

VIA CFTC PORTAL

1 December 2021

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

LCH Limited Self-Certification: Treatment of Client Accounts in the Default Management Process

Dear Mr. Kirkpatrick,

Pursuant to Commodity Futures Trading Commission (“CFTC”) Regulation §40.6(a), LCH Limited (“LCH”), a derivatives clearing organization registered with the CFTC, is submitting for self-certification revisions to its rules related to the attribution of: (i) market profits or losses in a client default management account (“DMA”), and (ii) auction losses during the management of a clearing member default.

Part I: Explanation and Analysis

In the event of a default of a clearing member, LCH seeks to protect associated client accounts through the activation of porting processes whereby they will be transferred to a back-up clearing member, under either the US or the international client clearing models, as applicable. However, where a client is unable to port, for example due to a lack of back-up clearing members or if the client requests to be closed out, its positions will be liquidated and the relevant client account becomes subject to the default management process, separately from the default management of the respective defaulting clearing member.

Under the current LCH Rulebook, multiple clients subject to the default management process may be aggregated into one or more DMAs to improve the efficiency of hedging and minimize operational complexity¹. The proposed rule changes maintain this flexibility, but clarify the allocation of market profits or losses experienced in the DMA, and alters the methodology used for the attribution of auction losses.

In order to provide for a consistent and clear approach to the usage of DMAs, LCH plans to revise its rules, specifically the LCH Procedures (Section 2C SwapClear Clearing Service and Section 2I ForexClear Clearing Service) that cover client clearing under the international client clearing model and the LCH FCM Procedures that cover client clearing under the US client clearing model (jointly the “Procedures”).

Part II: Description of Rule Changes

The changes described below are applied consistently across the Procedures. With respect to the LCH Procedures (Section 2C SwapClear Clearing Service) and LCH FCM Procedures, the revisions replace the current process in an effort to achieve greater clarity and equity. In the LCH Procedures (Section 2I ForexClear Clearing Service) the changes will now be added as clients are starting to actively clear under the international model via the ForexClear service.

¹ Client accounts can only be aggregated with others that are under the same defaulting clearing member and therefore by definition, only those under the same clearing model, US or international.

Where two or more clients are aggregated into a single DMA, profits or losses incurred by the combined account are allocated to the individual clients pro rata based upon relative margin liability. However, the Rulebook is currently not explicit about the specific point of measurement of this liability. The proposed revisions explicitly state that the point of measurement is the last good margin call prior to the default.² LCH believes this is the appropriate timing as the last good margin call was the last time a client could have influenced their positions and, therefore, the margin computation. The proposed allocation of profits or losses utilizes the ratio of relative margin liability for all profit or loss incurred by the DMA from (and including) the day when the aggregation occurred. The proposed revisions do not reflect a change in the spirit or implementation of the rules, but merely clarify the process.

The proposed revisions introduce a new method for the allocation of auction losses incurred during the default management process. Under the current rules, allocation is linked to notional and position direction, but this can give rise to non-equitable attributions. The identical treatment of different products with different tenors may also be problematic. For example, an FRA and a long-dated swap are currently given equal weight. The revised method again uses the last good margin call prior to the default for clients in the auction to allocate losses, providing for fairer attributions.

These changes provide for the consistent use of initial margin as a basis for allocation related to DMAs and auctions and therefore create a coherent and similar approach across the allocation process. The proposed changes are intended to make the process more clear both internally and to members and clients, while removing potential ambiguity associated with the current rules.

The changes to the rules are included as **Appendices I - III** in black line form. The changes will be effective not earlier than 16 December 2021.

Part III: Core Principle Compliance

LCH reviewed the proposed rule changes against the requirements of the Core Principles and finds it will continue to comply with all requirements and standards set forth therein. Specifically, this rule change has potential relevance to Core Principles D (Risk Management) and G (Default Rules and Procedures).

LCH believes the changes described in this filing will not impact LCH's ongoing compliance with the objectives of Core Principle D. The revisions related to treatment of client accounts in default management will not require changes to LCH's risk management framework, margin methodology, or margin requirements. As explained above, LCH will use client initial margin requirements as the basis for allocating gains and/or losses during default management. However, this will not alter the methodology for the calculation of client or clearing member initial margin requirements. LCH considered its risk management requirements and believes the changes related to the allocation of gains and/or losses in DMAs and auctions will not impact LCH's ongoing compliance with Core Principle D. The changes have been reviewed and approved internally via the LCH risk governance process.

Additionally, LCH believes the changes described in this filing enhance its compliance with the objectives of Core Principle G, including that LCH have rules and procedures designed to allow for the efficient, fair, and safe management of events during which clearing members become insolvent or default on obligations to LCH. In revising its process for the management of client funds during a clearing member default, LCH considered efficiency, fairness and safety. With the proposed changes, LCH intends to increase fairness by clarifying that the last good margin call will be used when determining the allocation of gains and losses in DMAs. Furthermore, allocating auction losses to clients based upon margin requirements rather than notional and

² Please see definition of: "Pre-Default TMR," "Pre-Default TMR Ratio," "Pre-Merger TMR," and "Pre-Merger TMR Ratio."

position direction avoids potential unfair attributions, even to the point that gains are possible in the allocation of a loss. LCH believes the proposed changes maintain the existing levels of efficiency and safety and that overall, the proposed revisions enhance its compliance with the requirements of Core Principle G.

LCH believes these changes are consistent with the requirements of Core Principle D on Risk Management under CFTC regulation §39.13, and Core Principle G on Default Rules and Procedures under CFTC regulation §39.16.

Part IV: Public Information

LCH has posted a notice of pending certification with the CFTC and a copy of the submission on LCH's website at: <https://www.lch.com/resources/rulebooks/proposed-rule-changes>.

Part V: Opposing Views

There were no opposing views expressed to LCH by governing board or committee members, members of LCH or market participants.

Certification

LCH hereby certifies to the CFTC, pursuant to the procedures set forth in CFTC Regulation §40.6, that the attached submission complies with the Commodity Exchange Act, as amended, and the regulations promulgated thereunder.

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

Yours sincerely,



Julian Oliver
Chief Compliance Officer
LCH Limited

Appendix I
LCH Procedures (Section 2C SwapClear Clearing Service)
Changed Pages



LCH LIMITED

PROCEDURES SECTION 2C

SWAPCLEAR CLEARING SERVICE

demonstrate an ability to price and bid a greater number of trades at tighter pricing tolerances and within more onerous timeframes). In addition, the Clearing House may require an SCM that has appointed an LCH Approved Outsourcing Agent, to participate in an ad-hoc fire-drill or driving test with such notice as the Clearing House deems appropriate in its sole discretion.

The Clearing House reserves the right to revoke an entity's status as an LCH Approved Outsourcing Agent, in its sole discretion and without notice. In the event of such a revocation, the relevant SCM shall be required to assume those responsibilities that were previously outsourced. Such revocation may occur where the Clearing House considers that there is an insufficient number of third party entities that are providing outsourced default management services (usually a minimum of five providers at any one time).

Other than in exceptional circumstances and in the Clearing House's sole discretion, an LCH Approved Outsourcing Agent may not act on behalf of more than three clearing members.

The appointment of an LCH Approved Outsourcing Agent does not relieve a SwapClear Clearing Member of its obligations in relation to a Rates Service DMP (including its obligation to participate in an Auction) and an LCH Approved Outsourcing Agent's participation in the Rates Service DMP on behalf of an SCM, in the event of a default, shall not extend beyond the provision of operational and other ancillary support to that SCM.

1.28.8 *Rates Service DMG*

The necessary involvement of SCMs and the Rates Service DMG in the Rates Service DMP entails the assessment and dissemination of information that could give rise to conflicts of interest. To ensure that such potential conflicts are demonstrably contained, **Error! Reference source not found.** establishes binding obligations of confidentiality, anonymity and the extent of dissemination of information on SCMs (and their executives or directors who participate from time to time in the Rates Service DMG) and on the Clearing House.

Each SCM who makes available a representative to serve on the Rates Service DMG agrees, and shall procure that, to the extent applicable, its representatives agree to be bound by and to ensure that it and any of its executives or directors serving on the Rates Service DMG complies with **Error! Reference source not found.** covering confidentiality, non-disclosure and other terms.

~~1.28.9 *Default Management Accounts Procedures for Liquidation of Rates Service Contracts relating to Clearing Clients*~~

~~1.28.10 Upon the Default of a Rates Service Clearing Member, the Clearing House has the power and authority, pursuant to the Rulebook, to liquidate the Rates Service Contracts the Defaulter has entered into in respect of its Clearing Clients which, pursuant to the Rulebook, would be conducted in accordance with the Rates Service DMP Annex. This section sets forth certain supplementary procedures~~

(in addition to the Default Rules and other applicable provisions of the Rulebook) that will apply under such circumstances.

- ~~1.28.11~~ In certain circumstances the Clearing House may determine, in its sole discretion, that the Rates Service Contracts entered into by the Defaulting Rates Service Clearing Member in respect of one or more Clearing Clients should be liquidated. Such determination may result from factors, including (a) the Clearing House determining that the Rates Service Contracts entered into by the Defaulting Rates Service Clearing Member in respect of the Clearing Client pose too great a risk to the Clearing House and should therefore be liquidated, (b) the Clearing House becoming aware of the Clearing Client becoming insolvent or otherwise failing in its obligations to the Defaulting Rates Service Clearing Member, (c) the relevant Clearing Client requesting that the Rates Service Contracts referable to it be liquidated, or (d) a request or instruction from a Regulatory Body, whether orally or in writing. In the event of such determination, the Clearing House shall transfer (either physically or by book-entry) the Rates Service Contracts to be liquidated into an account at the Clearing House established for purposes of liquidating the Rates Service Contracts entered into by the Defaulting Rates Service Clearing Member in respect of its Clearing Clients (such account, a **"Hedged Account"**). The Clearing House may establish one or more separate Hedged Account(s) for Rates Service Contracts that are non-transferable and will be subject to liquidation and, if applicable, may include in each such Hedged Account the Rates Service Contracts that are to be liquidated, regardless of the Clearing Clients for which such Rates Service Contracts are held. The provisions of this section shall apply equally to any such Hedged Account. Additionally, no Contracts other than Rates Service Contracts will be transferred into a Hedged Account established for liquidating Rates Service Contracts.
- ~~1.28.12~~ Where the Clearing House transfers Rates Service Contracts referable to a Clearing Client into a Hedged Account, such Clearing Client is referred to as a **"Non-Porting Client"**. The Clearing House shall hold the relevant Collateral in the relevant Client Account, in each case until the liquidation of the entire Hedged Account and all Rates Service Contracts and other positions therein, as described below. At the time that the Rates Service Contracts referable to a Non-Porting Client are transferred into a Hedged Account, any outstanding and accrued but unpaid variation margin in respect of such Rates Service Contracts that are SwapClear CTM Contracts shall be discharged as of the time such Rates Service Contracts are transferred into the Hedged Account by (a) in the event that variation margin is accrued but unpaid in favour of the Clearing House, debiting the relevant Client Account, or (b) in the event that variation margin is accrued but unpaid in favour of the Defaulter, crediting the relevant Client Account.
- ~~1.28.12~~ Administration of a Hedged Account. The Clearing House may enter into hedge transactions, liquidate (by way of auction or otherwise) the Rates Service Contracts and the associated hedge positions for the account of the Hedged Account, and take related actions with respect to a Hedged Account (and the positions held therein), in each case, in its sole discretion as permitted by the Rulebook and Applicable Law, or as directed by an applicable Regulatory Body.

