

VIA CFTC PORTAL

15 Aug 2016

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

LCH.Clearnet Limited Self Certification: Enhancements to the trade registration process for clearing

Dear Mr Kirkpatrick,

Pursuant to Commodity Futures Trading Commission (the "CFTC") Regulation §40.6(a), LCH.Clearnet Limited ("LCH"), a derivatives clearing organization registered with the CFTC, is submitting for self-certification changes to its rules related to the treatment of trades to be registered for clearing depending upon the execution venue and availability of the required margin.

Part I: Explanation and Analysis

LCH is proposing rule changes that will clarify the treatment of trades to be registered for clearing. A trade that is executed on a trading venue that is recognised as a Swap Execution Facility (SEF) or a Designated Contract Market (DCM) by the CFTC and where the notional amount of the trade is below the minimum block size established by the CFTC for the interest rate asset class, such a trade can be registered without a precondition to furnish the required margin. Other trades, including those having notional amount equal to or higher than the CFTC established block size or those that are not executed on a SEF or a DCM must provide the required margin as a precondition for registration.

The changes will go live on, or after, September 12, 2016.

Part II: Description of Rule Changes

General Regulations

A new definition has been added to represent trades executed on a CFTC recognised SEF or a DCM and where their notional amount is below the minimum block size established by the CFTC for the interest rate asset class.

Regulation 55 (Registration of SwapClear Contracts)

Clause e (iv) has been amended to reflect the different treatment of trades for registration if they were executed on a CFTC recognised SEF or a DCM and their notional amount is below the minimum block size established by the CFTC

for the interest rate asset class. This amendment differentiates it from all other trades where it is a precondition to furnish the required margin for registration to clearing.

Procedures section 2C of the SwapClear Clearing Service

Sections 1.3 (Registration) and 1.7 (Variation Margin and NPV Payments) have been amended to reflect the distinction in the registration process for the trades as noted above.

FCM Regulations

A new definition has been added to represent trades executed on a CFTC recognised SEF or a DCM and where their notional amount is below the minimum block size established by the CFTC for the interest rate asset class.

Regulation 46 (Registration of FCM SwapClear contracts; Novation and Post-Novation compression; SwapClear Accounts)

Clause d (iv) has been amended to reflect the different treatment of trades for registration if they were executed on a CFTC recognised SEF or a DCM and their notional amount is below the minimum block size established by the CFTC for the interest rate asset class. This amendment differentiates it from all other trades where it is a precondition to furnish the required margin for registration to clearing.

FCM Procedures of the Clearing House

Section 2.1.3 (Registration), clause b (Conditions to Registration), clause e (Registration of new trades and backloaded trades), clause g (Rejected Trades), clause h (Package Transaction) and section 2.1.7 (FCM SwapClear Contract Valuation) have been amended to reflect the distinction in the registration process for the trades as noted above.

The text of the changes to General Regulations is attached hereto as **Appendix I**, the text of the changes to Procedures section 2C is attached hereto as **Appendix II**, the text of the changes to FCM Regulation is attached hereto as **Appendix III** and the text of the changes to FCM Procedures attached hereto as **Appendix IV**.

Part III: Core Principle Compliance

LCH has concluded that compliance with the Core Principles will not be adversely affected by these changes.

Part IV: Public Information

LCH has posted a notice of pending certification with the CFTC and a copy of the submission on LCH's website at: <http://www.lch.com/rules-regulations/proposed-rules-changes>

Part V: Opposing Views

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

Certification

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

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

Yours sincerely

A handwritten signature in black ink, appearing to read 'Julian Oliver', written in a cursive style.

