



LCH LIMITED

PROCEDURES SECTION 2C

SWAPCLEAR CLEARING SERVICE

demonstrate an ability to price and bid a greater number of trades at tighter pricing tolerances and within more onerous timeframes). In addition, the Clearing House may require an SCM 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 SCM 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 relieve a SwapClear Clearing Member of its obligations in relation to a Rates Service DMP (including its obligation to participate in an Auction) and an LCH Approved Outsourcing Agent's participation in the Rates Service DMP on behalf of an SCM, in the event of a default, shall not extend beyond the provision of operational and other ancillary support to that SCM.

1.28.8 *Rates Service DMG*

The necessary involvement of SCMs and the Rates Service DMG in the Rates Service 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, **Error! Reference source not found.** establishes binding obligations of confidentiality, anonymity and the extent of dissemination of information on SCMs (and their executives or directors who participate from time to time in the Rates Service DMG) and on the Clearing House.

Each SCM who makes available a representative to serve on the Rates Service 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 Rates Service DMG complies with **Error! Reference source not found.** covering confidentiality, non-disclosure and other terms.

~~1.28.9 *Default Management Accounts Procedures for Liquidation of Rates Service Contracts relating to Clearing Clients*~~

~~1.28.10 Upon the Default of a Rates Service Clearing Member, the Clearing House has the power and authority, pursuant to the Rulebook, to liquidate the Rates Service Contracts the Defaulter has entered into in respect of its Clearing Clients which, pursuant to the Rulebook, would be conducted in accordance with the Rates Service DMP Annex. This section sets forth certain supplementary procedures~~

(in addition to the Default Rules and other applicable provisions of the Rulebook) that will apply under such circumstances.

- ~~1.28.11~~ In certain circumstances the Clearing House may determine, in its sole discretion, that the Rates Service Contracts entered into by the Defaulting Rates Service Clearing Member in respect of one or more Clearing Clients should be liquidated. Such determination may result from factors, including (a) the Clearing House determining that the Rates Service Contracts entered into by the Defaulting Rates Service Clearing Member in respect of the Clearing Client pose too great a risk to the Clearing House and should therefore be liquidated, (b) the Clearing House becoming aware of the Clearing Client becoming insolvent or otherwise failing in its obligations to the Defaulting Rates Service Clearing Member, (c) the relevant Clearing Client requesting that the Rates Service Contracts referable to it be liquidated, or (d) a request or instruction from a Regulatory Body, whether orally or in writing. In the event of such determination, the Clearing House shall transfer (either physically or by book-entry) the Rates Service Contracts to be liquidated into an account at the Clearing House established for purposes of liquidating the Rates Service Contracts entered into by the Defaulting Rates Service Clearing Member in respect of its Clearing Clients (such account, a **"Hedged Account"**). The Clearing House may establish one or more separate Hedged Account(s) for Rates Service Contracts that are non-transferable and will be subject to liquidation and, if applicable, may include in each such Hedged Account the Rates Service Contracts that are to be liquidated, regardless of the Clearing Clients for which such Rates Service Contracts are held. The provisions of this section shall apply equally to any such Hedged Account. Additionally, no Contracts other than Rates Service Contracts will be transferred into a Hedged Account established for liquidating Rates Service Contracts.
- ~~1.28.12~~ Where the Clearing House transfers Rates Service Contracts referable to a Clearing Client into a Hedged Account, such Clearing Client is referred to as a **"Non-Porting Client"**. The Clearing House shall hold the relevant Collateral in the relevant Client Account, in each case until the liquidation of the entire Hedged Account and all Rates Service Contracts and other positions therein, as described below. At the time that the Rates Service Contracts referable to a Non-Porting Client are transferred into a Hedged Account, any outstanding and accrued but unpaid variation margin in respect of such Rates Service Contracts that are SwapClear CTM Contracts shall be discharged as of the time such Rates Service Contracts are transferred into the Hedged Account by (a) in the event that variation margin is accrued but unpaid in favour of the Clearing House, debiting the relevant Client Account, or (b) in the event that variation margin is accrued but unpaid in favour of the Defaulter, crediting the relevant Client Account.
- ~~1.28.12~~ Administration of a Hedged Account. The Clearing House may enter into hedge transactions, liquidate (by way of auction or otherwise) the Rates Service Contracts and the associated hedge positions for the account of the Hedged Account, and take related actions with respect to a Hedged Account (and the positions held therein), in each case, in its sole discretion as permitted by the Rulebook and Applicable Law, or as directed by an applicable Regulatory Body.

