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Disclosure of LCH Limited (the "Clearing House")

Article 39(7) of Regulation (EU) No. 648/2012 of the European Parliament and the Council of 4 July 2012 ("EU EMIR")

Article 39(7) of Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC Derivatives, Central Counterparties, and Trade Repositories, as it has become retained EU law and effective in the United Kingdom under the European Union (Withdrawal) Act 2018 ("UK EMIR")

1. Introduction

This information is provided in accordance with the requirement under article 39(7) of EU EMIR and article 39(7) of UK EMIR (where EU EMIR and UK EMIR are collectively, "**EMIR**") for the Clearing House to publicly disclose certain information as to the levels of protection associated with the different types of account segregation that it provides.

Terms used, but not defined, in this document have the meanings ascribed to them in the General Regulations, Default Rules and Procedures of the Clearing House, as published at www.lch.com and amended from time to time (collectively, the "**General Rulebook**").

This information relates to the model set out in the General Rulebook and not to the model set out in the FCM Regulations and FCM Procedures. The equivalent information for the model set out in the FCM Regulations and FCM Procedures can be found [here](#).

2. Segregation

2.1 The segregation principle

The model operated by the Clearing House for the purposes of client clearing is a principal to principal model. This means that (a) a position registered with the Clearing House is a contract between it and the relevant clearing member, where each such party acts as principal (not agent) to such contract, and (b) the Clearing House receives collateral from its clearing members only in respect of such positions (except in respect of a CSA where both the clearing member and the client can provide collateral to the Clearing House, as described under Section 3.2).

The Clearing House is required to offer omnibus client segregation and individual client segregation under articles 39(2) and 39(3) of EMIR, respectively. The Clearing House does this through four types of account:

- (a) an Omnibus Segregated Account ("**OSA**"), which provides for omnibus client segregation; and
- (b) an Individual Segregated Account ("**ISA**"), a Custodial Segregated Account ("**CSA**") and an Indirect Gross Account ("**IGA**"), which each provide for individual client segregation.

The key difference between an OSA compared with an ISA, a CSA and an IGA is that an OSA is held by a clearing member for multiple clients while an ISA, a CSA or an IGA is each held by a clearing member for a single client. A clearing member is required to offer its clients at least the choice between omnibus client segregation and individual client segregation under article 39(5) of EMIR.

2.2 *Segregation of client positions and assets from house positions and assets*

In both omnibus and individual client segregation, client positions and assets are segregated from house positions and assets at account level. Hence, client positions and assets are recorded to a clearing member's relevant Client Account at the Clearing House (i.e. OSA, ISA, CSA or IGA) and are ring-fenced from positions and assets recorded to such clearing member's house account with the Clearing House.

These account arrangements are further divided along Service lines, which means that the Clearing House offers omnibus client segregation and individual client segregation to clearing members separately within each Service. Hence, a clearing member might have a particular combination of one or more Client Accounts, in respect of one Service, and a different combination of Client Accounts, in respect of another Service.

The Client Accounts held by a clearing member in respect of a particular Service will, in part, be driven by characteristics of the Service, the nature of the clearing member, the nature of its client(s) and the level of segregation required by such client(s).

2.3 *Individual client segregation*

Individual client segregation entails a demarcation between the positions and assets held by a clearing member for a single client from the positions and the assets held by it for other clients or for itself. An ISA, a CSA and an IGA each provide for individual client segregation.

2.4 *Omnibus client segregation*

By contrast, omnibus client segregation entails a demarcation between the positions and assets held by a clearing member for multiple clients from the positions and assets held by it for other clients or for itself. An OSA provides for omnibus client segregation.

3. **Client Accounts**

This section summarises the features that characterise the different types of Client Account the Clearing House offers. In particular, it outlines the types of Client Account, how margin

requirements are calculated for each type of Client Account and how each such type of Client Account is treated if the clearing member Defaults.

3.1 ISA

An ISA records the positions entered into, and the collateral provided, by a clearing member in respect of a single client. There is no pooling of risk or mutualisation of losses between the positions and collateral recorded to an ISA and those recorded to other Client Accounts of the clearing member (except as described under Section 3.1(b)(ii)(1) and Section 3.3).

