

VIA CFTC Portal

18 April 2018

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

LCH Limited Self Certification: Rule changes related to FCM customer's default

Dear Mr Kirkpatrick

Pursuant to CFTC regulation §40.6(a), LCH Limited ("LCH"), a derivatives clearing organization registered with the Commodity Futures Trading Commission (the "CFTC"), is submitting for self-certification changes to its rules regarding the actions that LCH and the Futures Commission Merchants of its SwapClear service (thereafter "FCM Clearing Members" or "FCMs") may take following the default of one or more customers of the FCM Clearing Members (thereafter "FCM customers").

Part I: Explanation and Analysis

LCH proposes changes to its rules to allow a FCM Clearing Member to take certain actions to reduce the risk arising from the default of one or more FCM customers, including expressly providing an FCM Clearing Member the right to effect certain position transfers to and from a defaulting FCM customer's account and register offsetting trades directly into the account of the defaulting FCM customer, in each case for the purpose of liquidating any open positions.

Specifically, in the event of a customer default, the rule changes will permit FCM Clearing Members to:

- i. Request LCH to transfer positions from the defaulting FCM customer account to i) the FCM's proprietary account or ii) the proprietary account of a third-party clearing member
- ii. Request LCH to transfer positions from the FCM's proprietary account or the proprietary account of a third-party clearing member to the defaulting FCM customer account
- iii. Register positions directly into the account of the defaulting FCM customer.

The rules note that LCH will not require consent from the defaulting FCM customer ahead of affecting any of the above transfers or registrations. However, with respect to any transfer request, LCH requires certain representations from the FCM, including that all transfer requests are in compliance with applicable law, including all applicable provisions of the Commodity Exchange Act ("CEA") and CFTC Regulations.

The rule changes will go live on, or after, May 7, 2018.

Part II: Description of Rule Changes

The FCM Regulations include a new definition of “FCM Client Default”. In addition, paragraph b) of Regulation 4 and paragraph k) of Regulation 46 have been amended to clarify that when a FCM customer defaults, the FCM Clearing Member may act in a capacity other than as agent of the defaulting customer, which may include acting as principal. Paragraph d) of Regulation 13 has been amended to clarify the permitted transfers that, in the event of a FCM customer default, a FCM Clearing Member may request under the LCH Rulebook in respect to Swaps Products, Futures Products and Foreign Futures Product.

The FCM Procedures include a new section 2.1.13 (“Actions in Respect of an FCM Client Default”) describing the portfolio transfers and registration of contracts that an FCM may request in the event of a FCM customer default in respect to SwapClear contracts. Paragraphs a) and b) of this section outline the conditions to be met by the FCM prior to making a portfolio transfer request and the timeframe within which LCH may affect such a request. Paragraph c) outlines the conditions to be met before an FCM may submit SwapClear contracts to LCH for registration in the defaulting FCM customer account. The overall conditions to which the FCM is subject include providing to LCH any required margin associated with a portfolio transfer, satisfactory evidence of the occurrence of the FCM customer default and certain documentation for legal, regulatory or risk management reasons.

Regulation 60 of the General Regulations have been amended in paragraph a) to note that a non-FCM SwapClear Clearing Member may request the portfolio transfers in accordance with Section 2.1.13 of the FCM Procedures, described above.

Procedures Section 2C (“SwapClear”) includes new references in section 1.13.2, for completeness; and a new section 1.34 (“Actions in Respect of an FCM Client Default”) permitting portfolio transfers from the account of a FCM customer or a FCM Clearing Member to the account of a non-FCM SwapClear Clearing Member, in the event of a FCM customer default.

The texts of the changes are attached hereto as:

- i. **Appendix I**, FCM Regulations
- ii. **Appendix II**, FCM Procedures
- iii. **Appendix III**, General Regulations
- iv. **Appendix IV**, Procedures Section 2C (SwapClear)

Part III: Core Principle Compliance

LCH has reviewed the changes against the requirements of the Core Principles, including Core Principle F, and finds that they will continue to comply with all the requirements and standards therein.

Part IV: Public Information

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

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

Part V: Opposing Views

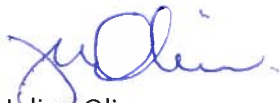
There were no opposing views expressed to LCH by governing board or committee members, members of LCH or market participants that were not incorporated into the rule.

Certification

LCH hereby certifies to the Commodity Futures Trading Commission, pursuant to the procedures set forth in the Commission regulation § 40.6, that attached rule submission complies with the Commodity Exchange Act, as amended, and the regulations promulgated there under.

