearing House (such rights thereby becoming Charged Property within the meaning of that Deed of Charge); and
 - (iv) where the Receiving Clearing Member is an FCM Clearing Member, the Associated Collateral Balance shall be deemed to have been delivered by the Receiving Clearing Member to the Clearing House by way of a first-priority security interest granted by the Receiving Clearing Member to the Clearing House under the FCM Regulations and the FCM Clearing Membership Agreement between the Receiving Clearing Member and the Clearing House.
- (b) In respect of any part of an Associated Collateral Balance that is not subject to the Deed of Charge entered into between the Carrying Clearing Member and the Clearing House, such transfer shall be by novation of the Carrying Clearing Member's rights and obligations in respect of such part of the Associated Collateral Balance to the Receiving Clearing Member.
- (c) For the avoidance of doubt, the Carrying Clearing Member shall have no right or entitlement to assert any claim over, or right with respect to, the Associated Collateral Balance transferred.
- (d) The transfer of the Transferring SwapClear Contracts and Associated Collateral Balance shall be deemed to occur simultaneously, and the transfer of the Transferring SwapClear Contracts shall be conditioned on the transfer of the Associated Collateral Balance, and vice versa.
- (e) If the transfer of the Transferring SwapClear Contracts and Associated Collateral Balance is not completed for any reason, then any actual transfer of any part of the Associated Collateral Balance or Transferring SwapClear Contracts that has occurred, as the case may be, shall be deemed not to have occurred, and