



**LCH.Clearnet SA  
CDS Clearing Procedures  
Section 5 - CDS Clearing Operations  
~~24 March~~ [●].2014**



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**DRAFT FOR DISCUSSION PURPOSES**

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**25.07.2014**

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Capitalised terms used in this CDS Clearing Operations Procedure and not otherwise defined herein shall have the meaning given pursuant to the remainder of the CDS Clearing Documentation, as such term is defined in the document entitled "CDS Clearing Rule Book" published by LCH.Clearnet SA, as amended from time to time.

**DRAFT FOR DISCUSSION PURPOSES****25.07.2014****5.1 THE CDS CLEARING SERVICE****5.2 BACKLOADING TRANSACTIONS**

- (a) **Backloading Failure**
- (b) **Weekly Backloading Cycle**

Pursuant to Section 3.1.1 of the CDS Clearing Rule Book, LCH.Clearnet SA operates a Weekly Backloading Cycle in accordance with the timetable set out below. For the avoidance of doubt, only CDS with two House Trade Legs can be submitted for clearing through the Weekly Backloading Cycle.

<b>PROCESSING SCHEDULE OF THE WEEKLY BACKLOADING CYCLE</b>		
<b>No.</b>	<b>Time</b> (all references below are to Continental European Time)	<b>Action</b>
Day 1	Monday (the Weekly Backloading Start Day):  By 02:00	LCH.Clearnet SA receives the Gold Records File from DTCC.
	Monday:  By:09:30	On the basis of the Gold Records File, LCH.Clearnet SA prepares the Clearing Eligibility Report which it makes available to each Clearing Member via eCCW.  The Clearing Eligibility Report contains, in respect of each Clearing Member, the Weekly Backloading Transactions which have successfully passed the Eligibility Controls.

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Day 2	Tuesday:  By 17:00	<p>Each Clearing Member shall upload on eCCW an updated Clearing Eligibility Report containing only the Weekly Backloading Transactions that such Clearing Member wishes to submit for clearing to LCH.Clearnet SA (the “<b>CM Clearing Eligibility Report</b>”). A Clearing Member may provide an amended CM Clearing Eligibility Report which will replace the previous CM Clearing Eligibility Report upon receipt by LCH.Clearnet SA.</p> <p>If a Clearing Member does not return any CM Clearing Eligibility Report by 17:00, none of its Weekly Backloading Transactions will be included in the Weekly Backloading Cycle.</p>
Day 3	Wednesday:  By 08:00	<p>LCH.Clearnet SA shall carry out the following actions:</p> <ul style="list-style-type: none"> <li>(i) reconcile the CM Clearing Eligibility Reports received from all Clearing Members in order to determine the Weekly Backloading Transactions for which both relevant Clearing Members have designated for clearing in their respective CM Clearing Eligibility Reports. Such matching Weekly Backloading Transactions will constitute the Eligible Weekly Backloading Transactions,</li> <li>(ii) reconcile the Eligible Weekly Backloading Transactions with the latest Gold Records File to ensure that such Eligible Weekly Backloading Transactions have not been removed from the TIW,</li> <li>(iii) provide, on the basis of the results of the reconciliations set out in (i) and (ii) above, each Clearing Member with a DTCC Matching and Eligibility Report containing those of their Eligible Weekly Backloading Transactions which have not been removed from the TIW, and</li> <li>(iv) provide each Clearing Member with the Simulation Margin Requirements Result File which is (x) prepared on the basis of the End of Day Contributed Prices provided to LCH.Clearnet SA on Tuesday in accordance with paragraph 5.15 below and (y) contains an estimate of the House Margin Requirement that would be required if the Eligible Weekly Backloading Transactions contained in the DTCC Matching and Eligibility Report were registered as Cleared Transactions in the Clearing Member’s House Account Structure at the time of such estimate.</li> </ul>
Day <u>4</u> <u>3</u>	Wednesday:  By 11:00	<p>An Eligible Weekly Backloading Transaction may be removed from the Weekly Backloading Cycle provided that (i) both relevant Clearing Members agree to such removal and (ii) each relevant Clearing Member sends an email to LCH.Clearnet SA which specifies the Transaction Data of the Eligible Weekly Backloading Transaction which should be removed from the Weekly Backloading</p>