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

Yours sincerely



Julian Oliver
Chief Compliance Officer
LCH Limited

Appendix I
FCM Regulations



FCM REGULATIONS OF THE CLEARING HOUSE

LCH LIMITED

Membership Agreement”	services to an FCM Clearing Member in respect of FCM Contracts together with any ancillary agreements.
“FCM Clearing Services”	means the FCM SwapClear Clearing Services, the FCM ForexClear Clearing Services and the FCM Listed Interest Rates Clearing Services, collectively.
“FCM Client”	means a client of an FCM Clearing Member with positions in FCM Contracts on behalf of which the FCM Clearing Member provides FCM Clearing Services and clears FCM Contracts; provided, that any such client is only an FCM Client with respect to its positions in FCM Contracts; and provided, further, that any entity whose account would be considered a Cleared Swaps Proprietary Account pursuant to CFTC Regulation 22.1 or a proprietary account pursuant to CFTC Regulation 1.3(y) if such account were carried by an FCM Clearing Member (such as in the case of an affiliate), shall not be an “FCM Client” of any such FCM Clearing Member.
“FCM Client Business”	means the provision of FCM Clearing Services by an FCM Clearing Member to its FCM Clients.
<u>“FCM Client Default”</u>	<u>has the meaning assigned to such term in the FCM Procedures</u>
“FCM Client Funds”	means all FCM Swaps Client Funds and/or FCM Futures Client Funds and/or FCM Foreign Futures Client Funds, as the context may require.
“FCM Client Segregated Depository Account”	means an FCM Swaps Client Segregated Depository Account or an FCM Futures Client Segregated Depository Account or an FCM Foreign Futures Client Secured Amount Depository Account, as the context may require.
“FCM Client Sub-Account”	means an individual segregated sub-account on behalf of an individual FCM Client, established on the books of the Clearing House as a sub-account of the relevant FCM Omnibus Swaps Client Account with LCH of an FCM Clearing Member which shall reflect the relevant Margin balance attributable to such sub-account, and the relevant FCM Contracts registered to such sub-account and carried for such FCM Client by its FCM Clearing Member, based on information provided by the applicable FCM Clearing Member and/or an FCM Approved Trade Source System to the Clearing House. Each FCM Client will have an FCM Client Sub-Account in the relevant FCM Omnibus Swaps Client Account with LCH for each Business Category of FCM Contracts in which such FCM Client clears Swap Products.

CHAPTER II - STATUS

REGULATION 4 FCM CLEARING MEMBER STATUS AND APPLICATION OF LCH REGULATIONS

- (a) Application for FCM Clearing Member status in the Clearing House shall be made in accordance with the FCM Procedures. An FCM Clearing Member's status in the Clearing House and all FCM Clearing Services shall be governed by these FCM Regulations, the Other Specific Regulations and the FCM Procedures. Additionally, an FCM Clearing Member's status in the Clearing House shall be governed by any FCM Clearing Membership Agreement to which it is for the time being party. FCM Clearing Member status does not provide or entitle an FCM Clearing Member to any other clearing member status with the Clearing House, or to any shareholding membership of LCH Limited or any shareholding or other membership of any other member of the LCH Group or any entitlement to membership of or participation in LCH SA, each of which has separate and distinct membership requirements.
- (b) Notwithstanding any other provision of these FCM Regulations, with respect to FCM Transactions involving an FCM Client cleared by an FCM Clearing Member as FCM Contracts, such FCM Clearing Member shall act solely as agent of its FCM Clients in connection with the clearing of such FCM Contracts; **provided, that** each FCM Clearing Member shall remain fully liable for all obligations to the Clearing House arising in connection with such FCM Contracts. For the avoidance of doubt, following the occurrence of an FCM Client Default, the FCM Clearing Member is permitted, but not obligated, to act in a capacity other than as agent of the FCM Client, which may include acting as principal (e.g. with respect to any transfers or registration of FCM SwapClear Contracts or other actions permitted under FCM Regulation 13(d)), even though the FCM Clearing Member may be entitled to a right of indemnity from, or be required to account for any gains to, the FCM Client in respect of such activity.
- (c) **General Qualification of FCM Clearing Members.** An FCM Clearing Member must obtain approval from the Clearing House in order to provide FCM Clearing Services in respect of a Product. A separate approval is required for each Product that an FCM Clearing Member proposes to clear. In order to obtain such approval, and in order to maintain such approval once such approval has been obtained, an FCM Clearing Member must:
- (i) be registered with the CFTC as an FCM;
 - (ii) maintain adjusted net capital, as defined in CFTC Regulation 1.17, of at least \$7,500,000 (seven and a half million United States dollars), or \$50,000,000 (fifty million United States dollars) in the case of FCM Clearing Members that clear either FCM SwapClear Contracts or FCM ForexClear Contracts; **provided, that** (A) the Clearing House shall be permitted (in its sole and reasonable discretion), including as described in the FCM Procedures, to scale an FCM Clearing Member's required level of net capital in accordance with the level of risk introduced to the Clearing House by such FCM Clearing Member and (B) the Clearing House shall be permitted (in its sole and reasonable discretion) to scale an FCM Clearing Member's level of risk introduced to the Clearing House by such FCM Clearing Member in accordance with its level of net capital (and regardless of whether such FCM