(a) Margin Requirements

The Clearing House will calculate the margin requirements for all of the positions recorded to the ISA and call for collateral from the clearing member to satisfy such margin requirements. The Clearing House will record the collateral it receives from such clearing member (including any excess margin, as described in article 39(6) of EMIR) to the ISA, so that this specific collateral is attributed to the client within such ISA. There is no pooling of risk or mutualisation of losses between the positions and collateral recorded to an ISA and those recorded to other Client Accounts of the clearing member (except as described under Section 3.1(b)(ii)(1) and Section 3.3).

(b) Default

Immediately after the Default of a clearing member, the Clearing House will determine one or more Porting Window(s), which is the period of time during which the Clearing House will seek to port the positions and collateral in a Client Account to a Backup Clearing Member. The Clearing House may determine a different Porting Window for different Services and/or for different types of Client Account. A Porting Window cannot be shorter than 24 hours, except in the limited circumstances described in paragraph 4.1 of schedule 1 of the Default Rules.

The Clearing House will seek to port the positions and collateral recorded to the relevant ISA to a Backup Clearing Member. Porting will only be successful if the nominated Backup Clearing Member and the client consent to the port.

If porting is unsuccessful, the Clearing House will close out the positions, liquidate the associated collateral and calculate the Client Clearing Entitlement for the client. The Client Clearing Entitlement for an ISA within the:

- (i) EquityClear Service or Listed Interest Rates Service is the value of the collateral recorded to such ISA, plus or minus the amounts due in respect of the hedging, close-out and change in value of the positions recorded to such ISA (in each case, as determined by the Clearing House); and
- (ii) SwapClear Service or ForexClear Service is the value of the collateral recorded to such ISA, plus or minus (1) the amounts attributed to such ISA pursuant to the default management account process under Section 2C and 2I of the Procedures, respectively, and (2) the outstanding, but unpaid, amounts due in respect of the positions recorded to such ISA, as at the end of day margin and settlement call of the Clearing House for the business day before transfer of such

positions into a default management account (in each case, as determined by the Clearing House).

The Clearing House may, subject to the satisfaction of the conditions specified under schedule 1 of the Default Rules, provide a Client Clearing Entitlement directly to the relevant client. Otherwise, the Clearing House will provide the Client Clearing Entitlement to the Defaulter's insolvency officer for the account of the relevant client.

3.2 CSA

A CSA is the same as an ISA, except that a client may choose to provide collateral directly to the Clearing House ("**Client Collateral**"), rather than providing collateral, first, to its clearing member and the clearing member then providing collateral to the Clearing House (where collateral the clearing member provides to the Clearing House is "**Clearing Member Collateral**"). A CSA is only available within the SwapClear Service.

A CSA, like an ISA, provides for individual client segregation. A CSA records the positions held by a clearing member in respect of a single client, and the Client Collateral and the Clearing Member Collateral held in respect of such positions. There is no pooling of risk or mutualisation of losses between the positions and collateral recorded to a CSA and those recorded to other Client Accounts of the clearing member (except as described below under Section 3.2(b)(i) and Section 3.3).

(a) Margin Requirements

The Clearing House will calculate the margin requirements for all of the positions recorded to the CSA and, to the extent that the client does not provide Client Collateral to meet such margin requirements, call for collateral from the clearing member to satisfy such margin requirements. The Clearing House will record the Client Collateral and/or Clearing Member Collateral it receives (including any excess margin, as described in article 39(6) of EMIR) to the CSA, so that this specific collateral is attributed to the client within such CSA. There is no pooling of risk or mutualisation of losses between the positions and collateral recorded to a CSA and those recorded to other Client Accounts of the clearing member (except as described below under Section 3.2(b)(i) and Section 3.3).

(b) Default

Immediately after the Default of a clearing member, the Clearing House will seek to port the positions and collateral recorded to the relevant CSA to a Backup Clearing Member. Porting will only be successful if the nominated Backup Clearing Member and the client consent to the port.

If porting is unsuccessful, the Clearing House will close out the positions, liquidate the associated collateral and calculate the Client Clearing Entitlement for the client. The Client Clearing Entitlement is the value of the collateral (except Client Collateral) recorded to such CSA, plus or minus (i) the amounts attributed to such CSA pursuant to the default management account process under Section 2C of the Procedures, and (ii) the outstanding, but unpaid,

amounts due in respect of the positions recorded to such CSA, as at the end of day margin and settlement call of the Clearing House for the business day before transfer of such positions into a default management account (in each case, as determined by the Clearing House).

