



Mr David A Stawick  
Secretary  
Commodity Futures Trading Commission  
1155 21<sup>st</sup> Street NW  
Washington DC 20581

17 August 2012

Dear Mr Stawick

Please find enclosed a submission to the Commodity Futures Trading Commission by LCH.Clearnet Limited under the procedure set out in 17 CFR Section 40.6 for the self-certification of rules.

Should you have any questions regarding this submission please do not hesitate to contact me.

Yours sincerely

A handwritten signature in black ink, appearing to be "Jay Iyer".

**Jay Iyer**  
**Chief Compliance Officer**

**SUBMISSION OF AMENDMENTS TO THE CLEARINGHOUSE RULES**

TO THE

**COMMODITY FUTURES TRADING COMMISSION**

SUBMITTED BY

**LCH.Clearnet Limited**

an English limited company

**FILING AS A REGISTERED DERIVATIVES CLEARING ORGANIZATION**

Pursuant to Commission Regulation § 40.6

**Submission of Amendments to the Clearing House  
Procedures:**

- General Regulation 5
- Clearing House Procedures Sections 3, 2E and 2G
- FCM Regulation 6
- FCM Procedures Section 3

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Submitted: August 17<sup>th</sup>, 2012

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## **LCH.CLEARNET LIMITED SELF-CERTIFICATION OF AMENDMENTS TO THE CLEARING HOUSE REGULATIONS AND PROCEDURES**

LCH.Clearnet Limited ("LCH.Clearnet"), a derivatives clearing organization registered with the Commodity Futures Trading Commission (the "CFTC"), is submitting for self-certification, pursuant to CFTC Regulation §40.6, amendments to LCH.Clearnet's existing Regulations and Procedures for accounts and payments. The amended Regulations and Procedures will be implemented and become effective on September 3<sup>rd</sup>, 2012.

### **Part I: Explanation and Analysis**

The operation, purpose and effect of the amendments to the Regulations and Procedures covering accounts and payments is threefold:

- (i) to amend the rules relating to the treatment of payments to and from members, in order to protect LCH.Clearnet from the potential insolvency of a bank providing Protected Payment System ("PPS") services to members (a "PPS bank").
- (ii) to permit the collection of interest from members where a negative interest rate is in effect on cash margin; and
- (iii) to insert references to buffer accounts for the Nodal and EnClear services.

#### *Protecting against the insolvency of PPS bank*

All payments to and from members of LCH.Clearnet are effected through the PPS, including those in respect of margin flows and cash settlement of contracts. Each member must have accounts at one or more PPS banks for each currency in which it settles variation margin flows. Requests for payment to LCH.Clearnet ("calls") and instructions to pay members ("pays") are effected as book-entry transfers at the PPS banks between accounts in the members' names and accounts in the name of LCH.Clearnet. LCH.Clearnet's accounts at each PPS bank are swept or funded, as the case may be, with a net transfer to or from a central "concentration" account in each currency.

The PPS arrangements have been recognised by HM Treasury under the Banking Act 2009 as a payment system of systemic importance in the United Kingdom. The Bank of England oversees the PPS.

In order to ensure the integrity of the PPS system, LCH.Clearnet sets minimum standards for PPS banks and carries out regular monitoring against those standards. However, as the PPS banks are commercial banks, the process exposes LCH.Clearnet to unsecured intraday credit risk. Under the CPSS-IOSCO Principles for Financial Market Infrastructures (FMIs), "*if an FMI settles in commercial bank money, it should monitor, manage, and limit its credit and liquidity risks arising from the commercial settlement banks.*" (Principle 9, key consideration 3).

To eliminate its exposures to commercial PPS banks, LCH.Clearnet is adopting rule changes that will (i) make individual members remain responsible for payments made until the time when those payments reach LCH.Clearnet's account at its concentration bank (or are used to pay another member), and (ii) ensure that LCH.Clearnet's responsibility to pay a member is extinguished once payments to the member have been instructed and to the extent that the necessary funding has been transferred from the concentration bank to the PPS bank.

Members would remain responsible for funds during the intraday netting process, regardless of the account on which they are held. This means that:-

- where, as part of the netting process, balances are held temporarily on an account in LCH.Clearnet's name at the member's PPS bank, pending transfer to the LCH.Clearnet concentration account, a member remains responsible for ensuring that funds arrive at the concentration bank. In practice, it means that in the event of insolvency of a PPS bank, the clearing member retains the counterparty risk of its chosen bank, i.e. it remains liable to meet any funds called and would be required to pay them to LCH.Clearnet via a contingency banking arrangements if its PPS bank has not yet remitted funds to LCH.Clearnet's concentration account (or paid them out to another member).
- where balances held have been funded in whole or in part from LCH.Clearnet's concentration account, pending their onward credit to member accounts, the liability for that part received from the concentration bank lies with the receiving members, i.e. once a PPS bank has received the funds LCH.Clearnet will consider these as having been credited to the clearing members concerned.

In order to implement this, the following rule changes will be made.

A new subsection will be added to General Regulation 5. Subsection 5(j) describes that payments will only be credited to the account of the member in LCH.Clearnet's books if the PPS bank is solvent, and the funds have been transferred either to the concentration bank or to other members.

An equivalent change will be made to the FCM Regulations (subsection 6(j)), which apply to FCM members of LCH.Clearnet only.

Section 3 of the Clearing House Procedures will be amended as follows.

Subsection 3.2.1.3 will be amended to set out that a member's payment to the clearing house is only recognised once the PPS bank has completed the process of transferring funds to the central concentration bank, made the relevant payments, and there is no possibility of payments being recalled under the rules of the payment system being used.

A new paragraph will also be added to set out that payments out to members from LCH.Clearnet are recognized (that is, LCH.Clearnet is no longer liable to meet them) once the payment instruction has been given to the PPS bank, but only to the extent that LCH.Clearnet has taken steps to fund the relevant account at the PPS Bank.

A new subsection 3.2.1.11 will be added to make clear that LCH.Clearnet will seek to recover any funds that were on an account in its name at an insolvent PPS bank. Any recoveries, after costs, will be returned to the members pro rata to their share of the total.

Equivalent changes will be made to the FCM Procedures, which apply to FCMs only.

*Collection of payments in relation to negative interest rates*

As a result of historically low interest rates, the Clearing House made a decision no longer to maintain its practice of flooring interest rates payable on members' cash margin at zero. General Regulation 5(f) and Section 3.5 of the Procedures are being amended to reflect that interest may therefore be charged to members as well as paid to them.

Please note that section 3.7.3 is being deleted because it duplicates provisions already set out in the Default Fund Rules (Rules F5 and F6 of the ForexClear Default Fund supplement).

*Introduction of buffer accounts*

LCH.Clearnet is proposing to amend Clearing House Procedures 2G.7.2.2 to reflect the addition of a Client Buffer account (with Code E) for LCH.Clearnet's Nodal service and to clarify that the Buffer account with Code B is in respect of additional cash in relation to House business.

Additionally, LCH.Clearnet is proposing to add Buffer accounts, in respect of House and Clients, for LCH.Clearnet's EnClear service. This will be reflected at Clearing House Procedures 2E.1.14.6.

**Rule changes attached**

Attached to this submission are the following exhibits:

Exhibit A-1	General Regulations
Exhibit A-2	FCM Regulations
Exhibit A-3	Clearing House Procedures Section 3
Exhibit A-4	FCM Procedures Section 3
Exhibit A-5	Amendments to Clearing House Procedures sections 2E and 2G.
Exhibit B	Signed certification

## **Part II: Certification by LCH.Clearnet**

LCH.Clearnet certifies to the CFTC, in accordance with CFTC Regulation §40.6, that the amendments the Clearing House Regulations and Procedures comply with the Commodity Exchange Act and the CFTC Regulations promulgated thereunder. In addition, LCH.Clearnet certifies that LCH.Clearnet has posted a notice of pending certification with the CFTC and a copy of the submission on LCH.Clearnet's website at [http://www.lchclearnet.com/rules\\_and\\_regulations/ltd/proposed\\_rules.asp](http://www.lchclearnet.com/rules_and_regulations/ltd/proposed_rules.asp)  
A signed certification is attached to this submission as Exhibit B.