- (d) **Other Transfers of FCM Contracts.** If and to the extent permitted under Applicable Law, and, where applicable, under relevant Exchange Rules or the rules of an FCM Approved Trade Source System, an FCM Clearing Member may:
- (i) upon an FCM Client Default or other FCM Client default, or as otherwise permitted under and subject to Applicable Law (including the applicable provisions of the CEA, the FCM Procedures and CFTC Regulations regarding the segregation of assets),
 - (A) in the case of Swaps Products, effect the transfers described in Section 2.1.13(a) or (b) of the FCM Procedures,
 - (B) in the case of Futures Products, transfer Open FCM Contracts between its Proprietary Account and (1) in the case of Swaps Products, to the FCM Client Sub or the Proprietary Account(s) of each of its FCM Clients; (2) in the case of Futures Products, a SwapClear Clearing Member to its applicable FCM Omnibus Futures Client Account with LCH; or (3)
 - ~~(A)(C)~~ in the case of Foreign Futures Products, transfer Open FCM Contracts between its Proprietary Account or the Proprietary Account of a SwapClear Clearing Member to its applicable FCM Omnibus Foreign Futures Client Account with LCH, upon an FCM Client default or otherwise as permitted under and subject to applicable provisions of the CEA, the FCM Procedures and CFTC Regulations regarding segregation of assets; and
 - (ii) transfer Open FCM Contracts registered to or for the account of one FCM Client to another account of an FCM Client.
- (e) **Where an FCM Clearing Member is a Defaulter.** If an FCM Clearing Member is a Defaulter, the Clearing House shall take such actions, subject to and in accordance with the Default Rules, and as may be required by the CEA, CFTC Regulations and applicable bankruptcy laws regarding the liquidation or transfer of FCM Contracts carried by such FCM Clearing Member on behalf of its FCM Clients. If possible under such Applicable Law and the Default Rules, the Clearing House shall undertake to dispose of open FCM Contracts that are Swap Products held by FCM Clients of the Defaulter in accordance with the instructions of such FCM Clients, either by liquidating such FCM Contracts or by transferring such FCM Contracts to the FCM Clearing Member designated by such FCM Clients within seven calendar days of the date that the FCM Clearing Member is declared to be a Defaulter; **provided, that** the Clearing House shall at all times act in accordance with the Default Rules, the requirements of the CEA, CFTC Regulations, any instructions from a Regulatory Body and applicable bankruptcy laws regarding the liquidation or transfer of FCM Contracts; **provided, further, that** the Clearing House shall have no responsibility or liability whatsoever for any action taken or not taken with respect to the accounts and FCM Contracts of FCM Clients of the Defaulter in accordance with such Applicable Law or the directions of any Regulatory Body or bankruptcy trustee. For the avoidance of doubt, the Client Clearing Annex which forms part of the Default Rules does not apply to FCM Contracts. In the event that the Clearing House does not receive instructions from FCM Clients in a timely manner, or the Clearing House for

(k) For the avoidance of doubt, following the occurrence of an FCM Client Default, the FCM Clearing Member is permitted, but not obligated, to act in a capacity other than as agent of the FCM Client, which may include acting as principal (e.g., with respect to any FCM SwapClear Contracts registered in accordance with Section 2.1.13(c) of the Procedures or any other actions permitted under FCM Regulation 13(d)), even though the FCM Clearing Member may be entitled to a right of indemnity from, or be required to account for any gains to, the FCM Client in respect of such FCM SwapClear Contracts. With effect from the registration of an FCM SwapClear Transaction in accordance with FCM ~~Regulation 46(j)~~~~Regulation 46(i)~~ above:

(i) such FCM SwapClear Transaction shall be extinguished and replaced by the corresponding FCM SwapClear Contracts (or if applicable, the corresponding FCM SwapClear Contract and Non-FCM SwapClear Contract), and the parties to such FCM SwapClear Transaction shall be released and discharged from all rights and obligations under such FCM SwapClear Transaction which fall due for performance on or after the Registration Time;

(ii) each FCM SwapClear Contract registered under FCM ~~Regulation 46(j)~~~~Regulation 46(i)~~ above shall be governed by the FCM SwapClear Contract Terms as applicable to that FCM SwapClear Contract;

(iii) subject to sub-paragraph (ii) above, in respect of the Economic Terms, the FCM Clearing Member shall have the same rights against, and owe the same obligations to, the Clearing House under the FCM SwapClear Contract as the party paying Rate X had and owed in respect of its counterparty under the corresponding FCM SwapClear Transaction; and

(iv) subject to sub-paragraph (ii) above, in respect of the Economic Terms, the FCM Clearing Member shall have the same rights against, and owe the same obligations to, the Clearing House under the FCM SwapClear Contract to which it is party as the party paying Rate Y had and owed in respect of its counterparty under the corresponding FCM SwapClear Transaction.

In subparagraphs (iii) and (iv) above, a reference to the “same” rights or obligations is a reference to rights or obligations, falling due for exercise or performance after the Registration Time, and which are the same in nature and character as the rights or obligations arising from the Economic Terms of the corresponding FCM SwapClear Transaction (it being assumed, for this purpose, that such FCM SwapClear Transaction was a legal, valid, binding and enforceable obligation of the parties thereto and that the Economic Terms thereof were as presented to the Clearing House for registration), notwithstanding the change in the person entitled to them or obliged to perform them, and subject to any change thereto as a result of the operation of the Standard Terms.

(l) If an FCM SwapClear Transaction is revoked, avoided or otherwise declared invalid for any reason after particulars of it have been accepted by the Clearing House for registration that revocation, avoidance or invalidity shall not affect any FCM SwapClear Contract arising under this FCM Regulation 46 or any other applicable provision of the FCM Rulebook.

