



**LCH LIMITED**

**PROCEDURES SECTION 2D**

**EQUITYCLEAR CLEARING SERVICE**

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## 1. EQUITYCLEAR CLEARING SERVICE

### 1.1 Introduction

#### 1.1.1 General

These Procedures form part of the Rulebook and must be read in conjunction with the other parts of the Rulebook. Members must inform themselves fully of their obligations under the Rulebook and under other relevant documentation, such as the Clearing Membership Agreement. Members should also be familiar with the relevant rules and procedures of the ATP through which EquityClear Novation Transactions are executed or to which Trading Platform Particulars are submitted, and the rules and procedures of the ASP through which settlement is effected. Such documents are subject to change.

Members should note that where any benefit or thing arises as a result of a Corporate Action (see Section 1.16) these Procedures apply to such benefit or thing whether or not the benefit or thing so arising consists of an EquityClear Eligible Instrument.

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 of an ATP or ASP), these Procedures shall prevail.

#### 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 EquityClear Eligible Instruments

- (a) Members are advised, for the purposes of the Regulations and these Procedures, that instruments eligible for clearing in the EquityClear service ("**EquityClear Eligible Instruments**") are identified as such on the Clearing House website ([www.lch.com](http://www.lch.com)).
- (b) Trading in "when-issued" market instruments ("**grey market stocks**")

In the event that a "when issued" security is added to any list of EquityClear Eligible Instruments or EquityClear Eligible Equities, Members should note that any obligations of the Clearing House in respect of any EquityClear Novation Transaction, EquityClear ATP Match or resulting EquityClear Contract for that security will only arise in the event that that security is listed as planned. In the event that the listing does not proceed on the planned day of listing, the Clearing House shall deem any EquityClear Novation Transaction or EquityClear ATP Match in respect of that security to be null and void and will reject it if it is presented for registration. Any EquityClear Contract already registered by the Clearing House in respect of that security will be deemed void from the point of entry into such Contract ("**ab initio**") and the Clearing House will return any Collateral transferred to it in respect

of it. The Clearing House will have no other liability in respect of such Contracts.

#### 1.1.4 Enquiries

Enquiries regarding these EquityClear Procedures or any other aspects of the operation of the EquityClear Service should be directed to the Clearing House. Full details of contact points may be found on the Clearing House website: ([www.lch.com](http://www.lch.com)).

#### 1.1.5 Service Use

- (a) Where any Member wishes to participate in any part of the EquityClear service it must first seek appropriate authorisation from the Clearing House. Members seeking authorisation to participate in the EquityClear service will be required to seek separate authorisation for business undertaken in relation to the service provided for each ATP.

Details of how to obtain such authorisations may be obtained from the Clearing House's Onboarding department. The Member must comply with all membership and other requirements of the Clearing House, including requirements relating to settlement. Specifically with regard to settlement Members must at all times ensure:

- (i) appropriate stock account/s is/are nominated and available in the system of the ASP for the delivery and receipt of the EquityClear Eligible Instruments or EquityClear Eligible Equities which form the basis of such EquityClear Contracts;
- (ii) a fully operational cash account is nominated and available in the system of the ASP in respect of each currency in which an EquityClear Contract may be concluded;
- (iii) where the Clearing House requires, the holder of the nominated stock account must provide to the Clearing House a Power of Attorney in the form authorised by the Clearing House, empowering the Clearing House to input relevant settlement instructions – see Section 1.8.1(a) below;
- (iv) that it has PPS accounts in all relevant currencies to enable clearing and settlement; and
- (v) that each account at an ASP nominated by it for the delivery and receipt of EquityClear Eligible Instruments is configured, without limitation, to enable use of any auto-partial settlement functionality (or similar process) offered by that ASP and so that any options, elections, thresholds or discretions made available by the ASP are exercised (or not exercised) so as to permit auto-partial settlement to the maximum extent available at that ASP.

Failure to meet the requirements set out in (i) to (iv) above (and other applicable requirements) will result in that Member not having

appropriate settlement arrangements in place and, as a result, the relevant EquityClear Eligibility Criteria will not be satisfied (see Regulation 67 (*EquityClear Open Offer for EquityClear ATP Matches*), and Regulation 68 (*EquityClear Novation Transactions*)). In such a case, an EquityClear Novation Transaction or EquityClear ATP Match presented to the Clearing House for registration may be rejected by the Clearing House and no EquityClear Contracts would arise. Any EquityClear Novation Transaction which is rejected would be governed by the applicable Execution Terms among the relevant parties and the Clearing House shall have no obligations or liability in relation thereto. Members should also note that where they give notice to the Clearing House that they wish to participate in settlement netting arrangements (see Section 1.10.6), they must ensure that all necessary arrangements have been made with the relevant ASP for net settlement to proceed in accordance with the relevant ATP market rules and settlement rules of the ASP.

- (b) In the event that, at the time when the Clearing House or its agent receives the details of an EquityClear Novation Transaction or EquityClear ATP Match for registration, the Member in whose name a resulting EquityClear Contract is to be registered (the "**Account Deficient Member**") has not made available a fully operational cash account (for example a "**Cash Memorandum Account**" in CREST) or stock account in the system of the ASP or a PPS account for settlement purposes in respect of that EquityClear Contract, then the Clearing House may, in its absolute discretion, nevertheless decide to register the EquityClear Novation Transaction or EquityClear ATP Match (as applicable) as an EquityClear Contract. In such circumstances, the Clearing House may make such arrangements as it considers appropriate (including, but not limited to, the creation of a temporary cash or stock account in the system of the ASP) in order to facilitate the proper and orderly settlement of that EquityClear Contract. The Clearing House is entitled in those circumstances to debit the relevant PPS account of the Account Deficient Member for all costs and expenses incurred by the Clearing House.

#### 1.1.6 Use of Agents for Settlement and/or Delivery Purpose

- (a) Where the Clearing House receives an instruction from a Member or from some other agent or representative of that Member (including for the avoidance of doubt an NCP) requesting or requiring the settlement and/or delivery of any EquityClear Eligible Instruments or EquityClear Eligible Equities under any EquityClear Contract by any third party acting as agent or other representative of that Member or NCP ("**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 Member shall remain responsible (including if they are a Failing Clearing Member) for meeting all obligations to the Clearing House with regard to settlement and delivery under the Rulebook (including these

Procedures) and any other applicable agreements. As such, a Failing Clearing Member may be charged a cash penalty for any delay in settlement.

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

#### 1.1.7 Suspension of Trading

For the avoidance of doubt, any action by an ATP to suspend, de-list or take any other action with regard to an EquityClear Eligible Instrument or EquityClear Eligible Equity shall not affect any obligations that a Member may have to the Clearing House with regard to any unsettled EquityClear Contracts.

#### 1.1.8 Liability

- (a) 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*).
- (b) 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.

#### 1.1.9 ATP

- (a) Application for approved EquityClear trading platform status shall be made in accordance with the policies published from time to time on the Clearing House's website. A list of ATPs currently approved by the Clearing House is set out on the Clearing House website. Where the Clearing House approves additional ATPs, it will notify EquityClear Clearing Members via a member circular.

### 1.2 General Information

1.2.1 Deliveries of EquityClear Eligible Equities and EquityClear Eligible Instruments in respect of EquityClear Contracts may only be made through an ASP. Clearing Members, and agents presenting EquityClear Novation Transactions and EquityClear ATP Matches on their behalf, must familiarise themselves with all operating procedures and applicable rules of the relevant ASP. The ASPs which have been approved by the Clearing House are listed in Schedule 3.

### 1.2.2 Service Timetable

#### (a) Operating Times:

The Clearing House will publish by Clearing Member circular and on its website details of the days and times during which the EquityClear service will be operational.

#### (b) Trade acceptance hours:

Please refer to the trade acceptance hours of the ATP concerned contained in the Service Description.

### 1.2.3 Member Reporting

The Clearing House makes available appropriate clearing information via reports, real time confirmations and other means. Full details are contained in the relevant Service Description documentation.

### 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 EquityClear 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 EquityClear Novation Transaction or EquityClear ATP Match for registration, a Clearing Member is required to provide sufficient information in respect of the relevant ATP from which such EquityClear Novation Transaction or EquityClear ATP Match will be presented (“**ATP Information**”).

The format, contents and completion process of the static data form for the provision of such ATP Information, in respect of each ATP, is prescribed from time to time by the Clearing House. Copies of the prescribed forms, for each ATP, are available from the Clearing House Onboarding department.

Failure to provide the correct ATP Information in respect of the particular ATP may result in the rejection of an EquityClear Novation Transaction or EquityClear ATP Match.

## 1.3 Registration

### 1.3.1 General

The Clearing House will only accept EquityClear Novation Transactions and EquityClear ATP Matches presented from an ATP in a message format and manner acceptable to the Clearing House. Each EquityClear Novation

Transaction and EquityClear ATP Match must pass the Clearing House's validation procedures to enable it to be registered.

Each Clearing Member authorised to participate in EquityClear and each NCP must be familiar with the operating procedures and deadlines of the ATPs in respect of which they have been approved by the Clearing House.

EquityClear Contracts may arise through either a novation or an open offer clearing mechanism.

(a) Novation

Novation applies to each EquityClear Novation Transaction. Where an EquityClear Novation Transaction is presented to the Clearing House for registration, the Clearing House will determine whether to accept or reject the EquityClear Novation Transaction within the required timeframe under all Applicable Law. Where the Clearing House determines to accept the EquityClear Novation Transaction, registration shall occur immediately and the EquityClear Novation Transaction shall be automatically replaced with (as applicable) (i) two separate EquityClear Contracts, one between the relevant EquityClear Clearing Member and the Clearing House and the other between the same or another EquityClear Clearing Member and the Clearing House, or (ii) one EquityClear Contract between the relevant EquityClear Clearing Member and the Clearing House and one Contract between the relevant Co-operating Clearing House and the Clearing House.

Novation of EquityClear Novation Transactions is described in greater detail in Regulation 69.

(b) Open Offer

The Clearing House also provides an open offer in respect of EquityClear ATP Matches. Pursuant to this "open offer", once the particulars of an EquityClear ATP 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 EquityClear Contracts, one between the relevant EquityClear Clearing Member and the Clearing House and the other between the same or another EquityClear Clearing Member and the Clearing House, or (ii) one EquityClear Contract between the relevant EquityClear Clearing Member and the Clearing House and one Contract between the relevant Co-operating Clearing House and the Clearing House.

The Clearing House's open offer arrangements for EquityClear ATP Matches are described in greater detail in Regulation 68.

### 1.3.2 Intra-Day Registration

The Clearing House registers all EquityClear Novation Transactions and EquityClear ATP Matches on an intra-day basis.

### 1.3.3 Rejection



Where (a) an EquityClear Novation Transaction, or (b) the particulars of an EquityClear ATP Match are presented to the Clearing House for registration, the Clearing House may reject such registration where:

- (i) the relevant EquityClear Eligibility Criteria are not met;
- (ii) such transaction or particulars (as applicable) have as their subject financial instruments which are not EquityClear Eligible Instruments, EquityClear Eligible Equities or EquityClear Eligible ccCFDs (as applicable);
- (iii) such transaction or particulars (as applicable) contain invalid or incomplete message data;
- (iv) such transaction or particulars (as applicable) are required or requested by any Regulatory Body or the relevant ATP 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 EquityClear Novation Transaction or the particulars of an EquityClear ATP Match, the relevant Clearing Members and ATP will be notified of such rejection within the required timeframe under all Applicable Law.

