



**LCH LIMITED**

**PROCEDURES SECTION 2F**

**LSE DERIVATIVES MARKETS CLEARING  
SERVICE**

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## 1. LSE DERIVATIVES MARKETS CLEARING SERVICE

### 1.1 Introduction

- 1.1.1 These Procedures form part of the Rulebook and must be read in conjunction with the other parts of the Rulebook. Clearing Members must inform themselves fully of their obligations under the Rulebook and under other relevant documentation, such as the Clearing Membership Agreement and the terms of any approval by the Clearing House to extend clearing activities.

Clearing Members should also be familiar with the rules and procedures of the Approved LSE Derivatives Markets Settlement Provider ("ASP") through which settlement is effected. Such documents are subject to change. Clearing Members should note that:

- (a) where any benefit or thing arises as a result of a corporate event these Procedures apply to such benefit or thing whether or not the benefit or thing so arising consists of any LSE Derivatives Markets derivatives securities; and
- (b) in the event of any conflict between any provision of these Procedures and any requirement or provision of any third party (including but not limited to any requirement or provision in any market or other rules or other documentation of LSE, any Co-operating Clearing House, any Co-operating Exchange or any ASP), these Procedures shall prevail.

Subject to Regulation 52(e) (*Exclusion of Liability*), the Clearing House shall not be liable for any loss or damage of any kind whatsoever suffered by a Clearing Member, LSE or anyone else arising out of or connected with:

- (a) any inconsistency or conflict between any provision of the Rulebook or other Clearing House documentation, and the rules and other documentation of LSE, any Co-operating Clearing House, any Co-operating Exchange or any ASP; or
- (b) any statement contained within the rules and other documentation of LSE, or any Co-operating Clearing House, any Co-operating Exchange or any ASP.

#### 1.1.2 *Definitions*

Capitalised terms used in these Procedures not otherwise defined herein have the meanings ascribed to them in the Rulebook.

#### 1.1.3 *Enquiries*

Enquiries regarding these LSE Derivatives Markets Procedures or any other aspects of the operation of the LSE Markets Derivatives Service should be directed to the Operations and Client Servicing Department [Derivatives.Ops.UK@lch.com](mailto:Derivatives.Ops.UK@lch.com) on +44 (0)20 7426 7688. Enquiries regarding margining obligations and Clearing Member status should be directed to the OCS Margin Management Department on +44 (0)20 7426 7520.

Full details of contact points may be found on the Clearing House website (www.lch.com).

#### 1.1.4 *Service Use*

Where any Clearing Member wishes to participate in any part of the LSE Derivatives Markets Service it must first seek appropriate authorisation from the Clearing House.

Details of how to obtain such authorisations may be obtained from the Onboarding Department on +44 (0)20 7426 7949. The Clearing Member must comply with all Clearing Member status and other requirements of the Clearing House (including requirements relating to settlement). In particular with regard to settlement that Clearing Member must at all times ensure:

- (a) appropriate stock account(s) are nominated and available in the system of the ASP for making or taking delivery of securities resulting from the exercise or expiry of any LSE Derivatives Markets Cleared Exchange Contract; and
- (b) a fully operational cash account is nominated and available in the system of the ASP in respect of each currency in which an LSE Derivatives Markets Cleared Exchange Contract may be concluded.

Failure to meet the requirements set out in (a) and (b) above (and other applicable requirements) may result in that Clearing Member not having appropriate settlement arrangements in place or not fulfilling the relevant criteria for registration of a LSE Derivatives Markets Match.

In the event that, at the time the Clearing House or its agent receives the details of any LSE Derivatives Markets Match for registration, the Clearing Member in whose name a resulting LSE Derivatives Markets Cleared Exchange Contract is to be registered has not made available a fully operational cash account or stock account in the system of the ASP for settlement purposes in respect of that LSE Derivatives Markets Cleared Exchange Contract, then the Clearing House may, in its absolute discretion, nevertheless decide to register the LSE Derivatives Markets Match as a LSE Derivatives Markets Cleared Exchange Contract. In such circumstances, the Clearing House may make such arrangements as it considers appropriate in order to facilitate the proper and orderly settlement of that LSE Derivatives Markets Cleared Exchange Contract.. The Clearing House is entitled in those circumstances to debit the PPS account of the Clearing Member for all costs and expenses incurred by the Clearing House.

