



VIA EMAIL TO: SUBMISSIONS@CFTC.GOV

21 November 2013

Ms. Melissa Jurgens  
Commodity Futures Trading Commission  
1155 21<sup>st</sup> Street NW  
Three Lafayette Centre  
Washington DC 20581

Dear Ms. Jurgens:

Pursuant to CFTC regulation §40.6(a), LCH.Clearnet Limited ("LCH.Clearnet"), a derivatives clearing organization registered with the Commodity Futures Trading Commission (the "CFTC"), is submitting for self-certification changes to its rulebook to provide for a new workflow in respect of the registration of transactions that are executed on swap execution facilities (SEFs) or designated contract markets (DCMs) that have been approved by LCH.Clearnet. The rulebook changes will be implemented and effective on 9 December 2013. LCH.Clearnet is also issuing a circular to clarify that, during a brief transition period, the existing workflow will continue to apply to certain SEF or DCM transactions.

Please find attached as appendices the Submission Cover Sheet, draft circular, and relevant changes to the LCH.Clearnet rulebook.

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

Due to recent Commission guidance, LCH.Clearnet is undertaking changes to its trade workflow in respect of the registration of transaction that are executed on SEFs or DCMs ("execution venues") that are approved by LCH.Clearnet.

LCH.Clearnet is amending its FCM Rulebook to provide for a new workflow in respect of the registration of FCM SwapClear Transactions that are executed on SEFs or DCMs that have been approved by LCH.Clearnet (defined as "FCM US Trading Venues"). Such amendments envisage that each FCM Clearing Member will co-ordinate with LCH.Clearnet to establish a list of eligible FCM US Trading Venues for such member (the "FCM Eligible US Trading Venues"). Changes have been included to provide that where an FCM SwapClear Transaction submitted to LCH.Clearnet for clearing on behalf of an FCM Clearing Member is executed on an execution venue that has been approved by LCH.Clearnet and is an FCM Eligible US Trading Venue in respect of such FCM Clearing Member, such FCM SwapClear Transaction will be accepted by LCH.Clearnet on behalf of such member, and such member shall not receive a notice requesting acceptance of such transaction for registration. Where an execution venue has not been approved by LCH.Clearnet or is not an FCM US Eligible Trading Venue in respect of such

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FCM Clearing Member, such transaction will be rejected by LCH.Clearnet. The amendments also include additional limitations on liability with respect to the submission and registration of FCM SwapClear Transactions via an FCM US Trading Venue.

Equivalent changes have been made to the General Regulations and SwapClear Procedures to provide for the equivalent workflow where a SwapClear Clearing Member executes on an Eligible US Trading Venue.

Additionally, LCH.Clearnet is issuing a circular to clarify that between the effective date of the rule amendments and December 22, 2013, each SwapClear Clearing Member may, in accordance with the requirements of LCH.Clearnet, designate one or more execution venues as "Selected US Trading Venues" in respect of such member. During this time, LCH.Clearnet Ltd shall continue to apply the legacy workflow to transactions executed on an execution venue that is reflected in LCH.Clearnet Ltd's internal records as being a Selected US Trading Venue. This is solely to facilitate transition to the new workflow.

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

The implementation of these changes requires amendments to Definitions and Regulation 47(c) of the General Regulations, 2C.3.1, 2C.3.2, 2C.3.4.1, 2C.3.4.2, and 2C.3.8 of the SwapClear Clearing House Procedures, Definitions and Regulation 30 of the FCM Regulations, and 2A.3.1, 2A.3.2, 2A.3.4.1, 2A.3.4.2, and 2A.3.7 of the FCM Procedures. The relevant pages of the rulebook are attached at Appendix III.

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

The changes described above relate primarily to LCH.Clearnet's compliance with Core Principle D (Risk Management), and are designed to ensure compliance with recent Commission guidance. LCH.Clearnet will continue to comply with all Core Principles following the introduction of these changes, including during the transition period, and has concluded that its compliance with the Core Principles would not be adversely affected by these changes.

## **Part IV: Public Information**

LCH.Clearnet has posted a notice of pending certification with the CFTC and a copy of the submission on LCH.Clearnet's website at: [http://www.lchclearnet.com/rules\\_and\\_regulations/ltd/default.asp](http://www.lchclearnet.com/rules_and_regulations/ltd/default.asp).

## **Part V: Opposing Views**

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

## **Certification**

LCH.Clearnet Limited 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 [susan.milligan@lchclearnet.com](mailto:susan.milligan@lchclearnet.com).

Yours sincerely,

A handwritten signature in black ink that reads 'Susan Milligan' followed by a horizontal line.

Susan Milligan  
Interim Chief Compliance Officer, LCH.Clearnet LLC  
US Contact: +1 212.513.8264



Appendix I  
Submission Cover Sheet

Appendix II  
Circular

DRAFT

Company Circular No.: LCH.Clearnet Ltd Circular No.

Service Circular No: SwapClear Circular No.

Date: 9 December 2013

To: All SwapClear Clearing Members (including FCM Clearing Members)

LCH.Clearnet Ltd has amended its Rulebook to provide for a new workflow in respect of the registration of transactions that are executed on swap execution facilities or designated contract markets ("execution venues") that have been approved by LCH.Clearnet Ltd. Such amendments envisage that each SwapClear Clearing Member will co-ordinate with LCH.Clearnet Ltd to establish a list of eligible execution venues for such member. If a transaction submitted to LCH.Clearnet Ltd for clearing on behalf of a SwapClear Clearing Member is executed on an execution venue that:

- (a) either has not been approved by LCH.Clearnet Ltd or is not an eligible execution venue in respect of such SwapClear Clearing Member, such transaction will be rejected by LCH.Clearnet Ltd; and
- (b) has been approved by LCH.Clearnet Ltd and is an eligible execution venue in respect of such SwapClear Clearing Member, such transaction will be accepted by LCH.Clearnet Ltd on behalf of such member, and such member shall not receive a notice requesting acceptance of such transaction for registration (unlike the legacy workflow).

Notwithstanding the above, for the period up to December 22, 2013, each SwapClear Clearing Member may, in accordance with the requirements of LCH.Clearnet Ltd, designate one or more execution venues as "Selected US Trading Venues" in respect of such member. For the duration of such period, LCH.Clearnet Ltd shall continue to apply the legacy workflow to transactions executed on an execution venue that is reflected in LCH.Clearnet Ltd's internal records as being a Selected US Trading Venue. This is solely to facilitate transition to the new workflow, and SwapClear Clearing Members are reminded of their obligations under CFTC Rules 1.73 and 23.609.

The self-certification of the Rulebook amendments can be accessed through the following link: [xx]

For queries please contact:

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Appendix III  
LCH.Clearnet Limited Rulebook

**Definitions**

In these Regulations and the Procedures, except where the context otherwise requires, the following words and expressions shall have the following meanings:

- Account Assets* - Means all cash, margin, securities, receivables, rights, intangibles and any other collateral or assets deposited or held with the Clearing House by a Clearing Member in connection with an account carried by such Clearing Member on behalf of a SwapClear Clearing Client: (i) as cover for and in respect of the clearing of SwapClear Contracts for such SwapClear Clearing Client; and (ii) in the form of Additional Collateral.
- Account Balance* - Means, in relation to the SwapClear Clearing Client Business of a defaulter, an Individual Segregated Account Balance or an Omnibus Net Segregated Account Balance.
- Additional Collateral* - Means, in relation to SwapClear Clearing Client Business, collateral delivered by a SwapClear Clearing Member to the Clearing House in respect of a SwapClear Clearing Client which is in excess of the Required Collateral relating to the SwapClear Clearing Client Business undertaken by the relevant SwapClear Clearing Member in respect of the relevant SwapClear Clearing Client and which has been designated by that SwapClear Clearing Member as being Additional Collateral to be held in the Additional Collateral Account held in respect of that SwapClear Clearing Client.
- Additional Collateral Account* - Means, in relation to SwapClear Clearing Client Business, a sub-account opened by a SwapClear Clearing Member with the Clearing House in respect of a SwapClear Clearing Client for the purposes of holding Additional Collateral.
- Applied FCM Buffer* - Has the meaning assigned to it in the FCM Regulations.
- approved agent* - A person appointed by the Clearing House to perform certain functions on its behalf in respect of an ATP.
- Approved Broker* - A person authorised by the Clearing House to participate as a broker in the LCH EnClear OTC service.
- Approved Trade Source System* - Means a system or facility, such as an exchange, a clearing house, a swap execution facility, a designated contract market, trade affirmation or routing system or other similar venue or system, approved by the Clearing House for executing-submitting SwapClear Transactions to the Clearing House (and excludes, for the avoidance of doubt, the SwapClear API).
- Approved Turquoise Derivatives Settlement Provider* - The securities depository or securities settlement system (or an operator thereof) approved by the Clearing House from time to time for the provision of settlement services in connection with the Turquoise Derivatives Service.
- Approved EquityClear Clearing Agreement* - An agreement prescribed as such by the Clearing House from time to time between an EquityClear Clearing Member, an

