



**VIA CFTC PORTAL**

30 July 2015

Mr Christopher Kirkpatrick  
Commodity Futures Trading Commission  
1155 21<sup>st</sup> 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 related to the submission of market data by its Clearing Members in respect of Inflation Swap products.

LCH.Clearnet intends to implement these rule changes on, or after August 17<sup>th</sup>, 2015.

**Part I: Explanation and Analysis**

In connection with the clearing of Inflation Swaps for the SwapClear service, certain Clearing Members are required to provide the Clearing House with Market Data. In the event that a Clearing Member fails to provide Market Data or provides Market Data that is 'off-market' the Clearing House may issue a Market Deviation Notice or Non-Performance Notice to that Clearing Member, and may require them to enter into a Crossing Transaction.

Following the launch of Inflation Swaps a number of improvements to the rules surrounding the provision of Market Data have been identified to reflect operational requirements of submitting prices and to provide further clarity to Inflation Clearing Groups.

**Part II: Description of Rule Changes**

**General Regulations:**

A definition of Key Tenors has been added to the General Regulations.

Regulation 60A(l) has been amended to reflect that provisions related to Market Data apply per Index.

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LCH.Clearnet Group Limited | LCH.Clearnet Limited | LCH.Clearnet SA | LCH.Clearnet LLC



Regulation 60A(m) has been amended to reflect that provisions related to Market Data apply per Index and to clarify the time at which the Clearing House will provide Market Deviation or Non-performance Notices to Inflation Clearing Groups.

There are also a number of typographical corrections to Regulation 60A and the Definitions, related to Inflation Swaps, included in these rule changes.

#### Procedures Section 2C (SwapClear):

Section 1.28.1 has been amended to provide the Clearing House with additional flexibility, subject to internal governance approval, to refrain from issuing a Market Deviation Notice or Non-Performance Notice where a Clearing Member suffers technical issues and as a result fails to provide Market Data or provides Market Data that is off-market.

Section 1.28.4 has been amended to provide clarity that Inflation Clearing Groups will not be required to enter into more than one Crossing Transaction in any calendar month in respect of the same Index. The provisions of this section have also been updated to clarify that each provision relates to provision of Market Data by Index. The deadline for providing Inflation Clearing Groups with Market Deviation or Non-performance Notice has been changed from within one hour of the close of business day snap, to in advance of the next Inflation Swap Business Day. Finally, this section has been updated to reflect that the Clearing House will not require Market Data from an Inflation Clearing Group where it is not a Business Day in the office from which that Inflation Clearing Group normally provides Market Data.

There are also included a number of typographical corrections to Section 1.28, related to Inflation Swaps, included in these rule changes.

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

### **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](mailto:julian.oliver@lchclearnet.com) .

Yours sincerely,

pp. A handwritten signature in blue ink, appearing to read "Julian Oliver", with a period at the end.

