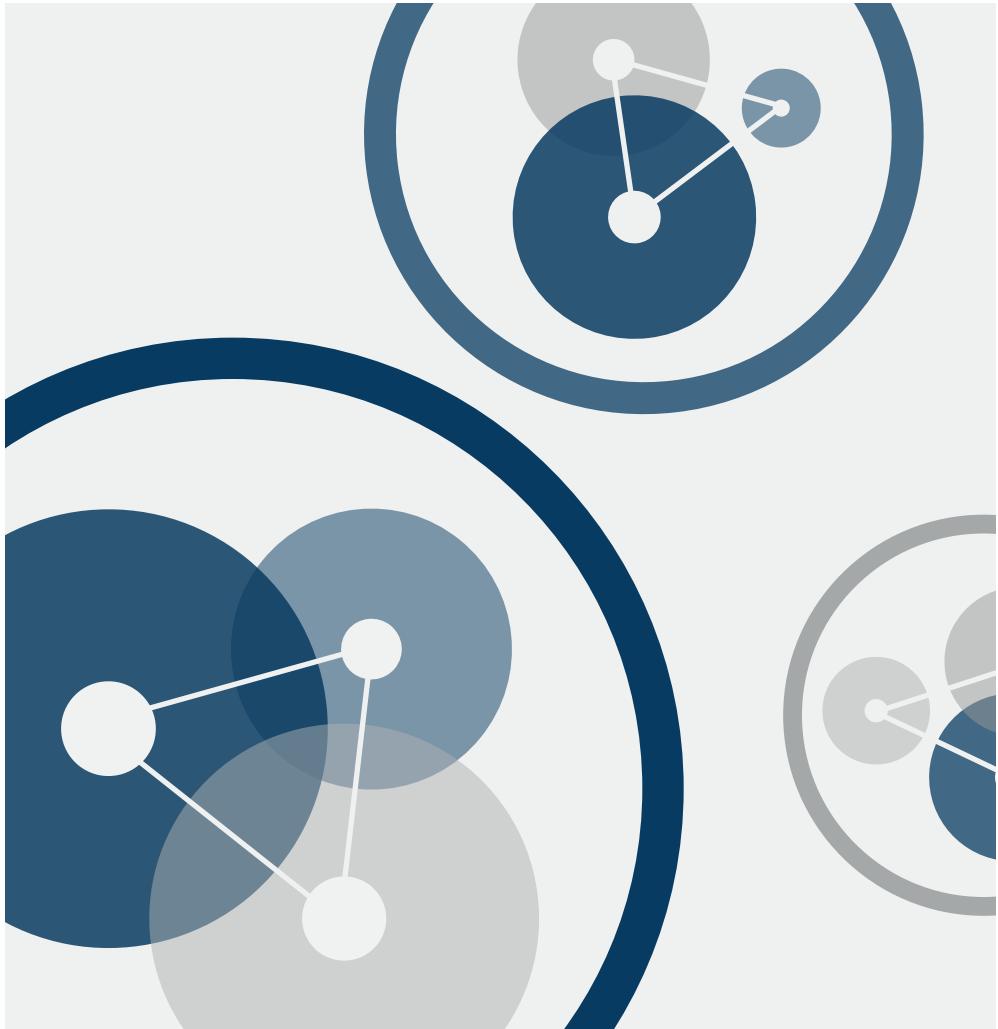
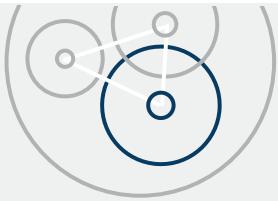


