

**SECTION 1**

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## 4. CLEARING MEMBER, DEALER, EQUITYCLEAR AND TURQUOISE DERIVATIVES NCMs (NON-CLEARING MEMBERS)

### 1.1 **APPLICATION PROCEDURE**

An application for Clearing Member status of the Clearing House, or for Dealer status (whether as a ForexClear Dealer, RepoClear Dealer or SwapClear Dealer, each a “Dealer”) or for other Non-Clearing Member status (EquityClear or Turquoise Derivatives), must be made on the appropriate form which can be obtained from the Clearing House’s Membership Department. Additional information (including legal documents) must be supplied where necessary and submitted to the Clearing House with the completed form.

An application for the status of special clearing member (“Special Clearing Member”) must be initiated by a written request to the Clearing House. The nature of the application procedure and the documents and information required from the applicant will be determined by the Clearing House by reference to the nature of the application and will be notified by the Clearing House to the applicant upon receipt of such written request.

Applicants approved by the Clearing House for Clearing Member or Dealer status, (“Approved Applicants”) must, within three months of notification of their approval, fulfil all conditions attached to their approval. If an Approved Applicant does not fulfil all such conditions within these three months, the Clearing House may, at its sole discretion, consider the grant of approval to have lapsed and may notify the prospective Clearing Member or Dealer accordingly that they will be required to provide further information, following which the application will be submitted for re-approval.

Clearing Members have the right to apply for approval to clear one or more of the markets cleared by the Clearing House, subject to meeting the requirements of the Clearing House in respect of each such market. Please note that Clearing Member status does not provide membership of the company LCH.Clearnet Limited or any right to a shareholding therein, nor does it provide the right to any shareholding in LCH.Clearnet Group Limited or any entitlement or right to participate in any way in LCH.Clearnet SA or the clearing services it offers. LCH.Clearnet SA has its own arrangements and admission criteria for Clearing Member status – see the LCH.Clearnet SA sections of the LCH.Clearnet website for further details.

Applicants approved as Dealers for ForexClear, RepoClear and/or SwapClear will be admitted to the Register of ForexClear Dealers, Register of RepoClear Dealers, and/or the Register of SwapClear Dealers (“the OTC Registers”), as appropriate. Successful admission to one OTC Register does not confer automatic admission to any other OTC Register.

#### 1.1.1 Clearing Member Status

The terms and conditions binding on each Clearing Member are set out in the Clearing Membership Agreement as amended. Two copies of this document will be provided to the applicant who must sign both (but not date them) and return them to the Clearing House’s Membership Department along with the application documentation.

The applicant must pay the stipulated application fee to the Clearing House. This fee must accompany the application for Clearing Member status and is non refundable.

If and when Clearing Member status is granted, new Clearing Members will receive a duly executed (and dated) copy of the Clearing Membership Agreement together with the notification of acceptance and details of any condition(s) attached to Clearing Member status. If granted, Clearing Member status is subject to a Contribution to the Default Fund of the Clearing House (DF), as determined by the Clearing House under the Default Fund Rules.

### 1.1.2 Dealer Status

The terms and conditions of admission to each of the OTC Registers are set out in the ForexClear Dealer Clearing Agreement, the RepoClear Dealer Clearing Agreement and the SwapClear Dealer Clearing Agreement (“the OTC Agreements”) as amended. Admission to each OTC Register requires that three copies of the corresponding OTC Agreement must be signed by the applicant and their proposed Clearing Member.

The copies of the relevant OTC Agreement should be returned, undated, to the Clearing House’s Membership Department along with the application documentation.

If and when admission to an OTC Register is granted, new Dealers will receive a duly executed and dated copy of the relevant OTC Agreement, together with the notification of acceptance and details of any condition(s) attached to their admission. The Clearing House will send, under separate cover, a copy of the duly executed and dated OTC Agreement to the elected Clearing Member.

### 1.1.3 Conditions of Application

An applicant for Clearing Member or Dealer status must accept that the Clearing House:

- (a) is entitled to make enquiries of any nature about the applicant and any person connected or associated with the applicant;
- (b) is entitled to ask the applicant to supply additional information and take whatever steps are necessary to verify information;
- (c) is entitled to provide and/or disclose information to an exchange, governmental department, regulatory organisation, other authority, or to the Clearing House's insurers in connection with any form of insurance, or to any person pursuant to the provisions of the Financial Services and Markets Act 2000 as amended and any rules made thereunder, or in accordance with any other statutory requirement, and in accordance with the terms of the Clearing Membership Agreement, the ForexClear Dealer Clearing Agreement, the RepoClear Dealer Clearing Agreement, or the SwapClear Dealer Clearing Agreement as applicable;
- (d) may disclose to any other party the name, address, registered number and details of any exchange or clearing memberships held or applied for; and
- (e) will endeavour to process, consider and decide upon an application in a timely fashion, but owes no duty or obligation to the applicant to do so,

Conditions (a) to (e) apply equally to Clearing Members and to Dealers.

## 1.2 **CRITERIA FOR CLEARING MEMBER STATUS**

### 1.2.1 General

An applicant must satisfy the criteria set out below in order to be considered for Clearing Member status. These requirements are without prejudice to the provisions of the Clearing Membership Agreement which must be executed by the applicant, and must equally be met by Clearing Members.