If an EquityClear Novation Transaction or the particulars of an EquityClear ATP Match are presented to the Clearing House for registration and rejected, such EquityClear Novation Transaction or EquityClear ATP Match (as applicable) may be re-presented for registration in the form of a new EquityClear Novation Transaction or EquityClear ATP Match (as applicable) but with the same economic terms in accordance with, and subject to, the Rulebook and all Applicable Law, and such EquityClear Novation Transaction or EquityClear ATP Match (as applicable) will, for the purposes of the Rulebook and upon such re-presentation, constitute a new EquityClear Novation Transaction or EquityClear ATP Match (as applicable).

EquityClear Novation Transactions must be executed, matched and submitted for registration prior to the relevant ATP market deadline for registration. Any EquityClear Novation Transactions submitted after that time will be rejected.

Clearing Members should note that when a trade is rejected by the Clearing House, no EquityClear Contracts arise between the Clearing House and the EquityClear Clearing Members concerned. Subject to Regulation 52(e) (*Exclusion of Liability*), the Clearing House has no liability in respect of such rejection.

## 1.4 Accounts

### 1.4.1 Proprietary Accounts and Client Accounts

- (a) Proprietary Accounts

An EquityClear 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

- (i) a position account; and
- (ii) a collateral account

#### 1.4.2 Client Accounts

##### (a) Types of Client Account

Subject to Regulation 11 (*Client Clearing Business*) and Section 1.16 (*EquityClear Client Clearing*) below, an EquityClear Clearing Member may request that the Clearing House opens, in respect of its Client Clearing Business, one or more:

- (i) Individual Segregated Accounts;
- (ii) Non-Identified Client Omnibus Net Segregated Account;
- (iii) Identified Client Omnibus Net Segregated Accounts;
- (iv) Affiliated Client Omnibus Net Segregated Accounts; and/or
- (v) in relation to EquityClear (ccCFD) Contracts only:
  - (A) Indirect Gross Accounts; and/or
  - (B) 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.

#### 1.4.3 Clearing Member Accounts – position-keeping account

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

#### 1.4.4 Collateral Accounts

Clearing Member position accounts have collateral accounts associated with them. These are, *inter alia*, used to record cash balances and financial

instruments. Information contained within a position-keeping account is consolidated with the associated collateral account, as follows:

| <b>Position-Keeping Account</b> | <b>Collateral Account</b> |   |
|---------------------------------|---------------------------|---|
| H                               | House                     | H |
| C                               | Client                    | C |

Each client "C" position-keeping account and the client "C" collateral account of an EquityClear Clearing Member may hold any number of segregated sub-accounts. Each Individual Segregated Account of the EquityClear 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 EquityClear 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 Omnibus Segregated Account 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).

#### 1.4.5 Other Accounts

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

#### 1.4.6 Default Fund Account

Each Clearing Member's Default Fund Contribution is held on a separate account. In accordance with the Default Rules this account attracts a rate of interest of SONIA – 10. The Default Fund account is designated by the single character code F.

### 1.5 Margin and Collateral

Separate initial and variation margin calculations are performed for an EquityClear 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 Proprietary Accounts and Client Accounts is allowed (except 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).

#### 1.5.1 Initial margin

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

will determine the initial margin obligations of an EquityClear Clearing Member, which will comprise (without limitation to the Clearing House's rights under Regulation 20):

- (a) the amount calculated by the Clearing House using the LCH ERA algorithm; and
- (b) if the EquityClear Clearing Member is a Positive DFAM Member (as defined under Rule E1 of the Equities Default Fund Supplement) in respect of the EquityClear Service, the amount determined and notified to the EquityClear Clearing Member, which amount will not exceed the DFAM amount (as defined under, and calculated by the Clearing House in accordance with, Rule E1 of the Equities Default Fund Supplement), in respect of the EquityClear Clearing Member and the EquityClear Service.

#### 1.5.2 Variation margin

Variation margin represents the change in value of each open EquityClear Contract from the value at the time of trade to the current market value or from the previous closing price to the current market value for EquityClear (ccCFD) Contracts which were not traded that same day.

Variation margin in respect of EquityClear (Equities) Contracts will be in non-realised or contingent form (i.e. it will be in the form of a credit or debit posted to Member's accounts). In order to cope with step changes in the variation margin due to the settlement cycle, the Clearing House will restrict the use of credit variation margin just ahead of settlement (and such restriction may continue from the occurrence of a Settlement Fail to its resolution). Further information on the restriction can be found in the ERA technical information pack.

Variation margin in respect of EquityClear (ccCFD) Contracts is realised. The relevant contracts are settled to market daily and any profit or loss is credited to or debited from the relevant Proprietary Account or Client Account on a daily basis. Variation margin on an accrued Cash Equivalent Dividend Payment will be in contingent form.

##### (a) Interoperability margin

Clearing Members using the interoperability service are required to pay margin in respect of that service.

##### (b) Margin Parameters

The margin parameters for LCH ERA used in the initial and variation margin requirement 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.

##### (c) Intra-day Margin Calls

The Clearing House will calculate each Clearing Member's initial and variation margin requirement 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.

## 1.6 **Financing for ccCFDs**

For futures style ccCFDs with expiry dates, the cost of carry is priced into the CFD and is thus not exchanged as a separate cash flow.

For equity ccCFDs, the cost of carry/financing is made up of the applicable benchmark rate and a spread component (combined into one financing price) and is based on the overnight value of a Clearing Member's position.

For non-equity spot related ccCFDs, the cost of carry refers only to the appropriate bank rate (e.g. Fed Funds).

On a daily basis margin and financing calculations are applied, and where appropriate, Positions impacted by corporate event activity are updated.

The financing component is paid by the ccCFD buyer to the seller and is calculated on a position by position basis, which is aggregated to the House or Client account level.

## 1.7 **Insolvency of an Issuer**

Where settlement in respect of one or more EquityClear Contract(s) cannot take place because of a court, administrative or regulatory order, or an insolvency event affecting the Issuer of the instruments referenced in such EquityClear Contract(s), the Clearing House may, in its discretion, notify EquityClear Clearing Members, which are party to such EquityClear Contracts, that such Contracts will be cash settled at such price as the Clearing House may set in its reasonable discretion, which may be zero.

EquityClear Clearing Members are fully responsible for meeting all obligations to the Clearing House in respect of their EquityClear (ccCFD) Contracts

## 1.8 **Matching Procedures**

### 1.8.1 Matching

#### (a) Power of Attorney

Where fulfilment of an EquityClear Contract requires settlement via an ASP, the Clearing House in respect of some ASPs (see Schedule 3) operates a Power of Attorney facility. The Clearing House requires EquityClear Clearing Members to provide a Power of Attorney in respect of each ASP. Where an EquityClear Clearing Member wishes settlement to be carried out by an NCP or a settlement agent, that NCP or settlement agent must also provide the Clearing House with a Power of Attorney. Under the Power of Attorney, the Clearing House sends settlement instructions to the relevant ASP on behalf of the EquityClear Clearing Member, NCP or settlement agent (as the case may be). Use of

the power by the Clearing House facilitates prompt matching of settlement instructions at the relevant ASP and thus helps to eradicate settlement failure caused by lack of timely matching.

The Power of Attorney must be given in the form approved by the ASP. ASP approved forms are available directly from the ASP.

Where no Power of Attorney is operated by the Clearing House in respect of an ASP, Clearing Members who carry out settlement themselves or those persons acting as Settlement Agents must input all matching instructions directly to the ASP. In such a case they must match all settlement instructions alleged against them by the Clearing House. In order for matching to occur, each relevant field of data within a settlement instruction must be populated correctly. It is the responsibility of each Clearing Member to know and comply with the matching criteria and procedures at each ASP and under Applicable Law.

For all settlements due in CREST the Clearing House will input transactions as a CREST Central Sponsor. CREST Settlement Participants have the option to either self match the Clearing House transactions or opt into the CREST Direct Input service in which case CREST will match on their behalf using the central sponsor instruction.

The contractual provisions governing the operation of central sponsorship for CREST members are set out at Schedule 3 of EUI terms and conditions.

In certain circumstances, Clearing Members may request that the Clearing House sends the relevant instructions directly to the Clearing Member's Settlement Agent for input to the ASP, **provided that** the relevant Settlement Agent will accept such instructions. Where this facility is available and Clearing Members wish to use it shall be without recourse to the Clearing House.

### 1.8.2 Unmatched Transactions

- (a) Where fulfilment of EquityClear Contract requires settlement via an ASP and where no Power of Attorney system is operated by the Clearing House for the ASP in which settlement will take place (see Section 1.8.1(a)), Clearing Members must ensure that they have matched successfully with the Clearing House in respect of each EquityClear Contract by the close of the system of the ASP on Trade Date plus one business day (T+1). In the event that matching does not occur with regard to any EquityClear Contract by the time set out above, the Clearing House shall nevertheless continue to calculate margin requirements and require Collateral with regard to the Contract.
- (b) If matching does not occur (in respect of either an individual transaction or a net settlement transaction) but a Clearing Member reasonably believes that this has been caused by incorrect or incomplete data being held by the ASP in respect of an EquityClear Contract to which that

Clearing Member is party, it is the responsibility of that Clearing Member promptly to inform the Clearing House and immediately to provide details to the Clearing House. In the event that the Clearing House receives no such details from a Clearing Member it will be entitled to act on the basis that all details, which it has received of that EquityClear Contract (or any transaction created by the ASP for the purposes of net settlement) are correct and that the Clearing Member has failed to match as required by these Procedures.

- (c) The Clearing House will monitor matching performance by Clearing Members or their Settlement Agents. In cases of persistent poor matching performance by or on behalf of any Clearing Member, the Clearing House may notify such Clearing Member with a view to improving performance.
- (d) Where a Clearing Member does not have sufficient cash and/or credit facilities available the settlement process may be delayed. Any costs and expenses incurred by the Clearing House due to any such delay or failure may be charged directly to the Clearing Member through the Clearing Member's relevant PPS account.

## 1.9 Position Management for ccCFDs

Equity and index ccCFDs are all daily rolling cash transfer contracts that do not result in physical settlement in ASPs like cash equities. With the exception of Term ccCFDs (which expire at maturity of a fixed term), ccCFDs effectively have infinite duration, meaning they do not expire. To close an open ccCFD position, an equal and opposite trade must be performed.

Futures style ccCFDs will track the futures equivalent prices, which are derived from the relevant ATP, and will expire at given intervals in accordance with the contract terms.

Upon registration in a Clearing Member's Proprietary Account, a Client Account (other than an Indirect Gross Account) or an Indirect Gross Sub-Account within an Indirect Gross Account (as applicable), an EquityClear (ccCFD) Contract will be netted with any existing EquityClear (ccCFD) Contract for the same underlying instrument. Position netting will generally not apply to Term ccCFDs and positions will be held gross except where the ATP permits. The resulting profit or loss will be credited to or debited from the Clearing Member's account daily via PPS.

## 1.10 Settlement Management

### 1.10.1 Cash Settlement of ccCFD Contracts

The Clearing House will cash settle EquityClear (ccCFD) Contracts as described in Section 1.9.