<i>Eligible OTC Trade</i>	- A trade eligible for registration in the LCH EnClear OTC Services.
<u><i>Eligible US Trading Venue</i></u>	<u>In respect of a SwapClear Clearing Member, a US Trading Venue for which the Clearing House's records reflect that such SwapClear Clearing Member has completed the Clearing House's process for enabling the SwapClear Clearing Member to be eligible to submit (or have submitted on its behalf) a transaction executed on such US Trading Venue to the Clearing House for registration.</u>
<i>EquityClear ATP Match</i>	- An EquityClear (Equities) ATP Match or EquityClear (ccCFD) ATP Match.
<i>EquityClear Clearing Member</i>	- A Member who is designated by the Clearing House as an EquityClear Clearing Member eligible to clear EquityClear Contracts.
<i>EquityClear(ccCFD) Contract Terms</i>	- The terms applicable to each EquityClear (ccCFD) Contract, where such terms are not specified by the ATP, as set out from time to time in the Schedule to the EquityClear Regulations or the Procedures.
<i>EquityClear (ccCFD) ATP Match</i>	- An EquityClear ATP Match where the relevant ATP Market Rules permit the matching of Trading Platform Particulars that consist of the sale or purchase of an EquityClear Eligible ccCFD and the corresponding purchase or sale, as the case may be, of an EquityClear Eligible ccCFD.
<i>EquityClear (ccCFD) Open Offer</i>	- The open offer made by the Clearing House in respect of an EquityClear (ccCFD) ATP Match meeting the EquityClear (ccCFD) Open Offer Eligibility Criteria.
<i>EquityClear (ccCFD) Contract</i>	- An EquityClear Contract entered into by the Clearing House with an EquityClear Clearing Member on the EquityClear (ccCFD) Contract Terms or such other terms specified by the relevant ATP.
<i>EquityClear Clearing Member</i>	- a Member who is designated by the Clearing House as an EquityClear Clearing Member eligible to clear EquityClear Contracts.
<i>EquityClear Contract</i>	- An EquityClear (Equities) Contract and/or an EquityClear (ccCFD) Contract as the case may be.
<i>EquityClear Contract Terms</i>	- The EquityClear (Equities) Contract Terms and/or the EquityClear (ccCFD) Contract Terms as the case may be.
<i>EquityClear Eligible ccCFD</i>	- A contract for difference in respect of an EquityClear Eligible Underlying Instrument prescribed by the Clearing House and eligible for those prescribed parts of the EquityClear service and which appear in the list or lists published for this purpose from time to time by the Clearing House.
<i>EquityClear Eligible ccCFD Underlying Instruments</i>	- The security, index, commodity, currency pair or other asset or product that is the subject matter of an EquityClear (ccCFD) and which appear in the list or lists published for this purpose

	Orderbook by or on behalf of a relevant Linked Member.
<i>Turquoise Derivatives OTC Trade</i>	- An OTC trade reported to TGHL London in accordance with its Rules for its OTC Service.
<i>Turquoise Derivatives Transactions</i>	- An Orderbook Match, Turquoise Derivatives OTC Trade, Reported Trade, Cross-Border Re-registration and a Cross-Border Transfer.
<i>Unallocated Excess</i>	Has the meaning assigned to it in the FCM Regulations.
<i>Unallocated Excess Sub-Account</i>	Has the meaning assigned to it in the FCM Regulations.
<u><i>US Trading Venue</i></u>	<u>A swap execution facility or designated contract market registered as such with the CFTC which the Clearing House has approved for the purposes of having transactions executed thereon submitted to the Clearing House for registration. For the avoidance of doubt, a US Trading Venue need not be an Approved Trade Source System.</u>
<u><i>US Trading Venue Transaction</i></u>	<u>In respect of a Clearing Member, a transaction recorded in the Clearing House's systems (via applicable messaging from the relevant US Trading Venue, Approved Trade Source System or otherwise) as a transaction that was executed on a swap execution facility or designated contract market that, as at the time of such execution, was an Eligible US Trading Venue in respect of such Clearing Member.</u>
<i>variation margin</i>	- An amount determined by the Clearing House in accordance with the Procedures in respect of original contracts or open contracts (as the case may be) by reference to the difference between the contract value of such contracts (as determined in accordance with the Procedures) and the value of such contracts at official quotations or at such other prices as the Clearing House may determine pursuant to the Procedures. The term "variation margin" shall include daily settlement amounts save where the context otherwise requires.

Terms not otherwise defined have the meaning given to them in the General Regulations of the Clearing House.

Any reference in these Regulations or the Procedures to statutes or statutory instruments or provisions thereof shall be to such statutes or statutory instruments or provisions thereof as amended, modified or replaced from time to time.

Reference to writing contained in these Regulations or the Procedures shall include typing, printing, lithography, photography or any other mode of representing or reproducing words in a visible form.

Words importing the singular shall, where the context permits, include the plural and vice-versa.

Any reference to time contained in these Regulations or the Procedures shall, unless otherwise stated, be to London time. Times are shown using the twenty four hour clock.

**Regulation 47 Registration of SwapClear Contracts**

- (a) A SwapClear Transaction may be presented to the Clearing House for registration as two SwapClear Contracts or one SwapClear Contract, and one FCM SwapClear Contract (in accordance with the other provisions of the Rulebook).
- (b) Once a SwapClear Transaction has been presented to the Clearing House, the Clearing House shall (where applicable in accordance with paragraph (c) below and Section 2C3.2 of the Procedures) request the consent of each of the relevant SwapClear Clearing Members with whom a SwapClear Contract shall be registered as a result thereof to such registration. Upon each such SwapClear Clearing Member providing its consent, such SwapClear Transaction shall be deemed to have been submitted (as such term is defined in the Procedures) to the Clearing House for registration. Any such consent shall be provided in accordance with the Procedures.
- (c) A SwapClear Clearing Member which has been nominated to clear the SwapClear Contract arising from the registration of a SwapClear Transaction on behalf of a third party Executing Party other than a SwapClear Dealer will (only where such SwapClear Transaction is not a US Trading Venue Transaction) be notified by the Clearing House of the relevant SwapClear Transaction and shall choose whether to grant or refuse consent to the registration of such SwapClear Transaction and the SwapClear Contract(s) resulting from such SwapClear Transaction. In circumstances where (i) a SwapClear Clearing Member is an Executing Party in relation to a SwapClear Transaction and shall clear one of the SwapClear Contracts resulting from such SwapClear Transaction, or (ii) a SwapClear Transaction is a US Trading Venue Transaction, the consent of that SwapClear Clearing Member to the registration of the relevant SwapClear Transaction will occur automatically and without the need for any further action by such SwapClear Clearing Member.
- (d) The Clearing House shall register or reject the registration of a SwapClear Contract in respect of a SwapClear Transaction presented for registration subject to, and in accordance with, these Regulations and the Procedures as quickly as would be technologically practicable if fully automated systems were used (the standard required in Part 39 of the CFTC Regulations), provided that:
- (i) both sides of the relevant SwapClear Transaction have been properly presented and submitted for clearing by (or on behalf of the) the Executing Parties;
  - (ii) the relevant SwapClear Transaction meets the eligibility criteria prescribed in the Rulebook at the time the particulars of the SwapClear Transaction are presented to the Clearing House and continues to meet such criteria at the Registration Time;
  - (iii) such SwapClear Contract is consented to by the relevant SwapClear Clearing Member (to the extent such consent is required) in accordance with paragraph (c) above and Section 2C3.2 of the Procedures;
  - (iv) the applicable SwapClear Clearing Member has paid or transferred, upon request of the Clearing House and in accordance with Regulation 12 and such other applicable provisions of the Rulebook, all cover required in respect of such SwapClear Contract prior to registration (taking into account any available MER and/or SwapClear Tolerance, if any); provided that such cover need not be furnished prior to registration as a condition to the registration of such SwapClear Contract unless such SwapClear Contract results from a SwapClear Transaction that is a Block IRS Trade;

## 2C.3 REGISTRATION

### 2C.3.1 Executing Parties and Presentation for Clearing

A SwapClear Transaction may be entered into by and presented for clearing by (or on behalf of), any of the following parties: (1) SwapClear Clearing Members (or the SCM Branches of one of any such SwapClear Clearing Members); (2) SwapClear Dealers; (3) SwapClear Clearing Clients; and (4) FCM SwapClear Members.

