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By Electronic Mail

February 12, 2009

Mr. David A. Stawick
Secretary
Commodity Futures Trading Commission
1155 21st Street NW
Washington DC 20581

Re: LCH.Clearnet Ltd.

Dear Mr. Stawick:

On behalf of our client, LCH.Clearnet Ltd. ("LCH.Clearnet"), a registered derivatives clearing organization ("DCO"),¹ and in accordance with the provisions of Commodity Futures Trading Commission ("Commission") Rule 39.4(c)(2), we write to advise the Commodity Futures Trading Commission ("Commission") that LCH.Clearnet intends to accept for clearing credit default swaps ("CDS") on certain credit default swap indices ("Index CDSs") that will be processed and presented for clearing through an over-the-counter ("OTC") derivatives processing service called Bclear (referred to herein as "Bclear" or the "Bclear Service"), which LIFFE Administration and Management ("LIFFE A&M") has developed and makes available to its members.² The Index CDS will be cleared in accordance with the provisions of Section 2A of the LCH.Clearnet Procedures, which sets out the procedures by which Exchange contracts are cleared.³

¹ The Commission granted LCH.Clearnet's application as a DCO by order dated October 29, 2001. Under the terms of that initial order, LCH.Clearnet was authorized to clear only OTC derivatives contracts. On May 11, 2004, at the request of LCH.Clearnet, the Commission issued an amended order authorizing LCH, subject to certain conditions, to clear financial futures contracts and options on such contracts traded on or subject to the rules of designated contract markets ("DCMs"), derivatives transaction execution facilities, and exempt boards of trade.

² LIFFE A&M initially intends to offer the Bclear Service with respect to CDSs on the iTraxx Europe indices and has entered into a license agreement with International Index Company Ltd./Markit Group Ltd. to use the iTraxx Europe indices.

³ A copy of Section 2A is enclosed with this letter. As explained below, under the relevant LIFFE A&M rules, if LIFFE A&M accepts an OTC Index CDS that has been submitted to Bclear for processing, the Index CDS is replaced by an exchange contract.

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On behalf of LCH.Clearnet, we hereby certify that the clearing of Index CDSs and the rules pursuant to which such products are cleared comply with the Commodity Exchange Act and Commission regulations thereunder.

As described in detail below, the Bclear Service processes OTC transactions and submits them for clearance to LCH.Clearnet, which stands as the central counterparty to all transactions processed through Bclear.⁴ LIFFE A&M launched the Index CDSs for non-U.S. persons on December 22, 2008 and expects to make this service available to certain market participants in the U.S. on the terms described herein in the near future.⁵ To better understand the role that LCH.Clearnet plays in providing clearing services for Index CDS, the balance of this letter will first describe the CDS market, then explain the Recognition Requirements to which both LIFFE A&M and LCH.Clearnet are subject in their capacities as a Recognised Investment Exchange and Recognised Clearing House, respectively, and the manner in which they meet these requirements. We conclude with a description of the Bclear Service.

I. The CDS Market

CDSs represent contractual agreements between counterparties, pursuant to which one party (the buyer) pays a premium to the other party (the seller) for protection against the happening of certain credit events. Each CDS contract incorporates the following features: (i) a reference entity (the underlying entity with respect to which the buyer is seeking protection) or in the case of an index, a group of reference entities; (ii) a reference obligation (upon the occurrence of a credit event, this identifies the lowest seniority of bond that can be delivered); (iii) a term; (iv) a notional amount; and (v) specified credit events that trigger the obligation of the seller to pay the buyer.

The CDS market represented approximately 10 percent of the OTC derivatives market as at December 31, 2007, with notional value outstanding of \$58 trillion out of a total \$596 trillion.⁶

⁴ On October 31, 2008 LIFFE announced changes to its clearing arrangements which, subject to regulatory approval, will be implemented in the first quarter of 2009. These will involve LIFFE A&M becoming the central counterparty to all transactions entered into on the LIFFE market and all transactions which are accepted by LIFFE A&M through Bclear, including CDS transactions. Under these arrangements, LIFFE A&M will outsource certain functions to LCH.Clearnet, including those concerning the management of clearing member defaults.

⁵ Specifically, all U.S. market participants will meet the definition of an "eligible contract participant" under section 1a(12) of the Commodity Exchange Act. By Order dated December 24, 2008, the Securities and Exchange Commission issued temporary exemptions to LCH.Clearnet and LIFFE A&M which, among other things, authorized LCH.Clearnet to operate as a central counterparty for credit default swaps. Order Granting Temporary Exemptions Under the Securities Exchange Act of 1934 in Connection with Request of Liffe Administration and Management and LCH.Clearnet Ltd. Related to Central Clearing of Credit Default Swaps, and Request for Comments, 74 Fed.Reg. 139 (January 2, 2009).

⁶ Bank for International Settlements semi-annual OTC derivatives statistics at end-December 2007.

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Single name CDS contracts represented 55 percent of this total with \$32 trillion notional value outstanding; index contracts represent the remaining \$26 trillion. Rapid year on year growth in CDS transactions initially led to trade processing inefficiencies with a significant number of trades being processed manually. Industry participants have since taken significant steps to automate transactions with an overall strategic ambition to ensure the majority of transactions are confirmed and processed in a T+0 timeframe.

Although progress has been made in trade processing, the concentration of the majority of CDS transactions among a relatively small group of major dealers has led to concerns from regulators, including the Commission, the Securities and Exchange Commission, and the New York Federal Reserve Bank, that the collapse of a major dealer and the potential systemic risk may add significant strain to financial markets. This has prompted calls for a clearing house environment to be set up to act as a central counterparty for CDS transactions.

II. Description of LIFFE A&M and LCH.Clearnet

A. Regulation of LIFFE A&M and LCH.Clearnet

LIFFE A&M is a Recognised Investment Exchange ("RIE") under the UK Financial Services and Markets Act 2000 ("FSMA"). Recognition as an RIE has been granted to LIFFE A&M by the UK Financial Services Authority (the "FSA"), the designated agency under FSMA. The regulatory obligations of RIEs are set out in Regulations made under FSMA ("Recognition Requirements").⁷ In summary, the Recognition Requirements stipulate that an RIE:

1. must have financial resources sufficient for the proper performance of its functions as an RIE;
2. must be a fit and proper person to perform the functions of an RIE;
3. must ensure that the systems and controls used in the performance of its functions are adequate and appropriate for the scale and nature of its business;
4. must ensure that business conducted by means of its facilities is conducted in an orderly manner and so as to afford proper protection to investors;
5. must ensure that access to its facilities is subject to criteria designed to protect the orderly functioning of the market and the interests of investors;

⁷ The Financial Services and Markets Act 2000 (Recognition Requirements for Investment Exchanges and Clearing Houses) Regulations 2001.

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6. must ensure that satisfactory arrangements are made for the timely discharge of the rights and liabilities of the parties to transactions effected on the RIE;
7. must be able and willing to promote and maintain high standards of integrity and fair dealing in the carrying on of regulated activities by persons in the course of using the facilities provided by the RIE;
8. must ensure that appropriate procedures are adopted for it to make rules, for keeping its rules under review and for amending them;
9. must ensure that appropriate measures are adopted to reduce the extent, to which the RIE's facilities can be used for a purpose connected with market abuse or financial crime, and to facilitate their detection and monitor their incidence;
10. must have effective arrangements for monitoring and enforcing compliance with its rules; and
11. must have effective arrangements for the investigation and resolution of complaints arising in connection with the performance of, or failure to perform, any of its regulatory functions.

LIFFE A&M operates a central order book⁸ and wholesale trading facilities through the LIFFE CONNECT® electronic trading platform as “trading services,” subject to the oversight of the FSA. The Bclear Service is also subject to FSA oversight.

LCH.Clearnet is a Recognised Clearing House (“RCH”) under FSMA. Regulation and oversight of LCH.Clearnet in the U.K. is carried out by the FSA and the Bank of England. The FSA is the main regulator of LCH.Clearnet as an RCH, while the Bank of England's oversight is confined to LCH.Clearnet's payment system. The regulatory obligations of RCHs are set out in the Recognition Requirements. In summary, the Recognition Requirements stipulate that an RCH:

1. must have financial resources sufficient for the proper performance of its functions as an RCH;
2. must be a fit and proper person to perform the functions of an RCH;
3. must ensure that the systems and controls used in the performance of its functions are adequate and appropriate for the scale and nature of its business,

⁸ LIFFE A&M will not operate a central order book for Index CDSs.

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including the assessment and management of risks to the performance of the RCH's relevant functions, and (where relevant) the safeguarding and administration of assets belonging to users of the RCH's facilities;

4. must ensure that access to its facilities is subject to criteria designed to protect the orderly functioning of those facilities and the interests of investors;

5. must be able and willing to promote and maintain high standards of integrity and fair dealing in the carrying on of regulated activities by persons in the course of using the facilities provided by the RCH;

6. must ensure that appropriate procedures are adopted for it to make rules, for keeping its rules under review and for amending them;

7. must ensure that appropriate measures are adopted to reduce the extent to which the RCH's facilities can be used for a purpose connected with market abuse or financial crime, and to facilitate their detection and monitor their incidence;

8. must have effective arrangements for monitoring and enforcing compliance with its rules; and

9. must have effective arrangements for the investigation and resolution of complaints arising in connection with the performance of, or failure to perform, any of its regulatory functions.

LCH.Clearnet provides clearing services through the use of various proprietary and third party supplied applications.

The FSA and each of LIFFE A&M and LCH.Clearnet together carry on a "close and continuous" regulatory supervision relationship, through a number of formal and ad hoc meetings and other communications at many levels and of many frequencies. Additionally, on an annual basis, the FSA undertakes a risk assessment of LIFFE A&M and LCH.Clearnet, pursuant to which the FSA determines whether relevant regulatory obligations continue to be met and whether activities of either LIFFE A&M or LCH.Clearnet pose any risks to the FSA's statutory objectives, including maintaining market confidence and providing customer protection.

