

VIA CFTC PORTAL

20 January 2020

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

## **LCH Limited Self-Certification: Non cash collateral acceptability criteria changes**

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 rulebook which will take effect on or after February 4, 2020.

### **Part I: Explanation and Analysis**

LCH accepts securities collateral from its Clearing Members, for the satisfaction of margin requirements. Where LCH holds such collateral it will pay any associated coupon amounts received for that security to the Clearing Member that lodged it.

The rulebook has been amended to reflect that LCH may restrict Clearing Members, including Futures Commission Merchants ("FCMs"), from lodging, releasing or transferring securities collateral on a record date for the payment of a coupon on that collateral. This restriction is required as for certain types of securities collateral, the record date and the payment date of a coupon on that security are the same. In these cases, LCH will instruct the payment of the coupon to the Clearing Member for whom it holds the securities collateral (based on the projected coupon value) on the business day immediately before the record and payment date. This ensures the Clearing Member receives the correct coupon on the payment date. Any change to the collateral holding on the record date would otherwise result in an inaccurate coupon payment to Clearing Members.

### **Part II: Description of Rule Changes**

FCM Procedures: Section 4.1.11 added to describe the restriction, Sections 4.3, 4.4.1, 4.4.3, 4.4.4, 4.4.5, 4.4.6, 4.5.1 amended to cross reference to Section 4.1.11 (see Appendix I attached).

FCM Regulations: Regulation 14 (aa)(ii) & (iii) and (bb) and Regulation 15 (c)(iii)(A) have been amended to cross reference to the new criteria included in FCM Procedures 4.1.11 (see Appendix II attached).

Procedures Section 4 (Margin and Collateral): Section 1.1.8 added to describe the restriction, Sections 1.1.2(v), 1.1.3, 1.3, 1.4.1, 1.4.3, 1.4.4(a) and (b), 1.4.5 and 1.4.6 amended to cross reference to Section 1.1.8 (see Appendix III attached).

### **Part III: Core Principle Compliance**

LCH has reviewed the changes against the requirements of the Core Principles and finds it 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 [charlotte.woodwards@lch.com](mailto:charlotte.woodwards@lch.com).

Yours sincerely



Charlotte Woodward  
Senior Regulatory Advisor  
LCH Limited

**Appendix I**  
FCM Procedures



**FCM PROCEDURES OF THE CLEARING HOUSE**

**LCH LIMITED**

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## 4. COLLATERAL

### 4.1 General Information

#### 4.1.1 *Non-Cash Collateral*

FCM Clearing Members wishing to lodge securities (of the type permitted by the Clearing House) with the Clearing House as Collateral may do so. Securities lodged will be subject to a security interest and held in an account with the Clearing House by the FCM Clearing Member (in respect of Collateral furnished on behalf of FCM Clients, the Clearing House shall hold such securities in the applicable LCH Client Segregated Depository Account).

Collateral provided in respect of an FCM Clearing Member's Client account will not be applied by the Clearing House to its liabilities on a house account (see FCM Regulation 14(j) (*Margin and Collateral*)).

**FCM Clearing Members are warned that the transfer of Collateral and the grant of a security interest are complex legal matters. The FCM Rulebook and any communication with the Clearing House (whether of an oral or written nature) are not to be taken as legal or other advice. An FCM Clearing Member should seek its own independent professional advice.**

#### 4.1.2 *General Information*

##### LCH Security Arrangements

FCM Clearing Members wishing to lodge securities with the Clearing House may do so under the security arrangements set out in the FCM Clearing Membership Agreement and the FCM Regulations.

Collateral provided in respect of an FCM Clearing Member's Client account will not be applied by the Clearing House to its liabilities on a House account (see FCM Regulation 14(j) (*Margin and Collateral*)).

Unless stated otherwise in the FCM Rulebook, Collateral provided in respect of an FCM Clearing Member's House account may be applied by the FCM Clearing House towards the payment of any sum whatsoever due by the FCM Clearing Member to the Clearing House, **provided, that** no Collateral furnished in respect of an FCM Clearing Member's Client accounts shall be applied on or towards payment or satisfaction of any of the FCM Clearing Member's liabilities to the Clearing House on any of the FCM Clearing Member's House accounts.

As set out in FCM Regulation 14(c) (*Margin and Collateral*), where an FCM Clearing Member wishes to furnish Collateral on behalf of an FCM Client to the Clearing House, the FCM Clearing Member must, *inter alia*, ensure that at all times it remains expressly agreed with the FCM Client that the FCM Clearing Member may provide the Collateral to the Clearing House, on the Clearing House's terms and free of the FCM Client's interest to secure the FCM Clearing Member's obligations to the Clearing House. The Clearing

House gives no undertaking that, on the Default of an FCM Clearing Member, it will not utilize Collateral furnished on behalf of an FCM Client which has been passed to it by an FCM Clearing Member, before utilizing any other form of Collateral the Clearing House may hold.

#### 4.1.3 ***Additional General Information***

The Clearing House is, at its sole discretion, entitled to determine what will be acceptable to it as Collateral and to determine when a security will cease to be acceptable as Collateral.

If any cash, instrument or security lodged in accordance with any of the following FCM Procedures is in any way found to be unacceptable, it will immediately be given a zero value in the FCM Clearing Member's relevant account with the Clearing House. Replacement Collateral may be required immediately from the FCM Clearing Member.

#### 4.1.4 ***Instructions***

The Clearing House accepts instructions to lodge, release and transfer cash and securities via the CMS and/or any other operational process the Clearing House determines. If there is an outage of the CMS, an FCM Clearing Member may send certain instructions using the appropriate form in the Schedules of these FCM Procedures by fax and email to:

- (a) Email to [collateral.ops.uk@lch.com](mailto:collateral.ops.uk@lch.com)
- (b) Fax: + 44 (0)20 7375 3518

Collateral Operations can be contacted on +44 (0)207 426 7593.

The Clearing House is entitled to act upon CMS instructions or communications appearing to have been issued by or on behalf of, or to have come from, an FCM Clearing Member. These will be accepted by the Clearing House as genuine, even if, for example, they are later found:

- (a) to be inaccurate, whether in whole or in part; or
- (b) not to have been given by the FCM Clearing Member or with the authority of the Clearing Member.

The Clearing House will only accept delivery of securities Collateral from an FCM Clearing Member in accordance with these FCM Procedures and will not sell or purchase cash or securities Collateral for FCM Clearing Members, except in so far as it is acting under its Default Rules and related provisions of the FCM Rulebook or in relation to Exchange Rules.

The Clearing House reserves the right to change the information required on instructions received via the CMS, whenever the Clearing House, at its sole discretion, considers that it would be appropriate to do so.

#### 4.1.5 ***Excess Margin Maintained in Proprietary Accounts***

In accordance with FCM Regulation 14(bb) (*Margin and Collateral*), FCM Clearing Members are permitted to maintain Excess Margin in their Proprietary Accounts (regardless of whether any such FCM Clearing Member has elected to have one or more of its FCM Omnibus Swaps Client Accounts with LCH subject to the With Excess Client Model), but subject to the right of the Clearing House, in its sole discretion, to return such Excess Margin to the FCM Clearing Member. Alternatively, the Clearing House may notify that FCM Clearing Member of the intention to levy a charge in respect of Excess Margin with effect from such date as is notified to the FCM Clearing Member. In the event that the FCM Clearing Member does not remove Excess Margin before the date so notified, the Clearing House may, in its discretion, charge the FCM Clearing Member at the rate of 1 basis point per day until Excess Margin is removed by the FCM Clearing Member. Payment of this charge shall be collected on a monthly basis through that FCM Clearing Member's PPS sterling account. This charge applies only to Margin lodged with respect to FCM Contracts registered to the FCM Clearing Member's Proprietary Account.

The Clearing House shall have absolute discretion to decide whether and to what extent it is holding Excess Margin at any time.

The ability of FCM Clearing Members to maintain Excess Margin in its FCM Omnibus Futures Client Accounts with LCH is governed by the provisions of the FCM Rulebook, including FCM Regulation 14(aa)(ii) (*Margin and Collateral*).

The ability of FCM Clearing Members to maintain Excess Margin in its FCM Client Sub-Accounts is governed by the provisions of the FCM Rulebook, including FCM Regulation 15 (*Margining of Swap Product Client Accounts*).

#### 4.1.6 ***Return and Provision of Cash Excess Margin***

Requests for the return of USD cash Excess Margin must be received by the Clearing House before 09:30 hours (New York time) on a U.S. Business Day. In respect of any such request received by the Clearing House after 09:30 hours (New York time) on a U.S. Business Day, the Clearing House shall have sole discretion as to whether or not to return the relevant USD cash Excess Margin to the requesting FCM Clearing Member except with the consent of the Clearing House. Additionally, if the Clearing House does not repay the relevant excess USD cash requested by an FCM Clearing Member after 09:30 hours (New York time) on a U.S. Business Day, such request shall be deemed void.

The Clearing House will not accept deposits of USD cash Collateral as Excess Margin on any date that is not a U.S. Business Day or at any time after 14:00 hours (New York time) on a U.S. Business Day.

#### 4.1.7 ***Lodgment of Collateral as Replacement for Cash Cover for Margin***

This Section 4.1.7 applies only to Proprietary Accounts of FCM Clearing Members. FCM Clearing Members should note that they must give Collateral Operations no less than two (2) Business Days' notice of their intention to lodge Collateral with a value of £50 million sterling or more, and which is reasonably likely to have the effect that cash to a similar value is repayable by the Clearing House to that FCM Clearing Member as a result of such lodgment. In the event that an FCM Clearing Member seeks to withdraw such cash Collateral without giving such notice, the Clearing House will decline to release such cash Collateral until the end of the required notice period. The Clearing House may extend the required notice or vary the minimum Collateral value by written notice to FCM Clearing Members.

#### 4.1.8 ***Force Majeure***

The Clearing House will not be liable for any failure, hindrance or delay in the performance (in whole or in part) of any of its obligations to FCM Clearing Members with regard to Collateral where such failure, hindrance or delay arises from causes beyond the control of the Clearing House, such as (but not limited to) the failure (whether partial or total), interruption or suspension of any Depository that the Clearing House is using, the termination or suspension of the Clearing House's membership or use of any Depository or any variation of a Depository's operational timetable, whether or not occasioned by action of the Depository operator or any other party, any embargo, unavailability or restriction of bank transfer systems or wires, malfunction or overload of the Depository, or any other emergency. This provision is without prejudice to the force majeure provisions of FCM Clearing Members' agreements with the Clearing House.

