



**VIA EMAIL TO: SUBMISSIONS@CFTC.GOV**

November 7, 2013

Ms. Melissa Jurgens  
Commodity Futures Trading Commission  
1155 21<sup>st</sup> Street NW  
Three Lafayette Centre  
Washington DC 20581

Dear Ms. Jurgens:

Pursuant to CFTC regulation §40.6(a)(6), LCH.Clearnet LLC ("LCH.Clearnet"), a derivatives clearing organization ("DCO") registered with the Commodity Futures Trading Commission (the "CFTC"), is submitting this emergency self-certification for changes to its rulebook to provide for a post-registration margin determination for trades that are below block size. The rulebook changes were implemented and effective on November 6, 2013.

Please find attached as appendices the Submission Cover Sheet and the relevant changes to the LCH.Clearnet rulebook.

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

LCH.Clearnet is filing rule changes providing that margin for swaps that are below block size will be determined after registration of such swaps. Block size is determined by reference to CFTC rules. Trades of block size or larger will only be accepted for clearing after a determination that each participant to the trade has posted sufficient cover.

To implement this approach, LCH.Clearnet is making the following amendments to the rulebook.

1. **Block IRS Trade.** The rulebook now includes a definition of this term determined by reference to the block size for the interest rate asset class in Part 43 of the CFTC's regulations.
2. **Non-block Registration.** Rules and procedures that required the furnishing of margin as a pre-condition to the registration of all trades have been amended to remove this condition for swaps that are smaller than block size.
3. **Liability.** Rule amendments make clear that if a block trade is registered with a clearing member even with the margin pre-condition unsatisfied, that member will be bound by it per the rulebook, and if a non-block trade is rejected, the clearing house will work with the clearing member to remedy this but shall have no liability in this regard.

This emergency self-certification is submitted in accordance with CFTC regulation 40.6(a)(6) and 40.1(h)(5), and in response to the Division of Clearing and Risk and Division of Market Oversight's recent joint no-action letter stating that any trade executed on a swap execution facility ("SEF") that is rejected



by a DCO because a customer breaches its credit limit at a clearing member or a clearing member breaches its credit limit at a DCO is void *ab initio*.<sup>1</sup> On November 1, nearly all SEFs submitted emergency rules changes to conform their rules to this portion of the no-action letter. LCH.Clearnet believes that an emergency submission is necessary to facilitate the market's transition to SEF trading and to minimize market disruption occasioned by a concern that a SEF trade could be voided because of a DCO rejection for insufficient credit. This emergency submission accomplishes that goal by providing certainty to clearing members and their customers that trades below block size will not be rejected for insufficient credit.

## **Part II: Description of Rule Changes**

The implementation of these changes requires amendments to Definitions and Rules 116 and 401 of the Regulations and 2A.3.2, 2A.3.5, 2A.3.7, 2A.6.1 of the Clearing House Procedures. The relevant pages of the rulebook are attached at Appendix II.

## **Part III: Core Principle Compliance**

The rule changes described above relate primarily to LCH.Clearnet's compliance with Core Principle D (Risk Management), and are designed to ensure compliance with high risk management standards while providing flexibility in the timing of trade registration for small trades. LCH.Clearnet will continue to comply with all Core Principles following the introduction of these changes and has concluded that its compliance with the Core Principles would not be adversely affected by these changes.

## **Part IV: Public Information**

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/lc/default.asp](http://www.lchclearnet.com/rules_and_regulations/lc/default.asp).

## **Part V: Opposing Views**

There were no opposing views expressed to LCH.Clearnet by governing board or committee members, members of LCH.Clearnet or market participants that were not incorporated into the rule. If any such views are expressed during the CFTC review period, those views will be shared with Commission staff.

## **Certification**

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

Should you have any questions please contact me at [susan.milligan@lchclearnet.com](mailto:susan.milligan@lchclearnet.com).

Yours sincerely,

A handwritten signature in black ink that reads 'Susan Milligan' followed by a horizontal line.

Susan Milligan  
Interim Chief Compliance Officer, LCH.Clearnet LLC  
US Contact: +1 212.513.8264

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<sup>1</sup> See CFTC Letter No. 13-66.