**Julian Oliver**

Chief Compliance Officer

LCH.Clearnet Limited



**Appendix I**

**General Regulations**



**GENERAL REGULATIONS OF  
LCH.CLEARNET LIMITED**

<b>"Insufficient Resources Determination"</b>	has the meaning assigned to it in Rule C10 of the Commodities Default Fund Supplement, Rule E10 of the Equities Default Fund Supplement, Rule L10 of the Listed Interest Rate Default Fund Supplement, Rule S11 of the SwapClear Default Fund Supplement, Rule F11 of the ForexClear Default Fund Supplement, or Rule R11 of the RepoClear Default Fund Supplement, as applicable
<b>"Intellectual Property Rights"</b>	has the meaning assigned to it in Regulation 60(A)(j)
<b>"IRS FCM SwapClear Contract"</b>	has the meaning assigned to it in the FCM Regulations
<b>"IRS SwapClear Contract"</b>	<u>Means-means</u> a SwapClear Contract of the type of Contracts which are identified as being IRS SwapClear Contracts in the Product Specific Contract Terms and Eligibility Criteria Manual, 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 IRS FCM SwapClear Contract
<b><u>"Key Tenors"</u></b>	<u>means the Key Tenors as set out in the Inflation Swaps Operational Specifications</u>
<b>"Key Tenor Market Data"</b>	has the meaning assigned in Regulation 60A(l)
<b>"LCH Approved Outsourcing Party"</b>	means a party approved for these purposes by the Clearing House, as set out in the FCM Procedures
<b>"LCH.Clearnet Group"</b>	means the group of undertakings consisting of LCH.Clearnet Limited, LCH.Clearnet Group Limited, LCH.Clearnet LLC, LCH.Clearnet (Luxembourg) S.a.r.l, LCH.Clearnet Service Company Limited and Banque Centrale de Compensation S.A. trading as LCH.Clearnet SA. (any references to a " <b>member</b> " of LCH.Clearnet Group Limited within these Regulations is to be construed accordingly)
<b>"LCH EnClear Clearing Client"</b>	means, in respect of LCH EnClear Client Clearing Business, an Individual Segregated Account Clearing Client or an Omnibus Segregated Clearing Client
<b>"LCH EnClear Clearing House Business"</b>	means LCH EnClear Contracts entered into by a LCH EnClear Clearing Member with the Clearing House on a proprietary basis and for its own account
<b>"LCH EnClear Clearing Member"</b>	means a Member who is designated by the Clearing House as an LCH EnClear Clearing Member eligible to clear LCH EnClear Contracts

## REGULATION 60A INFLATION SWAPS

- (a) This Regulation 60A should be read separately for each index identified in the Product Specific Contract Terms and Eligibility Criteria Manual as an acceptable index for vanilla inflation rate swaps (each an “**Index**”) and, in respect of each SwapClear Clearing Member or Inflation Clearing Group (as applicable), with regards to each Index in respect of which the SwapClear Clearing Member clears or intends to clear, or the Group Members of the relevant Inflation Clearing Group clear or intend to clear, an Inflation SwapClear Contract through the Clearing House.
- (b) Each SwapClear Clearing Member represents and warrants that it has the capacity, power and authority under all applicable laws to enter into, to exercise its rights and to perform its obligations in relation to the Inflation SwapClear Contracts registered in its name.
- (c) In respect of each quarter (the start dates of the quarters being 1 January, 1 April, 1 July and 1 October in each year (each a “**Quarter Start Date**”), the Clearing House will determine which Inflation Clearing Groups shall be required to provide Market Data during the relevant quarter, as set out below:
  - (i) Each SwapClear Clearing Member clearing Inflation SwapClear Contracts is combined in a group with those of its affiliates (if any) who also clear Inflation SwapClear Contracts (each such group being an “**Inflation Clearing Group**”) and each SwapClear Clearing Member that is a member of an Inflation Clearing Group being a “**Group Member**”). For the avoidance of doubt, an Inflation Clearing Group may consist of one or more Group Members.
  - (ii) The Clearing House will calculate, on each Quarter Start Date and for each Inflation Clearing Group, the aggregate of all Inflation SwapClear Contracts referencing each particular Index cleared, over the course of the immediately ~~preceeding~~preceding 12 months, through the Proprietary Accounts of the Group Members of that Inflation Clearing Group (the “**Inflation Clearing Group Aggregate**”).
  - (iii) Where the Inflation Clearing Group Aggregate of an Inflation Clearing Group in respect of a particular Index on a particular Quarter Start Date exceeds the Reporting Threshold Amount, each Group Member of that Inflation Clearing Group (each a “**Market Data Provider**”) will be required to provide Market Data in respect of that Index for the duration of the quarter in question in accordance with Regulation 60A(f)(i). An Inflation Clearing Group, acting through one of its Group Members, shall be entitled to request a deferral of such obligation, on a one-off basis on the first occasion that the obligation arises in respect of the relevant Index, until the Quarter Start Date of the quarter immediately following the quarter in question.
  - (iv) If for any quarter there are to be less than 8 Inflation Clearing Groups to which Regulation 60A(f)(i) applies in respect of a particular Index (or such lower number of Inflation Clearing Groups as the Clearing House may from time to time consider sufficient to allow it to produce Derived Data that is fair and representative of the pricing level of the relevant Index), the Clearing House may: (i) require any Inflation Clearing Group to which Regulation 60A(f)(i)