Both LIFFE A&M and LCH.Clearnet have in place robust business continuity plans that set forth procedures to be followed in the event of short, medium and long-term technical and premises interruptions. These plans have been approved by the FSA.

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The FSA and the Commission have entered into a Memorandum of Understanding⁹ pursuant to which the FSA and the Commission have agreed to cooperate and share information related to the cross border oversight of U.S. and U.K derivatives markets. This agreement provides a means by which the Commission may access information regarding the transactions processed by the Bclear Service and cleared by LCH.Clearnet to address any potential issues, such as insider trading, manipulation and similar matters.

B. Services Provided by LCH.Clearnet

LCH.Clearnet provides central counterparty clearing house services to the following markets and services:

- London Stock Exchange (LSE)
- SWX Europe Ltd.
- LIFFE
- EDX London
- London Metal Exchange (LME)
- Other European Multilateral Trading Facilities ("MTF")
- RepoClear and SwapClear

As legal counterparty to each clearing member in respect of registered business, LCH.Clearnet bears any loss arising from the default of a clearing member, beyond the margin deposits held as security in respect of the defaulting member's liabilities. LCH.Clearnet's supplementary resources for use in default cases, should those margin deposits be insufficient, comprise a Default Fund,¹⁰ totaling approximately £600 million, which is provided by members and held in cash by LCH.Clearnet. Each member's Default Fund contribution is assessed every three months on the basis of that member's initial margin and (in the case of exchange traded derivatives) trading volumes over the preceding three months. The Default Fund is mutual in nature, in the sense that any loss faced by LCH.Clearnet as a result of a default which cannot be met from the defaulter's margin cover at LCH.Clearnet or from its contribution to the Default Fund will be met by the Default Fund generally. Customers of a defaulting clearing member have no contractual relationship with LCH.Clearnet, but are protected to the extent of their client agreement and any segregation arrangements in place with that member. LCH.Clearnet uses a stress testing model to ensure that its post-default financial backing is of appropriate size. The

⁹ *Memorandum of Understanding Concerning Consultation, Cooperation and the Exchange of Information related to Market Oversight*, between the United States Commodity Futures Trading Commission and the United Kingdom Financial Services Authority, 2006.

¹⁰ This fund is a single fund used in respect of the markets and services described above.

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stress testing model assesses the adequacy of initial margin requirements and the Default Fund on the basis of extreme price movement scenarios in all contracts cleared by LCH.Clearnet.

The sequence of protections to be applied in the event of a default is as follows:

1. Defaulter's Initial Margin (including excess collateral posted)
2. Defaulter's Default Fund contribution
3. Up to £20 million of LCH.Clearnet's capital and reserves
4. Remainder of Default Fund
5. Remainder of LCH.Clearnet's capital and reserves

The sequence outlined above does not take into account the anticipated replenishment of the Default Fund by market members and/or national governments between stages 4 and 5.

As the counterparty to every clearing member, LCH.Clearnet reduces the scope for counterparty risk between clearing members. LCH.Clearnet is legally responsible for the financial performance of the contracts that it has registered and any resulting delivery contracts. All clearing members deposit margin with LCH.Clearnet to cover the risk on their net positions.

LCH.Clearnet is not counterparty to contracts with customers. Behind contracts between LCH.Clearnet and a clearing member there may exist further "back-to-back" contracts; for example, if a customer enters into an Index CDS, the clearing member is the counterparty to the customer and the counterparty to LCH.Clearnet (once the transaction has been registered). These customer contracts are subject to LIFFE Rules, but LCH.Clearnet is not a party to them.

C. LIFFE A&M and LCH.Clearnet Participants

LIFFE A&M has two categories of members, clearing members or non-clearing members, and two types of clearing members: Individual Clearing Members who clear and settle business for their own account or, in the case of dealers, on behalf of their customers; and General Clearing Members who, in addition, clear and settle business on behalf of other LIFFE A&M members. All transactions of non-clearing members must be cleared through a specific clearing member.

As elements in a range of clearing membership criteria, all clearing members must also be members of LCH.Clearnet and all are subject to standards of capital adequacy.¹¹ Clearing

¹¹ Standards of capital adequacy for membership purposes are set by LCH.Clearnet rather than by LIFFE A&M. Clearing members will, however, also be subject to capital adequacy requirements set by their regulators.

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members must also satisfy LIFFE A&M and LCH.Clearnet that they have adequate systems and controls to clear and settle transactions.

All LIFFE members undertaking business for clients are subject to UK client money rules and client asset rules or, if they are authorized outside the UK, similar rules of the relevant regulator. In the European Union, those rules are governed by the Markets in Financial Instruments Directive ("MIFID"), although the UK client money rules and client asset rules prescribe some extended conditions in certain cases. The majority of LIFFE members are based in either European member states or in the United States.¹² In terms of other locations, there are LIFFE members in Switzerland (5 at present) and Singapore (1 at present) plus a dormant member in each of Japan and Canada.

European members are subject to the relevant provisions of MIFID and the Capital Adequacy Directive in respect of financial resources and conduct of business obligations (including those in respect of record-keeping).

MIFID sets out requirements (which each member state is required to implement in national legislation) covering, *inter alia*, obligations of investment firms in respect of record keeping and the treatment of client assets and client money. In particular, Article 13 of MIFID ("Organisational requirements") requires an investment firm to keep records "which shall be sufficient to enable the competent authority to...ascertain that the investment firm has complied with all obligations with respect to clients or potential clients." Commission Regulation 1287/2006/EC provides more detailed obligations in respect of record-keeping.

Article 13 of MIFID also requires each investment firm, when holding funds or financial instruments belonging to clients, to make adequate arrangements so as to safeguard clients' rights and to limit the extent to which such funds and instruments can be used by the firm for its own account. These high level standards are implemented at the national level by more detailed regulations (*e.g.*, the UK client money and client asset requirements are set out in the "Client Assets" section of the FSA Handbook¹³).

¹² Any LIFFE member that is based in the United States and undertakes a customer business is either registered with the Commission as a futures commission merchant or is registered with the Securities and Exchange Commission as a broker-dealer registered.

¹³ As an illustration of how such requirements work, the FSA's Client Asset Rules (covering client assets and client money) require all client money received to be deposited immediately with a banking institution in an account clearly labeled as a client account. The Rules create a statutory trust, with the investment firm receiving and holding client money as trustee, and the bank in which the money is deposited has to acknowledge that all money standing to the credit of the account is held by the firm as trustee. (NB: where the investment firm is itself a bank and the money is held in an account with itself, it must inform the client that such money will be held by the firm as banker and not as trustee.) The Rules allows the investment firm to transfer client money to a clearing member or to a

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In addition, Article 12 of MIFID (“Initial capital endowment”) obliges member states to ensure that competent authorities do not grant authorization unless the investment firm has sufficient initial capital, having regard to the nature of the investment service or activity in question. The recast Capital Adequacy Directive sets out in detail such requirements, including which assets may be used for initial capital purposes.

Although Switzerland is not a member of the European Union, it has tended to implement equivalent legislation in relation to financial markets to maintain its equivalence with EU member states, and requirements comparable to those set out above can be found in Swiss legislation. Similarly, when LIFFE A&M conducted due diligence in respect of Singapore, it concluded that firms there were subject to a well-developed regulatory regime equivalent to European and US standards, incorporating capital requirements and organizational rules.

It should be noted that LIFFE A&M relies on the relevant home state regulator to ensure compliance with all such requirements. In the extreme case, where authorization is curtailed or removed, LIFFE A&M would expect to hear from both the regulator and the member concerned, and LIFFE A&M Rules require each member to notify LIFFE A&M immediately of any material change “in respect of the Member’s authorization, license or permission to conduct Investment Services.”

clearing house for the purposes of a transaction for a client through that entity or to meet a client’s obligation to provide margin for such transaction; such transfer does not alter the firm’s fiduciary duty to the client in respect of such money. These provisions are important because where a client has a customer relationship with a broker who is an exchange member but not a clearing member, money (and, potentially, assets) for margin purposes will need to flow from client to broker to clearing member and then to the clearing house. Both the non-clearing member and the clearing member will be subject to the Client Asset Rules.

The Rules make clear, following the language of MIFID, that a firm “must, when holding client money, make adequate arrangements to safeguard the client’s rights and prevent the use of client money for its own account.”

The section of the FSA’s Client Asset Rules dealing with assets that the firm receives or holds in connection with an arrangement to secure the obligation of a client in connection with investment business recognizes that the firm will need to be able to treat the asset as if legal title and associated rights to that asset had been transferred to the firm. Nonetheless, the Rules require that the firm “maintains adequate records to enable it to meet any future obligations including the return of equivalent assets to the client.”

Finally, it should be noted that client money and client asset rules fall under the responsibility of the home member state under MIFID, so the FSA Client Asset Rules apply only to firms authorized by the FSA and not firms from other member states operating in the UK under their passport rights. However, firms from other members states would be required to comply with equivalent provisions, given that all member states are required to have implemented MIFID.

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D. Risk Management

Each clearing member may have two accounts with LCH.Clearnet: one for segregated customer business (the "Client margin account"), and one for all house and non-segregated client business (the "House margin account").¹⁴ The offset of liabilities and credits between the House margin account and the Client margin account is not permitted.

LCH.Clearnet requires the posting of initial margin and maintenance ("variation") margin for all clearing accounts. The majority of initial margin and maintenance margin is determined utilizing the London SPAN (Standard Portfolio Analysis of Risk) method. London SPAN was adapted from the Chicago Mercantile Exchange's margining system, which is designed to match margin to risk. London SPAN does this by simulating how a portfolio would react to changing market conditions. The initial margin requirement for the portfolio is the largest loss identified under these various market conditions that might reasonably occur, taking into account risk offsets within the portfolio. Initial margin is refunded when the position is closed. This risk management methodology is designed to protect LCH.Clearnet against the worst likely loss from one or two day's move in the market. Net Liquidation Value ("NLV") is the value of the portfolio at closing market prices. It represents the income or expenditure which would be associated with closing out an Index CDS position. This figure is added to initial margin to give the total margin requirement. LCH.Clearnet revalues the margin position on at least a daily basis to take account of changes or volatility in the market price of the underlying index and in LCH.Clearnet's valuation of margin collateral provided in the form of securities. During the day LCH.Clearnet monitors market prices and clearing members' positions and may call for additional margin payments. LCH.Clearnet then revalues the margin requirements each night.