**Appendix I**  
**Submission Cover Sheet**



**Appendix II**  
**LCH.Clearnet LLC Rulebook and Draft Circular**

## Definitions and Interpretation

### I. Definitions:

In the LCH.Clearnet LLC Rulebook (referred to herein as the “**Rulebook**”) the following words and expressions shall have the following meanings, except as the context may otherwise require:

“**Account Manager Executing Party**” means an Executing Party that is eligible under the CEA and the CFTC Regulations to execute Unallocated SwapClear Transactions.

“**Affiliate**” means, with respect to a Clearing Member, any entity that controls, is controlled by or is under common control with such Clearing Member, and the account of which, when carried by the Clearing Member, would be considered a proprietary account pursuant to CFTC Regulation 1.3(y) (or any such successor or replacement regulation).

“**AIP**” has the meaning assigned to it in Regulation 204(b)(iv)(A).

“**Allocation Notice**” has the meaning assigned to it in Regulation 401(m)(iii).

“**Amendment**” has meaning assigned to it in Regulation 321(a).

“**Approved Trade Source System**” means a system or facility, such as an exchange, a clearing house, a swap execution facility, a designated contract market or other similar venue, approved by the Clearing House for executing Transactions and/or presenting such Transactions to the Clearing House. For the avoidance of doubt, the “SwapClear API” is not an Approved Trade Source System.

“**Auction**” means the process of bidding by Clearing Members for an Auction Portfolio prescribed by the Clearing House following consultation with the DMG from time to time in accordance with Regulation 204(b)(iii).

“**Auction Currency**” means in relation to an Auction, the currency of an Auction Portfolio which is the subject of that Auction.

“**Auction Losses**” has the meaning assigned to it in Regulation 204(b)(v)(B).

“**Auction Portfolio**” means (i) a Portfolio; or (ii) a group of Contracts resulting from the splitting of a Portfolio pursuant to Regulation 204(b) including any connected hedging trades concluded by the Clearing House through Risk Neutralization.

“**Automatic Early Termination Event**” means any event set forth in Regulation 203(h) to Regulation 203(o) which satisfies certain criteria (including but not limited to the jurisdiction of incorporation of a Clearing Member) that may from time to time be published by the Clearing House in a circular to Clearing Members.

“**Bankruptcy Code**” means the U.S. Bankruptcy Code.

“**Block IRS Trade**” means a trade the notional amount of which is at or above the minimum block size established by the CFTC pursuant to CFTC Regulation 43.6 for the interest rate asset class and in effect as of the date of submission of such trade to the Clearing House for registration.

**Regulation 116      Exclusion of Liability**

- (A) NEITHER THE CLEARING HOUSE NOR ANY OF ITS AFFILIATES (INCLUDING THEIR RESPECTIVE OFFICERS, EMPLOYEES, AGENTS AND REPRESENTATIVES) SHALL BE LIABLE TO A CLEARING MEMBER OR ANY OTHER PERSON IN RESPECT OF ANY DISPUTE ARISING FROM OR IN RELATION TO ANY CONTRACT, INCLUDING BUT NOT LIMITED TO, ANY DISPUTE AS TO THE VALIDITY OR OTHERWISE OF SUCH CONTRACT, THE TERMS OF SUCH CONTRACT OR WHETHER ANY ALLEGED AGREEMENT OR ARRANGEMENT CONSTITUTES A CONTRACT.
  
- (B) THE CLEARING HOUSE SHALL NOT BE LIABLE FOR ANY OBLIGATIONS OF OR TO A PERSON WHO IS NOT A CLEARING MEMBER (INCLUDING A CLIENT OR AFFILIATE OF A CLEARING MEMBER), NOR ANY OBLIGATIONS OF A CLEARING MEMBER TO ANOTHER CLEARING MEMBER WHO IS ACTING AS A BROKER FOR THE FIRST CLEARING MEMBER, NOR SHALL THE CLEARING HOUSE BECOME LIABLE TO MAKE DELIVERIES OR ACCEPT DELIVERIES FROM A CLIENT OR AFFILIATES OF AN FCM CLEARING MEMBER.
  
