



LCH LIMITED

PROCEDURES SECTION 3

FINANCIAL TRANSACTIONS

1. FINANCIAL TRANSACTIONS

1.1 Accounts and ledgers

1.1.1 *Proprietary Accounts*

Each Proprietary Account will map to two or more of the following sub-accounts:

- (a) ~~A one or more~~ position accounts; ~~and~~
- (b) a collateral account opened in relation to a Clearing Member's House Clearing Business ~~(a "House Collateral Account"); and~~
- ~~(c)~~ where relevant, a collateral account opened for the purposes of recording Client Buffer (a Client Buffer Account); ~~and-~~
- ~~(e)~~(d) where relevant, a collateral account opened for the purposes of recording Overnight Funding Collateral (an Overnight Funding Account).

A Clearing Member must identify the Proprietary Account and related collateral sub-account to which Collateral is to be credited. The Clearing House shall credit such Collateral to the relevant collateral sub-account of the relevant Proprietary Account.

1.1.2 *Client Accounts*

A Client Financial Account is comprised of one or more Client Accounts. Each Client Account will map to two or more sub-accounts:

- (a) one or more position accounts; and
- (b) one or more collateral accounts.

A Clearing Member must identify the Client Account to which Collateral is to be credited. The Clearing House shall credit such Collateral to the collateral account of the relevant Client Account.

1.1.3 *Collateral Account Postings*

Transactions posted to the collateral account include but are not limited to:

- (a) PPS calls and pays;
- (b) option premiums;
- (c) interest and accommodation charges;
- (d) Clearing House fees, charges and rebates;
- (e) exchange fees, levies and rebates;

4 of the Procedures (*Margin and Collateral*) in respect of a Selected Account in accordance with, and subject to, Section 1.1.2 of Section 4 of the Procedures (*Margin and Collateral*) (each such request, a "**Request**").

A Clearing Member must contact Collateral Operations in order to make a Request (collateral.operations@lch.com or +44 (0)20 7426 7505). A Clearing Member represents and warrants to the Clearing House, at the time at which it makes a Request, that the individual making such Request on its behalf is duly authorised to do so.

The Clearing House may, at its discretion, cease to provide the Auto-Repay Service in respect of:

(i) a Clearing Member, in which case it will notify the affected Clearing Member accordingly; or

(ii) any Service or entirely, in which case it will notify the affected Clearing Members and each relevant Regulatory Body accordingly.

(h) *Value Date*

PPS calls and payments are for same-day value for CAD, EUR, GBP, MXN and USD, and with value on the next day for all other currencies, subject to this paragraph (h). Call instructions issued on a day when the Clearing House is not open for business (e.g. Saturdays) are for value the next day for CAD, EUR, GBP, MXN and USD, and for value two days after the given instruction for all other currencies. Payment instructions will not be issued on a day when the Clearing House is not open for business.

(i) If, under paragraph (h) above, a PPS call or payment in a particular currency would be due to be made for value on a day ("**Payment Date**") which is a holiday in respect of that currency, the value date for such PPS transaction will be the first day which is not a holiday in respect of that currency occurring after the Payment Date; and

(ii) in respect of AUD, if the PPS call or payment is instructed on a day which is a holiday for AUD or on a day when the Clearing House is not open for business (e.g. Saturdays), the value date for such PPS call or payment will be the second day which is not a holiday in respect of AUD occurring after the Payment Date.

Example 1: 20 August is a currency holiday in the USA. The Clearing House is open. 21 August is not a currency holiday in the USA.

On 20 August, the Clearing House will issue USD instructions to PPS banks, and receive confirmation in response to the PPS calls on the same day; the value date for such calls will be 21 August.

quoted exchange rates determined at approximately 16:45 London time the previous business day.

Clearing Members must give the Clearing House's Treasury Operations no less than two business days' notice of their intention to substitute existing cash Collateral with non-cash Collateral or cash Collateral in a different currency where the amount of cash is GBP 50 million or greater. Where a Clearing Member fails to give such notice, the Clearing House may decline to transfer or release the cash Collateral to be withdrawn until the end of the required notice period.

1.5.2 *Securities*

Please refer to the following pages on our website for notes on Collateral acceptable to the Clearing House:

www.lch.com/risk_management/ltd/acceptable_collateral.asp

1.5.3 *Value Notification*

Clearing Members may obtain details on the value ascribed to Collateral recorded to their account via:

the relevant reports available on the Clearing House website portal:

- (a) the CMS; and/or
- (b) SWIFT message sent from the Clearing House to the relevant Clearing Member.

Please refer to the following pages on our secure website for haircuts on Collateral:

<https://www.lch.com/risk-collateral-management/ltd-collateral-management/ltd-acceptable-collateral/ltd-acceptable>

1.5.4 *Use of Credits as Collateral*

The following credit amounts are not paid in cash, but may (subject to the restrictions described below) be offset against certain specific margin obligations, with the result that the relevant Clearing Member will need to provide less Collateral in respect of those margin obligations:

- (a) EquityClear credit contingent margin may be used to offset EquityClear debit contingent variation margin and initial margin across currencies; and

~~(b) [INTENTIONALLY LEFT BLANK]~~

- ~~(b)~~ Rates Exchange credit contingent variation margin may be used to offset Rates Exchange debit contingent variation margin and initial margin across currencies.

1.6 **Distribution of Collateral**

The following Procedures are not in any way intended to restrict, vary or alter the Clearing House's rights to apply any Collateral held by it to meet the Clearing Member's liabilities and obligations to the Clearing House.