~~1.28.12 Allocation of Gains and Losses in a Hedged Account to Non-Porting Clients. The Clearing House will allocate losses and gains (including further variation margin changes, hedging costs including the gains and losses associated with hedging transactions, and liquidation costs and losses) to Non-Porting Clients in a Hedged Account in accordance with the following provisions:~~

~~1.0.0 At the time a Clearing Client becomes a Non-Porting Client, the Clearing House will assign:~~

~~1.28.13~~

~~1.1.0 in respect of a Non-Porting Client that is not an Indirect Gross Account Clearing Client, a risk factor to the set of Rates Service Contracts referable to such Non-Porting Client; and~~

~~1.2.0 in respect of a Non-Porting Client that is an Indirect Gross Account Clearing Client and each Indirect Gross Sub-Account within the relevant Indirect Gross Account, a separate risk factor to each set of Rates Service Contracts referable to each Indirect Gross Sub-Account;~~

~~1.28.14~~

~~1.28.15 (each, an “**Account Class Risk Factor**”). The value of each Account Class Risk Factor is calculated as the proportion that the Required Initial Margin Amount in respect of each set of Rates Services Contracts bears to the aggregate Required Initial Margin Amount of all Rates Service Contracts that are transferred into the Hedged Account at the time such Clearing Client becomes a Non-Porting Client (i.e. at the time of transfer of the Rates Service Contracts into the Hedged Account).~~

~~2.0.0 On the first day that Clearing Clients become Non-Porting Clients, gains and losses in the Hedged Account on such day shall be allocated on a pro rata basis among each such Non-Porting Client (and, in respect of a Non-Porting Client that is an Indirect Gross Account Clearing Client, among each Indirect Gross Sub-Account within the relevant Indirect Gross Account) based on the Account Class Risk Factor referable to each such Non-Porting Client and (where applicable) Indirect Gross Sub-Account. The allocation of gains and losses on subsequent days shall be made in the same manner until the occurrence of a day (if applicable) in which additional Non-Porting Clients are included in the Hedged Account. Additional Non-Porting Clients that are included in the Hedged Account on a subsequent day, until further additional Non-Porting Clients are included in the Hedged Account on a further subsequent day, are referred to as “**New Non-Porting Clients**”.~~

~~3.0.0 On a day when one or more New Non-Porting Clients are included in the Hedged Account, the Clearing House shall calculate a combined risk factor (the “**Existing Non-Porting Clients Combined Account Class Risk Factor**”) in respect of the Rates Service Contracts and associated hedge positions relating to the Non-Porting Clients that were previously included in the Hedged Account and are not New Non-Porting Clients (such existing Non-Porting Clients, “**Existing Non-Porting Clients**”). The Existing Non-Porting Clients Combined~~

~~Account Class Risk Factor shall be based on the Required Initial Margin Amount of all Rates Service Contracts and associated hedge positions held in the Hedged Account at the beginning of the day on which New Non-Porting Clients are included in the Hedged Account (i.e. at a time prior to the transfer of the Rates Service Contracts referable to New Non-Porting Clients into the Hedged Account). For the avoidance of doubt, the Existing Non-Porting Clients Combined Account Class Risk Factor is calculated without respect to the Required Initial Margin Amount of the transferred Rates Service Contracts referable to the New Non-Porting Clients.~~

~~4.0.0—On any day on which New Non-Porting Clients are included in the Hedged Account, gains and losses in the Hedged Account that arise on that day will be allocated to the Existing Non-Porting Clients (as a group), to each New Non-Porting Client that is not an Indirect Gross Sub Account Clearing Client (individually) and, in respect of a New Non-Porting Client that is an Indirect Gross Account Clearing Client, to each Indirect Gross Sub Account within the relevant Indirect Gross Account, on a pro rata basis, based on the Existing Non-Porting Clients Combined Account Class Risk Factor (with respect to the Existing Non-Porting Clients as a group) and each Account Class Risk Factor referable to each New Non-Porting Client or (where applicable) Indirect Gross Sub Account. The gains and losses allocated in such manner to the Existing Non-Porting Clients as a group shall be further allocated to each individual Existing Non-Porting Client or (where applicable) Indirect Gross Sub Account on a pro rata basis based on the Account Class Risk Factor referable to each such Existing Non-Porting Client or (where applicable) Indirect Gross Sub Account. The allocation of gains and losses on subsequent days shall occur in the same manner as set forth in this paragraph (D) until the occurrence of a day (if applicable) in which additional Non-Porting Clients are included in the Hedged Account and thus become the New Non-Porting Clients. In such a case, (1) the Existing Non-Porting Clients shall continue to be treated as Existing Non-Porting Clients, (2) the Non-Porting Clients previously constituting the New Non-Porting Clients shall then also constitute Existing Non-Porting Clients as defined in paragraph (C) above, (3) the additional Non-Porting Clients included in the Hedged Account shall constitute the New Non-Porting Clients as defined paragraph (B) above, and (4) the Clearing House shall recalculate the Existing Non-Porting Clients Combined Account Class Risk Factor and the allocation of gains and losses shall be in accordance with paragraph (C) above and this paragraph (D).~~

~~5.0.0—Upon the liquidation of the Hedged Account and all Rates Service Contracts and associated hedge positions therein, by auction or otherwise, any gains or losses associated with such liquidation shall be allocated on a pro rata basis to each Non-Porting Client (and, in respect of a Non-Porting Client that is an Indirect Gross Account Clearing Client, to each Indirect Gross Sub Account within the relevant Indirect Gross Account) based on the “unit value” of each Rates Service Contract referable to such Non-Porting Client or (where applicable) Indirect Gross Sub Account and transferred into the Hedged Account, as adjusted by an “auction value adjustment”. For the purposes of this paragraph (E), (1) “unit value” means, in respect of Rates Service Contract, the value applied by the Clearing House to each Rates Service Contract, based~~

~~on its net present value and outstanding notional value, and (2) “**auction value adjustment**” means, in respect of a Rates Service Contract, a ratio applied by the Clearing House to such Contract based on the aggregate liquidation costs incurred in liquidating the Hedged Account and the aggregate notional value of all Rates Service Contracts in the Hedged Account. The allocations described in this paragraph (E) are without reference to any Account Class Risk Factor or Existing Non-Porting Clients Combined Account Class Risk Factor.~~

~~1.28.9 Settlement Following Liquidation of Hedged Account. Following the liquidation of a Hedged Account, the Clearing House shall allocate the appropriate gains and losses (as determined in accordance with the above provisions) to each relevant Client Account or (where applicable) Indirect Gross Sub Account.~~

~~(a) For the purposes of this Section 1.28.9, the following definitions will apply:~~

~~“**Affected Non-Porting Client Account**” means, in respect of an Initial DMA or a Final DMA (as applicable) and the Rates Service Contracts that (at any time) comprise such Initial DMA or Final DMA (as applicable), each Non-Porting Client Account from which any such Rates Service Contract originated.~~

~~“**Auction**” has the meaning assigned to it in the Rates Service DMP Annex.~~

~~“**Auction Date**” means, in respect of an Auction Portfolio, the business day on which such Auction Portfolio is sold.~~

~~“**Auction Result**” means, in respect of an Auction Portfolio, the amount equal to:~~

~~(i) the gains or losses of the Clearing House arising from the sale of such Auction Portfolio, where a gain is a positive amount and a loss is a negative amount;~~

~~(ii) plus the Auction Portfolio NPV Gain for such Auction Portfolio (if any);~~

~~(iii) minus the Auction Portfolio NPV Loss for such Auction Portfolio (if any).~~

~~“**Auction Portfolio**” means a Basis Portfolio or an OTC Auction Portfolio, as applicable.~~

~~“**Auction Portfolio Calculation Period**” means, in respect of an Auction Portfolio and its Auction Date, the period commencing immediately after the end of day margin and settlement call of the Clearing House for the business day preceding such Auction Date and ending at the point at which such Auction Portfolio is sold.~~

“**Auction Portfolio NPV Change**” means, in respect of an Auction Portfolio and its Auction Portfolio Calculation Period, the amount (if any) by which the aggregate net present value of the Rates Service Contracts within such Auction Portfolio has changed during such Auction Portfolio Calculation Period, and

(i) where such change is in favour of the Defaulter, is the “**Auction Portfolio NPV Gain**”; and

(ii) where such change is in favour of the Clearing House, is the “**Auction Portfolio NPV Loss**”.

“**Basis Portfolio**” has the meaning assigned to it in the Rates Service DMP Annex.

“**Daily Amount**” means, in respect of a DMA and a Daily Calculation Period, the Daily Gain or Daily Loss for such DMA and Daily Calculation Period.

“**Daily Calculation Period**” means, in respect of a business day, the period commencing immediately after the end of day margin and settlement call of the Clearing House for the previous business day and ending at the end of day margin and settlement call of the Clearing House for such business day.

“**Daily Gain**” means, in respect of a DMA and a Daily Calculation Period, the amount (if any) by which the Daily NPV Gain exceeds the Daily Hedge Costs (in each case) for such DMA and Daily Calculation Period.

“**Daily Hedge Costs**” means, in respect of an Initial DMA and a Daily Calculation Period, all costs incurred by the Clearing House in connection with hedging the exposure of the Rates Service Contracts transferred (by book-entry) to such Initial DMA in accordance with the Risk Neutralisation process under Rule 2.2 of the Rates Service DMP Annex.

“**Daily Loss**” means, in respect of a DMA and a Daily Calculation Period, either: (i) where the DMA experiences a Daily NPV Loss in respect of such Daily Calculation Period, the aggregate of such Daily NPV Loss and the Daily Hedge Costs for such DMA and Daily Calculation Period; or (ii) where the DMA experiences a Daily NPV Gain in respect of such Daily Calculation Period, the amount by which the Daily Hedge Costs for such DMA and Daily Calculation Period exceed such Daily NPV Gain.

“**Daily NPV Change**” means, in respect of a DMA and a Daily Calculation Period, the amount (if any) by which the aggregate net present value of the Remaining Contracts within such DMA has changed during such Daily Calculation Period, and:

(i) where such change is in favour of the Defaulter, is the “**Daily NPV Gain**”; and

(ii) where such change is in favour of the Clearing House, is the “**Daily NPV Loss**”.

“**DMA**” means an Initial DMA or a Merged DMA, as applicable.

“**DMA Creation Date**” means, in respect of an Initial DMA, the business day on which such Initial DMA is established by the Clearing House.

“**DMA Merger Date**” means, in respect of a Merged DMA, the business day on which two or more DMAs are combined to form such Merged DMA.

“**Final DMA**” means, in respect of an Auction Portfolio that is auctioned and sold, the most recently established DMA from which such Auction Portfolio was formed.

“**Initial DMA**” means a default management account established by the Clearing House, acting in its sole discretion, to which one or more Sets of Non-Porting Contracts are transferred (by book-entry) on the DMA Creation Date for such default management account.

“**Latest DMA**” means, in respect of a Daily Calculation Period, a DMA that exists at the end of such Daily Calculation Period, but which has not itself been combined with another DMA to form a separate Merged DMA.

“**Merged DMA**” means a default management account established by the Clearing House, acting in its sole discretion, which results from the combination of two or more DMAs.