#### 4.1.9 ***Regulatory and Supervisory Information***

In every case, the Clearing House will be entitled to supply a Depository with all the information it requires for any purposes relating to an FCM Clearing Member or relating to Collateral received by the Clearing House from an FCM Clearing Member which is, or may at any time have been, held by the Depository. Securities Collateral will be lodged and held within such Depository as the Clearing House may select or allow, subject to the conditions of such Depository and to any Applicable Law and subordinate rules relating thereto, as well as to the terms of the FCM Rulebook and these FCM Procedures.

#### 4.1.10 ***Coupons***

The Clearing House will record coupons that arise in respect of non-cash Collateral of an FCM Clearing Member, taking into account any withheld tax, ("**Coupons**") to such FCM Clearing Member's relevant FCM Omnibus Swaps Client Account with LCH, FCM Omnibus Futures Client Account with LCH or Proprietary Account and to the non-cover ledger within such account (see Section 3.1.3(a)(i) of these FCM Procedures) on the appropriate payment date, and such Coupons will be cash Collateral.



The Clearing House will promptly on or after the appropriate payment date take such steps as are necessary to transfer Coupons to the relevant FCM Clearing Member (except Coupons which are automatically transferred to such FCM Clearing Member by operation of a triparty transaction), provided that the Clearing House shall only be obliged to take such steps pursuant to this Section 4.1.10:

- (a) to the extent that they constitute Excess Margin;
- (b) if the FCM Clearing Member is not a Defaulter;
- (c) to the extent the Clearing House is permitted to take such steps and make such transfer under Applicable Law and the contractual provisions of any relevant Depository;
- (d) if the Clearing House considers it is not necessary or desirable to retain such Coupons in order to effect (or seek to effect) a transfer of FCM Contracts and Collateral from an account of an FCM Clearing Member to another account of an FCM Clearing Member or Non-FCM Clearing Member in accordance with the FCM Rulebook, the FCM Procedures, the UK General Regulations and/or UK General Procedures; and
- (e) if there is no overnight margin and/or cash call (including an EOD Margin Run call) in respect of the relevant FCM Clearing Member which remains outstanding.

#### 4.1.11 Record Date

The Clearing House may restrict the lodgement, release and/or transfer of non-cash Collateral on a record date for the payment of a Coupon applicable to such non-cash Collateral where the Clearing House considers this necessary in order to correctly pay such Coupon to the relevant FCM Clearing Member on the Coupon payment date.

~~(e)~~

## 4.2 Securities

### 4.2.1 General Information

Securities must be lodged in the Clearing House's relevant settlement accounts (see [Schedule 4D](#)~~Schedule 4D~~).

### 4.2.2 Settlement procedures – Securities

All transactions to deposit or withdraw securities Collateral with or from the Clearing House will be executed free of payment.

## 4.3 Instructions via the CMS

The Clearing House will action instructions relating to Collateral that have been input and authorized via the CMS [in accordance with, and subject to, this Section 4 of the](#)

[FCM Procedures](#).- The details input on the CMS will form the basis of the matching instruction sent to the relevant Depository. FCM Clearing Members must ensure that the details are input correctly in order to avoid unmatched transactions.

It is the responsibility of the FCM Clearing Member to input a cancellation request of any incorrectly input instruction and to subsequently input the correct details in a new instruction. Please note that it may not be possible to cancel an instruction (please refer to Section 4.4.7 below for further details).

The Clearing House will update the status of the instruction in the CMS to reflect the status of the corresponding instruction at the relevant Depository. On settlement of the transaction at the relevant Depository, the Clearing House will reflect the balance of the securities on the relevant account of the FCM Clearing Member and take them into account for the purposes of calculating the value of the FCM Clearing Member's Margin.

The relevant account details that an FCM Clearing Member should use for matching transactions at a Depository are located at [www.lch.com/documents/731485/762486/lch-custodian-settlement-accounts-for-margin-collateral-ltd-2809.pdf/6857526e-1d18-4b86-9e4a-bc1b7e2a4234](http://www.lch.com/documents/731485/762486/lch-custodian-settlement-accounts-for-margin-collateral-ltd-2809.pdf/6857526e-1d18-4b86-9e4a-bc1b7e2a4234).

The Clearing House will not be liable for any losses to FCM Clearing Members or third parties caused by non-settlement or by a delay in settlement as a result of the actions or omissions of a Depository or the FCM Clearing Member (save for any liability which may not be excluded by Applicable Law).

#### 4.4 Settlement Procedures – Securities

All transactions to transfer securities Collateral to or from the Clearing House will be executed free of payment.

##### 4.4.1 *Instruction Deadlines*

FCM Clearing Members may input security instructions via the CMS at any time. Instructions will only be actioned by the Clearing House during operational hours.

Collateral Operations' operational hours are Monday to Friday 07:00 to 21:00 UK time.

Instruction deadlines for same day settlement:

<u>Depository</u>	<u>Deadline for instructions</u>
Euroclear UK/IE (CREST)	14:00 (UK time)
Euroclear internal	17:00 (UK time)
Citi and BNYMellon	19:00 (UK time)
Austraclear	15:30 (AEST)

The Clearing House will [\(subject to Section 4.1.11\)](#) input matching instructions to the relevant Depository for same day settlement when the instructions are received prior to the deadlines above.

#### 4.4.2 *Deliveries to and from Local Markets*

The Clearing House is bound by the settlement deadlines of the relevant Depository. FCM Clearing Members should refer to the relevant Depository for these deadlines. Note that for transactions from local markets the settlement deadline may be earlier than the Clearing House hours of operation and should therefore be instructed the day before the settlement date (*i.e.* on S-1). Instructions to the Clearing House must be provided at least one hour before the market deadline for same day settlement.

For example:

<u>Deliveries from Local Market</u>	<u>Depository Deadline (UK time)</u>	<u>Instruction Deadline to Clearing House (UK time)</u>
Japan	07:55	17:00 on S-1
Belgium	14:50	13:50 on S
Italy	15:00	14:00 on S

#### 4.4.3 *Transfer of Securities [Collateral](#) from an FCM Clearing Member to the Clearing House*

Instructions for the transfer of securities from a Clearing Member to the Clearing House ~~that are must be~~ input via the CMS prior to the deadlines above for same day settlement ~~will~~ [\(subject to Section 4.1.11\)](#) be actioned and ~~settled~~ transactions will be taken into account for the purposes of calculating the value of the FCM Clearing Member's Margin.

Transfer instructions for future settlement dates will [\(subject to Section 4.1.11\)](#) be instructed same day if received prior to the deadlines. Instructions received after the deadlines will [\(subject to Section 4.1.11\)](#) be instructed the following day.

#### 4.4.4 *Transfer of Securities [Collateral](#) from the Clearing House to an FCM Clearing Member*

##### (a) *Release where Sufficient Cover is Available*

Instructions to release existing securities Collateral of an FCM Clearing Member that are input via the CMS prior to the deadlines above for same day settlement will [\(subject to Section 4.1.11\)](#) be actioned and the securities ~~Collateral~~ specified in those instructions will [\(subject to Section 4.1.11\)](#) no longer be included when calculating

the value of the FCM Clearing Member's Margin on confirmation of those instructions by the Clearing House.

(b) *Release where Sufficient Cover is Unavailable*

Instructions to release existing securities Collateral of an FCM Clearing Member must be input via the CMS before 09:30 UK time. The FCM Clearing Member will then be requested to transfer additional cash Collateral. Following confirmation of the transfer of such cash Collateral, the settlement instruction will [\(subject to Section 4.1.11\)](#) be sent to the Depository by the Clearing House and the securities Collateral specified in those instructions will [\(subject to Section 4.1.11\)](#) no longer be included when calculating the value of the FCM Clearing Member's Margin.

4.4.5 *Substitutions*

Substitution instructions may be input via the CMS and will, subject to [Section 4.1.11 and to](#) confirmation of those instructions by the Clearing House, be carried out on the same day if input prior to the deadlines above.

FCM Clearing Members must first input the relevant lodge instruction(s) and then link the associated release instruction(s) to the lodge instruction(s).

4.4.6 *Transfers*

Transfer instructions may be input via the CMS and will [\(subject to Section 4.1.11\)](#) be carried out same day during operational hours.

Note: –transfers are only permitted between mnemonics of the same FCM Clearing Member and are subject to client segregation rules.

4.4.7 *Settlement Cancellations*

FCM Clearing Members may request the cancellation of an instruction via the CMS. The Clearing House will cancel any instruction that has not yet been processed. The Clearing House will seek, using its best efforts, to cancel any settlement instructions already sent to the relevant Depository, but cannot guarantee that the transaction will not settle.

4.4.8 *Instruction Status*

The status of an instruction can be monitored via the CMS. Statuses reflect the status of the instruction at the Clearing House and not at the relevant Depository. Please refer to the CMS user guide for status definitions.

4.5 **Triparty Service with Euroclear and Clearstream**

4.5.1 *General Information*

In order for an FCM Clearing Member to transfer securities to the Clearing House using a triparty arrangement, such FCM Clearing Member, the relevant

triparty agent and the Clearing House must have completed and signed the relevant documentation. Please contact the Clearing House on +44 (0)207 426 7237 for more information.

FCM Clearing Members may execute a triparty transaction to cover Initial Margin requirements at the Clearing House. Triparty instructions must be provided to the Clearing House via the CMS. Instructions may be input for future settlement dates.

If an FCM Clearing Member is unable to make triparty instructions via the CMS, it will be possible to instruct using the relevant triparty contingency forms found in the Schedules of these FCM Procedures.

Triparty transactions must be a minimum of one million GBP, EUR or USD.

Note: In these procedures, “S” refers to the settlement day, “S-1” to the working day before settlement day.