## **Part III: Compliance with Core Principles**

LCH.Clearnet complies, and will continue to comply, with all of the Core Principles.

LCH.Clearnet will continue to comply with all Core Principles following these amendments to its rules. In particular, implementing the amendments in relation to the PPS allows LCH.Clearnet to eliminate its exposures to PPS banks, which will further reinforce its compliance with the requirement in 17 CFR 39.14(c)(3) to eliminate or strictly limit exposures.

## **Part IV: Opposing Views**

### *Protecting against the insolvency of a PPS bank*

LCH.Clearnet developed this proposal in conjunction with the Bank of England and representatives of the PPS banks. The proposal was presented to all LCH.Clearnet members for a short comment period; of over 150 members, four expressed opposing views.

These respondents considered that it was not appropriate that they could become liable to replace amounts held on an account in the name of LCH.Clearnet, and that their overall exposure to their chosen PPS bank would be of a longer duration than at present.

LCH.Clearnet has considered these views carefully and engaged actively with each member expressing this view. LCH.Clearnet considers it essential to remove the systemic risk that the failure of a PPS bank could threaten LCH.Clearnet's solvency. A wide range of means of achieving this objective were reviewed in conjunction with PPS banks and the Bank of England, and this solution emerged as the one requiring least disruption to established processes, the least technical development and involving the least ongoing operational and liquidity risk to the market as a whole. Given these factors and given that the concerns were expressed by only a small proportion of the membership, no change to the proposed rules were made.

One further respondent asked for LCH.Clearnet's processes for payments made in contingency to be made more formal. LCH.Clearnet is not introducing a rule change at this time to effect that change, as it considers it desirable to maintain flexibility in arrangements for members, but it will consider possible formalization of the requirements in future.

Other views were either included into the rules or did not require changes. There were no opposing views expressed to LCH.Clearnet by governing board or committee members that were not incorporated into the rule.

*Other changes*

These are technical changes to update the rules. No opposing views expressed to LCH.Clearnet by members, or governing board or committee members that were not incorporated into the rule.

Exhibit A-1  
General Regulations, Regulation 5



## General Regulation 5: Accounts

- (f) Interest calculated on a basis determined from time to time by the Clearing House in accordance with the Procedures may at the Clearing House's discretion (but subject to the provisions of the Default Fund Rules and to Regulation 58(d)) be paid, or, in the case of negative interest rates, be charged, on amounts standing to the credit of any of the Member's accounts.
- (j) Where a payment has been made to the Clearing House by a Member through the PPS, that payment will only be credited to the account of the Member with the Clearing House if it (i) is paid into an account of the Clearing House with an institution which is solvent, (ii) that institution has performed its concentration function (being the transfer of net funds from the institution to a central account in the name of the Clearing House) and (iii) that institution has made the relevant payments to other Members on the date when the payment was due to be received by the Clearing House.

Exhibit A-2  
FCM Regulations, Regulation 6

## FCM Regulation 6: Treatment of Accounts at LCH

- (f) Interest calculated on a basis determined from time to time by the Clearing House in accordance with the FCM Procedures may at the Clearing House's discretion (but subject to the provisions of the Default Fund Rules and to Regulation 58(d)) be paid, or, in the case of negative interest rates, be charged, on amounts standing to the credit of any of the FCM Clearing Member's accounts.
- (i) Where a payment has been made to the Clearing House by an FCM Clearing Member through the PPS, that payment will only be credited to the account of the FCM Clearing Member with the Clearing House if it (i) is paid into an account of the Clearing House with an institution which is solvent, (ii) that institution has performed its concentration function (being the transfer of net funds from the institution to a central account in the name of the Clearing House) and (iii) that institution has made the relevant payments to other members on the date when the payment was due to be received by the Clearing House.

Exhibit A-3  
Clearing House Procedures Section 3

**SECTION 3**

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### 3. **FINANCIAL TRANSACTIONS**

#### 3.1. **ACCOUNTS**

##### 3.1.1. **Overview**

Clearing Members are usually provided with two financial accounts that reflect their House and Client business; other financial accounts may be provided depending upon their participation in certain markets. All Clearing Members will also have a Default Fund (DF) account.

Each financial account will in turn have at least one sub account:

- Cover account; and other sub accounts depending on the market and collateral provided, for example:
- Tender account;
- Coupon account (for payment of coupons on securities held as collateral); and
- Buffer account (where additional collateral may be provided).

Liabilities arising from trading activity are recorded against the Cover account only. Sub accounts are used to record cash movements between the Clearing House and the Clearing Member. Postings may be applied to Cover, Tender and other sub accounts.

##### 3.1.2. **Cover Account Postings**

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

- PPS calls and pays;
- option premiums;
- prompt day delivery amounts;
- interest and accommodation charges;
- Clearing House fees, charges and rebates;
- exchange fees, levies and rebates; and
- Variation margin, Price Alignment Interest, NPV, coupons.

##### 3.1.3. **Tender Account Postings**

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

- PPS calls and pays;
- delivery amounts;
- settlement differences; and

- Coupon Payments relating to member collateral.

#### 3.1.4. **Financial Transaction Reporting**

Banking reports are generated each day that provide members with data relating to but not limited to: liabilities by market, cash balances, non-cash balances, cash posting and interest rates.

All reports are available via the Member Reporting Web Site (Member Live site) and can be downloaded via the user interface or directly to Member back-office systems via an SFTP connection.

A "Banking Reports Reference Pack" can be requested from the LCH.Cleernet Client Training Team, this contains definitions and examples of each of the available reports.

#### 3.2. **PROTECTED PAYMENTS SYSTEM (PPS)**

The Clearing House operates a direct debit system, known as the Protected Payments System (PPS), for the transfer of funds to and from Clearing Members. PPS is a recognised interbank payments system overseen by the Bank of England.

PPS is operated in both London ("London PPS") and in the United States (where it is known as "US PPS"). In this Section 3, a day on which PPS is open is referred to as a "working day". The Clearing House also operates accounts in Hong Kong where Clearing Members will be mandated to hold accounts for the operation of certain Asian markets.

Clearing Members should note that the PPS (both in London and in the US) is a system for facilitating payment to the Clearing House of moneys due from Clearing Members to the Clearing House and vice versa. The giving of a commitment by a participating Bank through PPS to make any payment, and the receipt of that commitment by the Clearing House is not to be regarded as satisfaction of any payment due to the Clearing House.

Each Clearing Member remains fully responsible for the payment to the Clearing House of all moneys due to the Clearing House as required, inter alia, by the Clearing Membership Agreement, clearing extension documentation and these General Regulations, Default Rules and Procedures. Payment is only completed when the funds have been credited for value to the relevant Clearing House bank account, and any time permitted by the relevant payment settlement system for the recall of any such payment has expired.

##### 3.2.1. **PPS**

###### 3.2.1.1. **Introduction**

A Clearing Member is required to maintain a PPS bank account(s) in London in GBP and in each currency in which it incurs settlements, at one or more of the bank branches participating in the PPS system in London. Different banks may be used for different currencies.

Each Clearing Member is required to maintain at least one US dollar PPS account with at least one of the US PPS Banks (please refer to the following link for details:

[www.lchclearnet.com/risk\\_management/ltd/pps/](http://www.lchclearnet.com/risk_management/ltd/pps/)

Clearing Members are responsible at all times for ensuring that their PPS banks accounts have sufficient funds or credit lines to be able to meet margin calls from the Clearing House.