LCH.Clearnet's margin requirements are only applicable to clearing members. All clearing members must provide LCH.Clearnet with margin cover to cover the risk on their total net positions for each account. Clearing members and/or non-clearing members in turn set the margin requirements applicable to their customers and may hold funds and assets posted by customers to meet such margin requirements.

While LCH.Clearnet's margin requirements are central to its risk management, LCH.Clearnet also has other measures at its disposal, including:

1. additional financial resource requirements (buffers);
2. additional initial margin requirements;

¹⁴ Clearing members are required to segregate customer funds except in instances where the investor, if permitted to do so by applicable client money rules, contracts out of the segregation requirement.

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3. imposition of position limits;
4. trading for liquidation only;
5. prior authorization of trades above a certain size; and
6. issuing instructions to reduce positions.

LCH.Clearnet also monitors large cumulative profits or losses. If large and unusual trading activity is detected (relative to previous exposures) LCH.Clearnet will contact compliance officers and seek assurances from the senior executives or boards of a member firm or parent company.

E. Margin Collateral

Arrangements for the provision (but not the quantum) of margin are a matter for negotiation between the customer, broker and clearing member. LCH.Clearnet accepts a variety of collateral types from clearing members in respect of their margin liabilities to LCH.Clearnet. These apply to both initial margin and NLV payments. Members may meet margin requirements by cash payments in the following currencies: sterling, US dollars, yen, Swiss francs, and euro. In addition, LCH.Clearnet will accept an extensive range of collateral including approved bank guarantees, certain UK treasury bills, UK gilts, sterling and US dollar certificates of deposit, and German, Italian and Spanish government bonds. Any such securities must be charged to LCH.Clearnet by the clearing member in accordance with LCH.Clearnet procedures.

To avoid frequent changes in the amount of collateral provided, clearing members may lodge margin in excess of (but not substantially in excess of) the LCH.Clearnet minimum. LCH.Clearnet pays interest to clearing members on such cash balances currently at the overnight London Inter-Bank Bid Rate (LIBID) minus 25 basis points.

F. Default

Both LIFFE A&M and LCH.Clearnet have default rules, as required by the Recognition Requirements. If a clearing member appears to LCH.Clearnet to be unable, or to be likely to become unable, to meet its obligations to LCH.Clearnet, it may be declared a defaulter under LCH.Clearnet's default rules in relation to the contracts registered by it with LCH.Clearnet. Where a clearing member has been declared a defaulter by LCH.Clearnet, contracts between such clearing member and its non-clearing members and clients will be dealt with under LIFFE A&M's default rules. A default by a non-clearing member will also be dealt with under LIFFE A&M's rules.

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LIFFE A&M's default rules permit LIFFE A&M to direct that open contracts to which a defaulting non-clearing member is party be dealt with in one of a number of ways including, for example, off-set against matching contracts to which the defaulter is party, closing-out through trading out in the market, transfer to another member or invoicing back.

Where the defaulter is a clearing member, LCH.Clearnet's default rules take primacy, although all actions in such circumstances are typically coordinated between LCH.Clearnet and the relevant exchange. In this way, the statutory protections afforded to an RCH may be fully utilized.

III. The Bclear Service

A. Use of the Bclear for Index CDS contracts

As noted above, Bclear will provide a means by which counterparties to an Index CDS may negotiate the transaction on a bilateral basis and then submit the transaction for processing and clearing. Bclear accepts only completed transactions and is not a matching system for counterparties.

Parties wishing to use the Bclear Service will directly negotiate and agree with each other the terms of a CDS on a credit default swap index, meeting the contract specifications established by LIFFE A&M. The Index CDS may then be submitted to Bclear by a LIFFE member or a customer that has been authorized by a LIFFE member to access Bclear.¹⁵ The LIFFE member or its authorized customer (or in the case where more than one LIFFE member is party to the Index CDS, the LIFFE member as agreed between the parties) will submit specific transaction information regarding the Index CDS to LIFFE A&M and LIFFE A&M will either accept or reject the transaction. LIFFE A&M is not obligated to accept an Index CDS that is submitted to Bclear and may reject an Index CDS for a number of reasons. For example, the transaction may be rejected if it does not meet the applicable contract requirements or if LIFFE A&M does not consider the transaction to have been entered into at a fair value. If LIFFE A&M accepts an Index CDS, the Index CDS is replaced by an exchange contract,¹⁶ subject to LIFFE A&M rules, and having LCH.Clearnet as the central counterparty. As the central counterparty for the transaction, LCH.Clearnet is responsible for ensuring the financial performance of all Index CDSs registered with it. There will not be a central order book for Index CDSs. Accordingly, transactions may

¹⁵ A LIFFE A&M member may request that its customer be permitted to submit transactions directly to Bclear in the name of the member. Any transaction so submitted must be authorized by the LIFFE A&M member. Such authorization may be undertaken on a transaction by transaction basis, or transactions may be automatically authorized, subject to certain restrictions.

¹⁶ An exchange contract refers to a contract that is subject to the rules of LIFFE A&M; it does not indicate that a central order book exists for such product.

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only be closed out by negotiating an off-exchange transaction to offset the original transaction and submitting such offsetting transaction to Bclear. The process by which an Index CDS is registered and cleared is described in greater detail in Appendix A attached hereto.

Index CDS contracts are cleared and managed using LIFFE A&M's Trade Registration System/Clearing Processing System (TRS/CPS), which may be connected to proprietary or third party back office systems for position and risk management. An Index CDS may be submitted to Bclear through a secure, web-based application that members access via their own internet connections or through the Bclear API, which members can integrate with their own in-house systems.

B. Eligibility of Index CDSs for Submission to Bclear

Initially, Bclear will only accept for processing and clearance CDSs on three of the iTraxx Europe Indices. There are six iTraxx Europe Indices—Europe, Non-Financials, Senior Financials, Sub Financials, Crossover and High Volatility.¹⁷ The number of entities in each index ranges from 25 (Senior Financials and Sub Financials) to 125 (Europe) and the entities are equally weighted in all indices. Credit events on these indices include bankruptcy, failure to pay, and modified restructuring. During the term of the Index CDS, the buyer makes a "coupon" payment based upon a percentage of the notional amount of the contract.

While LIFFE A&M's legal contract specification in respect of Index CDSs remains subject to finalization, it is intended that credit events will be handled on the basis set forth in the following paragraph.

Upon the determination by LIFFE A&M that there has been a credit event with respect to any reference entity in the relevant index during the term of the contract, holders of positions in the Index CDS will be provided with a position in a separate Event Protection Contract ("EPC") in relation to the relevant reference entity. EPCs are non-tradable instruments which are cash settled. They have a settlement value which is equal to 100 minus a recovery rate for the underlying bonds. Through the EPC settlement process, the protection buyer will receive payment to the extent that the value of the underlying bond or loan falls below par. Following determination of a credit event, the entity that was the subject of the credit event will be removed from the index and the notional amount will be reset.

¹⁷ We note that the Bclear Service will initially be offered on CDSs on the iTraxx Europe, iTraxx Crossover and iTraxx High Volatility indices. CDSs on the remaining three iTraxx Europe indices, as well as other credit default swap indices, may be offered at some time in the future.

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All contracts submitted to Bclear must meet the contract specifications established by LIFFE A&M. The contract specifications for the three iTraxx Europe indices that will initially be offered through Bclear are set forth in Appendix B attached hereto.

C. Rules relating to the Bclear Service

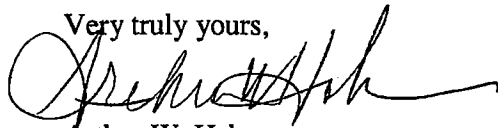
LIFFE A&M has adopted rules governing the use of the Bclear Service.¹⁸ These rules set forth the process by which members may submit transactions to the Bclear Service for confirmation, administration and clearing. All transactions submitted to Bclear must comply with these rules, as well as all other applicable rules of LIFFE A&M.

D. Maintenance of Transaction Information

Upon submission of a transaction to Bclear, LIFFE A&M captures transaction information and, on a T+1 basis, reports to the FSA, on behalf of its members, the “market side” of transactions cleared in LIFFE A&M’s Equities and Financials Trade Registration System (TRS). A number of files are transferred to the FSA daily, including transaction data (presented in buy-side and sell-side format), position data, member details and series details. Index CDS products will be added to this data feed and will include the same level of information, *i.e.* executing member, product code, expiry date, initial premium (price), coupon (fixed premium) and number of contracts. LIFFE members separately report on a T+1 basis to the FSA¹⁹ the “client side” of transactions, which identify the non-member clients who are parties to the reported transactions. With both the “market side” and “client side” reports, the FSA has a complete audit trail of a market participant’s activity in reported products, such as the Index CDS products to be processed through Bclear. The FSA will be able to use this information itself or provide it to other European and US regulators in accordance with existing Memoranda of Understanding, as necessary and on a confidential basis.

We trust this information is helpful. If you have any questions or require additional information concerning CDS clearing by LCH.Clearnet, please contact me at 312-902-5241.

Very truly yours,



Arthur W. Hahn

¹⁸ The London International Financial Futures and Options Exchange Rules—Book II, Section 12.

¹⁹ The FSA’s transaction reporting requirements in respect of OTC derivatives (including OTC CDSs) are currently the subject of a Consultation Paper (CP08/16) and, as a result, are subject to change.

Mr. David A. Stawick
February 12, 2009
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cc: Ananda Radhakrishnan, Director, Division of Clearing and Intermediary Oversight
Richard Shilts, Director, Division of Market Oversight

Process for the Registration and Clearance of Index CDSs

The rules of LIFFE A&M provide for members to trade for their own account and/or for their customers, but all transactions must be in the name of the member effecting the trade and that member will be counterparty to those transactions. Thus, a LIFFE member will be considered to be "acting as principal" for purposes of the LIFFE A&M rules, even though the member may be acting as agent for other purposes. This means that any transaction automatically generates a sequence of matching contracts: between customer and member, between member and clearing member and between clearing member and clearing house.