- (i) The relevant Inflation Clearing Group (acting through one of its Group Members) shall provide to the Clearing House such inflation market data as is specified in the Inflation Swaps Market Data Operational Specifications in respect of the relevant Index (the “**Market Data**”) and in the manner set out in the Inflation Swaps Market Data Operational Specification at the end of each Inflation Swaps Business Day and at such other times specified in the Inflation Swaps Operational Specifications where “**Inflation Swap Business Day**” means: (i) in the case of any GBP denominated Index, each day that is a London business day; (ii) in the case of any EUR-denominated Index a Target Settlement Day; or (iii) in the case of any USD-denominated Index, a New York business day. Where an Inflation Clearing Group contains two or more Group Members, the obligation to provide Market Data in accordance with this Regulation 60A(f)(i) shall apply individually with respect to each Group Member, as required by 60A(c)(iii), but may be discharged by any one of such Group Members providing Market Data on behalf of the Inflation Clearing Group.
  - (ii) Where it is a Market Data Provider, the SwapClear Clearing Member represents and warrants that it has the capacity, power and authority under all applicable laws to provide Market Data to the Clearing House.
  - (iii) Notwithstanding any provision of this Regulation 60A to the contrary, no SwapClear Clearing Member will be under any obligation to provide Market Data to the ~~extent~~ extent that it is prohibited from doing so by law or regulation applicable to it or by any contract that was in place prior to this Regulation 60A coming into force and no Inflation Clearing Group will be under any obligation to provide Market Data in circumstances where this Regulation 60A(f) applies to each of its Group Members.
  - (iv) Subject to these Regulations, the Market Data Provider will retain all ownership rights, Intellectual Property Rights and all other rights in respect of the Market Data provided by it.
- (g) The Clearing House may only use and/or disclose Market Data in accordance with the following:
- (i) the ~~Clearing House~~ may use market-standard data aggregation tools in order to combine the Market Data received from different Inflation Clearing Groups in respect of a particular Index and/or combine Market Data with relevant data from other data sources (any such combined data or further data derived there from (the “**Derived Data**”)), provided that the Clearing House shall be entitled, in its sole discretion, to disregard one or more sets of relevant Market Data for these purposes. In producing the Derived Data, the Market Data will be anonymised and aggregated with other Market Data and/or equivalent market data received from other data sources so that it is not possible to analyse or reverse engineer the Derived Data in such a way as to attribute particular Market Data to a particular Inflation Clearing Group;
  - (ii) the Clearing House may use and/or disclose Market Data where required by law or by a regulatory authority and use (but not disclose) Market Data where

required in accordance with the exercise of a discretion by the Clearing House Risk Committee; and