Notwithstanding Section 1.9 the Clearing House reserves the right to cash settle ccCFD positions where it deems appropriate.

- (a) Error Trades

Clearing Members must inform the Clearing House of any suspected Error Trades by no later than 12:00pm on Trade Date plus one business day, providing the relevant ATP trade details. If the ATP deems the trade to be in error under their rules, the ATP will identify the counterparty to the trade(s) and inform them that the trade(s) will be cancelled with immediate effect. The Clearing House will ensure that the relevant ccCFD positions are adjusted and that any financing payments as detailed in Section 1.6 are adjusted to reflect the trade cancellation. Any corporate events that may have occurred between trade date and trade date plus one will also be amended as required.

#### 1.10.2 Intended Settlement Date

Unless the Clearing House provides otherwise by circular, the ISD of an EquityClear Contract will be determined by the rules of the ATP on which the original trade was executed or, where those ATPs do not set an ISD, by the rules of the home market of the underlying EquityClear Eligible Instrument (as may be varied by the Clearing House to take account of local currency holidays).

The Clearing House will instruct settlement into the ASP accordingly.

#### 1.10.3 Requirement to have sufficient cash and financial instruments

Failure of a Clearing Member to have sufficient cash, financial instruments and/or credit facilities in place may result in a delay or Settlement Fail. Any costs and expenses incurred by the Clearing House due to a delay or Settlement Fail may be charged directly to the Clearing Member through the Clearing Member's relevant PPS Account.

#### 1.10.4 Splitting

The Clearing House's net position will always be zero in any EquityClear Eligible Instrument.

However, it is possible that if the Clearing House as buyer does not receive delivery of all the financial instruments to satisfy its position, then the Clearing House may not have sufficient financial instruments to completely fulfil its own delivery obligations as seller in respect of larger netted positions.

If the Clearing House's holding of an EquityClear Eligible Instrument is insufficient to fulfil a larger delivery obligation, then in order to reduce overnight financing costs and the risk associated with corporate action processing, the Clearing House may split its fulfilment of that obligation into multiple deliveries. In practice, this will be performed by the Clearing House without the need for counterparty confirmation. Some ASPs offer an auto-splitting service and the Clearing House will use these services where it is available and suitable to its needs.

Where a suitable auto-splitting service is not available, the Clearing House will instruct its own splitting (where permitted by the ASP). This may involve cancelling the settlement instruction and splitting the cancelled transaction.



If manual splitting requires Clearing Members to rematch, the Clearing House will advise its Clearing Members and agree the relevant details. Clearing Members will then be required to match the Clearing House's cancellation and rematch the subsequent new instructions as per the Clearing House's advice.

Where splitting is possible at an ASP, the Clearing House and Clearing Members must comply by the relevant market deadlines to ensure settlement. Any costs incurred due to failure to instruct prior to the deadline after agreeing previously to do so will, will be passed onto the relevant Clearing Member.

It should be noted that Selling Members can initiate splitting of trades:

- (a) where it can be initiated unilaterally in an ASP; or
- (b) where bilateral instructions are required, by prior agreement with the Clearing House.

#### 1.10.5 Shaping

In those markets where the ASP does not allow splitting, the Clearing House may shape transactions prior to instruction on trade date in order to ensure it maximises liquidity for settlement.

Shaping will be applied per ISIN and quantities will be determined according to the value of the financial instruments. Clearing Members are required to match such shapes as determined by the Clearing House.

If an ASP specifies a cash or stock limit per transaction, the Clearing House will shape transactions accordingly.

#### 1.10.6 Netting

Where the rules of the relevant ATP and ASP permit, the Clearing House will allow Clearing Members to settle their EquityClear Contracts on a net basis. However gross settlement will occur where either it is mandated in the market for settlement or where the Clearing House allows gross settlement of EquityClear Contracts and Clearing Members opt to settle gross.

Clearing Members participating in net settlement arrangements should familiarise themselves with the rules of the relevant ATP and ASP.

For the avoidance of doubt, this Section 1.10 does not relate to the netting of margin.

##### *Aggregation*

In certain circumstances, Clearing Members may opt to settle on an aggregate basis, across all of their buys and sells. Details of the various aggregation options can be found in the Service Description documentation.

##### *Cross Trade Source Netting*

In addition, where the rules of the relevant ATP and ASP permit, the Clearing House will allow Clearing Members the option to settle their EquityClear Contracts on a single net basis across selected ATPs.

(a) Trade date netting

If a Clearing Member elects to settle on a net basis, the Clearing House will net that Clearing Member's obligations on a trade date basis. Trade date netting will be applied to EquityClear Contracts:

- (i) for a particular EquityClear Eligible Instrument;
- (ii) that arise from trades executed on the same trade day;
- (iii) with the same settlement date;
- (iv) in the same currency and reported for settlement through the same ASP cash account and security account (for example, in the case of CREST, this will be the same CREST participant member account; in the case of Euroclear, this will be the same settlement account; and in the case of SIX SIS, this will be the same B.P. ID); and
- (v) in accordance with any other relevant requirements prescribed from time to time by the relevant ATP and ASP.

If an EquityClear Contract is eligible for trade date netting, that contract will be referred to as a "**Nettable Contract**".

Where permitted by the laws, rules and regulations (including tax laws) of the relevant jurisdictions, the Clearing House will aim to allow Clearing Members to net settlement positions in one EquityClear Eligible Instrument ISIN code across ATPs. The provision of such service is subject to there being no regulatory prohibition and there being no prohibition on such netting in the rules and regulations of the relevant ATPs. Prior to providing such service, the Clearing House will give the relevant ATPs notice of the Clearing House's proposed action and will obtain the consent from each Clearing Member.

(b) Net settlement

In order to settle net, a Clearing Member must comply with the requirements set out in this Section 1.10.6 and the rules of the relevant ATP and the ASP.

If a Clearing Member enables settlement netting in an ASP, the Clearing House will treat that arrangement as the Clearing Member's agreement to participate in net settlement for all Nettable Contracts. In particular, the Clearing Member agrees to:

- (i) the delivery by it to the Clearing House or receipt by it from the Clearing House of a net amount of EquityClear Eligible

Instruments in respect of the relevant Nettable Contracts, in accordance with the rules of the relevant ATP and ASP; and

- (ii) the payment to it by the Clearing House or payment by it to the Clearing House of a net amount of cash in respect of the relevant Nettable Contracts, through the relevant cash account of the ASP.

In each case, delivery or payment of the net amount under such settlement netting arrangements, in accordance with these Procedures and all applicable rules and procedures of the relevant ATP and ASP, will constitute full and final performance of the delivery or payment obligations between the Clearing House and the relevant Clearing Member in respect of each Nettable Contract.

Member reports of netted trades are available via extranet reporting ([www.lch.com](http://www.lch.com)).

- (c) Non-Standard Nets

Netting can result in both standard and non-standard nets. The types of nets are laid out in the table below.

| <b>Description</b>             | <b>Stock</b> | <b>Cash</b> |
|--------------------------------|--------------|-------------|
| <u>Standard nets</u>           |              |             |
| Delivery versus payment (DVP)  | Deliver      | Receive     |
| Receipt versus payment (RVP)   | Receive      | Deliver     |
| <u>Non-Standard nets</u>       |              |             |
| Delivery free of payment (DFP) | Deliver      | Net to 0    |
| Receipt free of payment (RFP)  | Receive      | Net to 0    |
| Delivery with payment          | Deliver      | Deliver     |
| Receive with payment           | Receive      | Receive     |
| Cash payment                   | Net to 0     | Deliver     |
| Cash receipt                   | Net to 0     | Receive     |
| Null settlement                | Net to 0     | Net to 0    |

Clearing Members must ensure that, where appropriate, they match the netted instructions sent to the relevant ASP or their Settlement Agent by the Clearing House.

Cash only payments in Euroclear UK and Ireland, Euroclear Bank, SIX SIS or Iberclear are settled within the CSD on a per net transaction basis.

The Clearing House will net on a daily basis a Clearing Member's cash only payments by currency and will settle them bilaterally, on an interbank basis, between the CCPs and members chosen bank.

Details of the Clearing House cash payment instructions are listed in Schedule 3.

Where the Clearing House is due to pay cash only, it will instruct the relevant ASP or its Settlement Agent to credit an account nominated by

the Clearing Member (or the account of the Clearing Member's Settlement Agent).

Where the Clearing House is due to receive cash only, Clearing Members must ensure that the correct payment instruction reaches the Clearing House or the Clearing House's Settlement Agent (details as set out in Schedule 3). Failure by the Clearing Member to pay cash on the settlement date may result in the Clearing House debiting the appropriate funding costs through that Clearing Member's PPS account.

Null settlements will generally not require an instruction to the relevant ASP or settlement agent. Where an instruction is required it will be generated and require matching as necessary. Clearing Members participating in such net settlement arrangements should familiarise themselves with the rules of the relevant ATP and ASP.

(d) Settlement Failure Netting

A Clearing Member may, in the form and manner specified by the Clearing House, request that the Clearing House implement Settlement Failure Netting at an ASP in respect of Failed Transactions (each, a “**Netting Request**”).

Subject to Section 1.11, the rules and procedures of the relevant ASP and ATS(s), and Applicable Law, the Clearing House will use its reasonable endeavours to implement Settlement Failure Netting at the ASP after the receipt of a Netting Request (such request, a “**Specific Netting Request**”) where the following requirements are satisfied:

- (i) the settlement failure in respect of each relevant Failed Transaction has remained for a minimum period of time determined by the Clearing House (in its sole discretion);
- (ii) the Clearing House considers (in its sole discretion) that implementation of Settlement Failure Netting at the ASP will not prevent settlement of any EquityClear Contract;
- (iii) the Specific Netting Request and any other Netting Request made by the same Clearing Member on the same business day as the Specific Netting Request does not apply to more than the maximum number of different types of EquityClear Eligible Instrument determined by the Clearing House (in its sole discretion); and
- (iv) any other requirement determined by the Clearing House (in its sole discretion).

A Clearing Member must pay the Clearing House the fee specified on the Clearing House website for each Specific Netting Request of such Clearing Member.

(e) Technical Netting

The Clearing House may instruct an ASP to cease Technical Netting in respect of one or more transactions at the ASP where the Clearing House considers (in its sole discretion) this necessary to effect settlement of any EquityClear Contract.

(f) Underlying EquityClear Contracts

A Clearing Member's participation in net settlement arrangements will not affect the existence or terms of the EquityClear Contracts in respect of which the net settlement arrangements apply.

### 1.10.7 Liability for delays, failures and Settlement Fails

The systems and procedures that enable or facilitate the settlement and delivery of EquityClear Eligible Instruments (including net settlement) are operated in respect of each ATP by a third party, being the ASP. The ASP's operation of those systems and procedures is governed by its own agreements with its members. The ability of the Clearing House to carry out its obligations to Clearing Members (including but not limited to those set out in any Clearing Membership Agreement and the Rulebook) with regard to settlement and delivery of any EquityClear Eligible Instruments arising from EquityClear Contracts may be affected by the relevant ASP's activities and its operation of the settlement and delivery system it provides. The Clearing House can accept no responsibility whatsoever if, as a result of any failure or omission by the ASP or a buy-in agent, or any failure or omission occurring in the ASP's systems, the Clearing House fails to settle or deliver any EquityClear Eligible Instruments or cash consideration by the times set out in these Procedures or the rules of the ATP, or at all. In addition, the Clearing House can accept no responsibility whatsoever for any instructions issued to an ASP under a Power of Attorney.