#### 4.5.2 *Lodgment and Increase Procedure*

Last instruction deadline to the Clearing House for (UK Time):			
	Euroclear Bank	Clearstream	
Same day settlement	17.00	18.00	
Next day settlement	17.00 (S-1)	18.00 (S-1)	

#### 4.5.3 *Decrease and Closing Procedure*

Last instruction deadline to the Clearing House for (UK Time):			
	Euroclear Bank	Clearstream	
Same day settlement	17.00	18.00	
Next day settlement	17.00 (S-1)	18.00 (S-1)	

#### *Sufficient Collateral*

Where the Clearing House determines that the FCM Clearing Member has sufficient Collateral available, closure of a triparty transaction or the decrease of the transaction amount of a triparty transaction will be processed on the same day and the resulting reduction of Collateral will be taken into account

for the purposes of calculating the value of the FCM Clearing Member's Margin.

### ***Insufficient Collateral***

Where the FCM Clearing Member has insufficient Collateral to close a triparty transaction or to decrease the transaction amount of a triparty transaction, the Clearing Member's Margin will be deemed to be decreased overnight and, the following morning, the Clearing House will only close the triparty transaction or decrease the transaction amount of the triparty transaction after 09.00 (UK time) when any PPS cash calls have been confirmed.

### ***Triparty Deficits***

In the event that the Clearing House determines that a shortfall exists under a triparty arrangement, whether because of a decrease in the value of securities furnished or otherwise, and such shortfall has not been made good by the inclusion of additional securities, the Clearing House shall be entitled to make one or more PPS cash calls in respect of such shortfall. Cash calls in relation to shortfalls will be called in accordance with Section 3.2 of these FCM Procedures. Such cash shall either be credited to the FCM Clearing Member upon the FCM Clearing Member making good the deficit pursuant to the triparty arrangement or retained as Collateral if the FCM Clearing Member does not make good the deficit.

## **4.6 Withholding Taxes**

### **4.6.1 *US Withholding Taxes***

For tax reasons, the Clearing House is required to segregate foreign (i.e., non-US) owners' securities from US owners' securities. FCM Clearing Members must deliver securities to the correct account. The Clearing House operates accounts with Citibank N.A. and Bank of New York Mellon.

In order to reduce or to eliminate US withholding tax, the correct tax documentation must have been provided in respect of each owner. To this end, FCM Clearing Members will be expected to provide one of the forms noted below to the Clearing House. A current form will be required for each FCM Clearing Member.

The relevant forms will normally be one of:

- (a) "W-9 (Request for Taxpayer Identification Number and Certification)", which applies to a US corporation including a foreign branch of a US corporation and is valid indefinitely; or
- (b) "W-8BEN (Certificate of Foreign Status)", which applies to non-resident alien individuals, foreign corporations, partnerships and estates and is valid for three calendar years.

FCM Clearing Members may obtain originals of forms W-8BEN and W-9 from Collateral Operations.

**Note:** The Clearing House's arrangements with its Depositories only allow for securities holdings of US corporations or foreign (i.e., non-US) entities or individuals. FCM Clearing Members who wish to discuss the possibility of lodging securities belonging to owners excluded from this arrangement should contact Collateral Operations.

Unless the Clearing House has already received the appropriate tax form, lodgments into A/c numbers 735136, 735138, 206203 and 090401 must be accompanied by form W-9.

Unless the Clearing House has already received the appropriate tax form, lodgments into A/c numbers 735137, 735139, 207887 and 090372 must be accompanied by form W-8.

The Clearing House's acceptance of US securities does not indicate any responsibility for the adequacy or otherwise of tax documentation. Any queries in relation to these tax forms should be referred to your company accountant or professional advisers.

Completed tax forms should be returned to Collateral Operations for onward transmission to the relevant Depository.

#### 4.6.2 *Italian Securities*

For tax purposes the Clearing House operates an account with Euroclear Bank specifically for deliveries of Italian securities – account 91737.

This account is operated by the Clearing House in accordance with “Euroclear Procedures to Obtain Exemption from Italian Withholding Tax on Italian Domestic Debt Securities”.

Beneficial owners are entitled to exemption at source from Italian Withholding Tax on Italian securities if they are:

- (a) resident in a country that has entered into a double taxation agreement with Italy (except black list countries/countries that do not have a tax treaty with Italy); or
- (b) a corporation resident in Italy; or
- (c) a supranational organization recognized by Italian Law.

Beneficial owners are required to supply duly completed and executed official forms as proof of eligibility to the exemption and where applicable supply additional documentation, before a delivery can be made into this account.

Official forms are available on request from Collateral Operations.

Original forms are to be received by the Clearing House before Italian securities can be accepted within the gross account 91737.

The effective date depends on the type and terms of the security:

Coupon Debt securities (BTPs, CCTs and CTOs)

The new regime applies to Coupons that arise on these securities on or after 1 January 1997, regardless of the issue date.

Zero Coupon debt securities with a maturity of less than one year (BOTs)

The regime applies to all securities issued on or after 1 January 1997.

Clearing Members should consult their own tax advisers before lodging Collateral with the Clearing House or submitting any tax documentation.

#### 4.6.3 ***Withholding tax – Depositories***

A Depository may offer a recovery service for overseas taxes on government bonds. The Clearing House will assist in the recovery process and remit to FCM Clearing Members any relevant recovery in withholding tax credited to the Clearing House's account by the relevant Depository.

In certain cases, the Clearing House or the relevant Depository will withhold tax on a Coupon if the correct documentation is not lodged with the Clearing House or such Depository.

#### 4.7 **References**

These FCM Procedures should be read in conjunction with the relevant contractual provisions, user guides and/or manuals of the relevant Depository. Please also refer to each relevant Depository for the relevant settlement deadlines in particular those for deliveries from local markets to Clearing House accounts.

#### 4.8 **Contingency Arrangements**

In the event of an outage of the CMS, the Clearing House will notify FCM Clearing Members via member circular and FCM Clearing Members may send certain instructions, using the appropriate form in the Schedules of these FCM Procedures, to the Clearing House by fax and email (see Section 4.1.4 of these FCM Procedures).

Normal service hours and deadlines will apply to such instructions.

The Clearing House will notify FCM Clearing Members via a member circular when the CMS is available again.

#### 4.9 **Treatment of Unallocated Excess and Return of FCM Buffer**

##### 4.9.1 ***Return and Reapplication of Unallocated Excess and Return of FCM Buffer***



Upon the request of an FCM Clearing Member, the form of which shall be prescribed by the Clearing House from time to time, the Clearing House shall return all or a portion of such FCM Clearing Member's available Unallocated Excess or FCM Buffer (as requested) to such FCM Clearing Member; **provided, that** (i) FCM Clearing Members are not entitled to request the return of Encumbered FCM Buffer, ~~and~~ (ii) the Clearing House shall not be required to return FCM Buffer if the FCM Clearing Member is a Defaulter, and (iii) the return of non-cash Collateral is subject to the restriction under Section 4.1.11. The FCM Clearing Member's request must contain the specific details of the amount of ~~funds~~ Collateral requested and whether such FCM Clearing Member is requesting the return of FCM Buffer or Unallocated Excess, and any other information reasonably requested by the Clearing House. The end of day report delivered to the FCM Clearing Member by the Clearing House shall constitute conclusive evidence of the amount of any FCM Buffer or Unallocated Excess returned to such FCM Clearing Member during that day, unless the Clearing House determines such report contained an error and subsequently delivers an amended report or other notice to the FCM Clearing Member in respect of such amounts.

FCM Regulation 15 (*Margining of Swap Product Client Accounts*) contains additional provisions relating to FCM Buffer, Encumbered FCM Buffer and Unallocated Excess.

Upon request from an FCM Clearing Member, the form of which shall be prescribed by the Clearing House from time to time, the Clearing House will apply Margin attributable to (A) an FCM Clearing Member's ~~Unallocated Excess Sub-Account~~ and/or (B) all of an FCM Clearing Member's FCM Client Sub-Accounts to its FCM Buffer Sub-Account. In requesting such transfer, the FCM Clearing Member shall be deemed to represent and warrant that such reapplication of Margin: (1) is in accordance with applicable law and regulation; and (2) has been requested by an individual that is appropriately authorized to make the request. Any request from an FCM Clearing Member to reapply Margin must: (i) in the case of a request for reapplication pursuant to sub-clause (A) above, contain the specific details of the amount of Margin to be reapplied; (ii) only request the reapplication where such reapplication reflects the true characterization of the Margin held by the Clearing House (in particular, the reapplication of Margin pursuant to this paragraph should only be requested where the relevant Margin is the property of the FCM Clearing Member); (iii) in the case of a request for reapplication of Margin pursuant to sub-clause (B) above, request the reapplication of Margin attributed to all of the relevant FCM Clearing Member's FCM Client Sub-Accounts since the start of that given Business Day; and (iv) include such other information that the Clearing House may require. The reapplication of Margin shall be effected by the Clearing House in its sole and absolute discretion and in accordance with predefined parameters, and shall become effective from such time that the reapplication is reflected in the Clearing House's books and records.

#### 4.9.2 *Use of FCM Buffer as Variation Settlement*

Notwithstanding anything to the contrary herein, an FCM Clearing Member may elect to have Eligible FCM Buffer that the Clearing House holds at the

**Appendix II**  
FCM Regulations



**FCM REGULATIONS OF THE CLEARING HOUSE**

**LCH LIMITED**

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## **CHAPTER V - COLLATERAL AND VALUATIONS**