The purpose of these rules is to ensure that a party to a transaction need only to look to its immediate counterparty for performance and need not concern itself with parties at other points along the contractual chain. Thus, the clearing house need only to look to the clearing members and would have no contractual relationship with, nor knowledge of, the non-clearing members or customers on whose behalf the transaction was executed.

LCH.Clearnet is the counterparty to clearing members each acting as principal, in respect of, inter alia, Index CDSs registered by such clearing members with LCH.Clearnet. Non-clearing members and non-member customers are not party to any contracts registered by clearing members with LCH.Clearnet. Once an Index CDS has been accepted by LIFFE A&M, a chain of linked contracts are created, all having the same terms. Specifically, the process by which the chain of linked contracts is created is as follows:

1. When a non-member customer enters into an Index CDS with or through a non-clearing member, the non-clearing member submits the contract to Bclear. Once LIFFE A&M has accepted the contract, an exchange contract is created between the non-clearing member, as principal, and its customer. If another customer was originally a counterparty to the Index CDS, an exchange contract is created between the non-clearing member, as principal, and the second customer. These contracts are referred to as the "customer contracts." The customer contracts replace the initial Index CDS, which ceases to exist from this point.
2. Simultaneously, a matching contract between the non-clearing member and its clearing member (a "parallel contract") comes into existence for each of the customer contracts.
3. If the counterparty to the trade is a customer of another non-clearing member, a "related contract" is created between the respective clearing members. The related contract is presented to LCH.Clearnet for registration. If there is a single non-clearing member involved in the transaction, the parallel contracts are presented to LCH.Clearnet for registration.
4. The related contract is replaced by contracts between LCH.Clearnet and the clearing member on each side of the transaction.

Through this process, the Index CDS is discharged and a set of on-exchange contracts arise imposing equivalent obligations on and granting equivalent rights to the original parties to the Index CDS, but with LCH.Clearnet as the central counterparty. As noted above, because the non-member customer will not be a party to a contract registered with LCH.Clearnet by the clearing members, the relationship between the non-member customer and the non-clearing member will remain intact, although such relationship will now be based upon the exchange contract, rather than the Index CDS originally entered into by the respective parties.

Credit Default Swap Index Contracts – Summary Contract Specification

Indices	iTraxx Europe Index iTraxx Europe Crossover Index iTraxx Europe Hi-Vol Index
Contract Size	Credit Event protection on €100,000 notional principal
Contract Maturity	3¼ year, 5¼ year, 7¼ year and 10¼ year maturities listed on each index series with June or December maturity as appropriate
Protection Period	Each Contract offers protection on Credit Events occurring in Reference Obligations from the First Trading Day to Last Trading Day of the Contract Maturity
Protection Coverage	Contract offers protection on Credit Events (Bankruptcy, Failure to Pay and Restructuring) for the Reference Entity
Initial Payment	Upfront amount paid by the Buyer to the Seller, or by the Seller to the Buyer, reflecting any difference between the Fixed Rate and rate agreed between the parties to the transaction. Valued in € per lot €0.01 minimum price movement Paid in full on the business day following trade
Fixed Payments ('Coupon')	Amount paid by the Fixed Rate Payer (the Buyer of the CDS Index Contract) to the Floating Rate Payer (the Seller of the CDS Index Contract) over the life of the Contract Maturity. Based on the Fixed Rate expressed in basis points per annum of Notional Principal A predefined single Fixed Rate will be established by the Index Sponsor for each Contract Maturity The Fixed Payment Amount per lot will be calculated based on the following formula: $\frac{\text{Days in Accrual Period}}{360} \times \text{Notional Principal} \times \text{Fixed Rate}$ Fixed Payments are calculated in Euro and paid in arrears on a quarterly basis on the Fixed Payment Dates
Fixed Payment Dates	20 th calendar day in each quarterly month (March, June, September and December) during the lifetime of a particular Contract, or the following Business Day if the 20 th is not a Business Day
Accrual Periods	The accrual periods used to calculate the Fixed Payment Amount will be determined as follows: (i) First Accrual Period - From the 20 th day of the quarterly month preceding the Trade Date, or such amended date, as published by the Exchange from time to time, to the day preceding the next Fixed Payment Date (inclusive).

	<p>(ii) Last Accrual Period - From the Fixed Payment Date to the 20th day of the next quarterly month (inclusive).</p> <p>(iii) All other Accrual Periods - From the Fixed Payment Date to the day preceding the next Fixed Payment Date (inclusive)</p>
Trading Hours	08:00 – 18:00 hours London time
Daily Valuation	<p>Value established at 16:00 hours London time for margin purposes</p> <p>Valuations quoted in € per lot</p> <p>Value represents net present value of each position – can be positive or negative</p>
Last Trading Day	20 th calendar day of Contract Maturity month, or preceding Business Day if that day is not a Business Day
Credit Event Delivery	<p>Delivery of 'Event Protection Contracts' at value of €0.00 to holders of positions in affected Contract Maturities</p> <p>EPCs are delivered in sufficient number to maintain the notional value of the combined CDS and EPC position</p> <p>The number of units in an Event Protection Contract issued per CDS lot is determined according to the following formula:</p> $\frac{\text{Reference Entity Weighting} \times \text{Notional Principal of CDS}}{\text{Contract Size of EPC}}$ <p>Payment of Fixed Payments continues at lower pro rata amount based on reduced Surviving Notional Principal</p>

LCH.CLEARNET LTD.

CLEARING HOUSE PROCEDURES

SECTION 2A

SECTION 2A

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2A. EXCHANGE CLEARING**2A.1 THE CLEARING PROCESS** (Applicable to Euronext.liffe)

The Clearing Processing System (CPS) is an extension of the Trade Registration System (TRS), using the same computer terminals and the data processed by TRS. Separate TRS/CPS environments are maintained for:

- Euronext.liffe Commodities
- Euronext.liffe Financial Futures & Options
- Euronext.liffe Equity Futures & Options
- Euronext.liffe CDS

2A.1.1 TRS Functions

The following functions are performed within TRS:

- trade matching
- presentation of particulars to LCH for registration
- allocation and designation of trades to a position-keeping account.

Recorded trades flow into CPS throughout the trading day. Any correction to trade data is performed within TRS and results in the automatic amendment of the trade in CPS. Trade details can be disseminated to Clearing Members via the Trade Status Change Stream (TSCS).

Clearing Members should refer to the appropriate Exchange for further details of TRS facilities and to the appropriate TRS User Guide.

2A.1.2 CPS Functions

The following functions are performed within CPS:

- settlement
- position keeping
- account transfers
- calculation of margin
- option exercise
- tender notification and delivery/option allocation.

TRS provides Clearing Members with the facility to print reports which include TRS, CPS and the Clearing House banking reports. It is the responsibility of each Clearing Member to preserve any report required for historic, audit or legal purposes, including, but not limited to, the Clearing Member Report. Clearing Members should refer to the appropriate CPS User Guide.

2A.1.3 LCH System Requirements

A Clearing Member must have a TRS/CPS terminal located in its office or in a location acceptable to the Clearing House and the relevant Exchange(s). Alternatively a Clearing Member, where permitted, must have concluded a Clearing Services Management Agreement (see section 2A.4.1).

2A.1.4 Link Clearing

Link clearing procedures are dealt with separately in sections 2A.15-2A.20 inclusive.

2A.2 THE CLEARING PROCESS (Applicable to LME)

The LME Clearing System is an extension of the LME Matching System, using the same computer terminals and the data processed by the Matching System.

2A.2.1 Matching System Functions

The following functions are performed within the Matching System:

- trade matching and designation of trades to a position-keeping account
- trade suspension and acceptance outside a lots or price range limit
- trade confirmation and presentation of trades to the Clearing House for registration.

Allocation of market contracts as specified in Regulation 7 is not permitted for LME business.

2A.2.2 Clearing System Functions

The following functions are performed within the Clearing System:

- settlement
- position maintenance
- margin calculation

deliveries (values, batch allocations) and option exercise allocation processing.

It is the responsibility of each Clearing Member to preserve any report required for historic, audit or legal purposes including, but not limited to, the Clearing Member Report. Clearing Members should refer to the 'LME Systems User Guide' for operating instructions and full details of enquiries and report facilities.

The LME Systems User Guide may be obtained from LCH.Clearmet Limited Operations Department.

2A.2.3 LCH System Requirements

A Member must have, in its office, a minimum of a terminal, printer and a dedicated back-up exchange line connected to the LME Matching and Clearing Systems.

2A.2.4 Times

All times are London time.

2A.3 AGREEMENTS

2A.3.1 Clearing Services Management Agreement (Applicable to Euronext.liffe)

Subject to Exchange requirements a Clearing Member (the "client") may appoint another Clearing Member (the "manager") to perform specific functions, including deliveries, on its behalf. The Clearing Member, the Exchange and the Clearing House must be party to the agreement whereby the "manager" Clearing Member agrees to perform specific functions detailed in the agreement on behalf of the "client" Clearing Member. A Clearing Member intending to perform the "manager" function must ensure that it has authorisation under the Financial Services and Markets Act 2000 and that the terms of such authorisation are appropriate to and encompass all such functions.

A copy of the agreement can be obtained from LCH.Clearnet Limited Operations Department.

2A.3.2 Clearing Agreement (Applicable to Euronext.liffe)

Those "Exchange members" permitted to trade on the floor of the exchange or on its trading system, which are not Clearing Members, must conclude a Clearing Agreement with the Exchange, the Clearing House and a Clearing Member who agrees to clear on their behalf.

Exchange rules govern which firms are required to have a Clearing Agreement (this may include non-clearing members/participants, locals and under some circumstances, Clearing Members) and whether a firm is permitted to have more than one Clearing Agreement. A copy of the agreement can be obtained from the relevant Exchange.