## 1.11 Failed Settlement

### 1.11.1 Buying-In for settlement fails (excluding Iberclear)

In the event that a settlement fail remains at the end-of-day on ISD+4, the Clearing House will automatically commence the buy-in process under this Section 1.11.1 and notify Clearing Members accordingly.

(a) Clearing House Buying-in process

The buy-in execution date ("**Buy-in Day**") will be ISD+5, except where the failed settlement is covered by the registered market maker scheme in which case it will be ISD+11.

The Clearing House will instruct for settlement a successful buy-in against the failing Selling Member. The consideration will include any transaction charges arising from the buy-in execution. The failing Selling Member is required to match the Clearing House's instruction.

It remains the responsibility of the Selling Member to ensure that the bought in transaction settles on the ISD and that the financial instruments delivered by the Clearing House are used to settle the original outstanding transaction against which the buy-in-report was issued. If the financial instruments are not used to satisfy the original outstanding transaction, then the Clearing House will immediately instigate a further buy-in.

- (b) If the Clearing House is unable or for any reason fails to buy-in the full amount of such financial instruments on Buy-In Day, the Clearing House will use commercially reasonable efforts to buy-in thereafter. If, by the close of business on the twentieth business day after ISD, the Clearing House has not successfully bought-in the full amount of such financial instruments, the Clearing House may "cash settle" the relevant EquityClear Contract(s) pursuant to Section 1.11.3.

Where a Buy-in is executed, the Selling Member concerned will be liable to pay the Clearing House for all costs and expenses incurred by the Clearing House in carrying out the buying-in. Such costs and expenses will include any transaction and other charges incurred by the Clearing House to its buy-in agent. The Clearing House will also charge an administration fee per buy-in executed. This administration fee will be charged to the Clearing Member in accordance with standard Clearing House procedures at the beginning of each calendar month (for the previous month's charges). The Clearing House is entitled to collect such costs, expenses, administration fee and applicable VAT through the PPS and debit the appropriate PPS account of that Selling Member accordingly.

#### 1.11.2 Buying-In for Iberclear settlement fails

In the event that an Iberclear settlement failure remains after the last settlement cycle on ISD+4 the Clearing House will automatically commence the buy-in process under these Procedures and notify Clearing Members.

- (a) Clearing House Buying-in process

The Clearing House will buy-in a fail using commercially reasonable efforts. The buy-in execution date will be ISD+4 ("**Iberclear Buy-in Day**"). The consideration will include any transaction charges arising from the buy-in execution. The Clearing House will cancel the original fail with the failing Selling Member and instruct a cash only payment for the balance between the original fail and the buy-in.

Where a buy-in is executed, the Selling Member concerned will be liable to pay the Clearing House for all costs and expenses incurred by the Clearing House in carrying out the buying-in. Such costs and expenses will include any transaction and other charges incurred by the Clearing House to its buy-in agent. The Clearing House will also charge an administration fee per buy-in executed. This administration fee will be charged to the Clearing Member in accordance with standard Clearing

House procedures at the beginning of each calendar month (for the previous month's charges). The Clearing House is entitled to collect such costs, expenses, administration fee and applicable VAT through the PPS and debit the appropriate PPS account of that Selling Member accordingly.

- (b) If the Clearing House is unable or for any reason fails to buy-in the full amount of such securities on the Iberclear Buy-In Day, the Clearing House will use commercially reasonable efforts to buy-in thereafter. If, by the close of business on the fifth business day after ISD, the Clearing House has not successfully bought-in the full amount of such securities, the Clearing House may cash settle the relevant EquityClear Contract(s) pursuant to Section 1.11.4.

### 1.11.3 Cash Settlement for settlement fails (excluding Iberclear)

In the event that buying in settlement cannot be achieved as described in Section 1.11.1 after ISD+20, the Clearing House may cash settle any outstanding transactions at such price as the Clearing House may determine in its absolute discretion. Buying members should note that, where an interoperating CCP cash settles under a linked contract, cash settlement may occur prior to ISD+20.

The Clearing House will delete the outstanding transactions in the relevant ASP, which the Buying and Selling Members will be required to match delete (where applicable) by the close of settlement no later than 24 hours after the Clearing House deletion. The Clearing House will enter a cash only delivery into the relevant ASP for settlement as soon as possible for the relevant cash settlement amount.

Where the member fails or omits to match the cash only instruction input by the Clearing House, then the Clearing House reserves the right to collect or pay the relevant funds through the PPS account of the Clearing Member.

Where the price determined by the Clearing House is below the original traded price at the time cash settlement occurs, the Clearing House will pass onto the Buying Member any credit due to the Selling Member as a result of the cash settlement.

In the situation where the Clearing House holds cross-settled, EquityClear Contracts i.e. the transaction considerations may not be equal, the Clearing House may, in its absolute discretion, charge the Buying Member and/or Selling Member such amounts as is necessary to ensure that the Clearing House does not incur a loss.

Where settlement of any EquityClear Eligible Instruments cannot take place because of a court, administrative or regulatory order or because of an insolvency event affecting the Issuer of such financial instruments, or any of the above, the Clearing House may in its discretion, give notice to Clearing Members who are party to open EquityClear Contracts in respect of those financial instruments, 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 zero.

#### 1.11.4 Cash Settlement for Iberclear settlement fails

In the event that buying in settlement cannot be achieved as described in Section 0 by the close of business on ISD+5, the Clearing House may cash settle any outstanding transactions at such price as the Clearing House may determine in its absolute discretion. Buying members should note that, where an interoperating CCP cash settles under a linked contract, cash settlement may occur prior to ISD+5.

The Clearing House will delete the outstanding transactions in the relevant ASP. The Clearing House will enter a cash only delivery into the relevant ASP for settlement as soon as possible for the relevant cash settlement amount.

Where the price determined by the Clearing House is below the original traded price at the time cash settlement occurs, the Clearing House will pass onto the Buying Member any credit due to the Selling Member as a result of the cash settlement.

In the situation where the Clearing House holds cross-settled, EquityClear Contracts i.e. the transaction considerations may not be equal, the Clearing House may, in its absolute discretion, charge the Buying Member and/or Selling Member such amounts as is necessary to ensure that the Clearing House does not incur a loss.

Where settlement of any EquityClear Eligible Instruments cannot take place because of a court, administrative or regulatory order or because of an insolvency event affecting the Issuer of such financial instruments, or any of the above, the Clearing House may in its discretion, give notice to Clearing Members who are party to open EquityClear Contracts in respect of those financial instruments, 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 zero.

### 1.12 Cash penalties for delays in settlement

1.12.1 The Clearing House may impose an LCH Cash Penalty on any Failing Clearing Member for each Settlement Fail, calculated on a daily basis, for each business day that a Settlement Fail is continuing. The amount of such LCH Cash Penalty shall be determined by the Clearing House in its absolute discretion.

1.12.2 The Clearing House may collect and distribute EU CSDR Cash Penalties, in respect of failed settlement instructions submitted to an ASP, to and from the relevant EquityClear Clearing Members. If, in relation to an ASP and a business day, the aggregate amount of EU CSDR Cash Penalties that the Clearing House determines is payable by it to EquityClear Clearing Members exceeds the aggregate amount of EU CSDR Cash Penalties it determines is payable from EquityClear Clearing Members to it, the Clearing House may recover such loss



from all EquityClear Clearing Members on a pro rata basis as an additional fee for the EquityClear service.

### 1.13 **Margin (Failed Settlements)**

The Clearing House will continue to apply initial and variation margin obligations until settlement is achieved.

### 1.14 **Bad Delivery**

Where settlement is unfulfilled or unwound within the system of the ASP for any reason, then the Clearing House has the right to give such directions as it considers appropriate to the Clearing Members who are party to the relevant EquityClear Contracts in order that settlement and delivery may be achieved at the earliest opportunity.

### 1.15 **Tax Liability**

In the event that the Clearing House incurs any liability to pay any tax (including but not limited to any stamp duty, income tax, withholding tax and corporation tax) in respect of any dividend or other income or taxable benefit from any EquityClear Eligible Instrument or in respect of any Corporate Event related to any EquityClear Eligible Instrument (in each case being an EquityClear Eligible Instrument which is the subject of an EquityClear Contract), then it shall have the right to require

reimbursement in respect of such tax liability and any costs and other expenses incurred by the Clearing House in relation thereto, from the Clearing Member who is or was party to the EquityClear Contract concerned, and whom, in the Clearing House's reasonable opinion should be responsible for meeting such tax payment, costs and expenses. The Clearing House is entitled to debit such amounts from the relevant PPS account of that Clearing Member.

Clearing Members are requested to familiarise themselves with all relevant requirements and procedures of each relevant ASP with regard to withholding and other taxes.

### 1.16 **Corporate Actions**

All key terms referred to in this Section 1.16 have the meanings set forth in a Glossary annexed to this document as Schedule 1.

#### 1.16.1 Introduction

This Section 1.16 sets out the Clearing House's generic process for managing Corporate Actions that arise in relation to EquityClear Contracts arising from a trade executed, or a match effected, on any ATP (each, an "**ATP Match**"). If there are specific differences that apply to any of the ATPs they may be identified below.

Where a Corporate Action occurs that is not addressed in this Section 1.16, the Clearing House will, where necessary, direct Clearing Members as to the process they will be required to follow.

### 1.16.2 Corporate Actions for ccCFDs

Unless otherwise stated, the provisions of Section 1.16.4 to Section 1.16.9 apply only to Corporate Actions for EquityClear (Equities) Contracts. The provisions of Section 1.16.4 to Section 1.16.9 that relate to Corporate Actions for EquityClear (ccCFD) Contracts are clearly identified.

Further information relating to the management of Corporate Actions for EquityClear (ccCFD) Contracts is set out in the ccCFD Corporate Action Management Policy document that is available from the Clearing House or in the Corporate Action Policy of the trading venue, where relevant. The ccCFD Corporate Action Management Policy document forms part of the Clearing House's Procedures and should be read in conjunction with the provisions of this Section 1.16 and Section 1.1.8.

### 1.16.3 Governing Principles

#### (a) Liability of the Clearing House

While the Clearing House will do what it reasonably can to do the things set out in these Procedures, it shall have no liability for any loss or damage arising out of or connected with any act or omission on its part or on its behalf in connection with any Corporate Action. The Clearing House shall be under no obligation to give effect to any instruction made by or on behalf of a Clearing Member or do any act required to obtain any benefit, dividend, stock or other thing arising out of such Corporate Action.

The Clearing House shall not be responsible for any act or omission with regard to any Corporate Action (for example a rights issue, dividend or Cash Equivalent Dividend Payment or other corporate entitlement) relating to any EquityClear Eligible Instrument which is the subject of any EquityClear Contract, other than as set out in these Procedures.

#### (b) Corporate Action information and accuracy

The Clearing House does not provide Clearing Members with any information in relation to Corporate Actions announcements. The Clearing House is not responsible for forwarding any information or delivering any notice or instruction received.