“**Non-Porting Client Account**” means, in respect of a Defaulter, the Individual Segregated Account, Custodial Segregated Account, Omnibus Gross Segregated Sub-Account, Indirect Net Account, Indirect Gross Sub-Account, Non-Identified Client Omnibus Net Segregated Account, Affiliated Client Omnibus Net Segregated Account, Identified Client Omnibus Net Segregated Account or FCM Client Sub-Account (as applicable) of such Defaulter, to which the Rates Service Contracts that the Clearing House has determined will not be ported in accordance with the Client Clearing Annex or the FCM Rulebook are, or were, registered at the point of the Default of the Defaulter.

“**OTC Auction Portfolio**” has the meaning assigned to it in the Rates Service DMP Annex.

“**Pre-Default TMR**” means, in respect of an Affected Non-Porting Client Account of a Defaulter, the TMR for such Affected Non-Porting

Client Account as at the end of day margin and settlement call for the business day before the day of Default of such Defaulter.

“Pre-Default TMR Ratio” means

- (i) in respect of an Initial DMA and an Affected Non-Porting Client Account referable to it, the ratio that the Pre-Default TMR of such Affected Non-Porting Client Account bears to the aggregate Pre-Default TMR of all Affected Non-Porting Client Accounts referable to such Initial DMA; or
- (ii) in respect of a Final DMA and an Affected Non-Porting Client Account referable to it, the ratio that the Pre-Default TMR of such Affected Non-Porting Client Account bears to the aggregate Pre-Default TMR of all Affected Non-Porting Client Accounts referable to such Final DMA.

“Pre-Merger TMR” means, in respect of a DMA that was combined with one or more other DMA(s) to form a Merged DMA, the TMR for such DMA as at the end of day margin and settlement call for the business day before the DMA Merger Date of such Merged DMA.

“Pre-Merger TMR Ratio” means, in respect of a DMA that was combined with one or more other DMA(s) to form a Merged DMA, the ratio that such DMA’s Pre-Merger TMR bears to the aggregate Pre-Merger TMR of all DMAs that were combined to form such Merged DMA.

“Prior Merged DMA” means, in respect of a Merged DMA, an existing Merged DMA that has been combined with one or more other DMA(s) to form such Merged DMA.

“Remaining Contracts” means, in respect of a DMA and a Daily Calculation Period, all of the Rates Service Contracts within such DMA during such Daily Calculation Period, excluding those Rates Service Contracts that the Clearing House has auctioned and sold at any point within such Daily Calculation Period.

“Set of Non-Porting Contracts” means, in respect of a Non-Porting Client Account, the Rates Service Contracts that are transferred by the Clearing House from such Non-Porting Client Account to an Initial DMA.

“TMR” means (i) in respect of an Affected Non-Porting Client Account, the total margin requirement as determined by the Clearing House for such Affected Non-Porting Client Account, or (ii) in respect of a DMA, the total margin requirement as determined by the Clearing House for such DMA, in each case excluding: (x) variation margin; (y) Stress Loss Margin as defined in Section 1.9.7 above; and (z) counterparty risk multiplier margin as described in Section 1.9.2 above.

(b) Initial DMAs

- (i) After a Default, the Clearing House may, in its sole discretion:
- (A) determine that the Rates Service Contracts registered to a Non-Porting Client Account will not port in accordance with the Client Clearing Annex or the FCM Rulebook (as applicable); and
 - (B) transfer the resulting Set of Non-Porting Contracts in respect of such Non-Porting Client Account to an Initial DMA on the business day on which the Clearing House makes such determination.
- (ii) The Clearing House may in its sole discretion create more than one Initial DMA for the purposes of subparagraph (i)(B) above on the same business day.
- (iii) No Contracts other than Rates Service Contracts will be transferred into an Initial DMA.
- (iv) Any outstanding and owing, but unsettled, variation margin or settlement amounts in respect of Rates Service Contracts as at the end of the Daily Calculation Period for the business day prior to the transfer of such Rates Service Contracts in accordance with subparagraph (i) above shall be discharged by the Clearing House debiting or crediting (as applicable) the Non-Porting Client Account from which such Rates Service Contracts were transferred.

(c) Merged DMAs

- (i) On any business day following the creation of two or more Initial DMAs pursuant to paragraph (b) above, the Clearing House may create a Merged DMA by combining:
- (A) multiple Initial DMAs;
 - (B) one or more Initial DMAs and one or more Prior Merged DMAs; or
 - (C) multiple Prior Merged DMAs.
- (ii) The Clearing House may in its sole discretion create more than one Merged DMA on the same business day.

(d) Auctions

- (i) The Clearing House shall conduct Auctions in respect of Auction Portfolios referable to DMAs in accordance with the provisions of the Rates Service DMP Annex.

- (ii) More than one Auction Portfolio may be referable to a single DMA, in which case:

 - (A) the Clearing House will conduct one or more Auctions of each Auction Portfolio referable to such DMA; and
 - (B) on and from the date of the first Auction in respect of the DMA, the Clearing House may no longer combine such DMA into a Merged DMA.
 - (iii) Following the sale of an Auction Portfolio, the Rates Service Contacts within such Auction Portfolio shall no longer form part of the DMA from which the Auction Portfolio was created.
- (e) Attribution of Daily Amounts
- (i) The Clearing House shall, following each Daily Calculation Period, determine the Daily Amount for each Latest DMA in respect of such Daily Calculation Period.
 - (ii) The Clearing House shall attribute the Daily Amount of a Latest DMA that is:

 - (A) an Initial DMA, to each Affected Non-Porting Client Account referable to such Initial DMA, pro rata according to the Pre-Default TMR Ratio of each such Affected Non-Porting Client Account; and
 - (B) a Merged DMA, to each DMA that was combined to form such Merged DMA, pro rata according to the Pre-Merger TMR Ratio of each such DMA (where the amount attributed to each such DMA is an “Interim Amount”).
 - (iii) If the Clearing House attributes an Interim Amount to a DMA under subparagraph (ii)(B) above, then it will further attribute such Interim Amount as follows:

 - (A) Where the DMA to which the Interim Amount was attributed is an Initial DMA, the Clearing House will further attribute such amount to each Affected Non-Porting Client Account referable to such Initial DMA, pro rata according to the Pre-Default TMR Ratio of each such Affected Non-Porting Client Account; and
 - (B) Where the DMA to which the Interim Amount was attributed is a Merged DMA, the Clearing House will further attribute such amount to each DMA that was combined to form such Merged DMA, pro rata according to the Pre-Merger TMR Ratio of each such DMA.

(iv) If the Clearing House attributes an amount to a DMA under subparagraph (iii)(B) above, then it will further attribute such amount according to the method specified in subparagraph (iii) (treating such amount as an Interim Amount for the purposes of subparagraph (iii)) until all amounts are attributed to Non-Porting Client Accounts.

(f) Attribution of Auction Results

The Clearing House shall attribute the Auction Result, in respect of the sale of an Auction Portfolio, to each Affected Non-Porting Client Account referable to the Final DMA from which such Auction Portfolio was formed, pro rata according to the Pre-Default TMR Ratio of each such Affected Non-Porting Client Account.

(g) Collateral

The Clearing House shall hold the relevant Collateral in respect of each Non-Porting Client Account in its applicable Client Account until the process described in this Section 1.28.9 has been completed.

1.28.161.28.10 Rates Service Default Management Disclosure Notice

Each SCM must ensure that each Clearing Client is provided with, or is directed to a copy of, the Rates Service Default Management Disclosure Notice and further must provide confirmation to the Clearing House, in the form and manner reasonably required by the Clearing House, that it has discharged this obligation in respect of each of its Clearing Clients.

1.28.171.28.11 Contact Information

Each SCM is required to provide the Clearing House with contact details for those persons that the Clearing House should contact in the event of an SCM Default. SCMs are required to ensure that contact details remain up to date and to notify the Clearing House of any changes in such details.

1.29 Provision of Tax Forms; Withholding Taxes; Sales Tax

1.29.1 Tax Forms

The Clearing House and each SwapClear Clearing Member shall provide to the other party (i) any form or document specified in the given SwapClear Contract and (ii) any form, document, statement or certification (including, in the case of the Clearing House, an Internal Revenue Service Form W-8BEN) reasonably requested in writing, in each case to permit the Clearing House or SwapClear Clearing Member, as applicable, to make any payment under the Clearing House's rules or any SwapClear Contract without withholding for any tax, levy or charge. The foregoing requirement shall not apply in the event the Clearing House or SwapClear Clearing Member is not permitted to deliver such form, document, statement or certification under Applicable Law (including any double-tax treaty).

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FOREXCLEAR CLEARING SERVICE

pricing tolerances and within more onerous timeframes). In addition, the Clearing House may require an FXCCM, that has appointed an LCH Approved Outsourcing Agent, to participate in an ad-hoc fire-drill or driving test with such notice as the Clearing House deems appropriate in its sole discretion.

The Clearing House reserves the right to revoke an entity's status as an LCH Approved Outsourcing Agent, in its sole discretion and without notice. In the event of such a revocation, the relevant FXCCM shall be required to assume those responsibilities that were previously outsourced. Such revocation may occur where the Clearing House considers that there is an insufficient number of third party entities that are providing outsourced default management services (usually a minimum of five providers at any one time).

Other than in exceptional circumstances and in the Clearing House's sole discretion, an LCH Approved Outsourcing Agent may not act on behalf of more than three clearing members.

The appointment of an LCH Approved Outsourcing Agent does not absolve an FXCCM of its obligations under the ForexClear DMP (including its obligation to participate in an Auction) and an LCH Approved Outsourcing Agent's participation in the ForexClear DMP on behalf of an FXCCM, in the event of a default, shall not extend beyond the provision of operational and other ancillary support to that FXCCM.

- 1.10.7 ForexClear DMG: The necessary involvement of FXCCMs and the ForexClear DMG in the ForexClear DMP entails the assessment and dissemination of information that could give rise to conflicts of interest. To ensure that such potential conflicts are demonstrably contained, Schedule 1 (*Confidentiality, non-disclosure and participation in the ForexClear Default Management Group*) establishes binding obligations of confidentiality, anonymity and the extent of dissemination of information on FXCCMs (and their executives or directors who participate from time to time in the ForexClear DMG) and on the Clearing House.

Each FXCCM who makes available a representative to serve on the ForexClear DMG agrees, and shall procure that, to the extent applicable, its representatives agree to be bound by and to ensure that it and any of its executives or directors serving on the ForexClear DMG complies with Schedule 1 (*Confidentiality, non-disclosure and participation in the ForexClear Default Management Group*) covering confidentiality, non-disclosure and other terms.

1.10.8 Default Management Accounts

- (a) For the purposes of this Section 1.10.8, the following definitions will apply:

“Affected Non-Porting Client Account” means, in respect of an Initial DMA or a Final DMA (as applicable) and the ForexClear Contracts that (at any time) comprise such Initial DMA or Final DMA (as applicable), each Non-Porting Client Account from which any such ForexClear Contract originated.

“**Auction**” has the meaning assigned to it in the ForexClear DMP Annex.

“**Auction Date**” means, in respect of an Auction Portfolio, the business day on which such Auction Portfolio is sold.

“**Auction Result**” means, in respect of an Auction Portfolio, the amount equal to:

- (i) the gains or losses of the Clearing House arising from the sale of such Auction Portfolio, where a gain is a positive amount and a loss is a negative amount;
- (ii) plus the Auction Portfolio NPV Gain for such Auction Portfolio (if any);
- (iii) minus the Auction Portfolio NPV Loss for such Auction Portfolio (if any).

“**Auction Portfolio**” means a ForexClear Auction Portfolio.