2A.4 REGISTRATION

2A.4.1 Confirmation (Applicable to Euronext.liffe)

Confirmation of trades in accordance with the Regulations will be performed by each Exchange on behalf of its members, in the form of a signal sent by each Exchange TRS at the end of the day to the Clearing House. Confirmation of Event Protection Contracts in accordance with the Regulations will be performed by each Exchange on behalf of its members as soon as the relevant Exchange has declared that a credit event has occurred in relation to the relevant Euronext.liffe CDS and the Clearing House has been notified by the Exchange of the same.

2A.4.2 Confirmation (Applicable to LME)

The Matching System matches purchases against sales during the business day, from details keyed in by Clearing Members. Matched trading data is presented for registration to the Clearing House, as prescribed in the LME Rules, in the name of the Clearing Member submitting them to the Matching System (evidenced by the use of the system security password). Such

presentation constitutes confirmation in accordance with the Regulations by the Clearing Member in whose name the contracts are presented. Trades that exceed pre-set price or lot size limits are suspended within the Matching System, pending confirmation of acceptance by the Clearing House.

2A.4.2.1 Trade Suspension

The traded price or premium and lot size of all trades presented to the Clearing House for registration are validated against a price or premium range and lots limit file.

For each prompt date and option series the price or premium range above and below the previous day's closing price or premium is calculated each day by reference to a pre-determined price limit for each metal and currency combination.

The lots limit is presently set at 1500 futures and 400 options for all contracts. The price limit is normally set to be identical to the prevailing scanning range for each contract, however, during periods of high price volatility this may temporarily be increased to avoid the suspension of trades which are within the day's trading range. Lot and price limits may be changed, by member circular, from time-to-time.

Trades input, where either the price or premium range or the lot size limit is exceeded, will be matched in the usual manner, but will be written to a separate 'matched trade file' for subsequent acceptance or rejection by the Clearing House.

The Clearing House may alter the price and lots limits to cater for volatile price conditions following consultation with the LME. This will allow trades transacted at 'current' market prices to be input, matched and presented to the Clearing House for registration without requiring acceptance.

2A.4.2.2 Conditions for Acceptance of Suspended Trades

Registration of trades held in the suspended matched trade file is conditional on the provision of margin cover. The Clearing House will first consider any surplus cover held, surplus credit variation margin, and any net credit variation margin in respect of new business, before requesting additional cover from a Clearing Member. Margin in this case is net debit variation margin in respect of the suspended trades, calculated automatically by the system with reference to the previous day's closing price or premium.

If the Clearing House decides that additional cover is necessary it will advise the Clearing Member as soon as possible. The Member so advised should contact the counterparty to the suspended trade in order to notify them that there may be some delay prior to acceptance of the trade. At the same time, the currency and method of funds transfer, or type of collateral to be provided, will be agreed between the Clearing House and the Clearing Member. Only when the Clearing House has received collateral or confirmation from the transferring bank that the funds have been or are in the process of being transferred will it accept the suspended trades.

The Clearing House will carry out the process of accepting suspended trades on an hourly basis throughout the day, or more frequently where possible. The acceptance process will apply to both sides of a trade at the same time.

It is the responsibility of each Clearing Member to ensure that any trades likely to require acceptance are input and matched as early as possible in the day; and that either sufficient surplus cover is maintained with the Clearing House (to meet debit variation margin arising from suspended trades) or arrangements are in place to meet additional calls for cover. Matched trades not accepted by the Clearing House will not be registered. In order to achieve registration the trade must be re-submitted (in accordance with LME Rules) the next business day, when the same process will apply.

2A.4.3 **Registration**

The Clearing House may require a Clearing Member in whose name an open contract is to be registered, to provide it with cover for initial and variation margin as a condition of registration.

All matched and confirmed contracts which have been presented for registration are deemed to have been registered by the Clearing House if no notice has been given of the intention to reject them within one hour after a set time. For Euronext.liffe contracts this time, except for Link contracts, is the time at which the Clearing House is informed by the relevant Exchange, by such means as may be agreed between the Clearing House and such Exchange from time to time, that TRS is in "end of day" mode with respect to such Exchange's exchange contracts. For Event Protection Contracts it is the time when the relevant Exchange has declared that a credit event has occurred in relation to the relevant Euronext.liffe CDS and the Clearing House has been notified by the Exchange of the same. For LME contracts, it is the time when the Matching System is closed by the Exchange.

If the Clearing House does not register a trade presented for registration it will notify the contracting parties within a reasonable time, indicating the reasons for rejection.

2A.4.4 **Novation**

Novation replaces each exchange contract executed between Clearing Members with two separate contracts, one between the Clearing Member-seller and the Clearing House and the other between the Clearing Member-buyer and the Clearing House. Novation is described in General Regulation 3.

2A.4.5 **Notification**

All registered contracts for the relevant Exchange are listed on:

the Clearing Member Report (CMR) available through TRS for Euronext.liffe contracts; or on the Clearing Member Registration Statement available on the LME Clearing System via the LME System's report printing and browsing facility.

2A.5 POSITION ACCOUNTS**2A.5.1 Clearing Member Accounts**

For identification purposes each Clearing Member is assigned a unique three-character mnemonic. A Clearing Member's position and financial information are further identified by a single character code: C for segregated client business; H for house and non-segregated business; and F for Default Fund contributions. The H and F accounts are obligatory, the C account is optional. All other accounts are provided for administrative purposes and do not constitute Clearing Member accounts as defined in Regulation 5.

2A.5.2 Position-Keeping Accounts**2A.5.2.1 Types of Account**

An exchange member's positions are recorded within the clearing system (CPS, the LME System) in position-keeping accounts which are not Clearing Member accounts as described in Regulation 5 with the exception of the C account for the LME. The account types are as follows:

H	House (Euronext.liffe, LME) [excluding Clients] ¹
N	Non-segregated client (Euronext.liffe)
S	Segregated client (Euronext.liffe)
C	Segregated client (LME)
L	Local (Euronext.liffe)
M	Market-maker (Euronext.liffe)
D	Default "trades" which have not been assigned to one of the account codes (Euronext.liffe)
HT	House (Euronext.liffe)
NT	Client (Euronext.liffe)
ST	Segregated client (Euronext.liffe)

Other position-keeping accounts may be opened as specified by the Clearing Member in accordance with Exchange requirements where applicable.

2A.5.2.2 Basis of Position Keeping**2A.5.2.2.1 Net Accounts**

The following position-keeping accounts and contract types (LME) are held net, e.g. a position of bought 1 lot and sold 2 lots will be reported as sold 1.

Euronext.liffe		LME	
H	House	H	All option positions
L	Local	C	All option positions
M	Market-maker		

Netting takes place before option exercise or delivery allocation.

¹ The "house position-keeping account" represents a Clearing Member's principal business; the "house financial account" (see 2A.7.1) also includes non-segregated clients' positions.

2A.5.2.2.2 Gross Accounts

The following position-keeping accounts and contract types (LME) are held gross e.g. a position of bought 1 lot and sold 2 lots will show both bought and sold positions.

Euronext.liffe		LME	
N	Non-segregated client	H	All futures positions
S	Segregated client	C	All futures positions
D	Default		

2A.5.2.2.3 Position Settlement (Gross Accounts)

CPS position-keeping accounts held gross require the Clearing Member, when appropriate, to input manual settlement of open positions using the settlement facility in CPS. These instructions should be input within the deadlines specified by individual Exchange Rules and before any option exercise or delivery allocation process is run. Where Exchange Rules permit, trades may be entered into TRS as 'closing trades'; these will result in automatic settlement if a position is available for settlement in CPS.

2A.6 FINANCIAL ACCOUNTS

Clearing Member accounts have financial accounts associated with them. These are, inter alia, used to record cash balances, securities/documentary credits and non-realised margin. Information contained within Position-keeping accounts is consolidated into financial accounts, as follows:

2A.6.1 Relationship with Position-keeping accounts

Trading Account		Financial Account	
H	House		H
N	Non-segregated client		H
S	Segregated client		C
C	Segregated client		C
L	Local		*
D	Default		H
M	Market-maker		H

* As specified by the Clearing Member in accordance with Exchange requirements where applicable.

By accepting a trade into a position-keeping account a Clearing Member is also deemed to be designating that trade for the associated financial account. There is no facility to change the designation once market contracts have been registered.

2A.6.2 Other Financial Accounts

In some cases at the Clearing House's discretion, further financial accounts, used only to record financial balances, may be opened as follows:

	Code
Buffer accounts, used for holding additional deposits	B

	Code
Resources account, used for holding supplementary financial resources	Q
Buyers' and Sellers' security account (segregated business) used for certain delivery contracts	X
Buyers' and Sellers' security account (non-segregated business) used for certain delivery contracts	Z

2A.6.3 **Default Fund (DF) Account**

Each Clearing Member's Default Fund Contribution is held on a separate financial account. In accordance with the Default Fund Rules this account attracts a rate of interest at 3 month LIBOR +1%. The Default Fund account code is "F".

2A.6.4 **Variation Margin**

All open contracts are marked to market daily by the Clearing House in accordance with the relevant Exchange's Contract Terms or Rules. The official quotation is used as the market price. Profits or losses are either credited to or debited from Members' financial accounts (realised margin) or they form non-realised contingent liabilities or credits.

2A.6.4.1 **Realised Margin**

Realised margin is the calculated profit or loss arising from a comparison between the value of open positions at the relevant official quotations with the value of positions recorded in CPS and LME Clearing System - i.e. the trade price for new trades and the previous day's official quotation for other positions. Variation margin for the following types of contract is realised into postings to Clearing Members' financial accounts:

Euronext.liffe, LME:-

- All futures contracts which are open, i.e. not delivery contracts
- All non-equity option contracts.
- LME Index futures contracts, LMEminis.

2A.6.4.2 **Non-Realised Variation Margin**

Non-realised variation margin is calculated with reference to the original trade or delivery price and the relevant official quotation. Non-realised variation margin is applicable to:

- LME metal and plastics futures; and
- during the delivery cycle:
 - Gas Oil; and
 - result of options equity deliveries.