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		Cycle.
	Wednesday: By 11:00	If it appears that an error has been made by LCH.Clearnet SA in a DTCC Matching and Eligibility Report and the Eligible Weekly Backloading Transactions included in such report are not the same as the Weekly Backloading Transactions of the relevant Clearing Members (save where there is a discrepancy owing to particular Weekly Backloading Transactions having been removed from the TIW between 19:30 on Tuesday and the issuance of the DTCC Matching and Eligibility Report), the relevant Clearing Member shall notify this error by email to LCH.Clearnet SA.
	Wednesday: By 12:00	If LCH.Clearnet SA confirms that an error has been made in a DTCC Matching and Eligibility Report, the Weekly Backloading Cycle will be cancelled and LCH.Clearnet SA shall inform each Clearing Member of such cancellation by 12:00.
	Wednesday: By 12:00	LCH.Clearnet SA will confirm to each Clearing Member whether the Weekly Backloading Cycle will proceed or not. Upon such confirmation, all Eligible Weekly Backloading Transactions (excluding any Weekly Backloading Transactions that have become Rejected Transactions) shall become Irrevocable Weekly Backloading Transactions.
Day <u>54</u>	Thursday: (the Weekly Backloading Novation Day)  02:00 – 04:00	Irrevocable Weekly Backloading Transactions will be pre-registered in the House Account Structure of each relevant Clearing Member save:  (i) Irrevocable Weekly Backloading Transactions which have been removed from the TIW, if any, and/or  (ii) Irrevocable Weekly Backloading Transactions which no longer meet all the Eligibility Requirements, if any.  Where an Irrevocable Weekly Backloading Transaction is not pre-registered in a Clearing Member's House Account Structure in accordance with this Section 5 of the Procedures, such Irrevocable Weekly Backloading Transaction shall become a Rejected Transaction.
	Thursday: (the Weekly Backloading Novation Day)  As soon as technologically practicable after	Novation of the pre-registered Irrevocable Weekly Backloading Transactions which have not become Rejected Transactions will be undertaken by LCH.Clearnet SA.

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	the Morning Call	
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(c) **Daily Backloading Cycle**

- 5.3 **CLEARING OF CLIENT TRADE LEGS**
- 5.4 **CDS CLEARING MEMBER REPORTING**
- 5.5 **TRADE COMPRESSION**
- 5.6 **PRE-DEFAULT PORTABILITY**
- 5.7 **EARLY TERMINATION**
- 5.8 **UPDATING THE TRADE INFORMATION WAREHOUSE**
- 5.9 **REGISTRATION OF SINGLE NAME CLEARED TRANSACTIONS**
- 5.10 **DIFFERENCES IN RECORDS**
- 5.11 **NOTIFICATION OF REGISTRATION**
- 5.12 **HEDGING TRANSACTIONS**
- 5.13 **REVERSING OF TRADES**
- 5.14 **MAXIMUM NOTIONAL AMOUNT**
- 5.15 **RECOUPONING**
- 5.16 **REPORTS**

(a) **Backloading Transaction Reports**

(i) **Trade management reports**

(l) **Event Managements Reports**

"Event Reports" means the reports described in this paragraph.

Description: The event reports cover the following reports made to Clearing Members: "Restructuring Credit Event report", "Bankruptcy/Failure to Pay/Governmental Intervention Credit Event Report", "Rename Event Report" and "Succession Event Report". In respect of the DC Credit Event Announcements relating to Restructuring, Bankruptcy, Failure to Pay, Governmental Intervention and Succession Events, or of the market decisions for Rename Events, these reports will provide Clearing Members with the description of the ongoing events.