“**Auction Portfolio Calculation Period**” means, in respect of an Auction Portfolio and its Auction Date, the period commencing immediately after the end of day margin and settlement call of the Clearing House for the business day preceding such Auction Date and ending at the point at which such Auction Portfolio is sold.

“**Auction Portfolio NPV Change**” means, in respect of an Auction Portfolio and its Auction Portfolio Calculation Period, the amount (if any) by which the aggregate net present value of the ForexClear Contracts within such Auction Portfolio has changed during such Auction Portfolio Calculation Period, and

- (i) where such change is in favour of the Defaulter, is the “**Auction Portfolio NPV Gain**”; and
- (ii) where such change is in favour of the Clearing House, is the “**Auction Portfolio NPV Loss**”.

“**Daily Amount**” means, in respect of a DMA and a Daily Calculation Period, the Daily Gain or Daily Loss for such DMA and Daily Calculation Period.

“**Daily Calculation Period**” means, in respect of a business day, the period commencing immediately after the end of day margin and settlement call of the Clearing House for the previous business day and ending at the end of day margin and settlement call of the Clearing House for such business day.

“**Daily Gain**” means, in respect of a DMA and a Daily Calculation Period, the amount (if any) by which the Daily NPV Gain exceeds the

Daily Hedge Costs (in each case) for such DMA and Daily Calculation Period.

“Daily Hedge Costs” means, in respect of an Initial DMA and a Daily Calculation Period, all costs incurred by the Clearing House in connection with hedging the exposure of the ForexClear Contracts transferred (by book-entry) to such Initial DMA in accordance with the Risk Neutralisation process under Rule 2.2 of the ForexClear DMP Annex.

“Daily Loss” means, in respect of a DMA and a Daily Calculation Period, either: (i) where the DMA experiences a Daily NPV Loss in respect of such Daily Calculation Period, the aggregate of such Daily NPV Loss and the Daily Hedge Costs for such DMA and Daily Calculation Period; or (ii) where the DMA experiences a Daily NPV Gain in respect of such Daily Calculation Period, the amount by which the Daily Hedge Costs for such DMA and Daily Calculation Period exceed such Daily NPV Gain.

“Daily NPV Change” means, in respect of a DMA and a Daily Calculation Period, the amount (if any) by which the aggregate net present value of the Remaining Contracts within such DMA has changed during such Daily Calculation Period, and:

- (i) where such change is in favour of the Defaulter, is the “Daily NPV Gain”; and
- (ii) where such change is in favour of the Clearing House, is the “Daily NPV Loss”.

“DMA” means an Initial DMA or a Merged DMA, as applicable.

“DMA Creation Date” means, in respect of an Initial DMA, the business day on which such Initial DMA is established by the Clearing House.

“DMA Merger Date” means, in respect of a Merged DMA, the business day on which two or more DMAs are combined to form such Merged DMA.

“Final DMA” means, in respect of an Auction Portfolio that is auctioned and sold, the most recently established DMA from which such Auction Portfolio was formed.

“ForexClear Auction Portfolio” means an “Auction Portfolio” as defined in the ForexClear DMP Annex.

“Initial DMA” means a default management account established by the Clearing House, acting in its sole discretion, to which one or more

Sets of Non-Porting Contracts are transferred (by book-entry) on the DMA Creation Date for such default management account.

“Latest DMA” means, in respect of a Daily Calculation Period, a DMA that exists at the end of such Daily Calculation Period, but which has not itself been combined with another DMA to form a separate Merged DMA.

“Merged DMA” means a default management account established by the Clearing House, acting in its sole discretion, which results from the combination of two or more DMAs.

“Non-Porting Client Account” means, in respect of a Defaulter, the Individual Segregated Account, Indirect Gross Account, ~~or~~ Omnibus Segregated Account or FCM Client Sub-Account (as applicable) of such Defaulter, to which the ForexClear Contracts that the Clearing House has determined will not be ported in accordance with the Client Clearing Annex or the FCM Rulebook are, or were, registered at the point of the Default of the Defaulter.

“Pre-Default TMR” means, in respect of an Affected Non-Porting Client Account of a Defaulter, the TMR for such Affected Non-Porting Client Account as at the end of day margin and settlement call for the business day before the day of Default of such Defaulter.

“Pre-Default TMR Ratio” means

- (i) in respect of an Initial DMA and an Affected Non-Porting Client Account referable to it, the ratio that the Pre-Default TMR of such Affected Non-Porting Client Account bears to the aggregate Pre-Default TMR of all Affected Non-Porting Client Accounts referable to such Initial DMA; or
- (ii) in respect of a Final DMA and an Affected Non-Porting Client Account referable to it, the ratio that the Pre-Default TMR of such Affected Non-Porting Client Account bears to the aggregate Pre-Default TMR of all Affected Non-Porting Client Accounts referable to such Final DMA.

“Pre-Merger TMR” means, in respect of a DMA that was combined with one or more other DMA(s) to form a Merged DMA, the TMR for such DMA as at the end of day margin and settlement call for the business day before the DMA Merger Date of such Merged DMA.

“Pre-Merger TMR Ratio” means, in respect of a DMA that was combined with one or more other DMA(s) to form a Merged DMA, the ratio that such DMA’s Pre-Merger TMR bears to the aggregate Pre-Merger TMR of all DMAs that were combined to form such Merged DMA.

“Prior Merged DMA” means, in respect of a Merged DMA, an existing Merged DMA that has been combined with one or more other DMA(s) to form such Merged DMA.

“Remaining Contracts” means, in respect of a DMA and a Daily Calculation Period, all of the ForexClear Contracts within such DMA during such Daily Calculation Period, excluding those ForexClear Contracts that the Clearing House has auctioned and sold at any point within such Daily Calculation Period.

“Set of Non-Porting Contracts” means, in respect of a Non-Porting Client Account, the ForexClear Contracts that are transferred by the Clearing House from such Non-Porting Client Account to an Initial DMA.

“TMR” means (i) in respect of an Affected Non-Porting Client Account, the total margin requirement as determined by the Clearing House for such Affected Non-Porting Client Account, or (ii) in respect of a DMA, the total margin requirement as determined by the Clearing House for such DMA, in each case, excluding variation margin.

(b) Initial DMAs

(i) After a Default, the Clearing House may, in its sole discretion:

(A) determine that the ForexClear Contracts registered to a Non-Porting Client Account will not port in accordance with the Client Clearing Annex or the FCM Rulebook (as applicable); and

(B) transfer the resulting Set of Non-Porting Contracts in respect of such Non-Porting Client Account to an Initial DMA on the business day on which the Clearing House makes such determination.

(ii) The Clearing House may in its sole discretion create more than one Initial DMA for the purposes of subparagraph (i)(B) above on the same business day.

(iii) No Contracts other than ForexClear Contracts will be transferred into an Initial DMA.

(iv) Any outstanding and owing, but unsettled, variation margin or settlement amounts in respect of ForexClear Contracts as at the end of the Daily Calculation Period for the business day prior to the transfer of such ForexClear Contracts in accordance with subparagraph (i) above shall be discharged by the Clearing House debiting or crediting (as applicable) the Non-Porting Client Account from which such ForexClear Contracts were transferred.

(c) Merged DMAs

- (i) On any business day following the creation of two or more Initial DMAs pursuant to paragraph (b) above, the Clearing House may create a Merged DMA by combining:

 - (A) multiple Initial DMAs;
 - (B) one or more Initial DMAs and one or more Prior Merged DMAs; or
 - (C) multiple Prior Merged DMAs.
- (ii) The Clearing House may in its sole discretion create more than one Merged DMA on the same business day.
- (d) Auctions

 - (i) The Clearing House shall conduct Auctions in respect of Auction Portfolios referable to DMAs in accordance with the provisions of the ForexClear DMP Annex.
 - (ii) More than one Auction Portfolio may be referable to a single DMA, in which case:

 - (A) the Clearing House will conduct one or more Auctions of each Auction Portfolio referable to such DMA; and
 - (B) on and from the date of the first Auction in respect of the DMA, the Clearing House may no longer combine such DMA into a Merged DMA.
 - (iii) Following the sale of an Auction Portfolio, the ForexClear Contacts within such Auction Portfolio shall no longer form part of the DMA from which the Auction Portfolio was created.
- (e) Attribution of Daily Amounts

 - (i) The Clearing House shall, following each Daily Calculation Period, determine the Daily Amount for each Latest DMA in respect of such Daily Calculation Period.
 - (ii) The Clearing House shall attribute the Daily Amount of a Latest DMA that is:

 - (A) an Initial DMA, to each Affected Non-Porting Client Account referable to such Initial DMA, pro rata according to the Pre-Default TMR Ratio of each such Affected Non-Porting Client Account; and
 - (B) a Merged DMA, to each DMA that was combined to form such Merged DMA, pro rata according to the Pre-Merger TMR Ratio of each such DMA (where the

amount attributed to each such DMA is an “Interim Amount”).

(iii) If the Clearing House attributes an Interim Amount to a DMA under subparagraph (ii)(B) above, then it will further attribute such Interim Amount as follows:

(A) Where the DMA to which the Interim Amount was attributed is an Initial DMA, the Clearing House will further attribute such amount to each Affected Non-Porting Client Account referable to such Initial DMA, pro rata according to the Pre-Default TMR Ratio of each such Affected Non-Porting Client Account; and

(B) Where the DMA to which the Interim Amount was attributed is a Merged DMA, the Clearing House will further attribute such amount to each DMA that was combined to form such Merged DMA, pro rata according to the Pre-Merger TMR Ratio of each such DMA.

(iv) If the Clearing House attributes an amount to a DMA under subparagraph (iii)(B) above, then it will further attribute such amount according to the method specified in subparagraph (iii) (treating such amount as an Interim Amount for the purposes of subparagraph (iii)) until all amounts are attributed to Non-Porting Client Accounts.

(f) Attribution of Auction Results

The Clearing House shall attribute the Auction Result, in respect of the sale of an Auction Portfolio, to each Affected Non-Porting Client Account referable to the Final DMA from which such Auction Portfolio was formed, pro rata according to the Pre-Default TMR Ratio of each such Affected Non-Porting Client Account.

(g) Collateral

The Clearing House shall hold the relevant Collateral in respect of each Non-Porting Client Account in its applicable Client Account until the process described in this Section 1.10.8 has been completed.

1.11 Provision of Tax Forms

The Clearing House and each FXCCM shall provide to each FXCCM or the Clearing House, as relevant, (i) any forms or documents specified in the ForexClear Contract between the Clearing House and the FXCCM and (ii) any other form, document, statement or certification reasonably requested in writing by the FXCCM or the Clearing House in order to allow the FXCCM or the Clearing House to make a payment under the Rules of the Clearing House or any ForexClear Contract without deduction

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FCM PROCEDURES OF THE CLEARING HOUSE

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with such notice as the Clearing House deems appropriate in its sole discretion.

The Clearing House reserves the right to revoke an entity's status as an LCH Approved Outsourcing Agent, in its sole discretion and without notice. In the event of such a revocation, the relevant FCM Clearing Member shall be required to assume those responsibilities that were previously outsourced. Such revocation may occur where the Clearing House considers that there is an insufficient number of third party entities that are providing outsourced default management services (usually a minimum of five providers at any one time).

Other than in exceptional circumstances and in the Clearing House's sole discretion, an LCH Approved Outsourcing Agent may not act on behalf of more than three clearing members.

The appointment of an LCH Approved Outsourcing Agent does not absolve an FCM Clearing Member of its obligations under the Rates Service DMP (including its obligation to participate in an Auction) and an LCH Approved Outsourcing Agent's participation in the Rates Service DMP on behalf of an FCM Clearing Member, in the event of a default, shall not extend beyond the provision of operational and other ancillary support to that FCM Clearing Member.