Julian Oliver

Chief Compliance Officer

LCH.Clearnet Limited

Appendix I
General Regulations



**GENERAL REGULATIONS OF
LCH.CLEARNET LIMITED**

"Sub-Block US Trading Venue Transaction"

means a transaction, identified by the Clearing House as having been executed on a swap execution facility or designated contract market registered as such with the CFTC, the notional amount of which is below the minimum block size established by the CFTC pursuant to CFTC Regulation 43.6 for the interest rate asset class and in effect as of the date of submission of such transaction to the Clearing House for registration

"Supplement"

means a supplement specific to a particular Service and includes the Commodities Default Fund Supplement, the Equities Default Fund Supplement, the ForexClear Default Fund Supplement, the Rates Service Default Fund Supplement – Listed Interest Rates, the RepoClear Default Fund Supplement and the Rates Service Default Fund Supplement – SwapClear

"Supplementary Contribution"

means a supplementary Contribution of a Clearing Member, provided for under Rule C7(b), E7(b), F7(c), R7(c) or CS7 (as applicable), and referable to the relevant Service provided by the Clearing House

"SwapClear Amendment"

has meaning assigned to it in Rule S12 of the SwapClear Default Fund Supplement

"SwapClear Business"

means any transaction, obligation or liability arising out of any SwapClear Contract (which, for the avoidance of doubt, includes for purposes of the Rates Service DMP Annex the Portfolio Margined Contracts (if any) of a Portfolio Margining Clearing Member)

"SwapClear Clearing Client"

means, in respect of SwapClear Client Clearing Business, an Individual Segregated Account Clearing Client or an Omnibus Segregated Clearing Client

"SwapClear Clearing House Business"

means SwapClear Contracts entered into by a SwapClear Clearing Member with the Clearing House on a proprietary basis and for its own account

"SwapClear Clearing Member" or "SCM"

means a Member who is designated by the Clearing House as a SwapClear Clearing Member eligible to clear SwapClear Contracts which includes, in the case of the Default Rules (including the Rates Service DMP Annex), the FCM Default Fund Agreement and any other document, rule or procedure as specified by the Clearing House from time to time, an FCM Clearing Member

"SwapClear Client Clearing Business"

means the provision of SwapClear Client Clearing Services by a SwapClear Clearing Member

- (ii) the relevant SwapClear Transaction meets the eligibility criteria as prescribed on the Clearing House's website 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 transferred, upon request of the Clearing House and in accordance with Regulation 20 and such other applicable provisions of the Rulebook, all required Collateral in respect of such SwapClear Contract prior to registration (taking into account any available MER and/or SwapClear Tolerance, if any); provided that such Collateral need not be transferred prior to registration as a condition to the registration of such SwapClear Contract ~~unless~~ where such SwapClear Contract results from a SwapClear Transaction that is a Sub-Block US Trading Venue Transaction~~Block-IRS Trade~~;
 - (v) all the conditions applicable (under the terms of the Rulebook or the FCM Rulebook, as the case may be) for the registration of the other SwapClear Contract or the FCM SwapClear Contract (as the case may be) deriving from the relevant SwapClear Transaction have been satisfied.
- (f) From the time of registration by the Clearing House of two SwapClear Contracts or one SwapClear Contract and one FCM SwapClear Contract (as the case may be) (the "**Registration Time**") in respect of a SwapClear Transaction in accordance with the Procedures:
- (i) the Executing Parties shall be released and discharged from all rights and obligations thereunder which fall due for performance on or after the Registration Time and, in all other cases, the rights and obligations of the Executing Parties to the SwapClear Transaction shall be governed by the applicable Execution Terms, or as otherwise agreed by such Executing Parties;
 - (ii) the relevant SwapClear Clearing Member(s) will be deemed to be and will be bound by the SwapClear Contract(s) with the Clearing House automatically and without any further action on its part, on terms that, without limitation, incorporate all applicable terms of the Rulebook (including the SwapClear Contract Terms applicable to the relevant SwapClear Contract); and
 - (iii) if the SwapClear Contract applicable to a SwapClear Clearing Member is designated as a SwapClear STM Contract pursuant to Regulation 55(b), the SwapClear Contract Terms applicable to that SwapClear STM Contract will automatically, and without any further action by either party, include the SwapClear STM Terms.
- (g) The Economic Terms shall be such that: (A) a SwapClear Clearing Member paying (or clearing on behalf of a person paying) Rate X and receiving (or clearing on behalf of a person receiving) Rate Y under a SwapClear Transaction shall have such rights against, and owe such obligations to, the Clearing House under the corresponding