The Clearing House receives details of a new eligible SwapClear Transaction using agreed format messages via an Approved Trade Source System. The Approved Trade Source System will send details of a SwapClear Transaction to the Clearing House once it has been bi-laterally agreed by two Executing Parties, or otherwise executed by or on behalf of two Executing Parties on a US Trading Venue or other similar venue or facility, and will confirm which SwapClear Clearing Member(s) has been elected to register the SwapClear Transaction. For the avoidance of doubt, an Executing Party may appoint a third party to present details of a SwapClear Transaction to the Clearing House on its behalf.

### 2C.3.2 Clearing House Notification

In the case of a SwapClear Clearing Member which has been nominated to register a SwapClear Transaction on behalf of a third party Executing Party other than a SwapClear Dealer, the Clearing House will (only where such SwapClear Transaction is not a US Trading Venue Transaction) provide notification to such SwapClear Clearing Member of the relevant SwapClear Transaction and that it has been so nominated, via member reports, the SwapClear API or otherwise (the "Notification"). Where a SwapClear Clearing Member is nominated to clear both SwapClear Contracts arising from the registration of such a SwapClear Transaction (whether for itself or a third party Executing Party) in the capacities described in this paragraph, such SwapClear Clearing Member will receive two separate Notifications from the Clearing House in relation to such SwapClear Transaction. In all other cases, no Notification will be provided to any SwapClear Clearing Member.

In respect of a SwapClear Transaction that is not a US Trading Venue Transaction, Following receipt of a Notification, a SwapClear Clearing Member may choose to grant or refuse consent to register the SwapClear Transaction. It is a condition for registration of such a SwapClear Transaction that a SwapClear Clearing Member grants a separate consent (each a "Necessary Consent") in respect of each Notification received by it in relation to the registration of the relevant such SwapClear Transaction. The Clearing House has an automated system which it operates on each business day (currently at or around 8 pm (London time)) for the purposes of rejecting SwapClear Transactions which have been presented for clearing but in respect of which any Necessary Consent has not been notified to the Clearing House prior to the LCH Cut-off Time. The "LCH Cut-off Time" in respect of a SwapClear Transaction will be the time on the business day following the day when the relevant SwapClear Transaction was presented for clearing at which the reject system is operated by the Clearing House and the relevant SwapClear Transaction is itself rejected by such system. If a SwapClear Clearing Member has not notified the Clearing House of a Necessary Consent by the LCH Cut-off Time, it will be deemed to have rejected the relevant SwapClear Transaction. Any Necessary Consent of a SwapClear Transaction notified by a SwapClear Clearing Member to the Clearing House prior to the LCH Cut-off Time is irrevocable. Any Necessary Consent notified by a SwapClear Clearing Member to the Clearing House after the LCH Cut-off Time shall be invalid.

In circumstances where the registration of a SwapClear Transaction is conditional upon one or more Necessary Consent(s) being notified by the applicable SwapClear Clearing Member(s), the relevant SwapClear Transaction shall be deemed to have been "submitted" to the Clearing House by each such SwapClear Clearing Member at the time when it notifies the Clearing House of its Necessary Consent. In all other circumstances, a SwapClear Transaction shall be "submitted" to the Clearing House by the applicable

SwapClear Clearing Member upon being presented to the Clearing House for clearing by or on behalf of such SwapClear Clearing Member (or its SCM Branch) or by or on behalf of a SwapClear Dealer (acting in such capacity with respect to the relevant SwapClear Transaction) approved to clear SwapClear Transactions through the relevant SwapClear Clearing Member.

In accordance with Section 2C.3.5 of these Procedures, it is a precondition for the registration of a SwapClear Contract that the applicable SwapClear Clearing Member has complied with all requirements to provide sufficient cover (taking into account MER and/or SwapClear Tolerance, if any) to the Clearing House as of the time of "submission" or "deemed submission" of the SwapClear Transaction to which the SwapClear Contract relates, except that such cover shall be required to be furnished prior to registration as a condition thereto only if such SwapClear Transaction is a Block IRS Trade. For the avoidance of doubt, in respect of the registration of a SwapClear Transaction that is a Block IRS Trade, both SwapClear Clearing Members or the relevant SwapClear Clearing Member and FCM Clearing Member must have complied with all requirements to provide sufficient cover (taking into account MER and/or SwapClear Tolerance, if any) at the time when both SwapClear Contracts, or the SwapClear Contract and the FCM SwapClear Contract (as applicable), relating to the relevant SwapClear Transaction have been submitted or deemed to be submitted (as applicable).

### 2C.3.3 Trade Registration Facilitation: SwapClear Tolerance and MER (Minimum Excess Requirement)

In order to facilitate the registration of SwapClear Contracts by SwapClear Clearing Members, the Clearing House may require the delivery of additional cover from those SwapClear Clearing Members participating in the MER Arrangements (as defined below) at the relevant time and may provide SwapClear Tolerance on a daily basis, as further described below.

The Clearing House will set MER requirements (where applicable) and SwapClear Tolerance Limits (as defined below) based on a number of factors, including a SwapClear Clearing Member's credit rating, risk profile, an analysis of the incremental risk registered by a SwapClear Clearing Member during a historic look-back period and, in the case of the overall value of the SwapClear Tolerance which may be made available to a SwapClear Clearing Member, whether the SwapClear Clearing Member is a participant in the MER Arrangements at the relevant time. However, the Clearing House sets MER requirements and SwapClear Tolerance Limits in its sole discretion, and may modify its methodologies at any time or may vary them across different SwapClear Clearing Members.

#### SwapClear Tolerance

If a SwapClear Clearing Member has not delivered sufficient cover (taking into account any delivered with respect to MER) to enable the registration of a SwapClear Contract, then the Clearing House may provide such SwapClear Clearing Member with temporary "tolerance" in the form of initial margin forbearance ("SwapClear Tolerance") to enable such registration. A SwapClear Clearing Member may utilise SwapClear Tolerance in between margin runs on a one-to-one basis to the value of the initial margin that would have been required to cover that SwapClear Clearing Member's initial margin requirements for newly registered SwapClear Contracts registered in between margin runs. For the avoidance of doubt, SwapClear Tolerance is provided in the form of temporary initial margin forbearance and a SwapClear Clearing Member's utilisation of SwapClear Tolerance does not give rise to any payment or transfer of collateral by the Clearing House or result in any use of default fund resources (except following a Default).

The Clearing House will determine, in its sole discretion, the maximum value of the SwapClear Tolerance (which may be zero) (the "SwapClear Tolerance Limit") which it will make available to a SwapClear Clearing Member at any particular time. SwapClear Tolerance is made available by the Clearing House to a SwapClear Clearing Member at the Clearing House's sole discretion. The Clearing House may adjust the value of a

registration. If the SwapClear Clearing Member does not have sufficient cover to enable the registration of such SwapClear Contract, the Clearing House will determine whether there is any unutilised MER Cover related to SwapClear Clearing Client Business and, if so, will attribute the relevant part of such MER Cover to the relevant Individual Segregated Account or Omnibus Net Segregated Account. In this context, the attribution of the MER Cover to the relevant Individual Segregated Account or Omnibus Net Segregated Account means that it will be recorded as initial margin held in relation to such account and shall be treated as part of the Account Balance of such account.

At each end of day margin run, the Clearing House will recalculate and call, on an account by account basis, required margin in respect of the MER requirements of each SwapClear Clearing Member currently participating in the MER Arrangements.

#### 2C.3.4 **Approved Trade Source Systems and US Trading Venues**

##### 2C.3.4.1 Approved Trade Source Systems

Currently, the Approved Trade Source Systems designated by the Clearing House for SwapClear are MarkitWire, Bloomberg, Tradeweb and TrueEx. Where the Clearing House approves additional Approved Trade Source Systems, it will notify SwapClear Clearing Members via a member circular.

SwapClear Transactions presented through an Approved Trade Source System must be in an acceptable message format, as prescribed by the Clearing House.