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Timing: published by LCH.Clearnet SA between 09.15 CET and 09.30 CET on each Business Day.

For the avoidance of doubt, on a day that is a Business Day but not a Clearing Day, or on a day that is a Clearing Day on which there is no Real Time Session, the relevant Event reports will be published.

(b) **Intraday Call Reports**

(c) **Other daily reports**

(iv) **Variation Margin Report**

Description: the Variation Margin Report is generated for each Clearing Member and sets out the detailed components of the calculation relating to the Variation Margin Requirement. The file specifies:

- with respect to each Cleared Transaction registered in the Account Structure of the relevant Clearing Member, the Variation Margin which shall be paid to LCH.Clearnet SA or, as applicable, received from LCH.Clearnet SA at the same time as the following Morning Call; and
- with respect to each Irrevocable Backloading Transaction pre-registered in the Account Structure of the relevant Clearing Member, the Variation Margin which shall be paid to LCH.Clearnet SA or, as applicable, received from LCH.Clearnet SA at the same time as the following First Intraday Call, provided that such Irrevocable Backloading Transaction is novated following the Morning Call on the relevant Clearing Day.

Timing: published by LCH.Clearnet SA between 02:00 CET and 04:00 CET on each Business Day.

For the avoidance of doubt, on a day that is a Business Day but not a Clearing Day, or on a day that is a Clearing Day on which there is no Real Time Session, the relevant Variation Margin Report will be published.

(d) **Monthly reports**

(e) **Collateral Holding Report**

(f) **Compression Results File**

5.17 **REGULATORY REPORTING**

5.18 **END OF DAY PRICE CONTRIBUTION**

5.18.1 **Market Data submission obligation**

LCH.Clearnet SA has appointed the Index Publisher to be a Third Party Data Aggregator for the purposes of the CDS Admission Agreement.

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On each Clearing Day, LCH.Clearnet SA will request the Index Publisher to obtain Market Data from each Clearing Member/Price Contribution Participant for CDS in respect of which they have Open Positions.

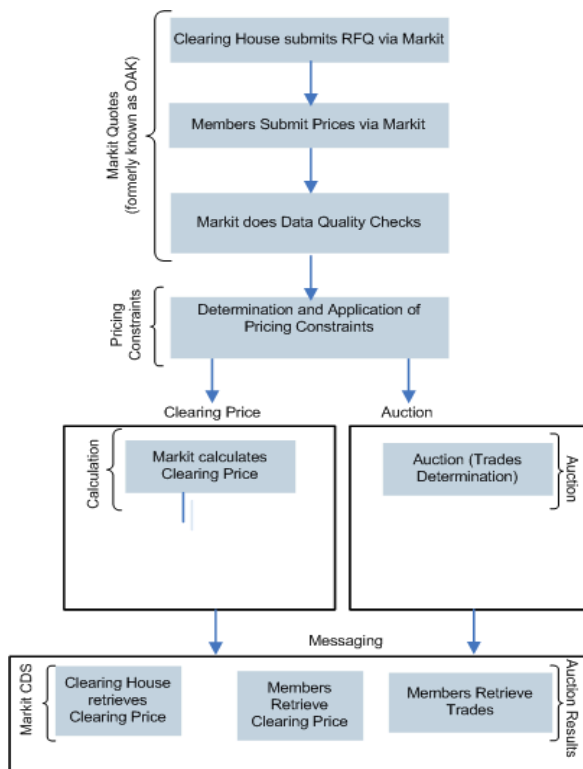
Clearing Members/Price Contribution Participants are required to submit Market Data between 16.30 and 16.35 on each Clearing Day.