~~1.28.12 Allocation of Gains and Losses in a Hedged Account to Non-Porting Clients. The Clearing House will allocate losses and gains (including further variation margin changes, hedging costs including the gains and losses associated with hedging transactions, and liquidation costs and losses) to Non-Porting Clients in a Hedged Account in accordance with the following provisions:~~

~~1.0.0 At the time a Clearing Client becomes a Non-Porting Client, the Clearing House will assign:~~

~~1.28.13~~

~~1.1.0 in respect of a Non-Porting Client that is not an Indirect Gross Account Clearing Client, a risk factor to the set of Rates Service Contracts referable to such Non-Porting Client; and~~

~~1.2.0 in respect of a Non-Porting Client that is an Indirect Gross Account Clearing Client and each Indirect Gross Sub-Account within the relevant Indirect Gross Account, a separate risk factor to each set of Rates Service Contracts referable to each Indirect Gross Sub-Account;~~

~~1.28.14~~

~~1.28.15 (each, an “**Account Class Risk Factor**”). The value of each Account Class Risk Factor is calculated as the proportion that the Required Initial Margin Amount in respect of each set of Rates Services Contracts bears to the aggregate Required Initial Margin Amount of all Rates Service Contracts that are transferred into the Hedged Account at the time such Clearing Client becomes a Non-Porting Client (i.e. at the time of transfer of the Rates Service Contracts into the Hedged Account).~~

~~2.0.0 On the first day that Clearing Clients become Non-Porting Clients, gains and losses in the Hedged Account on such day shall be allocated on a pro rata basis among each such Non-Porting Client (and, in respect of a Non-Porting Client that is an Indirect Gross Account Clearing Client, among each Indirect Gross Sub-Account within the relevant Indirect Gross Account) based on the Account Class Risk Factor referable to each such Non-Porting Client and (where applicable) Indirect Gross Sub-Account. The allocation of gains and losses on subsequent days shall be made in the same manner until the occurrence of a day (if applicable) in which additional Non-Porting Clients are included in the Hedged Account. Additional Non-Porting Clients that are included in the Hedged Account on a subsequent day, until further additional Non-Porting Clients are included in the Hedged Account on a further subsequent day, are referred to as “**New Non-Porting Clients**”.~~

~~3.0.0 On a day when one or more New Non-Porting Clients are included in the Hedged Account, the Clearing House shall calculate a combined risk factor (the “**Existing Non-Porting Clients Combined Account Class Risk Factor**”) in respect of the Rates Service Contracts and associated hedge positions relating to the Non-Porting Clients that were previously included in the Hedged Account and are not New Non-Porting Clients (such existing Non-Porting Clients, “**Existing Non-Porting Clients**”). The Existing Non-Porting Clients Combined~~

~~Account Class Risk Factor shall be based on the Required Initial Margin Amount of all Rates Service Contracts and associated hedge positions held in the Hedged Account at the beginning of the day on which New Non-Porting Clients are included in the Hedged Account (i.e. at a time prior to the transfer of the Rates Service Contracts referable to New Non-Porting Clients into the Hedged Account). For the avoidance of doubt, the Existing Non-Porting Clients Combined Account Class Risk Factor is calculated without respect to the Required Initial Margin Amount of the transferred Rates Service Contracts referable to the New Non-Porting Clients.~~

~~4.0.0—On any day on which New Non-Porting Clients are included in the Hedged Account, gains and losses in the Hedged Account that arise on that day will be allocated to the Existing Non-Porting Clients (as a group), to each New Non-Porting Client that is not an Indirect Gross Sub Account Clearing Client (individually) and, in respect of a New Non-Porting Client that is an Indirect Gross Account Clearing Client, to each Indirect Gross Sub Account within the relevant Indirect Gross Account, on a pro rata basis, based on the Existing Non-Porting Clients Combined Account Class Risk Factor (with respect to the Existing Non-Porting Clients as a group) and each Account Class Risk Factor referable to each New Non-Porting Client or (where applicable) Indirect Gross Sub Account. The gains and losses allocated in such manner to the Existing Non-Porting Clients as a group shall be further allocated to each individual Existing Non-Porting Client or (where applicable) Indirect Gross Sub Account on a pro rata basis based on the Account Class Risk Factor referable to each such Existing Non-Porting Client or (where applicable) Indirect Gross Sub Account. The allocation of gains and losses on subsequent days shall occur in the same manner as set forth in this paragraph (D) until the occurrence of a day (if applicable) in which additional Non-Porting Clients are included in the Hedged Account and thus become the New Non-Porting Clients. In such a case, (1) the Existing Non-Porting Clients shall continue to be treated as Existing Non-Porting Clients, (2) the Non-Porting Clients previously constituting the New Non-Porting Clients shall then also constitute Existing Non-Porting Clients as defined in paragraph (C) above, (3) the additional Non-Porting Clients included in the Hedged Account shall constitute the New Non-Porting Clients as defined paragraph (B) above, and (4) the Clearing House shall recalculate the Existing Non-Porting Clients Combined Account Class Risk Factor and the allocation of gains and losses shall be in accordance with paragraph (C) above and this paragraph (D).~~

