



LCH LIMITED

PROCEDURES SECTION 2I

FOREXCLEAR CLEARING SERVICE

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

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

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

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

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

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

1.10.8 Default Management Accounts

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

“**Pre-Default TMR Ratio**” means

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

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

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

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

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

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

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

(b) *Initial DMAs*

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

(c) *Merged DMAs*

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

- (A) multiple Initial DMAs;
 - (B) one or more Initial DMAs and one or more Prior Merged DMAs; or
 - (C) multiple Prior Merged DMAs.
- (ii) The Clearing House may in its sole discretion create more than one Merged DMA on the same business day.
- (d) *Auctions*
- (i) The Clearing House shall conduct Auctions in respect of Auction Portfolios referable to DMAs in accordance with the provisions of the ForexClear DMP Annex.
 - (ii) More than one Auction Portfolio may be referable to a single DMA, in which case:
 - (A) the Clearing House will conduct one or more Auctions of each Auction Portfolio referable to such DMA; and
 - (B) on and from the date of the first Auction in respect of the DMA, the Clearing House may no longer combine such DMA into a Merged DMA.
 - (iii) Following the sale of an Auction Portfolio, the ForexClear Contacts within such Auction Portfolio shall no longer form part of the DMA from which the Auction Portfolio was created.
- (e) *Attribution of Daily Amounts*
- (i) The Clearing House shall, following each Daily Calculation Period, determine the Daily Amount for each Latest DMA in respect of such Daily Calculation Period.
 - (ii) The Clearing House shall attribute the Daily Amount of a Latest DMA that is:
 - (A) an Initial DMA, to each Affected Non-Porting Client Account referable to such Initial DMA, pro rata according to the Pre-Default TMR Ratio of each such Affected Non-Porting Client Account; and
 - (B) a Merged DMA, to each DMA that was combined to form such Merged DMA, pro rata according to the Pre-Merger TMR Ratio of each such DMA (where the amount attributed to each such DMA is an “**Interim Amount**”).

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

(f) *Attribution of Auction Results*

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

(g) *Collateral*

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

1.10.9 Calculation Period

Notwithstanding the definition of "Auction Losses Calculation Period" in Rule 1.4 of Schedule 3 of the Default Rules, on and from the date determined by the Clearing House, the following definition will apply for the purposes of the ForexClear DMP Annex:

""Auction Losses Calculation Period" means, in respect of an Auction Portfolio and the business day on which the Clearing House auctions and sells such portfolio, the period:

- (a) commencing immediately after the Daily Calculation Period for the previous business day; and

(b) ending at the point at which the Clearing House sells such portfolio;"

where:

"Daily Calculation Period" means, in respect of a business day, the period, in respect of which the Clearing House determines the end of day margin and settlement payments for ForexClear Contracts for such business day.

1.11 Provision of Tax Forms

The Clearing House and each FXCCM shall provide to each FXCCM or the Clearing House, as relevant, (i) any forms or documents specified in the ForexClear Contract between the Clearing House and the FXCCM and (ii) any other form, document, statement or certification reasonably requested in writing by the FXCCM or the Clearing House in order to allow the FXCCM or the Clearing House to make a payment under the Rules of the Clearing House or any ForexClear Contract without deduction or withholding for or on account of any tax or with such deduction or withholding at a reduced rate unless the Clearing House or the FXCCM can no longer deliver such form, document, statement or certification solely as a result of a change in law (including double tax treaty) or interpretation thereof after the date of the ForexClear Contract between the Clearing House and the FXCCM. In the case of the Clearing House, the forms required pursuant to item (ii) above include an Internal Revenue Service Form W-8BEN. Additionally, the Clearing House will take such further actions as necessary to ensure that payments made to it can be made without deduction or withholding for or on account of any Tax.

1.12 ForexClear Client Clearing

1.12.1 *ForexClear Clearing Client Clearing – Ancillary Documentation*

- (a) *Security Deed:* Unless specified otherwise by the Clearing House, a ForexClear Clearing Member must enter into a Security Deed in respect of its Clearing Clients in relation to amounts due to it from the Clearing House pursuant to the Client Clearing Annex. Further information in relation to such Security Deed is prescribed by the Clearing House from time to time and published on the Clearing House's website.
- (b) *Prescribed Language and End-User Notice:* Pursuant to the Clearing House's General Regulations, each ForexClear Clearing Member is required to ensure that it includes certain language in its agreement with its ForexClear Clearing Client (the "**Clearing House Prescribed Language**"). The Clearing House Prescribed Language is shown at Schedule 1 of the Procedure .

ForexClear Clearing Clients' attention is drawn to the End-User Notice which is published on the Clearing House's website:

<http://www.lch.com/about-us/governance/end-user-notice>