- (iii) other than as permitted by Regulation 60A(g)(ii) or as agreed in writing with a relevant Group Member, the Clearing House shall not use and/or share Market Data received from an Inflation Clearing Group with third parties (whether for fees or otherwise). In all cases, the Clearing House will apply standards of confidentiality to ~~the~~the Market Data at least equivalent to those it applies to its own confidential information. This obligation of confidentiality covers, but is not limited to, information about which SwapClear Clearing Member has provided what Market Data.
- (h) The Clearing House may only use and/or disclose Derived Data ( as applicable) in accordance with the following:
- (i) Use of the Derived Data for risk management and settlement purposes (including, for the avoidance of doubt, valuation, margining, reporting and account management purposes);
  - (ii) use of the Derived Data as a data source for other Services;
  - (iii) use of the Derived Data for the purpose of answering ad hoc queries from Clearing Members (including FCM Clearing Members) and industry bodies (but not systematic, ~~regulat~~regular distribution) relating to Inflation SwapClear Contracts or Inflation FCM SwapClear Contracts;
  - (iv) use of the Derived Data for the purpose of responding to surveys conducted by relevant international not for profit organisations (such as BIS or IOSCO) relating to Inflation SwapClear Contracts;
  - (v) use of the Derived Data where otherwise required to do so by a direction of the Clearing House Risk Committee;
  - (vi) use or disclosure of the Derived Data where required or requested to do so by law or by a regulatory authority or for the purposes of commencing, or defending, any arbitration or court proceedings;
  - (vii) making some or all of the Derived Data available, directly or indirectly, to SwapClear Clearing Members (including FCM Clearing Members), SwapClear Clearing Clients and/or FCM Clients, clearing or intending to clear Inflation SwapClear Contracts or Inflation FCM SwapClear Contracts through the Clearing House, and their respective service providers; and/or
  - (viii) making some or all of the Derived Data available to one or more of the Clearing House's affiliates, auditors or professional advisers, provided that each such affiliate, auditor or professional adviser shall be subject to restrictions on the use of such Derived Data which are no less onerous than those applicable to the Clearing House; and/or
  - (ix) other than as permitted by this Regulation 60A(h), the Clearing House shall not use and/or share the Derived Data with third parties (whether for fees or otherwise), save with the prior written consent of 75% in aggregate total of the

- (ii) nominate a Group Member (the “**Nominated Group Member**”) to which the Clearing House will send Non-Performance Notices and Market Deviation Notices (if any). Where an Inflation Clearing Group does not designate a Group Member, the Clearing House shall (where applicable) treat the previously nominated Group Member as the Nominated Group Member.

Where an Inflation Clearing Group consists of only one Group Member, that Group Member shall be treated as the Designated Group Member and Nominated Group Member for the purposes of this Regulation 60A and the Procedures.

- (l) At the end of each Inflation Swap Business Day in respect of an Index, the Clearing House will generate a market price in each Key Tenor for that Index (the “**SwapClear End of Day Price**”) and will compare the price of the Market Data most recently received from each Market Data Provider prior to the time when the SwapClear End of Day Price was calculated in the Key Tenors set out in the Inflation Swaps Operational Specifications (the “**Key Tenor Market Data**”) against the SwapClear End of Day Price. The Clearing House will deliver a “**Market Deviation Notice**” to the Market Data Provider in respect of ~~the (i) provision by that Market Data Provider of Key Tenor Market Data that deviates from the SwapClear End of Day Price by an amount which is equal to or greater than the threshold specified for market deviation purposes in the Inflation Swaps Operational Specifications. The Clearing House may also deliver a Market Deviation Notice to a Market Data Provider in accordance with the Procedures ; or (ii) provision of Corrupted Data, as described in the Procedures.~~ An Inflation Clearing Group where group members in aggregate receive four or more Market Deviation Notices in respect of an Index and in a calendar month will be required, upon written notice from the Clearing House, to enter into a transaction (a “**Crossing Transaction**”) through its Designated Group Member in accordance with the terms set out in the Procedures.
- (m) At the end of each Inflation Swap Business Day in respect of an Index and Other other than in the event of Inflation Force Majeure Event, the Clearing House will deliver a “**Non-performance Notice**” on an Inflation Clearing Group through a notice to the Nominated Group Member in respect of any failure by each Group Member of that Inflation Clearing Group to deliver Market Data on an Inflation Swap Business Day. An Inflation Clearing Group where Group Members in aggregate receive two or more Non-performance Notices in respect of an Index and in a calendar month will be required, upon written notice from the Clearing House, to enter into a Crossing Transaction through its Designated Group Member in accordance with the terms set out in the Procedures.
- (n) In the event that a Inflation Clearing Group where Group Members in aggregate receive a total of ten or more Market Deviation Notices or Non-performance Notices in any given quarter the Clearing House may require a written report from such Inflation Clearing Group (acting through one of its Group Members) which sets out:
  - (i) the reasons behind its provision of off-market Market Data and/or failure to provide Market Data (ass applicable); and
  - (ii) the steps being taken to ensure that the provision of timely and accurate Market Data in accordance with the obligations set out in Regulation 60A(f)(i) will be fulfilled in the future.