Appendix II
Procedures section 2C



LCH.CLEARNET LIMITED

PROCEDURES SECTION 2C

SWAPCLEAR CLEARING SERVICE

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 1.3.5 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 Collateral (taking into account MER, Client Buffer 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 Collateral shall not be required to be provided prior to registration as a condition thereto ~~only~~ if such SwapClear Transaction is a Sub-Block US Trading Venue Transaction~~Block-IRS-Trade~~. For the avoidance of doubt, in respect of the registration of a SwapClear Transaction ~~that is a Block-IRS-Trade~~ other than a Sub-Block US Trading Venue Transaction, both SwapClear Clearing Members or the relevant SwapClear Clearing Member and FCM Clearing Member must have complied with all requirements to provide sufficient Collateral (taking into account MER, Client Buffer 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).

In exceptional circumstances, where a Clearing Member experiences technical issues such that it is unable to accept or reject a Notification, it may contact the Clearing House via email to request that a SwapClear Transaction to which a Notification relates be accepted or rejected on its behalf. In such circumstances, and unless the Clearing House notifies the Clearing Member otherwise, the Clearing House will manually accept or reject the SwapClear Transaction on behalf of the requesting Clearing Member and will confirm registration or rejection of the SwapClear Transaction via email. In the event that a Clearing Member requests the manual acceptance or rejection of a SwapClear Transaction it shall ensure that such acceptance is requested by appropriately authorized personnel. The Clearing House shall have no liability in the event that a Clearing Member suffers a loss through the unauthorised manual acceptance or rejection of a SwapClear Transaction.

1.3.3 *Trade Registration Facilitation: SwapClear Tolerance, Client Buffer and MER (Minimum Excess Requirement)*

In order to facilitate the registration of SwapClear Contracts by SwapClear Clearing Members, the Clearing House may:

- (a) require the transfer to the Clearing House of additional Collateral from those SwapClear Clearing Members participating in the MER Arrangements (as defined below) at the relevant time;
- (b) where sufficient Collateral (including, but not limited to, any MER) is not available in relation to a Client Account, allocate Client Buffer (as further described below); and/ or

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.

1.3.5 *Registration of New Trades*

The following section does not apply to Backloaded Trades, which are dealt with in section 1.3.6 below.

Prior to it registering a SwapClear Contract resulting from a SwapClear Transaction other than a Sub-Block US Trading Venue 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 transfer to the Clearing House adequate Collateral in respect of initial margin requirements, variation margin requirements, and/or the settlement payment obligations (as applicable) relating to such contract as a precondition to registration (taking into account any MER, Client Buffer and/or SwapClear Tolerance, if any). In accordance with Regulation 55(d)(iv) (*Registration of SwapClear Contracts*), a SwapClear Clearing Member becomes obligated to transfer such Collateral (taking into account any MER, Client Buffer 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 not a Sub-Block US Trading Venue 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 transfer such Collateral to the Clearing House prior to registration upon request of the Clearing House. In respect of a SwapClear Contract resulting from a SwapClear Transaction that is a Sub-Block US Trading Venue Transaction~~not a Block-IRS-Trade~~, the SwapClear Clearing Member in whose name such SwapClear Contract is registered shall transfer to the Clearing House sufficient Collateral in respect of such SwapClear Contract at such time after the registration of such SwapClear Contract as the Clearing House shall require.