Any bank charges connected with the holding of any PPS bank accounts or related to any activity on that account must be paid by the Clearing Member holding the relevant account. PPS Mandates

Each Clearing Member is required to complete a standard form London and US PPS Mandate(s) (copies are available from [membershipteam@lchclearnet.com](mailto:membershipteam@lchclearnet.com)) for each bank branch at which they wish to operate an account before clearing can commence. The original of the mandate must be signed by a person with the appropriate authority within the Clearing Member institution and then forwarded to the relevant bank. A copy must also be forwarded at the same time to the Clearing House Membership Department.

#### 3.2.1.2. **Currency Conversion**

The Clearing House supports cross currency collateral, this allows the Clearing Member to elect to have initial and contingent margin liabilities covered in a currency other than that in which the liability is calculated. Clearing Members must nominate the currency in which they wish to cover margin liabilities by prior arrangement with LCH.Clearnet Limited Treasury Operations.

#### 3.2.1.3. **Morning PPS Calls**

Clearing Members' liabilities are calculated overnight. Should the relevant liability not be covered by acceptable forms of cover held by the Clearing House (see section 3.3) any shortfall is called through London PPS with separate calls made for each currency. It is the responsibility of each Clearing Member to ensure that its London PPS bank(s) meets all payment instructions received from the Clearing House. Confirmation of payments, as notified, must be received by the Clearing House from the relevant PPS bank(s) by 09:00, or within one hour of a subsequent call, ~~hours or earlier~~ on the day on which the PPS Call is made. Payments will only be recognized for this purpose if the relevant PPS bank (i) has performed its concentration function (being the transfer of net funds from the PPS bank to a central account in the name of the Clearing House) (ii) has made such payments, and (iii) any time permitted by the relevant payment settlement system for the recall of any such payment has expired.

Where payments are due to a Clearing Member, Payments will be recognized as soon as payment instructions in respect of that payment have been given to a PPS bank. For this purpose, a payment instruction will only be recognised to the extent that the Clearing House has taken steps to transfer to the PPS bank any such sums as may be necessary to enable that payment instruction to be performed by the PPS bank.



#### 3.2.1.4. **Intraday PPS Calls**

The intra-day margin call by the Clearing House is for intra-day cover payments. GBP, EUR or USD can be used to cover margin intraday. Between 14.30 - 16.00 (London time) only USD will be called in London.

Normally the Clearing House will call intra-day margin through London PPS accounts. However where the Clearing House wishes to make such an intra-day call after London PPS closes (16:00 London time), such a call will be made upon the Clearing Member's nominated US PPS account.

Clearing Members must designate a currency (GBP, EUR or USD) that will be called by default during the hours of London PPS for each mnemonic/sub-account. Clearing Members may request a change to the default currency no later than 09.30 am London time in order for the change to be undertaken the following day. Member can submit a request to change their currency at the following link:

[www.lchclearnet.com/risk\\_management/ltd/preferential\\_currency\\_for\\_intraday\\_margin\\_calls\\_form.asp](http://www.lchclearnet.com/risk_management/ltd/preferential_currency_for_intraday_margin_calls_form.asp)

The Clearing House has the ability to call US dollars in respect of an intra-day margin call up until 16:00 hours New York Time (21:00 hours London Time).

The Clearing House must receive confirmation of payment from the Clearing Member's nominated PPS bank(s) within one hour of receipt of the intraday call by the relevant bank branch.

Failure of a bank to confirm a PPS call within one hour may result in the Clearing Member being declared in default. Late confirmation of PPS calls are reported to the regulators of LCH.Clearnet.

#### 3.2.1.5. **Auto repay**

Clearing Members may request that they are automatically repaid any excess cash balances that remain on their accounts at the end of each day. Clearing Members must contact Treasury Operations in order to have auto-repay applied to their accounts. (LCHOperations-Treasury@lchclearnet.com or Tel +44 (0)20 7426 7505)

#### 3.2.1.6. **Value Date**

Although confirmation from the banks that PPS payments will be made must be received within the deadlines set out in sections 3.2.1.4, subject to section 3.2.1.8, all currency transactions are processed by PPS with next business day value with the exception of the following currencies: CAD, EUR, GBP and USD which are processed with value for the same business day.

#### 3.2.1.7. **Foreign Bank Holidays**

The Clearing House has made arrangements with London PPS banks to operate the PPS on all UK banking days including foreign bank holidays.

Confirmation that PPS payments will be made must be received within the deadlines set out in section 3.2.1.4. However the value date for any PPS

transactions made on a day which is a bank or public holiday in the country of that currency will be for the next business day on which both the foreign currency centre and the Clearing House are open for business. This applies to GBP, CAD, EUR and USD.

Example: 20 August is a public holiday in the USA but not in the UK. 21 August is a normal banking day in the USA.

On the 20 August, the Clearing House will issue its normal USD instructions to PPS banks, and receive confirmation in response to the PPS Call, for value 21 August.

Please refer to Clearing Member Circulars for details of Clearing House opening days and currency holidays at the following link:

[www.lchclearnet.com/member\\_notices/](http://www.lchclearnet.com/member_notices/)

#### 3.2.1.8. **UK Bank Holidays**

The Clearing House does not give value to any currency on a UK bank holiday, if the Clearing House is closed for business on that bank holiday. PPS Calls will be made on the next following business day, for the relevant currency.

However, the Clearing House may sometimes be open for business on a UK bank holiday – in such circumstances PPS Calls will be made as normal that day. Value will be given the same day providing that the relevant currency centre is open for business. It should be noted, however, that value for GBP is given on the next GBP business day.

#### 3.2.1.9. **Use of London PPS and US PPS**

These Procedures indicate which part of the PPS system will be used in the normal course of events for making PPS Calls. Generally London PPS will be used for Morning PPS Calls (including contributions to the Default Fund), remitting surplus cash balances to a Clearing Member, and for making intra-day margin calls up to 16:00 hours London time. However Clearing Members should be aware that the Clearing House reserves the right to direct a Morning PPS Call or intra-day margin calls before 16:00 hours London time to a Clearing Member's US PPS account in exceptional circumstances (an "Exceptional PPS Call"). The Clearing House will use all reasonable commercial endeavours to notify the Clearing Member in advance of issuing any such Exceptional PPS Call.

#### 3.2.1.10. **Contingency Payment Arrangements**

Clearing members must ensure that they have contingency arrangements to ensure continuity of margin payment in the event of failure of their nominated PPS Bank. From time to time the Clearing House may require the Clearing Member to provide evidence of these arrangements.

#### 3.2.1.11. **Recovery from insolvent PPS Banks**

In the event that payment is not completed by the relevant PPS bank, due to insolvency and not a technical failure, and the affected Clearing Member(s) make alternative payments, the Clearing House, should it make a recovery from the estate of the PPS bank, will credit such recovery, net of costs, to the

accounts of the affected Clearing Members in proportion to the amount of the original missed payment.

### 3.2.2. **Hong Kong Payments**

#### 3.2.2.1. **Introduction**

In order to facilitate clearing services for the Asian/Pacific Markets, the ability to call funds to cover margin requirements during the Asian day is required.

The Clearing House mandates that Clearing Members clearing in certain Asian markets maintain bank accounts in Hong Kong to facilitate margin calls during the Hong Kong day.

Currently only USD accounts are operated in Hong Kong.

Where the Clearing House has mandated that Clearing Members must operate an account in Hong Kong, each Clearing Member is required to maintain one US dollar account at a bank in Hong Kong where the Clearing House also operates an account – a list of the banks used by the Clearing House in Hong Kong appears in Appendix 3A.