Each report provided in accordance with this Regulation 60A(o) will be prepared by the compliance department(s) of the relevant Group Member(s) or by other divisions within such Group Member that are charged with exercising appropriate internal control functions.

- (o) The Clearing House shall not serve a Default Notice on any Group Member solely because each of the Group Members of its Inflation Clearing Group has failed to comply with their obligations under Regulation 60A. However, where the Clearing House considers that one or more Group Members of an Inflation Clearing Group are in material, persistent or recurring breach of its obligations under this Regulation 60A, the Clearing House may, following discussion with the relevant Group Member(s) of the affected Inflation Clearing Group, decline to register additional Inflation SwapClear Contracts in the name of any of the Group Members of such Inflation Clearing Group or make the registration of additional Inflation SwapClear Contracts in their names, subject to such conditions as the Clearing House may consider appropriate in its sole discretion (such as requiring that the registration of the additional Inflation SwapClear Contracts would reduce the overall risk associated with the relevant Group Member's portfolio of Inflation SwapClear Contracts); provided that the Clearing House shall not take any steps pursuant to this Regulation 60A(o) where the failure of one or more Group Members to comply with this Regulation 60A results from an Inflation Force Majeure Event.

For the purposes of this Regulation 60A and with respect to a Group Member, an **"Inflation Force Majeure Event"** shall occur where (i) the failure of the relevant Group Member to comply with its obligations pursuant to this Regulation 60A results from: (A) a force majeure event falling within the scope of Regulation 38(a); or (B) a significant and widespread market disruption preventing the relevant Group Member from complying with its obligations; (ii) the relevant Group Member has notified the Clearing House of the occurrence of the force majeure event or market disruption immediately upon becoming aware thereof; and (iii) the relevant Group Member is using all commercially reasonable efforts to bring about a situation where it and the other Group Members of the relevant Inflation Clearing Group can continue to comply with their respective obligations pursuant to this Regulation 60A.

- (p) The clearing House shall, except where a change needs to be implemented more quickly in order to comply with a legal or regulatory requirement or to protect the solvency or integrity of the Clearing House, give SwapClear Clearing Members reasonable prior notice of any proposed material changes to the Inflation Swaps Operational Specifications.



**Appendix II**

**Procedures Section 2C (SwapClear)**



**LCH.CLEARNET LIMITED**

**PROCEDURES SECTION 2C**

**SWAPCLEAR CLEARING SERVICE**

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

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

## 1.28 Provision of Market Data

### 1.28.1 Provision of Market Data

The provisions of this Section 1.~~27-28~~ should be read separately in respect of each Index.

Inflation Clearing Groups who exceed the Reporting Threshold Amount applicable to an Index are required to submit Market Data to the Clearing House in accordance with Regulation 60A and the provisions of this Section ~~1.27~~1.28.

At intervals during each Inflation Swap Business Day in respect of an Index, the Clearing House will take snaps of Market Data that it receives from Inflation Clearing Groups in respect of that Index. An Inflation Clearing Group may update its Market Data outside of an Inflation Swap Business Day for a particular Index. The timings for the close of business data snaps shall be published in the Inflation Swaps Operational Specifications.