Executing Parties clearing through it are in compliance with CFTC Regulation 1.35(b)(5), where applicable.

(q) **Portfolio Transfers.** Other than in the event that an FCM Clearing Member is a Defaulter, an FCM Clearing Member providing FCM SwapClear Clearing Services may, acting for its own account or for the account of an FCM Client, effect Permitted Transfers in accordance with paragraphs (a) and (b)(ii)-(iv) of UK General Regulation 60 and Section 1.15 (*Portfolio Transfers – BAU*) of UK SwapClear Procedure 2C, **provided that:**

(i) references in paragraphs (a) and (b)(ii)-(iv) of UK General Regulation 60 and Section 1.15 of UK SwapClear Procedure 2C to:

(A) “Associated Collateral Balance” shall be understood to include, where the context so requires, references to the applicable Collateral attributable to the FCM Clearing Member or the FCM Client, as relevant to be transferred;

(B) “Carrying Clearing Member” shall be understood to be references to “Carrying Clearing Member” as defined in the FCM Rulebook;

(C) “Client Account” shall be understood to include, where the context so requires, references to “FCM Client Sub-Account”;

(D) “Eligible Transferee” shall be understood to include, where the context so requires, references to an FCM Clearing Member, acting for its own account or for the account of an FCM Client, that will receive Transferring SwapClear Contracts from an Eligible Transferor;

(E) “Eligible Transferor” shall be understood to include, where the context so requires, references to an FCM Clearing Member, acting for its own account or for the account of an FCM Client, that will transfer Transferring SwapClear Contracts to an Eligible Transferee;

(F) “Proprietary Account” shall be understood to include, where the context so requires, references to “Proprietary Account” as defined in the FCM Rulebook;

(G) “Receiving Clearing Member” shall be understood to be references to “Receiving Clearing Member” as defined in the FCM Rulebook;

(H) “SCM or “SwapClear Clearing Member” shall be understood to include, where the context so requires, references to an FCM Clearing Member providing FCM SwapClear Clearing Services;

(I) “Sufficient Collateral” as used in Section 1.15.5(h) of UK SwapClear Procedure 2C shall be understood to include, where the context so requires, references to “Required Margin”; and

(J) “SwapClear Contracts” shall be understood to include, where the context so requires, references to “FCM SwapClear Contracts”;

- (ii) any Permitted Transfer of FCM SwapClear Contracts shall occur by novation as provided in FCM Regulation 13(c)(i);
- (iii) in respect of any Permitted Transfer where an FCM Clearing Member is the Carrying Clearing Member and that involves the transfer of an Associated Collateral Balance, the provisions of FCM Regulation 13(c)(ii) shall apply to the exclusion of Section 1.15.8(a)-(f) of UK SwapClear Procedure 2C;
- (iv) in respect of any Permitted Transfer from one FCM Client Sub-Account to another FCM Client Sub-Account of the same FCM Clearing Member, the FCM Clearing Member acknowledges and agrees that the Clearing House may debit or credit the FCM Clearing Member's accounts at the Clearing House with any obligations, liabilities or otherwise as appropriate and permissible under Applicable Law;
- (v) [other than pursuant to FCM Regulation 13\(d\)](#), an FCM Clearing Member, acting for its own account or for the account of an FCM Client, may not effect Permitted Transfers in accordance with paragraphs (d) of (e) of Section 1.15.2 of UK SwapClear Procedure 2C;
- (vi) for the avoidance of doubt:
 - (A) any Permitted Transfers effected pursuant to this paragraph (p) remain subject to the provisions of: (I) FCM Regulation 13(g), (h) and (i); and (II) the CEA, the FCM Procedures and the CFTC Regulations regarding segregation of assets; and
 - (B) any Permitted Transfer from the Proprietary Account of a Carrying Clearing Member that is an FCM Clearing Member to the Proprietary Account of a Receiving Clearing Member that is an FCM Clearing Member may only occur where both FCM Clearing Members are Affiliates of each other.
- (vii) Where the Receiving Clearing Member is an FCM Clearing Member and the Permitted Transfer involves one or more SwapClear CTM Contracts, it shall be a condition precedent to the Permitted Transfer that the Carrying Clearing Member has paid to the Clearing House, or the Clearing House has paid to the Carrying Clearing Member (as applicable), any cash settlement amount that the Clearing House determines (in its sole and absolute discretion) must be paid to ensure that the net present value of the SwapClear CTM Contract shall be equal to zero immediately prior to the completion of the Permitted Transfer. Such amounts shall be determined and paid by the relevant party in accordance with the FCM Procedures. The Clearing House may, in its sole and absolute discretion, apply any Collateral (as defined in the UK General Regulations) held by it in respect of a SwapClear CTM Contract to satisfy (in whole or in part) the Carrying Clearing Member's obligation to pay the amount (if any) required under this FCM Regulation 46(q)(vii) in relation to that SwapClear CTM Contract. Any Collateral (as defined in the UK General Regulations) held by the Carrying Clearing Member in respect of such a SwapClear CTM Contract shall be applied to satisfy (in whole or in part) the