The Clearing House may, subject to the satisfaction of the conditions specified under schedule 1 of the Default Rules, provide a Client Clearing Entitlement directly to the relevant client. Otherwise, the Clearing House will provide the Client Clearing Entitlement to the Defaulter's insolvency officer for the account of the relevant client. In addition, the Clearing House will return any remaining Client Collateral which the client has provided directly to the Clearing House, in respect of the CSA, to the client as described in Section 4.2.

3.3 *ISA and CSA - Same Client*

A clearing member may open one or more ISA(s) and/or CSA(s) for the same client. For example, a clearing member may open (a) one ISA and one CSA for the same client within the SwapClear Service, or (b) one ISA in a particular Service for a client and another ISA in a different Service for the same client.

In this case, and if the clearing member were to Default, the Clearing House would seek to port the positions and the collateral recorded to such accounts to a Backup Clearing Member (as described Sections 3.1(b) and 3.2(b)).

If porting is unsuccessful for a particular account, the Clearing House may apply collateral recorded to such account to losses attributable to (a) that account, or (b) another ISA or CSA the Defaulter has opened for the same client. This may have the effect of reducing the Client Clearing Entitlement or any remaining Client Collateral (as described Sections 3.1(b) and 3.2(b)) which the client receives or (where applicable) the Defaulter's insolvency officer receives for the account of the client in respect of the account for which porting has failed.

3.4 *IGA*

An IGA is the same as an ISA, except that (a) a clearing member opens an IGA in respect of a single client ("**Direct Client**") who is, in turn, providing clearing services to its clients (each, an "**Indirect Clearing Client**"), and (b) the Clearing House will record the positions such clearing member enters into with the Clearing House, in respect of its Direct Client, and which are referable to a particular Indirect Clearing Client, to an Indirect Gross Sub-Account within the IGA, and will determine margin requirements and the Client Clearing Entitlement, separately, in respect of each such Indirect Gross Sub-Account as described in Section 3.4(a) and (b).

An IGA, like an ISA and a CSA, provides for individual client segregation. There is no pooling of risk or mutualisation of losses between the positions and collateral recorded to an IGA and those recorded to other Client Accounts of the clearing member (except as described below under Section 3.4(b)(ii)(1)).

(a) Margin Requirements

The Clearing House will calculate the margin requirements for each Indirect Gross Sub-Account of the IGA separately (and for the positions recorded to each such sub-account on a net basis) and call the clearing member for collateral to satisfy such margin requirements. The Clearing House will record the collateral it receives from such clearing member (including any excess margin, as described in Article 39(6) of EMIR) to the IGA on a collective basis, without attribution of specific collateral to specific clients.

As a result, there is a segregation of positions recorded to each sub-account in terms of the performance of such positions, but a pooling of risk and mutualisation of loss between all Indirect Clients within the IGA in terms of the quality and value of the collateral recorded to the IGA.

(b) Default

Immediately after the Default of a clearing member, the Clearing House will seek to port the positions and collateral recorded to the relevant IGA to a Backup Clearing Member. All positions and collateral recorded to the IGA must port together to the same Backup Clearing Member and at the same time (i.e. it is not possible to port in relation to one Indirect Gross Sub-Account, but not any other Indirect Gross Sub-Account of the IGA). Porting will only be successful if the nominated Backup Clearing Member and the Direct Client consent to the port.

If porting is unsuccessful, the Clearing House will close out the positions, liquidate the associated collateral and calculate the Client Clearing Entitlement for each Indirect Gross Sub-Account within the IGA.

The Client Clearing Entitlement for an Indirect Gross Sub-Account of an IGA within the:

- (i) EquityClear Service or Listed Interest Rates Service is such portion of the collateral recorded to the IGA which the Clearing House attributes to such Indirect Gross Sub-Account (based on the initial margin requirement for such Indirect Gross Sub-Account), plus or minus the amounts due in respect of the hedging, close-out and change in value of the positions recorded to such Indirect Gross Sub-Account (in each case, as determined by the Clearing House); and
- (ii) SwapClear Service or ForexClear Service is such portion of the collateral recorded to the IGA which the Clearing House attributes to such Indirect Gross Sub-Account (based on the initial margin requirement for such Indirect Gross Sub-Account), plus or minus (1) the amounts attributed to such Indirect Gross Sub-Account pursuant to the default management account process under Section 2C and 2I of the Procedures, respectively, and (2) the outstanding, but unpaid, amounts due in respect of the positions recorded to such to such Indirect Gross Sub-Account, as at the end of day margin and settlement call of the Clearing House for the business day before transfer of such positions into a default management account (in each case, as determined by the Clearing House).