The Clearing House may, in its sole discretion, refuse an application for membership where it considers it appropriate to do so in accordance with its internal risk management policies and procedures as amended from time to time.

The applicant must either be, or have applied to become, a RepoClear Clearing Member (categories F & G), a SwapClear Clearing Member (category H), an EquityClear Clearing Member (categories I & J), a Clearing Member of the relevant exchange(s) (categories B – D), an LCH EnClear OTC Clearing Member (category B), a Special Clearing Member (category K) or a ForexClear Clearing Member (category M). Clearing Member status may be granted on a conditional basis before any Clearing House requirements have been fully met or before related exchange clearing membership(s) requirements are met, but cannot be operational until such requirements are satisfied.

The applicant must, if it also wishes to submit and clear RepoClear, SwapClear and/or ForexClear trades, meet the additional criteria for such status (see sections 1.2.2, 1.2.3 and 1.2.4 respectively). The applicant, any controller of the applicant, and those of its staff who exercise an executive or managerial role, must have a high standard of integrity and a level of knowledge, as determined by and acceptable to the Clearing House, of the nature, risks and obligations of trading in the markets and contracts they wish to clear.

A Clearing Member of one or more markets who wishes to clear the contracts of another market cleared by the Clearing House, must apply to the Clearing House for such extension and have the Clearing House's express written approval before commencing to submit trades in such other market for registration. The prescribed form of document for the relevant new market is available from the Clearing House Membership Department. Clearing Members should be aware that they also need the appropriate additional exchange clearing membership before they can extend their range of activities in this way. The Clearing Member must, within three months of notification of their approval to extend their activities, fulfil all conditions attached to their approval. If the Clearing Member does not, within these three months, fulfil all such conditions, the Clearing House may, at its sole discretion, consider the grant of approval to have lapsed and may notify the Clearing Member accordingly that they will be required to provide further information, following which the extension will be submitted for re-approval..

The applicant must satisfy the minimum Net Capital requirements, as set out in section 1.9.3 ("Net Capital Requirements") or such greater amounts as may be required by the Clearing House.

The applicant must open a Protected Payments System (PPS) bank account at one or more of the bank branches participating in the PPS system:-

- 1) in London in GBP;

- 2) in London in each currency in which it incurs settlements;
- 3) in the USA in US dollars,

and execute all necessary PPS mandates (see Section 3.2 of the Procedures) for House and Client accounts.

The applicant must refrain from contravening the general prohibition contained in section 19 of the Financial Services and Markets Act 2000.

If the applicant is a bank, it must at all times be appropriately authorised by the banking supervisors of its home country and additionally meet any notification or authorisation requirements set by banking supervisors in the United Kingdom.

The applicant must maintain a back office:

- (a) remote from both the trading floor and/or trading desks;
- (b) with adequate systems (including but not limited to computer and communications systems) and records;
- (c) with an adequate number of administrative staff fully conversant with procedures for the management of business transacted in the markets and contracts cleared by the Clearing House and in which the Clearing Member participates; and
- (d) with such equipment (including technology and connectivity) as may be stipulated by the Clearing House or by the exchange(s) or EquityClear Approved Trading Platform (ATP),

or, where the Clearing House Rulebook and exchange rules (where relevant) permit, have executed a Clearing Services Management Agreement (as defined at Section 2H.2.1 of the NYSE Liffe Clearing Service Procedures).

The applicant Applicants and Clearing Members must at all times respond promptly to enquiries or requests for information made by the Clearing House. Such enquiries may require Clearing Members to demonstrate compliance with the applicable membership criteria and/or applicable law or regulation.

Each Clearing Member shall at all times continue to comply with the qualifications and requirements set forth in these Procedures and shall promptly notify the Clearing House if it has breached or reasonably expects to breach any such qualifications or requirements.

Each Clearing Member shall maintain current written risk management policies and procedures which address the risks that the relevant Clearing Member may pose to the Clearing House, including any policies and procedures that the Clearing House may reasonably request be incorporated therein. Upon the request of the Clearing House, a Clearing Member shall promptly provide the Clearing House with a copy of its current policies and procedures for review by the Clearing House.

Clearing Members are required promptly to notify or pre-notify the Clearing House of any changes which may result in non-compliance with the Clearing Member status criteria as stated in these Procedures.

### 1.2.2 Supplementary Criteria Applicable to RepoClear Applicants

In addition to the minimum Net Capital Requirements set out in section 1.9.3, applicants must satisfy the following criteria:

- (a) have an average long-term rating, or equivalent, of at least BBB (or equivalent) from Fitch Ratings, Moody's Investors Service or Standard & Poor's. If requested by an applicant, and where special circumstances exist, the Clearing House may take into consideration the rating of an agency other than those agencies described above in addition to the long-term ratings obtained from at least two of the agencies mentioned above. If an applicant has been placed on Rating Watch Negative (or equivalent) by any of the agencies described above where a downgrade would result in an average rating of below BBB they will not be eligible to join the RepoClear service; or
- (b) be unconditionally guaranteed, in respect of all liabilities to the Clearing House (in a form acceptable to the Clearing House) from its parent company or from another member in the applicant's Group (not including a subsidiary of the applicant) provided that the guarantor itself meets those criteria or is a guarantor for another RepoClear Clearing Member (RCM) in its Group (and met the criteria mentioned above at the time of provision of that guarantee).
- (c) be authorised and supervised as either a credit institution or an investment firm by the competent authorities of a member state of the European Union; or
- (d) be authorised and supervised as the equivalent of a credit institution or an investment firm by the competent authorities of a country outside the European Union and be subject to prudential rules considered to be as stringent as those applicable to credit institutions and investment firms.