Notwithstanding the designation by the Clearing House of any system as an Approved Trade Source System, the Clearing House makes no warranty (and will accept no liability) as to the effectiveness, efficiency, performance or any other aspect of the services provided by any Approved Trade Source System or the timeliness or otherwise of the delivery of any SwapClear Transaction details by that Approved Trade Source System to the Clearing House. Such matters form part of the relationship between the SwapClear Clearing Members and that Approved Trade Source System.

The Clearing House will process any SwapClear Transaction reported to it by an Approved Trade Source System on an "as is" basis and, subject to the General Regulations and these Procedures, will register any such SwapClear Transaction on the basis of the data provided to it by the Approved Trade Source System and approved by the relevant SwapClear Clearing Member. The Clearing House has no obligation to verify that the details received properly reflect the trade entered into by the relevant Executing Parties.

The Clearing House accepts no liability for any error within or corruption of any data sent by an Approved Trade Source System to the Clearing House or to a SwapClear Clearing Member or any delay in or failure of the transmission of such data to the Clearing House. In the event that the Clearing House registers any SwapClear Contract on the basis of incorrect or corrupted data sent to it by an Approved Trade Source System and consented to (where applicable) by a SwapClear Clearing Member, the SwapClear Clearing Member concerned shall be bound by the terms of such SwapClear Contract. The Clearing House shall use its reasonable endeavours to assist the relevant SwapClear Clearing Member(s) in re-registering the trade on the correct basis but the Clearing House shall not be liable to a SwapClear Clearing Member or to any other party with regard to the registration (or lack of registration or re-registration) of any such SwapClear Contract.

SwapClear Clearing Members shall ensure that Necessary Consents are provided by appropriately authorised personnel. Apart from in respect of Necessary Consents, the Clearing House is not able to, and will not, verify the authorisation of the source of any details of any transaction reported to it for registration by any Approved Trade Source System. The Clearing House shall have no liability in the event that any SwapClear Clearing Member suffers any loss through the unauthorised granting of a Necessary Consent.

#### 2C.3.4.2 US Trading Venues

While the Clearing House receives details of a SwapClear Transaction via an Approved Trade Source System pursuant to section 2C.3.1 of these Procedures, such Approved Trade Source System may in providing such details to the Clearing House rely upon similar details delivered to it by a US Trading Venue (where such SwapClear Transaction is executed on such US Trading Venue). Additionally, the Clearing House may rely on details relating to a SwapClear Transaction obtained from a US Trading Venue for verification purposes or in order to generate reports or to exercise its rights or discretion under Regulation 47. In this regard, the Clearing House may direct the US Trading Venues to use prescribed format messages or classifications.

Notwithstanding the approval by the Clearing House of any US Trading Venue, the Clearing House makes no warranty (and will accept no liability) as to the effectiveness, efficiency, performance or any other aspect of the services provided by any US Trading Venue or the timeliness or otherwise of the delivery of any SwapClear Transaction details by that US Trading Venue to the Clearing House. Such matters form part of the relationship between the SwapClear Clearing Members and that US Trading Venue.

The Clearing House will process any SwapClear Transaction reported to it by a US Trading Venue on an "as is" basis and, subject to the General Regulations and these Procedures, will register any such SwapClear Transaction on the basis of the data provided to it by the Approved Trade Source System and the relevant US Trading Venue. The Clearing House has no obligation to verify that the details received properly reflect the trade entered into by the relevant Executing Parties or that the US Trading Venue is correctly applying the format messages or classifications that the Clearing House has prescribed.

The Clearing House accepts no liability for any error within or corruption of any data sent by a US Trading Venue to the Clearing House or to a SwapClear Clearing Member or any delay in or failure of the transmission of such data to the Clearing House. In the event that the Clearing House registers any SwapClear Contract on the basis of incorrect or corrupted data sent to it by a US Trading Venue and accepted (whether automatically or manually, as applicable) by a SwapClear Clearing Member, the SwapClear Clearing Member concerned shall be bound by the terms of such SwapClear Contract. The Clearing House shall use its reasonable endeavours to assist the relevant SwapClear Clearing Member(s) in re-registering the trade on the correct basis but the Clearing House shall not be liable to a SwapClear Clearing Member or to any other party with regard to the registration (or lack of registration or re-registration) of any such SwapClear Contract.

#### 2C.3.5 Registration of New Trades

Prior to it registering a SwapClear Contract resulting from a SwapClear Transaction that is a Block IRS Trade, the Clearing House will require the SwapClear Clearing Member in whose name such SwapClear Contract is to be registered to provide it with cover for initial and variation margin in respect of such contract as a precondition to registration (taking into account any MER and/or SwapClear Tolerance, if any). In accordance with Regulation 47(d)(iv), a SwapClear Clearing Member becomes obligated to provide such cover (taking into account MER and/or SwapClear Tolerance, if any) to the Clearing House at the time when both SwapClear Contracts, or the SwapClear Contract and the FCM SwapClear Contract (as applicable), relating to the relevant SwapClear Transaction that is a Block IRS Trade have been submitted or deemed to be submitted (as applicable) by the relevant SwapClear Clearing Member(s) or the relevant SwapClear Clearing Member and FCM Clearing Member (as the case may be) and such SwapClear Clearing Member(s) or such SwapClear Clearing Member and such FCM Clearing Member shall provide such cover prior to registration upon request of the Clearing House. Variation margin can be covered intra-day in non-cash collateral. In respect of a SwapClear Contract resulting from a SwapClear Transaction that is not a Block IRS Trade, the SwapClear Clearing Member in whose name such SwapClear Contract is registered shall furnish the Clearing House

**2C.3.8 Rejected Trades**

Trades submitted for registration that do not meet the product or other eligibility criteria prescribed from time to time by the Clearing House (including a trade submitted by or on behalf of a SwapClear Clearing Member that was executed on (i) a US Trading Venue that was not at the time of execution of such trade an Eligible US Trading Venue in respect of such SwapClear Clearing Member or (ii) a trading venue or facility that had not at the time of the execution of such trade been approved by the Clearing House as a US Trading Venue) or which contain invalid or incomplete message data or with respect to which the Clearing House has not received sufficient cover (taking into account MER and/or SwapClear Tolerance, if any) will be rejected, except that such cover shall be required to be furnished prior to registration as a condition to the registration of such trade only if such trade is a Block IRS Trade. If, at any time, the Clearing House does not register a trade presented for registration it will send to the originating Approved Trade Source System notification of the rejection.

**2C.4 POSITION ACCOUNTS****2C.4.1 SCM Accounts**

For identification purposes each SCM is assigned a unique three-character mnemonic. An SCM's position and financial information are further identified by a single character code: C for segregated client business; and H for house business. The H account is obligatory, the C account is optional.

**2C.4.2 Position-Keeping Accounts****2C.4.2.1 Clearing Member Accounts**

These are identical to Clearing Member accounts as described in Regulation 5. The account types are: H for house business; and C for segregated client business. An SCM's SwapClear positions are also recorded within the SwapClear clearing system in SwapClear Accounts.

**2C.4.2.2 SwapClear Accounts**

The SwapClear clearing system will provide position-keeping accounts for SCMs. A SwapClear Account will be assigned a code identical to the Bank Identifier Code (BIC) of the SCM. Each SwapClear Account must map to a Member Account.

All registered SwapClear Contracts will be identifiable to SCMs via SwapClear Clearing Member reporting (see section 2C.1.3). Each SwapClear Contract will also be assigned a unique trade identifier. The SwapClear Clearing Member reporting functionality also allows SCMs to identify all SwapClear Contracts, registered in their name, and, if submitted by an SD, the submitting SD.