Customer Protection

Your Options Under EMIR

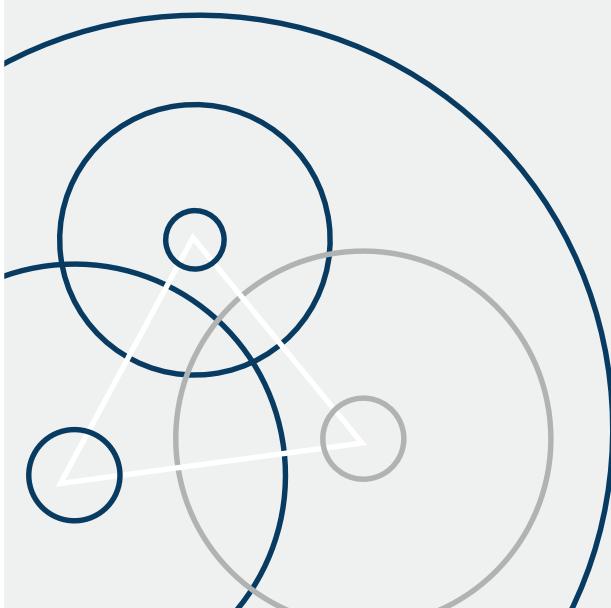
LCH The Markets' Partner





SwapClear is committed to providing you with the optimal range of protection choices.

And we'll work with you to determine which of these options best suits your requirements.



Customer Protection: Your Options Under EMIR

At SwapClear, we realize that it's no easy task for your firm to adapt to mandatory central clearing for derivatives. But while EMIR introduces new obligations, it also offers more options for protecting your positions and assets, and enabling their portability in the event of a default.

As a leading global clearing service for OTC interest rate derivatives, SwapClear is committed to providing you with the optimal range of protection choices. And we'll work with you to determine which of these options best suit your requirements.

As a first step, you must decide what type of asset protection is right for you and your clients. We want you to be able to choose between lower costs and increased protection. To help you strike the right balance, SwapClear offers five EMIR-compliant segregation plans.

EMIR

(European Market Infrastructure Regulation) Regulations for the OTC derivatives market in all EU member states that address the risks that were highlighted during the financial crisis. EMIR focuses on introducing transparency and mitigating counterparty credit risk.

Each Plan Offers Different Degrees of Protection

VALUE OR ASSET PROTECTION?

SwapClear's segregation plans fall into two categories: "value" and "asset". Each plan offers different degrees of protection.

Under our value-based options, SwapClear tracks the value of client assets. In other words, it safeguards the value of the account assets in a default.

Under our asset-based plans — which now include CustodialSeg — we know exactly which of the securities posted are yours. This enables SwapClear to preserve and port or return your specific assets in the event of a clearing member default.

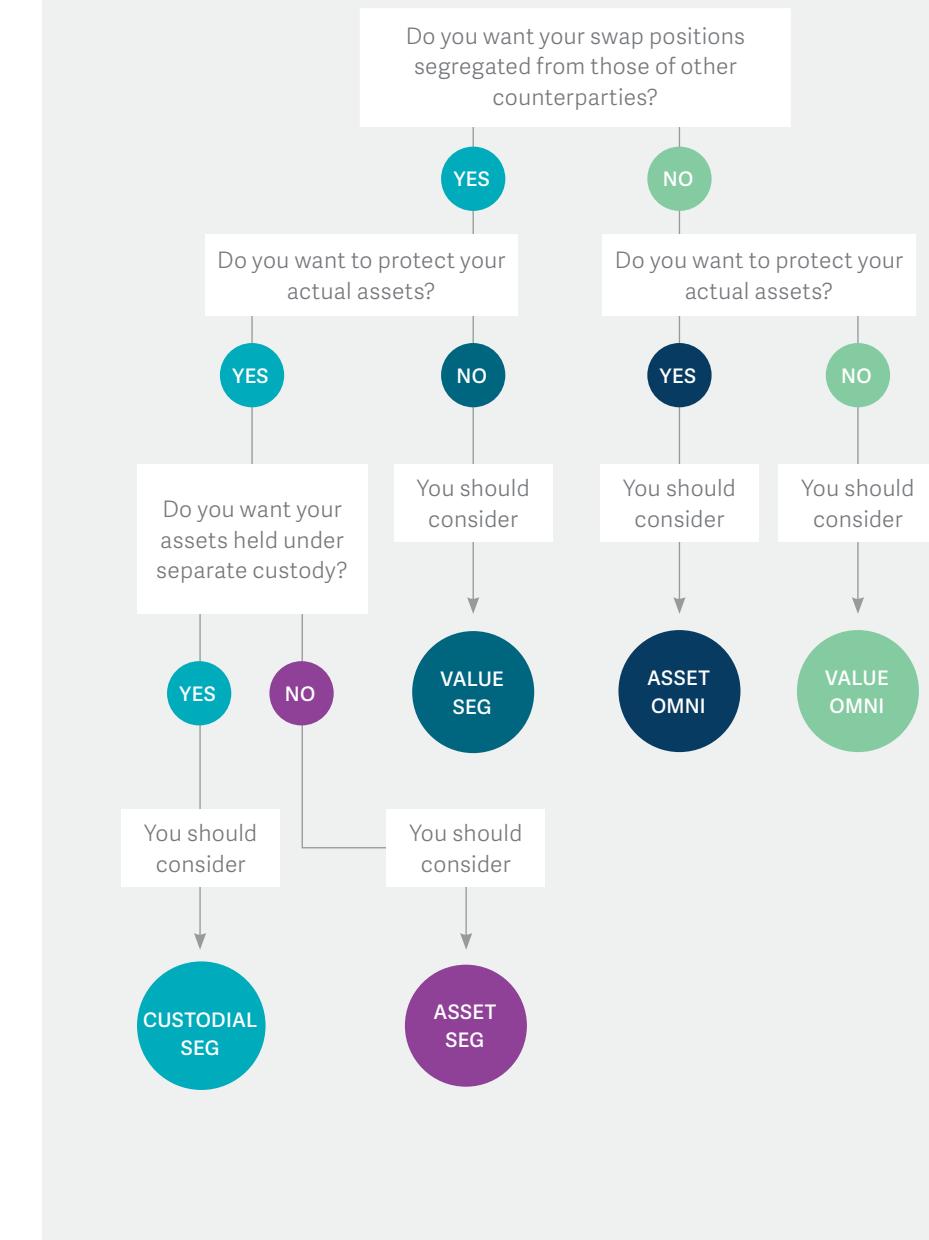
OMNIBUS OR INDIVIDUAL SEGREGATION?