Notwithstanding the foregoing, (i) if the Clearing House registers a SwapClear Contract resulting from a SwapClear Transaction that is not a Sub-Block US Trading Venue Transaction~~Block-IRS-Trade~~ where one or both of the relevant SwapClear Clearing Members has not provided sufficient Collateral prior to

registration, the SwapClear Clearing Members shall be bound by the terms of the SwapClear Contract relating thereto arising under Regulation 47 (and in particular by paragraphs (c), (h) and (i) thereof) and any other applicable provision of the Rulebook; and (ii) if the Clearing House rejects a SwapClear Transaction that is [a Sub-Block US Trading Venue Transaction](#) ~~not a Block IRS Trade~~ for reasons of insufficient Collateral, ~~the Clearing House shall use its reasonable endeavours to assist the relevant SwapClear Clearing Member in re-registering the SwapClear Transaction on the correct basis but~~ the Clearing House shall not be liable to any SwapClear Clearing Member or anyone else with regard to the registration (or lack of registration or re-registration) of any such SwapClear Transaction.

Upon a SwapClear Transaction being submitted to the Clearing House for registration and the conditions to registration specified in Regulation 55 (*Registration of SwapClear Contracts*) having been satisfied in respect of the related 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 1.1.3) on the SwapClear Clearing Member reporting account.

1.3.6 *Backloading of Existing Trades*

A 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, SwapClear Clearing Members should note that a relatively large amount of Collateral is required to register such trades. The Clearing House provides the facility for SwapClear Clearing Members to load such eligible existing SwapClear Transactions, through an Approved Trade Source System (currently, MarkitWire, Bloomberg and Tradeweb). Where the Clearing House approves additional Approved Trade Source Systems for these purposes, it will notify SwapClear Clearing Members via a member circular. Backloading requires bilateral agreement between the relevant Executing Parties and acceptance by the SwapClear Clearing Member(s) or the SwapClear Clearing Member and the FCM Clearing Member (as the case may be) of the full particulars required by the Clearing House for each such SwapClear Transaction.

At least once every Business Day, the Clearing House will carry out a process (each a "**Backload Registration Cycle**") for the registration of Backloaded Trades which have been presented for clearing or with respect to which the Clearing House has received the one or more Necessary Consents, if any. Following each Backload Registration Cycle, the Clearing House will calculate the increase in Collateral required to register the Backloaded Trade(s) and will notify each relevant SwapClear Clearing Member (the "**Backload Margin Call**").

In order for the registration of the Backloaded Trades included in a Backload Registration Cycle to complete, each SwapClear Clearing Member (and each FCM Clearing Member, if applicable) which is party to a Backloaded Trade within that Backload Registration Cycle must provide sufficient Collateral as required to the Clearing House in advance.

A Backloaded Trade which has been presented for clearing (or with respect to which the Clearing House has received the one or more Necessary Consents, if any) shall be deemed to have been submitted by the SwapClear Clearing Member(s) or the SwapClear Clearing Member and the FCM Clearing Member (as the case may be) for registration by the Clearing House at such time that the Clearing House determines that sufficient Collateral has been provided to register that Backloaded Trade.

For any SwapClear Transaction which is a Backloaded Trade, where one leg is to be registered as an FCM SwapClear Contract, the FCM Rulebook will apply with respect to such registration of an FCM SwapClear Contract.

The Clearing House shall publish the following via member circular:

- (i) times of Backload Registration Cycles;
- (ii) the Individual Backload Value Threshold; and
- (iii) the Aggregate Backload Margin Threshold.

1.3.7 *Notification*

The Clearing House will send to the originating Approved Trade Source System notification of registration or rejection, as the case may be, and the SwapClear Clearing Members will be notified by the Approved Trade Source System or the ClearLink API or otherwise of the registration or rejection of SwapClear Transactions, or contracts purported as such.

1.3.8 *Rejected Trades*

Trades submitted for registration that do not meet the product or other Eligibility Criteria as set out in the Product Specific Contract Terms and Eligibility Criteria Manual and published on the Clearing House's website from time to time (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 Collateral (taking into account MER, Client Buffer and/or SwapClear Tolerance, if any) will be rejected, except that such Collateral shall not be required to be provided prior to registration as a condition to the registration of such trade only if such trade is a [Sub-Block US Trading Venue Transaction](#)~~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.