**2C.5 FINANCIAL ACCOUNTS**

Clearing Member accounts have financial accounts associated with them. These are, inter alia, used to record cash balances, and securities/ documentary credits. Information contained within position-keeping accounts is consolidated into financial accounts, as follows:

**2C.5.1 Relationship with Position-Keeping Accounts**

Trading Account	Financial Account
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	House via the relevant FCM Clearing Member and/or via the relevant FCM Approved Trade Source System.
<i>Expiry Month</i>	- A month prescribed by Exchange Rules in respect of an FCM Option Contract.
<i>FCM</i>	- Means a futures commission merchant, as defined in the CEA and the CFTC Regulations promulgated thereunder, that is registered in such capacity with the CFTC.
<i>FCM Approved Trade Source System</i>	- Means a system or facility, such as an exchange, a clearing house, a swap execution facility, a designated contract market, <u>trade affirmation or routing system</u> or other similar venue <u>or system</u> , approved by the Clearing House for <del>executing FCM Transactions and/or</del> submitting or presenting <del>such</del> FCM Transactions to the Clearing House. For the avoidance of doubt, the "SwapClear API" is not an FCM Approved Trade Source System.
<i>FCM Buffer</i>	- Has the meaning assigned to such term in FCM Regulation 9A(a).
<i>FCM Buffer Sub-Account</i>	- Has the meaning assigned to such term in FCM Regulation 9A(a).
<i>FCM Clearing Member</i>	- Means an FCM that has been approved by the Clearing House for the clearing of one or more categories of FCM Contracts on behalf of FCM Clients, in accordance with an FCM Clearing Membership Agreement and the FCM Procedures, and pursuant to these FCM Regulations, and as such is a "Clearing Member" for all purposes under the Default Rules, the Default Fund Rules and the FCM Default Fund Agreement, unless otherwise specified in these FCM Regulations.
<i>FCM Clearing Membership Agreement</i>	- Means the agreement so designated under which, inter alia, the Clearing House agrees to make available clearing services to an FCM Clearing Member in respect of FCM Contracts together with any ancillary agreements.
<i>FCM Clearing Services</i>	- Means the FCM SwapClear Clearing Services, the FCM ForexClear Clearing Services, the FCM EnClear Clearing Services and the FCM Nodal Clearing Services, collectively.
<i>FCM Client</i>	- Means a client of an FCM Clearing Member (but not including Affiliates of such FCM Clearing Member) with positions in FCM Contracts on behalf of which the FCM Clearing Member provides FCM Clearing Services and clears FCM Contracts; <u>provided</u> , that any such client is only an FCM Client with respect to its positions in FCM Contracts.

<i>FCM Client Business</i>	-	Means the provision of FCM Clearing Services by an FCM Clearing Member to its FCM Clients.
<i>FCM Client Funds</i>	-	Means FCM Swaps Client Funds and/or FCM Futures Client Funds, as the context may require.
<i>FCM Client Segregated Depository Account</i>	-	Means an FCM Swaps Client Segregated Depository Account or an FCM Futures Client Segregated Depository Account, as the context may require.
<i>FCM Client Sub-Account</i>	-	Means an individual segregated sub-account on behalf of an individual FCM Client, established on the books of the Clearing House as a sub-account of the relevant FCM Omnibus Swaps Client Account with LCH of an FCM Clearing Member which shall reflect the relevant Margin balance attributable to such sub-account, and the relevant FCM Contracts registered to such sub-account and carried for such FCM Client by its FCM Clearing Member, based on information provided by the applicable FCM Clearing Member and/or an FCM Approved Trade Source System to the Clearing House. Each FCM Client will have an FCM Client Sub-Account in the relevant FCM Omnibus Swaps Client Account with LCH for each Business Category of FCM Contracts in which such FCM Client clears Swap Products.
<i>FCM Client Sub-Account Balance</i>	-	Means, at any given time, the legally segregated value of the Margin balance attributable to an FCM Client Sub-Account of the relevant FCM Client as determined by the Clearing House in accordance with the FCM Rulebook. For the avoidance of doubt, an FCM Client Sub-Account Balance at no time reflects the value of any FCM Buffer (including any Encumbered FCM Buffer) or the value of any Unallocated Excess.
<i>FCM Contract</i>	-	Means an FCM SwapClear Contract, an FCM ForexClear Contract, an FCM EnClear Contract or an FCM Nodal Contract. " <i>FCM Contracts</i> " means FCM SwapClear Contracts, FCM ForexClear Contracts, FCM EnClear Contracts and FCM Nodal Contracts, collectively.
<i>FCM Contract Terms</i>	-	Means the FCM SwapClear Contract Terms, the FCM ForexClear Contract Terms, the FCM EnClear Contract Terms and the FCM Nodal Contract Terms, collectively.
<i>FCM Default Fund Agreement</i>	-	Means an agreement in a form prescribed by the Clearing House, entered into between an FCM Clearing Member and the Clearing House relating to the Clearing House's default fund.
<u><i>FCM Eligible US Trading Venue</i></u>	-	<u>Means, in respect of an FCM Clearing Member, an FCM US Trading Venue for which the Clearing House's records reflect that such FCM Clearing Member has completed the Clearing House's process for enabling the FCM Clearing Member to be eligible to submit (or have submitted on its behalf) a transaction executed on such</u>

US Trading Venue to the Clearing House for registration.

- FCM EnClear Clearing Services* - Means the services provided by an FCM Clearing Member in connection with FCM EnClear Contracts cleared on behalf of its FCM Clients or its Affiliates, as the case may be.
- FCM EnClear Clearing Member* - Means an FCM Clearing Member approved by the Clearing House (in accordance with the FCM Regulations and the FCM Procedures) to clear FCM EnClear Transactions and register FCM EnClear Contracts.
- FCM EnClear Contract* - Means a contract that is registered for clearing and is entered into by the Clearing House with an FCM Clearing Member on the FCM EnClear Contract Terms, and which is governed by these FCM Regulations.
- FCM EnClear Contract Terms* - Means the terms applicable to each FCM EnClear Contract as set out from time to time in the FCM Regulations.
- FCM EnClear Product Eligibility Criteria* - Means the product criteria set out in paragraph 1.2 of Part B of Schedule C to these FCM Regulations.
- FCM EnClear Transaction* - Means any transaction entered into between two Executing Parties for purposes of having at least one side of such transaction registered with the Clearing House as an FCM EnClear Contract, and the other side of such transaction registered with the Clearing House as either an FCM EnClear Contract or a Non-FCM EnClear Contract.
- FCM Exchange Contract* - Means an FCM Contract arising out of a transaction executed on a market administered by an Exchange in accordance with the Exchange Rules of the relevant Exchange. Such FCM Contracts are: FCM Nodal Contracts.
- FCM Exchange Contract Subject to Delivery Notice* - Means a Physically-Settled FCM Exchange Contract in respect of which a Delivery Notice has been given, and which has not been closed out, settled or invoiced back, in accordance with the FCM Rulebook.
- FCM Exchange Transaction* - Means a transaction entered on, or subject to, the Exchange Rules of the relevant Exchange of which particulars are to be presented to the Clearing House for registration as (i) an FCM Exchange Contract in the name of the relevant FCM Clearing Member in accordance with the relevant Exchange Rules, and the FCM Regulations and FCM Procedures and (ii) as applicable, as either (A) a second such FCM Exchange Contract or (B) a "Cleared Exchange Contract" with a Non-FCM Clearing Member governed by the UK General Regulations.

- FCM Transaction* - Means either an FCM SwapClear Transaction, an FCM ForexClear Transaction, an FCM EnClear Transaction, or an FCM Exchange Transaction (including an FCM Nodal Transaction), as applicable.
- FCM US Trading Venue* - Means a swap execution facility or designated contract market registered as such with the CFTC which the Clearing House has approved for the purposes of having transactions executed thereon submitted to the Clearing House for registration. For the avoidance of doubt, an FCM US Trading Venue need not be an FCM Approved Trade Source System.
- FCM US Trading Venue Transaction* - Means, in respect of an FCM Clearing Member, a transaction recorded in the Clearing House's systems (via applicable messaging from the relevant FCM US Trading Venue, FCM Approved Trade Source System or otherwise) as a transaction that was executed on a swap execution facility or designated contract market that, as at the time of such execution, was an FCM Eligible US Trading Venue in respect of such FCM Clearing Member.
- First EnClear Clearing Member* - Has the meaning assigned to it in FCM Regulation 51(a).
- First Nodal Clearing Member* - Has the meaning assigned to it in FCM Regulation 61(a).
- ForexClear Clearing Member* - Means a person who is designated as such by the Clearing House pursuant to the UK General Regulations and who is not an FCM Clearing Member.
- ForexClear Contribution* - Means, in relation to the Default Fund Rules, the meaning assigned to it in rule 17 of the Default Fund Rules.
- ForexClear DMP* - Has the meaning assigned to it in the ForexClear DMP Annex of the Default Rules.
- Futures Account Class* - Means the account class for futures accounts (as defined in CFTC Regulation 190.01(a)(i)) for purposes of Part 190 of the CFTC Regulations and Section 4d(a) of the CEA.
- Futures/Options Contract* - Means the type of contract which is either (i) a contract for the purchase or sale of a commodity for future delivery that is traded on or subject to the rules of an Exchange, (ii) an option on any such contract or (iii) any similar type of contract, and which, in the case of any of the foregoing, is required to be segregated (along with any related margin) pursuant to Section 4d(a) of the CEA if cleared by an FCM for a customer.
- Futures Product* - Means a Product which constitutes a Futures/Options Contract. Such Products are: FCM Nodal Contracts.