During the delivery period certain Euronext.liffe Commodity contracts require (see sections 5 & 6) that buyer's security or buyer's and seller's security is lodged with the Clearing House.

2A.6.4.2.1 Contingent Variation Margin

Contingent variation margin is calculated with reference to the official quotation at which a contract went to delivery and the underlying asset value or the next nearest futures delivery month official quotation, dependent on the terms of the Contract or these Procedures. Contingent variation margin is calculated for Euronext.liffe contracts which are subject to delivery of an underlying asset.

2A.6.4.2.2 Option Variation Margin (Euronext.liffe equity options and LME options)

As premium is paid up front, option variation margin is the value of unexpired options, calculated with reference to the official quotation. Bought and sold options generate credit and debit option variation margin respectively. For Euronext.liffe equity options, option variation margin is referred to as Net Liquidating Value.

2A.6.5 Settlement

2A.6.5.1 Cash Settlement

Cash settlement is a final settlement derived from the difference between the expiry price or Exchange Delivery Settlement Price (EDSP) and the previous business day's official quotation or such other quotation as is specified in the relevant exchange's rules or, in the case of Event Protection Contracts, the Exchange Final Settlement Price as is specified in the relevant exchange's rules. This is debited from or credited to Clearing Members' financial accounts.

This applies to the following contracts:

Euronext.liffe	LME
Three Month Euribor	LMEX
Three Month Euro Libor	LMEmini Copper Grade A
Three Month Short Sterling	LMEmini Primary Aluminium
Three Month Euro Swiss Franc	LMEmini Special High Grade Zinc
Three Month Euroyen (Tibor)	Cleared Average Price Swaps
Three Month Euroyen (Libor)	
2 Year US Dollar Swapnote	
5 Year US Dollar Swapnote	
10 Year US Dollar Swapnote	
2 Year Euro Swapnote	
5 Year Euro Swapnote	
10 Year Euro Swapnote	
FTSE Eurotop 100 Index	
FTSE Eurotop 300	
MSCI Euro	
MSCI Pan Euro	
FTSE 100 Index	
FTSE 250 Index	
FTSE 100 Index Option (American Style)	
FTSE 100 Index (European Style)	
FTSE 100 FLEX Option	

(European Style) Event Protection Contract in relation to iTraxx Europe Event Protection Contract In relation to iTraxx Europe HiVol Event Protection Contract in relation to iTraxx Europe Crossover		
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2A.6.5.2 Delivery

Contracts remaining open at expiry are settled by physical delivery of the underlying at the settlement price, EDSP as determined by the relevant Contract Terms.

This applies to the following contracts:

Euronext.liffe		LME
Euro Bund Euro BTP Long Gilt Five Year Gilt Equity contracts arising from:- exercised equity options, universal stock futures contracts (physical delivery) or Stock Contingent Trades	Cocoa Coffee 5 tonne Coffee 10 tonne White Sugar Wheat Barley Raw Sugar	All metals and plastics

2A.6.5.3 Options

Option premiums are settled in one of two ways: futures-style or up-front.

2A.6.5.3.1 Futures-style

Variation margin is realised throughout the life of the option. On exercise or at expiry the premium (calculated with reference to the prevailing official quotation) is debited from the buyer's financial account and credited to the seller's financial account.

Futures-style settlement applies to Euronext.liffe non-equity options.

2A.6.5.3.2 Up-front

The traded premium is debited from the buyer's financial account, and credited to the seller's financial account, on the business day after the day of trade.

Up-front settlement applies to Euronext.liffe equity options, LME options and WTI Light Sweet Crude Oil options.

2A.7 OFFICIAL QUOTATIONS

Official quotations are based on 'closing settlement prices', 'closing quotations' or 'closing prices' and are supplied by the Exchanges at the close of business each day. The LME also determines the exchange rates applicable to those contracts quoted in more than one currency.

Should an Exchange fail to determine official quotations, settlement prices or exchange rates, the Clearing House will itself determine these as necessary. This will be done at the Clearing House's discretion and be announced as soon as possible.

2A.8 OPTION EXERCISE AND EXPIRY (Applicable to Euronext.liffe)

Option contracts are exercised either manually or automatically through CPS in accordance with the relevant CPS User Guide and Exchange Rules. Exchange Contracts, Rules or Regulations determine times at which notification of exercise must be given. On expiry an automatic exercise facility is available. CPS manages the facility to exercise by the use of deadlines. Once a deadline is met, the ability to exercise is withdrawn.

Once the CPS deadline has passed, it will not be possible to input any exercise instructions, or alter the automatic exercise settings.

When an option other than an equity option is exercised, an open futures contract (delivery or cash settlement) will arise. Options which are not exercised by the time of expiry will expire worthless.

On exercise of an equity option an open cash market position will arise.

2A.8.1 [This provision has been removed]

2A.8.2 Manual Exercise Instruction

Clearing Members are permitted to input manual exercise instructions via the CPS exercise notification screen. This can be done at any time within the deadlines specified by the contract.

2A.8.3 Automatic Exercise Instruction Facility

It is possible to exercise option positions automatically within certain defined criteria on option expiry days only.

2A.8.3.1 Euronext.liffe (excluding Euronext.liffe Commodity Contracts) Automatic Exercise

Automatic exercise instructions for all option contracts are pre-set to exercise those contracts 1 or more ticks ($\frac{1}{2}$ an index point for the SEI, ESX and FLX) in-the-money versus the relevant reference price. Fully automatic exercise of in-the-money options can be overridden by Clearing Members on any option contract.

The automatic exercise setting, if not altered by the Clearing Member, will default to 1 tick ($\frac{1}{2}$ an index point). If this figure is altered it will revert to the default setting after the completed expiry.

Clearing Members must check their auto-exercise settings before each expiry.

Clearing Members wishing to exercise an out-of-the-money option, or an option that is not to be automatically exercised, must input an instruction via the manual exercise screen.

2A.8.3.2 Euronext.liffe Commodity Automatic Exercise Instructions

Automatic exercise instructions for all option contracts are pre-set to exercise contracts which are one minimum price fluctuation or greater in-the-money when compared to the relevant reference price (e.g. in the case of white sugar 20 ticks).

Automatic exercise of in-the-money options can be overridden by Clearing Members on any option contract.

If the automatic exercise setting is altered for a particular contract, it will revert to the original 'pre-set level' once expiry is complete. Clearing Members should check their automatic exercise settings before each expiry commences.

Clearing Members wishing to exercise an out-of-the-money option, or option that is not to be automatically exercised, must input an instruction via the manual exercise screen.

2A.8.4 Reference Prices

The reference prices used by the CPS automatic option exercise facility are:

- (a) Euronext.liffe Commodity options:
- (i) Cocoa, Coffee
 - 5 and 10 tonne: the futures price at the close of morning trading on the expiry day
 - (ii) All other: the futures official quotation on the expiry day
- (b) Euronext.liffe options on:
- (i) Futures: the official quotation established at the close of trading
 - (ii) Equities: the 16:10 price determined by Euronext.liffe (usually the 16:10 SEAQ mid-price);
 - (iii) Indices: the Exchange Delivery Settlement Price (EDSP).

2A.8.5 Early Exercise

Where Exchange Rules permit early exercise of option contracts can be input into CPS on any business day prior to expiry day, subject to the cut-off times given below:

Euronext.liffe Commodity options up to 17:00 hours

Euronext.liffe options

FTSE Eurotop 300	no early exercise allowed
MSCI Euro	no early exercise allowed
MSCI Pan Euro	no early exercise allowed
FTSE 100 Index Option (European Style) (ESX)	no early exercise allowed
FTSE 100 Index FLEX Option (European Style) (FLX)	no early exercise allowed
*FTSE 100 Index Option (American Style) (SEI)	up to 17:05 hours
*Equity	up to 17:20 hours
All others	up to 17:00 hours

- Non-expiring series may be exercised up to 18:00 hours on an expiry night.

2A.8.6

Exercise Deadlines and Restrictions on Expiry Day

Clearing Members will be advised via CPS of the time by which all position maintenance instructions for expiring options must be input and when the HIT report (the CPS Delivery/Exercise report HIT, Option 3 of TRS/CPS) is available.

Contract	Option Ceases Trading	Last Time for Exercise by Member
Euronext.liffe Commodity Contract Cocoa Coffee 5 and 10 tonne All Others	a.m.f. a.m.f. a.m.f.	a.m.f. + ¼ hr a.m.f. + ¼ hr p.m.f. + ¼ hr
Euronext.liffe Bond Contracts German Government Bond Long Gilt	Quarterly and Serial Expiries 10:00 10:00	Quarterly and Serial Expiries 10:45 10:45
Euronext.liffe Equity Contracts FTSE Eurotop 100 Index FTSE Eurotop 300 Index MSCI Euro Index MSCI Euro Pan-Euro Index (European Style) FTSE 100 Index (American Style) FTSE 100 Index (European Style) FTSE 100 Index Flex® (European Style) Equity Options	Quarterly and Serial Expiries 12:00 12:00 12:00 10:30 10:30 16:30	Quarterly and Serial Expiries 18:00 18:00 18:00 18:00 18:00 18:00
Euronext.liffe Equity Contracts Two Year Euro Swapnote Five Year Euro Swapnote Ten Year Euro Swapnote	Quarterly and Serial Expiries 10:00 10:00 10:00	Quarterly and Serial Expiries 10:45 10:45 10:45

Euronext.liffe Interest Rate Contracts	Quarterly Expiries	Serial Expiries	One Year Mid Curve	Quarterly Expiries	Serial Expiries	One Year Mid Curve
Three Month Euribor	10:00	10:00	10:00	10:45	10:45	10:45
Three Month Short Sterling	11:00	N/A	11:00	11:45	N/A	11:45
Three Month Euroswiss	11:00	N/A	N/A	11:45	N/A	N/A

a.m.f. at the close of the morning futures trading session.

p.m.f. at the close of futures trading for that day.

It is not possible for Clearing Members to amend automatic or manual exercise instructions after an expiry deadline has passed.