The Clearing House may, subject to the satisfaction of the conditions specified under schedule 1 of the Default Rules, provide the Client Clearing Entitlements directly to the Direct Client. Otherwise, the Clearing House will provide the Client Clearing Entitlements to the Defaulter's insolvency officer for the account of the Direct Client.

3.5 OSA

(a) Types of OSA

The Clearing House offers four different types of OSA, which may be used by a clearing member in isolation or in any combination:

- (i) Non-Identified Client Omnibus Net Segregated Account ("**NOSA**") – This type of account is opened in respect of clients whose identities have not been recorded by the Clearing House in accordance with its procedures and who are grouped together by the clearing member;
- (ii) Indirect Net Account ("**INA**") – This type of account is opened in respect of clients (1) whose identities have not been recorded by the Clearing House in accordance with its procedures, and (2) who are each providing clearing services to their own clients. An INA is separate and distinct from a NOSA.
- (iii) Identified Client Omnibus Segregated Account ("**IOSA**") – This type of account is opened in respect of clients of a clearing member whose identities are recorded by the Clearing House in accordance with its procedures.
- (iv) Affiliated Client Omnibus Segregated Account ("**AOSA**") – This type of account is opened in respect of clients (1) whose identities are recorded by the Clearing House in accordance with its procedures, and (2) who have elected to be grouped together due to the existence of a common relationship between them.

(b) Margin Requirements

The Clearing House will margin a NOSA and an INA on a net basis only. By contrast, the Clearing House may margin an IOSA or an AOSA on a net or gross basis (at the option of the relevant clearing member).

An IOSA or AOSA which is margined on a gross basis is an Omnibus Gross Segregated Account ("**GOSA**"). A GOSA will have two or more sub-accounts (at the option of the relevant clearing member), where each sub-account records the positions attributable to either a (i) Single Omnibus Gross Segregated Clearing Client, or (ii) a group of Combined Omnibus Gross Segregated Clearing Clients who have elected to be grouped together.

Net margining

This means that the Clearing House will calculate the margin requirements for all the positions recorded to the OSA on a net basis and call the clearing member for collateral to satisfy such margin requirements. The Clearing House will record the collateral it receives from such clearing member to the account on a collective basis, without

attribution of specific collateral to specific clients. As a result, there is a pooling of risk and mutualisation of loss between the clients for whom the OSA is held in terms of the performance of the positions recorded to the OSA and the quality and value of the collateral recorded to the OSA.

Gross margining

This means that the Clearing House will calculate the margin requirements for each sub-account of the GOSA separately (and for the positions recorded to each sub-account on a net basis) and call the clearing member for collateral to satisfy such margin requirements. The Clearing House will (i) record the collateral it receives from such clearing member to the GOSA on a collective basis, without attribution of specific collateral to specific clients, and (ii) determine and record, for each sub-account within the GOSA, a value amount of collateral (each, an "LSV"). As a result, there is a segregation of positions recorded to each sub-account in terms of the performance of such positions, but a pooling of risk and mutualisation of loss between all clients for whom the GOSA is held in terms of the quality and value of the collateral recorded to the GOSA.

(c) Default

Immediately after the Default of a clearing member, the Clearing House will seek to port the positions and collateral recorded to the relevant OSA to a Backup Clearing Member. Porting will only be successful if, in respect of:

- (i) an OSA that is not a GOSA, all of the clients comprising such account and their nominated Backup Clearing Member consent to the port;
- (ii) a GOSA and a Single Omnibus Gross Segregated Clearing Client within such account, such client and its nominated Backup Clearing Member consent to the port; and
- (iii) a GOSA and a group of Combined Omnibus Gross Segregated Clearing Client within such account who have elected to be grouped together, all such clients and their nominated Backup Clearing Member consent to the port.

The positions and LSV recorded to a sub-account of a GOSA can port independently of, and separately to, the positions and LSV recorded to any other sub-account of the GOSA (i.e. porting in relation to one sub-account is not contingent on the successful porting of positions and LSV recorded to any other sub-account of the GOSA).