Appendix II
FCM Procedures



FCM PROCEDURES OF THE CLEARING HOUSE

LCH LIMITED

compressions acknowledges and agrees that (i) the Clearing House makes no warranty (and will accept no liability) as to the effectiveness, efficiency, performance or any other aspect of the services provided by any FCM Approved Trade Source System or the timeliness or otherwise of the delivery of any compression-related details by that FCM Approved Trade Source System to the Clearing House of the FCM Clearing Member, (ii) the Clearing House will process and use any compression-related information provided to it via an FCM Approved Trade Source System on an “as is” basis (with no obligation to verify any details), (iii) the Clearing House accepts no liability for any error within or corruption of any data sent by an FCM Approved Trade Source System to the Clearing House or to the FCM Clearing Member or any delay in or failure of the transmission of such data to the Clearing House or the FCM Clearing Member. In the event that the Clearing House terminates, registers or otherwise effects an action in connection with a compression relating to any FCM SwapClear Contract on the basis of incorrect or corrupted data sent to it by an FCM Approved Trade Source System, the FCM Clearing Member concerned shall be bound by the results of such actions. Such matters form part of the relationship between the FCM Clearing Member and the relevant FCM Approved Trade Source System. Notwithstanding anything in this Section 2.1.11 of the FCM Procedures, the Clearing House records in relation to any compression and the status of any FCM SwapClear Contract prior to, during or following a compression run shall be the definitive record in connection therewith and shall prevail over any such records maintained by any FCM Approved Trade Source System.

- (e) Following the compression process described above and as further set out in FCM Regulation 46(m) (*Registration of FCM SwapClear Contracts; Novation and Post-Novation Compression; SwapClear Accounts*), the applicable FCM Clearing Member shall promptly notify the Clearing House if it believes that any errors have occurred in the compression process or if its books and records do not reconcile with those of the Clearing House in respect of the compressed FCM SwapClear Contracts as notified to the FCM Clearing Member by the Clearing House.

2.1.12 *Portfolio Transfers (BAU)*

FCM Clearing Members may, acting for their own account or for the account of an FCM Client, effect Permitted Transfers in accordance with the provisions of FCM Regulation 46(p).

2.1.13 *Actions in Respect of an FCM Client Default*

This Section describes certain transfers and registrations that, under certain conditions, can be requested by an FCM Clearing Member upon the occurrence of an event of default or termination event with respect to an FCM Client (an “FCM Client Default”) under its agreement(s) with that FCM Client (such client, a Defaulting FCM Client”).

The Clearing House shall have no liability in connection with any loss or cost suffered or incurred by any FCM Clearing Member or FCM Client in connection with any actions taken by the Clearing House pursuant to this Section 2.1.13.

Notwithstanding anything to the contrary contained in this Section 2.1.13, the actions described in this section are subject to Applicable Law, including the provisions of the CEA and the CFTC Regulations.

(a) *Transfers between Proprietary Accounts and FCM Client Accounts*

Pursuant to FCM Regulation 13(d), the UK General Regulations and the UK General Procedures, an FCM Clearing Member may, following the occurrence of an FCM Client Default, request that the Clearing House transfer one or more FCM SwapClear Contracts (including those submitted for registration pursuant to Section 2.1.13(c)) or SwapClear Contracts (as the case may be): (i) from the Defaulting FCM Client's FCM Client Sub-Account to its Proprietary Account or the Proprietary Account of a SwapClear Clearing Member or an FCM Clearing Member; or (ii) from its Proprietary Account or the Proprietary Account of a SwapClear Clearing Member or FCM Clearing Member to the Defaulting FCM Client's FCM Client Sub-Account, provided that the following conditions precedent are met (in addition to any other generally applicable provisions of the FCM Rulebook): neither the FCM Clearing Member nor any SwapClear Clearing Member or FCM Clearing Member to or from which the SwapClear Contracts are being transferred pursuant to this Section 2.1.13 is a Defaulter (nor would they become a Defaulter upon the completion of the transfer).

For the avoidance of doubt, in the case of an FCM Client Default, the Clearing House will not require that the Defaulting FCM Client provide its consent to the requested transfer in order for the Clearing House effect a transfer requested by the FCM Clearing Member pursuant to Regulation 13(d)(i).

The Clearing House will typically (but shall not be required to) transfer the relevant FCM SwapClear Contract(s) or SwapClear Contract(s) within 24 hours of receipt of (a) the transfer request and (b) such other documents as the Clearing House requested in accordance with the foregoing.

(b) *Proprietary Account Position Transfers*

An FCM Clearing Member may, following a transfer of open contracts to its Proprietary Account in accordance with paragraph (a) above, and to the extent permitted by Applicable Law (including all applicable laws and provisions of the CEA and the CFTC Regulations), request that the Clearing House transfer an FCM SwapClear Contract from its

Proprietary Account to the Proprietary Account of a SwapClear Clearing Member or other FCM Clearing Member pursuant to FCM Regulation 13(d), provided that the following condition precedent is met (in addition to any other generally applicable provisions of the FCM Rulebook): the transferor FCM Clearing Member is permitted (where applicable) by its agreement(s) with the Defaulting FCM Client, and has authority to effect, the transactions specified in the transferor FCM Clearing Member's request(s) to the Clearing House in respect of such transfer.

