Sponsored Clearing
Unlock Capacity, Drive Efficiencies

LCH The Markets’ Partner
RepoClear
Sponsored Clearing extends the benefits of direct CCP membership to the buy-side community. By inviting member banks to sponsor direct access to the buy side, LCH provides an innovative way to enhance existing clearing relationships while generating operational efficiencies for all participants.

**HOW DOES IT WORK?**

The expansion of LCH membership increases multilateral netting opportunities, generating superior balance sheet, settlement and risk reductions for our membership. This in turn frees up capacity, providing Sponsored Members with broader access to bank liquidity.

These enhanced netting opportunities are initially available in the UK government bond and Term £GC markets cleared by RepoClear Ltd, with LCH SA-cleared markets to follow in 2021.

What is a Sponsored Member?

Sponsored Members join under a new membership category that allows buy-side firms to enjoy the full benefits of clearing through LCH. This new model creates a direct transactional relationship between LCH and the Sponsored Member, making LCH the counterparty to each cleared trade. Sponsored Members are supported by an Agent Member (sponsoring bank) that facilitates margin payments and provides default fund contributions for each sponsored transaction.

1Subject to necessary internal governance requirements and regulatory approval.
Benefits For All

By maximising netting opportunities through LCH, Sponsored Clearing helps optimise resources through margin efficiencies and bank balance sheet netting, unlocking additional capacity for Sponsored Member activity.

The potential benefits for both Agent Members and Sponsored Members are numerous, including:

FOR AGENT MEMBERS (SPONSORING BANKS)
01. Increased balance sheet optimisation and capital efficiencies
02. Opportunities for enhanced customer relationships through the provision of agent services
03. Reduced liquidity risks

FOR SPONSORED MEMBERS
01. Increased bank capacity for Sponsored Member activity resulting from capital savings
02. Reduced bilateral credit risk and default exposures
03. Increased operational efficiencies, with settlement netting leading to a reduction in intra-day liquidity requirements
04. World-class risk management

Note: The Agent Member role is not restricted to the executing counterparty of the original trade.

BALANCE SHEET NETTING
Balance sheet netting has four main requirements: same settlement location, same currency, same end date and — importantly in the context of Sponsored Clearing — same counterparty. Bank intermediaries are now able to optimise netting of their customer activity, as Sponsored Members’ trades are cleared directly with LCH.
**ROLES AND RESPONSIBILITIES**

Agent Members play an important role in supporting their Sponsored Members’ cleared transactions through the provision of default fund contributions and by facilitating the payment of Sponsored Members’ margins in a paying agent capacity. They also contribute to risk reduction by providing a buffer for margin cover and an additional pre-funded layer to their Sponsored Members’ default waterfall, benefiting the wider membership.

A key feature of the new service is the Sponsored Members’ role as direct counterparty to LCH for each cleared trade. Sponsored Members settle directly with LCH, continuing to operate their own settlement accounts (or using a custodian), and are responsible for margin payments to the CCP (which can be facilitated by their Agent Member).

<table>
<thead>
<tr>
<th>SPONSORED MEMBER RESPONSIBILITIES</th>
<th>AGENT MEMBER RESPONSIBILITIES</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>LCH Relationship</strong></td>
<td><strong>Default Fund Contributions / Waterfall</strong></td>
</tr>
<tr>
<td>Act as the direct counterparty of LCH for each cleared trade</td>
<td>Provide Default Fund Contributions</td>
</tr>
<tr>
<td><strong>Trade Settlement</strong></td>
<td><strong>Agent Resources</strong></td>
</tr>
<tr>
<td>Settle directly with LCH, or through their custodian/settlement agent; the Agent Member does not guarantee performance</td>
<td>Deliver an additional pre-funded resource to the Sponsored Member’s default waterfall and a buffer for margin cover</td>
</tr>
<tr>
<td><strong>Margin Liability</strong></td>
<td><strong>Margin Management</strong></td>
</tr>
<tr>
<td>Post margin payments to the CCP, facilitated by their Agent Member</td>
<td>Facilitate the payment of the Sponsored Member’s margins in a paying agent capacity via its PPS account</td>
</tr>
</tbody>
</table>

**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, services provided by LCH Limited (“LCH”). This document does not, and does not purport to, contain a detailed description of any aspect of an LCH service or any other matter set out 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 contained in this document does not constitute a recommendation or offer with respect to any derivative contract, financial instrument, security or service. LCH makes no representation, warranty or guarantee (express or implied) that the contents of this document are accurate, complete or up-to-date, and LCH makes no commitment to offer any particular product or service. LCH shall have no 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 LCH accepts liability for personal injury or death caused by its negligence, for its fraud or wilful misrepresentation, and for any other liability which cannot be excluded by applicable law. LCH Limited is supervised by the Bank of England within the UK regulatory framework, constitutes 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. Copyright © LCH Limited 2021. All rights reserved. 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.

**WHO CAN JOIN?**

Initially, sponsored membership is open to pension funds, insurance companies, government entities and money market funds, but the model will be extended to other funds and institutions in due course subject to regulatory approval.

To find out how to become a Sponsored Member, contact us today at repoclearmembershipsales@lch.com.

**ABOUT REPOCLEAR**

RepoClear is the leading provider of cash bonds and repo clearing, helping participants better manage risk and capacity across bilateral or anonymous trading. With more than 100 members across 14 government bond and repo markets, it provides unmatched opportunities for superior balance sheet and settlement risk offsets. In 2014, RepoClear introduced EGCPlus, LCH’s triparty basket repo clearing service, to provide even more advanced liquidity management. Established in partnership with major banks in 1999, RepoClear is available through both LCH Limited and LCH SA.