### **REGULATION 14 MARGIN AND COLLATERAL**

- (a) The Clearing House may in accordance with the FCM Procedures require an FCM Clearing Member to furnish it with Margin, and to keep the Clearing House furnished with sufficient Margin at all times, in an amount determined by the Clearing House in accordance with these FCM Regulations and the FCM Procedures, as security for the performance by such FCM Clearing Member of its obligations to the Clearing House in respect of all FCM Contracts from time to time to be registered in its name as Open FCM Contracts pursuant to these FCM Regulations. The obligation upon an FCM Clearing Member to furnish Margin to the Clearing House pursuant to this paragraph shall be **in addition** to any other obligation of the FCM Clearing Member to furnish Margin or make any other payment to the Clearing House pursuant to these FCM Regulations. For the avoidance of doubt, margining requirements and policies may vary among each Business Category of FCM Contract and among each Product therein.
- (b) If insufficient monies are standing to the credit of an FCM Clearing Member's account, or if any Collateral deposited by an FCM Clearing Member as Margin is determined by the Clearing House in accordance with the FCM Procedures to be insufficient, such Margin as the Clearing House requires an FCM Clearing Member to furnish to it pursuant to paragraph (a) above or any other FCM Regulation shall be furnished by the FCM Clearing Member in such form and manner and by such time or times as may be prescribed by the FCM Procedures.
- (c) (i) The Clearing House shall be entitled to assume that all Collateral furnished by an FCM Clearing Member to the Clearing House pursuant to these FCM Regulations or under the terms of any agreement made with the FCM Clearing Member are the sole legal and beneficial property of the FCM Clearing Member or are furnished or deposited for the purposes of these FCM Regulations with the legal and beneficial owner's unconditional consent and with the authority granted to the FCM Clearing Member to repledge such property to the Clearing House. An FCM Clearing Member may not furnish Collateral to or with the Clearing House otherwise than in conformance with this paragraph. It shall be accepted by every person (including FCM Clients) subject to or dealing on the terms of these FCM Regulations that an FCM Clearing Member has such person's unconditional consent to furnish to the Clearing House any securities or other assets of such person in the FCM Clearing Member's possession as Collateral for purposes of the FCM Rulebook.
- (ii) Each FCM Clearing Member represents and warrants to the Clearing House as at each date on which such FCM Clearing Member furnishes Collateral to the Clearing House pursuant to these FCM Regulations (A) that such FCM Clearing Member is the sole legal and beneficial owner of such Collateral or, as the case may be, such Collateral is so furnished or deposited with the legal and beneficial owner's unconditional consent and with the authority granted to the FCM Clearing Member to repledge such property to the Clearing House, and (B) that the provision to the Clearing House of such Collateral pursuant to

these FCM Regulations will not constitute or result in a breach of any trust, agreement or undertaking whatsoever.

- (iii) The Clearing House may, in its absolute discretion and at any time, require an FCM Clearing Member to furnish other securities or assets to the Clearing House in substitution of any Collateral furnished to the Clearing House pursuant to this FCM Regulation 14.
- (d) Notwithstanding paragraph (c) above, the Clearing House shall be entitled at its absolute discretion, without assigning any reason and without prior notice to an FCM Clearing Member, to modify the amount of Initial Margin applicable to an FCM Contract or to call for larger or additional amounts of Margin for Initial Margin to be furnished to it by an FCM Clearing Member, either before registration of a contract or at any time after registration. Any Margin called by the Clearing House pursuant to this paragraph shall be furnished by the FCM Clearing Member on demand and in such form as the Clearing House may require.
- (e) The Clearing House shall be entitled at any time to demand immediate provision of Margin from an FCM Clearing Member in an amount deemed necessary by the Clearing House without reference to Official Quotations or Reference Prices in respect of any Open FCM Contract in the FCM Clearing Member's name, if, in the opinion of the Clearing House, the furnishing of such Margin by the FCM Clearing Member is necessary in the circumstances then prevailing which may be affecting or may in the Clearing House's opinion be likely to affect market conditions or the FCM Clearing Member's performance of its obligations under the terms of such FCM Contracts or under the terms of any original or confirmed contract to which the FCM Clearing Member is party. In this paragraph, "**immediate provision**" means payment, deposit or delivery to the Clearing House within one hour of demand.
- (f) The Clearing House shall be entitled to make an accommodation charge at a rate determined by the Clearing House and specified in the FCM Procedures, in respect of any security furnished to it as Collateral in a form prescribed by the FCM Procedures. Any alteration in the basis of calculating the rates of accommodation charge shall become effective in respect of all current and future business by the time specified in the FCM Procedures.
- (g) Without prejudice to the requirements of paragraph (c) above or any other applicable requirements contained in the FCM Rulebook, the Clearing House may at its absolute discretion accept Collateral in an agreed amount and in a form other than those specified in the FCM Procedures, subject always to the Clearing House's prior assessment as to the appropriateness of such form of Collateral in accordance with its standard risk management procedures, the requirements of Applicable Law and with any special arrangements which the Clearing House may prescribe in each case (including as to valuation and haircut). The Clearing House may at its discretion make an accommodation charge at a special rate.
- (h) If, in the sole discretion of the Clearing House, any Collateral which has been furnished to it by an FCM Clearing Member pursuant to these FCM Regulations is no longer either of sufficient value or otherwise acceptable to the Clearing House, the Clearing House shall be entitled to demand further provision of Collateral from such FCM Clearing Member. Such Collateral shall be furnished by such FCM Clearing

Member on demand in a form prescribed by the FCM Procedures; **provided, that** at any time the Clearing House shall be entitled to require the FCM Clearing Member to furnish it with Collateral in a specified form and to demand that the FCM Clearing Member replace the whole or part of any Collateral furnished by an FCM Clearing Member pursuant to these FCM Regulations with Collateral in the form of cash.

- (i) Without prejudice to the requirements of paragraph (c) above or any other applicable requirements contained in the FCM Rulebook, and subject to FCM [Regulation 15](#)~~Regulation 15~~ and paragraph ~~(h)~~~~(h)~~ ~~above~~~~above~~ and the settlement of any other obligations of an FCM Clearing Member to the Clearing House, upon the close-out or termination of an FCM Contract in accordance with the FCM Rulebook, the Clearing House shall return all (or the applicable portion of) Initial Margin attributable to such FCM Contract to the respective FCM Clearing Member to the extent that such Initial Margin has become Excess Margin following the close-out or termination of the relevant FCM Contract, **provided, that** such FCM Clearing Member is not a Defaulter.
- (j) If the Clearing House takes any step under the Default Rules in relation to an FCM Clearing Member, any sum (including the price due to be paid by the Clearing House in respect of the delivery of any property or currency by or on behalf of the FCM Clearing Member) standing to the credit of any of the FCM Clearing Member's accounts shall be treated as Margin to the extent permitted by Applicable Law; **provided, that** notwithstanding any provision to the contrary in these FCM Regulations, under no circumstances will any Margin maintained in any FCM Omnibus Client Account with LCH be applied to satisfy proprietary obligations of the FCM Clearing Member or, except as may be required to comply with Applicable Law or any order or instruction of a Regulatory Body or court, any other obligations not related to such FCM Clearing Member's FCM Client Business in such Business Category of FCM Contract; **provided, however, that** where an FCM Client is in default with respect to the Margin required by the Clearing House in respect of its FCM Contracts, any Excess Margin attributable to such FCM Client in respect of any Business Category of FCM Contract may be applied to offset such FCM Client's Margin shortfall in respect of any other Business Category of FCM Contract).
- (k) Each FCM Clearing Member and, to the extent applicable, such FCM Clearing Member's guarantor in accordance with FCM Regulation 4, shall be obligated to perform all of its respective obligations (including to pay or deliver all amounts due) as required pursuant to the FCM Regulations and the Default Rules, as applicable. Each FCM Clearing Member and, to the extent applicable, such FCM Clearing Member's guarantor in accordance FCM Regulation 4, shall be entitled to the return of any amounts due to them (after all obligations to the Clearing House have been satisfied) pursuant to the FCM Regulations and the Default Rules, as applicable.
- (l) Unless the Clearing House otherwise agrees in writing, Collateral furnished to the Clearing House in the form of cash shall not be capable of assignment by any person. Any such purported assignment by an FCM Clearing Member (whether by way of security or otherwise) of Collateral in the form of cash shall be void. An FCM Clearing Member shall not otherwise encumber (or seek to encumber) any Collateral in the form of cash, except as provided under this FCM Regulation 14.

- (m) **Creation of Security Interest.** Each FCM Clearing Member hereby grants the Clearing House a first priority security interest in and a first priority and unencumbered first lien upon any and all Collateral, Margin, cash, securities, receivables, rights and intangibles and any other collateral or assets deposited with or transferred to the Clearing House, or otherwise held by the Clearing House (including all property deposited in or attributable to a Proprietary Account, an FCM Omnibus Client Account with LCH, an LCH Client Depository Account, or any amounts owing to an FCM Clearing Member or a Proprietary Account, but excluding any Settlement Payment), in each case to the extent transferred in accordance with the FCM Regulations, including all substitutions for and proceeds of, any such property, in connection with any FCM Contracts cleared for such FCM Clearing Member or its FCM Clients, as security for unconditional payment and satisfaction of the obligations and liabilities of the FCM Clearing Member to the Clearing House under the FCM Rulebook, but excluding any property deposited in or transferred to the Clearing House in respect of an FCM Clearing Member's Contribution(s) to the default funds of the Clearing House.
- (n) The FCM Clearing Member agrees to take any and all actions, including but not limited to the execution of any and all documents, requested by the Clearing House in order to perfect, maintain or enforce the security interest granted to the Clearing House hereunder.
- (o) The Clearing House may exercise any and all rights available to it with respect to the security interest granted hereunder, in accordance with the FCM Regulations and Applicable Law.
- (p) Notwithstanding any other provision of this FCM Regulation 14(p), in no event shall the Clearing House's security interests in the property attributable to an FCM Clearing Member's FCM Omnibus Client Account with LCH be security for, or be exercised to satisfy, any obligations or liabilities of (i) such FCM Clearing Member other than in connection with obligations or liabilities relating to such FCM Clearing Member's FCM Omnibus Client Accounts with LCH or (ii) an FCM Client by application of Margin attributable to the FCM Client Sub-Account of a different FCM Client.
- (q) Provided that the Clearing House is not subject to the procedures of FCM Regulation 37 and is not otherwise insolvent, the Clearing House will, notwithstanding Section 9-207 of the New York Uniform Commercial Code, have the right to sell, pledge, rehypothecate, assign, invest, use or otherwise dispose of, or otherwise use in its business any cash Collateral it holds on behalf of an FCM Clearing Member with respect to such FCM Clearing Member's Proprietary Account, free from any claim or right of any nature whatsoever of the relevant FCM Clearing Member, including any equity or right of redemption by such FCM Clearing Member, subject only to any restrictions under Applicable Law (including bankruptcy law). Except to the extent otherwise specified for in the FCM Rulebook, the Clearing House shall retain any and all income, distributions, returns, profits or any other monies received with respect to any such investments or use. For purposes of determining the amount of Collateral held pursuant to the FCM Rulebook by the Clearing House with respect to an FCM Clearing Member's Proprietary Account, the Clearing House will be deemed to continue to hold all such Collateral and to receive any distributions or proceeds

therefrom, regardless of whether the Clearing House has exercised any rights with respect to the Collateral listed in the immediately preceding sentence.