1.3.9 *Package Transactions*

In certain circumstances a SwapClear Clearing Member may, via an Approved Trade Source System, present to the Clearing House, in a single submission, a group of two or more SwapClear Transactions for simultaneous registration (such group of SwapClear Transactions being a “Package Transaction”). A Package Transaction must be identified to the Clearing House at the time of its presentation in the format prescribed by the Clearing House. Where the Package Transaction is not presented in the prescribed format, each constituent SwapClear Transaction within the Package Transaction will be rejected.

Where the Clearing House receives a Package Transaction for registration it shall treat each SwapClear Transaction that forms part of the Package Transaction as a new SwapClear Transaction in accordance with the Rulebook and, where each constituent SwapClear Transaction within the Package Transaction meets the registration requirements as set out in the Rulebook (including a Necessary Consent and the provision of Collateral, where applicable), the Clearing House will simultaneously register all of the SwapClear Transactions within that Package Transaction. Where one or more of the constituent SwapClear Transactions does not meet the Clearing House’s registration requirements then all the constituent SwapClear Transactions of the Package Transaction shall be rejected.

Where a constituent SwapClear Transaction of a Package Transaction is a US Trading Venue Transaction, it is a condition of registration that all of the constituent SwapClear Transactions of such Package Transaction be US Trading Venue Transactions; where such condition is not met, all constituent SwapClear Transactions of the Package Transaction will be rejected. In respect of a Package Transaction comprising SwapClear Transactions that are not executed on any US Trading Venue, the Clearing House will send a Notification to the relevant SwapClear Clearing Member(s) for the acceptance of each such constituent SwapClear Transaction.

In respect of a Package Transaction submitted in a SwapClear Clearing Member’s name, such SwapClear Clearing Member’s Margin requirement will be assessed based on the net Margin call for all of the constituent SwapClear Transactions of such Package Transaction. Where one or more of the constituent SwapClear Transactions in a Package Transaction is not a Sub-Block US Trading Venue Transaction~~a Block IRS Trade~~ then the relevant SwapClear Clearing Member is required to provide the Clearing House with sufficient Collateral prior to registration of the entire Package Transaction as a condition thereto (taking into account available SwapClear Tolerance, if any).

The Clearing House may limit the number of SwapClear Transactions that may be included in a Package Transaction by way of member circular.

| | |
|--------------------|-------|
| SEK | 16:30 |
| SGD | 12:00 |
| USD LIBOR & OIS | 20:00 |
| ZAR | 16:30 |
| EURO OIS | 18:00 |
| GBP OIS | 18:00 |

Zero coupon yield curves used for daily marking to market or settlement-to-market (as applicable) will be published on the Clearing House's member reporting website at intervals during the day as the prices and rates are captured.

1.7.3 *Net Present Value and Cumulative Net Present Value*

The Clearing House will calculate the net present value ("NPV") of each eligible SwapClear Contract using the Clearing House's zero coupon yield curves.

On the basis of, amongst other things, the net present value so calculated in relation to a relevant SwapClear Contract, the Clearing House shall calculate the Cumulative Net Present Value of that SwapClear Contract.

It is a condition of registration that sufficient Collateral, as determined by the Clearing House, is held with the Clearing House to cover the variation margin, initial margin and/or NPV Payment obligations (as applicable) in respect of each SwapClear Transaction (taking into account, for these purposes, any MER and/or SwapClear Tolerance, if any), except that such Collateral shall not be required to be provided prior to registration as a condition thereto ~~only~~ if such SwapClear Transaction is a [Sub-Block US Trading Venue Transaction](#)~~Block IRS Trade~~.