The Clearing House is not responsible for, and accepts no liability in relation to, the accuracy for any relevant data provided by ASPs or information vendors in regard to Corporate Action events but will make reasonable efforts to resolve any difference highlighted by Clearing Members.

#### (c) Clearing House processing of Corporate Actions

The Clearing House will not process any Corporate Action consisting of a right to vote.

The Clearing House will process Corporate Actions on Entitled Transactions or Positions (which includes unsettled and Pending Transactions) as set out in these Procedures and based on its records of those transactions or positions. Where net settlement arrangements apply, the Clearing House will calculate and apply Corporate Actions to a Clearing Member's net position and not to the individual trades making up that position.

In the case of any uncertainty as to how a Corporate Action should be treated, the Clearing House, at its absolute discretion, will determine the treatment of any specific Corporate Action as appropriate. This includes situations where the Clearing House is unable to settle a particular corporate event outturn.

Where permitted, Clearing Members are responsible for notifying the Clearing House of an election in relation to a Corporate Action in accordance with these Procedures. The Clearing House will not solicit responses from Clearing Members on elective events and will only act upon an instruction received from Clearing Members given in accordance with these Procedures. The Clearing House reserves the right to reject any elections from Clearing Members that would result in a residual outturn or an outturn that cannot be settled by the Clearing House.

Except as otherwise provided in these Procedures or the Rulebook, each Clearing Member (and/or its Settlement Agent) is solely responsible for the notification, satisfaction and reconciliation of any entitlement that is the result of a Corporate Action. All claims must be settled on the ISD and Clearing Members must not take any action to prevent timely settlement.

If a Corporate Action results in the creation of a position in cash or securities, the Clearing House will calculate and collect the Collateral required in respect of the initial margin and/or variation margin on a case-by-case basis. Each Clearing Member should ensure that it has made appropriate arrangements to meet such margin calls.

(d) Clearing Member Obligations

The terms of a Corporate Action will establish whether a Clearing Member is affected by that event. It is the responsibility of the Clearing Member to ensure that it complies with the terms and conditions (including any restrictions) that apply to a Corporate Action. If permitted, when a Clearing Member issues a Buyer Election Notice to the Clearing House in accordance with Section 1.16.7(b), the Clearing Member agrees to indemnify the Clearing House in respect of any loss suffered by the Clearing House as a result of that Clearing Member's breach of the terms and conditions of the relevant Corporate Action.

Where a Clearing Member fails to take delivery from the Clearing House that results in the Clearing House incurring a cost due to a Corporate

Action, the Clearing House may recover such costs from the Clearing Member via the Clearing Member's PPS account.

(e) Use of Settlement Agents

The Clearing House may instruct, and may accept instructions from, a Clearing Member's Settlement Agent in relation to a Corporate Action, subject to Section 1.1.6. However, Clearing Members remain directly responsible for compliance with these Procedures, including the timely submission of any instructions that may be given by a Clearing Member and any liabilities arising as a result of a Corporate Action.

The Clearing House has no contractual relationship with a Clearing Member's Settlement Agent and shall owe no duty of care nor have any liability whatsoever to such Settlement Agent (whether that person is a 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 these Procedures.

#### 1.16.4 Mandatory Events

If the Clearing House incurs any liability to pay any tax in respect of any dividend or other income in respect of any Corporate Action then it shall have the right to require reimbursement in respect of such tax liability from the Clearing Member who is or was party to the EquityClear Contract concerned. The Clearing House is entitled to debit such amounts from the relevant PPS account of that Clearing Member.

(a) Mandatory Event with Options

**"Mandatory Events with Options"** are events such as:

- (i) scrip dividends;
- (ii) dividends payable in alternative currencies or drips; and
- (iii) specific schemes of arrangements in which the issuer of a security offers the beneficial owner a choice in the type of outturn it will receive.

In the absence of an election, Entitled Members will receive the default outturn as dictated by: (a) the terms of the event; or (b) if no event default has been announced, the default applied by the relevant ASP or the Clearing House.

#### Dividends with options

If a Mandatory Event with Options is a dividend with options, then the Clearing House will accept Buyer Election Notices on scrip dividends and currency election dividends in accordance with the process described in Section 1.16.7. If no election is received, the Clearing House will apply the default as dictated by the terms of the event or, if

the event does not have a default, the option applied by the relevant ASP or the Clearing House, as the default option.

#### Interim Securities

In some local markets, a Mandatory Event with Option may be processed by distributing to Entitled Members an Interim Security representing the options available. In those markets, transactions reflecting the Interim Securities will be automatically created by the ASP or Clearing House if an Open Transaction is open over the Record Date. In such cases, the Clearing House will attempt to settle these Interim Securities prior to any election deadlines. However, if on the Effective Date there are still outstanding Interim Securities in respect of optional cash distribution events, then the default option will be applied to the open interim transactions and the Interim Securities will be transformed accordingly.

#### Last Time for Delivery of nil paid rights in CREST

In the case of CREST, Selling Members are not permitted to deliver nil paid rights after the last time for delivery (the last time for delivery, unless otherwise advised, is the close of settlement in the CREST, one Business Day prior to the registrar's deadline for call payments, registration or elections).

In the event that nil paid rights are delivered by a Selling Member after the last time for delivery, the Clearing House will attempt to deliver the securities back to the Selling Member, who will remain liable for delivering the chosen option as required by the Buying Member.

#### Other events

For all other Mandatory Events with Options, the buyer election process set out at Section 1.16.7 will be followed.

For ccCFDs, Members will not be permitted to elect upon Mandatory Events with Options and the default will be applied as determined by the Clearing House or by the trading venue, where relevant. Therefore, the procedures outlined in Section 1.16.7 do not apply to Buying Members with ccCFD positions. Selling Members holding short ccCFD positions subject to a Mandatory Event with Options will be liable for the default outturn due.

### 1.16.5 Voluntary Corporate Actions

Voluntary Corporate Actions are events such as tender offers, takeovers or calls on rights securities. An Entitled Member may choose whether or not to participate in a Voluntary Corporate Action.

A Buying Member that is an Entitled Holder may submit a Buyer Election Notice in relation to a Voluntary Corporate Action, in accordance with the buyer election process detailed below at Section 1.17.7.

In the absence of an election from the Buying Member, the default option of the Voluntary Corporate Action will be applied to Entitled Transactions. Where a Voluntary Corporate Action does not have a default option, the default is set by the relevant ASP or the Clearing House. In most cases the default option is no action, and the Entitled Transaction will not be affected.

For ccCFDs, Members will not be permitted to elect upon voluntary events and the default will be applied as determined by the Clearing House or by the trading venue, where relevant. Therefore, the procedures outlined in 1.16.7 do not apply to Buying Members with ccCFD positions. Selling Members holding short ccCFD positions subject to a voluntary event will be held liable for the default outturn due.

#### 1.16.6 Conversion

If, as a result of a Mandatory Event or a Voluntary Corporate Action, a security that a Selling Member is obliged to deliver to the Clearing House (the "**Original Security**") is to be transformed into, or replaced by, a different security (the "**Outturn Security**") on a day (the "**Conversion Date**") (such event, the "**Conversion**") and:

- (a) such Selling Member delivers the Original Security to the Clearing House in satisfaction of its obligations to the Clearing House, but fails to do so before the cut-off time (as reasonably determined by the Clearing House, after taking into account information received from the relevant ASP, registrar and/or Issuer as to the proposed Conversion) on the Conversion Date, such that the Clearing House is unable to deliver the Original Security to a Buying Member entitled to receive it; and
- (b) on the Conversion Date, instead of the Clearing House receiving an entitlement to the Outturn Security (in place of the Original Security) from the relevant ASP or registrar, it receives (for any reason whatsoever) an entitlement to a different security than the Outturn Security (in place of the Original Security) (such different security, the "**Mismatch Security**"),

then the Clearing House shall have the right to require reimbursement from such Selling Member of any cost, expense or liability the Clearing House may incur in connection with the Selling Member's failure in Section 1.14.6(a) (including, without limitation, any liability the Clearing House incurs in selling the Mismatch Security to, and purchasing the Outturn Security from, a third party broker, in order to deliver the Outturn Security to a Buying Member). The Clearing House is entitled to debit the amount of such reimbursement from the relevant PPS account of such Selling Member.

#### 1.16.7 Buyer Election Process

An Entitled Member may notify the Clearing House of its election in relation to a Mandatory Event with Options or a Voluntary Corporate Action by submitting a Buyer Election Notice in accordance with the following procedures.

(a) Deadlines and Interim Securities

The CCP Deadline is the time set by the Clearing House by which an Entitled Holder must submit a Buyer Election Notice. The CCP Deadline is based on the terms of the Corporate Action and any restrictions applied by the ASP and/or the Clearing House's Settlement Agent. Schedule 2 sets out the relevant CCP Deadlines by type of event.

In markets in which Interim Securities are distributed as part of the initial event, such as a rights issue, for the purposes of processing these events these Interim Securities transactions will be treated as Open Transactions.

(b) Buyer Election Notices

Buying Members that have not received their securities or Interim Securities on or before the relevant Deposit Deadline or Acceptance End Date and that choose to participate in a Corporate Action, must submit a correctly completed "**Buyer Election Notice**" (see Schedule 4) to the Clearing House via email the Clearing House contacts specified in that notice.

A Buyer Election Notice must be submitted before the relevant CCP Deadline. It is the Buying Member's responsibility to ensure that receipt of the Buyer Election Notice is confirmed by the Clearing House.

Notwithstanding the receipt of a correctly formatted Buyer Election Notice, if prior to the Market Deadline, the Clearing House is in a position to deliver the Eligible Instruments underlying the Open Transactions or Interim Securities, or a partial of either by splitting the instruction, then it reserves the right to do so.

(c) Allocation Notices

Buyer Election Notices that are received from Buying Members by the CCP Deadline will be allocated to Selling Members with relevant Entitled Transactions using the Allocation Methodology. The Clearing House will notify Selling Members of the allocation via an "**Allocation Notice**".

Allocation Notices are created using the Allocation Methodology that matches Buying Members with Selling Members in the following order: (1) an outstanding settlement obligation of equal size; then (2) an outstanding settlement obligation of greater size; and (3) an outstanding settlement obligation of greatest size (i.e. the largest available if the largest available is smaller than the elected position).

The allocation process will be completed by the times outlined in Schedule 2. The Clearing House will apply reasonable endeavours (but shall not be required) to notify, and confirm receipt by, those Selling Members to whom liability is allocated prior to the Allocation Deadline.

The Clearing House may, if it reasonably determines that the circumstances warrant, accept a Buyer Election Notice after the CCP Deadline in which case (and notwithstanding any Allocation Deadline), the Clearing House will allocate that election to Selling Members with Entitled Transactions in accordance with the Allocation Methodology as promptly as practicable thereafter.

Each Selling Member should note that if it holds an Entitled Transaction (including by reason of a failure to match its settlement obligations), the Clearing House may issue that Selling Member with an Allocation Notice to satisfy a Buyer Election Notice. Accordingly, each Selling Member should be prepared to fulfil any Allocation Notice that it receives, in accordance with these Procedures.

If by the CCP Deadline, a Selling Member has not settled an Entitled Transaction, that Selling Member will be liable for the outturns of the offer in addition to other actions (e.g. buy-in) that may result from its failure to deliver, as provided in these Procedures.