#### Rating Downgrades

The Clearing House will, in the event of a RepoClear Clearing Member or its guarantor being downgraded to an average rating of below BBB in the relevant credit rating scale utilised by the Clearing House, apply a multiplier to that Clearing Member's initial margin requirement as calculated by the Clearing House. The initial margin multiplier shall be as follows:

- 110% for a Clearing Member downgraded to BBB-
- 200% for a Clearing Member downgraded to BB+

In the event that a Clearing Member is downgraded below BB+ in that scale, the Clearing Member will be required to leave the RepoClear service and its authorisation to participate in that service will be withdrawn. In the event that this process is invoked, details of the process will be provided by the Risk Management Department of the Clearing House.

### 1.2.3 Supplementary Criteria Applicable to SwapClear Applicants

In addition to the minimum Net Capital Requirements as set out in section 1.9.3, an applicant must satisfy the following criteria:

- ~~(a) have an average long-term rating from either Fitch Ratings, Standard & Poor's, or Moody's Investors Service of at least A or equivalent. If requested~~



~~by an applicant, and where special circumstances exist, the Clearing House may take into consideration the rating of an agency other than those agencies described above in addition to the long-term ratings obtained from at least two of the agencies mentioned above. If an applicant has been placed on Rating Watch Negative (or equivalent) by any of the agencies described above where a downgrade would result in an average rating of below A they will not be eligible to join the SwapClear service;~~

~~(b) have, or be a member of a corporate group that has, an interest rate swaps portfolio with a minimum notional outstanding principal of US\$1,000 billion (i.e. \$1,000,000,000,000) or equivalent; and~~

~~(e)(a) successfully participate, or have demonstrate that it has: (i) an affiliated SCM that has can successfully participated, participate; or (ii) an LCH Approved Outsourcing Party that can successfully participate in a SwapClear "fire drill" run by the Clearing House which shall involve submitting a bid for a notional portfolio of trades within a specific currency in a specified timeframe. Submission of a bid outside the timeframe specified by the Clearing House or submitting a bid that is unreasonable will constitute a failure of the "fire drill" and the applicant's SwapClear Clearing Member application will not be approved.~~

~~(d)(b) sign the relevant Clearing House documentation confirming participation in the SwapClear Default Management Process; be able to participate or demonstrate that it has: (A) an affiliated SCM that can participate; or (B) an LCH Approved Outsourcing Party that can successfully participate in the Default Management Process as operated by the Clearing House ;~~

~~(e)(c) have, within its corporate group, at least one credit institution or investment firm licensed by the competent authorities of a member state of the European Union, or the equivalent of a credit institution or an investment firm licensed by the competent authorities of a country outside the European Union and which is subject to prudential rules considered by the Clearing House to be at least as stringent as those applicable to credit institutions and investment firms within the European Union; and~~

~~(f)(d) in the event of a default, be able to receive from the Clearing House and process SwapClear contracts, and any associated hedge trades, in FPML format or, separated value electronic format.~~

~~The Clearing House may, at its discretion, deem the Net Capital Requirement set out in section 1.9.3 and the minimum rating criterion set out in (a) above, to be met by the provision to the Clearing House of an unconditional and unlimited guarantee (in a form acceptable to the Clearing House) from its parent company or from another member in the applicant's Group (not including a subsidiary of the applicant) provided that the guarantor itself meets those criteria or is a guarantor for another SwapClear Clearing Member (SCM) in its Group (and met the criteria mentioned above at the time of provision of that guarantee).~~

~~SwapClear Clearing Members are required promptly to notify or pre-notify the Clearing House of any changes which may result in non-compliance with the Clearing Member status criteria as stated in these Procedures.~~

Membership criteria for FCM Clearing Member status are contained in the Clearing House's FCM Regulations.

### Rating Downgrades

~~The Clearing House will, in the event of a SwapClear Clearing Member or its guarantor being downgraded to an average rating of below A in the relevant credit rating scale utilised by the Clearing House, apply a multiplier to that Clearing Member's initial margin requirement as calculated by the Clearing House. The initial margin multiplier shall be as follows:~~

- ~~• 110% for a Clearing Member downgraded to A-;~~
- ~~• 200% for a Clearing Member downgraded to B-BB+; and~~
- ~~• 250% for a Clearing Member downgraded to BBB.~~

~~In the event that a Clearing Member is downgraded below BBB in that scale, the margin multiplier of 250% will continue to be applied, and the Clearing Member will be required to leave the service through the SwapClear Resignation Process and its authorisation to participate in that service will be withdrawn. In the event that this process is invoked, details of the process will be provided by the Risk Management Department of the Clearing House.~~

#### 1.2.4 Supplementary Criteria Applicable to ForexClear Applicants

In addition to the minimum Net Capital Requirements as set out in section 1.9.3, an applicant must satisfy the following criteria:

- ~~(a) have an average long-term rating from either Fitch Ratings, Standard & Poor's, or Moody's Investors Service of at least A or equivalent. If requested by an applicant, and where special circumstances exist, the Clearing House may take into consideration the rating of an agency other than those agencies described above in addition to the long-term ratings obtained from at least two of the agencies mentioned above. If an applicant has been placed on Rating Watch Negative (or equivalent) by any of the agencies described above where a downgrade would result in an average rating of below A they will not be eligible to join the ForexClear service;~~
- ~~(b)~~ (a) successfully participate, or ~~have~~ demonstrate that it has: (i) an affiliated ForexClear Clearing Member that ~~has~~ can successfully ~~participated~~ participate; or (ii) an LCH Approved Outsourcing Party that can successfully participate, in a ForexClear "fire drill" run by the Clearing House which shall involve submitting a bid for a notional portfolio of trades within specific currency pairs in a specified timeframe. Submission of a bid outside the timeframe specified by the Clearing House or submitting a bid that is unreasonable will constitute a failure of the "fire drill" and the applicant's ForexClear Clearing Member application will not be approved.;
- ~~(c)~~ (b) ~~sign the relevant Clearing House documentation confirming participation~~ be able to participate or demonstrate that it has: (A) an affiliated FXCCM that can successfully participate; or (B) an LCH Approved Outsourcing Party that can successfully participate, in the ForexClear Default Management Process as operated by the Clearing House;
- ~~(d)~~ (c) have, within its corporate group, at least one credit institution or investment firm licensed by the competent authorities of a member state of the European Union, or the equivalent of a credit institution or an investment firm licensed



by the competent authorities of a country outside the European Union and which is subject to prudential rules considered by the Clearing House to be at least as stringent as those applicable to credit institutions and investment firms within the European Union; and

~~(e)~~(d) in the event of a default, be able to receive from the Clearing House and process ForexClear contracts, and any associated hedge trades, in FPML format or, separated value electronic format.

~~The Clearing House may, at its discretion, deem the Net Capital Requirement set out in section 1.9.3 and the minimum rating criterion set out in (a) above, to be met by the provision to the Clearing House of an unconditional and unlimited guarantee (in a form acceptable to the Clearing House) from its parent company or from another member in the applicant's Group (not including a subsidiary of the applicant) provided that the guarantor itself meets those criteria (and met the criteria mentioned above at the time of provision of that guarantee).~~

~~ForexClear Clearing Members are required promptly to notify or pre-notify the Clearing House of any changes which may result in non-compliance with the Clearing Member status criteria as stated in these Procedures.~~

### **Rating Downgrades**

~~The Clearing House will, in the event of a ForexClear Clearing Member or its guarantor being downgraded to an average rating of below A in the relevant credit rating scale utilised by the Clearing House, apply a multiplier to that Clearing Member's initial margin requirement as calculated by the Clearing House. The initial margin multiplier shall be as follows:~~

- ~~• 110% for a Clearing Member downgraded to A-;~~
- ~~• 200% for a Clearing Member downgraded to BBB+; and~~
- ~~• 250% for a Clearing Member downgraded to BBB.~~

~~In the event that a Clearing Member is downgraded below BBB in that scale, the margin multiplier of 250% will continue to be applied, and the Clearing Member will be required to leave the service through the ForexClear Resignation Process and its authorisation to participate in that service will be withdrawn. In the event that this process is invoked, details of the process will be provided by Risk Management Department of the Clearing House.~~

#### 1.2.5 Supplementary Criteria Applicable to Special Clearing Member Applicants

The Clearing House may agree with an applicant for Special Clearing Member status, in addition to or in place of requirements set out in these Procedures, such further terms as it deems appropriate in the circumstances of the applicant and its business and these shall be reflected in the Clearing Membership Agreement.

### 1.3 **DEALER STATUS CRITERIA**

An applicant must satisfy the criteria set out below in order to be considered for admission to the OTC Registers. These requirements are without prejudice to the provisions of the ForexClear Dealer Clearing Agreement, the RepoClear Dealer

Clearing Agreement and/or the SwapClear Dealer Clearing Agreement, and must equally be met by Dealers.

The applicant and any controller of the applicant, and those of its staff who exercise an executive or managerial role, must have a high standard of integrity and a level of knowledge, acceptable to the Clearing House, of the nature, risks and obligations of trading foreign exchange transactions, over-the-counter repos and swaps cleared by the Clearing House.

The applicant must be a member of an Approved Trade Matching System (as approved by the Clearing House from time to time).

- (a) For RepoClear, see Section 2B of the Procedures (RepoClear).
- (b) For SwapClear, see Section 2C of the Procedures (SwapClear).
- (c) For ForexClear, see Section 2K of the Procedures (ForexClear).

If the applicant is a bank it must, at all times, be appropriately authorised by the banking supervisors of its home country and additionally meet any notification or authorisation requirements set by banking supervisors in the United Kingdom.

The applicant must maintain a back office:

- (a) remote from both the exchange floor and/or trading desks;
- (b) with adequate systems (including but not limited to computer and communications systems) and records;
- (c) with an adequate number of administrative staff fully conversant with procedures for the management of business transacted in the markets and contracts cleared by the Clearing House in which the applicant participates; and
- (d) with such technology and connectivity as may be stipulated by the Clearing House.