1.7.4 *Price Alignment Interest*

The transfer of Collateral in respect of variation margin on a daily basis without adjustment would distort the pricing for SwapClear Transactions cleared through the Clearing House. In order to minimise the impact of variation margin, the Clearing House will for each SCM either charge interest on cumulative amounts received by the SCM in respect of variation margin obligations, or pay interest on cumulative amounts paid by the SCM in respect of variation margin obligations. In a negative interest rate environment where

Appendix III
FCM Regulations

**FCM REGULATIONS OF
THE CLEARING HOUSE
LCH.CLEARNET LIMITED**

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| | FCM Clearing Membership Agreement in accordance with its terms of reference |
| “Second Nodal Clearing Member” | has the meaning assigned to it in FCM Regulation 56(a)(ii). |
| “Seller” | means an FCM Clearing Member (or the Clearing House where the context so requires) who is a seller under the terms of an FCM Exchange Contract. |
| “Settlement Finality Regulations” | means the Clearing House's Settlement Finality Regulations from time to time in force. |
| “Settlement Price” | means, in relation to an FCM Contract, one or more prices determined in accordance with the FCM Regulations or the FCM Procedures. |
| “Standard Terms” | means those parts of the FCM Contract Terms designated as Standard Terms by the Clearing House from time to time. |
| “Strike Price” | means the price specified in an FCM Option Contract which becomes the price of the commodity under an FCM Exchange Contract, upon the exercise of the FCM Option Contract, in accordance with the relevant Exchange Rules, and the FCM Regulations and FCM Procedures. |
| <u>"Sub-Block US Trading Venue Transaction"</u> | <u>means a transaction, identified by the Clearing House as having been executed on a swap execution facility or designated contract market registered as such with the CFTC, the notional amount of which is below the minimum block size established by the CFTC pursuant to CFTC Regulation 43.6 for the interest rate asset class and in effect as of the date of submission of such transaction to the Clearing House for registration</u> |
| “Swap Product” | means a Product which constitutes a Cleared Swap. Such Products are: (1) FCM SwapClear Contracts and (2) FCM ForexClear Contracts. |
| “SwapClear Contribution” | means, in relation to the Default Rules, the meaning assigned to it in rule 16 of the Default Rules. |
| “SwapClear 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. |
| “SwapClear DMP” | has the meaning assigned to it in the SwapClear DMP Annex of the Default Rules. |
| “SwapClear Tolerance” | has the meaning assigned to it in Section 2.1.3(c) of the FCM Procedures. |

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 in accordance with paragraph (b) above and Section 2.1.3 of the FCM Procedures;
- (iv) the applicable FCM Clearing Member has furnished, upon request of the Clearing House and in accordance with FCM Regulation 14 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 where~~ such FCM SwapClear Contract results from an FCM SwapClear Transaction that is a [Sub-Block US Trading Venue Transaction](#)~~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 46 in the name of an FCM Clearing Member on behalf of an FCM Client, at the time prescribed in the FCM Procedures (“**Registration Time**”). At the Registration Time, the FCM Clearing Member, and the FCM Client 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, which such terms shall, without limitation, incorporate all applicable terms of these FCM Regulations and of Schedule 1 to the FCM Product Specific Contract Terms and Eligibility Criteria Manual.
- (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 were presented for registration did not, at the Registration Time, meet the FCM SwapClear Product Eligibility Criteria in existence at the Registration Time (an “**Ineligible FCM SwapClear Transaction**”), the Clearing House shall, immediately following the next margin run following such determination, set aside both FCM SwapClear Contracts

Appendix IV
FCM Procedures



**FCM PROCEDURES OF
THE CLEARING HOUSE**

LCH.CLEARNET LIMITED

the relevant FCM Clearing Member(s), via member reports, the ClearLink 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 45(b) (*Registration of FCM SwapClear Contracts; Novation and Post-Novation Compression; SwapClear Accounts*), 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 2.1.3(e) 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 not 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 Sub-Block US Trading Venue Transaction~~Block~~ ~~IRS-Trade~~. For the avoidance of doubt, in respect of the registration of such an FCM SwapClear Transaction that is not a Sub-Block US Trading Venue Transaction~~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.