(d) Clearing House Holdings at an ASP

In the event that the quantity of Buyer Election Notices received from Buying Members exceeds the quantity of Selling Member Entitled Transactions, then, in the event that the Clearing House maintains a holding of an Eligible Instrument at an ASP that is subject to a Corporate Action, the Clearing House shall use its reasonable endeavours to satisfy the excess Buyer Election Notices by electing an appropriate quantity of its holding at the ASP.

If a Selling Member fails to deliver the relevant Eligible Instruments by the last time to deliver before the CCP Deadline and the Clearing House is unable to elect its holding at the ASP, then any loss incurred by the Clearing House will be allocated and charged to those Selling Members responsible for late delivery.

(e) Selling Member delivery

A Selling Member with Entitled Transactions (including holders of short ccCFD positions) who has received an Allocation Notice from the Clearing House is bound by that Allocation Notice. That Selling Member can only deliver the original or the Interim Securities prior to the last time to deliver before the CCP Deadline.

After the CCP Deadline, a Selling Member who has received an Allocation Notice must deliver the new transformed securities or the relevant outturn distribution. In the event that a Selling Member delivers the original or Interim Securities, and the Buying Member (or its agent) declines to accept delivery of such Securities then the Clearing House will return those same securities to the Selling Member and the Selling Member is obliged to deliver to the Clearing House the new transformed securities or relevant outturn distribution in accordance with such



directions as may be given by the Clearing House. Once the Corporate Action is finalised, if a further transformation or distribution is required the Clearing House procedures outlined at Section 1.16.4 for Mandatory Events will be followed.

If, in relation to an Entitled Transaction, a Selling Member's delivery of the underlying securities: (a) may prevent the Clearing House from creating an Allocation Notice; (b) will require the Clearing House to elect its Holding at an ASP; or (c) occurs after the CCP Deadline, then the Clearing House reserves the right to block settlement, or refuse a full or partial delivery, or to return the securities received.

(f) Buyer Elections Process: CREST

Please refer to the EUI manual regarding the buyer election process in CREST.

(g) Buyer Elections Process: SIX SIS

Please refer to SIX SIS regarding its buyer election process

(h) Failure of Selling Member to deliver

If a Selling Member fails to deliver the relevant securities to the Clearing House by the Deposit Deadline, the Clearing House may be unable to make a corresponding delivery on to the Buying Member. As a result, the Buying Member may not be able to deliver the underlying stock to the MPA or SIS in order to participate in the Corporate Action. In such circumstances, the Clearing House will allow the Buying Member to submit a Buyer Election Notice or cash claim directly to the Clearing House provided such details are received by the Clearing House no later than two hours after the Deposit Deadline for SIS. Such notification must be made by email to the address notified on the website. No other method of notification is permitted. If the Buying Member does not submit a Buyer Election Notice by the required time, then the Buying Member will lose any election rights.

The Clearing House will validate Buyer Election Notices that it receives and will allocate valid elections to appropriate Selling Members via Allocation Notices. The allocation process will be completed by the close of business (5 p.m. London time) on the CCP Deadline (as applicable) + 1 (the "**Allocation Deadline**") or as soon as practicable thereafter.

Following allocation, the Clearing House will create settlement instructions in SIS for the relevant entitlement on a T+2 basis. Such settlement instructions will usually be entered by the Clearing House by 17:30 hours London time on the day which is two business days after the delivery deadline but this process may take longer where there are a large number of instructions to be created.

(i) Failure to make or accept delivery

Where a Selling Member has been issued with an Allocation Notice and fails or omits to deliver stock to the Clearing House by one hour prior to the delivery deadline, this will be deemed to be a settlement failure. The Clearing House may charge that Selling Member an administration fee, which sum may be collected by the Clearing House through the relevant PPS account.

If a settlement failure arises due to the failure or omission of the Buying Member to take delivery of the relevant stock from the Clearing House, that Buying Member will lose its election rights.

#### 1.16.8 Fractional Entitlements

The Issuer of an Eligible Instrument determines whether an amount known as a "**Fractional Entitlement**" is payable to a Buying Member as a result of a Corporate Action. If the Clearing House has Open Transactions that are subject to a Fractional Entitlement then, depending on local market practice, that Fractional Entitlement will be managed by the Clearing House, the relevant ASP or the Clearing House's Settlement Agent.

In markets in which Fractional Entitlements are managed by the relevant ASP or the Clearing House's Settlement Agent, the ASP or the Clearing House's Settlement Agent will distribute the entitlement, or set up claims representing the entitlement to reflect the cash due under the terms of the event. The ASP or the Clearing House's Settlement Agent will credit and debit the affected accounts maintained by the Clearing House's Settlement Agent and Members' Settlement Agents, either on the Effective Date or on receipt/payment dates of the claims. The Clearing House reserves the right to debit or credit a Clearing Member's PPS account if a claim remains outstanding for 30 days or more.

Where the Fractional Entitlement is not dealt with by the ASP or the Clearing House's Settlement Agent the Clearing House will accept a claim from a Buying Member, and pass on the claim to the relevant Selling Member. It is a Buying Member's responsibility to submit such claims and the Clearing House will not actively invite claims from Buying Members.

If a Buying Member issues a claim for a 'Fractional Entitlement' more than one month after the Issuer determines that such entitlements are payable, such claim will be treated as invalid by the Clearing House. In relation to such claims, the Clearing House will be under no obligation whatsoever and, subject to Section 1.1.8(b), shall have no liability to the Buying Member with regard to such claim.

#### 1.16.9 UK Residual Transactions

- (a) A "**Residual Transaction**" is a stock or cash transaction
- (i) created as a result of a Corporate Action affecting an EquityClear Eligible Instrument that is settled in CREST as ASP; and
  - (ii) that cannot be settled in CREST.

If the Clearing House is aware that a Corporate Action affecting an EquityClear Contract will give rise to a Residual Transaction (a "**Residual Corporate Action**"), the Clearing House will calculate each Clearing Member's net settlement position for those Residual Transactions.

A Clearing Member's "net settlement position" in Residual Transactions is calculated by taking the total amount of any stock or cash (as the case may be) due to that Clearing Member, then deducting the total amount of any cash or stock due from that Clearing Member. This will provide a net amount of stock or cash due to the Clearing House from that Clearing Member, or due to that Clearing Member from the Clearing House. The calculations may include Residual Transactions with different ISDs and the Clearing House shall in its discretion determine the ISD for settlement of the net settlement position.

Clearing Members should note that the "net settlement position" referred to in this Section 1.16.9 should not be confused with net settlement of EquityClear Contracts arising from participation in net settlement arrangements as described in Section 1.10.6(b) above. Netting of Residual Transactions will take place irrespective of whether a Clearing Member has notified the Clearing House of its intention to participate in the net settlement arrangements described in Section 1.10.6(b) above.

(b) Delivery directions

A Clearing Member holding Residual Transactions will be advised by the Clearing House of the details of its net settlement position. The Clearing House will, in its sole discretion, determine the size and "shape" of batches of stock to be delivered by or to any Clearing Member and, in the event that a Clearing Member is required to deliver any stock to the Clearing House, the Clearing House will provide details of the batches in which the Clearing Member is required to deliver such stock. Such advice will generally be provided to a Clearing Member on:

- (i) Ex-Date for Residual Corporate Actions where the Record Date occurs before the Ex Date;
- (ii) Record Date plus one business day where Ex Date occurs before Record Date.

In the event that details of the net settlement positions are not available on either of these dates, the Clearing House will provide such advice as soon as reasonably practicable after such details become available.

Clearing Members are required to comply with delivery directions given by the Clearing House.

(c) Method of delivery

If a Clearing Member has been directed to make delivery in respect of a net settlement position, that Clearing Member must physically deliver the relevant documentation to the Clearing House. The delivery must:

- (i) be made on a business day;
- (ii) be delivered to the Messenger's offices of the Clearing House at 10 Paternoster Square, London, England, EC4M 7LS (unless another address is advised by the Clearing House); and
- (iii) be marked for the attention of "LCH Operations: Residual Corporate Events – Stock Delivery".

Delivery of any UK stock resulting from a Corporate Action must be made to the Clearing House in no more than two deliveries per "shape" notified by the Clearing House. If payment is required against delivery then the cash amount should be pro-rated (and input into CREST accordingly). Notwithstanding the foregoing the Clearing House reserves the right to refuse any partial delivery (including partial delivery of a "shape").

(d) Collection of Stock

The Clearing House requires Clearing Members to collect stock from its offices. The Clearing House will advise a Member due to receive stock pursuant to a Residual Corporate Event that its stock is available for collection and provide it with a reference number to be quoted upon collection.

If a Clearing Member due to receive stock fails to collect the relevant documents from the Clearing House, then the Clearing House will not accept any liability for any losses incurred as a result of such inaction.

A receiving Clearing Member is not permitted to refuse to accept a partial delivery of stock from the Clearing House.

(e) Residual Corporate Action elections

In the event that a Clearing Member may make an election in relation to a Residual Corporate Action, Clearing Members must comply with the following timetable in order to participate.

Call Payments – Instructions

The last date and time for receipt by the Clearing House of an instruction from a Buying Member is 11:00 hours London Time one Business Day prior to the call or payment date. In the event that the Clearing House receives an instruction from a Buying Member by such time but does not, for whatsoever reason, pass the instruction to the Selling Member by 11:00 hours London Time one Business Day prior to the call or payment date, the Clearing House may pass on such instruction as soon as reasonably practicable thereafter.

In the event that a Buying Member instructs the Clearing House to allow the option to lapse and, as a result of carrying out that instruction, a payment becomes due to that Clearing Member from the Clearing House, then the Clearing House will raise cash only transactions against both Buying Members and Selling Members when it is able to determine the amount of such payment. In the event that either Clearing Member fails or omits to match the Clearing House's cash only transaction within 24 hours of the Clearing House's input of such cash only transaction, the Clearing House will debit or credit that Buying Member or Selling Member, as the case may be, via their relevant PPS account.

#### Call Payments – Deliveries

The last date and time for delivery by the Selling Member to the Clearing House of any stock or cash in relation to a Residual Transaction is 10:00 hours London time one Business Day prior to the call or payment date. In the event that the Clearing House takes delivery of any such cash or stock from a Selling Member prior to such time but the Clearing House does not, for whatsoever reason, deliver to the Buying Member by such time, the Clearing House may deliver such cash or stock to the Buying Member as soon as reasonably practicable thereafter.

Where the Selling Member has failed to deliver by the deadline set out above, and the Buying Member has failed to send a Buyer Election Notice to the Clearing House by the deadline set out above, the Clearing House will allow the default option in the Residual Corporate Action to occur. In the event that the default option involves the payment of cash then the Clearing House will input into CREST against the Clearing Members an appropriate instruction to give effect to this, or will call or pay (as the case may be) the relevant cash amounts via the relevant PPS accounts.

#### Lapsed Rights Proceeds

Where a Buying Member issues a claim for lapsed proceeds more than one month after the appropriate deadline nominated by the issuer for acceptance of an offer in respect thereof, such claim shall be treated as invalid by the Clearing House, and the Clearing House shall be under no obligation whatsoever (and, subject to Section 1.1.8(b), shall have no liability in respect thereto) to make any payment to the Buying Member with regard to the lapsed rights premium associated therewith.