#### 1.1.5 *Use of Agents for Settlement and/or Delivery Purposes*

Where the Clearing House receives an instruction in writing from a Clearing Member requesting or requiring that settlement and/or delivery of any LSE Derivatives Markets Eligible Product under a LSE Derivatives Markets Cleared Exchange Contract be carried out by any third party acting as agent or other representative of that Clearing Member ("**Settlement Agent**"), then the

Clearing House will do what it reasonably can to accommodate such request as set out below, providing however that in any such case and notwithstanding such instruction, that Clearing Member shall remain responsible for meeting all obligations to the Clearing House with regard to settlement and delivery under the Rulebook and any other applicable agreements.

The Clearing House will use its reasonable endeavours to take delivery from or make delivery to such Settlement Agent but the Clearing House has no contractual relationship with such Settlement Agent and shall owe no duty of care nor have any liability whatsoever to such Settlement Agent (whether that person is a Clearing Member or not) or any other person in the event of any act or default of such Settlement Agent, or with regard to any matter arising out of or in connection with such delivery.

Subject to the above, any reference in these Procedures to any act to be done by a Clearing Member may be carried out by a Settlement Agent where one has been appointed and the Clearing House has been so notified.

#### 1.1.6 *Suspension of Trading*

For the avoidance of doubt, any action by LSE or an Exchange to suspend, de-list or take any other action with regard to an LSE Derivatives Markets Eligible Product shall not affect any obligations that a Clearing Member may have to the Clearing House with regard to any unsettled LSE Derivatives Markets Cleared Exchange Contract.

#### 1.1.7 *Liability*

Clearing Members are asked to note that any statements set out in these Procedures regarding the liability of the Clearing House are made without prejudice to the generality of the provisions set out in Regulation 52 (*Exclusion of Liability*).

The Clearing House does not seek to limit or exclude any liability for personal injury or death caused by its negligence, or for fraud or wilful default on the part of the Clearing House.

### 1.2 **General Information**

The Clearing House will only register LSE Derivatives Markets Matches which meet the relevant criteria for registration as set out in the LSE Derivatives Markets Regulations, and in accordance with, and subject to, the other provisions of the Rulebook. Subject to the requirements of the Rulebook, participation in the LSE Derivatives Markets Service is available to:

- (a) any Clearing Member who has been and remains approved by the Clearing House to participate in the LSE Derivatives Markets Service; and
- (b) any Non-Member Market Participant in respect of the LSE Derivatives Markets Service in accordance with Regulation 7 (*Non-Member Market Participant Status*).

### 1.2.2 **Service Timetable**

#### *Operating Times*

The Clearing House will publish by Clearing Member circular and on its website ([www.lch.com](http://www.lch.com)) details of the days and times during which the LSE Derivatives Markets Service will be operational ("**LSE Derivatives Markets UK Business Days**").

#### *Trade Acceptance Hours*

Please refer to the trade acceptance hours of the LSE Derivatives Markets Platform on its website.

### 1.2.3 **Member Reporting**

Clearing Members are able to receive their Clearing House position information in respect of LSE Derivatives Markets Cleared Exchange Contracts via the Bits Clearing System ("**BCS**"). The Clearing House makes available appropriate clearing information via reports, real time confirmations and other means via existing Clearing Member reporting mechanisms.

LSE notifies Clearing Members of certain information under its rules via various "Notes" (e.g. Settlement Note, Delivery Instruction Note, Expiration Settlement Note). Such reports are issued on behalf of the Clearing House in cases where they indicate obligations as between Clearing Members and the Clearing House.

Detailed margin parameters files are made available to Clearing Members daily on the Clearing House reporting website. There is no printed hard copy report distributed for any part of the LSE Derivatives Markets Service. Any queries in connection with margin parameters or reporting should be directed to the Risk Operations Department on +44 (0)20 7426 7520.

### 1.2.4 **Clearing House Reporting**

The Clearing House (acting, where applicable, through the entity to which it has elected to delegate the relevant reporting obligation) shall report to a trade repository or similar body the details of an LSE Derivatives Markets Cleared Exchange Contract and any modification or termination of such contract without duplication and no later than the working day following the conclusion, modification or termination of such contract, in line with the requirements of applicable law.

### 1.2.5 **Static Data**

Prior to presentation of any LSE Derivatives Markets Match for registration, a Clearing Member is required to complete a static data form.

Copies of the prescribed form can be requested from the Onboarding Department on +44 (0)20 7426 7949.

Failure to complete and submit the static data form in respect of the particular type of LSE Derivatives Markets Eligible Product and failure to confirm the account to which the LSE Derivatives Markets Cleared Exchange Contract shall be registered may result in the rejection of an LSE Derivatives Markets Match.