If either the Clearing House or an Inflation Clearing Group believes that, for whatever reason, the data provided by the Inflation Clearing Group on a particular date is not representative of market prices for reasons such as technical issues, software failure or other data corruption issues (any such data being "**Corrupted Data**"), that party shall notify the other party as soon as reasonably practicable. Following a notification pursuant to this paragraph, the relevant Inflation Clearing Group shall promptly take such action as the Clearing House may reasonably require (after consulting with the Group Member of that Inflation Clearing Group who provided the relevant Market Data) to remedy the relevant data corruption issue(s). In no circumstances will Corrupted Data constitute Market Data for the purposes of Regulation 60A(f)(i). In the event that the provision of Corrupted Data is caused by the Inflation Clearing Group and the Inflation Clearing Group fails to resubmit corrected Market Data before the Clearing House calculates the SwapClear End of Day Price, the Clearing House will treat the provision of Corrupted Data ~~will be treated~~ as a failure to submit Market Data in respect of the relevant day for the purposes of Section 1.~~27~~28.2 below and, based on the circumstances surrounding the provision of Corrupted Data and in its sole discretion, will result in the ~~may~~ delivery to the relevant Nominated Member of the Inflation Group by the Clearing House of a Market Deviation Notice. Notwithstanding the foregoing and with respect to an Index, the Clearing

House will always issue a Market Deviation Notice to an Inflation Group pursuant to this paragraph on the third consecutive Inflation Swap Business Day where the Inflation Clearing Group delivers Corrupted Data.

With respect to an Index, if an Inflation Clearing Group is unable to provide Market Data on a particular date for reasons such as technical issues, software failure or other data corruption issues (such failure constituting a “Data Disruption Event”), then a Group Member of that Inflation Clearing Group shall notify the Clearing House as soon as reasonably practicable. Following a notification pursuant to this paragraph, the relevant Inflation Clearing Group shall promptly take such action as the Clearing House may reasonably require (after consulting with the Group Member of that Inflation Clearing Group who failed to provide the relevant Market Data) to remedy the relevant technical issue(s). Based on the circumstances surrounding the Data Disruption Event and in its sole discretion, the Clearing House may deliver to the relevant Nominated Group Member of the Inflation Group a Non-performance Notice. Notwithstanding the foregoing and with respect to an Index, the Clearing House will always issue a Non-performance Notice to an Inflation Clearing Group pursuant to this paragraph on the third consecutive Inflation Swap Business Day where the Inflation Clearing Group suffers a Data Disruption Event.

If the Clearing House receives data from an Inflation Clearing Group that it considers does not constitute a reasonable estimate of the current market price for the relevant tenor and Index (whether such data is treated as Market Data or Corrupted Data), it shall be entitled to ignore the submission of that data in making its calculation of the Derived Data.

The Clearing House may use the Market Data that it receives as provided for in Regulation 60A(h).

- 1.28.2 If at any time at which it is due to calculate the Derived Data, the Clearing House considers that it has failed to receive good data (as defined below) in respect of an particular Index from such number of Inflation Clearing Groups as the Clearing House may consider sufficient to allow it to produce Derived Data that is fair and representative of the pricing level of the relevant Index, the Clearing House may as an alternative (a) use a set of previously produced Derived Data that the Clearing House considers to be the most suitable substitute, and/or (b) obtain substitute market data from one or more alternative sources, including but not limited to, brokers and third party data vendors (any data derived from a source described in (a) or (b) of this paragraph being "**Alternative Data**"), provided, however, that Clearing House must use Alternative Data if it considers that it has failed to receive good data in respect of an Index from at least 4 Inflation Clearing Groups. The Clearing House will not impose any obligation for an Inflation Clearing Group to enter into a Crossing Transaction where less than 4 Inflation Clearing Groups have provided good data. For the purpose of this paragraph, "good data" means Market Data received from an Inflation Clearing Group which in the Clearing House's view, constitutes a reasonable estimate of the current market price for the relevant tenor and Index.