**PART II – REGULATIONS APPLICABLE TO FCM SWAPCLEAR CONTRACTS****Regulation 30 Registration of FCM SwapClear Contracts; Novation and Post-Novation Compression; SwapClear Accounts**

- (a) In order for an FCM to register an FCM SwapClear Contract in respect of the registration of an FCM SwapClear Transaction, the FCM must be currently approved as an FCM Clearing Member pursuant to these FCM Regulations. The Executing Parties to such FCM SwapClear Transaction shall be responsible for any give-up or other agreement mutually agreed to among the parties with respect to such transactions, as applicable. An FCM Clearing Member must submit the particulars of an FCM SwapClear Transaction for registration as two FCM SwapClear Contracts or one FCM SwapClear Contract and one Non-FCM SwapClear Contract (as the case may be) in accordance with these FCM Regulations. Each FCM SwapClear Transaction involving an FCM Client shall be presented to the Clearing House for registration on behalf of such FCM Client by its FCM Clearing Member.
- (b) Where an Executing Party enters into an FCM SwapClear Transaction ~~on an FCM Approved Trade Source~~ and such FCM SwapClear Transaction is to be cleared through an FCM Clearing Member, the Clearing House shall (only where such FCM SwapClear Transaction is not an FCM US Trading Venue Transaction) notify the FCM Clearing Member of such FCM SwapClear Transaction and request acceptance for registration in accordance with the FCM Procedures. Upon (i) receipt of acceptance for registration by the Clearing House from the FCM Clearing Member (where such FCM SwapClear Transaction is not an FCM US Trading Venue Transaction), and (ii) receipt of the FCM SwapClear Transaction details by the Clearing House in accordance with the FCM Procedures (where such FCM SwapClear Transaction is an FCM US Trading Venue Transaction), the FCM Clearing Member shall be deemed to have presented the FCM SwapClear Transaction to the Clearing House (and such presentation may not be withdrawn by the FCM Clearing Member unless otherwise provided in the FCM Rulebook) and the Clearing House shall register the FCM SwapClear Transaction subject to, and in accordance, with these FCM Regulations and the FCM Procedures.
- (c) Without prejudice to the Clearing House's rights under paragraph (g) of this FCM Regulation 30, an FCM Clearing Member shall be bound by an FCM SwapClear Contract registered in its name on behalf of an FCM Client or an Affiliate ~~pursuant to the presentation of particulars of an FCM SwapClear Transaction by it, and by the other FCM Clearing Member or Non-FCM Clearing Member, as applicable.~~
- (d) The Clearing House shall register or reject the registration of an FCM SwapClear Contract in respect of an FCM SwapClear Transaction presented for registration subject to, and in accordance with, these FCM Regulations and the FCM Procedures as quickly as would be technologically practicable if fully automated systems were used (the standard required in Part 39 of the CFTC Regulations), provided that:
- (i) both sides of the relevant FCM SwapClear Transaction have been properly presented and submitted for clearing by (or on behalf of) the Executing Parties;

- (ii) the relevant FCM SwapClear Transaction meets the FCM SwapClear Product Eligibility Criteria prescribed in the FCM Rulebook at the time the particulars of the FCM SwapClear Transaction are presented to the Clearing House and continues to meet such criteria at the Registration Time;
- (iii) each FCM SwapClear Contract resulting from an FCM SwapClear Transaction that is not an FCM US Trading Venue Transaction is consented to by the relevant FCM Clearing Member (~~automatically or~~ otherwise) in accordance with paragraph (b) above and Section 2A.3.2 of the FCM Procedures;
- (iv) the applicable FCM Clearing Member has furnished, upon request of the Clearing House and in accordance with FCM Regulation 9 and such other applicable provisions of the FCM Rulebook, all required Margin in respect of such FCM SwapClear Contract prior to registration (taking into account any available SwapClear Tolerance, if any); provided that such Margin need not be furnished prior to registration as a condition to the registration of such FCM SwapClear Contract unless such FCM SwapClear Contract results from an FCM SwapClear Transaction that is a Block IRS Trade; and
- (v) all the conditions applicable (under the terms of the FCM Rulebook or the UK General Regulations, as the case may be) for the registration of the Non-FCM SwapClear Contract or the other FCM SwapClear Contract (as the case may be) deriving from the relevant FCM SwapClear Transaction, have been satisfied.

If for any reason in respect of an FCM SwapClear Contract the other corresponding FCM SwapClear Contract or Non-FCM SwapClear Contract (as the case may be) is not registered by the Clearing House, the Clearing House shall de-register such FCM SwapClear Contract and shall not have any liability whatsoever to any FCM Clearing Member or to any other person (including any SwapClear Dealer (as such term is defined in the UK General Regulations)) in contract, tort (including negligence), trust, as a fiduciary or under any other cause of action in respect of any damage, loss, cost or expense of whatsoever nature suffered or incurred as a result of such de-registration.

- (e) The Clearing House shall be deemed to register an FCM SwapClear Contract, in accordance with this FCM Regulation 30 in the name of an FCM Clearing Member on behalf of an FCM Client or an Affiliate (or, if applicable, on the FCM Clearing Member's own behalf), at the time prescribed in the FCM Procedures ("*Registration Time*"). At the Registration Time, the FCM Clearing Member, and the FCM Client or Affiliate if applicable, will be deemed to be bound by the relevant FCM SwapClear Contract on the terms entered into between the FCM Clearing Member and the Clearing House automatically and without any further action by such FCM Clearing Member or FCM Client or Affiliate, which such terms shall, without limitation, incorporate all applicable terms of these FCM Regulations and Schedule A hereto.
- (f) If at any time after registration of an FCM SwapClear Contract, the Clearing House determines that the corresponding FCM SwapClear Transaction of which details

An end-user report generation and analytical capability is provided by the Clearing House to FCM Clearing Members. All FCM SwapClear reports will be disseminated via the Clearing House's secure password access FCM Clearing Member-only website. These reports are the definitive record as to registration by the Clearing House.

The Clearing House is not liable for any corruption or alteration of messages or loss of data which may take place within any FCM Approved Trade Source System.

FCM Clearing Members will be able to customize and produce reports either to print locally or to download in machine-readable data-file format. Queries about the FCM Clearing Member-only website should be directed to the Clearing House's Service Desk at +44 (0)20 7426 7200.

## **2A.2 Operating Times And Calendars**

### **2A.2.1 Opening Days**

The Clearing House will publish a circular detailing the days on which the FCM SwapClear clearing system will be open.

### **2A.2.2 Opening Hours**

Unless notified otherwise, the FCM SwapClear clearing system will be operational during the following hours:

07:30 to 24:00 hours, London time (a "**Business Day**").

However, FCM Clearing Members should note that FCM Acceptances of an FCM Notification submitted during a Business Day shall be accepted by the Clearing House until 00:01 on the following day. The Clearing House will notify FCM Clearing Members in the event that the FCM SwapClear clearing system is scheduled for closure for operational or other reasons (including compression runs).

### **2A.2.3 FCM SwapClear Clearing System Calendars**

The FCM SwapClear clearing system uses the SwapsMonitor Financial Calendar for its processing. This will require all FCM Clearing Members to be licensees of the SwapsMonitor Financial Calendar. The calendars, as applicable to the FCM SwapClear clearing system, will be available online for inspection and for file download from FCM Clearing Member Reporting (see Section 2A.1.3).

## **2A.3 Registration**

### **2A.3.1 Submission for Registration**

The Clearing House receives details of a new eligible FCM SwapClear Transaction using agreed format messages via an FCM Approved Trade Source System. The FCM Approved Trade Source System will send these trades to the Clearing House once they have been bi-laterally agreed by two Executing Parties, or otherwise executed by or on behalf of two Executing Parties on an FCM US Trading Venue or other similar venue or facility, and will confirm which FCM Clearing Member(s) has been elected to register the FCM SwapClear Transaction.

## 2A.3.2 Clearing House Notification Conditions to Registration

### 2A.3.2.1 Non - FCM US Trading Venue Transactions

In respect of an FCM SwapClear Transaction that is not an FCM US Trading Venue Transaction, Following receipt of information from the FCM Approved Trade Source System, the Clearing House will notify the relevant FCM Clearing Member(s), via member reports, the SwapClear API or otherwise, that an Executing Party has elected it to register the FCM SwapClear Transaction with the Clearing House (the "**FCM Notification**").