### 1.3 **Registration**

#### 1.3.1 **General**

Each Clearing Member requires the express written approval of the Clearing House in order to participate in the LSE Derivatives Markets Service. Details of how such approval may be obtained are available from the Onboarding Department on +44 (0)20 7426 7949.

Each LSE Derivatives Markets Match must pass the Clearing House's validation procedures to enable it to be registered.

Each Clearing Member authorised to participate in the LSE Derivatives Markets Service and each Non-Member Market Participant must be familiar with the operating procedures and deadlines of the LSE Derivatives Markets Platform.

LSE Derivatives Markets Cleared Exchange Contracts may only arise through an open offer clearing mechanism. Pursuant to this "open offer", once the particulars of an LSE Derivatives Markets Match are presented to the Clearing House for registration, then, subject to the Regulations and the Procedures, the Clearing House shall automatically and immediately register either (as applicable) (i) two separate LSE Derivatives Markets Cleared Exchange Contracts, one between the relevant LSE Derivatives Markets Clearing Member and the Clearing House and the other between the same or another LSE Derivatives Markets Clearing Member and the Clearing House, or (ii) one LSE Derivatives Markets Cleared Exchange Contract between the relevant LSE Derivatives Markets Clearing Member and the Clearing House and one LSE Derivatives Markets Cleared Exchange Contract between the relevant Co-operating Clearing House and the Clearing House.

The Clearing House's open offer arrangements for LSE Derivatives Markets Matches are described in greater detail in Regulations 77, 80 and 82.

#### 1.3.2 **Intra-Day Registration**

The Clearing House registers all LSE Derivatives Markets Cleared Exchange Contracts on an intra-day basis.

### 1.3.3 **Rejection**

Where the particulars of an LSE Derivatives Markets Match are presented to the Clearing House for registration, the Clearing House may reject such registration where:

- (i) the relevant LSE Derivatives Markets Open Offer Eligibility Criteria are not met;
- (ii) such particulars have as their subject a product which is not a LSE Derivatives Markets Eligible Product;
- (iii) such particulars contain invalid or incomplete message data;
- (iv) such particulars are required or requested by any Regulatory Body or the LSE Derivatives Markets Platform to be rejected or treated as void or voided; or
- (v) the Clearing House considers that rejection is advisable for its own protection or the protection of the relevant market.

If the Clearing House rejects the registration of an LSE Derivatives Markets Match, the LSE Derivatives Markets Platform and the relevant Clearing Members will be notified of such rejection within the required timeframe under all Applicable Law.

If the particulars of an LSE Derivatives Markets Match are presented to the Clearing House for registration and rejected, such LSE Derivatives Markets Match may be re-presented for registration in the form of a new LSE Derivatives Markets Match but with the same economic terms in accordance with, and subject to, the Rulebook and all Applicable Law, and such LSE Derivatives Markets Match will, for the purposes of the Rulebook and upon such re-presentation, constitute a new LSE Derivatives Markets Match.

## 1.4 **Proprietary Accounts and Client Accounts**

### 1.4.1 **Proprietary Accounts**

A Clearing Member may request that the Clearing House opens one or more Proprietary Accounts in respect of its House Clearing Business.

Each Proprietary Account will map to two sub-accounts:

- (a) a position account; and
- (b) a collateral account.

### 1.4.2 **Client Accounts**

- (a) Types of Client Account

Subject to Regulation 11 (*Client Clearing Business*) and Section 1.13 (*LSE Derivatives Markets Client Clearing*) below, a Clearing Member may request that the Clearing House opens, in respect of its Client Clearing Business, one or more:

- (i) Individual Segregated Accounts;
  - (ii) Indirect Gross Accounts;
  - (iii) Non-Identified Client Omnibus Net Segregated Accounts;  
and/or
  - (iv) Indirect Net Accounts.
- (b) Each Client Account will map to two or more sub-accounts:
- (i) one or more position accounts; and
  - (ii) one or more collateral accounts.

## 1.5 Position and Collateral Accounts

### 1.5.1 *Member Accounts*

For identification purposes each Clearing Member is assigned a unique three-character mnemonic. A Clearing Member's position and financial information are further identified by a single character code: H for LSE Derivatives Markets Clearing House Business, C for LSE Derivatives Markets Client Clearing Business and F for Default Fund contributions. The H and F account are obligatory, the C account will be used in respect of any Clearing Member which engages in any LSE Derivatives Markets Client Clearing Business.