#### 3.2.2.2. **Intra-Day Margin Call in Hong Kong (overnight UK)**

The intra-day margin call by the Clearing House is for intra-day cover payments.

The Clearing Member will be requested to make a payment to the Clearing House's account at their nominated bank.

A payment to the Clearing House's account in Hong Kong may be requested between the hours of 08:00 and 16:00 Hong Kong time.

#### 3.2.2.3. **Confirmations**

The Clearing House must receive confirmation of payment from the Clearing House's bank within one hour of the Clearing House requesting funds from the Clearing Member.

#### 3.2.2.4. **Operating days and Bank Holidays**

USD payments are supported during Hong Kong public holidays when the US is open.

Members may be called for additional margin on any day that the markets and the Clearing House are open.

Therefore the Clearing House can instruct a USD payment on a public holiday in Hong Kong and receive good value (except on a US currency holiday when margin will be collected once UK PPS opens in UK business hours or if the Clearing House consider that internal measures of credit tolerance may be breached additional margin can be requested ahead of US bank holidays).

#### **Value Date**

Clearing Members must meet these margin calls for all USD working days even if it is a Hong Kong holiday, if the markets are open.

Each Clearing Member remains fully responsible for the payment to the Clearing House of all moneys due to the Clearing House as required, inter alia, by the Clearing Membership Agreement, clearing extension documentation and these General Regulations, Default Rules and Procedures.

Payment is only completed when the funds have been credited for the full value to the Clearing House bank account, at the nominated Hong Kong bank, and at the point in time when the Clearing House is able to verify that the funds are within the account.

### 3.3. **ACCEPTABLE FORMS OF COVER**

The Clearing House accepts certain types of collateral in the Clearing House's prescribed form against liabilities. Please refer to the following link for further details:

[http://www.lchclearnet.com/risk\\_management/ltd/acceptable\\_collateral.asp](http://www.lchclearnet.com/risk_management/ltd/acceptable_collateral.asp)

**The Clearing House may vary, at its discretion, the standard requirements and valuation procedures set out in this section, either generally or in a particular case, without giving prior written notice to Clearing Members. Further, the Clearing House may vary the types of cover acceptable to it.**

#### 3.3.1. **Cash**

In order not to fall within the scope of deposit-taking regulations applying to banks and similar institutions, the Clearing House can accept cash from Clearing Members only in relation to current or anticipated obligations.

Cash used as cover need not be provided in the same currency as that of the liability. In such cases, currencies will be notionally converted with reference to quoted exchange rates determined at approximately 16:45 hours the previous business day.

Clearing Members must give LCH.Clearnet Limited Treasury Operations no less than two (2) business days notice of their intention to request withdrawal of cash used as cover for margin and its replacement by the lodgement of collateral. In the event that a Clearing Member seeks to withdraw such cash cover without giving such notice, the Clearing House may decline to release such cash cover until the end of the required notice period.

#### 3.3.2. **Performance Bonds**

Certain banks are approved by the Clearing House to issue performance bonds on behalf of Clearing Members. Performance Bonds forms are available from LCH.Clearnet Limited Treasury Operations for use by the London branches of approved banks. Approved banks which are also Clearing Members may not issue performance bonds on their own behalf. Nor may approved banks issue performance bonds on behalf of Clearing Members of which they are the parent, immediate or ultimate, or which belong to the same corporate group, or in which they have a shareholding greater than 20%.

**It is essential that Clearing Members agree their proposed arrangements with LCH.Clearnet Limited Treasury Operations in advance of making arrangements to lodge a performance bonds.**

### 3.3.3. **Securities**

Please refer to the following pages on our website for both prevailing haircuts and notes on collateral acceptable for margin purposes:

[http://www.lchclearnet.com/risk\\_management/ltd/acceptable\\_collateral.asp](http://www.lchclearnet.com/risk_management/ltd/acceptable_collateral.asp)

### 3.3.4. **Securities Value Notification**

Clearing Members may obtain details on the cover value of securities on their account by viewing the relevant reports available on the Member Reporting Website.

### 3.3.5. **Use of Credits as Cover**

The following contingent margins are not paid in cash but may, with the restrictions described below, be used as cover:

NYSE-LIFFE Commodity Products delivery credit margin may be used to offset NYSE-LIFFE Commodity Products delivery debit margin within the same currency;

NYSE-LIFFE equity delivery credit margin and credit Net Liquidating Value (NLV) may be used to offset NYSE-LIFFE equity initial margin, NYSE-LIFFE equity delivery debit margin and NYSE-LIFFE equity debit NLV across currencies;

LME credit variation margin may be used to offset LME debit variation margin and initial margin across currency;

EquityClear credit contingent margin may be used to offset EquityClear initial and debit contingent margin across currencies;

Turquoise Derivatives credit contingent variation margin (for forwards) and credit Net Liquidating Value may be used to offset Turquoise Derivatives debit initial margin, debit contingent variation margin and debit NLV across currency; and

EnClear credit variation margin may be used to offset EnClear debit variation margin and initial margin across currency.

## 3.4. **DISTRIBUTION OF COVER**

### 3.4.1. **Overview**

As different types of cover attract different utilisation fees and different contracts are assessed for VAT in different ways (see section 3.5.4), the Clearing House identifies the cover applied to liabilities in order to allow utilisation fees and VAT to be calculated correctly.

This is done by establishing a specified order for both types of liabilities and types of cover and applying cover sequentially; such that cover type 1 is applied

first to liability type 1, cover type 2 to liability type 1 if there is a deficiency when cover type 1 has been exhausted and so on.

**The following procedures are not in any way intended to restrict, vary, or alter the Clearing House's rights to apply cover held (including any described in LCH.Clearnet Limited reports/records as "unutilised" or "excess") to meet the Clearing Member's liabilities/obligations to LCH.Clearnet Limited.**

#### 3.4.2. Liability Order

**Note:** The following provision applies solely for the purpose of calculating fees. In case of default by a Clearing Member, please see section 3.4.7 below.

Liabilities will be covered in the order:

1. Secured debit cash balances (see section 3.2.1.10);
2. Variation and initial margin including offset of contingent credits (see section 3.4.6).

#### 3.4.3. Cover Application

**Note:** The following provision applies solely for the purpose of calculating fees during the overnight offsetting of Clearing Members collateral against liabilities. In case of default by a Clearing Member, please see section 3.4.7 below.

The order in which cover will be applied (in turn) to each liability is as follows:

1. Same currency collateral (performance bonds and securities), in the Collateral Order;
2. Different currency collateral (performance bonds and securities), in the Collateral Order and in the Currency Order;
3. Cash in the same currency as the liability;
4. Cash in a different currency from the liability, in the Currency Order.

Clearing Members may make the following choices:

- whether to have cash applied before or after collateral;
- whether to apply collateral to liabilities in a different currency;
- whether to apply cash to liabilities in a different currency.

#### 3.4.4. Currency Order

**Note:** The following provision applies solely for the purpose of calculating fees. In case of default by a Clearing Member, please see section 3.4.7 below.

This defines the order in which different currency liabilities will be covered, as well as the order in which cash/collateral in different currencies will be used as cover. The order is:

1. GBP;
2. USD;
3. CHF;
4. EUR;
5. JPY;
6. SEK;
7. CAD;
8. NOK;
9. DKK;

#### 3.4.5. **Collateral Order**

**Note:** The following provision applies solely for the purpose of calculating fees. In case of default by a Clearing Member, please see section 3.4.6 below.

A Clearing Member may override this sequence with its own, on request to LCH.Clearnet Limited Treasury Operations.

1. Performance Bonds;
2. Treasury bills;
3. European (and other international) Government Debt Securities (excluding Gilts);
4. US Treasury Government Debt Securities;
5. UK Gilts;
6. Triparty collateral.

#### 3.4.6. **Record of Cover Provided**

Members can obtain details in the relevant reports available on the Member Reporting Website.