The applicant must have executed and must maintain a ForexClear Dealer Clearing Agreement, a RepoClear Dealer Clearing Agreement and/or a SwapClear Dealer Clearing Agreement in the current standard form.

The applicant may specify any number of branches, with agreement from its corresponding Clearing Member, from which it proposes to submit eligible ForexClear, RepoClear and/or SwapClear Transactions. It is a requirement that only branches of the same legal entity as the Dealer may be specified. A company which is a different legal entity and which wishes to submit eligible ForexClear, RepoClear and/or SwapClear Transactions for clearing must apply separately for admission to the relevant OTC Register. ForexClear Dealers, RepoClear Dealers and SwapClear Dealers are entitled to remain on the relevant OTC Register for so long as a valid agreement remains in effect. In the event that the relevant agreement for any ForexClear Dealer, RepoClear Dealer or SwapClear Dealer is terminated, then that Dealer will be removed from the relevant OTC Register.

The applicant must at all times respond promptly to enquiries or requests for information made by the Clearing House.

### 1.3.2 ForexClear Dealer Status

The applicant must have a clearing arrangement for ForexClear transactions in place with an existing ForexClear Clearing Member within their corporate group.

### 1.3.3 RepoClear Dealer Status

The applicant must:

- (a) have minimum Net Capital (as defined in paragraph 1.10) of €100mn; and
- (b) be authorised and supervised as either a credit institution or an investment firm by the competent authorities of a member state of the European Union; or
- (c) be authorised and supervised as the equivalent of a credit institution or an investment firm by the competent authorities of a country outside the European Union and be subject to prudential rules considered to be as stringent as those applicable to credit institutions and investment firms.

### 1.3.4 SwapClear Dealer Status

The applicant must have a clearing arrangement for SwapClear transactions in place with an existing SwapClear Clearing Member within their corporate group.

## 1.4 **EQUITYCLEAR NON-CLEARING MEMBER STATUS**

A person who does not have Clearing Member status of the Clearing House may nevertheless participate indirectly in the EquityClear Service as an EquityClear Non-Clearing Member ("NCM"), subject to compliance with all the Clearing House requirements in this regard.

In order to participate in the manner described that person ("the Applicant NCM") must enter into the "EquityClear NCM-GCM Agreement" with a Clearing Member which is authorised by the Clearing House to clear the relevant market. This agreement must be in the form prescribed by the Clearing House. It must then be submitted to the Clearing House, together with the relevant EquityClear Static Data Form duly completed in the form prescribed by the Clearing House for that ATP. If the Clearing House agrees to admit the Applicant NCM to become an EquityClear NCM, as the case may be, it will indicate its consent by signing the agreement and adding the Applicant NCM to the section relating to that ATP in the Register of EquityClear NCMs.

An NCM is entitled to remain on the Register of NCMs for so long as a valid EquityClear NCM-GCM Agreement remains in effect. In the event that the relevant Agreement for any NCM is terminated, then that NCM will be removed from the Register of NCMs.

The rights and obligations of an NCM are set out in the EquityClear NCM-GCM Agreement.

The Clearing House may suspend the EquityClear Open Offer in respect of any ATP, and may, at the request of its GCM, suspend an NCM. Clearing Members and NCMs are referred to Section 2D of the Procedures (EquityClear) in this regard.

It should be noted that NCMs do not have Clearing Member status.

## **1.5 TURQUOISE DERIVATIVES NON-CLEARING MEMBER STATUS**

A person who does not have Clearing Member status may nevertheless participate indirectly in the Clearing House Turquoise Derivatives Service as a Turquoise Derivatives Non-Clearing Member (“NCM”), subject to compliance with all the Clearing House requirements.

In order to participate in the manner described, that person (“the Applicant NCM”) must enter into a Turquoise Derivatives NCM-GCM Agreement with a Clearing Member which is authorised by the Clearing House to clear eligible trades as a “GCM”. If the Clearing House agrees to admit the Applicant NCM, it will indicate its consent by signing the agreement and adding the Applicant NCM to the Register of NCMs.

An NCM is entitled to remain on the Register of NCMs for so long as a valid Turquoise Derivatives NCM-GCM Agreement remains in effect. In the event that the Agreement for any NCM is terminated, then that NCM will be removed from the Register of NCMs.

The rights and obligations of an NCM are set out in the Turquoise Derivatives NCM-GCM Agreement.

It should be noted that NCMs do not have Clearing Member status.

## **1.6 PARTICIPATION IN CROSS-MARGINING AGREEMENTS**

Participation is limited to current Clearing Members who meet eligibility criteria specified in Cross-Margining Agreements. Clearing Members should contact the Clearing House’s Membership Department to clarify the specific criteria.

## **1.7 EXTENSION OF CLEARING ACTIVITIES**

### **1.7.1 Extension to Exchange clearing**

A Clearing Member must hold the appropriate category of Clearing Member status for the exchange(s) it wishes to clear.