### 1.5.2 *Position-keeping accounts*

Positions are recorded within the Clearing House in position-keeping accounts.

The basic account types are house "H" account for LSE Derivatives Markets Clearing House Business and client "C" account for LSE Derivatives Markets Client Clearing Business.

### 1.5.3 *Collateral Accounts*

Member position accounts have collateral accounts associated with them. These are, inter alia, used to record cash balances and securities. Information contained within position-keeping accounts is mapped to collateral accounts upon direction from the Clearing Member.

By accepting a LSE Derivatives Markets Cleared Exchange Contract into a position-keeping account, a Clearing Member is also deemed to be designating

that LSE Derivatives Markets Cleared Exchange Contract for the associated collateral account.

#### 1.5.4 *Relationship with Position-Keeping Accounts and Collateral Accounts*

Each client "C" position-keeping account and the client "C" collateral account of a Clearing Member may hold any number of segregated sub-accounts. Each Individual Segregated Account of the Clearing Member will map onto one such segregated sub-account in the client "C" position-keeping account and one such segregated sub-account in the client "C" collateral account, each Indirect Gross Account of the Clearing Member will map onto one such segregated sub-account in the client "C" position-keeping account and one such segregated sub-account in the client "C" collateral account, each Non-Identified Client Omnibus Net Segregated Account of the Clearing Member will map onto one such segregated sub-account in the client "C" position-keeping account and one such segregated sub-account in the client "C" collateral account, and each Indirect Net Account of the Clearing Member will map onto one such segregated sub-account in the client "C" position-keeping account and one such segregated sub-account in the client "C" collateral account. In the case of Indirect Gross Accounts, the relevant segregated sub-accounts of the client "C" position-keeping account will be further segregated into position-keeping sub-accounts for each Indirect Gross Sub-Account (relating to each Indirect Clearing Client).

#### 1.5.5 *Other Accounts*

The Clearing House may, at its discretion, open further accounts.

#### 1.5.6 *Default Fund (F) Account*

Each Clearing Member's Default Fund Contribution is held in a separate account. This account attracts a rate of interest as set out in the Default Rules. The Default Fund account is designated by the single character code F.

### 1.6 **Margin and Collateral**

1.6.1 The Clearing House will calculate margin obligations in respect of all outstanding LSE Derivatives Markets Cleared Exchange Contracts of each Clearing Member. The margin obligation is made up of two basic components:

- (a) Initial Margin; and
- (b) Variation Margin.

The two components are described below. Questions regarding the margin obligations in respect of LSE Derivatives Markets Cleared Exchange Contracts should be directed to the Risk Operations Department on +44 (0)20 7426 7520.

Separate initial and variation margin calculations are performed for a Clearing Member's Proprietary Account, each Client Account (other than an Indirect Gross Account) and each Indirect Gross Sub-Account within an Indirect Gross

Account.. No offset between the "C" and the "H" accounts is allowed (except (i) pursuant to Rule 8(d) of the Default Rules or any Insufficient Resources Determination Rule) and no offset between any Client Accounts is allowed (except pursuant to Rule 15(a)(ii) of the Default Rules, a Cross-ISA Client Excess Deduction or any Insufficient Resources Determination Rule).

### 1.6.2 *Initial Margin*

The Clearing House will require Clearing Members to transfer to the Clearing House Collateral in respect of their initial margin obligations.

Initial margin requirements will be determined using the SPAN algorithm for all open contracts. Initial margin requirements will be determined by the ERA algorithm for contracts during the delivery period.

#### *Initial Margin Parameters*

The margin parameters for SPAN, and ERA, used in the initial margin calculation will be made available by the Clearing House on the website. In the event of changes to parameters, Clearing Members will be notified as soon as possible of amendments and no later than the day before calls are made based upon the new parameters.

### 1.6.3 *Variation Margin*

Variation margin obligations in respect of all open contracts are calculated daily by the Clearing House. The official quotation is used as the market price. Profits or losses are either credited or debited from the relevant account (realised margin) or they form non-realised contingent liabilities or credits.

#### (a) *Realised Variation Margin*

Realised variation margin is the calculated profit or loss arising from a comparison between the value of open positions at the relevant official quotations with the value of positions recorded in BCS; i.e. the trade price for new trades and the previous day's official quotation for other positions. All futures contracts' variation margin amounts are realised into postings to Clearing Members' accounts.

#### (b) *Contingent Variation Margin*

Contingent variation margin is calculated with reference to the original trade or delivery price and the relevant official quotation. Contingent variation margin is applicable to all 'forward style' future contracts.