- (r) The Clearing House will, notwithstanding Section 9-207 of the New York Uniform Commercial Code, have the right to maintain or otherwise handle Collateral held by the Clearing House on behalf of FCM Clients (including Collateral deposited in or attributable to an FCM Omnibus Client Account with LCH or any LCH Client Depository Account) in the manner provided in the FCM Rulebook, including investing such Collateral in accordance with FCM Regulations 7(n). Except to the extent otherwise provided for in the FCM Rulebook, the Clearing House shall retain any and all income, distributions, returns, profits or any other monies received with respect to any such investments or use.
- (s) Although each FCM Clearing Member and the Clearing House intend the payment of each Contribution by the FCM Clearing Member to the Clearing House to be an outright payment or transfer by the FCM Clearing Member to the Clearing House (subject to the Clearing House's obligation to repay Contributions pursuant to FCM Default Fund Agreement and/or the Default Fund Rules), in the event that any or all of a Contribution is deemed to be collateral posted to the Clearing House by the FCM Clearing Member (in which the FCM Clearing Member retains an ownership interest), then, notwithstanding clause (m) above, the FCM Clearing Member shall be deemed to have pledged to the Clearing House as security for unconditional payment and satisfaction of each and every obligation and liability of the FCM Clearing Member to the Clearing House under the FCM Rulebook, and the FCM Clearing Member shall be deemed to have granted the Clearing House a first priority security interest in, the amount of any Contribution that has been deemed to be collateral and any income thereon and other proceeds thereof, and the Clearing House shall have all of the rights of use in respect of such Contributions as referenced in FCM Regulation 14(q) and any other additional rights provided for under the FCM Rulebook.
- (t) Each FCM Clearing Member shall ensure that with respect to an FCM Transaction that results in the registration of an FCM Contract on behalf of an FCM Client that is of a "non-hedging nature" (as such term is used in Part 39 the CFTC Regulations), it shall collect or remain furnished with additional FCM Client Funds from the relevant FCM Client in respect of such non-hedging FCM Contract in an amount which shall be no less than the minimum percentage as required by the Clearing House and as notified to the relevant FCM Clearing Member from time to time, as further specified in the FCM Procedures.
- (u) Each FCM Clearing Member shall ensure that no FCM Client withdraws FCM Client Funds from an FCM Client Segregated Depository Account unless the "net liquidating value" (as such term is used in Part 39 of the CFTC Regulations) plus the FCM Client Funds attributable to such FCM Client remaining in such FCM Client Segregated Depository Account after such withdrawal is sufficient to meet the level of Required Margin, as calculated by the Clearing House in respect of all FCM Contracts entered into on behalf of that FCM Client.
- (v) **Gross and Net Margining Requirements – FCM Client Positions.**
  - (i) *Swap Products.* FCM Clients and FCM Contract positions established for FCM Clients in each Business Category of FCM Contract consisting of Swap



Products shall be subject to gross margin requirements on all such positions within each such Business Category of FCM Contract, on an FCM Client by FCM Client basis. Each individual FCM Client's position in any such single Business Category of FCM Contract shall be margined on a net basis, and such margining shall only be netted within that single Business Category of FCM Contract and shall *not* be netted across multiple Business Categories of FCM Contract where such FCM Client has positions in multiple Business Categories of FCM Contract. Each FCM Clearing Member shall require its FCM Clients to satisfy such requirements as applicable.

- (ii) *Futures Products.* FCM Clients and FCM Contract positions established for FCM Clients in each Business Category of FCM Contract consisting of Futures Products shall be subject to gross margin requirements on all such positions within each such Business Category of FCM Contract, on an FCM Client by FCM Client basis. Each individual FCM Client's position in any such single Business Category of FCM Contract shall be margined on a net basis, and such margining shall only be netted within that single Business Category of FCM Contract and shall *not* be netted across multiple Business Categories of FCM Contract where such FCM Client has positions in multiple Business Categories of FCM Contract. Each FCM Clearing Member shall require its FCM Clients to satisfy such requirements as applicable. In relation to this FCM Regulation 14(v), each FCM Clearing Member which clears Futures Products on behalf of FCM Clients shall make reports pursuant to FCM Regulation 7(c).
- (iii) *Foreign Futures Products.* FCM Clients and FCM Contract positions established for FCM Clients in each Business Category of FCM Contract consisting of Foreign Futures Products shall be subject to gross margin requirements on all such positions within each such Business Category of FCM Contract, on an FCM Client by FCM Client basis. Each individual FCM Client's position in any such single Business Category of FCM Contract shall be margined on a net basis, and such margining shall only be netted within that single Business Category of FCM Contract and shall not be netted across multiple Business Categories of FCM Contract where such FCM Client has positions in multiple Business Categories of FCM Contract. Each FCM Clearing Member shall require its FCM Clients to satisfy such requirements as applicable. In relation to this FCM Regulation 14(v), each FCM Clearing Member which clears Foreign Futures Products on behalf of FCM Clients shall make reports pursuant to FCM Regulation 7(ca).
- (w) **Net Margining of Proprietary Accounts.** FCM Contract positions established in an FCM Clearing Member's Proprietary Account shall be subject to net margin requirements with respect to the relevant Business Category of FCM Contract, such that an FCM Clearing Member shall be required to deposit a net margin amount with the Clearing House in connection with all of the FCM Contracts registered in the relevant Proprietary Account for the relevant Business Category of FCM Contract.
- (x) **Required Margin Increase in an FCM Client Sub-Account.** Certain provisions regarding the satisfaction by FCM Clearing Members of their obligations with respect to increases in Required Margin applicable to an FCM Client Sub-Account under both

the Without Client Excess Model and the With Client Excess Model are set forth in FCM Regulation 15(e) and FCM Regulation 15(f), respectively.

- (y) **Required Margin Increase in an FCM Omnibus Futures Client Account with LCH or FCM Omnibus Foreign Futures Client Account with LCH.** If the Required Margin applicable to the FCM Contracts registered to an FCM Omnibus Futures Client Account or an FCM Omnibus Foreign Futures Client Account with LCH is increased by the Clearing House and such increase cannot be immediately satisfied by Excess Margin in such FCM Omnibus Futures Client Account with LCH or an FCM Omnibus Foreign Futures Client Account with LCH, the obligation of the FCM Clearing Member to satisfy such deficit shall be discharged by:
  - (i) the applicable FCM Clearing Member furnishing additional Margin to the Clearing House in respect of the applicable FCM Omnibus Futures Client Account with LCH or the applicable FCM Omnibus Foreign Futures Client Account with LCH; or
  - (ii) if the obligation of the FCM Clearing Member to satisfy the deficit has not been fully discharged pursuant to clause (i) above, by other means (if any) available to the Clearing House in accordance with the FCM Rulebook.
- (z) **Required Margin Increase in a Proprietary Account.** Where the amount of Required Margin applicable to the FCM Contracts of an FCM Clearing Member's Proprietary Account is increased by the Clearing House, the obligation of the applicable FCM Clearing Member to furnish additional Margin to the Clearing House to satisfy such increased Required Margin shall be discharged by:
  - (i) if and to the extent that there is Excess Margin available in the FCM Clearing Member's Proprietary Account, deduction by the Clearing House of amounts from such Excess Margin;
  - (ii) the FCM Clearing Member furnishing additional Margin to the Clearing House in respect of such Proprietary Account; or
  - (iii) if the obligation of the FCM Clearing Member to satisfy the Required Margin has not been fully discharged pursuant to clauses (i) and (ii) above, by other means (if any) available to the Clearing House in accordance with the FCM Rulebook.
- (aa) **Excess Margin in FCM Client Accounts.**
  - (i) *Swap Products.* Certain provisions regarding Excess Margin in FCM Omnibus Swaps Client Accounts with LCH and the FCM Client Sub-Accounts therein (under both the Without Client Excess Model and the With Client Excess Model) are set forth in FCM Regulation 15.
  - (ii) *Futures Products.* An FCM Clearing Member is permitted to maintain Excess Margin with the Clearing House in respect of its FCM Omnibus Futures Client Accounts with LCH. Excess Margin held in an FCM Omnibus Futures Client Account with LCH of an FCM Clearing Member shall be treated as belonging to the FCM Clients of the FCM Clearing Member to the extent such FCM

Clients have FCM Contracts attributed to such FCM Omnibus Futures Client Account with LCH. An FCM Clearing Member may withdraw Excess Margin from an FCM Omnibus Futures Client Account with LCH subject to FCM Regulation 9(b) [and Section 4.1.11 of the FCM Procedures](#) (and in accordance with any other applicable provisions of the FCM Rulebook). Even where an FCM Clearing Member has not requested the return of its Excess Margin held in an FCM Omnibus Futures Client Account with LCH, the Clearing House may, in its discretion, elect at any time to return any such Excess Margin to the applicable FCM Clearing Member. Upon withdrawal or return of Excess Margin from an FCM Omnibus Futures Client Account with LCH, the treatment of any residual interest the FCM Clearing Member may have in such withdrawn collateral will be subject to and governed by FCM Regulation 7(l) and the relevant CFTC Regulations. For the avoidance of doubt, Excess Margin in an FCM Omnibus Futures Client Account with LCH shall not be applied to satisfy obligations of the relevant FCM Clearing Member in its proprietary capacity.