#### Last Time for Delivery of nil paid rights

In the case of CREST, Selling Members are not permitted to deliver nil paid rights after the last time for delivery (the last time for delivery, unless otherwise advised, is the close of settlement in the CREST, one Business Day prior to the registrar's deadline for call payments, registration or elections).

In the event that nil paid rights are delivered by a Selling Member after the last time for delivery, the Clearing House will attempt to deliver the securities back to the Selling Member, who will remain liable for delivering the chosen option as required by the Buying Member.

#### Registration of Documents

Where the Clearing House has made delivery of application forms/allotment letters to a Buying Member by the last date and time for delivery and such Selling Member Fails or omits to register/complete such forms in respect of lapsed rights proceeds, then the Clearing House may in its absolute discretion, charge an administration fee of a minimum of £50 plus VAT to the Buying Member in the event that the Clearing House has to pass on such proceeds.

### 1.17 [INTENTIONALLY LEFT BLANK]

## 1.18 EquityClear Client Clearing

### 1.18.1 EquityClear Client Clearing – Ancillary Documentation

#### (a) Security Deed

Unless specified otherwise by the Clearing House, an EquityClear 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 EquityClear Clearing Member is required to ensure that it includes certain language in its agreement with its EquityClear Clearing Client (the "**Clearing House Prescribed Language**"). The Clearing House Prescribed Language is shown at Schedule 1 of Section 1 of the Procedures.

EquityClear 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>

### 1.18.2 Backup Clearing Members

An EquityClear Clearing Client may, at any time, appoint one or more Backup Clearing Member(s) in respect of the EquityClear Service, for the purpose of porting EquityClear Contracts entered into by an EquityClear Clearing Member on its behalf and corresponding Account Balance(s), in accordance with the Client Clearing Annex.

An EquityClear Clearing Member agrees that the Clearing House is permitted, after the Default of such EquityClear Clearing Member, to disclose the Portfolio in respect of a Relevant Client Account and EquityClear Clearing Client of such EquityClear Clearing Member, to each Backup Clearing Member appointed by such EquityClear Clearing Client in respect of the EquityClear Service.

For the purposes of this Section 1.18.2:

- (a) **“Portfolio”** means, in respect of a Relevant Client Account and a EquityClear Clearing Client (i) the Contract(s) recorded to the Relevant Client Account and entered into between the EquityClear Clearing Member that is a Defaulter and the Clearing House, in respect of such EquityClear Clearing Client, (ii) the Account Balance(s) recorded to the Relevant Client Account and attributable to such EquityClear Clearing Client, and (iii) such other related information as determined by the Clearing House in its sole discretion; and
- (b) **“Relevant Client Account”** means, in respect of an EquityClear Clearing Member that is a Defaulter and an EquityClear Clearing Client, a Client Account (i) in the EquityClear Service and in the name of such EquityClear Clearing Member, and (ii) attributable to such EquityClear Clearing Client (and, as applicable, one or more other EquityClear Clearing Client(s)).

#### 1.19 **Indirect Clearing (EquityClear (ccCFD) Contracts only)**

1.19.1 In circumstances where an early termination date (howsoever described) occurs in respect of all of the transactions between an EquityClear Clearing Member and an EquityClear Clearing Client acting on behalf of Indirect Clearing Clients comprising an Indirect Gross Account in respect of which such EquityClear Clearing Member (i) is a party to Related EquityClear (ccCFD) Contracts and (ii) at the time of such early termination date, is not a Defaulter, that EquityClear 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 EquityClear Clearing Member notifies the Clearing House of a Backup Client in respect of the relevant Indirect Clearing Client, transfer all of the open Related EquityClear (ccCFD) 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 EquityClear Clearing Member has opened in respect of such Backup Client (a **“Client to Client Porting”**);
- (b) transfer all of the open Related EquityClear (ccCFD) 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 EquityClear Clearing Member directly on behalf of

such Indirect Clearing Client who shall, after such transfer, become an EquityClear Clearing Client in respect of such Client Account; or

- (ii) a new or existing Omnibus Segregated Account opened within the Clearing House by the EquityClear Clearing Member where such Indirect Clearing Client shall, after such transfer, become an EquityClear Clearing Client in respect of such Omnibus Segregated Account,

(each, a "**Direct Account Opening**"); or

- (c) transfer all of the open Related EquityClear (ccCFD) 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 EquityClear 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.

1.19.2 Each of the steps referred to in paragraphs 1.19.1(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 EquityClear Clearing Member to the relevant EquityClear Clearing Client or from the relevant EquityClear Clearing Client to the EquityClear 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 EquityClear Clearing Member to the relevant EquityClear Clearing Client and the relevant Indirect Clearing Client confirming that the EquityClear 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 EquityClear (ccCFD) Contracts referable to such Indirect Clearing Client;



- (c) the EquityClear Clearing Member having satisfied the Total Required Margin Amount in respect of the relevant account to which the Related EquityClear (ccCFD) Contracts are being transferred;
- (d) the Clearing House receiving an indemnity from the EquityClear 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 EquityClear 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 (ccCFD) EquityClear Contracts within 24 hours of the receipt of the documents listed in Section 1.19.2(a) to (e).

For the purposes of this Section 1.19, a "**Related EquityClear (ccCFD) Contract**" means, in respect of a transaction between an EquityClear Clearing Member and an EquityClear Clearing Client which has been terminated on an early termination date, the open position represented by the EquityClear (ccCFD) Contract entered into with the Clearing House by such EquityClear Clearing Member on behalf of the relevant EquityClear Clearing Client on equal and opposite terms to such transaction.

## 1.20 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 EquityClear Clearing Members following an Equities Determination Date will (subject to the Default Rules) be repaid to EquityClear 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 EquityClear 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 EquityClear Clearing Members to the Clearing House.

## 1.21 **Stamp Data Provider**

The Clearing House will act as a CREST Stamp Data Provider (SDP). It will send Stamp Assessed Trades (SATs) to the CREST Stamp Duty Assessment service for all trades it nets or aggregates prior to instructing such settlements into CREST. The Clearing House is passing on the SATs and does not accept any responsibility for either the SATs provided to CREST or the outcome of the service provided by CREST Stamp Duty Assessment.

It is the responsibility of the CREST Settlement Participant to authorise the Clearing House as its SDP in CREST.

## SCHEDULE 1 DEFINITIONS

"**Acceptance End Date**" means the final date by which election instructions may be submitted to participate in a Voluntary Corporate Action, as dictated by the Issuer.

"**Acceptance Start Date**" means start of the period during which election instructions may be submitted to participate in a Voluntary Corporate Action, as dictated by the Issuer.

"**Allocation Methodology**" means the methodology by which the Clearing House will allocate transactions to selling members.

"**Buying Member**" means a Clearing Member which is party to an EquityClear Contract as buyer.

"**Cash Equivalent Dividend Payment**" means cash equivalent paid on an equity ccCFD based on the dividend paid by the Issuer on the underlying Instrument.

"**ccCFD**" means an EquityClear (ccCFD) Contract. Unless specified otherwise, this includes all types of ccCFD contracts.

"**CCP Deadline**" means the last time the Clearing House will accept a Buyer Election Notice from an entitled Buying Member, as set out in Schedule 2.

"**CCP Services in EUI**" means the CREST central counterparty service comprises arrangements with the CCP involving services which, in combination, facilitate or otherwise relate to the performance by the CCP concerned of certain central counterparty functions. These arrangements involve the provision of services and facilities to 'CCP' participants and CREST central sponsors.

"**Conversion**" has the meaning specified in Section 1.14.6.

"**Conversion Date**" has the meaning specified in Section 1.14.6.

"**Corporate Action**" means an event initiated by a company that affects the securities (equity or debt) issued by the company. Some corporate actions such as a dividend (for equity securities) or coupon payment (for debt securities (bonds)) may have a direct financial impact on the shareholders or bondholders; another example is a call (early redemption) of a debt security. Other corporate actions such as stock split may have an indirect impact, as the increased liquidity of shares may cause the price of the stock to rise. Some corporate actions such as name change have no direct financial impact on the shareholders.

"**CSD**" means a central securities depository.

"**Deposit Deadline**" means the date by which a Selling Member must deliver financial instruments to the Clearing House to enable the Clearing House to participate in a Corporate Action, or to enable the Clearing House deliver onto a Buying Member so the Buying Member can participate in the Corporate Action.

"**Depository Receipts**" means the LSE's International Order Book trading service and depository receipts traded on other ATPs.

"**Distribution**" means an outturn due on a Corporate Action based on the terms of the event and usually paid in cash or stock. "**Effective Date**" means the date on which shares can start trading. This usually refers to the date when new shares are issued.

"**Eligible Instrument**" means an EquityClear Eligible Equity and/or an EquityClear Eligible ccCFD (as the case may be), in each case as defined in the Rulebook.

"**Entitled Member**" means a Buying Member with an Entitled Transaction that is subject to a Mandatory Event, a Mandatory Event with Options or Voluntary Corporate Action.

"**Entitled Transactions**" means these are Open Transactions that will be affected by a Corporate Action as per the terms of that Corporate Action.

"**EU CSDR**" means Regulation (EU) No. 909/2014 of the European Parliament and of the Council of 23 July 2014, as amended from time to time.

"**EU CSDR Cash Penalty**" means, in respect of an ASP, an amount of cash calculated by the Clearing House on the basis of the cash penalties that such ASP (a) calculates, in respect of failed settlement instructions submitted by the Clearing House to such ASP, and (b) provides to the Clearing House in accordance with Applicable Law.

"**Ex-Date**" means the day the underlying security begins trading without the current announced distribution entitlement accruing to the buyer.

"**Failed Transactions**" means a settlement instruction entered into an ASP, in respect of one or more financial instruments, which has reached ISD, but has not settled at such ASP.

"**Failing Clearing Member**" means, in respect of a Settlement Fail, the Clearing Member that has failed to deliver to the Clearing House the financial instruments which are the subject of a settlement instruction pursuant to one or more EquityClear Contracts.

"**Fractional Entitlement**" means an amount of financial instruments or cash remaining following the calculation of whole entitlement based on the terms of a Corporate Action.

"**Interim Security**" means a security issued to represent the options of an elective event.

"**ISD**" means, in respect of an obligation to deliver financial instruments or pay cash, the intended settlement date of such delivery or payment.

"**Issuing company or Issuer**" shall mean the company issuing the relevant stock.

"**LCH Cash Penalty**" means an amount of cash calculated in accordance with Section 1.12.1 of these Procedures to be payable in relation to a Settlement Fail as determined by the Clearing House from time to time.

"**Mandatory Events**" means events that are initiated by an issuer of financial instruments that affects all shareholders. Participation of shareholders is mandatory though there may be an option to determine the outturn received.

"**Mandatory Events**" are split into:

- (a) **Mandatory Transformations** – such as stock splits, where the underlying transaction will be transformed into new constituents, depending on the terms of the event.
- (b) **Mandatory Distributions** – such as cash or stock dividends, where the beneficial owner will receive a separate credit of the entitlement.
- (c) **Mandatory with Options** – such as optional dividends, where a choice can be made to decide which of the potential outturns is received.

"**Mismatch Security**" has the meaning specified in Section 1.16.6.