- (C) WITHOUT PREJUDICE TO THE PROVISIONS OF REGULATION 101 AND REGULATION 116(D), NEITHER THE CLEARING HOUSE NOR ANY OF ITS AFFILIATES (INCLUDING THEIR RESPECTIVE OFFICERS, EMPLOYEES, AGENTS AND REPRESENTATIVES) SHALL BE LIABLE WHATSOEVER TO ANY CLEARING MEMBER, OR TO ANY OTHER PERSON IN CONTRACT, TORT (INCLUDING NEGLIGENCE), TRUST, AS A FIDUCIARY OR UNDER ANY OTHER CAUSE OF ACTION IN RESPECT OF ANY DAMAGE, LOSS, COST OR EXPENSE OF ANY NATURE WHATSOEVER SUFFERED OR INCURRED AS A RESULT OF: ANY SUSPENSION OF CLEARING SERVICES, WHETHER FOR A TEMPORARY PERIOD OR OTHERWISE, A STEP TAKEN BY THE CLEARING HOUSE UNDER REGULATIONS 109 OR 401(G) OR ANY FAILURE OR MALFUNCTION OF ANY SYSTEMS, COMMUNICATION LINES OR FACILITIES, SOFTWARE OR TECHNOLOGY SUPPLIED, OPERATED OR USED BY THE CLEARING HOUSE OR THE RELEVANT APPROVED AGENT; THE OCCURRENCE OF ANY EVENT WHICH IS OUTSIDE THE CONTROL OF THE CLEARING HOUSE; OR ANY EXERCISE BY THE CLEARING HOUSE OF ITS DISCRETION UNDER THE REGULATIONS, OR ANY DECISION BY THE CLEARING HOUSE NOT TO EXERCISE ANY SUCH DISCRETION.
  
- (D) WITHOUT PREJUDICE TO REGULATION 116(B) AND REGULATION 116(D), UNLESS OTHERWISE EXPRESSLY PROVIDED IN THE REGULATIONS OR IN ANY OTHER AGREEMENT TO WHICH THE CLEARING HOUSE IS PARTY, NEITHER THE CLEARING HOUSE NOR ANY OF ITS AFFILIATES (INCLUDING THEIR RESPECTIVE OFFICERS, EMPLOYEES, AGENTS AND REPRESENTATIVES) SHALL BE LIABLE UNDER ANY CIRCUMSTANCES (INCLUDING AS A RESULT OF ANY NEGLIGENCE BY THE CLEARING HOUSE, ANY OF ITS AFFILIATES OR ANY OF THEIR RESPECTIVE OFFICERS, EMPLOYEES, AGENTS OR REPRESENTATIVES) TO ANY CLEARING MEMBER OR ANY OTHER EXECUTING PARTY FOR ANY INDIRECT OR CONSEQUENTIAL LOSS OR DAMAGE, OR LOSS OF ANTICIPATED PROFIT (WHETHER DIRECT OR INDIRECT) OR LOSS OF

## CHAPTER 4 – SWAPCLEAR REGULATIONS

### **Regulation 401      SwapClear Transactions; Registration of SwapClear Contracts; Novation and Post-Novation Compression**

- (a) A SwapClear Transaction may be presented to the Clearing House for registration as two SwapClear Contracts (in accordance with the other provisions of the Rulebook).
- (b) Where a SwapClear Transaction is presented to the Clearing House, the Clearing House shall, where applicable in accordance with paragraph (c) below and the Procedures, request the consent of each applicable Clearing Member with whom a SwapClear Contract shall be registered as a result thereof. Upon each relevant Clearing Member providing its consent, such SwapClear Transaction shall be deemed to have been “submitted” (as such term is defined and used in the Procedures) to the Clearing House for registration. Any consent shall be provided in accordance with the Procedures.
- (c) A Clearing Member which has been nominated to clear a SwapClear Contract arising from the registration of a SwapClear Transaction on behalf of a third party Executing Party, other than a SwapClear Dealer, will be notified by the Clearing House of the relevant SwapClear Transaction and shall choose whether to grant or refuse consent to the registration of such SwapClear Transaction and the SwapClear Contracts resulting from such SwapClear Transaction. Unless provided otherwise in the Procedures, in all circumstances other than those set out in the foregoing sentence, the consent of a Clearing Member to the registration of the relevant SwapClear Transaction will occur automatically and without the need for any further action by such Clearing Member.
- (d) The Clearing House shall register or reject the registration of two SwapClear Contracts in respect of a SwapClear Transaction presented for registration subject to, and in accordance with, these Regulations and the Procedures as quickly as would be technologically practicable if fully automated systems were used (the standard required in Part 39 of the CFTC Regulations); provided, that:
  - (i) both sides of the relevant SwapClear Transaction have been properly presented and submitted for clearing by (or on behalf of the) the Executing Parties;
  - (ii) the relevant SwapClear Transaction meets the eligibility criteria prescribed in the Rulebook at the time the particulars of the SwapClear Transaction are presented to the Clearing House and continues to meet such criteria at the Registration Time;
  - (iii) such SwapClear Contract is consented to by the relevant Clearing Member (to the extent such consent is required) in accordance with paragraph (c) above and Section 2A.3.2 of the Procedures;
  - (iv) the applicable Clearing Member has paid or transferred, upon request of the Clearing House and in accordance with Regulation 106 and such other applicable provisions of the Rulebook, all Required Margin in respect of such SwapClear Contract prior to registration (taking into account any available