- (iii) *Foreign Futures Products.* An FCM Clearing Member is permitted to maintain Excess Margin with the Clearing House in respect of its FCM Omnibus Foreign Futures Client Accounts with LCH. Excess Margin held in an FCM Omnibus Foreign Futures Client Account with LCH of an FCM Clearing Member shall be treated as belonging to the FCM Clients of the FCM Clearing Member to the extent such FCM Clients have FCM Contracts attributed to such FCM Omnibus Foreign Futures Client Account with LCH. An FCM Clearing Member may withdraw Excess Margin from an FCM Omnibus Foreign Futures Client Account with LCH subject to FCM Regulation 9(b) [and Section 4.1.11 of the FCM Procedures](#) (and in accordance with any other applicable provisions of the FCM Rulebook). Even where an FCM Clearing Member has not requested the return of its Excess Margin held in an FCM Omnibus Foreign Futures Client Account with LCH, the Clearing House may, in its discretion, elect at any time to return any such Excess Margin to the applicable FCM Clearing Member. Upon withdrawal or return of Excess Margin from an FCM Omnibus Foreign Futures Client Account with LCH, the treatment of any residual interest the FCM Clearing Member may have in such withdrawn collateral will be subject to and governed by FCM Regulation 7(l) and the relevant CFTC Regulations. For the avoidance of doubt, Excess Margin in an FCM Omnibus Foreign Futures Client Account with LCH shall not be applied to satisfy obligations of the relevant FCM Clearing Member in its proprietary capacity.
- (bb) **Excess Margin in Proprietary Accounts.** An FCM Clearing Member is permitted to maintain Excess Margin with the Clearing House in respect of its Proprietary Accounts. In accordance with the FCM Procedures, an FCM Clearing Member that is not a Defaulter may request the return of any such Excess Margin and upon such request the Clearing House shall return such Excess Margin, except the Clearing House may determine not to return such Excess Margin [\(i\)](#) where an unsatisfied margin call or obligation of the FCM Clearing Member under the FCM Regulations or [FCM Procedures](#) is outstanding in respect of one or more of such FCM Clearing Member's FCM Omnibus Client Accounts with LCH, including in respect of any FCM Client Sub-Account therein, [or \(ii\) to the extent the restriction under Section](#)

[4.1.11 of the FCM Procedures applies to Excess Margin in the form of non-cash Collateral](#). Even where an FCM Clearing Member has not requested the return of its Excess Margin held in a Proprietary Account, the Clearing House may, in its discretion, elect at any time to return any such Excess Margin to the applicable FCM Clearing Member.

- (cc) **FCM Portfolio Margining Service.** The Clearing House shall provide the FCM Portfolio Margining Service subject to and in accordance with the terms of the FCM Procedures. The FCM Portfolio Margining Service may require the transfer of Futures Products or Foreign Futures Products from an FCM Clearing Member's FCM Omnibus Futures Client Account with LCH or FCM Omnibus Foreign Futures Client Account with LCH to such FCM Clearing Member's FCM Omnibus SwapClear Client Account of LCH.

**REGULATION 15 MARGINING OF SWAP PRODUCT CLIENT ACCOUNTS: CERTAIN ADDITIONAL PROVISIONS; WITHOUT CLIENT EXCESS MODEL; WITH CLIENT EXCESS MODEL**

The contents of this FCM Regulation 15 apply only with respect to the clearing and margining of Swap Products.

- (a) **FCM Buffer.** An FCM Clearing Member is permitted to furnish Collateral that is the property of such FCM Clearing Member (and not of its FCM Clients) to the Clearing House to be attributed to any of its FCM Omnibus Swaps Client Accounts with LCH as excess Margin for the benefit of all of its FCM Clients with positions registered or to be registered in such account, and the value of such Collateral as determined by the Clearing House in accordance with the FCM Rulebook (such value, the “**FCM Buffer**”) shall be recorded by the Clearing House as attributable to such FCM Clearing Member (for the benefit of its FCM Clients) in a sub-account of the applicable FCM Omnibus Swaps Client Account with LCH designated as an FCM Buffer sub-account (each such sub-account, with respect to each FCM Clearing Member, an “**FCM Buffer Sub-Account**”). The use and application of FCM Buffer in the With Client Excess Model and the Without Client Excess Model is further discussed below in paragraphs (e) and (f), respectively, and in the FCM Procedures.
- (b) **Unallocated Excess.**
  - (i) Any Margin attributable to an FCM Omnibus Swaps Client Account with LCH that is not allocated to an FCM Client Sub-Account or the FCM Buffer Sub-Account therein (such Margin, “**Unallocated Excess**”) shall be credited by the Clearing House to the Unallocated Excess sub-account (the “**Unallocated Excess Sub-Account**”) of such FCM Omnibus Swaps Client Account with LCH. The Clearing House shall hold Unallocated Excess for the benefit of the FCM Clients corresponding to such FCM Omnibus Swaps Client Account with LCH as a class (the identities and amounts of which shall be recorded by such FCM Clearing Member and not the Clearing House in accordance with this FCM Regulation 15 and other applicable provisions of the FCM Rulebook), segregated in accordance with the CEA and CFTC Regulations, including Part 22 of the CFTC Regulations. The Clearing House shall treat and record the Unallocated Excess in respect of an FCM Omnibus Swaps Client Account with LCH on an unallocated basis, and the Clearing House shall not attribute any portions of such Unallocated Excess to the individual FCM Clients of such FCM Clearing Member (although the Unallocated Excess shall be held for the benefit of the applicable FCM Clients as a class (in accordance with Part 22 of the CFTC Regulations), the records of which are kept by the applicable FCM Clearing Member).
  - (ii) Each FCM Clearing Member that maintains Unallocated Excess in any of its Unallocated Excess Sub-Accounts on behalf of its applicable FCM Clients shall ensure that its books and records accurately reflect at all times the FCM Client or FCM Clients to which such Unallocated Excess is attributable and the amount attributable to each such FCM Client.
  - (iii) Subject to paragraph (v) below, the Clearing House shall not be permitted to, and shall not, at any time (x) apply any Unallocated Excess to the FCM

Clearing Member's Proprietary Account, or (y) except in accordance with an instruction (provided in accordance with the FCM Rulebook) by the applicable FCM Clearing Member, apply Unallocated Excess to an FCM Client Sub-Account or to the FCM Buffer Sub-Account.

- (iv) Upon the request of an FCM Clearing Member (including as a result of a standing instruction of an FCM Clearing Member) in accordance with the FCM Procedures, the Clearing House will return Unallocated Excess to an FCM Clearing Member. The FCM Clearing Member shall be deemed to represent to the Clearing House, upon making any such request, that any such request complies with the CFTC Regulations and that the returned Unallocated Excess will remain segregated as required under the CFTC Regulations and the FCM Rulebook.
  - (v) Upon the default of an FCM Clearing Member, any Unallocated Excess in such FCM Clearing Member's Unallocated Excess Sub-Accounts shall be held by the Clearing House for the benefit of the applicable FCM Clients in accordance with Part 190 of the CFTC Regulations and Applicable Law, and the Clearing House shall not be permitted to apply any such Unallocated Excess to the obligations of the FCM Clearing Member to the Clearing House (on behalf of its FCM Clients or otherwise) except to the extent required by Applicable Law and/or directed by the applicable bankruptcy trustee or Regulatory Body in accordance with Applicable Law.
  - (vi) Certain additional procedures relating to Unallocated Excess differ based on whether the FCM Omnibus Swaps Client Accounts with LCH to which such Unallocated Excess corresponds is subject to the Without Client Excess Model or the With Client Excess Model, as such models are described in FCM Regulation 15(c) and FCM Regulation 15(d) (and in other applicable provisions of the FCM Rulebook).
- (c) **Without Client Excess Model.** The provisions of this FCM Regulation 15(c) describe certain components of the Clearing House's model for margining, in accordance with Part 22 of the CFTC Regulations, FCM Omnibus Swaps Client Accounts with LCH in a manner which prohibits the maintenance of Excess Margin in FCM Client Sub-Accounts on a day-to-day basis (such model is referred to in the FCM Rulebook as the "**Without Client Excess Model**"). An alternative model which permits such Excess Margin to be maintained (the With Client Excess Model) is described in FCM Regulation 15(d). The Without Client Excess Model is the default model that shall apply to an FCM Clearing Member's FCM Omnibus Swaps Client Accounts with LCH, and such model shall apply to all such accounts except where an FCM Clearing Member, to the extent permitted by the FCM Procedures, applies to and is approved by the Clearing House to have one or more of its FCM Omnibus Swaps Client Accounts with LCH treated in accordance with the alternative model (the With Client Excess Model described in FCM Regulation 15(d)).

The provisions of this FCM Regulation 15(c) apply only to FCM Omnibus Swaps Client Accounts with LCH that are subject to the Without Client Excess Model.

- (i) **Restriction on Excess Margin in FCM Client Sub-Accounts on a Day-to-Day Basis.** Excess Margin is not permitted to be maintained in any FCM

Client Sub-Account on a day-to-day basis. However, an FCM Client's FCM Client Sub-Account is permitted to maintain Excess Margin on an intraday basis. Any Excess Margin attributable to an FCM Client Sub-Account of an FCM Client that exists in such sub-account following a daily close of the FCM Clearing Services shall be transferred by the Clearing House into the corresponding Unallocated Excess Sub-Account on the morning of the following Business Day (and as such, such Excess Margin shall become Unallocated Excess); **provided, that** all sums due from the relevant FCM Clearing Member at such time in respect of the applicable FCM Omnibus Swaps Client Account with LCH have been paid to the Clearing House. If at any time an FCM Clearing Member furnishes Margin to the Clearing House on behalf of an FCM Client in an amount which would cause such FCM Client's FCM Client Sub-Account to contain Excess Margin, the Clearing House shall be permitted to reject the deposit of any such Excess Margin or to immediately transfer any such Excess Margin back to the FCM Clearing Member.

(ii) **Application of FCM Buffer.**

- (A) The Clearing House shall be permitted to apply any portion of an FCM Clearing Member's FCM Buffer (any portion of FCM Buffer when applied, "**Encumbered FCM Buffer**") to any FCM Client Sub-Account held by such FCM Clearing Member in the same FCM Omnibus Swaps Client Account with LCH (in which such FCM Buffer is held) which is in or would become in default.
- (B) At no time shall the Clearing House apply FCM Buffer in an amount that, in respect of an FCM Client, would cause the sum of the FCM Client's FCM Client Sub-Account Balance and the Encumbered FCM Buffer applicable to such FCM Client's FCM Client Sub-Account at such time (if any) to exceed the amount of Required Margin applicable to such FCM Client Sub-Account. In the event that any such excess exists (*e.g.*, due to a decrease in Required Margin, the crediting of additional Margin attributable to such FCM Client, or other reasons) with respect to an FCM Client Sub-Account, the Clearing House shall reduce the amount of Encumbered FCM Buffer applicable to such FCM Client in an amount sufficient to remove any such excess, and any such reduced portion of Encumbered FCM Buffer shall again constitute only FCM Buffer (and shall no longer be considered Encumbered FCM Buffer).
- (C) Other than any Encumbered FCM Buffer applied to an FCM SwapClear Suspension Account, any Encumbered FCM Buffer that is applied to an FCM Client Sub-Account on a Business Day and remains applied to such sub-account at the opening of the relevant FCM Clearing Service on the following Business Day (as necessary to satisfy the applicable Required Margin) shall, at such time, be deemed to become part of such FCM Client's FCM Client Sub-Account Balance and shall thereafter no longer constitute Encumbered FCM Buffer or FCM Buffer.