(e) Rates Service *DMG*

The necessary involvement of FCM Clearing Members and the Rates Service DMG in the Rates Service DMP entails the assessment and dissemination of information that could give rise to conflicts of interest. To ensure that such potential conflicts are demonstrably contained, Schedule 2.1A establishes binding obligations of confidentiality, anonymity and the extent of dissemination of information on FCM Clearing Members (and their executives or directors who participate from time to time in the Rates Service DMG) and on the Clearing House.

Each FCM Clearing Member who makes available a representative to serve on the Rates Service DMG agrees, and shall procure that, to the extent applicable, its representatives agree to be bound by and to ensure that it and any of its executives or directors serving on the Rates Service DMG complies with Schedule 2.1A covering confidentiality, non-disclosure and other terms.

~~(f) — *Procedures for Liquidation of FCM Rates Contracts of FCM Clients*~~

~~Upon the default of an FCM Rates Clearing Member, the Clearing House has the power and authority, pursuant to the FCM Rulebook, the CEA and the CFTC Regulations, to liquidate the FCM Rates Contracts of FCM Clients which, pursuant to the FCM Rulebook, would be conducted in accordance with the Rates Service DMP Annex. This section sets forth certain supplementary procedures (in addition to the~~

~~Default Rules and other applicable provisions of the FCM Rulebook) that will apply under such circumstances.~~

~~In certain circumstances the Clearing House may deem, in its sole discretion, that the FCM Rates Contracts of one or more FCM Clients should be liquidated. Such determination may result from factors including: (i) the Clearing House determining that the FCM Client poses too great a risk to the Clearing House and should therefore be liquidated; (ii) the Clearing House becoming aware of the FCM Client becoming insolvent or otherwise failing in its obligations to the defaulting FCM Clearing Member, (iii) the relevant FCM Client requesting that it be liquidated, or (iv) a request or instruction from a Regulatory Body, whether orally or in writing. In the event of such liquidation the Clearing House shall establish a notional account reflecting such FCM Client's FCM Rates Contracts for purposes of allocating losses arising from the liquidation of such contracts (such account, a "**Hedged Account**"). The Clearing House may establish one or more separate Hedged Account(s) for FCM Rates Contracts that are non transferable and will be subject to liquidation and, if applicable, may reference in each such Hedged Account the FCM Rates Contracts that are to be liquidated, regardless of the FCM Clients for which such FCM Rates Contracts are held. The provisions of this section shall apply equally to any such Hedged Account. Additionally, no FCM Contracts other than FCM Rates Contracts will be referenced in a Hedged Account established for liquidating FCM Rates Contracts.~~

~~(f) An FCM Client whose FCM Rates Contracts are referenced in a Hedged Account is referred as a "**Non-Porting Client**". Default Management Accounts~~

~~(A) For the purposes of this paragraph (f), the following definitions will apply:~~

~~"Affected Non-Porting FCM Client Sub-Account" means, in respect of an Initial DMA or a Final DMA (as applicable) and the FCM Rates Contracts that (at any time) comprise such Initial DMA or Final DMA (as applicable), each Non-Porting FCM Client Sub-Account from which any such FCM Rates Contract originated.~~

~~"Auction" has the meaning assigned to it in the Rates Service DMP Annex.~~

~~"Auction Date" means, in respect of an Auction Portfolio, the business day on which such Auction Portfolio is sold.~~

~~"Auction Result" means, in respect of an Auction Portfolio, the amount equal to:~~

- (i) the gains or losses of the Clearing House arising from the sale of such Auction Portfolio, where a gain is a positive amount and a loss is a negative amount;
- (ii) plus the Auction Portfolio NPV Gain for such Auction Portfolio (if any);
- (iii) minus the Auction Portfolio NPV Loss for such Auction Portfolio (if any).

“Auction Portfolio” means a Basis Portfolio or an OTC Auction Portfolio, as applicable.

“Auction Portfolio Calculation Period” means, in respect of an Auction Portfolio and its Auction Date, the period commencing immediately after the end of day margin and settlement call of the Clearing House for the business day preceding such Auction Date and ending at the point at which such Auction Portfolio is sold.

“Auction Portfolio NPV Change” means, in respect of an Auction Portfolio and its Auction Portfolio Calculation Period, the amount (if any) by which the aggregate net present value of the FCM Rates Contracts within such Auction Portfolio has changed during such Auction Portfolio Calculation Period, and

- (i) where such change is in favour of the Defaulter, is the “Auction Portfolio NPV Gain”; and
- (ii) where such change is in favour of the Clearing House, is the “Auction Portfolio NPV Loss”.

“Basis Portfolio” has the meaning assigned to it in the Rates Service DMP Annex.

“Daily Amount” means, in respect of a DMA and a Daily Calculation Period, the Daily Gain or Daily Loss for such DMA and Daily Calculation Period.

“Daily Calculation Period” means, in respect of a business day, the period commencing immediately after the end of day margin and settlement call of the Clearing House for the previous business day and ending at the end of day margin and settlement call of the Clearing House for such business day.

“Daily Gain” means, in respect of a DMA and a Daily Calculation Period, the amount (if any) by which the Daily NPV Gain exceeds the Daily Hedge Costs (in each case) for such DMA and Daily Calculation Period.

“Daily Hedge Costs” means, in respect of a DMA and a Daily Calculation Period, all costs incurred by the Clearing House in

connection with hedging the exposure of one or more FCM Rates Contracts within such DMA in accordance with the Risk Neutralisation process under Rule 2.2 of the Rates Service DMP Annex.

“Daily Loss” means, in respect of a DMA and a Daily Calculation Period, either: (i) where the DMA experiences a Daily NPV Loss in respect of such Daily Calculation Period, the aggregate of such Daily NPV Loss and the Daily Hedge Costs for such DMA and Daily Calculation Period; or (ii) where the DMA experiences a Daily NPV Gain in respect of such Daily Calculation Period, the amount by which the Daily Hedge Costs for such DMA and Daily Calculation Period exceed such Daily NPV Gain.

“Daily NPV Change” means, in respect of a DMA and a Daily Calculation Period, the amount (if any) by which the aggregate net present value of the Remaining Contracts within such DMA has changed during such Daily Calculation Period, and:

- (i) where such change is in favour of the Defaulter, is the “Daily NPV Gain”; and
- (ii) where such change is in favour of the Clearing House, is the “Daily NPV Loss”.

“DMA” means an Initial DMA or a Merged DMA, as applicable.

“DMA Creation Date” means, in respect of an Initial DMA, the business day on which such Initial DMA is established by the Clearing House.

“DMA Merger Date” means, in respect of a Merged DMA, the business day on which two or more DMAs are combined to form such Merged DMA.

“Final DMA” means, in respect of an Auction Portfolio that is auctioned and sold, the most recently established DMA from which such Auction Portfolio was formed.

“Initial DMA” means a default management account established by the Clearing House, acting in its sole discretion, to which one or more Sets of Non-Porting Contracts are transferred (by book-entry) on the DMA Creation Date for such default management account.

“Latest DMA” means, in respect of a Daily Calculation Period, a DMA that exists at the end of such Daily Calculation Period, but which has not itself been combined with another DMA to form a separate Merged DMA.

“Merged DMA” means a default management account established by the Clearing House, acting in its sole discretion, which results from the combination of two or more DMAs.

“Non-Porting FCM Client Sub-Account” means, in respect of a Defaulter, the FCM Client Sub-Account of such Defaulter, to which the FCM Rates Contracts that the Clearing House has determined will not be ported in accordance with the FCM Rulebook are, or were, registered at the point of the Default of the Defaulter.

“OTC Auction Portfolio” has the meaning assigned to it in the Rates Service DMP Annex.

“Pre-Default TMR” means, in respect of an Affected Non-Porting FCM Client Sub-Account of a Defaulter, the TMR for such Affected Non-Porting FCM Client Sub-Account as at the end of day margin and settlement call for the business day before the day of Default of such Defaulter.

“Pre-Default TMR Ratio” means

- (i) in respect of an Initial DMA and an Affected Non-Porting FCM Client Sub-Account referable to it, the ratio that the Pre-Default TMR of such Affected Non-Porting FCM Client Sub-Account bears to the aggregate Pre-Default TMR of all Affected Non-Porting FCM Client Sub-Accounts referable to such Initial DMA; or
- (ii) in respect of a Final DMA and an Affected Non-Porting FCM Client Sub-Account referable to it, the ratio that the Pre-Default TMR of such Affected Non-Porting FCM Client Sub-Account bears to the aggregate Pre-Default TMR of all Affected Non-Porting FCM Client Sub-Accounts referable to such Final DMA.

“Pre-Merger TMR” means, in respect of a DMA that was combined with one or more other DMA(s) to form a Merged DMA, the TMR for such DMA as at the end of day margin and settlement call for the business day before the DMA Merger Date of such Merged DMA.

“Pre-Merger TMR Ratio” means, in respect of a DMA that was combined with one or more other DMA(s) to form a Merged DMA, the ratio that such DMA’s Pre-Merger TMR bears to the aggregate Pre-Merger TMR of all DMAs that were combined to form such Merged DMA.

“Prior Merged DMA” means, in respect of a Merged DMA, an existing Merged DMA that has been combined with one or more other DMA(s) to form such Merged DMA.

“Remaining Contracts” means, in respect of a DMA and a Daily Calculation Period, all of the FCM Rates Contracts within such DMA during such Daily Calculation Period, excluding those FCM Rates Contracts that the Clearing House has auctioned and sold at any point within such Daily Calculation Period.

“Set of Non-Porting Contracts” means, in respect of a Non-Porting FCM Client Sub-Account, the FCM Rates Contracts that are transferred by the Clearing House from such Non-Porting FCM Client Sub-Account to an Initial DMA.

“TMR” means (i) in respect of an Affected Non-Porting FCM Client Sub-Account, the total margin requirement as determined by the Clearing House for such Affected Non-Porting FCM Client Sub-Account, or (ii) in respect of a DMA, the total margin requirement as determined by the Clearing House for such DMA, in each case excluding: (x) variation margin; (y) Stress Loss Margin as defined in Section 2.1.9 above; and (z) counterparty risk multiplier margin.

(B) Initial DMAs

(A) After a Default, the Clearing House may, in its sole discretion:

(1) determine that the FCM Rates Contracts registered to a Non-Porting FCM Client Sub-Account will not port in accordance with the FCM Rulebook; and

(2) transfer the resulting Set of Non-Porting Contracts in respect of such Non-Porting FCM Client Sub-Account to an Initial DMA on the business day on which the Clearing House makes such determination.

(B) The Clearing House may in its sole discretion create more than one Initial DMA for the purposes of subparagraph (A)(2) above on the same business day.

(C) No Contracts other than FCM Rates Contracts will be transferred into an Initial DMA.

(D) Any outstanding and owing, but unsettled, variation margin or settlement amounts in respect of FCM Rates Contracts as at the end of the Daily Calculation Period for the business day prior to the transfer of such FCM Rates Contracts in accordance with subparagraph (A) above shall be discharged by the Clearing House debiting or crediting (as applicable) the Non-Porting FCM Client

Sub-Account from which such FCM Rates Contracts were transferred.

(C) Merged DMAs

(A) On any business day following the creation of two or more Initial DMAs pursuant to paragraph (B) above, the Clearing House may create a Merged DMA by combining:

(1) multiple Initial DMAs;

(2) one or more Initial DMAs and one or more Prior Merged DMAs; or

(3) multiple Prior Merged DMAs.