**5.18.2 Calculation of End of Day Contributed Prices**

If a Clearing Member wishes to appoint a Price Contribution Delegate, it shall first obtain the prior approval of LCH.Clearnet SA. For that purpose, the relevant Clearing Member shall contact LCH.Clearnet SA's CDSClear Client Services & Relationship Management department (cdsclear\_clientservices@lchclearnet.com, +33 1 70376776) and shall provide such information as may be required by LCH.Clearnet SA. For the avoidance of doubt, LCH.Clearnet SA has full discretion as to the approval of a Price Contribution Delegate for any Clearing Member.

**5.18.2 Calculation of End of Day Contributed Prices**

The following diagram illustrates the procedures and flows for the calculation of the End of Day Contributed Prices.



At a high level, for the Index Publisher, there are effectively 5 steps in the proposed process.

- (a) Receipt of Clearing Members/Price Contribution Participants Market Data



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- (b) Application of bid/ask constraint
- Selection of Benchmark Instruments
    - Index: iTraxx Main, HiVol and Cross Over “On the Run” 5yr
    - Single Name: 5 Year Standard Coupon and Currency
  - Observe “High Quality” Dealer Quoted Bid/Ask Spread
    - Observation Window: 14.00 to 16.00
    - Definition of Unique Quote: 2 minutes since last seen identical quote
    - Quote Markit Quality Score of 8 or higher
    - Minimum Quoting Dealers: To be set out in a risk notice
    - Quoting Dealers: Only Quotes from LCH.Clearnet SA ~~Clearing Members~~Price Contribution Participants used
    - Minimum Unique Quotes: 20 for Indices/10 for Single Name
    - Non-Observed Process: 10 day rolling average
      - If the 10 day moving average is used for more than 1 day, the Risk Committee should be notified.
    - Fixed Initial Bid/Ask Spread: Used if no 10 Day rolling average available.
- (c) Determination of clearing price
- (d) Determination of any trades (potential)
- (e) Communication of clearing price

**5.18.3 Price submission procedure**

~~Clearing Members~~Price Contribution Participants should submit Market Data in accordance with the following procedure:

- LCH.Clearnet SA will transmit to the Index Publisher, on a daily basis, the Market Data for Clearing Members with Open Positions in Cleared Transactions;
- ~~Clearing Members~~Price Contribution Participants will receive price requirement files listing the Open Positions in respect of which they are required to submit Market Data.;

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- The price requirement files will be available from the Index Publisher's website for download daily between 14.30 and 15.00;
- ~~Clearing Members~~Price Contribution Participants upload Market Data submissions to the Index Publisher for the Cleared Transactions listed in the price requirement file between 16.00 and 16.35;
- Market Data can be re-submitted during this time; where a ~~Clearing Member~~does~~Price Contribution Participant~~does this the latest submitted Market Data will be taken into account by the Index Publisher;
- Market Data should be supplied via a Markit spreadsheet or a Markit API;
- ~~Clearing Members'~~Price Contribution Participants' Market Data submission can either be Bid/Ask pairs or Mids;
- The Index Publisher carries out real time checks on the data submitted to take account of fat-fingering, invalid reference data, etc. A validation log will be available to ~~Clearing Members~~Price Contribution Participants for erroneous submissions/warnings.

**5.18.4 Use of composite spreads/prices**

To the extent LCH.Clearnet SA has not received End of Day Contributed Prices from the Index Publisher by 17:15 it will use:

- (a) With respect to Index Cleared Transactions, composite prices/spreads for the purposes of calculating the Variation Margin Requirement for each Margin Account of a Clearing Member on the next following Business Day;
- (b) With respect to Single Names Cleared Transactions, a computation of end of day contributed spreads and composite spreads for the purpose of calculating the Variation Margin Requirement for each Margin Account of a Clearing Member on the next following Business Day;

in accordance with Article 4.2.7.1 of the CDS Clearing Rule Book.

**5.18.5 Trade crossing**

In order to validate the Market Data submitted by ~~Clearing Members~~Price Contribution Participants in accordance with this Paragraph 5.18, LCH.Clearnet SA shall require ~~Clearing Members~~Price Contribution Participants to undertake trade crossing in accordance with Article 4.2.7.7 of the CDS Clearing Rule Book.