Following receipt of the FCM Notification, an FCM Clearing Member may choose to accept or refuse to register the FCM SwapClear Transaction on behalf of the Executing Party.

Where an FCM Clearing Member accepts registration of the FCM SwapClear Transaction and notifies the Clearing House of such acceptance, (such acceptance, the "**FCM Acceptance**"), the FCM Clearing Member shall, pursuant to FCM Regulation 30(b), be deemed to have presented the FCM SwapClear Transaction for clearing.

It is a condition for registration of an FCM SwapClear Transaction that is not an FCM US Trading Venue Transaction that, where both Executing Parties intend to register the FCM SwapClear Transaction through an FCM Clearing Member, both FCM Clearing Members accept the FCM Notification (or where such Executing Parties nominate the same FCM Clearing Member and such FCM Clearing Member accepts both acceptances) and therefore submit the FCM SwapClear Transaction to the Clearing House. In accordance with Section 2A.3.5 of these FCM Procedures, it is a precondition for registration of an FCM SwapClear Contract resulting from an FCM SwapClear Transaction that is not an FCM US Trading Venue Transaction that, no later than the Clearing House's receipt of an FCM Acceptance, the applicable FCM Clearing Member has complied with all requirements to furnish sufficient Margin (taking into account available SwapClear Tolerance, if any) in respect of such FCM SwapClear Contract, except that such Margin shall be required to be furnished prior to registration as a condition thereto only if such FCM SwapClear Contract results from an FCM SwapClear Transaction that is a Block IRS Trade. For the avoidance of doubt, in respect of the registration of such an FCM SwapClear Transaction that is a Block IRS Trade, both FCM Clearing Members must have complied with all requirements to furnish sufficient Margin (taking into account available SwapClear Tolerance, if any) at the time of the Clearing House's receipt of the second FCM Acceptance in accordance with the foregoing.

### 2A.3.2.2 FCM US Trading Venue Transactions

In respect of an FCM US Trading Venue Transaction, the relevant FCM Clearing Member shall, pursuant to FCM Regulation 30(b), be deemed to have presented the FCM SwapClear Transaction for clearing when the Clearing House receives details of the FCM SwapClear Transaction via an FCM Approved Trade Source System pursuant to Section 2A.3.1 of these FCM Procedures.

In accordance with Section 2A.3.5 of these FCM Procedures, it is a precondition for registration of an FCM SwapClear Contract resulting from an FCM US Trading Venue Transaction that, no later than the Clearing House's receipt of the relevant details of the FCM SwapClear Transaction pursuant to Section 2A.3.1, both the

FCM Clearing Members have complied with all requirements to furnish sufficient Margin (taking into account available SwapClear Tolerance, if any) in respect of such FCM SwapClear Contract, except that such Margin shall be required to be furnished prior to registration as a condition thereto only if such FCM SwapClear Contract results from an FCM SwapClear Transaction that is a Block IRS Trade.

### 2A.3.3 Trade Registration Facilitation: SwapClear Tolerance and Minimum Excess Requirement ("MER")

In order to facilitate the registration of new FCM SwapClear Transactions by FCM Clearing Members, the Clearing House may require the furnishing of additional Margin from those FCM Clearing Members participating in the MER Arrangements (as defined below) at the relevant time and may offer SwapClear Tolerance on a daily basis, as further described below.

The Clearing House will set MER requirements (where applicable) and SwapClear Tolerance Limits (as defined below) based on a number of factors, including an FCM Clearing Member's credit rating and risk profile, an analysis of the incremental risk registered by an FCM Clearing Member during an historic look-back period and, in the case of the overall value of the SwapClear Tolerance which may be made available to an FCM Clearing Member, whether the FCM Clearing Member is a participant in the MER Arrangements at the relevant time. However, the Clearing House sets MER requirements and SwapClear Tolerance Limits in its sole discretion, and may modify its methodologies at any time or may vary it across different FCM Clearing Members.

#### SwapClear Tolerance:

If an FCM Clearing Member has not furnished sufficient Margin to enable the registration of an FCM SwapClear Contract, then the Clearing House may provide such FCM Clearing Member with temporary "tolerance" in the form of Initial Margin forbearance ("**SwapClear Tolerance**") to enable such registration. An FCM Clearing Member may utilize SwapClear Tolerance in between margin runs on a one-to-one basis to the value of the Initial Margin that would have been required to cover that FCM Clearing Member's Initial Margin requirements for newly registered FCM SwapClear Contracts registered in between margin runs. For the avoidance of doubt, SwapClear Tolerance is provided in the form of temporary Initial Margin forbearance and an FCM Clearing Member's utilization of SwapClear Tolerance does not give rise to any payment or transfer of Collateral by the Clearing House or result in any use of Default Fund resources (except following a default).

The Clearing House will determine, in its sole discretion, the maximum value of the SwapClear Tolerance (which may be zero) (the "**SwapClear Tolerance Limit**") which it will make available to an FCM Clearing Member at any particular time. SwapClear Tolerance is made available by the Clearing House to an FCM Clearing Member at the Clearing House's sole discretion. The Clearing House may adjust the value of an FCM Clearing Member's SwapClear Tolerance Limit, and/or require an FCM Clearing Member to provide Initial Margin in respect of any utilized SwapClear Tolerance, at any time and without prior notice to the relevant FCM Clearing Member. The Clearing House will provide each FCM Clearing Member with information regarding its SwapClear Tolerance Limit and will, as promptly as reasonably practicable, notify it following any adjustment to the amount of its SwapClear Tolerance Limit. Subject to the above, an FCM Clearing Member will typically be required to furnish Initial Margin in respect of any SwapClear Tolerance utilized by it in the margin run immediately following the time of the relevant

At each End of Day margin run, the Clearing House will recalculate and call, on an account by account basis, Required Margin in respect of the MER requirements applicable to each FCM Clearing Member participating in the MER Arrangements on such day.

#### 2A.3.4 SwapClear FCM Approved Trade Source Systems and FCM US Trading Venues

##### 2A.3.4.1 FCM Approved Trade Source Systems

Currently the FCM Approved Trade Source Systems designated by the Clearing House for SwapClear are MarkitWire, Bloomberg and Tradeweb. Where the Clearing House approves additional FCM Approved Trade Source Systems, it will notify FCM Clearing Members via member circular.

FCM SwapClear Transactions submitted through an FCM Approved Trade Source System must be in an acceptable message format, as prescribed by the Clearing House.

Notwithstanding the designation by the Clearing House of any system as an FCM Approved Trade Source System, the Clearing House makes no warranty (and will accept no liability) as to the effectiveness, efficiency, performance or any other aspect of the services provided by any FCM Approved Trade Source System or the timeliness or otherwise of the delivery of any FCM SwapClear Transaction details by that FCM Approved Trade Source System to the Clearing House. Such matters form part of the relationship between the FCM Clearing Members and that FCM Approved Trade Source System.

The Clearing House will process any FCM SwapClear Transaction reported to it by an FCM Approved Trade Source System on an "as is" basis, and subject to the FCM Regulations and these FCM Procedures, will register any such FCM SwapClear Transaction on the basis of the data provided to it by the FCM Approved Trade Source System and approved by the relevant FCM Clearing Member. The Clearing House has no obligation to verify that the details received, properly reflect the trade entered into by the relevant Executing Parties.

The Clearing House accepts no liability for any error within or corruption of any data sent by an FCM Approved Trade Source System to the Clearing House or to an FCM Clearing Member or any delay in or failure of the transmission of such data to the Clearing House. In the event that the Clearing House registers any FCM SwapClear Contract on the basis of incorrect or corrupted data sent to it by an FCM Approved Trade Source System and accepted by an FCM Clearing Member, the FCM Clearing Member concerned shall be bound by the terms of such FCM SwapClear Contract. The Clearing House shall use its reasonable endeavors to assist the relevant FCM Clearing Members in re-registering the trade on the correct basis but the Clearing House shall not be liable to the FCM Clearing Member or anyone else with regard to the registration (or lack of registration or re-registration) of any such FCM SwapClear Contract.

FCM Clearing Members shall ensure that transaction details accepted for registration are accepted by appropriately authorized personnel. Apart from the foregoing acceptance, the Clearing House is not able to, and will not, verify the authorization of the source of any details of any transaction reported to it for registration by any FCM Approved Trade Source System. The Clearing House

shall have no liability in the event that any FCM Clearing Member suffers any loss through the unauthorized acceptance of an FCM Notification.