#### (c) *Option Variation Margin*

Option variation margin (also known as Option Net Liquidation Value or Option Market Value) is the value of the unexpired options, calculated with reference to the official quotation. Bought and sold options generate credit and debit option variation margin respectively.

#### 1.6.4 *Intra-day margin calls*

The Clearing House will calculate each Clearing Member's initial and variation margin obligations at several points throughout the day. In the event that a Clearing Member has insufficient Collateral with the Clearing House, an intra-day PPS call will be issued. Clearing Members should ensure that they are, at any point throughout the day, in a position to meet a PPS call.

### 1.7 **Insolvency and Default**

#### 1.7.1 *Insolvency of an Issuer*

For the avoidance of doubt, Clearing Members are advised that their obligations set out in these Regulations and Procedures and any other relevant agreements with the Clearing House including but not limited to obligations regarding settlement and delivery of securities continue notwithstanding any suspension of trading in such securities on any Exchange (including the LSE Derivatives Markets Platform or any Co-operating Exchange) or other trading platform and notwithstanding that the issuer of such securities passes a resolution or the court makes an order for the winding up of the issuer or a receiver, administrative receiver, administrator, trustee or similar officer is appointed in respect of all or any part of its undertaking, or the issuer enters into a composition or voluntary arrangement with or for the benefit of its creditors or any other event of a similar nature occurs.

Where settlement of any securities cannot take place because of a court, administrative or regulatory order or because of an insolvency event affecting the issuer of such securities, the Clearing House may, in its discretion, give notice to Clearing Members who are party to open Contracts in respect of those securities, that such Contracts will be cash settled at such price as the Clearing House may set in its reasonable discretion. Clearing Members should note that in such circumstances the reference price may be NIL.

#### 1.7.2 *Default of an OC*

Where a non-LSE Derivatives Markets Clearing Member (the "**OC Defaulter**") clearing through Oslo Clearing ("**OC**") (directly or indirectly) is declared to be in default by OC, OC remains fully responsible for meeting all obligations to the Clearing House in respect of all LSE Derivatives Markets Cleared Exchange Contracts arising from LSE Derivatives Markets Particulars submitted by, or on behalf of, that OC Defaulter to the LSE Derivatives Markets Platform.

### 1.8 **Option Exercise and Expiry**

Clearing Members should note that option contracts must be exercised either manually or automatically in accordance with the relevant LSE Derivatives Markets Rules, other relevant LSE documentation which set out times at which notification of exercise must be given and the Rulebook.

On expiry, an automatic exercise facility is available. Once a deadline is met, the ability to exercise is withdrawn. For full details Clearing Members should consult LCH Operations and Client Servicing on +44 (0)207 426 7688 or [Derivatives.Ops.UK@lch.com](mailto:Derivatives.Ops.UK@lch.com).

When an option is exercised, a delivery or cash settlement obligation will arise, depending on the contract terms. Options that are not exercised (i.e. deny exercise request) by the time of expiry will expire worthless.

#### 1.8.1 *Non Standard Exercise of Options*

##### *Stock Options*

Stock options for LSE Derivatives Markets Clearing Exchange Contracts which are “American style” permit Clearing Members to input exercise orders at any time during the lifetime of the option. Exercise orders may be submitted either via the BCS or via email to [derivatives.ops.uk@lch.com](mailto:derivatives.ops.uk@lch.com) in the manner and times prescribed in the LSE Derivatives Markets Rules.

#### 1.8.2 *Standard Exercise of Options*

##### *Stock Options*

Exercise rules are specified by the LSE Derivatives Markets Rules, which determine the times that exercise notifications must be given and by which automatic exercise operates. Automatic exercise of in-the-money options can be overridden by Clearing Members by submitting a deny exercise order request in the manner and times prescribed in the LSE Derivatives Markets Rules.

Clearing Members wishing to exercise an out-of-the-money option, or an option that is not to be automatically exercised, must input an instruction via the manual exercise screen or by submitting a email to [derivatives.ops.uk@lch.com](mailto:derivatives.ops.uk@lch.com).

##### *Index Options*

Index options are “European style” and accordingly are only subject to exercise on the expiry day. Automatic exercise instructions for all options are pre-set to exercise those contracts whose strike price is above or below the reference price. Automatic exercise of in-the-money options can be overridden by Clearing Members by submitting a deny exercise order request in the manner and times prescribed in the LSE Derivatives Markets Rules.