If porting is unsuccessful, the Clearing House will close out the relevant positions, liquidate the associated collateral and calculate a Client Clearing Entitlement in respect of each relevant client or group of clients.

The Client Clearing Entitlement for an OSA that is not a GOSA within the:

- (i) EquityClear Service or Listed Interest Rates Service is the value of the collateral recorded to such OSA, plus or minus the amounts due in respect of the hedging, close-out and change in value of the positions recorded to such OSA (in each case, as determined by the Clearing House); and

- (ii) SwapClear Service or ForexClear Service is the value of the collateral recorded to such OSA, plus or minus (1) the amounts attributed to such OSA pursuant to the default management account process under Section 2C and 2I of the Procedures, respectively, and (2) the outstanding, but unpaid, amounts due in respect of the positions recorded to such OSA, as at the end of day margin and settlement call of the Clearing House for the business day before transfer of such positions into a default management account (in each case, as determined by the Clearing House).

The Client Clearing Entitlement for each sub-account of a GOSA within the:

- (i) EquityClear Service or Listed Interest Rates Service is the LSV for such sub-account, plus or minus the amounts due in respect of the hedging, close-out and change in value of the positions recorded to such sub-account (in each case, as determined by the Clearing House); and
- (ii) SwapClear Service or ForexClear Service is the LSV for such sub-account, plus or minus (1) the amounts attributed to such sub-account pursuant to the default management account process under Section 2C and 2I of the Procedures, respectively, and (2) the outstanding, but unpaid, amounts due in respect of the positions recorded to such sub-account, as at the end of day margin and settlement call of the Clearing House for the business day before transfer of such positions into a default management account (in each case, as determined by the Clearing House).

The Clearing House may, subject to the satisfaction of the conditions specified under schedule 1 of the Default Rules, provide Client Clearing Entitlements directly to the relevant clients. Otherwise, the Clearing House will provide the Client Clearing Entitlements to the Defaulter's insolvency officer for the account of the relevant clients. To the extent there is any collateral remaining in the GOSA after the porting process and determination of one or more Client Clearing Entitlement(s) (as described above), the Clearing House will provide such remaining collateral to the Defaulter's insolvency officer for the account of the relevant clients.

- (d) NOSA and INA

Immediately after a Default, and where the Defaulter is an Exempt Client Clearing Member, the Clearing House will seek to determine the identities of the clients comprising each NOSA and INA of the Defaulter. This is because porting of positions and collateral recorded to an OSA can only occur where the identities of the clients within the OSA are formally recorded by the Clearing House in accordance with its procedures and such clients must consent to the port.

Where such identification occurs, the account will cease to be a NOSA or an INA (as applicable) and become an IOSA in relation to which porting is a possibility (as described in Section 3.5(c)(i) above).

Where such identification does not occur, the Clearing House will, in relation to a:

- (i) NOSA, calculate a single Aggregate Omnibus Client Clearing Entitlement for all clients within the account. The Aggregate Omnibus Client Clearing Entitlement for a NOSA in the:
 - (1) EquityClear Service or Listed Interest Rates Service is the value of the collateral recorded to such NOSA, plus or minus the amounts due in respect of the hedging, close-out and change in value of the positions recorded to such NOSA (in each case, as determined by the Clearing House); and
 - (2) SwapClear Service or ForexClear Service is the value of the collateral recorded to such NOSA plus or minus, (1) the amounts attributed to such NOSA pursuant to the default management account process under Section 2C and 2I of the Procedures, respectively, and (2) the outstanding, but unpaid, amounts due in respect of the positions recorded to such NOSA, as at the end of day margin and settlement call of the Clearing House for the business day before transfer of such positions into a default management account (in each case, as determined by the Clearing House); and
- (ii) INA, calculate a single Aggregate Indirect Net Client Clearing Entitlement for all clients within the account. The Aggregate Indirect Net Client Clearing Entitlement for an INA within the:
 - (1) EquityClear Service or Listed Interest Rates Service is the value of the collateral recorded to such INA, plus or minus the amounts due in respect of the hedging, close-out and change in value of the positions recorded to such INA (in each case, as determined by the Clearing House); and
 - (2) SwapClear Service or ForexClear Service is the value of the collateral recorded to such INA, plus or minus (1) the amounts attributed to such INA pursuant to the default management account process under Section 2C and 2I of the Procedures, respectively, and (2) the outstanding, but unpaid, amounts due in respect of the positions recorded to such INA, as at the end of day margin and settlement call of the Clearing House for the business day before transfer of such positions into a default management account (in each case, as determined by the Clearing House).