- (D) An FCM Clearing Member that is not a Defaulter may request the return of any of its FCM Buffer that is not Encumbered FCM Buffer at any time in accordance with the FCM Procedures, and upon such request the Clearing House shall return such FCM Buffer.
  - (E) In the event that an FCM Clearing Member furnishes Collateral to be applied to its FCM Omnibus Swaps Client Account with LCH but does not notify the Clearing House as to whether the Margin in respect of such Collateral should be considered Unallocated FCM Collateral or FCM Buffer, and has not notified the Clearing House that the collateral is attributable to individual FCM Clients, the Clearing House shall treat such Margin as furnished as FCM Buffer and credit it to the FCM Clearing Member's FCM Buffer Sub-Account.
- (iii) **Unallocated Excess.**
- (A) An FCM Clearing Member is permitted to furnish Collateral on behalf of its FCM Clients to be applied as Margin directly to the relevant Unallocated Excess Sub-Account, upon its instruction and with the prior written approval of the Clearing House in accordance with [and subject to](#), the FCM Procedures, and the relevant Margin so furnished shall become Unallocated Excess.
  - (B) An FCM Clearing Member may provide an instruction (provided in accordance with the FCM Rulebook) to the Clearing House directing it to apply all or a portion of its Unallocated Excess to an FCM Client Sub-Account within the corresponding FCM Omnibus Swaps Client Account with LCH.
- (d) **With Client Excess Model.** The provisions of this FCM Regulation 15(d) describe certain components of the Clearing House's model for margining, in accordance with Part 22 of the CFTC Regulations, FCM Omnibus Swaps Client Accounts with LCH in a manner which provides for the maintenance of Excess Margin in FCM Client Sub-Accounts on a day-to-day basis (such model is referred to in the FCM Rulebook as the "**With Client Excess Model**"). FCM Clearing Members may, to the extent provided in the FCM Procedures, apply for the Clearing House's approval to have one or more of its FCM Omnibus Swaps Client Accounts with LCH treated in accordance with the With Client Excess Model. Any FCM Omnibus Swaps Client Account with LCH for which no such approval of the Clearing House has been obtained shall be margined in accordance with the Without Client Excess Model (described in FCM Regulation 15(c)).

The provisions of this FCM Regulation 15(d) apply only to FCM Omnibus Swaps Client Accounts with LCH that are subject to the With Client Excess Model.

- (i) **Excess Margin in FCM Client Sub-Accounts.** An FCM Clearing Member is permitted to maintain Excess Margin with the Clearing House in respect of its FCM Client Sub-Accounts, in accordance with the provisions of the FCM Rulebook.



**Appendix III**  
Procedures Section 4 (Margin and Collateral)



**LCH LIMITED**

**PROCEDURES SECTION 4**

**MARGIN AND COLLATERAL**

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### 1.1.2 *Excess Collateral*

The Clearing House shall, at least once on each business day, notify each Clearing Member of the Required Margin Amount and the Total Required Margin Amount.

If a Clearing Member's Current Collateral Value exceeds the sum of that Clearing Member's Total Required Margin Amount and any other amounts which the Clearing Member is required to transfer to the Clearing House under Applicable Law (such excess, "**excess collateral value**"), then that Clearing Member may, in accordance with Sections 1.3 and 1.4 of these Procedures, Section 1.3.1(f) of Section 3 of the Procedures (*Financial Transactions*) and/or any other operational process the Clearing House determines, request that some or all of the Collateral comprising its Clearing Member Current Collateral Balance (other than any Client Collateral) having a value not exceeding the excess collateral value (such Collateral being referred to in these Procedures as "**excess collateral**") be returned or repaid by the Clearing House to, or to the order of, that Clearing Member. For the avoidance of doubt, for the purposes of determining whether there is an excess collateral value (for the purposes of this Section 1.1.2) at the time of the Clearing Member's request, the Clearing Member's Total Required Margin Amount shall not include the amounts of any margin requirements from the Clearing Member to the Clearing House (whether or not demanded of the Clearing Member) in respect of which the time for performance has not occurred at the time of such request.

In the event that the Clearing House expressly notifies the Clearing Member of a positive excess collateral value and that the Clearing House intends to levy a charge in respect of the excess collateral with effect from a date notified in that notification, and the Clearing Member does not take all reasonable steps to eliminate the positive excess collateral value before the date so notified, the Clearing House may, in its discretion, but only from the date so notified, charge the Clearing Member in respect of the excess collateral at the rate of 1 basis point per day until the excess collateral is eliminated. Payment of this charge shall be collected on a monthly basis through that Clearing Member's PPS sterling account.

If the Clearing House has received a request to return excess collateral, the Clearing House shall promptly take such steps as are necessary to transfer the amount of excess collateral specified in that request to or to the order of the relevant Clearing Member in respect of each account held by the Clearing Member with the Clearing House, provided that:

- (a) the Clearing House shall only be obliged to take such steps with respect to any Collateral pursuant to this Section 1.1.2:
  - (i) to the extent that it constitutes excess collateral;
  - (ii) if the Clearing Member is not a Defaulter;

- (iii) to the extent the Clearing House is permitted to take such steps and make such transfer under Applicable Law and the contractual provisions of any relevant Depository;
  - (iv) if the Clearing House considers it is not necessary or desirable to retain such Collateral in order to effect (or seek to effect) a transfer of Contracts and Collateral from an account of a Clearing Member to another account of a Clearing Member or FCM Clearing Member in accordance with the Rulebook, the FCM Regulations, the FCM Procedures and/or any relevant Collateral Management Agreement; ~~and~~
  - (v) if there is no overnight margin and/or cash call (including an EOD Margin Run call) in respect of the relevant Clearing Member which remains outstanding; and
  - ~~(v)~~ (vi) to the extent the restriction under Section 1.1.8 does not apply to the excess collateral to be returned to the relevant Clearing Member.
- (b) where the Clearing Member has requested that non-cash Collateral of a particular type in respect of an account be transferred, the Clearing House shall transfer such non-cash Collateral unless it determines, acting in a commercially reasonable manner, that transferring such non-cash Collateral would result in the Clearing House being unable to satisfy its policies on concentration limits in respect of the various types of non-cash Collateral held by it from time to time ("**Concentration Limits**"), in which case the Clearing House shall notify the Clearing Member thereof and shall not be obliged to transfer the requested non-cash Collateral; and
  - (c) where the Clearing Member has requested that cash Collateral of a particular currency in respect of an account be transferred, the Clearing House shall transfer such cash Collateral unless it determines, acting in a commercially reasonable manner, that transferring such cash Collateral would result in the account not satisfying the Clearing House's requirement for a minimum amount of cash Collateral in a particular currency to be held in, or attributed to, such account ("**Cash Requirement**"), in which case the Clearing House shall notify the Clearing Member thereof and shall not be obliged to transfer the requested cash Collateral.

### 1.1.3 *Substitution of non-cash Collateral*

At any time, a Clearing Member may notify the Clearing House in accordance with Sections 1.3 and 1.4 of these Procedures that it wishes to substitute any non-cash Collateral in respect of an account which is subject to a Deed of Charge (the "**Original Collateral**") with replacement Collateral in respect of such account having a value not less than the Original Collateral (the "**New Collateral**") (such request being a "**Substitution Request**").

If the Clearing House has received a Substitution Request, it shall, [subject to Section 1.1.8 and](#) promptly following the Clearing House being satisfied that the New Collateral has been transferred to the Clearing House in accordance with Section 1.3 and 1.4, take such steps as are necessary to transfer such Original Collateral to or to the order of the Clearing Member in respect of that particular account, provided that, if the Clearing House determines, acting in a commercially reasonable manner, that following such substitution the Clearing House would be unable to satisfy its Concentration Limits, it shall notify the Clearing Member thereof and shall not be obliged to transfer the Original Collateral.

#### 1.1.4 *Lodgement of non-cash Collateral as replacement for cash Collateral*

Clearing Members must give the Clearing House's Collateral Operations no less than two business days' notice of their intention to transfer to the Clearing House non-cash Collateral with a value of £50 million sterling or more, and which is reasonably likely to have the effect that cash Collateral of a similar value is repayable by the Clearing House to that Clearing Member as a result of such transfer. Collateral Operations must be advised no later than 15:30 two business days prior to the transfer. In the event that a Clearing Member requests the return of such cash Collateral without giving such notice, the Clearing House will decline to release such cash Collateral until the end of the required notice period. The Clearing House may extend the required notice period or vary the minimum Collateral value by written notice to Clearing Members.

#### 1.1.5 *Force Majeure*

The Clearing House will not be liable for any failure, hindrance or delay in the performance (in whole or in part) of any of its obligations to Clearing Members with regard to Collateral where such failure, hindrance or delay arises from causes beyond the control of the Clearing House, such as (but not limited to) the failure (whether partial or total), interruption or suspension of any Depository that the Clearing House is using, the termination or suspension of the Clearing House's membership or use of any Depository or any variation of a Depository's operational timetable, whether or not occasioned by action of the Depository operator or any other party, any embargo, unavailability or restriction of bank transfer systems or wires, malfunction or overload of any Depository, or any other emergency. This provision is without prejudice to the *force majeure* provisions of Clearing Members' agreements with the Clearing House.

#### 1.1.6 *Regulatory and Supervisory Information*

In every case, the Clearing House will be entitled to supply a Depository with all the information it requires for any purposes relating to a Clearing Member or a Clearing Client, or relating to Collateral received by the Clearing House from a Clearing Member or a Custodial Segregated Client which is, or may at any time have been, held by the depository. Collateral that a Clearing Member or a Custodial Segregated Client provides to the Clearing House and that is subject to a Deed of Charge or Client Charge will be lodged and held with

such Depository as the Clearing House may select or allow, subject to the conditions of such Depository, to any Applicable Law and subordinate rules relating thereto, as well as to the terms of the relevant Deed of Charge, Client Charge, Collateral Management Agreement, charge documentation and these Procedures.

