Customer Protection
Your Options Under EMIR
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**

- **Do you want your swap positions segregated from those of other counterparties?**
  - **YES**
  - **NO**

- **Do you want to protect your actual assets?**
  - **YES**
  - **NO**

- **Do you want your assets held under separate custody?**
  - **VALUE SEG**
  - **ASSET SEG**

- **You should consider**

---

---
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

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.

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
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

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.
EXPLAINED

The CustodialSeg model provides the highest level of protection for clients, enabling them to directly control the movement of 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.

DISCLAIMER

This document has been provided to you for informational purposes only and is intended as an overview of certain aspects of or proposed changes to the SwapClear, ForexClear, Listed Interest Rates, SwapAgent and/or any other service provided by LCH Group Holdings Limited ("LCH Group") or any of its group undertakings (group undertakings shall be construed in accordance with section 1161 of the Companies Act 2006; each an "LCH Group Company"). LCH Limited is supervised by the Bank of England within the UK regulatory framework, registered as a derivatives clearing organisation with the U.S. Commodity Futures Trading Commission ("CFTC") and recognised as a third-country CCP under Regulation (EU) No. 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories ("EMIR"). LCH SA is regulated and supervised in France by the Autorité des Marchés Financiers, the Autorité de Contrôle Prudentiel et de Résolution and the Banque de France, authorised as an E.U. CCP under EMIR, registered as a derivatives clearing organisation with the CFTC and as a clearing agency with the U.S. Securities and Exchange Commission. LCH Limited and LCH SA also hold licenses in other jurisdictions in which they offer their services. More information is available at www.lch.com. The relationship of an LCH Group Company with its members is governed solely by its rulebook and certain other ancillary documentation, as applicable. This document does not, and does not purport to, contain a detailed description of any aspect of a service provided by an LCH Group Company or any other topics discussed in this document, and it has not been prepared for any specific person. This document does not, and does not seek to, constitute advice of any nature. You may not rely upon the contents of this document under any circumstance and should seek your own independent legal, investment, tax and other advice. The information and any opinion contained in this document does not constitute a recommendation or offer with respect to any derivative contract, financial instrument, security or service. No LCH Group Company makes any representation, warranty, condition or guarantee (whether express or implied) that the contents of this document are accurate, complete or up-to-date, and makes no commitment to offer any particular product or service. No LCH Group Company shall have any liability for any losses, claims, demands, actions, proceedings, damages, costs or expenses arising out of, or in any way connected with, the information contained in this document, except that each LCH Group Company accepts liability that cannot be excluded by applicable law. Copyright © LCH Limited 2021. All rights reserved. SwapClear, ForexClear and SwapAgent are registered trademarks of LCH. The information contained in this document is confidential. By reading this document, each recipient agrees to treat it in a confidential manner and will not, directly or indirectly, disclose or permit the disclosure of any information in this document to any other person (other than its regulators or professional advisers who have been informed of the confidential nature of the information) without the prior written consent of LCH Group.
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@lch.com, or visit lch.com.