FCM US Trading Venue Transactions

In respect of an FCM US Trading Venue Transaction, the relevant FCM Clearing Member shall, pursuant to FCM Regulation 45(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 2.1.3(a) of these FCM Procedures.

In accordance with Section 2.1.3(e) 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 2.1.3(a), 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 not 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 [Sub-Block US Trading Venue Transaction](#)~~Block IRS Trade~~.

In exceptional circumstances, where a FCM Clearing Member experiences technical issues such that it is unable to accept or reject a Notification, it may contact the Clearing House via email to request that an FCM SwapClear Transaction to which an FCM Notification relates be accepted or rejected on its behalf. In such circumstances, and unless the Clearing House notifies the FCM Clearing Member otherwise, the Clearing House will manually accept or reject the FCM SwapClear Transaction on behalf of the requesting FCM Clearing Member and will confirm registration or rejection of the FCM SwapClear Transaction via email. In the event that an FCM Clearing Member requests the manual acceptance or rejection of an FCM SwapClear Transaction it shall ensure that such acceptance is requested by appropriately authorized personnel. The Clearing House shall have no liability in the event that an FCM Clearing Member suffers a loss through the unauthorised manual acceptance or rejection of an FCM SwapClear Transaction.

(c) *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.

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.

(e) *Registration of New Trades and Backloaded Trades*

(i) New Trades:

The following section does not apply to Backloaded Trades, which are dealt with in Section 2.1.3(e)(ii) below.

As a precondition of registering an FCM SwapClear Contract resulting from an FCM SwapClear Transaction ~~that is a Block IRS Trade~~ other than a Sub-Block US Trading Venue Transaction, 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 a Sub-Block US Trading Venue Transaction ~~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: (A) if the Clearing House registers an FCM SwapClear Contract resulting from an FCM SwapClear Transaction that is not a Sub-Block US Trading Venue Transaction~~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 45 (and in particular by paragraphs (c), (i) and (j) thereof) and any other applicable provision of the FCM Rulebook; and (B) if the Clearing House rejects an FCM SwapClear Transaction that is ~~not a Block-IRS-Trade~~ a Sub-Block US Trading Venue Transaction 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 45 (*Registration of FCM SwapClear Contracts; Novation and Post-Novation Compression; SwapClear Accounts*) 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 2.1.1(c)) on the SwapClear Clearing Member reporting account.

(ii) 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.

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 not be required to be furnished prior to registration as a condition to the registration of such trade ~~only~~ if such trade is a [Sub-Block US Trading Venue Transaction](#)~~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.

(h) Package Transactions

In certain circumstances an FCM Clearing Member may, via an FCM Approved Trade Source System, present to the Clearing House, in a single submission, a group of two or more FCM SwapClear Transactions for simultaneous registration (such group of FCM SwapClear Transactions being a “Package Transaction”). A Package Transaction must be identified to the Clearing House at the time of its presentation in the format prescribed by the Clearing House. Where the Package Transaction is not presented in the prescribed format, each constituent FCM SwapClear Transaction within the Package Transaction will be rejected.

Where the Clearing House receives a Package Transaction for registration it shall treat each FCM SwapClear Transaction that forms part of the Package Transaction as a new FCM SwapClear Transaction in accordance with the FCM Rulebook and, where each constituent FCM SwapClear Transaction within the Package Transaction meets the registration requirements as set out in the FCM Rulebook (including an FCM Acceptance and the provision of Collateral, where applicable), the Clearing House will simultaneously register all of the FCM SwapClear Transactions within that Package Transaction. Where one or more of the constituent FCM SwapClear Transactions does not meet the Clearing House’s registration requirements then all the constituent FCM SwapClear Transactions of the Package Transaction shall be rejected.