The Clearing House will typically (but shall not be required to) transfer the relevant FCM SwapClear Contract(s) within 24 hours of receipt of the (a) transfer request and (b) such other documents as the Clearing House requested in accordance with the foregoing.

(c) *Registration of FCM SwapClear Contracts in Defaulting FCM Client's FCM Client Sub-Account*

Following the occurrence of an FCM Client Default in respect of a Defaulting FCM Client, an FCM Clearing Member may submit FCM SwapClear Contracts to the Clearing House for registration in such Defaulting FCM Client's FCM Client Sub-Account, provided that the following condition precedent is met (in addition to any other generally applicable provisions of the FCM Rulebook): the submission of such FCM SwapClear Contracts is effected via such Approved Trade Source System or other method as the Clearing House shall instruct for such purpose, and on such terms and including such details as the Clearing House shall require.

A request from an FCM Clearing Member to the Clearing House to carry out any of the actions described in paragraphs (a) to (c) above, shall in every case be deemed a representation by the FCM Clearing Member to the Clearing House that:

- (a) an FCM Client Default has occurred;
- (b) the FCM Clearing Member has provided and will provide (as applicable) any required notices to the Defaulting FCM Client in respect of (A) such FCM Client Default and (B) any of the actions described in paragraphs (a) to (c) above;
- (c) the FCM Clearing Member is permitted by its agreement(s) with the Defaulting FCM Client and has authority to effect the transfers and/or registrations specified in the FCM Clearing Member's requests to the Clearing House in respect of the Defaulting FCM Client;
- (d) such transfers and/or registrations and all related instructions to the Clearing House are in compliance with Applicable Law; and

- (e) the individual making such request or submission (or issuing any related instructions to the Clearing House) is authorized to do so on behalf of the FCM Clearing Member.

In connection with a request from an FCM Clearing Member to the Clearing House to carry out any of the actions described in paragraphs (a) to (c) above:

- (a) the FCM Clearing Member shall provide to the Clearing House (i) satisfactory evidence of the occurrence of the FCM Client Default and (ii) all other documentation required by the Clearing House, which shall include an indemnity from the FCM Clearing Member in favour of the Clearing House, the form and manner of which shall be determined by the Clearing House in its sole discretion. For purposes of this paragraph, “satisfactory evidence” may be, to the extent permitted by the Clearing House in its sole discretion, the FCM Clearing Member’s instruction to effect the relevant transfer under paragraph (a) or (b) above or accept the submission under paragraph (c) above. For the avoidance of doubt, the Clearing House shall be entitled to request additional evidence and/or documentation for legal, regulatory or risk management reasons; and
- (b) the relevant FCM Clearing Member shall transfer (or make available Required Margin into its Proprietary and/or the applicable FCM Client Sub-Account, taking into account that an FCM Clearing Member may not request the transfer of an Associated Collateral Balance in connection with a transfer of an FCM SwapClear Contract from an FCM Client Sub-Account to a Proprietary Account.

2.1.13 2.1.14 ***Notifications via FCM Approved Trade Source Systems***

With prior approval of the Clearing House, FCM Clearing Members and FCM Clients may elect to submit and receive certain post-trade messages via any FCM Approved Trade Source System previously approved by the Clearing House for the results of compression procedures, Permitted Transfers and economic and non-economic amendments of FCM SwapClear Contracts.

An FCM Clearing Member, either on its own behalf or on behalf of an FCM Client, as applicable, acknowledges and agrees, with respect to an election to receive messages and/or notifications under this Section 2.1.13 from the Clearing House via an FCM Approved Trade Source System, that (i) the Clearing House makes no warranty (and will accept no liability) as to the effectiveness, efficiency, performance or any other aspect of the services provided by any FCM Approved Trade Source System or the timeliness or otherwise of the delivery of any notices, reports or details by that FCM Approved Trade Source System to the Clearing House of the FCM Clearing Member or FCM Client, as applicable, (ii) the Clearing House will process and use any information provided to it under this Section 2.1.13 via an FCM Approved Trade Source System on an “as is” basis (with no obligation to verify any details), (iii) the Clearing House accepts no liability for (A) any error within or corruption of any data sent by an FCM Approved Trade Source System to the Clearing House, the FCM Clearing Member or any FCM Client