2A.8.7 Exercise by the Clearing House

When exercised against, the Clearing House selects sellers against which to exercise.

Two methods of allocation are used: random scatter and pro-rata. The method used for Euronext.liffe financial contracts is determined by reference to Exchange Contract Terms. Random scatter is used for Euronext.liffe equities and pro-rata is used for Euronext.liffe financial and Euronext.liffe commodity options.

2A.8.7.1 **Random Scatter**

The allocation process randomly determines each lot to be assigned in such a way that its selection is independent of either the preceding lot or of the subsequent lot in the selection process.

2A.8.7.2 **Pro-Rata**

Allocation is carried out by reference to CPS position-keeping accounts i.e. segregated, non-segregated and house account allocations are made separately.

Sellers holding short open interest lots are allocated by the number of lots corresponding to the ratio of the number of long options being exercised, to the total number of short options:

- (a) should the number of allocations not be a whole number, it is rounded down
- (b) a small number of allocations will be 'left over' to be distributed amongst the remaining allocated lots

- (c) following the initial allocation the residual lots will be listed and ordered by decreasing size of residue. Commencing at the top, lots will be allocated to each position in turn, until there are no allocations left over
- (d) if necessary the process described in (iv) will be repeated.

For example : See attached worksheet.

EURONEXT.LIFFE PRO-RATA ALLOCATION EXAMPLE

Open Interest 130

Exercised 100

Ratio. 1.3

Lots

Clearing Members	Short Lots	First Allocation	Rounded Down	Residual Exercise Lots	Remaining Decimal	Residual Lots Allocation	Total Allocated
AAA	10	7.6923077	7		0.69	1	8
BBB	40	30.769231	30		0.77	1	31
CCC	9	6.9230769	6		0.92	1	7
DDD	28	21.538462	21		0.54		21
EEE	43	33.076923	33		0.08		33
TOTALS	130	100	97	3		3	100

2A.9 OPTION EXERCISE AND EXPIRY (Applicable to LME)

There are three types of LME option contract; Traded Options, Traded Average Price Options (TAPO) and Index Options. Each contract is exercised through the LME Clearing System. Exercise Rules are specified by Exchange Rules which determine the times that exercise notification must be given, and for TAPO and Index Option contracts the Rules by which automatic exercise operates.

Traded options are exercised manually except on the last trading day when certain options are automatically exercised and an open futures contract is created. TAPO and Index Options contracts are exercised automatically by the LME Clearing System. For TAPO's two open futures contracts are created, these contracts are equal and opposite except that one is created at the monthly average settlement price and the other at the strike price of the option. Exercised Index Options contracts are settled in cash. The settlement amount is the difference between the strike price of the contract and the relevant Index Settlement Price (ISP).

2A.9.1 Traded Options Exercise Instructions**2A.9.1.1 Manual Exercise**

Exercise instructions are submitted via the option declaration input/cancellation screen on the LME Clearing System, between 08:00 hours and 11:15 hours on any business day up to, and including, the expiry day.

Exercise instructions can be cancelled via the option declaration input/cancellation screen by 11:15 hours on the day the exercise instruction is input to the Clearing System.

2A.9.1.2 Automatic Exercise on Expiry Day

Exchange Rules define which traded option series will be subject to automatic exercise at expiry.

Takers of options may, in accordance with Exchange Rules, reverse the automatic exercise of series subject to automatic exercise. Clearing Members that wish to enter reversals must have done so by the 11:15 hours expiry deadline. Failure to do so will result in the automatic exercise of the series.

2A.9.1.3 Expiry Day

Options expire at 11:15 hours on the expiry date. Clearing Members must have entered exercise instructions for strike prices which are not subject to automatic exercise for expiring series by this time.

It is not possible for Clearing Members to input exercise or exercise cancellation instructions after the expiry time.

2A.9.2 TAPO and Index Option Automatic Exercise Instructions

All contracts which are either one cent or one index point or greater in-the-money when compared to the Monthly Average Settlement Price (MASP) for

TAPO's and the Index Settlement Price (ISP) for Index Options will be automatically exercised on the expiry date. There is no manual override facility for auto-exercised series.

The MASP and ISP used by the Clearing System are established on the expiry date and are displayed on the Price and Exchange / Interest Rate Display screen within the Matching System.

2A.9.2.1 Expiry Day

TAPO's expire at 15:00 hours on the expiry date.

Index Options expire at 19:15 hours on the expiry date.

All in-the-money options will be automatically exercised by the Clearing System.

2A.9.3 Positions Eligible for Exercise

2A.9.3.1 Traded Options and TAPO

Positions open at the close of business on the preceding business day can be exercised.

2A.9.3.2 Index Options

Positions open at the close of business on the expiry day can be exercised.

2A.9.4 Last Trading Day

2A.9.4.1 Traded Options and TAPO

The last trading day for a delivery month is the business day preceding the expiry date.

2A.9.4.2 Index Options

The last trading day for a delivery month is the expiry date.

2A.9.5 Exercise by the Clearing House

When exercised against, the Clearing House will select sellers against which to exercise, based on their open position at close of business on the previous business day. The method of allocation used for traded options is random scatter (see section 2A.9.6.1).

2A.9.6 Notification of Allocation

(a) Traded Options:

The Clearing House will use reasonable endeavours to notify the relevant seller of its allocation by not later than 11:30 hours on the day on which the option is exercised against the Clearing House.

Notification of options that have been exercised is made via the option granters enquiry screen within the Clearing System.

(b) TAPO:

Notification to the relevant seller will be made as soon as practicable after 15:00 hours on the expiry date, this will be made via the TAPO auto-exercise enquiry screen within the Clearing System.

(c) Index Options

Notification to the relevant seller will be made as soon as practicable after 19:15 hours on the expiry date, this will be made via the LME auto-exercise enquiry screen within the Clearing System.

Exercised and abandoned positions for LME option contracts are detailed on the option exercise and assignment activity listing report. Clearing Member Registration Statement, along with resultant futures contracts where applicable, and additionally on the Prompt Date Settlement Statement for Index Options.

2A.9.7 Unavailability of Options Exercise System

In the event that either CPS or LME Clearing System option exercise facilities are unavailable (in particular if an expiry or exercise deadline is imminent) it is essential that either:

- (a) the relevant LCH.Clearnet Limited Operations Department is informed; or
- (b) the relevant Exchange Compliance Department is informed.

2A.10 INITIAL MARGIN

Separate initial margin calculations are performed for a Clearing Member's house "H" and client "C" accounts; no offset between these accounts is allowed. Euronext.liffe and LME accounts are margined net, meaning that if long and short positions are held in the same delivery month/prompt date for futures or vlt-x securities, or the same series for options, initial margin is charged on the net position.

2A.10.1 Initial Margin Parameters

Initial margin parameters are set by the Clearing House after consultation with the Exchanges. However, in accordance with the Regulations, the Clearing House retains the right at its discretion to vary the rates for the whole market or for a Clearing Member's house and/or client accounts.

Clearing Members will be notified by the Clearing House of alterations to initial margin parameters no later than the day before calls are made based on the new rates.

2A.10.2 Intra-day Margin Calls

In accordance with the Regulations LCH is entitled to make additional margin calls for payment the same day (intra-day margin calls) where it considers necessary. Intra-day margin calls will be made via the Protected Payments System (see section 3.2).

2A.10.3 Calculation of Initial Margin**2A.10.3.1 London SPAN**

Initial margins are re-calculated at the close of each business day using the London SPAN algorithm, which is an adaptation of the SPAN method developed by the Chicago Mercantile Exchange*.

For full details of how London SPAN calculates margins, reference should be made to the SPAN technical information package (available from the LCH.Clearnet Limited Risk Department +44 (0)20 7426 7520). Technical questions should be directed to LCH.Clearnet Limited Service Desk +44 (0)20 7426 7200

* The Chicago Mercantile Exchange (CME) permitted the Clearing House to adapt the CME specifications for SPAN to produce London SPAN, which meets the particular requirements of the London futures and options markets. 'SPAN [TM] ®' is a registered trademark of the CME. The CME assumes no liability in connection with the use of SPAN or London SPAN by any person or entity.

1. Full extent of the decimal places is used in the margin calculation
2. The margin result is rounded to the nearest penny .5 being rounded up
3. For stocks traded on the London Stock Exchange SETS System the bid/offer spread is not used.

2A.11 DELIVERY AND TENDERS**2A.11.1 Overview**

A Clearing Member with an open sale contract has the right to make delivery during the times and in the manner stipulated in the appropriate Exchange Rules.

A Clearing Member who is the seller must deliver the relevant asset underlying the contract to the Clearing House and the Clearing Member who is the buyer must pay the Clearing House against receipt of the asset. The specific procedures for each contract differ and they are detailed in sections 5 - 9 of these procedures.

When making delivery, Clearing Members must be fully conversant with these Procedures and the relevant Exchange Rules (including, where appropriate, Contract Terms, Administrative Procedures, Clearing Member circulars and Exchange notices).

2A.11.2 Delivery to and from Persons other than Members

Where Exchange Rules permit, a Clearing Member may appoint another Clearing Member to undertake delivery administration (see section 2A.4.1).

Where Exchange Rules permit, a Clearing Member may appoint transferor(s) to deliver and transferee(s) to take delivery, in fulfilment of specific contracts.

Under all circumstances the Clearing Member remains principal to the delivery contract; any other persons making or taking delivery do so on behalf of the Clearing Member.

2A.11.3 Power to Appoint a Member to Perform Delivery or Payment Obligations

In order to fulfil its obligations as a principal under the terms of an open contract subject to tender or a delivery contract, the Clearing House may, by notice in writing, direct Clearing Members who are buyers or sellers under such open contracts to perform delivery and payment obligations.

2A.11.4 Settlement Payments

Settlement payments for differences between the contract price and the Exchange Delivery Settlement Price (EDSP) will be made via PPS and debited/credited to the Clearing Members account on the business day following publication of the EDSP or in accordance with the relevant Exchange Contract Terms.