SwapClear Tolerance, if any); provided that it such Required Margin need not be furnished prior to registration as a condition to the registration of such SwapClear Contract unless such SwapClear Contract results from a SwapClear Transaction that is a Block IRS Trade; and

- (v) all the conditions applicable (under the terms of the Rulebook) for the registration of the other SwapClear Contract deriving from the relevant SwapClear Transaction have been satisfied.
- (e) From the time of registration by the Clearing House of two SwapClear Contracts (the “**Registration Time**”) in respect of a SwapClear Transaction in accordance with the Procedures:
  - (i) where the Executing Parties in respect of such SwapClear Transaction are Clearing Member(s), those Clearing Members shall be released and discharged from all rights and obligations thereunder which fall due for performance on or after the Registration Time and, in all other cases, the rights and obligations of the Executing Parties to the SwapClear Transaction shall be governed by the applicable terms or agreements among such relevant parties (including any applicable rules of an Approved Trade Source System); and
  - (ii) each relevant Clearing Member will become bound by the obligations under the Rulebook in respect of the applicable SwapClear Contract with the Clearing House automatically and without any further action on its part, on terms that, without limitation, incorporate all applicable terms of the Rulebook and Schedule 4A to these Regulations (including the SwapClear Contract Terms applicable to the relevant SwapClear Contract).
- (f) The Economic Terms shall be such that (A) a Clearing Member paying (or clearing on behalf of a person paying) Rate X and receiving (or clearing on behalf of a person receiving) Rate Y under a SwapClear Transaction shall have such rights against, and owe such obligations to, the Clearing House under the corresponding SwapClear Contract registered by it in respect of such SwapClear Transaction as further provided for in the final paragraph of this paragraph (f) and (B) shall be such that a SwapClear Clearing Member paying (or clearing on behalf of a person paying) Rate Y and receiving (or clearing on behalf of a person receiving) Rate X under a SwapClear Transaction shall have such rights against, and owe such obligations to, the Clearing House under the corresponding SwapClear Contract registered by it in respect of such SwapClear Transaction as further provided for in the final paragraph of this paragraph (f).

In this paragraph (f), a reference to the “rights” and “obligations” is a reference to rights and obligations, falling due for exercise or performance after the Registration Time, and which are the same in nature and character as the rights or obligations set out in the Economic Terms of the corresponding SwapClear Transaction (it being assumed, for this purpose, that such SwapClear Transaction was a legal, valid, binding and enforceable obligation of the parties thereto and that the Economic Terms thereof were as presented to the Clearing House for registration), notwithstanding the change in the person entitled to them or obliged to perform them, and subject to any change thereto as a result of the operation of the Standard Terms. In this sub-



paragraph (f), a reference to “paying” means either paying under a SwapClear Transaction that is an existing swap transaction or “agreeing to pay” under a SwapClear Transaction that is contingent on clearing.