~~5.0.0—Upon the liquidation of the Hedged Account and all Rates Service Contracts and associated hedge positions therein, by auction or otherwise, any gains or losses associated with such liquidation shall be allocated on a pro rata basis to each Non-Porting Client (and, in respect of a Non-Porting Client that is an Indirect Gross Account Clearing Client, to each Indirect Gross Sub Account within the relevant Indirect Gross Account) based on the “unit value” of each Rates Service Contract referable to such Non-Porting Client or (where applicable) Indirect Gross Sub Account and transferred into the Hedged Account, as adjusted by an “auction value adjustment”. For the purposes of this paragraph (E), (1) “unit value” means, in respect of Rates Service Contract, the value applied by the Clearing House to each Rates Service Contract, based~~

~~on its net present value and outstanding notional value, and (2) “**auction value adjustment**” means, in respect of a Rates Service Contract, a ratio applied by the Clearing House to such Contract based on the aggregate liquidation costs incurred in liquidating the Hedged Account and the aggregate notional value of all Rates Service Contracts in the Hedged Account. The allocations described in this paragraph (E) are without reference to any Account Class Risk Factor or Existing Non-Porting Clients Combined Account Class Risk Factor.~~

~~1.28.9 Settlement Following Liquidation of Hedged Account. Following the liquidation of a Hedged Account, the Clearing House shall allocate the appropriate gains and losses (as determined in accordance with the above provisions) to each relevant Client Account or (where applicable) Indirect Gross Sub Account.~~

~~(a) For the purposes of this Section 1.28.9, 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 Rates Service Contracts that (at any time) comprise such Initial DMA or Final DMA (as applicable), each Non-Porting Client Account from which any such Rates Service Contract originated.~~

~~“**Auction**” has the meaning assigned to it in the Rates Service 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 Basis Portfolio or an OTC Auction Portfolio, as applicable.~~

~~“**Auction Portfolio Calculation Period**” means, in respect of an Auction Portfolio and its Auction Date, the period commencing immediately after the end of 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 Rates Service 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**”.

“**Basis Portfolio**” has the meaning assigned to it in the Rates Service DMP Annex.

“**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 commencing immediately after the end of day margin and settlement 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 an Initial DMA and a Daily Calculation Period, all costs incurred by the Clearing House in connection with hedging the exposure of the Rates Service Contracts transferred (by book-entry) to such Initial DMA in accordance with the Risk Neutralisation process under Rule 2.2 of the Rates Service 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.

“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, Custodial Segregated Account, Omnibus Gross Segregated Sub-Account, Indirect Net Account, Indirect Gross Sub-Account, Non-Identified Client Omnibus Net Segregated Account, Affiliated Client Omnibus Net Segregated Account, Identified Client Omnibus Net Segregated Account or FCM Client Sub-Account (as applicable) of such Defaulter, to which the Rates Service 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.

“OTC Auction Portfolio” has the meaning assigned to it in the Rates Service DMP Annex.

“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 Rates Service Contracts within such DMA during such Daily Calculation Period, excluding those Rates Service 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 Rates Service 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: (x) variation margin; (y) Stress Loss Margin as defined in Section 1.9.7 above; and (z) counterparty risk multiplier margin as described in Section 1.9.2 above.

(b) Initial DMAs

- (i) After a Default, the Clearing House may, in its sole discretion:
- (A) determine that the Rates Service 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 Rates Service Contracts will be transferred into an Initial DMA.
- (iv) Any outstanding and owing, but unsettled, variation margin or settlement amounts in respect of Rates Service Contracts as at the end of the Daily Calculation Period for the business day prior to the transfer of such Rates Service 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 Rates Service 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 Rates Service 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 Rates Service 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 1.28.9 has been completed.

1.28.161.28.10 Rates Service Default Management Disclosure Notice

Each SCM must ensure that each Clearing Client is provided with, or is directed to a copy of, the Rates Service Default Management Disclosure Notice and further must provide confirmation to the Clearing House, in the form and manner reasonably required by the Clearing House, that it has discharged this obligation in respect of each of its Clearing Clients.

1.28.171.28.11 Contact Information

Each SCM is required to provide the Clearing House with contact details for those persons that the Clearing House should contact in the event of an SCM Default. SCMs are required to ensure that contact details remain up to date and to notify the Clearing House of any changes in such details.

1.29 Provision of Tax Forms; Withholding Taxes; Sales Tax

1.29.1 Tax Forms

The Clearing House and each SwapClear Clearing Member shall provide to the other party (i) any form or document specified in the given SwapClear Contract and (ii) any form, document, statement or certification (including, in the case of the Clearing House, an Internal Revenue Service Form W-8BEN) reasonably requested in writing, in each case to permit the Clearing House or SwapClear Clearing Member, as applicable, to make any payment under the Clearing House's rules or any SwapClear Contract without withholding for any tax, levy or charge. The foregoing requirement shall not apply in the event the Clearing House or SwapClear Clearing Member is not permitted to deliver such form, document, statement or certification under Applicable Law (including any double-tax treaty).