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

#### 3.5. **INTEREST AND ACCOMMODATION CHARGE STRUCTURE**

~~This Section applies to accounts other than DF accounts.~~

3.5.1. **Interest rates**

The Clearing House applies interest to Clearing Member's cleared cash balances.

The following rates are applied:

LDR – London Deposit Rate-the rate at which the Clearing House will pay or charge interest on credit cash balances (excluding DF Contributions and SwapClear Client Financial account).

CDR – Client Deposit Rate – the rate at which the Clearing House will pay or charge interest, ~~from 22nd March 2012,~~ on credit cash balances on SwapClear Client financial accounts.

Default Fund – The rate at which the Clearing House will pay or charge interest on default fund contributions.

Rates are available from the Member Reporting Website.

The Clearing House reserves the right to alter the basis of calculating interest rates. Any alteration will be effective on the date notified.

3.5.2. **Price Alignment Interest (PAI) Rate**

To minimise the impact of daily cash variation margin payments on the pricing of interest rate swaps, the Clearing House will charge interest on cumulative variation margin received by the clearing member and pay interest on cumulative variation margin paid in by the clearing member respect of these instruments. This interest element is known as price alignment interest ("PAI").

The calculation of PAI shall use the interest rates specified as below. The amount of PAI for each currency shall be calculated as:

The amount of NPV in such currency from the previous day's COB, multiplied by the relevant interest rate in effect for that day; divided by 360 or in the case of AUD, CAD, GBP, HKD, JPY, NZD, PLN, SGD and ZAR, 365.

In the case of the currencies marked below with an asterisk, the Clearing House, as provided in Regulation 34(b), specifies that it will not change the PAI rate without the consent of all SwapClear members holding open contracts in such currencies.

Currency	PAI Rate
USD	The rate used shall be the Effective Federal Funds rate, the rate published by the Board of Governors of the Federal Reserve System as such rate appears on Reuters page "FEDFUNDS1" or Telerate 120 or on any successor page(s) thereto.



Currency	PAI Rate
EUR	The rate used shall be the EONIA rate, the rate published by the European Banking Federation and ACI – The Financial Market Association as such rate appears on Reuters page "EONIA" or Telerate 247 or on any successor page(s) thereto.
GBP	The rate used shall be the SONIA rate, the rate published by the Wholesale Markets Broker Association as such rate appears on Reuters page "SONIA" or on any successor page(s) thereto.
JPY	The rate used shall be the Mutan call rate, the rate published by the Bank of Japan as such rate appears on Reuters page "TONAR" or on any successor page(s) thereto.
CHF	The rate used shall be the TOIS rate, the T/N interbank fixing as such rate appears on Reuters page "CHFTOIS" or Telerate 3450 or any successor page(s) thereto.
AUD	The rate used shall be the "AONIA" rate, the rate published by the Reserve Bank of Australia – as such rate appears on Reuters page "RBA30" or any successor page(s) thereto.
CAD	The rate used shall be the "CORRA" rate, the rate published by the Bank of Canada website – as such rate appears on Reuters page "CORRA" or any successor page(s) thereto.
DKK	The rate used shall be the "DKKOIS" rate, the rate published by the Danish Central Bank – as such rate appears on Reuters page "DKNA14" or any successor page(s) thereto.
HKD	The rate used shall be the "HONIX" rate, the rate published by the Hong Kong Brokers Association – as such rate appears on Reuters page "HONIX" or any successor page(s) thereto.
NZD	The rate used shall be the "NZIONA" rate, the rate published by the Reserve bank of New Zealand – as such rate appears on Reuters page "RBNZ02" or any successor page(s) thereto.
PLN	The rate used shall be the "POLONIA" rate, the rate published by the National Bank of Poland – as such rate appears on Reuters page "NBPS" or any successor page(s) thereto.
SEK	The rate used shall be the "SIOR" rate, the rate published by the OMX Exchange – as such rate appears on Reuters page "SIOR" or any successor page(s) thereto.

Currency	PAI Rate
ZAR	The rate used shall be the SFX ZAR OND rate, the rate published by SAFEX JIBAR – as such rate appears on Reuters page "SFXROD" or any successor page(s) thereto.
CZK	The rate used shall be the "CZEONIA" rate, the rate published by the Czech National Bank – as such rate appears on Reuters page "CZEONIA" or any successor page(s) thereto.
HUF	The rate used shall be the "HUFONIA" rate, the rate published by the National Bank of Hungary – as such rate appears on Reuters page "HUFONIA" or any successor page(s) thereto.
SGD	The rate used shall be the "SONAR" rate, the rate published by the Association of Banks in Singapore – as such rate appears on Reuters page "ABSIRFIX01" or any successor page(s) thereto.
NOK	The rate used shall be the NOK sight deposit rate, the rate published by Norges Bank – as such rate appears on Reuters page "NOINTR=ECl" or any successor page(s) thereto

3.5.3. **Interest/Accommodation Structure**

Application of Cover	Type of Cover					
	Credit Variation Margin	Performance Bonds	Securities	Cash	Foreign Cash	Forward Cash
Initial & Variation margin after offset	No charge or payment	Charge 0.10%	Charge 0.10%	Pay/Charge relevant rate	Pay/charge relevant rate of cover currency	No charge or payment
Excess or Surplus	No charge or payment	No charge or payment	No charge or payment	Pay/Charge relevant rate	Pay/charge relevant rate	No charge or payment

**Note:**

1. "Foreign Cash" means cash in a currency other than that of the liability.
2. "Forward Cash" means cash which has been credited to an account for later value, e.g. an amount called via PPS for next-day value.

3.5.4. **Payment of Interest and Charges**

Interest and accommodation charges are calculated on a daily basis and the resultant monthly total is posted to Clearing Members' cover accounts at the beginning of the following calendar month. A VAT invoice is issued monthly detailing the interest and accommodation charges applicable for the previous month. Separate invoices are issued for each currency.

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

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

The invoice provides detail in respect of:

- Interest due to be credited or debited; and
- Accommodation charges.

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

### 3.6. **FEES**

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

An invoice or credit note is produced detailing the fees to be posted to the house cover account.

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

Monthly postings are processed via the cover account at the beginning of the following month, on the third working day. Other postings, such as various Market Maker Scheme rebates, are processed by the Clearing House following receipt of data from the relevant exchange.

#### 3.6.1. **VAT Status**

By default a member will be charged VAT for transactions on applicable markets. If the member's registered address is outside of the UK, or the member is acting out of their non-UK operations, they will be required to provide a written declaration that their place of operations is also outside the UK for VAT purposes.

If a member extends to a VAT applicable market the member will be requested to provide written confirmation that the operations address is the same as that stated on their application form. If the address is different, and is outside the UK the member will also be asked to confirm that in writing so they will not be charged VAT on transactions on that market.

**3.7. PARTICIPATION MONIES****3.7.1. Share Subscriptions**

Clearing Member share subscriptions will be called via PPS on a date advised by the Clearing House. They will be called from Clearing Members' house PPS account and subscriptions will be debited from the house cover account.

**3.7.2. DF Contributions**

For all market with the exception of ForexClear DF contributions will be called via PPS normally on the fourth working day ("Reset Day") of the quarter (i.e. early February, May, August and November). Contribution requirements will be notified to Clearing Members at least two working days prior to each Reset Day on Member Reporting Website. For ForexClear – contributions are reset monthly and paid in USD,

Excess DF amounts due to Clearing Members following the adjustment to DF accounts and the crediting or debiting of interest will be repaid to Clearing Members' PPS accounts on the Reset Days.