Apart from the value/asset distinction, our plans also differ in their EMIR classification. Our omnibus ("Omni") plans pool your positions with those of other customers, which means some mutualisation of risk — in a default, you may share another client's losses.

However, pooling allows SwapClear to net offsetting positions, which can reduce your initial margin requirements considerably. And Omni plans let you choose the other clients in your pool — you could limit this to your own affiliates, for example.

Our individual segregation ("Seg") plans completely partition, or segregate, your positions from those of other clients, with no fellow customer risk. Since these plans do not allow for position netting, you do not benefit from a reduction of initial margin.

Choosing the Right Plan



SwapClear's Asset Segregated Account Offerings



ASSETOMNI

Clients' assets and positions are commingled with those of other clients within the AssetOmni and specific assets are recorded to the account. However, the client can select with whom they share the account.

COLLATERAL PROTECTION ASSET

01. One client's assets and positions are commingled with those of other clients within the AssetOmni
02. The client controls participation within the account
03. Participants are exposed to fellow customer risk (of selected counterparties)
04. All positions port together
05. The collateral that ports is based on the specific assets associated with the account (or the proceeds of those assets)
06. The AssetOmni has the same degree of position mutualisation (and therefore netting benefit) as the ValueOmni, but it avoids wider collateral mutualisation

EXPLAINED

Client positions are mutualised/commingled within the AssetOmni account; however, clients select with whom they are commingled. In a clearing broker default, the clearing house can only draw on the allocated assets to meet amounts owing on the AssetOmni and not to meet amounts owing on any other account.

Portability occurs in groups, with clients being able to select the clearing broker to which they are all ported. The AssetOmni exposes clients to fellow customer risk, but allows clients to select with whom they are commingled. This gives a controlled netting benefit. Importantly, the clearing house can identify, and can therefore potentially preserve, specific assets for the point benefit of AssetOmni participants.



ASSETSEG

A client's positions and assets are segregated from those of all other clients.