Appendix III
General Regulations



**GENERAL REGULATIONS OF
LCH LIMITED**

REGULATION 60 TRANSFER; BULK EVENTS

- (a) Other than in the event that a SwapClear Clearing Member is a Defaulter, any Permitted Transfer of one or more Transferring SwapClear Contracts from the Transfer Account of an Eligible Transferor to the Transfer Account of an Eligible Transferee (including, where relevant, the transfer of an Associated Collateral Balance), may only be done pursuant to this Regulation 60 and in accordance with the Procedures and (where applicable) any relevant Collateral Management Agreement. [Notwithstanding the foregoing, a SwapClear Clearing Member may transfer SwapClear Contracts pursuant to and in accordance with Section 2.1.13 of the FCM Procedures.](#)
- (b) Further to the satisfaction of the conditions set out in the Procedures and (where applicable) any relevant Collateral Management Agreement, and **provided that** the Clearing House does not determine, in its sole discretion, that (x) a Permitted Transfer cannot be effected under these Regulations, the Procedures or otherwise under Applicable Law and/or (y) where applicable, the additional conditions as set out in Regulation 46(p) of the FCM Regulations need to be and have not been complied with, the Clearing House shall transfer the Transferring SwapClear Contract(s) into the Transfer Account of the Receiving Clearing Member as follows:
- (i) in the case of a Permitted Transfer where the Receiving Clearing Member is the same entity as the Eligible Transferor, the Transferring SwapClear Contracts (and, if applicable, the Associated Collateral Balance) shall be transferred to the Proprietary Account of the Receiving Clearing Member;
 - (ii) in the case of a Permitted Transfer where the Carrying Clearing Member is not an FCM Clearing Member and the Receiving Clearing Member is an FCM Clearing Member, the Transferring SwapClear Contracts (and, if applicable, the Associated Collateral Balance) shall be transferred to the relevant Transfer Account of the relevant Receiving Clearing Member and all of the SwapClear Contracts to be transferred (which are subject to the Rulebook) shall, upon transfer, be converted to FCM SwapClear Contracts subject to the FCM Regulations and the FCM Procedures but shall otherwise remain on the same contract terms;
 - (iii) in the case of a Permitted Transfer where the Carrying Clearing Member is an FCM Clearing Member and the Receiving Clearing Member is not an FCM Clearing Member, the FCM SwapClear Contracts (and, if applicable, the Associated Collateral Balance) shall be transferred to the relevant Transfer Account of the relevant Receiving Clearing Member and all of the FCM SwapClear Contracts to be transferred (which are subject to the FCM Rulebook) shall, upon transfer, be converted to SwapClear Contracts subject to the Rulebook but shall otherwise remain on the same contract terms; or
 - (iv) in all other cases, the Transferring SwapClear Contracts (and, if applicable, the Associated Collateral Balance(s)) shall be transferred to the Transfer Account of the Receiving Clearing Member.

The Transfer of the Transferring SwapClear Contracts shall occur by novation of all of the Carrying Clearing Member's rights and obligations in respect of such

Appendix IV
Procedures Section 2C (SwapClear)



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PROCEDURES SECTION 2C

SWAPCLEAR CLEARING SERVICE

by its administrators), (ii) is not sufficiently robust, (iii) is not fit for purpose or (iv) has materially changed, in each case as determined in the Clearing House's sole discretion, the Clearing House may use an alternative interest rate without the consent of such SwapClear Clearing Members.

1.13 **Transfer of SwapClear Contracts between Client Accounts and Proprietary Accounts**

1.13.1 If at any time an early termination date (howsoever described) occurs in respect of one or more of the transactions between a SwapClear Clearing Member and a SwapClear Clearing Client in respect of which such SwapClear Clearing Member (i) is a party to Related SwapClear Contracts and (ii) at the time of such early termination date, is not a Defaulting SCM, that SwapClear Clearing Member may instruct the Clearing House to transfer the relevant Related SwapClear Contracts from its Client Account to its Proprietary Account.

For the purposes of this Section 1.13.1 below a "**Related SwapClear Contract**" means, in respect of a transaction between a SwapClear Clearing Member and a SwapClear Clearing Client which has been terminated on an early termination date, the open position represented by the SwapClear Contract entered into with the Clearing House by such SwapClear Clearing Member on behalf of the relevant SwapClear Clearing Client on equal and opposite terms to such transaction.

A transfer pursuant to this Section 1.13.1 will be subject to receipt by the Clearing House of the following:

- (a) a copy of the notice from the relevant SwapClear Clearing Member to the relevant SwapClear Clearing Client or from the relevant SwapClear Clearing Client to the relevant SwapClear Clearing Member designating the relevant early termination date or, if such early termination date has occurred automatically, evidence of the relevant event of default or termination event;
- (b) a copy of a notice served by the relevant SwapClear Clearing Member on the relevant SwapClear Clearing Client alerting that SwapClear Clearing Client of its intention to request a transfer of the relevant Related SwapClear Contracts pursuant to this Section 1.13; and
- (c) an indemnity from the relevant SwapClear Clearing Member in a form suitable to the Clearing House

The Clearing House will usually arrange a transfer of Related SwapClear Contracts within 24 hours of receipt (to the extent applicable) of the documents listed in paragraphs (a) to (c) above.

1.13.2 In any other circumstance not covered by Section 1.13.1 ~~or~~, [Section 1.14 below](#), [Section 1.15](#) or [Regulation 60](#), a SwapClear Clearing Member may only instruct the Clearing House to transfer a SwapClear Contract from its

Client Account to its Proprietary Account in circumstances where the Clearing House has received from the SwapClear Clearing Member:

- (a) evidence of the relevant SwapClear Clearing Client's consent to such transfer in a form suitable to the Clearing House; and
- (b) an indemnity in a form suitable to the Clearing House.

The Clearing House will usually arrange a transfer of any SwapClear Contract to be transferred pursuant to this Section 1.13.2 within 24 hours of receipt (to the extent applicable) of the documents listed in paragraphs (a) and (b) above.