**3.7.3. Default Fund: ForexClear Contribution**

~~ForexClear Contributions (as defined in the Default Fund Rules) will be called via PPS on the fourth working day of each month or more frequently pursuant to a determination of the ForexClear Contribution under F2(e) of the Default Fund Rules (each a "ForexClear Reset Day"). ForexClear Contribution requirements will be notified to ForexClear Clearing Members at least two working days prior to each ForexClear Reset Day on Member Intranet Report 000032.~~

~~Excess ForexClear Contribution amounts due to ForexClear Clearing Members following the adjustment to the ForexClear Contribution will be repaid to ForexClear Clearing Members' PPS accounts on the ForexClear Reset Day immediately following the adjustment to the ForexClear Contribution.~~

~~Interest on ForexClear Contributions will be paid to ForexClear Clearing Members' PPS accounts on the first working day after the ForexClear Reset Day following the end of the relevant "interest accrual period". Interest is calculated in respect of each "interest accrual period", which commences on (and includes) a ForexClear Reset Day and ends on (and includes) the calendar day immediately before the next ForexClear Reset Day.~~

**APPENDIX 3A**

**LCH.CLEARNET BANK ACCOUNTS IN HONG KONG**

Note: accounts are operated in USD only.

The Clearing Member will be mandated to hold an account with one of the following banks in order to facilitate margin calls during the Hong Kong day for certain markets.

When requested the Clearing Member must make a payment to the Clearing House's account at the same bank.

Clearing House bank in Hong Kong	LCH.Clearnet account details to which payments must be made.
Bank of America NA	84936018
Citibank NA	1168383025
HSBC Ltd	808 692818 201

For more information on Hong Kong PPS Banks please contact LCH.Clearnet Limited Treasury Operations on +44 (0)20 7426 7505 or [lchoperations-treasury@lchclearnet.com](mailto:lchoperations-treasury@lchclearnet.com).

Exhibit A-4  
FCM Procedures Section 3

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**FINANCIAL TRANSACTIONS****3. FINANCIAL TRANSACTIONS****3.1 Accounts****3.1.1 Overview**

FCM Clearing Members are usually provided with two sub-accounts per financial account:

**Cover account;**

**Tender account (not applicable to Default Fund (DF) accounts)**

These accounts are used to record cash movements between the Clearing House and the FCM Clearing Member. Refer to section 2.5 for a full description of financial accounts.

**3.1.2 Cover Account Postings**

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

**PPS payments and receipts;**

**Interest and accommodation charges;**

**Currency purchases and sales;**

**Clearing House fees, charges and rebates;**

**SwapClear coupon payments;**

**SwapClear coupon adjustments;**

**Net Present Value (NPV);**

**Price alignment interest;**

**Consideration.**

**3.1.3 Tender Account Postings**

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

**PPS payments and receipts;**

**Coupon Payments relating to member collateral.**

**3.1.4 Financial Transaction Reporting**

Banking reports are generated each day that provide members with data relating to but not limited to: liabilities by market, cash balances, non-cash balances, cash posting and interest rates.

All reports are available via the Member Reporting Web Site (Member Live site) and can be downloaded via the user interface or directly to Member back-office systems via an SFTP connection.



A "Banking Reports Reference Pack" can be requested from the LCH.Clearnet Client Training Team, this contains definitions and examples of each of the available reports.

### 3.2 **Protected Payments System (PPS)**

The Clearing House operates a direct debit system, known as the Protected Payments System (PPS), for the transfer of funds to and from Clearing Members. PPS is a recognised interbank payments system overseen by the Bank of England.

PPS is operated in both London ("London PPS") and in the United States (where it is known as "US PPS"). FCM Clearing Members should note that the PPS (both in London and in the US) is a system for facilitating payment to the Clearing House of moneys due from FCM Clearing Members to the Clearing House and vice versa. The giving of a commitment by a participating Bank through PPS to make any payment, and the receipt of that commitment by the Clearing House is not to be regarded as satisfaction of any payment due to the Clearing House.

Each FCM Clearing Member remains fully responsible for the payment to the Clearing House of all moneys due to the Clearing House as required, inter alia, by the Clearing Membership Agreement, clearing extension documentation and these General Regulations, Default Rules and Procedures. Payment is only completed when the funds have been credited for value to the relevant Clearing House bank account, and any time permitted by the relevant payment settlement system for the recall of any such payment has expired.

#### 3.2.1 **PPS**

##### Introduction

An FCM Clearing Member must open and maintain PPS accounts in GBP and USD and such other currencies in which it incurs settlements on its Client or House accounts.

In addition, FCM Clearing Members must open PPS accounts in London in USD and in all other currencies in which it incurs settlements (please refer to the following link for details of current PPS banks:

[www.lchclearnet.com/risk\\_management/ltd/pps/](http://www.lchclearnet.com/risk_management/ltd/pps/)

Any bank charges connected with the holding of any PPS bank accounts or related to any activity on that account must be paid the FCM Clearing Member holding the relevant account.

The GBP non-segregated PPS account will, inter alia, be used to process DF contributions.

Where applicable, all PPS accounts that hold FCM Clients' funds and collateral must be segregated in line with the FCM Regulations and CFTC Regulation 1.49.

##### Morning PPS Calls

FCM Clearing Members' liabilities are calculated overnight. Should the relevant liability not be covered by acceptable forms of cover held by the Clearing House (see section 3.3) any shortfall is called through London PPS with separate calls made for each currency. It is the responsibility of each FCM Clearing Member to ensure that its London PPS bank(s) meets all payment instructions received from the Clearing

House. Confirmation of payments, as notified, must be received by the Clearing House from the relevant PPS bank(s) by 09:00, or within one hour of a subsequent call, hours or earlier on the day on which the PPS Call is made. Payments will only be recognized for this purpose if the relevant PPS bank (i) has performed its concentration function (being the transfer of net funds from the PPS bank to a central account in the name of the Clearing House) (ii) has made such payments, and (iii) any time permitted by the relevant payment settlement system for the recall of any such payment has expired.

Where payments are due to an FCM Clearing Member, Payments will be recognized as soon as payment instructions in respect of that payment have been given to a PPS bank. For this purpose, a payment instruction will only be recognised to the extent that the Clearing House has taken steps to transfer to the PPS bank any such sums as may be necessary to enable that payment instruction to be performed by the PPS bank.

#### Intraday PPS Calls

The intra-day margin call by the Clearing House is for intra-day cover payments. GBP, EUR or USD can be used to cover margin intraday. Between 14.30 - 16.00 (London time) only USD will be called in London.

Normally the Clearing House will call intra-day margin through London PPS accounts. However where the Clearing House wishes to make such an intra-day call after London PPS closes (16:00 London time), such a call will be made upon the FCM Clearing Member's nominated US PPS account.

FCM Clearing Members must designate a currency (GBP, EUR or USD) that will be called by default during the hours of London PPS for each mnemonic/sub-account. Clearing Members may request a change to the default currency no later than 09.30am London time in order for the change to be undertaken the following day. FCM Clearing Member's may submit a request to change their currency at the following link:

[www.lchclearnet.com/risk\\_management/ltd/preferential\\_currency\\_for\\_intraday\\_margin\\_calls\\_form.asp](http://www.lchclearnet.com/risk_management/ltd/preferential_currency_for_intraday_margin_calls_form.asp)

The Clearing House has the ability to call US dollars in respect of an intra-day margin call up until 16:00 hours New York Time (21:00 hours London Time).

The Clearing House must receive confirmation of payment from the FCM Clearing Member's nominated PPS bank(s) within one hour of receipt of the intraday call by the relevant bank branch.

Failure of a bank to confirm a PPS call within one hour may result in the FCM Clearing Member being declared in default. Late confirmation of PPS calls are reported to the regulators of LCH.Clearnet.