A Clearing Member is approved to clear only the exchange(s) stipulated in its application. Subject to the Clearing Houses consent, this approval may be extended to include clearing on another exchange(s). Such approval must be given in writing by the Clearing House in the form prescribed from time to time. In determining such extension the Clearing House will have regard to, inter alia:

- (a) The Clearing Member having the appropriate category of exchange Clearing Member status applicable to the extension of its activities;
- (b) The Clearing Member demonstrably having sufficient staff resources and expertise in the new market that it wishes to clear; and
- (c) The Clearing Member having sufficient Net Capital to meet the additional requirement as set out in section 1.9.3.

1.7.2 Extension to LCH EnClear OTC Services/EquityClear/RepoClear/SwapClear/ForexClear Clearing

In addition to the requirements noted above, a Clearing Member wishing to commence clearing on each of the LCH EnClear OTC services (Freight , OTC Emissions and/or Precious Metals divisions), the EquityClear markets and/or clearing or dealing on ForexClear, RepoClear and/or SwapClear, must complete additional documentation and be approved by the Clearing House. Clearing Members who wish to either clear directly or to submit for clearing EquityClear ATP Matches, RepoClear Transactions and/or Bond/Repo Trades, ForexClear Transactions and/or SwapClear Transactions originating from an NCM or Dealer for clearing, should contact the Clearing House's Membership Department.

Dealers or NCMs who wish to clear their own transactions must apply for Clearing Member status. Potential applicants should contact the Clearing House's Membership Department.

1.7.3 Extension for SwapClear Clearing Members to clear for clients

Subject to obtaining approval from the Clearing House's Membership Department a SwapClear Clearing Member ("SCM") may offer certain SwapClear clearing services to its clients (SwapClear Clearing Clients). SCMs should contact the Clearing House's Membership Department for further details of the SwapClear Client Clearing service.

1.7.4 Special Clearing Members

A Special Clearing Member is only approved to clear the types of contract on the Clearing House service(s) and/or on the market(s) stipulated in its Clearing Membership Agreement, subject to the terms of that Agreement.

## 1.8 TERMINATION OF CLEARING MEMBER STATUS

- 1.8.1 In the event that a Clearing Member wishes to terminate its Clearing Member status, it may do so by giving notice of not less than three months ahead of its termination date. By the close of business on the termination date, the Clearing Member shall ensure that all Registered Contracts in its name have been closed-out or transferred so as to ensure that there are no open Registered Contracts to which they are party to at the termination date. A resigning Clearing Member should note that any and all exchange NCMs or Dealers will be required to find alternative clearing arrangements by this date or will be unable to trade on the relevant exchange or cleared market. Clearing Members will need to give the Clearing House notice of termination in respect of all such NCM/Dealer agreements in accordance with the terms of those agreements and the relevant section of the Rulebook. For further information on the resignation process, Clearing Members should contact the Membership Department.
- 1.8.2 If a Clearing Member has not been active on any exchange or market for a continuous period of three months, they will be asked to confirm that they intend to utilise their Clearing Member status and failing a satisfactory response, they will be asked to resign their Clearing Member status.

## 1.9 NET CAPITAL REQUIREMENTS

### 1.9.1 Categories of Clearing Member Status

There are ten categories of Clearing Member status currently in use. These are as follows:

#### **Category B**

- |                          |   |
|--------------------------|---|
| NYSE Liffe –             | Individual Clearing Member (clearing own business)  |
| Turquoise Derivatives    | - Individual Clearing Member (clearing own business)  |
| LCH EnClear OTC Services | - LCH EnClear Clearing Member being an OTC Participant for OTC Services: OTC Emissions, Freight and/or Precious Metals divisions (see Section 2E) |
| Nodal Exchange           | - Individual Clearing Member (clearing own business)  |
| HKMEx                    | - Clearing Member   |

#### **Category C**

- |            |  |
|------------|--|
| NYSE Liffe | - General Clearing Member (clearing own business and the business of unrelated Non-Clearing Members) |
|------------|--|



- |                       |  |
|-----------------------|--|
| Turquoise Derivatives | - General Clearing Member (clearing own business and the business of unrelated Non-Clearing Members) |
| Nodal Exchange        | - General Clearing Member (clearing own business and the business of unrelated Non-Clearing Members) |

**Category D**

- |     |                                    |
|-----|------------------------------------|
| LME | - Associate Trade Clearing Member  |
|     | - Associate Broker Clearing Member |
|     | - Ring Dealing Member              |

**Category E**

Category no longer in use.

**Category F**

RepoClear Clearing Member: clearing own business.

**Category G**

RepoClear Clearing Member: clearing own business, and the business of unrelated RepoClear Dealers.

**Category H**

SwapClear Clearing Member.

**Category I**

EquityClear Individual Clearing Member: clearing own business on EquityClear.

**Category J**

EquityClear General Clearing Member: clearing own business, and the business of unrelated EquityClear Non-Clearing Members (NCMs) on EquityClear.

**Category K**

Special Clearing Member.

**Category L**

Not in use

**Category M**

ForexClear Clearing Member

NOTES:

1.9.2 'Own business' is defined as trades transacted solely for the benefit of that Clearing Member or another wholly-owned company or other wholly-owned companies with the same ultimate parent company. These other companies must not in turn be trading on behalf of clients in relation to these trades.

### 1.9.3 Net Capital Requirements

The requirements set out below are the minimum requirements applicable to Clearing Members whose clearing relationship with the Clearing House is confined to the clearing of one market, subject, in relation to categories B to D, to an absolute minimum Net Capital requirement of £5mn sterling. The requirements may be satisfied in the currencies indicated or in foreign currency equivalents.