1.14 Indirect Clearing

1.14.1 In circumstances where an early termination date (howsoever described) occurs in respect of all of the transactions between a SwapClear Clearing Member and a SwapClear Clearing Client acting on behalf of Indirect Clearing Clients comprising an Indirect Gross Account in respect of which such SwapClear Clearing Member (i) is a party to Related SwapClear Contracts and (ii) at the time of such early termination date, is not a Defaulting SCM, that SwapClear Clearing Member may instruct the Clearing House to take one of the following steps in respect of each Indirect Clearing Client comprising the Indirect Gross Account:

- (a) in circumstances where the SwapClear Clearing Member notifies the Clearing House of a Backup Client in respect of the relevant Indirect Clearing Client, transfer all of the open Related SwapClear Contracts registered to the Indirect Gross Sub-Account referable to the Indirect Clearing Client to the relevant Indirect Gross Sub-Account referable to the Indirect Clearing Client of the new or existing Indirect Gross Account which the SwapClear Clearing Member has opened in respect of such Backup Client (a "**Client to Client Porting**");
- (b) transfer all of the open Related SwapClear Contracts registered to the Indirect Gross Sub-Account referable to the Indirect Clearing Client to:
 - (i) a new Individual Segregated Account or Custodial Segregated Account opened within the Clearing House by the SwapClear Clearing Member directly on behalf of such Indirect Clearing Client who shall, after such transfer, become a SwapClear Clearing Client in respect of such Client Account; or
 - (ii) a new or existing Omnibus Segregated Account opened within the Clearing House by the SwapClear Clearing Member where such Indirect Clearing Client shall, after such transfer, become a SwapClear Clearing Client in respect of such Omnibus Segregated Account,

(each, a "**Direct Account Opening**"); or

conditions set forth in this Section 1.33 (other than the condition relating to the Clearing House's right to reject) have been, or will be, satisfied; and

- (d) each of the conditions specified in Section 1.33.3 below are satisfied in all respects at the applicable Economic Amendment Cut-off Time for that Economic Amendment.

If all requirements specified in this Section 1.33.2 are met, the requested Economic Amendment shall take effect in accordance with this Section 1.33.

If any requirements specified in this Section 1.33.2 are not met, the requested Economic Amendment shall automatically be rejected, or shall be deemed to be automatically rejected, by the Clearing House.

1.33.3 *Conditions Precedent to an Economic Amendment*

It is a condition precedent for any requested Economic Amendment taking effect under this Section 1.33 to an Amendment Pair that:

- (a) the requested Economic Amendment relates to a SwapClear Contract Term prescribed by the Clearing House as applicable for Economic Amendment under this Section 1.33;
- (b) (i) each Economic Amendment CM for such Amendment Pair and (ii) if that Amendment Pair comprises a SwapClear Contract entered into by a SwapClear Clearing Member on behalf of a SwapClear Clearing Client, each such SwapClear Clearing Client, has satisfied all conditions and executed all documents necessary or required by the Clearing House in order to give effect to that Economic Amendment;
- (c) no Economic Amendment CM for such Amendment Pair is a Defaulter;
- (d) neither Economic Amendment CM of either Contract in such Amendment Pair has rejected that Economic Amendment using the form and manner prescribed by the Clearing House from time to time (it being understood that each such Economic Amendment CM will be presumed by the Clearing House not to have rejected that Economic Amendment unless such Economic Amendment CM provides evidence to the contrary or as otherwise reasonably determined by the Clearing House); and
- (e) the Clearing House has not rejected the Economic Amendment Request for that Economic Amendment, acting in its sole and absolute discretion.

1.33.4 **Actions in Respect of an FCM Client Default**

Following an FCM Client Default (as defined in the FCM Regulations) and in connection with a request from an FCM Clearing Member to the Clearing House to transfer one or more FCM SwapClear Contracts (including those

[submitted for registration pursuant to Section 2.1.13\(c\) of the FCM Procedures\) from \(i\) a Defaulting FCM Client's FCM Client Sub-Account or \(ii\) an FCM Clearing Member's Proprietary Account to the Proprietary Account of a SwapClear Clearing Member, such SwapClear Clearing Member shall transfer \(or make available\) required margin into its Proprietary Account.](#)

2. PORTFOLIO MARGINING SERVICE

2.1 Introduction

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

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

2.2 Opt-In Procedure

2.2.1 *Portfolio Margining Clearing Member Status*

A Joint Rates Service Clearing Member wishing to opt-in to the Portfolio Margining Service in respect of a pair of its accounts - one in the SwapClear Service (the "**SwapClear Nominated Account**") and the other account in a Listed Interest Rates Service (the "**Listed Interest Rates Nominated Account**") and together the "**Nominated Accounts**") - must submit a written request to the Clearing House, using the appropriate form which can be obtained from the Clearing House's Membership team (a "**Portfolio Margining Request**"). For the avoidance of doubt, the Joint Rates Service Clearing Member must submit a further Portfolio Margining Request when it wishes the Portfolio Margining Service to apply in respect of additional Nominated Accounts.

2.2.2 *Assessment of the Portfolio Margining Request*