RepoClear

Sponsored Clearing – unlock capacity, drive efficiencies
Sponsored Clearing provides direct LCH membership to the buy-side community.

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.

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 available in the UK government bond and Term £GC markets cleared through RepoClear at LCH Ltd, and in 13 Euro debt markets and €GCPlus at LCH SA.

Sponsored Members are not restricted to only trading with agent members. Sponsored Members are eligible to trade with the full population of RepoClear members.

Opening up opportunities
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.
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

04. 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

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 layer to their Sponsored Members’ default waterfall, benefitting 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).

Who can join?
Sponsored membership is open to pension funds, regulated investment funds*, insurance companies, government entities and credit institutions, subject to jurisdictional eligibility. The Sponsored Clearing model may be extended to other entities, subject to internal governance requirements and regulatory approvals.

*Available for Ltd only

<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 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>
LCH builds strong relationships with commodity, credit, equity, fixed income, foreign exchange (FX) and rates market participants to help drive superior performance and deliver best-in-class risk management.

As a member or client, partnering with us helps you increase capital and operational efficiency, while adhering to an expanding and complex set of cross-border regulations, thanks to our experience and expertise.

Working closely with our stakeholders, we have helped the market transition to central clearing and continue to introduce innovative enhancements. Choose from a variety of solutions such as compression, sponsored clearing, credit index options clearing, contracts for differences clearing and LCH SwapAgent for managing uncleared swaps. Our focus on innovation and our uncompromising commitment to service delivery make LCH, an LSEG business, the natural choice of the world’s leading market participants globally.

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, 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 S.A. 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 S.A. also hold licenses or authorisations 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 2023. All rights reserved. Copyright © LCH S.A. 2023. All rights reserved. LCH SwapClear, LCH CDSClear, LCH ForexClear, LCH RepoClear, LCH EquityClear, LCH SwapAgent and €GCPlus 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 the relevant LCH Group Company to whom such confidential information belongs.