**(a) Firm Days**

LCH.Clearnet SA shall determine a number of "Firm Days" being the last Clearing Day of each quarter and 30 other Clearing Days in any calendar year chosen at LCH.Clearnet SA's sole discretion, and shall communicate such Firm Days to ~~Clearing Members~~Price Contribution Participants promptly after the closure of the submission window at 16:35 on each such Firm Day.

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## (b) Determination of cross trades

The Index Publisher will inform LCH.Clearnet SA on each Business Day where prices submitted by ~~Clearing Members~~Price Contribution Participants in accordance with this Paragraph 5.18 do not reflect the quoted daily spread for a particular CDS. On each Firm Day, ~~Clearing Members~~Price Contribution Participants whose price(s) do not reflect the quoted daily spread for a particular CDS on such Firm Day will be required to execute a CDS with another ~~Clearing Member~~Price Contribution Participant on pre-determined terms, as set out in Paragraph 5.18.5(c) below. CDS must be executed by a ~~Clearing Member~~Price Contribution Participant prior to End of Day on the Clearing Day following the relevant Firm Day.

## (c) Terms of cross trades

LCH.Clearnet SA shall notify the relevant ~~Clearing Member~~Price Contribution Participant of the following required CDS terms by issuing a Cross Trade Report in accordance with Paragraph 5.16(c)(iii) above:

- trade reference identifier;
- CDS Type;
- Notional Amount;
- Initial Payment Amount;
- transaction date; and
- ~~Clearing Member~~Price Contribution Participant counterparty.

## (d) Notification of execution

~~Clearing Members~~Price Contribution Participants required to execute cross trades in accordance with this Paragraph 5.18.5 must provide LCH.Clearnet SA with the DTCC trade reference identifier (TRI) before End of Day on the Clearing Day following the relevant Firm Day by emailing this to LCH.Clearnet SA's Operations department at lchclearnetsa\_do\_cds@lchclearnet.com.

**5.18.6 Failure to submit prices**

In the event that a ~~Clearing Member~~Price Contribution Participant does not submit prices to the Index Publisher in accordance with Section 5.18.3, or execute cross trades in accordance with Section 5.18.5, of these Procedures, LCH.Clearnet SA shall be permitted to invoke Disciplinary Proceedings in respect of the Price Contribution Participant, and as the case may be, the affiliated Clearing Member for which such Price Contribution Participant acts, in accordance with Section 8 of these Procedures.

In circumstances where a failure to provide prices or execute cross trades in accordance with Section 5.18 of these Procedures is the only breach by that ~~Clearing Member~~Price Contribution Participant, and as the case may be, the affiliated Clearing

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Member for which such Price Contribution Participant acts, of its obligations under the CDS Clearing Documentation, LCH.Clearnet SA shall not be permitted to declare an Event of Default in respect of that ~~Clearing Member~~Price Contribution Participant, and as the case may be, the affiliated Clearing Member for which such Price Contribution Participant acts, pursuant to Article 4.3.1.2 of the CDS Clearing Rule Book.

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**APPENDIX 1**

**CLIENT – PARTIAL TRANSFER FORM**

**APPENDIX 2**

**PART A: CCM INDIVIDUAL SEGREGATED ACCOUNT CLIENT – FULL TRANSFER FORM**

**PART B: CCM OMNIBUS SEGREGATED ACCOUNT CLIENT – FULL TRANSFER FORM**

**PART C : FCM CLIENT- FULL TRANSFER FORM**

**APPENDIX 3**

**CCM CLIENT TRANSFER – CARRYING CLEARING MEMBER RESPONSE FORM**

**APPENDIX 4**

**FCM CLIENT TRANSFER – CARRYING CLEARING MEMBER RESPONSE FORM**