(B) The Clearing House may in its sole discretion create more than one Merged DMA on the same business day.

(D) Auctions

(A) The Clearing House shall conduct Auctions in respect of Auction Portfolios referable to DMAs in accordance with the provisions of the Rates Service DMP Annex.

(B) More than one Auction Portfolio may be referable to a single DMA, in which case:

(1) the Clearing House will conduct one or more Auctions of each Auction Portfolio referable to such DMA; and

(2) on and from the date of the first Auction in respect of the DMA, the Clearing House may no longer combine such DMA into a Merged DMA.

(C) Following the sale of an Auction Portfolio, the Rates Service Contracts within such Auction Portfolio shall no longer form part of the DMA from which the Auction Portfolio was created.

(E) Attribution of Daily Amounts

(A) The Clearing House shall, following each Daily Calculation Period, determine the Daily Amount for each Latest DMA in respect of such Daily Calculation Period.

(B) The Clearing House shall attribute the Daily Amount of a Latest DMA that is:

- (1) an Initial DMA, to each Affected Non-Porting FCM Client Sub-Account referable to such Initial DMA, pro rata according to the Pre-Default TMR Ratio of each such Affected Non-Porting FCM Client Sub-Account; and
 - (2) a Merged DMA, to each DMA that was combined to form such Merged DMA, pro rata according to the Pre-Merger TMR Ratio of each such DMA (where the amount attributed to each such DMA is an “**Interim Amount**”).
- (C) If the Clearing House attributes an Interim Amount to a DMA under subparagraph (B)(2) above, then it will further attribute such Interim Amount as follows:
- (1) Where the DMA to which the Interim Amount was attributed is an Initial DMA, the Clearing House will further attribute such amount to each Affected Non-Porting FCM Client Sub-Account referable to such Initial DMA, pro rata according to the Pre-Default TMR Ratio of each such Affected Non-Porting FCM Client Sub-Account; and
 - (2) Where the DMA to which the Interim Amount was attributed is a Merged DMA, the Clearing House will further attribute such amount to each DMA that was combined to form such Merged DMA, pro rata according to the Pre-Merger TMR Ratio of each such DMA.
- (D) If the Clearing House attributes an amount to a DMA under subparagraph (C)(2) above, then it will further attribute such amount according to the method specified in subparagraph (C) (treating such amount as an Interim Amount for the purposes of subparagraph (C)) until all amounts are attributed to Non-Porting FCM Client Sub-Accounts.

(F) Attribution of Auction Results

The Clearing House shall attribute the Auction Result, in respect of the sale of an Auction Portfolio, to each Affected Non-Porting FCM Client Sub-Account referable to the Final DMA from which such Auction Portfolio was formed, pro rata according to the Pre-Default TMR Ratio of each such Affected Non-Porting FCM Client Sub-Account.

(G) CFTC Regulations

~~The Clearing House shall hold the relevant Collateral in respect of: (a) the FCM SwapClear Contracts of Non-Porting Clients FCM Client Sub-Accounts (segregated as belonging to each such applicable Non-Porting FCM Client Sub-Account in accordance with the CFTC Regulations and Part 22 thereof) in the relevant applicable FCM Omnibus SwapClear Client Account with LCH; and (b) the FCM Listed Interest Rates Contract of Non-Porting Clients in the relevant FCM Omnibus Listed Interest Rates Client Account with LCH, in each case until the liquidation of the entire relevant Hedged Account and all FCM Rates Contracts and other positions therein, as described below. At the time that the FCM Rates Contracts of a Non-Porting Client are first referenced in a Hedged Account, any outstanding and accrued but unpaid Variation Settlement, daily settlement amounts or PAA in respect of such FCM Rates Contracts shall be discharged as of the time such FCM Rates Contracts are referenced in such Hedged Account, by (i) in the event that Variation Settlement, daily settlement amounts or PAA are accrued but unpaid in favor of the Clearing House, debiting (x) the FCM Client Sub-Account of such FCM Client (in respect of FCM SwapClear Contracts) or (y) the FCM Omnibus Listed Interest Rates Client Account with LCH (in respect of FCM Listed Interest Rates Contracts), or (ii) in the event that Variation Settlement, daily settlement amounts or PAA are accrued but unpaid in favor of the FCM Client, crediting (x) the FCM Client Sub-Account of such FCM Client (in respect of FCM SwapClear Contracts) or (y) the FCM Omnibus Listed Interest Rates Client Account with LCH (in respect of FCM Listed Interest Rates Contracts).~~

~~Administration of a Hedged Account. The Clearing House may enter into hedge transactions and liquidate and/or auction the FCM Rates Contracts and hedges for the account of the Hedged Account, and may take related actions with respect to a Hedged Account (and the positions referenced therein), in its sole discretion until the process described in this paragraph (f) has been completed. For the avoidance of doubt, the Clearing House may only take such actions pursuant to this paragraph as permitted by the FCM Rulebook, the CEA and the CFTC Regulations, or as directed by an applicable Regulatory Body.~~

~~(A) Allocation of Gains and Losses in a Hedged Account to Non-Porting Clients. The Clearing House will allocate losses and gains (including further Variation Settlement, daily settlement amounts or PAA, hedging costs including the gains and losses associated with hedging transactions, and liquidation/auction costs and losses) to Non-Porting Clients in a Hedged Account in accordance with the following provisions:~~

~~(A) At the time an FCM Client becomes a Non-Porting Client, such Non-Porting Client is assigned a separate risk factor in respect of its FCM SwapClear Contracts (if any) and its set of FCM Listed Interest Rates Contracts (if any)~~

~~(each, an “**Account Class Risk Factor**”). The value of each Account Class Risk Factor is calculated as the proportion of such Non-Porting Client’s hypothetical (where applicable) Required Margin in respect of each set of contracts in a given currency bears to the aggregate hypothetical Required Margin of all contracts that are referenced in the Hedged Account in that currency at the time such FCM Client became a Non-Porting Client (*i.e.*, at the time such contracts are first referenced in such Hedged Account).~~

~~(B) — On the first day that FCM Clients become Non-Porting Clients, gains and losses in a Hedged Account on such day shall be allocated on a *pro rata* basis among such Non-Porting Clients based on their individual Account Class Risk Factors. The allocation of gains and losses on subsequent days shall be made in the same manner until the occurrence of a day (if applicable) in which additional Non-Porting Clients are referenced in such Hedged Account. Additional Non-Porting Clients whose positions are referenced in such Hedged Account on a subsequent day, until the positions of further additional Non-Porting Clients are referenced in such Hedged Account on a further subsequent day, are referred to as “**New Non-Porting Clients**”.~~

~~(C) — On a day when one or more New Non-Porting Clients are referenced in a Hedged Account, the Clearing House shall calculate a combined risk factor (the “**Existing Non-Porting Clients Combined Account Class Risk Factor**”) in respect of the FCM SwapClear Contracts and FCM Listed Interest Rates Contracts, respectively, of the Non-Porting Clients that were previously referenced in such Hedged Account and are not New Non-Porting Clients (such existing Non-Porting Clients, “**Existing Non-Porting Clients**”). The Existing Non-Porting Clients Combined Account Class Risk Factors shall be based on the amount of Required Margin associated with the relevant Hedged Account with respect to (x) all FCM SwapClear Contract positions (including all FCM SwapClear Contracts, hedges or other positions) and (y) all FCM Listed Interest Rates Contract positions (including all FCM Listed Interest Rates Contracts, hedges or other positions), respectively, referenced in the Hedged Account at the beginning of the day on which New Non-Porting Clients are referenced in that Hedged Account (*i.e.*, at a time prior to when New Non-Porting Clients’ FCM SwapClear Contracts and FCM Listed Interest Rates Contracts are first referenced in that Hedged Account). For the avoidance of doubt, the~~

~~Existing Non-Porting Clients Combined Account Class Risk Factor is calculated without respect to the Required Margin applicable to the FCM SwapClear Contracts and FCM Listed Interest Rates Contracts of the New Non-Porting Clients.~~

~~(D) On any day on which the position of New Non-Porting Clients are referenced in a Hedged Account, gains and losses in that Hedged Account that are incurred on that day will be allocated among the Existing Non-Porting Clients (as a group) and the New Non-Porting Clients (individually) on a *pro rata* basis based on the Existing Non-Porting Clients Combined Account Class Risk Factors (with respect to the Existing Non-Porting Clients as a group) and the individual Account Class Risk Factors of each New Non-Porting Client (with respect to each such New Non-Porting Client individually). The gains and losses allocated in such manner to the Existing Non-Porting Clients as a group shall be further allocated to each individual Existing Non-Porting Client on a *pro rata* basis based on the Account Class Risk Factor of each such Existing Non-Porting Client. The allocation of gains and losses on subsequent days shall occur in the same manner as set forth in this paragraph (D) until the occurrence of a day (if applicable) in which the positions of additional Non-Porting Clients are referenced included in such Hedged Account and thus become the New Non-Porting Clients. In such a case, (A) the Existing Non-Porting Clients shall continue to be treated as Existing Non-Porting Clients, (B) the Non-Porting Clients previously constituting the New Non-Porting Clients shall then constitute Existing Non-Porting Clients (in accordance with the definition of New Non-Porting Clients in paragraph (B) above), (C) the additional Non-Porting Clients referenced in such Hedged Account constitute the New Non-Porting Clients (in accordance with the definition of New Non-Porting Clients in paragraph (B) above), and (D) the Clearing House shall recalculate the Existing Non-Porting Clients Combined Account Class Risk Factor and the allocation of gains and losses shall be in accordance with paragraph (C) above and this paragraph (D).~~

~~(E) Upon the liquidation of the contracts referenced in a Hedged Account and all FCM Rates Contracts and other positions therein, by auction or otherwise, any gains or losses associated with such auction/liquidation shall be allocated among all Non-Porting Clients on a *pro rata* basis based on the “unit value” of each FCM Rates Contract of each Non-Porting Client referenced in such~~

~~Hedged Account, as adjusted by a “**auction value adjustment**”. For purposes of this clause (E), (1) “**unit value**” means, in respect of FCM SwapClear Contracts, the value applied to each FCM SwapClear Contract, based on the net present value and outstanding notional value associated with each such FCM SwapClear Contract and, in respect of FCM Listed Interest Rates Contracts, the net present value and outstanding notional value associated with such FCM Listed Interest Rates Contracts (being the Contract Price times the number of Contracts), and (2) “**auction value adjustment**” means a ratio applied to an FCM Rates Contract based on the aggregate auction/liquidation costs incurred in auctioning/liquidating the contracts referenced in such Hedged Account and the aggregate notional value of all FCM Rates Contracts referenced in such Hedged Account, each of clauses (1) and (2) as determined by the Clearing House. The allocations described in this clause (E) are without reference to any Account Class Risk Factor or Existing Non-Porting Clients Accounts Class Combined Risk Factor.~~

~~(B) Settlement of Non-Porting Clients Following Liquidation of a Hedged Account. Following the liquidation of the contracts referenced in a Hedged Account, the Clearing House shall allocate the appropriate gains and losses (as determined in accordance with the above provisions) to each Non-Porting Client's relevant FCM Client Sub Account (in respect of FCM SwapClear Contracts) or to the FCM Omnibus Listed Interest Rates Client Account with LCH (in respect of FCM Listed Interest Rates Contracts).~~

~~The Clearing House shall allocate gains and losses to FCM SwapClear Contracts registered in the FCM SwapClear Suspension Sub Account in the same manner as it allocates to an individual FCM Client and as described above.~~

(g) *FCM Rates Service Default Management Disclosure Notice*

Each FCM Rates Service Clearing Member must ensure that each FCM Client to which it offers FCM SwapClear Clearing Services is provided with, or is directed to a copy of, the FCM Rates Service Default Management Disclosure Notice, and further must provide confirmation, in the form and manner reasonably required by the Clearing House, that it has discharged this obligation in respect of each such FCM Client.