1.6.1 *Collateral Application*

The Clearing House will apply Collateral (in turn) to each liability in relation to the Ceollateral utilisation fees charged in respect of each collateral group categorisation by the Clearing House, as published from time to time at the following link <https://www.lch.com/risk-collateral-management/ltd-collateral-management/ltd-fees-collateral>, such that the least expensive collateral group will be applied first and thereafter each collateral group will be applied in ascending order of fees. In the event that the amount charged is the same for more than one collateral group, they will be applied in alphabetical order by Ceollateral group.

1.6.2 *Cash Currency Preference*

Clearing Members may nominate the sequence of cash Collateral distribution.

In the absence of a nominated sequence of currency preferences, a Clearing Member's liabilities will be covered by cash in the same currency as the liability. This means that a GBP liability will be covered in GBP cash, a EUR liability will be covered in EUR cash and so forth. Any further liabilities in the relevant currency will be covered by cash called via PPS.

Clearing Members may define their own sequence of cash Collateral utilisation for each mnemonic and each account type (i.e. House or Client). The sequence does not have to be on a like for like basis and a Clearing Member may choose any eligible currency to cover its liability (for example, a GBP liability can be covered in EUR cash).

Any changes to a Clearing Member's nominated currency sequence, or a request relating to excess cash currency balances in a particular currency, should be notified to the Clearing House by providing a minimum of two business days' notice.

1.6.3 *Proprietary Account – SwapClear*

The Clearing House will, in general, apply available General Collateral (in the order specified in Sections 1.6.1 and 1.6.2) to satisfy the liabilities of a SwapClear Clearing Member in respect of its Proprietary Account, before it applies available Overnight Funding Collateral (in the order specified in Sections 1.6.1 and 1.6.2) to such liabilities, but may, at its sole discretion, determine to apply some or all available Overnight Funding Collateral before applicable General Collateral to any such liabilities.

~~1.6.3~~1.6.4 *Record of Collateral Provided*

Charges and interest shall be calculated in accordance with the information published on the website of the Clearing House.

~~1.6.4~~1.6.5 *Use of Collateral in the Event of a Default*

The order of priority (in which cash and non-cash Collateral are applied to cover Clearing Members' liabilities), set out elsewhere in this Section 1.6, does not necessarily reflect the order of priority of realisation or application of Collateral which the Clearing House may follow in the case of Default by a Clearing Member. Post-Default the Clearing House is entitled to realise and/or apply Collateral in whatever order it deems appropriate.

1.7 Interest on Cash Balances and Accommodation Charges

1.7.1 *Interest Rates*

The Clearing House applies interest to Clearing Member's cleared cash balances as published on the Clearing House's website. This provision 1.6.1 does not deal with Price Alignment Interest, which is covered by the applicable provisions of Section 2C of the Procedures (*SwapClear Clearing Service*) or Section 2I of the Procedures (*ForexClear Clearing Service*) (as applicable).

1.7.2 *Payment of Interest and Charges*

Interest and accommodation charges are charged monthly, from the last day of the previous month to the penultimate day of the current month. Interest and accommodation charges are calculated on a daily basis and the resultant monthly total is posted to the relevant collateral account(s) of the Clearing Member for value on the third business day following the penultimate day of the month. A VAT invoice is also issued on the third business day of each month detailing the interest and accommodation charges applicable for the previous month. Separate invoices are issued for each currency which can be found on the Member Reporting Website. Accommodation charges are published on the Clearing House's website.

VAT is charged, dependent on contract and accommodation charges, at current rates. On foreign currency amounts VAT is charged in sterling on the converted value of any relevant charges. The sterling collateral account shows separate postings for sterling VAT amounts arising from foreign currency charges.

The net invoice value for each currency is posted to the relevant collateral account for value on the second working day for the relevant currency of the month succeeding the month in which the charges arose.

The invoice provides detail in respect of:

- (a) interest due to be credited or debited; and
- (b) accommodation charges.

VAT on accommodation charges is subject to the standard rate; some markets may be excluded.

1.7.3 *Cash Balance Interest Rate*

The Clearing House applies interest to a Clearing Member's cleared cash balances. The following rates are applied:

- (a) LDR – London Deposit Rate – the rate at which the Clearing House may pay or charge interest on credit cash balances (excluding Contributions). The LDR calculation methodology utilises published market rates minus a spread. The current spread rates are published on the Clearing House's website at the following link:

<https://www.lch.com/collateral-management/ltd-collateral-management/ltd-fees-collateral>; and

- (b) CDR – Client Deposit Rate – the rate at which the Clearing House may pay or charge interest on credit cash balances on Client Accounts. The CDR calculation methodology utilises published market rates minus a spread. The current spread rates are published on the Clearing House's website at the following link:

<https://www.lch.com/collateral-management/ltd-collateral-management/ltd-fees-collateral>.

Where the Clearing House provides Clearing Members with at least three days' written notice (which may be way of member circular), the Clearing House may increase or decrease the LDR by up to 10bps. The foregoing shall not apply in the event of extreme market conditions, during which the Clearing House may freely and without notice increase or decrease the LDR for up to five consecutive Business Days.

Where the Clearing House provides Clearing Members with two weeks' written notice (which may be way of member circular), the Clearing House may increase or decrease the CDR. In the event of extreme market conditions, the Clearing House may freely and without notice increase or decrease the CDR for up to five consecutive Business Days.

1.8 Fees

Details of fees and refunds pending are collated during the month.

An invoice or credit note is produced detailing the fees to be posted to collateral accounts.

The invoice/credit note displays the type of fee, contract, future or option type, currency, fee rate, volume, fee amount, VAT amount, sub totals for each fee class and the overall total posted to a collateral account.

Monthly postings are processed via the relevant collateral account at the beginning of the following month, on the third working day for the relevant currency. Other postings, such