#### 1.1.7 *Coupons*

The Clearing House will record coupons that arise in respect of non-cash Collateral of a Clearing Member, taking into account any withheld tax, ("**Coupons**") to such Clearing Member's relevant Client Account or Proprietary Account and to the non-cover ledger within such account (see Section 1.1.4(a)(i) of Section 3 of the Procedures (*Financial Transactions*)) on the appropriate payment date, and such Coupons will be cash Collateral forming part of the Clearing Member Current Collateral Balance of such Client Account or Proprietary Account.

The Clearing House will promptly on or after the appropriate payment date take such steps as are necessary to transfer Coupons to the relevant Clearing Member (except Coupons which are automatically transferred to such Clearing Member by operation of a triparty transaction), provided that the Clearing House shall only be obliged to take such steps pursuant to this Section 1.1.7:

- (a) to the extent that they constitute excess collateral;
- (b) if the Clearing Member is not a Defaulter;
- (c) to the extent the Clearing House is permitted to take such steps and make such transfer under Applicable Law and the contractual provisions of any relevant Depository;
- (d) if the Clearing House considers it is not necessary or desirable to retain such Coupons in order to effect (or seek to effect) a transfer of Contracts and Collateral from an account of a Clearing Member to another account of a Clearing Member or FCM Clearing Member in accordance with the Rulebook, the FCM Regulations, the FCM Procedures and/or any relevant Collateral Management Agreement; and
- (e) if there is no overnight margin and/or cash call (including an EOD Margin Run call) in respect of the relevant Clearing Member which remains outstanding.

#### 1.1.8 *Record Date*

The Clearing House may restrict the lodgement, release and/or transfer of non-cash Collateral on a record date for the payment of a Coupon applicable to such non-cash Collateral where the Clearing House considers this necessary in order to correctly pay such Coupon to the relevant Clearing Member on the Coupon payment date.

#### ~~1.1.8~~1.1.9 *Charges*

The Clearing House will collect any charges incurred as deemed necessary using PPS. Examples of such charges may include a collateral agent's overnight custody charge, transfer charges or any charges relating to the movement of non-cash Collateral. For a list of the Clearing House's custody services fees, please refer to: <http://www.lch.com/members-clients/members/fees-ltd/custody-services>.

#### ~~1.1.9~~1.1.10 *Security Deed*

Notwithstanding clause 5.3 of any Security Deed, a Clearing Member shall provide Collateral to the Clearing House, in respect of an Indirect Gross Account, in accordance with, and subject to, the Rulebook.

#### ~~1.1.10~~1.1.11 *Authorised CSD - Segregation*

A Clearing Member may request that Securities Collateral which the Clearing House holds in an account with an Authorised CSD for the Clearing Member be subject to either Individual CSD-Level Segregation or Omnibus CSD-Level Segregation (each such request, a “**Segregation Request**”).

The Clearing House will, as soon as reasonably practicable after receipt of a Segregation Request and where the Clearing Member is not a Defaulter, implement such Segregation Request.

Each Clearing Member acknowledges that it has read and understood the disclosure document located on the Clearing House website, which relates to the costs, risks and levels of protection associated with Individual CSD-Level Segregation and Omnibus CSD-Level Segregation.

## 1.2 DOCUMENTATION

### 1.2.1 *Deed of Charge*

Clearing Members wishing to transfer non-cash Collateral to the Clearing House must complete and maintain a Deed of Charge. This document establishes a fixed charge over the Clearing Member's interests pursuant to the custody relationship which arises upon specified non-cash Collateral being transferred into an account with the Clearing House by the Clearing Member. The document is required to be executed in accordance with the instructions which accompany it. The Deed of Charge covers, *inter alia*, non-cash Collateral that is transferred to the Clearing House via bilateral settlement or via triparty arrangements. To operate triparty arrangements with the Clearing House, additional documentation must also be executed with the relevant triparty provider.

The Deed of Charge is available from the Clearing House. Where a Clearing Member transfers non-cash Collateral to the Clearing House in respect of a Proprietary Account and a Client Account, it must execute two separate Deeds of Charge.



### 1.3 INSTRUCTIONS VIA CMS

The Clearing House will action instructions relating to Collateral that have been input and authorised via the CMS in accordance with, and subject to, this Section 4 of the Procedures. The details input on the CMS will form the basis of the matching instruction sent to the relevant Depository. Clearing Members must ensure that the details are input correctly in order to avoid unmatched transactions.

It is the responsibility of the Clearing Member to input a cancellation request of any incorrectly input instruction and to subsequently input the correct details in a new instruction. Please note that it may not be possible to cancel an instruction (please refer to Section 1.4.7 below for further details).

The Clearing House will update the status of an instruction in the CMS to reflect the status of the corresponding instruction at the relevant Depository. On settlement of the relevant transaction at the relevant Depository, the Clearing House will reflect the balance of the securities on the relevant account of the Clearing Member and take them into account for the purposes of calculating the Clearing Member's Current Collateral Value.

The relevant account details that a Clearing Member should use for matching transactions at a Depository are located at [www.lch.com/documents/731485/762486/lch-custodian-settlement-accounts-for-margin-collateral-ltd-2809.pdf/6857526e-1d18-4b86-9e4a-bc1b7e2a4234](http://www.lch.com/documents/731485/762486/lch-custodian-settlement-accounts-for-margin-collateral-ltd-2809.pdf/6857526e-1d18-4b86-9e4a-bc1b7e2a4234).

The Clearing House will not be liable for any losses to Clearing Members or third parties caused by non-settlement or by a delay in settlement as a result of the actions or omissions of a Depository or the Clearing Member (save for any liability which may not be excluded by Applicable Law).

### 1.4 SETTLEMENT PROCEDURES – SECURITIES PROVIDED BY A CLEARING MEMBER TO THE CLEARING HOUSE ON A BILATERAL BASIS

All transactions to transfer non-cash Collateral from a Clearing Member to the Clearing House or from the Clearing House to a Clearing Member will be executed free of payment.

#### 1.4.1 *Instruction Deadlines*

Clearing Members may input security instructions via the CMS at any time. Instructions will only be actioned by the Clearing House during operational hours.

The Collateral Operations' operational hours are Monday to Friday 07:00 – 21:00 (UK time).

For settlement in Austraclear, the Collateral Team in Sydney are available Monday to Friday 09:00 – 16:30 (AEST).

Instruction deadlines for same day settlement:

<b>Depository</b>	<b>Deadline for Instructions</b>
Euroclear UK/IE (CREST)	14:00 (UK time)
Euroclear internal	17:00 (UK time)
Fedwire - Citi and BNYMellon	19:00 (UK time)
Austraclear	15:30 (AEST)

The Clearing House will [\(subject to Sections 1.1.2, 1.1.3 and 1.1.8\)](#) input matching instructions to the relevant Depository for same day settlement when the instructions are received prior to the deadlines above.

#### 1.4.2 *Deliveries to and from Local Markets*

The Clearing House is bound by the settlement deadlines of the relevant Depository. Clearing Members should refer to the relevant Depository for these deadlines. Note that for transactions from local markets the settlement deadline may be earlier than the Clearing House hours of operation and should therefore be instructed the day before the settlement date (i.e. on S-1). Instructions to the Clearing House must be provided at least one hour before the market deadline for same day settlement.

For example:

<b>Deliveries from Local Market</b>	<b>Depository Deadline</b>	<b>Instruction Deadline to Clearing House (UK time)</b>
Japan	07.55	17.00 on S-1
Belgium	14.50	13.50 on S
Italy	15.00	14.00 on S

#### 1.4.3 *Transfer of Securities [Collateral](#) from a Clearing Member to the Clearing House*

Instructions for the transfer of securities [Collateral](#) from a Clearing Member to the Clearing House ~~that are must be~~ input via the CMS prior to the deadlines above for same day settlement ~~will (subject to Section 1.1.8) be actioned and~~ ~~S~~ settled transactions will be taken into account for the purposes of calculating the Clearing Member's Current Collateral Value following settlement.

Transfer instructions for future settlement dates will [\(subject to Section 1.1.8\)](#) be instructed same day if received prior to the deadlines. Instructions received after the deadlines will [\(subject to Section 1.1.8\)](#) be instructed the following day.

#### 1.4.4 *Transfer of Securities Collateral from the Clearing House to a Clearing Member*

##### (a) *Release where Sufficient Collateral is Available*

Instructions to release existing securities Collateral of a Clearing Member that are input via the CMS prior to the deadlines above for same day settlement will [\(subject to Sections 1.1.2 and 1.1.8\)](#) be actioned and the Collateral specified in those instructions will [\(subject to Sections 1.1.2 and 1.1.8\)](#) no longer be included when calculating the Clearing Member's Current Collateral Value ~~(in each case subject to Section 1.1.2)~~ on confirmation of those instructions by the Clearing House.

##### (b) *Release where Sufficient Collateral is Unavailable*

Instructions to release existing securities Collateral of a Clearing Member must be input via the CMS before 09:30 UK time. The Clearing Member will then be requested to transfer additional cash Collateral. Following confirmation of the transfer of such cash Collateral, the settlement instruction will, subject to Sections [1.1.2 and 1.1.8](#), be sent to the Depository by the Clearing House and the Collateral specified in those instructions will, subject to Sections [1.1.2 and 1.1.8](#), no longer be included when calculating the Clearing Member's Current Collateral Value.

#### 1.4.5 *Substitutions*

Substitution instructions may be input via the CMS and will, subject to Sections [1.1.3 and 1.1.8](#), and to confirmation of those instructions by the Clearing House, be actioned on the same day if input prior to the deadlines above.

Clearing Members must first input the relevant lodge instruction(s) and then link the associated release instruction(s) to the lodge instruction(s).

#### 1.4.6 *Transfers*

Transfer instructions may be input via the CMS and will [\(subject to Sections 1.1.2 and 1.1.8\)](#) be actioned on the same day during operational hours.

Note: transfers are only permitted between mnemonics of the same Clearing Member and are subject to client segregation rules.

#### 1.4.7 *Settlement Cancellations*

Clearing Members may request the cancellation of an instruction via the CMS. The Clearing House will cancel any instruction that has not yet been processed. The Clearing House will seek, using its best endeavours, to cancel any settlement instructions already sent to the relevant Depository, but cannot guarantee that the transaction will not settle.