#### **2A.3.4.2 FCM US Trading Venues**

While the Clearing House receives details of an FCM SwapClear Transaction via an FCM Approved Trade Source System pursuant to Section 2A.3.1 of these FCM Procedures, such FCM Approved Trade Source System may in providing such details to the Clearing House rely upon similar details delivered to it by an FCM US Trading Venue (where such FCM SwapClear Transaction is executed on such FCM US Trading Venue). Additionally, the Clearing House may rely on details relating to an FCM SwapClear Transaction obtained from an FCM US Trading Venue for verification purposes or in order to generate reports or to exercise its rights or discretion under Regulation 30. In this regard, the Clearing House may direct the FCM US Trading Venues to use prescribed format messages or classifications.

Notwithstanding the approval by the Clearing House of any FCM US Trading Venues, the Clearing House makes no warranty (and will accept no liability) as to the effectiveness, efficiency, performance or any other aspect of the services provided by any FCM US Trading Venue or the timeliness or otherwise of the delivery of any FCM SwapClear Transaction details by that FCM US Trading Venue. Such matters form part of the relationship between the FCM Clearing Members and that FCM US Trading Venue.

The Clearing House will process any FCM SwapClear Transaction reported to it by an FCM US Trading Venue on an "as is" basis, and subject to the FCM Regulations and these FCM Procedures, may register any FCM SwapClear Contract arising from such FCM SwapClear Transaction on the basis of the data provided to it by the FCM Approved Trade Source System and the relevant FCM US Trading Venue. The Clearing House has no obligation to verify that the details received properly reflect the trade entered into by the relevant Executing Parties or that the FCM US Trading Venue is correctly applying the format messages or classifications that the Clearing House has prescribed.

The Clearing House accepts no liability for any error within or corruption of any data sent by an FCM US Trading Venue to the Clearing House or any delay in or failure of the transmission of such data to the Clearing House. In the event that the Clearing House registers any FCM SwapClear Contract on the basis of incorrect or corrupted data recorded by it or sent to it by an FCM US Trading Venue, the FCM Clearing Member concerned shall be bound by the terms of such FCM SwapClear Contract. The Clearing House shall use its reasonable endeavors to assist the relevant FCM Clearing Members in re-registering the trade on the correct basis but the Clearing House shall not be liable to the FCM Clearing Member or anyone else with regard to the registration (or lack of registration or re-registration) of any such FCM SwapClear Contract.

#### **2A.3.5 Registration of New Trades and Backloaded Trades**

##### **2A.3.5.1 New Trades**

As a precondition of registering an FCM SwapClear Contract resulting from an FCM SwapClear Transaction that is a Block IRS Trade, the Clearing House will require the FCM Clearing Member in whose name such FCM SwapClear Contract is to be registered to furnish to the Clearing House no later than the Clearing

House's receipt of the relevant FCM Acceptance or, where such FCM SwapClear Contract results from an FCM US Trading Venue Transaction, no later than the Clearing House's receipt of the relevant FCM SwapClear Transaction details (and thereafter maintain) sufficient Margin in respect of such FCM Contract. In determining whether sufficient Margin for registration is available, the Clearing House will take into account any Available FCM Buffer, MER and SwapClear Tolerance. Available FCM Buffer or MER will always be applied prior to taking into account any available SwapClear Tolerance. In respect of an FCM SwapClear Contract resulting from an FCM SwapClear Transaction that is not a Block IRS Trade, the FCM Clearing Member in whose name such FCM SwapClear Contract is registered shall furnish the Clearing House with sufficient Margin in respect of such FCM SwapClear Contract at such time after the registration of such FCM SwapClear Contract as the Clearing House shall require.

Notwithstanding the foregoing (i) if the Clearing House registers a Block IRS Trade where one or both of the relevant FCM Clearing Members has not furnished sufficient Margin prior to registration, the FCM Clearing Members shall be bound by the terms of the FCM SwapClear Contract relating thereto arising under FCM Regulation 30 (and in particular by paragraphs (c), (i) and (j) thereof) and any other applicable provision of the FCM Rulebook; and (ii) if the Clearing House rejects an FCM SwapClear Transaction that is not a Block IRS Trade for insufficient Margin, the Clearing House shall use its reasonable endeavors to assist the relevant FCM Clearing Members in re-registering the FCM SwapClear Transaction on the correct basis but the Clearing House shall not be liable to any FCM Clearing Member or anyone else with regard to the registration (or lack of registration or re-registration) of any such FCM SwapClear Transaction.

Upon an FCM SwapClear Transaction being submitted to the Clearing House for registration and the conditions to registration specified in FCM Regulation 30 having been satisfied in respect of the related FCM SwapClear Contract(s), the SwapClear clearing system will respond, after processing, with a message confirming the registration. The registration notification message will be sent using the SwapClear Clearing Member reporting system (including by way of the originating Approved Trade Source System). The definitive report of a registered SwapClear Contract will be shown within the SwapClear Clearing Member reporting system (see Section 2A.1.3) on the SwapClear Clearing Member reporting account.

#### 2A.3.5.2 **Backloaded Trades:**

An FCM SwapClear Transaction that has a Trade Date of greater than ten calendar days prior to the date of submission is considered a backloaded trade by the Clearing House (a "**backloaded trade**"). Due to the nature of backloaded trades, FCM Clearing Members should note that a relatively large amount of cover is required in order to register such trades. The Clearing House provides the facility for FCM Clearing Members to load such eligible existing FCM SwapClear Transactions, through an FCM Approved Trade Source System (currently only MarkitWire). Where the Clearing House approves additional FCM Approved Trade Source Systems for these purposes, it will notify FCM Clearing Members via member circular. Backloading requires bilateral agreement between the relevant Executing Parties and acceptance by the FCM Clearing Member(s) and the SwapClear Clearing Member, if any, of the full particulars required by the Clearing House for each such FCM SwapClear Transaction. Following acceptance, the backloaded trade shall be deemed to have been presented by the FCM Clearing Member(s) and the SwapClear Clearing Member, if any, for registration by the

Clearing House. In any backloading of transactions where one leg is to be registered as a Non-FCM SwapClear Contract, the UK General Regulations will apply with respect to such registration of a Non-FCM SwapClear Contract.

It is a pre-condition for registration of any backloaded trades that sufficient Margin for Initial Margin and Variation Margin is provided. In determining whether sufficient Margin for registration is available, the Clearing House will take into account any Available FCM Buffer, MER and SwapClear Tolerance. Available FCM Buffer or MER will always be applied prior to taking into account any available SwapClear Tolerance.

#### 2A.3.6 Notification

The Clearing House will notify FCM Clearing Members of the registration or rejection of FCM SwapClear Transactions, or contracts purported as such, via the SwapClear FCM Clearing Member Reporting System (see Section 2A.1.3) and the originating FCM Approved Trade Source System messaging service for onward transmission to the submitting FCM Clearing Member.

#### 2A.3.7 Rejected Trades

Trades submitted for registration that do not meet the product or other eligibility criteria prescribed from time to time by the Clearing House (including a trade submitted by or on behalf of an FCM Clearing Member that was executed on a (i) US Trading Venue that was not at the time of execution of such trade an FCM Eligible US Trading Venue in respect of such FCM Clearing Member or (ii) trading venue or facility that had not at the time of the execution of such trade been approved by the Clearing House as an FCM US Trading Venue) or which contain invalid or incomplete message data, or with respect to which the Clearing House has not been furnished with sufficient Margin (taking into account available SwapClear Tolerance, if any), will be rejected, except that such Margin shall be required to be furnished prior to registration as a condition to the registration of such trade only if such trade is a Block IRS Trade. If, at any time, the Clearing House does not register a trade presented for registration it will notify the contracting parties of the reasons for rejection.

#### 2A.4 Position Accounts

##### 2A.4.1 FCM Accounts

For identification purposes each FCM Clearing Member is assigned a unique three-character mnemonic with respect to its accounts relating to FCM SwapClear Contracts. An FCM Clearing Member's position and financial information are further identified by a single character code: C for client business; and H for house business.

##### 2A.4.2 Position-Keeping Accounts

FCM Clearing Member Accounts

The account types are: H for house business (Proprietary Account); and C for segregated client business (an FCM Omnibus SwapClear Client Account with LCH). An FCM Clearing Member's FCM SwapClear Contract positions are also recorded within the FCM SwapClear clearing system in SwapClear accounts.