Clearing Members wishing to exercise an out-of-the-money option, or an option that is not to be automatically exercised, must input an instruction via the manual exercise screen or by sending an email to [derivatives.ops.uk@lch.com](mailto:derivatives.ops.uk@lch.com).

### 1.8.3 *Reference Prices*

The reference prices to determine option exercise used by BCS on the expiry day shall be calculated in accordance with the contract terms as outlined in the LSE Derivatives Markets Rules.

## 1.9 **Settlement**

### 1.9.1 *Daily Cash Settlement*

Certain LSE Derivatives Markets Cleared Exchange Contracts will be subject to a daily cash settlement. The daily cash settlement of a Contract is a cash payment derived by reference to the traded/registered price and the official closing price for the Contract. The daily cash settlement amount is debited from or credited to the relevant Proprietary Account or Client Account (as applicable) in the original currency of the Contract.

A list of LSE Derivatives Markets Cleared Exchange Contracts that are subject to a daily cash settlement is available from the Clearing House.

### 1.9.2 *Interim Cash Settlement for Cleared Only Contracts*

The interim settlement occurs on a monthly basis in accordance with the Contract terms as outlined in the LSE Derivatives Markets Rules. The cash payment settlement day takes place in accordance with the Contract terms.

The interim settlement amount is derived by reference to:

For Mortgage Bonds or a Credit Market Instrument, the difference in value between the Interim Settlement Yield and the Transaction Yield.

For the STIBOR-FRA and NIBOR-FRA contracts the difference between the Interim Settlement Rate and the Registered Rate.

### 1.9.3 *Final Cash Settlement*

Final cash settlement is the final settlement of a Contract by way of a cash payment derived by reference to:

- (a) for futures, the difference between the expiry price and the price of the Contract from the previous business day; and
- (b) for options, the difference between the option reference price and the strike price,

(such settlement, "**Final Cash Settlement**").

The Final Cash Settlement amount is debited from or credited to the relevant Proprietary Account or Client Account (as applicable) in the original currency of the Contract.

#### 1.9.4 **Option Premium**

Option premiums on all Contracts are settled up-front on the business day after the day of trade. The premium is debited from the relevant Proprietary Account or Client Account of the buying Clearing Member, and credited to the relevant Proprietary Account or Client Account (as applicable) of the selling Clearing Member, in the currency of the Contract.

#### 1.9.5 **Delivery**

Contracts which are not subject to Final Cash Settlement are settled by physical delivery of the underlying at the price determined by the relevant Contract terms.

#### 1.9.6 **Official Quotations**

Official quotations are based on 'closing price', 'base prices', 'expiration settlement price' or 'fixing price' and are supplied by LSE at the close of business each business day.

Should LSE fail to determine official quotations, the Clearing House will itself determine these as necessary. This will be done at the Clearing House's discretion and be announced as soon as possible.

### 1.10 **Position Transfers**

Clearing Members wishing to effect a position transfer to another Clearing Member approved to participate in the LSE Derivatives Markets Service should submit a written request by sending an email to [derivatives.ops.uk@lch.com](mailto:derivatives.ops.uk@lch.com).

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

### 1.11 **Suspension of the Service**

Members should be aware that the Clearing House may suspend the Clearing LSE Derivatives Markets Service in the circumstances set out in the LSE Derivatives Markets Regulations.

### 1.12 **Conversions**

#### 1.12.1 **Conversions**

Where a LSE Derivatives Markets Cleared Exchange Contract between a Clearing Member and the Clearing House is:

- (a) an option to purchase or sell a security which is (i) exercised in accordance with the terms of such LSE Derivatives Markets Cleared Exchange Contract and the Rulebook, and (ii) is not subject to Final Cash Settlement, such LSE Derivatives Markets Cleared Exchange

Contract shall, at the point of such exercise, be converted into an EquityClear (Equities) Contract between such Clearing Member and the Clearing House for the sale or purchase (as applicable) of such security on the terms which were specified in the LSE Derivatives Markets Cleared Exchange Contract; or

- (b) a futures contract for the purchase or sale of a security which is not subject to Final Cash Settlement, such LSE Derivatives Markets Cleared Exchange Contract shall, at such date, be converted into an EquityClear (Equities) Contract between such Clearing Member and the Clearing House for the sale or purchase (as applicable) of such security on the terms which were specified in the LSE Derivatives Markets Cleared Exchange Contract,

(any such conversion, a “**Conversion**”).