2A.12 INVOICING BACK

Where invoicing back of a Clearing Member's open contracts is to be performed according to the provisions of the Regulations or Exchange Rules, the Clearing House will produce the appropriate invoice(s) and credit note(s).

Accounts will be made up by the Clearing House in such a manner as it considers appropriate in such circumstances.

2A.13 POSITION TRANSFERS (Euronext.liffe)

Members wishing to effect a position transfer to another member of Euronext.liffe should submit a written request to LCH.Clearnet Limited Operations Department.

Provided they relate to valid positions, and adequate cover is available from both Clearing Members the transfer will normally be authorised. Should insufficient cover be available the transfer may not be authorised until additional cover is provided.

For information regarding transfers between Clearing Members accounts (see TRS/CPS Version 8 release notes).

2A.14 LINK CLEARING PROCEDURES

2A.15 LINK CONTRACTS

The following contracts are subject to link clearing arrangements :

Contract	Link Partner	Link type
Euroyen	TIFFE	One-way link
T. Bond Futures &	CBOT (out-going)	One-way link

Options		
Bund Futures & Options	CBOT (in-coming)	One-way link

2A.16

LINK PROCEDURES

2A.16.1

Clearing Members who are Euronext.liffe members must be party to one of the following link clearing agreements in order to participate in the TIFFE link:

Agreement	Description
LCA 1	Link Clearing Agreement - Euronext.liffe clearing member and a TIFFE clearing member who are separate legal entities.
LCA 2	Link Clearing Agreement - Euronext.liffe clearing member, a TIFFE general member and a TIFFE clearing member who are separate legal entities.
LCA 3	Link Clearing Agreement - Euronext.liffe clearing member, and a TIFFE clearing member who are the same legal entity.
LCA 4	Link Clearing Agreement - Euronext.liffe clearing member, and a TIFFE general member and a TIFFE clearing member (where the Euronext.liffe clearing member and the TIFFE general member are the same legal entity).
LCA 5	Link Clearing Agreement - Euronext.liffe clearing member, and a TIFFE general member and a TIFFE clearing member (where the Euronext.liffe clearing member and the TIFFE clearing member are the same legal entity).
TAA 1	Trade Allocation Agreement- Euronext.liffe clearing member and a TIFFE clearing member who are separate legal entities.
TAA 2	Trade Allocation Agreement - Euronext.liffe clearing member, a TIFFE general member and a TIFFE clearing member who are separate legal entities.
TAA 3	Trade Allocation Agreement - Euronext.liffe clearing member, and a TIFFE clearing member who are the same legal entity.

Agreement Reference	Description
TAA 4	Trade Allocation Agreement - Euronext.liffe clearing member, and a TIFFE general member and a TIFFE clearing member (where the Euronext.liffe clearing member and the TIFFE general member are the same legal entity).
TAA 5	Trade Allocation Agreement - Euronext.liffe clearing member, and a TIFFE general member and a TIFFE clearing member (where the Euronext.liffe clearing member and the TIFFE clearing member are the same legal entities).

Clearing Members who are Euronext.liffe members must be party to one of the following link clearing agreements in order to participate in the CBOT link:

Agreement Reference	Description
LCA 1	Designated Euronext.liffe (Contracts traded on CBOT) CBOT clearing members who are not also Euronext.liffe clearing members.
LCA 2	Designated Euronext.liffe (Contracts traded on CBOT) CBOT clearing member and Euronext.liffe clearing member (common member).
LCA 3	Designated CBOT (Contracts traded on Euronext.liffe) CBOT clearing members who are not also Euronext.liffe clearing members.
LCA 4	Designated CBOT (Contracts traded on Euronext.liffe) CBOT clearing member and Euronext.liffe clearing member (common member).

Copies of the TIFFE and CBOT link agreements are available from Euronext.liffe Membership.

2A.16.2 **Application of Link Regulations**

Contracts made on the terms of a Linked Exchange Contract are subject to the Link Regulations as well as to the other provisions of the General Regulations and the Default Rules.

2A.16.3 **Registration of Link Trades**

CBOT Bund futures and options transferred to LCH.Clearnet Limited for clearing are registered following confirmation by the Clearing House that the day position balance file has been successfully received.

Euronext.liffe, T-Bond futures and options contracts transferred to BOTCC for clearing are registered by BOTCC following confirmation that the day position balance file has been accepted by BOTCC.

2A.16.4 **Confirmation of Link Trades**

Members party to Clearing Member link agreements have agreed to contracts transferred to the Clearing House from a participating Exchange being registered in their name.

2A.17 **LINK POSITION KEEPING ACCOUNTS**

2A.17.1 **The following CPS accounts are used to record contracts which are linked Exchange contracts, but are not Clearing Member accounts as described in Regulation 5.**

HT	House	(Euroyen futures)
NT	Client	(Euroyen futures)
ST	Segregated Client	(Euroyen futures)
X	House	(CBOT House, Bund Futures & Options)
Y	Segregated Local	(CBOT Segregated local, Bund Futures & Options)
Z	Non-Segregated Local	(CBOT Non-segregated local, Bund Futures & Options)

2A.17.2 **Basis of Position Transfer for Euroyen Contracts transferred at the Euronext.liffe Settlement Price**

Euroyen contracts allocated to the following accounts are transferred gross e.g. a position of bought 1 lot and sold 2 lots will show both bought and sold positions for the same delivery month.

N	Non-segregated client
S	Segregated client
D	Default "trades" which have not been assigned to one of the account codes

Euroyen contracts allocated to the following accounts are transferred net e.g. a position of bought 1 lot and sold 2 lots for the same delivery month will be reported as sold 1.

H	House
L	Local

2A.17.3 Basis of Position Transfer for Euronext.liffe T-Bond Futures & Options

T-Bond futures and options may be allocated to the H, S, L position-keeping accounts as described in section 2A.6.2.1. The N position-keeping account is not available for T-Bond futures and options contracts. Unallocated trades will default to the D position-keeping account.

Netting within the L account will take place by local mnemonic.

Trades allocated to the S account with the TRS closing indicator set-on will automatically settle where open contracts are available for settlement.

2A.17.4 Basis of Position Keeping

The following position-keeping accounts are held net:

X*, Y, Z

Within each account netting takes place by floor broker acronym.

Trades allocated to the following accounts are transferred to TIFFE at original trade price:

HT, NT, ST.

Manual settlements, via CPS, are not permitted for Euroyen and US Treasury Bond futures and option positions.

* As specified by the Clearing Member in accordance with Exchange Rules.

2A.17.5 Relationship of Position-Keeping Accounts with Financial Accounts

Position Account	Financial Account
------------------	-------------------

Euroyen

Ht	H
ST	C
NT	H

Bunds

X	*
Y	C
Z	H

US T-Bonds

TRS mapping to the Clearing House margin accounts is dependent upon whether a Clearing Member is trading under a Link Clearing Agreement (LCA's or a Letter of Understanding) (LCA 4) :

Position Account	Financial Account
------------------	-------------------

LCA 3

H	C
S	C
L	C
D	C

LCA 4

H	H
S	C
L	*
D	C

* As specified by the Clearing Member in accordance with Exchange Rules.

2A.17.6 Bund Options Exercise

Early exercise of option contracts for Bund Options traded in Chicago will be treated as being submitted on the following LCH.Clearnet Limited business day, regardless of the time of entry.

US Treasury Bond Options Exercise

Clearing Members are not permitted to enter either manual or automatic exercise notices for the US Treasury Bond option contracts.

US Treasury Bond Option Premiums

US Treasury Bond option premiums are settled up-front. That is the traded premium is debited from the buyers financial account, and credited to the sellers financial account, on the business day after the day of trade.

2A.18 LINK TRADE CORRECTION PROCEDURES

2A.18.1 Trade Correction Procedures (Euroyen Future)

Clearing Members may correct details of Euroyen trades transferred to TIFFE. The correction must be agreed by the parties to the trade and the Link Exchanges, (see Euronext.liffe TRS/CPS User Guide). The Clearing House may require Clearing Members to provide additional cover prior to acceptance of the trade correction. Request forms must be returned to Euronext.liffe before 09:00 hours (London time). Correction requests received after 09:00 hours will be processed the following day, unless sufficient cover is available.

2A.18.2 US Treasury Bond Futures & Options Trade Correction Procedures

Clearing Members may correct trade details of US Treasury futures & options transferred to BOTCC. The correction must be agreed by the parties to the trade and the Link Exchanges.

2A.18.3 Bund Futures and Options Trade Correction Procedures

Any corrections to Bund trades which were executed in Chicago and transferred to London will require the correction to be made by the CBOT member in Chicago.

2A.18.4 Late Matched US Treasury Bond Futures & Options

Unresolved positions will be identified by the use of 'UR' create flag in TRS on the day following the day of trade, the usage of this indicator does not relate to unregistered business. Clearing Members may assign, allocate and split these corrections within the deadlines specified by Euronext.liffe.

2A.19 LINK NON-BUSINESS DAYS AND LINK EMERGENCIES

2A.19.1 Euronext.liffe/TIFFE Link

Trades are transferred on every day including non-business days in Japan. In the event of a 'link emergency' which results in impossibility of transfer contracts will be margined by the Clearing House until transfer is possible.

2A.19.2 Euronext.liffe/CBOT Link

Out-going T-Bond futures & options are transferred on every day which is also a US business day. On US non-business days trades which are due for transfer are held and margined by the Clearing House. Transfer of such trades occurs on the next day that is both a US and UK business day.

In the event of a 'link emergency' which results in impossibility of transfer contracts will be margined by the Clearing House until transfer is possible.

During a Link non-business day or Link emergency, the Clearing House will calculate option variation margin for US T-Bond futures and options. This option variation margin is referred to as Net Liquidating value.

In-coming Bund futures and options contracts are transferred to the Clearing House on every day which is both a US and UK business day. On days which are a UK non-business day, and a US business day, trades that are due for transfer are held and margined by BOTCC. Transfer of such trades occurs on the next day that is both a US and UK business day.

In the event of 'link emergency' which results in impossibility of transfer trades are margined in the US by BOTCC until transfer is possible.