#### Auto repay

FCM Clearing Members may request that they are automatically repaid any excess cash balances that remain on their accounts at the end of each day. FCM Clearing Members must contact Treasury Operations in order to have auto-repay applied to their accounts. (LCHOperations-Treasury@lchclearnet.com or tel +44 (0)20 7426 7505)

#### Value Date

Although confirmation from the banks that PPS payments will be made must be received within the deadlines set out in sections 3.2.1.4, subject to section 3.2.1.8, all currency transactions are processed by PPS with next business day value with the exception of the following currencies: CAD, EUR, GBP and USD which are processed with value for the same business day.

#### Foreign Bank Holidays

The Clearing House has made arrangements with London PPS banks to operate the PPS on all UK banking days including foreign bank holidays.

Confirmation that PPS payments will be made must be received within the deadlines set out in section 3.2.1.4. However the value date for any PPS transactions made on a day which is a bank or public holiday in the country of that currency will be for the next business day on which both the foreign currency centre and the Clearing House are open for business. This applies to GBP, CAD, EUR and USD.

Example: 20 August is a public holiday in the USA but not in the UK. 21 August is a normal banking day in the USA.

On the 20 August, the Clearing House will issue its normal USD instructions to PPS banks, and receive confirmation in response to the PPS Call, for value 21 August.

Please refer to Clearing Member Circulars for details of Clearing House opening days and currency holidays at the following link:

[www.lchclearnet.com/member\\_notices/](http://www.lchclearnet.com/member_notices/)

#### UK Bank Holidays

The Clearing House does not give value to any currency on a UK bank holiday, if the Clearing House is closed for business on that bank holiday. PPS Calls will be made on the next following business day, for the relevant currency.

However, the Clearing House may sometimes be open for business on a UK bank holiday – in such circumstances PPS Calls will be made as normal that day. Value will be given the same day providing that the relevant currency centre is open for business. It should be noted, however, that value for GBP is given on the next GBP business day.

#### Use of London and US PPS

These Procedures indicate which part of the PPS system will be used in the normal course of events for making PPS Calls. Generally London PPS will be used for Morning PPS Calls (including contributions to the Default Fund), remitting surplus cash balances to an FCM Clearing Member, and for making intra-day margin calls up to 16:00 hours London time. However Clearing Members should be aware that the Clearing House reserves the right to direct a Morning PPS Call or intra-day margin calls before 16:00 hours London time to an FCM Clearing Member's US PPS account in exceptional circumstances (an "Exceptional PPS Call"). The Clearing House will use all reasonable commercial endeavours to notify the FCM Clearing Member in advance of issuing any such Exceptional PPS Call.

#### Contingency Payment Arrangements

FCM Clearing Members must ensure that they have contingency arrangements to ensure continuity of margin payment in the event of failure of their nominated PPS

Bank. From time to time the Clearing House may require the FCM Clearing Member to provide evidence of these arrangements.

#### Recovery from insolvent PPS Banks

In the event that payment is not completed by the relevant PPS bank, due to insolvency and not a technical failure, and the affected FCM Clearing Member(s) make alternative payments, the Clearing House, should it make a recovery from the estate of the PPS bank, will credit such recovery, net of costs, to the accounts of the affected FCM Clearing Members in proportion to the amount of the original missed payment.

### 3.2.2

Each FCM Clearing Member is required to complete a standard form London and US PPS Mandate(s) (copies are available from [membershipteam@lchclearnet.com](mailto:membershipteam@lchclearnet.com)) for each bank branch at which they wish to operate an account before clearing can commence. The original of the mandate must be signed by a person with the appropriate authority within the FCM Clearing Member institution and then forwarded to the relevant bank. A copy must also be forwarded at the same time to the Clearing House Membership Department.

### 3.3 **Acceptable Forms Of Cover**

The Clearing House accepts certain types of securities and cash in the Clearing House's prescribed form against liabilities

The Clearing House may vary, at its discretion, the standard requirements and valuation procedures set out in this section, either generally or in a particular case, without giving prior written notice to FCM Clearing Members. Further, the Clearing House may vary the types of cover acceptable to it, including but not limited to cash, performance bonds or securities.

To view our acceptable collateral list, go to: [http://www.lchclearnet.com/risk\\_management/lttd/acceptable\\_collateral.asp](http://www.lchclearnet.com/risk_management/lttd/acceptable_collateral.asp).

#### 3.3.1 **Cash**

In order not to fall within the scope of deposit-taking regulations applying to banks and similar institutions, the Clearing House can accept cash from FCM Clearing Members only in relation to current or anticipated obligations.

FCM Clearing Members must give LCH.Clearnet Limited Treasury Operations no less than two (2) Business Days notice of their intention to request withdrawal of cash used as cover for margin and its replacement by the lodgement of collateral. In the event that an FCM Clearing Member seeks to withdraw such cash cover without giving such notice, the Clearing House may decline to release such cash cover until the end of the required notice period.

#### 3.3.2 **Securities**

Please refer to the following pages on our website for both prevailing haircuts and notes on collateral acceptable for margin purposes

[http://www.lchclearnet.com/risk\\_management/lttd/acceptable\\_collateral.asp](http://www.lchclearnet.com/risk_management/lttd/acceptable_collateral.asp)

### 3.3.3 **Securities Value Notification**

FCM Clearing Members may obtain details on the cover value of securities on their account by viewing the relevant reports available on the Member Reporting Website.

## 3.4 **Distribution Of Cover**

### 3.4.1 **Overview**

As different types of cover attract different utilisation fees and different contracts are assessed for VAT in different ways (see section 3.5.4), the Clearing House identifies the cover applied to liabilities in order to allow utilisation fees and VAT to be calculated correctly.

This is done by establishing a specified order for both types of liabilities and types of cover and applying cover sequentially, such that cover type 1 is applied first to liability type 1, cover type 2 to liability type 1 if there is a deficiency when cover type 1 has been exhausted and so on.

The following procedures are not in any way intended to restrict, vary, or alter the Clearing House's rights to apply cover held (including any described in LCH.Clearnet Limited reports/records as "unutilised" or "excess") to meet the FCM Clearing Member's liabilities/obligations to LCH.Clearnet Limited.

### 3.4.2 **Liability Order**

**Note:** The following provision applies solely for the purpose of calculating fees. In case of default by an FCM Clearing Member, please see section 3.4.4 below.

Liabilities will be covered in the order:

Secured debit cash balances (see section 3.2.1.10);

Variation and initial margin including offset of contingent credits.

### 3.4.3 **Cover Application**

**Note:** The following provision applies solely for the purpose of calculating fees during the overnight offsetting of Clearing Members collateral against liabilities. In case of default by an FCM Clearing Member, please see section 3.4.7 below.

Cash will be applied before to each liability.

FCM Clearing Members may choose to have cash applied before securities:

### 3.4.4 **Order of Priority on Default**

Post-default the Clearing House is entitled to realise and/or apply cover in whatever order it deems appropriate.

## 3.5 **Interest And Accommodation Charge Structure**

The Clearing House applies interest to FCM Clearing Member's cleared cash balances.

The following rates are applied:

LDR – London Deposit Rate—the rate at which the Clearing House will pay or charge interest on credit cash balances (excluding DF Contributions).

CDR – Client Deposit Rate – the rate at which the Clearing House will pay or charge interest, ~~from 22nd March 2012,~~ on credit cash balances on SwapClear Client financial accounts.

Default Fund Rate;

Rates are available from the Member Reporting Website.

The Clearing House reserves the right to alter the basis of calculating interest rates. Any alteration will be effective on the date notified.

### 3.5.1 Price Alignment Interest (PAI) Rate

To minimise the impact of daily cash variation margin payments on the pricing of interest rate swaps, the Clearing House will charge interest on cumulative variation margin received by the clearing member and pay interest on cumulative variation margin paid in by the clearing member respect of these instruments. This interest element is known as price alignment interest (“PAI”).