Where a constituent FCM SwapClear Transaction of a Package Transaction is an FCM US Trading Venue Transaction, it is a condition of registration that all of the constituent FCM SwapClear Transactions of such Package Transaction be FCM US Trading Venue Transactions; where such condition is not met, all constituent FCM SwapClear Transactions of the Package Transaction will be rejected. In

respect of a Package Transaction comprising FCM SwapClear Transactions that are not executed on any FCM US Trading Venue, the Clearing House will send an FCM Notification to the relevant FCM Clearing Member(s) for the acceptance of each such constituent FCM SwapClear Transaction.

In respect of a Package Transaction submitted in an FCM Clearing Member's name, such FCM Clearing Member's Margin requirement will be assessed based on the net Margin call for all of the constituent FCM SwapClear Transactions of such Package Transaction. Where one or more of the constituent FCM SwapClear Transactions in a Package Transaction is not a Sub-Block US Trading Venue Transaction ~~Block-IRS-Trade~~ then the relevant FCM Clearing Member is required to provide the Clearing House with sufficient Collateral prior to registration of the entire Package Transaction as a condition thereto (taking into account available SwapClear Tolerance, if any).

The Clearing House may limit the number of FCM SwapClear Transactions that may be included in a Package Transaction by way of member circular.

2.1.4 **Allocation Notices**

In respect of an Allocation Notice, the Clearing House will notify the relevant Pre-Allocation FCM Clearing Member and Post-Allocation FCM Clearing Member via member reports, the ClearLink API or otherwise, that an Allocation Notice has been submitted to allocate some or all of notional value of an Unallocated FCM SwapClear Contract from the FCM SwapClear Suspension Sub-Account of that Pre-Allocation FCM Clearing Member to the Client Segregated Sub-Account or Proprietary Account of the Post Allocation FCM Clearing Member.

Following receipt of this notification, a Pre-Allocation FCM Clearing Member or Post-Allocation FCM Clearing Member may choose to accept or refuse to register the Allocation Notice as if such Allocation Notice were a new FCM SwapClear Transaction, as described above.

2.1.5 **Position Accounts**

(a) **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.

2.1.7 FCM SwapClear Contract Valuation

(a) Net Present Value

The Clearing House will calculate the Net Present Value (NPV) of each eligible FCM SwapClear Contract using the Clearing House's zero coupon yield curves.

It is a condition of registration that sufficient Margin, as determined by the Clearing House, is furnished to the Clearing House to cover the Clearing House's Margin requirement for each FCM SwapClear Transaction (taking into account, for these purposes, available SwapClear Tolerance, if any), except that such Margin shall not be required to be furnished prior to registration as a condition thereto ~~only~~ if such FCM SwapClear Transaction is a [Sub-Block US Trading Venue Transaction](#)~~Block IRS Trade~~.

All FCM SwapClear Contracts credited to an FCM Clearing Member will, on submission to the Clearing House, be marked-to-market, in accordance with FCM Regulation 46 (*Collateralization of FCM SwapClear Contracts*). The NPV so determined must, subject to Intra-day Registration (see Section [2.1.3\(e\)](#)~~2.1.3(e)~~), be paid by the FCM Clearing Member in cash in the currency of the FCM SwapClear Contract. Where an FCM SwapClear Transaction is registered intra-day, and the NPV is covered with non-cash Collateral, the Clearing House will, the following Business Day, require payment of the full cash amount.

(b) Zero Coupon Yield Curve Construction

The Clearing House will determine, at its sole discretion, appropriate instruments, points and market prices for the construction of zero coupon curves and portfolio valuation. Details of the construction method and Instruments used are available on request from the Clearing House Risk Management Department at +44 (0)20 7426 7549, but may be subject to change without prior notification.

(c) Official Quotations

Zero Coupon Yield curves will use prices and rates taken at:

All times quoted, are London time.

| | |
|-----------------|-------|
| AUD | |
| BBSW & OIS | 12:00 |
| CAD | 20:00 |
| CHF LIBOR & OIS | 16:15 |