The Clearing House will provide the Aggregate Omnibus Client Clearing Entitlement or the Aggregate Indirect Net Client Clearing Entitlement (as applicable) to the Defaulter's insolvency officer for the account of the relevant clients, rather than providing it directly to the relevant clients.

4. **Insolvency Law**

4.1 *ISA, OSA and IGA*

An ISA, OSA and IGA each reflect the principal to principal model of client clearing where a clearing member enters into positions with the Clearing House (with each party

acting in a principal, not agency, capacity) and delivers Clearing Member Collateral to the Clearing House, albeit in respect of a client.

Consequently, in the context of a clearing member Default, porting of positions and collateral to a Backup Clearing Member and provision Client Clearing Entitlements to (or for the account of) clients involve acts by the Clearing House on behalf of clients, but in respect of property to which the Defaulting clearing member has title. This is equally true whether the accounts are segregated on an individual or omnibus basis.

Therefore, the arrangements for porting and the provision of Client Clearing Entitlements rely upon some form of protective mechanism which entitles the Clearing House to deal with the relevant positions and collateral in a way which recognises the beneficial entitlement of the client and keeps them outside of the Defaulter's insolvent estate.

Under the legal regimes applicable to certain clearing members, the mechanism has been enshrined in statute. This type of mechanism is an Exempting Client Clearing Rule. The Clearing House will determine (based on legal advice) whether an Exempting Client Clearing Rule is available in respect of a clearing member. Where no such Exempting Client Clearing Rule is available, the clearing member will be required to enter into a Security Deed in favour of its clearing clients. Under the Security Deed, a clearing member grants a security interest in favour of the client, over the clearing member's rights, title and interests in and to (i) the Account Balance relating to the client (where porting occurs); or (ii) the Client Clearing Entitlement(s) relating to the client (where porting does not occur).

The Clearing House will determine whether an effective Exempting Client Clearing Rule exists in respect of a clearing member and, if not, the clearing member must execute a Security Deed in relation to its provision of Client Clearing Services. For these purposes, the Clearing House has obtained legal opinions from external counsel for each relevant jurisdiction (namely, the jurisdictions in which current clearing members are incorporated) and relevant entity type. The legal opinions contain details of the main legal implications of the respective levels of segregation offered, including information as to the insolvency law applicable in the relevant jurisdictions (including information as to how the Default Rules interact with applicable local insolvency laws). The legal opinions form part of the Clearing House's internal conflicts of law policy and are updated periodically. The legal opinions are available at www.lch.com/resources/jurisdictional-legal-opinions and are made available on a non-reliance basis and for information purposes only.

Where the insolvency regime applicable to a clearing member in a given jurisdiction could interfere with its provision of EMIR Client Clearing, including intrinsic client protections, in the manner set out in articles 39 and 48 of EMIR, the clearing member must offer its client(s) alternative possibilities that ensure those clients receive, at least, the choice of an ISA or an OSA. Such possibilities may include procuring the availability of EMIR Client Clearing through an affiliated clearing member or another clearing member. Where the client, notwithstanding the alternatives offered, chooses to clear with the clearing member, then that clearing member must disclose those risks in full to the client, in accordance with articles 39(5) and 39(7) of EMIR.

Clearing members and clients should seek their own independent legal advice in relation to the use, economic consequences and selection of any particular level of protection and/or account type. The table in schedule one identifies the jurisdictions for which a Security Deed is required, because no Exempting Client Clearing Rule is available.

4.2 CSA

As described under Section 3.2, a CSA is the same as an ISA, except that a client may choose to provide Client Collateral directly to the Clearing House, rather than providing collateral, first, to its clearing member and the clearing member, then, providing Clearing Member Collateral to the Clearing House. Accordingly, the legal position and issues described in Section 4.1 above apply equally to positions and Clearing Member Collateral recorded to the CSA.

However, a different legal position and issues apply to Client Collateral. In particular, a client grants a charge over its rights, title and interests in and to the Client Collateral in favour of the Clearing House pursuant to the relevant Client Charge. If the clearing member Defaults, the Clearing House will either port the Client Collateral via the legal mechanisms described in Section 4.2(a) below or, where porting is unsuccessful, return Client Collateral to the client as described in Section 4.2(b) below.