The calculation of PAI shall use the interest rates specified as below. The amount of PAI for each currency shall be calculated as:

The amount of NPV in such currency from the previous day's COB multiplied by:

The relevant interest rate in effect for that day; divided by

360 or in the case of AUD, CAD, GBP, HKD, JPY, NZD, PLN, SGD and ZAR, 365

In the case of the currencies marked below with an asterisk, the Clearing House, as provided in Regulation 21(b), specifies that it will not change the PAI rate without the consent of all SwapClear Clearing Members holding open contracts in such currencies.

Currency	PAI Rate
USD *	The rate used shall be the Effective Federal Funds rate, the rate published by the Board of Governors of the Federal Reserve System as such rate appears on Reuters page “FEDFUNDS1” or Telerate 120 or on any successor page(s) thereto.
EUR *	The rate used shall be the EONIA rate, the rate published by the European Banking Federation and ACI – The Financial Market Association as such rate appears on Reuters page “EONIA” or Telerate 247 or on any successor page(s) thereto.
GBP *	The rate used shall be the SONIA rate, the rate published by the Wholesale Markets Broker Association as such rate appears on Reuters page “SONIA” or on any successor page(s) thereto.

Currency	PAI Rate
JPY *	The rate used shall be the Mutan call rate, the rate published by the Bank of Japan as such rate appears on Reuters page "TONAR" or on any successor page(s) thereto.
CHF *	The rate used shall be the TOIS rate, the T/N interbank fixing as such rate appears on Reuters page "CHFTOIS" or Telerate 3450 or any successor page(s) thereto.
AUD	The rate used shall be the "AONIA" rate, the rate published by the Reserve Bank of Australia – as such rate appears on Reuters page "RBA30" or any successor page(s) thereto.
CAD	The rate used shall be the "CORRA" rate, the rate published by the Bank of Canada website – as such rate appears on Reuters page "CORRA" or any successor page(s) thereto.
DKK	The rate used shall be the "DKKOIS" rate, the rate published by the Danish Central Bank – as such rate appears on Reuters page "DKNA14" or any successor page(s) thereto.
HKD	The rate used shall be the "HONIX" rate, the rate published by the Hong Kong Brokers Association – as such rate appears on Reuters page "HONIX" or any successor page(s) thereto.
NZD	The rate used shall be the "NZIONA" rate, the rate published by the Reserve bank of New Zealand – as such rate appears on Reuters page "RBNZ02" or any successor page(s) thereto.
PLN	The rate used shall be the "POLONIA" rate, the rate published by the National Bank of Poland – as such rate appears on Reuters page "NBPS" or any successor page(s) thereto.
SEK	The rate used shall be the "SIOR" rate, the rate published by the OMX Exchange – as such rate appears on Reuters page "SIOR" or any successor page(s) thereto.
ZAR	The rate used shall be the SFX ZAR OND rate, the rate published by SAFEX JIBAR – as such rate appears on Reuters page "SFXROD" or any successor page(s) thereto.
CZK	The rate used shall be the "CZEONIA" rate, the rate published by the Czech National Bank – as such rate appears on Reuters page "CZEONIA" or any successor page(s) thereto.
HUF	The rate used shall be the "HUFONIA" rate, the rate published by the National Bank of Hungary – as such rate appears on Reuters page "HUFONIA" or any successor page(s) thereto.

Currency	PAI Rate
SGD	The rate used shall be the "SONAR" rate, the rate published by the Association of Banks in Singapore – as such rate appears on Reuters page "ABSIRFIX01" or any successor page(s) thereto.
NOK	The rate used shall be the NOK sight deposit rate, the rate published by Norges Bank – as such rate appears on Reuters page "NOINTR=ECI" or any successor page(s) thereto

For currency NOK, PAI is calculated using an appropriate overnight deposit rate for the currency

### 3.5.2 Interest/Accommodation Structure

Application of Cover	Type of Cover					
	Credit Variation Margin	Performance Bonds	Securities	Cash	Foreign Cash	Forward Cash
Initial & Variation margin after offset	No charge or payment	Charge 0.10%	Charge 0.10%	Pay relevant rate	pay relevant rate of cover currency	No charge or payment
Excess or Surplus	No charge or payment	No charge or payment	No charge or payment	Pay relevant rate	Pay relevant rate	No charge or payment

**Note:**

- "Foreign Cash" means cash in a currency other than that of the liability.
- "Forward Cash" means cash which has been credited to an account for later value, e.g. an amount called via PPS for next-day value.

### 3.5.3 Payment of Interest and Charges

Interest and accommodation charges (other than PAI) are calculated on a daily basis and the resultant monthly total is posted to FCM Clearing Members' cover accounts at the beginning of the following calendar month. A VAT invoice is issued monthly detailing the interest and accommodation charges applicable for the previous month. Separate invoices are issued for each currency.

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

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

The invoice provides detail in respect of:

Interest due to be credited or debited; and



Accommodation charges.

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

**3.6 Fees**

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

An invoice or credit note is produced detailing the fees to be posted to the house cover account.

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

Monthly postings are processed via the cover account at the beginning of the following month, on the third working day. Other postings, such as various Market Maker Scheme rebates, are processed by the Clearing House following receipt of data from the relevant exchange.

**3.7 Participation Monies**

**3.7.1 DF Contributions**

DF contributions will be called via PPS normally on the fourth working day ("Reset Day") of each month quarter. Contribution requirements will be notified to FCM Clearing Members at least two working days prior to each Reset Day on the Member Reporting Website. Excess DF amounts due to FCM Clearing Members following the adjustment to DF accounts and the crediting of interest will be repaid to FCM Clearing Members' PPS accounts on the Reset Days. Notwithstanding anything else herein, if the rate of interest payable on DF contributions is negative, interest shall be payable by FCM Clearing Members to the Clearing House.

Exhibit A-5  
Clearing House Procedures Sections 2E and 2G

**SECTION 2E****2E.1.14.6 Financial Accounts**

Position accounts have financial accounts associated with them. These are, inter alia, used to record cash balances, securities/documentary credits and non-realised margin.

Where appropriate, GCMs' financial accounts are identified by a single character code: "C" for segregated client business; "H" for house and non-segregated business.

Position accounts will map to either a GCM's "C" account or "H" account, as specified by that Member.

For the Precious Metals Division GCMs' House accounts will map to "H" financial account.

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

	<u>Code</u>
<u>Buffer account (House), used for holding additional cash in relation to House business</u>	<u>B</u>
<u>Buffer account (Client), used for holding additional cash in relation to Client business</u>	<u>E</u>

**SECTION 2G****2G.7.2.2 Other Financial Accounts**

Subject to approval by the Clearing House, further financial accounts, used only to record financial balances, may be opened as follows:

	<u>Code</u>
<u>Buffer account (House), used for holding additional cash in relation to House business</u>	<u>B</u>
<u>Buffer account (Client), used for holding additional cash in relation to Client business</u> <del>Buffer accounts, used for holding additional deposits</del>	<u>EB</u>
Resources account, used for holding supplementary financial resources	Q
Buyers' and Sellers' security account (segregated business) used for certain delivery contracts	X

Exhibit B  
Certification



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
AMENDED RULES SELF CERTIFICATION

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LCH.Clearnet Limited ("LCH") hereby certifies to the Commodity Futures Trading Commission ("CFTC"), pursuant to the procedures set forth in the Commission Regulations 40.6, that the following:

- Amendments to the rules in LCH.Clearnet's General Regulations, FCM Regulations, Clearing House Procedures and FCM Procedures, in relation to accounts and payments, comply with the Commodity Exchange Act, as amended, and the regulations promulgated thereunder.

Signed as of August 17, 2012

By:  \_\_\_\_\_

Name: Jay Iyer

Title: Chief Compliance Officer

LCH.Clearnet Limited