- (g) If at any time after registration of a SwapClear Contract, the Clearing House determines that the corresponding SwapClear Transaction of which details were presented for registration did not, at the Registration Time, meet the SwapClear Product Eligibility Criteria in existence at the Registration Time (an “**Ineligible SwapClear Transaction**”), the Clearing House shall, as soon as practicable thereafter, set aside both SwapClear Contracts arising from such Ineligible SwapClear Transaction. Upon a SwapClear Contract (an “**Ineligible SwapClear Contract**”) being set aside under this paragraph (g), the Clearing House will notify the SwapClear Clearing Member party to such Ineligible SwapClear Contract via the Approved Trade Source System through which details of the relevant Ineligible SwapClear Transaction were originally presented to the Clearing House that such Ineligible SwapClear Contract has been set aside. The following shall take effect immediately upon the delivery of such notice: (i) such Ineligible SwapClear Contract shall be deemed to be terminated at the time of the notification and shall thereafter have no force or effect; (ii) all Variation Margin (if any) paid by the Clearing House or by a Clearing Member in respect of such Ineligible SwapClear Contract shall be retained by the receiving party upon termination; (iii) where there is a difference between the value of the Ineligible SwapClear Contract as at the last margin run and the value (as determined by the Clearing House) of that Ineligible SwapClear Contract at the time when the Ineligible SwapClear Contract is set aside, a payment shall be made between the SwapClear Clearing Members to the original Ineligible SwapClear Transaction equal to such difference; and (iv) these payments shall be deemed to satisfy in full the relevant party’s obligations under the Ineligible SwapClear Contract and shall be retained by the receiving party upon termination as a termination payment.
- (h) Notwithstanding anything to the contrary in this Rulebook, the Clearing House may decline to register a SwapClear Transaction as a SwapClear Contract where it considers such action advisable for its own protection or the protection of the relevant market; provided, that the Clearing House ~~shall~~may (subject to the provisions of the Rulebook) register any SwapClear Contract which reduces the risk exposure of the Clearing House and the applicable SwapClear Clearing Member, as determined in the discretion of the Clearing House. The Clearing House may, subject to paragraph (d) above and without assigning any reason, make the registration of any SwapClear Transaction subject to any conditions stipulated by the Clearing House including the furnishing of additional cover by any SwapClear Clearing Member in whose name any such SwapClear Transaction is to be registered.
- (i) Any SwapClear Transaction of which details have been presented for registration and which are not so registered will be governed by the applicable terms or agreements among such relevant parties (including any applicable rules of an Approved Trade Source System), and the Clearing House shall have no obligations or liability in relation thereto.
- (j) If a SwapClear Transaction is revoked, avoided or otherwise declared invalid for any reason after particulars of it have been accepted by the Clearing House for registration, such revocation, avoidance or invalidity shall not affect any SwapClear

US Service, will be available online for inspection and for file download from the clearing member reporting system (see Section 2A.1.3).

## 2A.3 **Registration**

### 2A.3.1 **Executing Parties and Presentation for Clearing**

A SwapClear Transaction may be entered into by and presented for clearing by, or on behalf of, any Executing Party, including Clearing Members (or a branch office of a Clearing Member), SwapClear Dealers, Affiliates and Clients.

The Clearing House receives details of a new eligible SwapClear Transaction using agreed format messages via an Approved Trade Source System. The Approved Trade Source System will send details of a SwapClear Transaction to the Clearing House once it has been bi-laterally agreed by two Executing Parties and will confirm which Clearing Member(s) has been elected to register the SwapClear Transaction. For the avoidance of doubt, an Executing Party may appoint a third party to present details of a SwapClear Transaction to the Clearing House on its behalf.

### 2A.3.2 **Clearing House Notification**

In the case of a Clearing Member which has been nominated to register a SwapClear Transaction on behalf of a third party Executing Party other than a SwapClear Dealer, the Clearing House will provide notification to such Clearing Member of the relevant SwapClear Transaction and the fact that it has been so nominated, via member reports, the SwapClear API or otherwise (the “**Notification**”). Where a SwapClear Clearing Member is nominated to clear both SwapClear Contracts arising from the registration of a SwapClear Transaction, such SwapClear Clearing Member will receive two separate Notifications from the Clearing House in relation to such SwapClear Transaction.

Following receipt of a Notification, a Clearing Member may choose to accept or refuse consent to register the SwapClear Transaction. It is a condition for registration of a SwapClear Transaction that a Clearing Member grants a separate consent in respect of each Notification received by it in relation to the registration of the relevant SwapClear Transaction. The Clearing House has an automated system which it operates on each business day (currently at or around 15:00 hours) for the purposes of rejecting SwapClear Transactions which have been presented for clearing but in respect of which any consent to a Notification (each a “**Necessary Consent**”) has not been notified to the Clearing House prior to the LCH Cut-off Time. The “**LCH Cut-off Time**” in respect of a SwapClear Transaction will be the time on the Business Day following the day when the relevant SwapClear Transaction was presented for clearing at which the reject system is operated by the Clearing House and the relevant SwapClear Transaction is itself rejected by such system. If a Clearing Member has not notified the Clearing House of a Necessary Consent by the LCH Cut-off Time, it will be deemed to have rejected the relevant SwapClear Transaction. Any Necessary Consent of a SwapClear Transaction notified by a Clearing Member to the Clearing House prior to the LCH Cut-off Time is irrevocable. Any Necessary Consent notified by a Clearing Member to the Clearing House after the LCH Cut-off Time shall be invalid.