(h) *Contact Information*

Each FCM Rates Clearing Member is required to provide the Clearing House with contact details for those persons that the Clearing House should contact in the event of a Clearing Member Default. FCM Rates

Approved Outsourcing Agent's participation in the ForexClear DMP on behalf of an FX FCM, in the event of a default, shall not extend beyond the provision of operational and other ancillary support to that FX FCM.

(e) *ForexClear DMG*

The necessary involvement of FX FCMs and the ForexClear DMG (which, as defined in the Default Rules, refers to the advisory Default Management Group established by the Clearing House pursuant to the terms of the ForexClear DMP Annex to the Default Rules) in the ForexClear DMP entails the assessment and dissemination of information that could give rise to conflicts of interest. To ensure that such potential conflicts are demonstrably contained, Schedule 2.2A establishes binding obligations of confidentiality, anonymity and the extent of dissemination of information on FX FCMs (and their executives or directors who participate from time to time in the ForexClear DMG) and on the Clearing House.

Each FX FCM who makes available a representative to serve on the ForexClear DMG agrees, and shall procure that, to the extent applicable, its representatives agree to be bound by and to ensure that it and any of its executives or directors serving on the ForexClear DMG complies with Schedule 2.2A covering confidentiality, non-disclosure and other terms.

~~(f) *Procedures for Liquidation of FCM ForexClear Contracts of FCM Clients*~~

~~Upon the default of an FCM Clearing Member, the Clearing House has the power and authority, pursuant to the FCM Rulebook, the CEA and the CFTC Regulations, to liquidate the FCM ForexClear Contracts of FCM Clients which, pursuant to the FCM Rulebook, would be conducted in accordance with the ForexClear DMP Annex. This section sets forth certain supplementary procedures (in addition to the Default Rules and other applicable provisions of the FCM Rulebook) that will apply under such circumstances.~~

~~In certain circumstances the Clearing House may deem, in its sole discretion, that one or more of the FCM ForexClear Contracts attributable to an FCM Client's FCM Client Sub Account should be liquidated. Such determination may result from factors including: (i) the Clearing House determining that the FCM Client poses too great a risk to the Clearing House and should therefore be liquidated, (ii) the Clearing House becoming aware of the FCM Client becoming insolvent or otherwise failing in its obligations to the defaulting FCM Clearing Member, (iii) the relevant FCM Client requesting that it be liquidated, or (iv) a request or instruction from a Regulatory Body, whether orally or in writing. In the event of such liquidation the Clearing House shall transfer (either physically or by book entry) such FCM Client's FCM ForexClear Contracts to be liquidated into an account at the Clearing House established for purposes of liquidating the FCM ForexClear~~

~~Contracts of FCM Clients of the defaulter (such account, a “**Hedged Account**”). The Clearing House shall establish a separate Hedged Account for each currency of FCM ForexClear Contracts that are non-transferable and will be subject to liquidation and will include in such Hedged Account the FCM ForexClear Contracts in the applicable currency that are to be liquidated, regardless of the FCM Clients for which such FCM ForexClear Contracts are held. The provisions of this section shall apply equally to any such Hedged Account. Additionally, no FCM Contracts other than FCM ForexClear Contracts will be transferred into a Hedged Account established for liquidating FCM ForexClear Contracts.~~

~~(f) An FCM Client whose FCM ForexClear Contracts are transferred into a Hedged Account is referred as a “**Non-Porting Client**”. — Default Management Accounts~~

~~(A) For the purposes of this paragraph (f), the following definitions will apply:~~

~~“**Affected Non-Porting FCM Client Sub-Account**” means, ~~(i)~~ in respect of an Initial DMA or a Final DMA (as applicable) and the FCM ForexClear Contracts that (at any time) comprise such Initial DMA or a Final DMA (as applicable), each Non-Porting FCM Client Sub-Account from which any such FCM ForexClear Contract originated.~~

~~“**Auction**” has the meaning assigned to it in the ForexClear DMP Annex.~~

~~“**Auction Date**” means, in respect of an Auction Portfolio, the business day on which such Auction Portfolio is sold.~~

~~“**Auction Result**” means, in respect of an Auction Portfolio, the amount equal to:~~

- ~~(i) the gains or losses of the Clearing House arising from the sale of such Auction Portfolio, where a gain is a positive amount and a loss is a negative amount;~~
- ~~(ii) plus the Auction Portfolio NPV Gain for such Auction Portfolio (if any);~~
- ~~(iii) minus the Auction Portfolio NPV Loss for such Auction Portfolio (if any).~~

~~“**Auction Portfolio**” means a ForexClear Auction Portfolio.~~

~~“**Auction Portfolio Calculation Period**” means, in respect of an Auction Portfolio and its Auction Date, the period commencing immediately after the end of day margin and settlement call of the Clearing House for the business day preceding such Auction~~

Date and ending at the point at which such Auction Portfolio is sold.

“**Auction Portfolio NPV Change**” means, in respect of an Auction Portfolio and its Auction Portfolio Calculation Period, the amount (if any) by which the aggregate net present value of the FCM ForexClear Contracts within such Auction Portfolio has changed during such Auction Portfolio Calculation Period, and

(i) where such change is in favour of the Defaulter, is the “**Auction Portfolio NPV Gain**”; and

(ii) where such change is in favour of the Clearing House, is the “**Auction Portfolio NPV Loss**”.

“**Daily Amount**” means, in respect of a DMA and a Daily Calculation Period, the Daily Gain or Daily Loss for such DMA and Daily Calculation Period.

“**Daily Calculation Period**” means, in respect of a business day, the period commencing immediately after the end of day margin and settlement call of the Clearing House for the previous business day and ending at the end of day margin and settlement call of the Clearing House for such business day.

“**Daily Gain**” means, in respect of a DMA and a Daily Calculation Period, the amount (if any) by which the Daily NPV Gain exceeds the Daily Hedge Costs (in each case) for such DMA and Daily Calculation Period.

“**Daily Hedge Costs**” means, in respect of a DMA and a Daily Calculation Period, all costs incurred by the Clearing House in connection with hedging the exposure of one or more FCM ForexClear Contracts within such DMA in accordance with the Risk Neutralisation process under Rule 2.2 of the ForexClear DMP Annex.

“**Daily Loss**” means, in respect of a DMA and a Daily Calculation Period, either: (i) where the DMA experiences a Daily NPV Loss in respect of such Daily Calculation Period, the aggregate of such Daily NPV Loss and the Daily Hedge Costs for such DMA and Daily Calculation Period; or (ii) where the DMA experiences a Daily NPV Gain in respect of such Daily Calculation Period, the amount by which the Daily Hedge Costs for such DMA and Daily Calculation Period exceed such Daily NPV Gain.

“**Daily NPV Change**” means, in respect of a DMA and a Daily Calculation Period, the amount (if any) by which the aggregate

net present value of the Remaining Contracts within such DMA has changed during such Daily Calculation Period, and:

- (i) where such change is in favour of the Defaulter, is the “Daily NPV Gain”; and
- (ii) where such change is in favour of the Clearing House, is the “Daily NPV Loss”.

“DMA” means an Initial DMA or a Merged DMA, as applicable.

“DMA Creation Date” means, in respect of an Initial DMA, the business day on which such Initial DMA is established by the Clearing House.

“DMA Merger Date” means, in respect of a Merged DMA, the business day on which two or more DMAs are combined to form such Merged DMA.

“Final DMA” means, in respect of an Auction Portfolio that is auctioned and sold, the most recently established DMA from which such Auction Portfolio was formed.

“ForexClear Auction Portfolio” means an “Auction Portfolio” as defined in the ForexClear DMP Annex.

“Initial DMA” means a default management account established by the Clearing House, acting in its sole discretion, to which one or more Sets of Non-Porting Contracts are transferred (by book-entry) on the DMA Creation Date for such default management account.

“Latest DMA” means, in respect of a Daily Calculation Period, a DMA that exists at the end of such Daily Calculation Period, but which has not itself been combined with another DMA to form a separate Merged DMA.

“Merged DMA” means a default management account established by the Clearing House, acting in its sole discretion, which results from the combination of two or more DMAs.

“Non-Porting FCM Client Sub-Account” means, in respect of a Defaulter, the FCM Client Sub-Account of such Defaulter, to which the FCM ForexClear Contracts that the Clearing House has determined will not be ported in accordance with the FCM Rulebook are, or were, registered at the point of the Default of the Defaulter.

“Pre-Default TMR” means, in respect of an Affected Non-Porting FCM Client Sub-Account of a Defaulter, the TMR for such Affected Non-Porting FCM Client Sub-Account as at the

end of day margin and settlement call for the business day before the day of Default of such Defaulter.

“Pre-Default TMR Ratio” means

- (i) in respect of an Initial DMA and an Affected Non-Porting FCM Client Sub-Account referable to it, the ratio that the Pre-Default TMR of such Affected Non-Porting FCM Client Sub-Account bears to the aggregate Pre-Default TMR of all Affected Non-Porting FCM Client Sub-Accounts referable to such Initial DMA; or
- (ii) in respect of a Final DMA and an Affected Non-Porting FCM Client Sub-Account referable to it, the ratio that the Pre-Default TMR of such Affected Non-Porting FCM Client Sub-Account bears to the aggregate Pre-Default TMR of all Affected Non-Porting FCM Client Sub-Accounts referable to such Final DMA.

“Pre-Merger TMR” means, in respect of a DMA that was combined with one or more other DMA(s) to form a Merged DMA, the TMR for such DMA as at the end of day margin and settlement call for the business day before the DMA Merger Date of such Merged DMA.

“Pre-Merger TMR Ratio” means, in respect of a DMA that was combined with one or more other DMA(s) to form a Merged DMA, the ratio that such DMA’s Pre-Merger TMR bears to the aggregate Pre-Merger TMR of all DMAs that were combined to form such Merged DMA.

“Prior Merged DMA” means, in respect of a Merged DMA, an existing Merged DMA that has been combined with one or more other DMA(s) to form such Merged DMA.

“Remaining Contracts” means, in respect of a DMA and a Daily Calculation Period, all of the FCM ForexClear Contracts within such DMA during such Daily Calculation Period, excluding those FCM ForexClear Contracts that the Clearing House has auctioned and sold at any point within such Daily Calculation Period.

“Set of Non-Porting Contracts” means, in respect of a Non-Porting FCM Client Sub-Account, the FCM ForexClear Contracts that are transferred by the Clearing House from such Non-Porting FCM Client Sub-Account to an Initial DMA.

“TMR” means (i) in respect of an Affected Non-Porting FCM Client Sub-Account, the total margin requirement as determined by the Clearing House for such Affected Non-Porting FCM Client Sub-Account, or (ii) in respect of a DMA, the total margin

requirement as determined by the Clearing House for such DMA, in each case, excluding variation margin.

(B) Initial DMAs

(A) After a Default, the Clearing House may, in its sole discretion:

(1) determine that the FCM ForexClear Contracts registered to a Non-Porting FCM Client Sub-Account will not port in accordance with the FCM Rulebook; and

(2) transfer the resulting Set of Non-Porting Contracts in respect of such Non-Porting FCM Client Sub-Account to an Initial DMA on the business day on which the Clearing House makes such determination.