COLLATERAL PROTECTION ASSET

01. EMIR individual client segregation
02. The client's positions are segregated from those of all other clients
03. The client is not exposed to fellow customer risk
04. The client's assets are segregated from those of all other clients
05. Positions port independently of other client positions.
06. The collateral that ports is based on the specific assets associated with the account (or the proceeds of those assets)

EXPLAINED

The AssetSeg account segregates an individual client's positions from those of all other clients. AssetSeg also segregates an individual client's allocated assets from those of all other clients. In a clearing broker default, the clearing house cannot draw on the allocated assets to meet amounts owing on accounts relating to any other clients. Importantly, we identify, and can therefore potentially preserve, allocated assets for the benefit of the AssetSeg customer. Portability takes place individually with the client able to select the clearing broker to which it is ported.

The cost of the AssetSeg account reflects the high levels of position and asset protection provided.

SwapClear's Value Segregated Account Offerings

VALUEOMNI

Clients' collateral value and positions are commingled within the ValueOmni. However, clients can select with whom they share the account.



COLLATERAL PROTECTION VALUE

01. One client's assets and positions are commingled with those of other clients within the ValueOmni
02. The client controls participation within the account
03. Clients are exposed to fellow customer risk (of selected counterparties)
04. All positions port together
05. The collateral that ports is based on the collective value associated with the account
06. The ValueOmni calculates initial margin on a net basis; i.e., the risk of one client is offset with the risk of another

VALUESEG

A client's positions are segregated from those of all other clients.



COLLATERAL PROTECTION VALUE

01. The client's positions are segregated from those of all other clients
02. Positions port independently of other client positions
03. The collateral that ports is based on the value associated with the individual client's positions

EXPLAINED

Client positions are mutualised/commingled within the ValueOmni account. However, the client can select with whom it is commingled. In a clearing broker default, the clearing house treats the clients collectively, drawing on the jointly segregated value of the account to meet all amounts owing on such account. Portability occurs in groups, with the controlling client being able to select the clearing broker to which they are all ported. Although the ValueOmni account exposes clients to the highest degree of fellow customer risk, it does allow clients to select with whom they are commingled.

EXPLAINED

The ValueSeg account segregates an individual client's positions from those of all other clients. Portability takes place individually with the client able to select the clearing broker to which it is ported.

SwapClear's Premium Segregated Account Offering



CUSTODIALSEG

Client assets and positions are segregated from those of other clients.



COLLATERAL PROTECTION ASSET

01. EMIR individual client segregation
02. Client positions are segregated from those of all other clients
03. Flexibility to perform collateral substitutions without direct involvement of LCH or member
04. Reduced transit risk on the delivery of non-cash assets
05. Protection of excess non-cash collateral that the client has provided directly to LCH in the case of member default
06. Streamlined operational processes between client, member and LCH
07. The CustodialSeg account is our premium level of coverage

EXPLAINED

The CustodialSeg model provides the highest level of protection for clients, enabling them to directly control the movement of non-cash collateral to and from the clearing house — based on eligibility criteria — by using an international central securities depository (initially Euroclear). It segregates an individual client's positions from those of all other clients, and it is the strongest level of collateral segregation. The custodial arrangements minimise the transit risk traditionally associated with moving non-cash collateral into and out of SwapClear via the clearing broker. In a clearing broker default, the clearing house cannot draw on the allocated assets to meet amounts owing on accounts relating to any other clients.

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ABOUT LCH AND SWAPCLEAR

LCH has always built strong partnerships across the global markets to deliver best-in-class risk management. With our accumulated experience and expertise, we are uniquely positioned to help participants increase capital and operational efficiency, while adhering to an expanding and complex set of cross-border regulations. SwapClear is the world's leading OTC interest rate derivatives clearing service, and provides access to the deepest pool of dealer liquidity. Trusted for more than two decades by our members, it is now the clearing service of choice for many of the world's leading buy-side participants. Working together with our stakeholders, SwapClear and the other LCH services have helped the market transition to central clearing by introducing an array of innovative enhancements. These include solo compression with blended rate, an expanded set of customer protection options, and LCH Spider — our portfolio margining tool. When combined with an uncompromising commitment to service delivery, it is no surprise that LCH is the natural choice of the world's leading market participants. LCH works across a range of execution venues and is majority-owned by the London Stock Exchange Group (LSEG), a diversified international exchange group that sits at the heart of the world's financial community.

CONTACT US

For more information on SwapClear, please contact your sales team representative, email lchsales@lseg.com, or visit lch.com.