### 1.13 LSE Derivatives Markets Client Clearing

#### 1.13.1 *LSE Derivatives Markets Clearing Member Client Clearing – Ancillary Documentation*

- (a) *Security Deed*

Unless specified otherwise by the Clearing House, a LSE Derivatives Markets Clearing Member must enter into a Security Deed in respect of its Clearing Clients in relation to amounts due to it from the Clearing House pursuant to the Client Clearing Annex. Further information in relation to such Security Deed is prescribed by the Clearing House from time to time and published on the Clearing House's website.

- (b) *Prescribed Language and End-User Notice*

Pursuant to the Clearing House's General Regulations, each LSE Derivatives Markets Clearing Member is required to ensure that it includes certain language in its agreement with its LSE Derivatives Markets Clearing Client (the "**Clearing House Prescribed Language**"). The Clearing House Prescribed Language is shown at Schedule 1 of Section 1 of the Procedures.

LSE Derivatives Markets Clearing Clients' attention is drawn to the End-User Notice which is published on the Clearing House's website:

<http://www.lch.com/about-us/governance/end-user-notices>

#### 1.13.2 *Backup Clearing Members*

A LSE Derivatives Markets Clearing Client may appoint a Backup Clearing Member for the purposes of the porting of the LSE Derivatives Markets Contracts entered into by a LSE Derivatives Markets Clearing Member on its behalf, in accordance with the Client Clearing Annex.

Where, following the Default of an LSE Derivatives Markets Clearing Member, the Clearing House is notified of the existence of such a Backup Clearing Member in respect of an LSE Derivatives Markets Clearing Client, the Clearing House is entitled, in accordance with the Client Clearing Annex, to immediately and without notice to any person, send details of the Relevant Contracts and Account Balances to that appointed Backup Clearing Member. The Clearing House shall not require consent from any person in advance of sending these details.

Note: The appointment by an LSE Derivatives Markets Clearing Client of a Backup Clearing Member and the notification of a Backup Clearing Member to the Clearing House does not mean that LSE Derivatives Markets Contracts will always be transferred to that Backup Clearing Member. Porting of LSE Derivatives Markets Contracts, following a LSE Derivatives Markets Clearing Member's Default is always subject to the Clearing House's receipt of consent from the relevant Backup Clearing Member.

#### 1.13.3 *Conversions – Indirect Accounts*

Where a LSE Derivatives Markets Cleared Exchange Contract that a LSE Derivatives Markets Clearing Member has entered into with the Clearing House in respect of a Clearing Client is registered to an Indirect Account, such Contract shall, at the point of Conversion, cease to be registered to such Indirect Account and shall, instead, be registered to such Client Account (which is not an Indirect Account) within the EquityClear Service as the Clearing House determines and which such Clearing Member has been opened in respect of the Clearing Client.

### 1.14 **Indirect Clearing**

1.14.1 In circumstances where an early termination date (howsoever described) occurs in respect of all of the transactions between an LSE Derivatives Markets Clearing Member and an LSE Derivatives Markets Clearing Client acting on behalf of Indirect Clearing Clients comprising an Indirect Gross Account in respect of which such LSE Derivatives Markets Clearing Member (i) is a party to Related LSE Derivatives Markets Contracts and (ii) at the time of such early termination date, is not a Defaulter, that LSE Derivatives Markets Clearing Member may instruct the Clearing House to take one of the following steps in respect of each Indirect Clearing Client comprising the Indirect Gross Account:

- (a) in circumstances where the LSE Derivatives Markets Clearing Member notifies the Clearing House of a Backup Client in respect of the relevant Indirect Clearing Client, transfer all of the open Related LSE Derivatives Markets Contracts registered to the Indirect Gross Sub-Account referable to the Indirect Clearing Client to the relevant Indirect Gross Sub-Account referable to the Indirect Clearing Client of the new or existing Indirect Gross Account which the LSE Derivatives Markets Clearing Member has opened in respect of such Backup Client (a "**Client to Client Porting**"); or

- (b) transfer all of the open Related LSE Derivatives Markets Contracts registered to the Indirect Gross Sub-Account referable to the Indirect Clearing Client to:
  - (i) a new Individual Segregated Account opened within the Clearing House by the LSE Derivatives Markets Clearing Member directly on behalf of such Indirect Clearing Client who shall, after such transfer, become a LSE Derivatives Markets Clearing Client in respect of such Client Account; or
  - (ii) a new or existing Omnibus Segregated Account opened within the Clearing House by the LSE Derivatives Markets Clearing Member where such Indirect Clearing Client shall, after such transfer, become a LSE Derivatives Markets Clearing Client in respect of such Omnibus Segregated Account,(each, a "**Direct Account Opening**"); or
- (c) transfer all of the open Related LSE Derivatives Markets Contracts registered to the Indirect Gross Sub-Account referable to the relevant Indirect Clearing Client to its Proprietary Account (an "**Initial Transfer**").