"**Market Deadline**" means the time on the Acceptance End Date the relevant ASP or Issuer or Issuer's agent stops accepting elections. Elections made after the Market Deadline are not accepted and default action, if any, will be applied.

"**Open Transaction**" means either a Pending Transaction or Failed Transaction.

"**Original Security**" has the meaning specified in Section 1.16.6.

"**Outturn Security**" has the meaning specified in Section 1.16.6.

"**Pay Date**" means date on which entitlements are distributed.

"**Pending Transactions**" means transactions, entered into under the terms of an EquityClear Contract, that have not yet reached the ISD.

"**Record Date**" means the day the issuer/registrar captures position for determining holders entitled to receive a distribution.

"**Selling Member**" means a Clearing Member that is party to an EquityClear Contract as seller.

"**Settlement Agent**" means an agent or custodian appointed by either the Clearing House or a Member to settle its security activity at an ASP.

"**Settlement Fail**" means the failure of a Clearing Member to deliver financial instruments or cash to the Clearing House in accordance with its obligations in the Rulebook, in respect of one or more financial instruments, on the ISD for such obligations, but excluding a failure to deliver Collateral to the Clearing House.

"**Settlement Failure Netting**" means the process by which the Clearing House will net a Clearing Member's obligation(s) to deliver one or more EquityClear Eligible Instruments to the Clearing House under one or more Failed Transaction(s) against such Clearing Member's rights to receive one or more of the same type of EquityClear Eligible Instrument under one or more Failed Transaction(s), and the settlement of the resulting net obligation at the ASP in accordance with, and subject to, the rules and procedures of the ASP.

"**Service Description**" means the EquityClear Service Description which is available on the Clearing House website.

**"Technical Netting"** means the process by which an ASP will, at its own initiative and without instruction from a participant of the ASP, net and settle settlement instructions which have not yet settled at the ASP in accordance with, and subject to, the rules and procedures of the ASP.

**"Trade Date"** means the date on which a trade between two counterparties in a security is transacted.

**"Transformation"** means the change of a security into another security or cash following a Corporate Action.

**"Voluntary Corporate Action"** means a Corporate Action in which the share holders must elect to participate. A response is required by the Issuer to process the action.

**"VPS"** means Norwegian ASP Verdipapirsentralen's System

*Other terms used in Section 2D of the Procedures shall have the same meaning as set out in the Rulebook.*

**SCHEDULE 2  
MARKET DEADLINES**

| <b>Election Market Deadlines</b>                      |                                             |                                                    |
|-------------------------------------------------------|---------------------------------------------|----------------------------------------------------|
|                                                       | Corporate Action                            |                                                    |
|                                                       | <b>Mandatory with options/Voluntary</b>     |                                                    |
| ATP/ASP                                               | CCP Deadline*                               | Allocation Deadline**                              |
| —                                                     | —                                           | —                                                  |
| Depository Receipts                                   | 6.00pm Euroclear Deadline - 2 business days | 1:00pm Euroclear Deadline - 1 business day.        |
| SIS                                                   | Deposit Deadline + 2 hours                  | 5.00pm Deposit Deadline +1 business day            |
| EUI<br>(elections only accepted via the ACON process) | 11.00am Market deadline -1 business day     | 1:00pm Market deadline - 1 business day            |
| EUI-Residual                                          | 11.00am Market deadline -1 business day     | 11.00pm Market deadline - 1 business day           |
| All other ATP/ASP                                     | 5.00pm Expiration/Deposit Deadline          | 5.00pm Expiration/Deposit Deadline +1 business day |
| UK ccCFDs                                             |                                             | 11.00am Market Deadline + 1 business day           |

All times are London time

\* CCP            The Clearing House determined deadline representing the last time a Buyer Election notice will be accepted from an entitled Buying Member

\*\* Allocation    The Clearing House determined deadline representing by when allocation of liability to Selling Members using the Allocation Algorithm will be completed.

**SCHEDULE 3**  
**LIST OF APPROVED SETTLEMENT PLATFORMS (ASP)**

Euroclear UK & Ireland

Euroclear Bank

Euroclear Belgium

Euroclear Finland

Euroclear France

Euroclear Nederland

Euroclear Sweden

Euronext VPS (Norway)

Clearstream Banking AG (CBF - Germany)

Clearstream Banking SA (CBL – Luxembourg)

Iberclear (Spain)

Interbolsa (Portugal)

Monte Titoli (Italy)

OeKB CSD (Austria)

SIX SIS Ltd (Switzerland)



VP Securities (Denmark)

The Central Securities Depository of Poland (KDPW)

Central Securities Depository Prague (CSD Prague)

KELER Ltd (Hungary)

## The Clearing House Standard Settlement and Cash Instructions

### STOCK SSI

#### AUSTRIA:

##### OeKB

Place of settlement: OCSDATWWXXX

DEAG/REAG: CITIAT21002

BUYR/ SELL: LCHLGB2EXXX

CSD Account number (T2S SAC): OCSD275500  
(optional)

#### BELGIUM:

##### Euroclear Belgium

Place of settlement: CIKBBEBBXXX

DEAG/REAG: PAREFRPPLCH

BUYR/ SELL: LCHLGB2EVTX

CIKBPAREFRPPLCH000L10 (optional)

#### CZECH REPUBLIC:

##### Centralni Depozitar Cennych Papiru

Place of settlement: UNIYCZPPXXX

DEAG/REAG: CITICZPXXXX

BUYR/ SELL: LCHLGB2EVTX

Account number: 8880180771

#### DENMARK:

##### VP Securities

Place of settlement: VPDKDKKKXXX

95P DEAG/REAG: LCHLGB2EXXX

or

95R DEAG/REAG: VPDK/17800

BUYR/ SELL: LCHLGB2EXXX

#### FINLAND:

##### Euroclear Finland

Place of settlement: APKEFIHHXXX

DEAG/REAG: LCHLGB2EXXX

BUYR/ SELL: LCHLGB2EXXX

CSD Account number: 89 3000 12511788 7 (optional)

#### FRANCE:

##### Euroclear France

Place of settlement: SICVFRPPXXX

DEAG/REAG: PAREFRPPLCH  
BUYR/ SELL: LCHLGB2EVTX  
CSD Account number (T2S SAC):  
SICVPAREFRPPLCH000L10 (optional)

**GERMANY:**

**Clearstream German**

Place of settlement: DAKVDEFFXXX  
DEAG/REAG: LCHLGB2EVTX  
BUYR/ SELL: LCHLGB2EXXX  
CSD Account number (T2S SAC): DAKV4449000  
(optional)

**HUNGARY:**

**Kozponti Elszámolohaz ES Ertektar**

Place of settlement: KELRHUHBXXX  
DEAG/REAG: KELR/0410  
BUYR/ SELL: LCHLGB2EVTX  
CSD Account number: 410/000000 (optional)

**ITALY:**

**Monte Titoli Italy**

Place of settlement: MOTIITMMXXX  
DEAG/REAG: LCHLGB2EVTX  
BUYR/ SELL: LCHLGB2EVTX  
CSD Account number (T2S SAC):  
MOTILCHLGB2EXXX8166000 (optional)

**NETHERLANDS:**

**Euroclear Netherlands**

Place of settlement: NECINL2AXXX  
DEAG/REAG: PAREFRPPLCH  
BUYR/ SELL: LCHLGB2EVTX  
CSD Account number (T2S SAC):  
NECIPAREFRPPLCH000L10 (optional)

**NORWAY:**

**Verdipapirsentralen (VPS)**

Place of settlement: VPSNNOKKXXX  
DEAG/REAG: /VPSN/45500  
BUYR/ SELL: LCHLGB2LXXX  
CSD Account number: 455004900003 (optional)

**PORTUGAL:****Interbolsa Portugal**

Place of settlement: IBLSPTPPXXX

DEAG/REAG: CITIPTPXXXX

BUYR/ SELL: LCHLGB2EXXX

CSD Account number (T2S SAC):

IBLSCITIPTPXXXXSA000000005287001510 (optional)

**POLAND:****KDPW S.A**

Place of settlement: KDPWPLPW

DEAG/REAG: CITIPLPXXXX

BUYR/ SELL: LCHLGB2EXXX

Safekeeping Account Number: 0817705000

CSD Account number: 0924 0028 (optional)

**SPAIN:****Iberclear**

Place of settlement: IBRCESMMXXX

DEAG/REAG: LCHLGB2EXXX

BUYR/ SELL: LCHLGB2EXXX

CSD Account number (T2S SAC):

IBRCLCHLGB2EXXX000000001P0EX0000001

**SWEDEN:****Euroclear Sweden AB**

Place of settlement: VPCSSESS

DEAG/REAG: LCHLGB2EXXX

BUYR/ SELL: LCHLGB2EXXX

CSD Account number: 1011872 (optional)

**SWITZERLAND:****SIX SIS AG**

Place of settlement: INSECHZZXXX

DEAG/REAG: GB1012

**UK:****EUI CREST**

Place of settlement: CRSTGB22

DEAG/REAG: LCH01

**EUROCLEAR:****EUROCLEAR**

Place of settlement: MGTCBEBEECL

DEAG/REAG: 99750

**CASH SSI:**

**EUR:** TAG 57: CITIGB2L  
TAG 58: 12306999  
LCHLGB2E

**HUF:** TAG 57: CITIHUHX  
TAG 58: 202416004  
LCHLGB2E

**PLN:** TAG 57: CITIPLPX  
TAG 58: 28103015080000000817705006  
LCHLGB2E

**SEK:** TAG 57: CITISESX  
TAG 58: 90401111875  
LCHLGB2EVTX

**CZK:** TAG 57: CITICZPX  
TAG 58: 2058350109  
LCHLGB2E

**CHF:** TAG 57: INSECHZZ  
TAG 58: 40328521  
LCHLGB2E

**NOK:** TAG 57: CITIIE2XXXX  
TAG 58: 0019338673  
LCHLGB2EVTX

\*\* NOK further instructions:

MT103 CITIIE2XXXX for credit to account 0019338673, IBAN IE81CITI99005119338673  
MT202 COV to DNB DNBANOKKXXX for credit to CITIIE2XXXX.

**DKK:** TAG 57: CITIIE2X  
TAG 58: 19338029

LCHLGB2E

\*\* DKK further instructions:

DKK please pay as follows; Intermediary Bank NDEADKKK, Account with Bank CITIE2X,  
Beneficiary LCH Clearnet Ltd IBAN IE09CITI99005119338029

**SCHEDULE 4  
BUYER ELECTION NOTICE**



**EquityClear Service**

Request for Initiation of a Corporate Action Buyer Election

Company name:

Address of Head Office:  
(or business address)

We hereby request the Clearing House to initiate Buyer Protection on the following Voluntary Corporate Action

**Corporate Action**

Company/Issuer:

Terms/Options:

Ex date

Election Date:

Pay Date:

The Open Transactions are across the following ASP

|            |                                                        |
|------------|--------------------------------------------------------|
| <b>ASP</b> | <input style="width: 95%; height: 30px;" type="text"/> |
|------------|--------------------------------------------------------|

Our Settlement Account Name and ID are as follows

|                     |                                                        |
|---------------------|--------------------------------------------------------|
| <b>Account Name</b> | <input style="width: 75%; height: 30px;" type="text"/> |
| <b>Account ID</b>   | <input style="width: 75%; height: 30px;" type="text"/> |