In circumstances where the registration of a SwapClear Transaction is conditional upon one or more Necessary Consent(s) being notified to the applicable Clearing Member(s), the relevant SwapClear Transaction shall be deemed to have been “submitted” to the Clearing House by each such Clearing Member at the time when it notifies the Clearing House of its Necessary Consent. In all other circumstances, a SwapClear Transaction shall be “submitted” to the Clearing House by the applicable Clearing Member upon being presented to the Clearing House for clearing by such Clearing Member (or its branch) or by a SwapClear Dealer (acting in such capacity with respect to the relevant SwapClear Transaction) approved to clear SwapClear Transactions through the relevant Clearing Member.

In accordance with Section 2A.3.4 of these Procedures, it is a condition for registration of a SwapClear Contract that the applicable Clearing Member has complied with all requirements to furnish sufficient Margin (taking into account SwapClear Tolerance, if any) to the Clearing House as of the time of “submission” or “deemed submission” of the SwapClear Transaction to which the SwapClear Contract relates, except that such Margin shall be required to be furnished prior to registration as a condition thereto only if such SwapClear Contract results from a SwapClear Transaction that is a Block IRS Trade. For the avoidance of doubt, in respect of the registration of a SwapClear Transaction that is a Block IRS Trade, both Clearing Members must have complied with all requirements to furnish sufficient Margin (taking into account SwapClear Tolerance, if any) at the time when both SwapClear Contracts relating to the relevant SwapClear Transaction have been submitted or deemed to be submitted (as applicable).

### 2A.3.3 Trade Registration Facilitation: SwapClear Tolerance and Minimum Excess Requirement (“MER”)

In order to facilitate the registration of new SwapClear Transactions by Clearing Members, the Clearing House may require the furnishing of additional Margin from those Clearing Members participating in the MER Arrangements (as defined below) at the relevant time and may offer SwapClear Tolerance on a daily basis, as further described below.

The Clearing House will set MER requirements (where applicable) and SwapClear Tolerance Limits (as defined below) based on a number of factors, including a Clearing Member’s credit rating and risk profile, an analysis of the incremental risk registered by a Clearing Member during an historic look-back period and, in the case of the overall value of the SwapClear Tolerance which may be made available to a Clearing Member, whether the Clearing Member is a participant in the MER Arrangements at the relevant time. However, the Clearing House sets MER requirements and SwapClear Tolerance Limits in its sole discretion, and may modify its methodologies at any time or may vary it across different Clearing Members.

#### ***SwapClear Tolerance:***

If a Clearing Member has not furnished sufficient Margin to enable the registration of a SwapClear Contract, then the Clearing House may provide such Clearing Member with temporary “tolerance” in the form of Initial Margin forbearance (“**SwapClear Tolerance**”) to enable such registration. A Clearing Member may utilize SwapClear Tolerance in between margin runs on a one-to-one basis to the

CLEARING HOUSE MAKES NO WARRANTY (AND WILL ACCEPT NO LIABILITY) AS TO THE EFFECTIVENESS, EFFICIENCY, PERFORMANCE OR ANY OTHER ASPECT OF THE SERVICES PROVIDED BY ANY APPROVED TRADE SOURCE SYSTEM OR THE TIMELINESS OR OTHERWISE OF THE DELIVERY OF ANY SWAPCLEAR TRANSACTION DETAILS BY THAT APPROVED TRADE SOURCE SYSTEM TO THE CLEARING HOUSE. SUCH MATTERS FORM PART OF THE RELATIONSHIP BETWEEN THE CLEARING MEMBERS AND THAT APPROVED TRADE SOURCE SYSTEM.

The Clearing House will process any SwapClear Transaction reported to it by an Approved Trade Source System on an “as is” basis and, subject to the Regulations and these Procedures, will register any such SwapClear Transaction on the basis of the data provided to it by the Approved Trade Source System and approved by the relevant Clearing Member. The Clearing House has no obligation to verify that the details received properly reflect the trade entered into by the relevant Executing Parties.