The requirements for Clearing Members who clear more than one market are detailed in section 1.9.4. The definition of Net Capital is given in section 1.10 (subject to a minimum of £5mn sterling).

#### Category A

Category no longer in use.

#### Category B

Net Capital £1.0mn sterling

#### Category C

Net Capital £2.0mn sterling

#### Category D

(i) LME Associate Trade Clearing Members

Net Capital £2.5mn sterling

(ii) LME Associate Broker Clearing and Ring Dealing Members

Net Capital £5.0mn sterling

#### Category E

Category no longer in use.

#### Category F

Net Capital €100.0mn

#### Category G

Net Capital €400.0mn

#### Category H

Net Capital US~~\$5,000mn~~ \$50mn

**Category I**

Net Capital £5.0mn sterling

**Category J**

Net Capital £10.0mn sterling

**Category K**

See section 1.9.5

**Category L**

Not in use

**Category M**

Net Capital US\$~~5,000mn~~50mn

#### 1.9.4 Cross-Market Net Capital Requirement for categories B-D, I-J and L

Subject to the absolute minimum requirement of £5mn sterling, Clearing Members who clear more than one exchange (categories B – D) or have LCH EnClear OTC Services Clearing Member status and/or EquityClear Clearing Member Status (categories I – J), are required to meet a minimum Net Capital Requirement which is the sum of their specific requirements. For example, a Clearing Member acting as a General Clearing Member on NYSE Liffe (Category C - £2mn sterling) and as an EquityClear Individual Clearing Member (category I - £5mn sterling) has a minimum requirement of £7mn sterling. A Clearing Member acting as a General Clearing Member on NYSE Liffe only (Category C - £2mn sterling) has a minimum requirement of £5mn sterling.

Clearing Members for ForexClear, RepoClear and/or SwapClear (including those who clear on other exchanges or markets through the Clearing House) are required to meet the applicable Category F, G, H or M minimum Net Capital Requirement only.

#### 1.9.5 Capital Requirements for Category K

The minimum capital requirements for a Special Clearing Member will be established at the discretion of the Clearing House with reference to (i) the requirements set out in section 1.9.3 which would be applicable to a Clearing Member carrying on comparable business in the same service(s) and/or market(s) of the Clearing House as that which is to be carried on by the Special Clearing Member pursuant to its Clearing Membership Agreement and (ii) any other factors which the Clearing House deems to be relevant in establishing such requirements for a Special Clearing Member.

#### 1.9.6 Additional Net Capital Requirements

Additional resources will be required when, in the Clearing House's assessment, a Clearing ~~Member's~~Member's Net Capital is not commensurate with its level of business, ~~whether that business is confined to one market, or is cross-market in nature.~~

The Clearing House shall, on a daily basis, compare the market risk associated with each Clearing Member's level of business with their level of net capital as reported to the Clearing House in order to ascertain whether, in the Clearing House's opinion, such Clearing Member is sufficiently capitalised to support the level of risk associated with the Contracts to which they are counterparty. In determining whether a Clearing Member is sufficiently capitalised, the Clearing House may also consider:

- (a) the Clearing Member's aggregate exposure to other clearing providers and other entities; and
- (b) the total amount of cover deposited with, transferred to or otherwise delivered to the Clearing House by the Clearing Member.

In the event that the Clearing House considers that the Clearing Member is not sufficiently capitalised to support the level of risk associated with its open Contracts, action may be taken, which could include, but is not limited to, a request for additional cover.

## **1.10 CALCULATION OF NET CAPITAL**

Net Capital ("Net Capital") is broadly defined as:

Permanent Capital plus Additional Capital less Intangible Fixed Assets (including goodwill, development costs, etc ("Intangible Fixed Assets")).

Clearing Members must comply with the Net Capital minimum requirements at all times (see section 1.9.3).

The Clearing House may vary the definitions below to include forms of capital or to exclude assets, other than those stated. An applicant wishing to determine the acceptability of specific forms of capital or the treatment of particular categories of assets should contact the Clearing House's Membership Department.

### **1.10.1 Definition of Permanent Capital ("Permanent Capital")**

The definition of Permanent Capital includes:

- issued and fully-paid ordinary share capital;
- issued and fully-paid preference share capital; and
- share premium account and reserves not available for distribution.

Accumulated profit and loss and reserves available for distribution will not be taken into account when calculating permanent capital. A deficit in reserves will, however, be deducted from permanent capital.

### **1.10.2 Definition of Additional Capital ("Additional Capital")**

The definition of Additional Capital includes:

- other equity reserves (distributable or otherwise);
- profit and loss reserve;

- redeemable shares; and
- subordinated loans.

Where loans, subordinated or otherwise, are allowed in a Clearing Member's Net Capital calculation, the Clearing House may require Clearing Members to provide the Clearing House with details of the terms and conditions of the loan(s) (see section 1.10.3). The Clearing House may, at its discretion, recognise other long-term loans in the calculation of additional capital.