(a) Client Collateral - Porting

Immediately after the Default of the clearing member, the Clearing House will seek to port the positions and collateral (including any Client Collateral) recorded to the CSA to (i) an ISA which a Backup Clearing Member has opened in respect of the client ("**ISA Port**"), or (ii) a CSA which a Backup Clearing Member has opened in respect of the client ("**CSA Port**").

The Clearing House will effect the port in accordance with the relevant Collateral Management Agreement, the relevant Client Charge and the Rulebook and, in particular, the port of Client Collateral will operate as follows:

- (i) *ISA Port* - The client will be deemed to have transferred its rights, title and interests in the Client Collateral to the Clearing House and, immediately after obtaining such rights, title and interests, the Clearing House will be deemed to have transferred them to the relevant Backup Clearing Member. The Backup Clearing Member's rights, title and interests in the Client Collateral will become "Charged Property" as defined under the relevant Deed of Charge of the Backup Clearing Member and such Client Collateral will be deemed to be Clearing Member Collateral which such Backup Clearing Member has provided to the Clearing House, in respect of the ISA to which the Defaulted clearing member's positions and collateral are ported; and
- (ii) *CSA Port* - The client will be deemed to have transferred its rights, title and interests in the Client Collateral to the Clearing House and, immediately after obtaining such rights, title and interests, the Clearing House will be deemed to have transferred them to the client. The client's rights, title and interests in the Client Collateral will become "Charged Property" under the Client Charge between the client, the relevant Backup Clearing Member and the Clearing

House, and such Client Collateral will be deemed to be Client Collateral which the client has provided to the Clearing House, in respect of the CSA to which the Defaulted clearing member's positions and collateral are ported.

(b) Client Collateral - Failure to Port

If porting is unsuccessful, the Clearing House will close out the positions and calculate and provide the Client Clearing Entitlement related to the CSA as described under Section 3.2(b).

In addition, the Clearing House will apply any Client Collateral recorded to the CSA to the secured obligations under the relevant Client Charge, where such secured obligations are, at such point in time, broadly any:

- (i) obligation of the clearing member to the Clearing House in respect of the CSA, which is not discharged;
- (ii) obligation of the clearing member to the Clearing House in respect of any other CSA or any ISA that, in each case, the clearing member has opened on behalf of the same client, which is not discharged; and
- (iii) other obligation of the client to the Clearing House in respect of the Client Charge.

Any Client Collateral which remains after the Clearing House has applied it to such secured obligations will be returned to the client. The Client Collateral would not be treated as the property of the Clearing House or the clearing member and is returnable to the client subject to the satisfaction of the secured obligations under the relevant Client Charge.

5. Cash Deposits and the Custody of Securities Collateral

The Clearing House will comply with its obligations under article 47 of EMIR to (a) perform cash deposits through highly secure arrangements with authorised financial institutions or, alternatively, through the use of standing deposit facilities of central banks or other comparable means provided by central banks, and (b) deposit securities posted to it as collateral with operators of securities settlement systems that ensure the full protection of those securities or, alternatively, using other highly secure arrangements with authorised financial institutions.

However, the Clearing House is not required to, and does not, indemnify or assume liability to clearing members or clients against losses incurred due to the default of (a) a central bank, authorised credit institution or equivalent third country financial institution in which deposits are made in respect of cash received from clearing members or from clients, or (b) the operator of a securities settlement system or an authorised financial institution holding (i) securities collateral in respect of margin obligations, or (ii) other assets representing the re-investment by the Clearing House of cash or securities received by the Clearing House from clearing members or clients.

Schedule One

Exempt Client Clearing Member Jurisdictions

May 2022

Relevant Jurisdiction	Security Deed Required (Y/N)
Australia	Y
Austria	N
Belgium	N
Canada (Ontario)	Y
Canada (Quebec)	Y
Denmark	Y
England & Wales	N
Finland	N
France	N
Germany	Y
Hong Kong	Y
Ireland	N
Italy	N
Japan	Y
Netherlands	Y
Norway	N
Poland	Y
Portugal	Y
Scotland	N
Spain	N
Sweden	N
Switzerland	Y

Please note, for clearing members incorporated in Canada (Quebec), amendments to the pro forma Security Deed will be required.