The Clearing House will determine, in respect of each Indirect Clearing Client comprising the Indirect Gross Account, whether a Client to Client Porting, a Direct Account Opening or an Initial Transfer (as applicable) is possible within the period of time considered by the Clearing House (in its sole discretion) to be appropriate in the relevant circumstances. In the event of a determination by the Clearing House that the relevant step is impossible within such time period (an "**Impossibility Determination**"), the Clearing House will notify the LSE Derivatives Markets Clearing Member and will not undertake a Client to Client Porting, a Direct Account Opening or an Initial Transfer in respect of the relevant Indirect Clearing Client.

1.14.2 Each of the steps referred to in Section 1.14.1(a), (b) and (c) above will, in respect of each Indirect Clearing Client comprising the Indirect Gross Account, be subject to the following:

- (a) the Clearing House receiving a copy of the notice from the LSE Derivatives Markets Clearing Member to the relevant LSE Derivatives Markets Clearing Client or from the LSE Derivatives Markets Clearing Client to the relevant LSE Derivatives Markets Clearing Member, copied to each Indirect Clearing Client comprising the Indirect Gross Account, designating the relevant early termination date or, if such early termination date has occurred automatically, evidence of the relevant event of default or termination event;
- (b) the Clearing House receiving a copy of the notice from the LSE Derivatives Markets Clearing Member to the relevant LSE Derivatives Markets Clearing Client and the relevant Indirect Clearing Client confirming that the LSE Derivatives Markets Clearing Member will, in

accordance with the instructions of the Indirect Clearing Client, request the Clearing House to arrange a Client to Client Porting, a Direct Account Opening or an Initial Transfer (as applicable) in respect of the Related LSE Derivatives Markets Contracts referable to such Indirect Clearing Client;

- (c) the LSE Derivatives Markets Clearing Member having satisfied the Total Required Margin Amount in respect of the relevant account to which the Related LSE Derivatives Markets Contracts are being transferred;
- (d) the Clearing House receiving an indemnity from the LSE Derivatives Markets Clearing Member in a form suitable to the Clearing House; and
- (e) in respect of a Client to Client Porting, the Clearing House receiving written confirmation from the LSE Derivatives Markets Clearing Member that the Backup Client has agreed to act as the Backup Client in relation to such Client to Client Porting.

The Clearing House will usually arrange a transfer of the Related LSE Derivatives Markets Contracts within 24 hours of the receipt of the documents listed in Section 1.14.2(a) to (e).

For the purposes of this Section 1.14, a "**Related LSE Derivatives Markets Contract**" means in respect of a transaction between an LSE Derivatives Markets Clearing Member and an LSE Derivatives Markets Clearing Client which has been terminated on an early termination date, the open position represented by the LSE Derivatives Markets Cleared Exchange Contract entered into with the Clearing House by such LSE Derivatives Markets Clearing Member on behalf of the relevant LSE Derivatives Markets Clearing Client on equal and opposite terms to such transaction.

### 1.15 **Equities Contributions**

Equities Contributions will be called via PPS on the fourth business day of each month or otherwise pursuant to a determination of an Equities Contribution under the Default Rules.

Excess Equities Contribution amounts due to LSE Derivatives Markets Clearing Members following an Equities Determination Date will (subject to the Default Rules) be repaid to Clearing Members' PPS accounts on the fourth business day immediately following such Equities Determination Date.

If a Resignation Effective Date has occurred in respect of a Resigning Member pursuant to Rule E7(e) of the Equities Default Fund Supplement, then the Clearing House will repay the Equities Contribution that it holds for such Clearing Member (to the extent it has not been applied under the Default Rules) to the Clearing Member's relevant PPS account on such Resignation Effective Date.

Interest on Equities Contributions will be paid to LSE Derivatives Markets Clearing Members' PPS accounts on the fifth business day of each month, in respect of the

**"interest accrual period"** occurring immediately prior to each such business day. Interest is calculated in respect of each **"interest accrual period"**, which commences on (and includes) the fourth business day of each month (each, an **"Equities Reset Day"**) and ends on (and includes) the calendar day immediately before the next Equities Reset Day. Notwithstanding the preceding paragraphs, if the rate of interest payable on Equities Contributions is negative, interest shall be payable by LSE Derivatives Markets Clearing Members to the Clearing House.