### 1.10.3 Acceptability of Subordinated Loans

The Clearing House will, in the Net Capital Requirement, allow subordinated loans from a parent company/ies as an acceptable form of capital. Where a Clearing Member is reliant upon subordinated loans to meet its minimum requirement, the Clearing House will require assurances that the loan(s) will not be repaid without the prior consent of the Clearing House.

Clearing Members who wish to re-structure their Net Capital in a way that subordinated loans become key to their meeting the minimum Net Capital Requirement, should contact the Clearing House's Membership Department. Clearing Members will be required to enter into an agreement with the Clearing House in the standard form prescribed by the Clearing House for these purposes.

### 1.10.4 Recognition of Irrevocable Letters of Credit

In cases where the Net Capital Requirement is significantly greater than a Clearing Member's regulatory capital requirement, the Clearing House may, at its discretion, but in any case up to a maximum of 50% of the minimum capital requirement, recognise funds committed to the Clearing House under an Irrevocable Letter of Credit from a third party bank in determining whether the minimum requirement is met.

Clearing Members falling into this category and interested in meeting the requirements in this way will be required to enter into a standard form agreement with the Clearing House. That agreement is available from the Clearing House's Membership Department.

## 1.11 **FINANCIAL REPORTING**

Clearing Members must provide the ~~financial~~ information detailed below ~~in order to demonstrate that they continue to comply with the Clearing House's Net Capital Requirements at all times.~~

### 1.11.1 All Members

(a) All Clearing Members must, within six months from the date on which their annual accounts are made up, provide the Clearing House with an English-language copy of their profit and loss account and balance sheet, together with a statement that their auditors have reviewed and approved them, drawn up either in accordance with Companies Act requirements or otherwise in accordance with the requirements of the Clearing House. In addition, the Clearing House may at its discretion require the provision of financial accounts for the ultimate or immediate parent of the Clearing Member.

(b) All Clearing Members must provide the Clearing House in a prompt and timely manner with:

- (i) any information concerning any financial or business development that the Clearing Member reasonably considers may materially affect the Clearing Member's ability to comply with the applicable membership criteria or applicable laws or regulations;
- (ii) information and documents regarding the Clearing Member's risk management policies and practices as requested by the Clearing House. Such information shall include, without limitation, information and documents relating to the liquidity of that Clearing Member's financial resources and settlement procedures;
- (iii) any other financial information that the Clearing House determines is necessary to assess whether membership criteria are being met on an ongoing basis; and
- (iv) notice if the Clearing Member becomes the subject of a bankruptcy petition, receivership proceeding, or the equivalent, or any other event to which it is required to notify the Clearing House under the Clearing Membership Agreement or the Rulebook.

In addition, and upon request from the Clearing House, each Clearing Member shall promptly provide the information detailed in (ii) above directly to the any of the Clearing House's regulators (including the CFTC and the Financial Services Authority).

#### 1.11.2 Regulated Clearing Members

Regulated Clearing Members must provide the Clearing House with copies of all ~~financial~~ returns made to their regulator. The Clearing House will, in respect of firms regulated by the Financial Services Authority ("FSA"), take returns direct from the FSA. This arrangement is for administrative convenience and the Clearing House reserves the right to require that financial returns are submitted direct by the Clearing Member to the Clearing House. Clearing Members regulated by the CFTC must provide the Clearing House with copies of all reports that are required to be filed with the CFTC pursuant to parts 17 and 20 of the CFTC Regulations.

#### 1.11.3 Non-Regulated Clearing Members

Non-regulated Clearing Members must provide the Clearing House with a quarterly balance sheet and profit and loss statement within 30 days of their quarter-end date. This must be signed by two directors, a director and the company secretary, or two Authorised Signatories. Where the Clearing Member is a partnership the balance sheet and profit and loss statement must be signed by two partners of the firm. Please provide evidence of signing authority together with specimen signatures.

#### 1.11.4 Category K

Must provide the Clearing House with such financial information as is stipulated in their Clearing Membership Agreement.



#### 1.11.5 Reduction in Net Capital

All Clearing Members must immediately notify the Clearing House of any significant reduction (usually 10% or more), from the figures shown in their last financial returns, in:

- (a) shareholders' funds;
- (b) Net Capital.

### 1.12 **ADDITIONAL REQUIREMENTS**

#### 1.12.1 Notification of Changes of Ownership

Clearing Members (other than Special Clearing Members, who shall be subject to such specific terms as set out in their Clearing Membership Agreement) are required, under the terms of their Clearing Membership Agreement, to notify or pre-notify the Clearing House of changes in controlling holdings (defined as the exercise or control of 20% or more of the voting power of the firm). The Clearing House recognises that, in the case of Clearing Members which are part of large financial groups, changes in controllers may occur with relative frequency, may only be known after the event and are unlikely to be significant to the Clearing House. However in cases of changes in ownership, and particularly where those potentially acquiring a dominant stake in a Clearing Member are not known to the Clearing House, Clearing Members are required to pre-notify the Clearing House of their plans. The proposed change of ownership may be subject to an approval process involving the Risk Committee and Board of the Clearing House (LCH.Clearnet Limited).

### 1.13 **OTHER CONDITIONS**

The Clearing House may, at any time, impose additional conditions relative to continued Clearing Member status, and at any time vary or withdraw any such conditions. These conditions may include, but are not limited to, a requirement to deposit additional security in cash or collateral as determined by the Clearing House.