1.28.3 For each day on which the Clearing House produces Derived Data, it will provide to at least one Group Member of each Inflation Clearing Group that submitted Market Data, a report showing the Market Data that the relevant Inflation Clearing Group provided, together with any curves produced from the relevant Derived Data. The Clearing House will provide such reports on the Inflation Swap Business Day following the date when the relevant Derived Data was prepared. In addition, the Clearing House shall make available Derived Data to at least one Group Member of each Inflation Clearing Group that submitted Market Data on a same-day basis, including by way of end-of-day reporting. A Group Member that receives Derived Data is entitled to share the Derived Data within its Inflation Clearing Group, provided that the recipients of the Derived Data within the Inflation Clearing Group use the Derived Data in accordance with the terms of the Rulebook.

1.28.4 *Inflation Swap Crossing*

In order to ensure the quality of the Market Data it receives, Regulations 60A(l) and 60A(m) enables the Clearing House to impose a mandatory Crossing Transaction upon Inflation Clearing Groups in certain circumstances. In respect of an Index, an Inflation Clearing Group shall not be required to enter into more than one Crossing Transaction in any calendar month.

The Market Data required to be submitted by the relevant Inflation Clearing Groups comprises a mid-price quote for each relevant Index and tenor combination. A list of eligible Indices and tenors is published in the Inflation Swaps Operational Specifications. At the close of each Inflation Swap Business Day in respect of an Index, the Clearing House will use all relevant Market Data (and/or Alternative Data as the case may be) to produce the SwapClear End of Day Price in respect of an Index.

In respect of an Index, ~~Where~~ where the Group Members of an Inflation Clearing Group receive in aggregate ~~more than 4~~ or more Market Deviation Notices in a calendar month the Clearing House will require its Designated Group Member (the "Off-Market Provider"), by delivering of a notice to that Designated Group Member (the "Crossing Transaction Notice"), to enter into a Crossing Transaction at the price of the Key Tenor Market Data in the relevant Index in respect of which the fourth Market Deviation Notice was delivered, and on the terms set out below.

In respect of an Index, ~~Where~~ where the Group Members of an Inflation Clearing Group receive in aggregate ~~more than 2~~ or more Non-performance Notices in a calendar month the Clearing House will require its Designated Group Member (the "Non-Performer"), to enter into a Crossing Transaction in the relevant Index in respect of which the second Non-performance Notice was delivered on the terms set out below.

An Inflation Clearing Group will be notified of the obligation to enter into a Crossing Transaction (through its Designated Group Member) in advance of the following Inflation Swap Business Day~~within one hour of the close of business data snap on the relevant Inflation Swap Business Day, based on the denomination of the relevant Index to which the Crossing Transaction relates.~~

The Clearing House shall deliver to the Nominated Group Member, on behalf of an the Inflation Clearing Group any Market Deviation Notice or Non-performance Notice in advance of the following Inflation Swap Business Day~~within one hour of the close of business data snap on the relevant Inflation Swap Business Day, based on the denomination of the relevant Index to which relevant notice relates.~~

In respect of an Index, the Clearing House may determine that it is not appropriate to issue a Market Deviation Notice or a Non-performance Notice to an Inflation Clearing Group where the office from which the Inflation Clearing Group typically provides Market Data is closed on the relevant Inflation Swap Business Day.

The counterparty to the Crossing Transaction will be the Designated Group Member of an Inflation Clearing Group in respect of whose Market Data Provider submitted the Key Tenor Market Data in the relevant Index on the relevant Inflation Swap Business Day which most closely reflected the SwapClear End of Day Price.