THE CLEARING HOUSE ACCEPTS NO LIABILITY FOR ANY ERROR WITHIN OR CORRUPTION OF ANY DATA SENT BY AN APPROVED TRADE SOURCE SYSTEM TO THE CLEARING HOUSE OR TO A CLEARING MEMBER OR ANY DELAY IN OR FAILURE OF THE TRANSMISSION OF SUCH DATA TO THE CLEARING HOUSE. IN THE EVENT THAT THE CLEARING HOUSE REGISTERS ANY SWAPCLEAR CONTRACT ON THE BASIS OF INCORRECT OR CORRUPTED DATA SENT TO IT BY AN APPROVED TRADE SOURCE SYSTEM AND ACCEPTED (WHETHER AUTOMATICALLY OR MANUALLY, AS APPLICABLE) BY A CLEARING MEMBER, THE CLEARING MEMBER CONCERNED SHALL BE BOUND BY THE TERMS OF SUCH SWAPCLEAR CONTRACT. THE CLEARING HOUSE SHALL USE ITS REASONABLE BEST EFFORTS TO ASSIST THE RELEVANT CLEARING MEMBER(S) IN RE-REGISTERING THE TRADE ON THE CORRECT BASIS BUT THE CLEARING HOUSE SHALL NOT BE LIABLE TO A CLEARING MEMBER OR TO ANY OTHER PARTY WITH REGARD TO THE REGISTRATION (OR LACK OF REGISTRATION OR RE-REGISTRATION) OF ANY SUCH SWAPCLEAR CONTRACT.

Clearing Members shall ensure that Necessary Consents are provided by appropriately authorized personnel. Apart from in respect of Necessary Consents, the Clearing House is not able to, and will not, verify the authorization of the source of any details of any transaction reported to it for registration by any Approved Trade Source System. THE CLEARING HOUSE SHALL HAVE NO LIABILITY IN THE EVENT THAT ANY CLEARING MEMBER SUFFERS ANY LOSS THROUGH THE UNAUTHORIZED GRANTING OF A NECESSARY CONSENT.

#### 2A.3.5 Registration of New Trades and Backloaded Trades

##### *New Trades:*

As a precondition of registering a SwapClear Contract resulting from a SwapClear Transaction that is a Block IRS Trade, the Clearing House may require the Clearing

Member in whose name such SwapClear Contract is to be registered to provide no later than the Clearing House's receipt of the relevant Acceptance (and thereafter maintain) sufficient Margin in respect of such SwapClear Contract. In determining whether sufficient Margin for registration is available, the Clearing House will take into account any available Buffer, MER and SwapClear Tolerance. Available Buffer or MER will always be applied prior to taking into account any available SwapClear Tolerance. In respect of a SwapClear Contract resulting from a SwapClear Transaction that is not a Block IRS Trade, the Clearing Member in whose name such SwapClear Contract is registered shall furnish the Clearing House with sufficient Margin in respect of such SwapClear Contract at such time after the registration of such SwapClear Contract as the Clearing House shall require.

Notwithstanding the foregoing (i) if the Clearing House registers a Block IRS Trade where one or both of the relevant Clearing Members has not furnished sufficient Margin prior to registration, the Clearing Members shall be bound by the terms of the SwapClear Contract relating thereto arising under Regulation 401 (and in particular by paragraph (e) thereof) and any other applicable provision of the Rulebook; and (ii) if the Clearing House rejects a SwapClear Transaction that is not a Block IRS Trade for insufficient Margin, the Clearing House shall use its reasonable endeavors to assist the relevant Clearing Members in re-registering the SwapClear Transaction on the correct basis but the Clearing House shall not be liable to any Clearing Member or anyone else with regard to the registration (or lack of registration or re-registration) of any such SwapClear Transaction.

Upon a SwapClear Transaction being submitted to the Clearing House for registration and the conditions to registration specified in Regulation 401 having been satisfied in respect of the related SwapClear Contracts, the SwapClear clearing system will respond, after processing, with a message confirming the registration. The registration notification message will be sent using the clearing member reporting system (including by way of the originating Approved Trade Source System). The definitive report of a registered SwapClear Contract will be shown within the clearing member reporting system (see Section 2C.1.3) on the SwapClear clearing member reporting account.