(B) The Clearing House may in its sole discretion create more than one Initial DMA for the purposes of subparagraph (A)(2) above on the same business day.

(C) No Contracts other than FCM ForexClear Contracts will be transferred into an Initial DMA.

(D) Any outstanding and owing, but unsettled, variation margin or settlement amounts in respect of FCM ForexClear Contracts as at the end of the Daily Calculation Period for the business day prior to the transfer of such FCM ForexClear Contracts in accordance with subparagraph (A) above shall be discharged by the Clearing House debiting or crediting (as applicable) the Non-Porting FCM Client Sub-Account from which such FCM ForexClear Contracts were transferred.

(C) Merged DMAs

(A) On any business day following the creation of two or more Initial DMAs pursuant to paragraph (B) above, the Clearing House may create a Merged DMA by combining:

(1) multiple Initial DMAs;

(2) one or more Initial DMAs and one or more Prior Merged DMAs; or

(3) multiple Prior Merged DMAs.

(B) The Clearing House may in its sole discretion create more than one Merged DMA on the same business day.

(D) Auctions

(A) The Clearing House shall conduct Auctions in respect of Auction Portfolios referable to DMAs in accordance with the provisions of the ForexClear DMP Annex.

(B) More than one Auction Portfolio may be referable to a single DMA, in which case:

(1) the Clearing House will conduct one or more Auctions of each Auction Portfolio referable to such DMA; and

(2) on and from the date of the first Auction in respect of the DMA, the Clearing House may no longer combine such DMA into a Merged DMA.

(C) Following the sale of an Auction Portfolio, the ForexClear Contacts within such Auction Portfolio shall no longer form part of the DMA from which the Auction Portfolio was created.

(E) Attribution of Daily Amounts

(A) The Clearing House shall, following each Daily Calculation Period, determine the Daily Amount for each Latest DMA in respect of such Daily Calculation Period.

(B) The Clearing House shall attribute the Daily Amount of a Latest DMA that is:

(1) an Initial DMA, to each Affected Non-Porting FCM Client Sub-Account referable to such Initial DMA, pro rata according to the Pre-Default TMR Ratio of each such Affected Non-Porting FCM Client Sub-Account; and

(2) Merged DMA, to each DMA that was combined to form such Merged DMA, pro rata according to the Pre-Merger TMR Ratio of each such DMA (where the amount attributed to each such DMA is an “**Interim Amount**”).

(C) If the Clearing House attributes an Interim Amount to a DMA under subparagraph (B)(2) above, then it will further attribute such Interim Amount as follows:

(1) Where the DMA to which the Interim Amount was attributed is an Initial DMA, the Clearing

House will further attribute such amount to each Affected Non-Porting FCM Client Sub-Account referable to such Initial DMA, pro rata according to the Pre-Default TMR Ratio of each such Affected Non-Porting FCM Client Sub-Account; and

(2) Where the DMA to which the Interim Amount was attributed is a Merged DMA, the Clearing House will further attribute such amount to each DMA that was combined to form such Merged DMA, pro rata according to the Pre-Merger TMR Ratio of each such DMA.

(D) If the Clearing House attributes an amount to a DMA under subparagraph (C)(2) above, then it will further attribute such amount according to the method specified in subparagraph (C) (treating such amount as an Interim Amount for the purposes of subparagraph (C)) until all amounts are attributed to Non-Porting FCM Client Sub-Accounts.

(F) Attribution of Auction Results

The Clearing House shall attribute the Auction Result, in respect of the sale of an Auction Portfolio, to each Affected Non-Porting FCM Client Sub-Account referable to the Final DMA from which such Auction Portfolio was formed, pro rata according to the Pre-Default TMR Ratio of each such Affected Non-Porting FCM Client Sub-Account.

(G) CFTC Regulations

~~The Clearing House shall hold the relevant Collateral in respect of Non-Porting FCM Client Sub-Accounts (segregated as belonging to each such applicable Non-Porting FCM Client Sub-Account in accordance with the CFTC Regulations and Part-22 thereof) in its applicable FCM Omnibus ForexClear Client Account with LCH of the Defaulter until the liquidation of the entire Hedged Account and all FCM ForexClear Contracts and other positions therein, as described below. At the time that the FCM ForexClear Contracts of a Non-Porting Client are transferred into a Hedged Account, any outstanding and accrued but unpaid Variation Settlement and PAA in respect of such FCM ForexClear Contracts shall be discharged as of the time such FCM ForexClear Contracts are transferred into the Hedged Account, by (i) in the event that Variation Settlement or PAA is accrued but unpaid in favor of the Clearing House, debiting the relevant FCM Client Sub-Account of such FCM Client, or (ii) in the event that Variation Settlement or PAA is accrued but unpaid in favor of the FCM Client, crediting the relevant FCM Client Sub-Account of such FCM Client.~~

~~Administration of a Hedged Account. The Clearing House may enter into hedge transactions and liquidate and/or auction the FCM ForexClear Contracts and hedges for the account of the Hedged Account, and may take related actions with respect to a Hedged Account (and the positions held therein), in its sole discretion until the process described in this paragraph (f) has been completed. For the avoidance of doubt, the Clearing House may only take such actions pursuant to this paragraph as permitted by the FCM Rulebook, the CEA and the CFTC Regulations, or as directed by an applicable Regulatory Body.~~

~~(A) Allocation of Gains and Losses in a Hedged Account to Non-Porting Clients. The Clearing House will allocate losses and gains (including further Variation Settlement and PAA changes, hedging costs including the gains and losses associated with hedging transactions, and liquidation/auction costs and losses) to Non-Porting Clients in a Hedged Account in accordance with the following provisions:~~

~~(A) At the time an FCM Client becomes a Non-Porting Client, such Non-Porting Client is assigned a risk factor (a “**Risk Factor**”) which is equal to such Non-Porting Client’s Required Margin with respect to its FCM ForexClear Contracts that are transferred into the Hedged Account at the time such FCM Client became a Non-Porting Client (i.e., at the time of transfer into the Hedged Account).~~

~~(B) On the first day that FCM Clients become Non-Porting Clients, gains and losses in the Hedged Account on such day shall be allocated on a *pro rata* basis among such Non-Porting Clients based on their individual Risk Factors. The allocation of gains and losses on subsequent days shall be made in the same manner until the occurrence of a day (if applicable) in which additional Non-Porting Clients are included in the Hedged Account. Additional Non-Porting Clients that are included in the Hedged Account on a subsequent day, until further additional Non-Porting Clients are included in the Hedged Account on a further subsequent day, are referred to as “**New Non-Porting Clients**”.~~

~~(C) On a day when one or more New Non-Porting Clients are included in the Hedged Account, the Clearing House shall calculate a combined risk factor (the “**Existing Non-Porting Clients Combined Risk Factor**”) in respect of the Non-Porting Clients that were previously included in the Hedged Account and are not New Non-Porting Clients (such existing Non-Porting Clients, “**Existing Non-Porting Clients**”). The Existing Non-Porting Clients Combined Risk Factor shall be based on the amount of Required Margin associated with the~~

~~Hedged Account with respect to all positions (including all FCM ForexClear Contracts, hedges or other positions) held in the Hedged Account, at the beginning of the day on which New Non-Porting Clients are included in the Hedged Account (i.e., at a time prior to the transfer of the FCM ForexClear Contracts of New Non-Porting Clients into the Hedged Account). For the avoidance of doubt, the Existing Non-Porting Clients Combined Risk Factor is calculated without respect to the Required Margin applicable to the transferred FCM ForexClear Contracts of the New Non-Porting Clients.~~

~~(D) On any day on which New Non-Porting Clients are included in the Hedged Account, gains and losses in the Hedged Account that are incurred on that day will be allocated among the Existing Non-Porting Clients (as a group) and the New Non-Porting Clients (individually) on a *pro rata* basis based on the Existing Non-Porting Clients Combined Risk Factor (with respect to the Existing Non-Porting Clients as a group) and the individual Risk Factors of each New Non-Porting Client (with respect to each such New Non-Porting Client individually). The gains and losses allocated in such manner to the Existing Non-Porting Clients as a group shall be further allocated to each individual Existing Non-Porting Client on a *pro rata* basis based on the Risk Factor of each such Existing Non-Porting Client. The allocation of gains and losses on subsequent days shall occur in the same manner as set forth in this paragraph (D) until the occurrence of a day (if applicable) in which additional Non-Porting Clients are included in the Hedged Account and thus become the New Non-Porting Clients. In such a case, (A) the Existing Non-Porting Clients shall continue to be treated as Existing Non-Porting Clients, (B) the Non-Porting Clients previously constituting the New Non-Porting Clients shall then constitute Existing Non-Porting Clients (in accordance with the definition of New Non-Porting Clients in paragraph (B) above), (C) the additional Non-Porting Clients included in the Hedged Account constitute the New Non-Porting Clients (in accordance with the definition of New Non-Porting Clients in paragraph (B) above), and (D) the Clearing House shall recalculate the Existing Non-Porting Clients Combined Risk Factor and the allocation of gains and losses shall be in accordance with paragraph (C) above and this paragraph (D).~~

~~(E) Upon the liquidation of the Hedged Account and all FCM ForexClear Contracts and other positions therein, by auction or otherwise, any gains or losses associated with~~

~~such auction/liquidation shall be allocated among all Non-Porting Clients on a *pro rata* basis based on the “unit value” of each FCM ForexClear Contract of each Non-Porting Client referenced in such Hedged Account, as adjusted by a “auction value adjustment”. For purposes of this clause (E), (1) “unit value” means the value applied to each FCM ForexClear Contract, based on the net present value and outstanding notional value associated with each such FCM ForexClear Contract, and (2) “auction value adjustment” means a ratio applied to an FCM ForexClear Contract based on the aggregate auction/liquidation costs incurred in auctioning/liquidating the Hedged Account and the aggregate notional value of all FCM ForexClear Contracts in the Hedged Account, each of clauses (1) and (2) as determined by the Clearing House. The allocations described in this clause (E) are without reference to any Risk Factor or Existing Non-Porting Clients Combined Risk Factor.~~

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

2.2.27 *Payment of Stamp Tax*

Each FCM Clearing Member shall pay any stamp tax or duty levied or imposed upon it or in respect of its execution or performance of the FCM Clearing Membership Agreement, the FCM Default Fund Agreement, the FCM Regulations and the FCM Procedures (including any registration of an FCM ForexClear Contract) by a jurisdiction in which it is incorporated, organized, managed and controlled, or considered to have its seat, or in which a branch or office through which it is acting is located or by any other jurisdiction and shall indemnify the Clearing House against any stamp tax or duty levied or imposed upon the Clearing House or in respect of the Clearing House's execution or performance of the FCM Clearing Membership Agreement, the FCM Regulations and the FCM Procedures (including any registration of an FCM ForexClear Contract) by any such jurisdiction.

2.2.28 *Section 696, Corporation Tax Act 2009*

The FCM Clearing Member agrees that should a situation arise where HM Revenue and Customs (“HMRC”) raises an enquiry, or makes an information request, to the Clearing House regarding an FCM Transaction or FCM Contract that the FCM Clearing Member is submitting (or has submitted) to the Clearing House, and that enquiry or information request is in respect of the application of s696 - s697 Corporation Tax Act 2009, the FCM Clearing Member will use its reasonable efforts to provide such information and support as the Clearing