Where more than one Inflation Clearing Group is obliged to enter into a Crossing Transaction on a particular day the parties to the Crossing Transaction shall be determined in accordance with the following:

- (i) the affected Inflation Clearing Groups will be ranked in order of the degree of deviation of their Market Data Provider's relevant Key Tenor Market Data from the SwapClear End of Day Price (with a failure to actually submit any Market Data being ascribed a value for these purposes, in accordance with the Inflation Swaps Operational Specifications);
- (ii) all Inflation Clearing Groups who have not received a Market Deviation Notice in respect of that Index on that Inflation Swaps Business Day and who will be able to act as counterparty to the relevant Crossing Transaction shall be ranked in terms of degree to which their Market Data Provider's relevant Key Tenor Market Data submitted most closely reflects the SwapClear End of Day Price; and
- (iii) the Designated Group Member of the affected Inflation Clearing Group will be paired with the equivalently ranked Inflation Clearing Group who is to act as counterparty, such that the Designated Group Member of the Inflation Clearing Group that submitted the Key Tenor Market Data with the largest deviation above or below the (as the case may be) SwapClear End of Day Price will face the Designated Group Member from the Inflation Clearing Group whose Market Data Provider submitted the Market Data with an average price that most closely reflected the SwapClear End of Day Price.

In the event that two Inflation Clearing Groups have submitted Key Tenor Market Data with identical values, the Clearing House will base the ranking as

between those two Inflation Clearing Group on the accuracy of data submitted on the previous Inflation Swap Business Day, with the Inflation Clearing Group that produced the data that most closely reflected the SwapClear End of Day Price, on the basis of its end of day snap receiving the more favourable ranking for the purposes of this section.

In the event that there are more Inflation Clearing Groups required to enter into Crossing Transactions than there are available Inflation Clearing Groups which have not been served a Market Deviation Notice or a Non-performance Notice, an Inflation Clearing Group may be required to enter into multiple Crossing Transactions (again ranked as described in (ii) and (iii) of this paragraph above, if necessary) until each Inflation Clearing Group subject to a Crossing Transaction Notice has a counterparty to its Crossing Transaction.

The relevant Crossing Transaction(s) (referencing the relevant Index and tenor) must then be entered into by the relevant Designated Clearing Members, on the terms as to price and notional set out in the Inflation Swaps Operational Specifications, before the close of business on the next following Inflation Swap Business Day following the receipt of the Crossing Transaction notice. Any Designated Clearing Member entering into a Crossing Transaction that is not cleared through the Clearing House must provide the Clearing House with documentary evidence that it has entered into the required Crossing Transaction.

The fixed coupon in respect of a Crossing Transaction will be determined as the mid-point between the Key Tenor Market Data submitted by the Inflation Clearing Group that is required to enter into the Crossing Transaction and the SwapClear End of Day Price in respect of the relevant tenor and Index on the relevant Inflation Swap Business Day, with a cap of 15bps from the SwapClear End of Day Price being the maximum distance between the price of the Crossing Transaction and the SwapClear End of Day Price. The notional amount of the Crossing Transaction will be denominated in the same currency as the relevant Index and, for Indices denominated in USD, GBP or EUR, will be a number of currency units equal to the number given for the relevant tenor published in the Inflation Swaps Operational Specifications. Where the Inflation Clearing Group that is required to enter into a Crossing Transaction submitted Key Tenor Market Data that is lower than the SwapClear End of Day Price, its Designated Clearing Member will be required to receive a fixed price under the Crossing Transaction whilst an Inflation Clearing Group that submits Key Tenor Market Data that is higher than the SwapClear End of Day Price will be required to pay a fixed price as determined by the formula published in the Inflation Swaps Operational Specifications.

In the case of a Designated Clearing Member engaging in a Crossing Transaction as a result of its Inflation Clearing Group receiving 2 Non-performance Notices or a Market Deviation Notice as a result of providing ~~corrupted~~ Corrupted data ~~Data~~, the price in respect of its Crossing Transaction will be the mid-point between the value ascribed to the Designated Clearing Member for the purposes of a Non-performance Notice Crossing Transaction