#### ***Backloaded Trades:***

A SwapClear Transaction that has a Trade Date of greater than ten calendar days prior to the date of submission is considered a backloaded trade by the Clearing House (a "**backloaded trade**"). Due to the nature of backloaded trades, Clearing Members should note that a relatively large amount of Margin is required in order to register such trades. The Clearing House provides the facility for Clearing Members to load such eligible existing SwapClear Transactions through an Approved Trade Source System. Where the Clearing House approves additional Approved Trade Source Systems for these purposes, it will notify Clearing Members via a member circular. Backloading requires bilateral agreement between the relevant Executing Parties and the granting of acceptance by the Clearing Member(s) of the full particulars required by the Clearing House for each such SwapClear Transaction. Following acceptance, the backloaded trade shall be deemed to have been submitted by the Clearing Member(s) for registration by the Clearing House.

It is a precondition for registration of any backloaded trades that sufficient Margin be furnished to the Clearing House. In determining whether sufficient Margin for registration is available, the Clearing House will take into account any available Buffer, MER and SwapClear Tolerance. Available Buffer or MER will always be applied prior to taking into account any available SwapClear Tolerance.

#### 2A.3.6 Notification

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

#### 2A.3.7 Rejected Trades

Trades submitted for registration that do not meet the product or other eligibility criteria prescribed from time to time by the Clearing House or which contain invalid or incomplete message data, or with respect to which the Clearing House has not received sufficient Margin (taking into account available SwapClear Tolerance, if any), will be rejected, except that such Margin shall be required to be furnished prior to registration as a condition to the registration of such trade only if such trade is a Block IRS Trade. If, at any time, the Clearing House does not register a trade presented for registration it will send to the originating Approved Trade Source System notification of the rejection.

### 2A.4 Position Accounts

#### 2A.4.1 Accounts

For identification purposes, each Clearing Member is assigned a unique three-character mnemonic with respect to its accounts relating to SwapClear Contracts. Only FCM Clearing Members will have segregated accounts for Client Business (Omnibus Client Swaps Accounts with LCH). A Clearing Member's position and financial information are further identified by a single character code: C for Client Business (applicable only to FCM Clearing Members); and H for House Business.

#### 2A.4.2 Position-Keeping Accounts

Clearing Member Accounts

The account types are: H for House Business (Proprietary Account); and C for segregated Client Business (an Omnibus Client Swaps Account with LCH). A Clearing Member's SwapClear Contract positions are also recorded within the SwapClear clearing system in SwapClear Accounts.

All registered SwapClear Contracts will be identifiable to Clearing Members via SwapClear reporting (see Section 2A.1.3). Each SwapClear Contract will also be assigned a unique trade identifier. The Clearing Member reporting functionality also allows Clearing Members to identify all SwapClear Contracts registered in their name.

## 2A.5 **Financial Accounts**

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

### 2A.5.1 **Relationship with Position-Keeping Accounts**

Trading Account	Financial Account		
H	House	H	Proprietary Account
C	Client	C	LCH Swaps Client Segregated Depository Account
L	Client	L	LCH Swaps Client Segregated Depository Account used for Variation Margin Flows

### 2A.5.2 **Other Financial Accounts**

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

	Code
Buffer accounts (House), used for holding additional cash in relation to Proprietary business	B
Buffer accounts (Client), used for holding additional cash in relation to Client Business	E

## 2A.6 **SwapClear Contract Valuation**

### 2A.6.1 **Net Present Value (NPV)**

The Clearing House will calculate the NPV (as defined in the Regulations) of each eligible SwapClear Contract using the Clearing House's zero coupon yield curves.

It is a condition of registration that sufficient Margin, as determined by the Clearing House, be furnished to the Clearing House to satisfy the Clearing House's Margin requirements for each SwapClear Contract (taking into account, for these purposes, available SwapClear Tolerance, if any), except that such Margin shall be required to be furnished prior to registration as a condition thereto only if such SwapClear Contract results from a SwapClear Transaction that is a Block IRS Trade.

All SwapClear Contracts credited to a Clearing Member will, on submission to the Clearing House, be marked-to-market, in accordance with Regulation 402. The NPV so determined must, subject to intra-day Registration (see Section 2A.3.5), be