



**SPONSORED CLEARING PROCEDURES OF  
LCH LIMITED**

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Except where the context otherwise requires, defined terms used herein have the meaning ascribed to them in the SC Regulations or in other portions of the SC Rulebook.

## 1. **SPONSORED MEMBER AND AGENT MEMBER STATUS**

### 1.1 **Application Procedure - Sponsored Member and Agent Member**

An application for Sponsored Member or Agent Member status of the Clearing House must be made on the appropriate form which can be obtained from the Clearing House's On-boarding Team. Additional information (including legal documents) must be supplied where necessary and submitted to the Clearing House with the completed form.

Applicants approved by the Clearing House for Sponsored Member or Agent Member status (“**Approved Applicants**”) must, within six months of notification of their approval, fulfill all conditions attached to their approval. If an Approved Applicant does not fulfill all such conditions within these six months, the Clearing House may, at its sole discretion, consider the grant of approval to have lapsed and may notify the prospective Sponsored Member or Agent Member accordingly that they will be required to provide further information following which the application will be submitted for re-approval.

The Clearing House has the right, at its sole discretion, to send a Sponsored Member’s or Agent Member’s application for re-approval at any point within six months of the Clearing House’s notification of approval, but in any event before Sponsored Member or Agent Member status (as applicable) is granted, where it considers it appropriate to do so in accordance with its internal risk management policies and procedures as amended from time to time.

Sponsored Members have the right to apply for approval to clear, and Agent Members have the right to provide Agent Member Services and/or Back-up Agent Services and where applicable, Back-up Paying Agent Services with respect to one or more of the markets cleared by the Clearing House, subject to meeting the requirements of the Clearing House in respect of each such market. Please note that Sponsored Member or Agent Member status does not provide membership of the company LCH Limited or any right to a shareholding therein, nor does it provide the right to any shareholding in LCH Group Holdings Limited or any entitlement or right to participate in any way in LCH SA or the clearing services LCH SA offers. LCH SA has its own arrangements and admission criteria for Sponsored Member and Agent Member status – see the LCH SA sections of the LCH Group website for further details.

#### 1.1.1 *Sponsored Member status*

The terms and conditions binding on each Sponsored Member are set out in the SC Rulebook (which includes these SC Procedures) and the Sponsored Membership Agreement, each as amended from time to time. Two copies of the Sponsored Membership Agreement will be provided to the applicant for Sponsored Member status who must sign both copies of each (but not date them) and return them to the Clearing House's On-boarding Team along with the application documentation.

The applicant for Sponsored Member status must pay the stipulated application fee to the Clearing House. This fee must accompany the application for Sponsored Member status and is non-refundable.

If and when Sponsored Member status is granted, new Sponsored Members will receive a duly executed (and dated) copy of the Sponsored Membership Agreement, together with the notification of acceptance and details of any condition(s) attached to Sponsored Member status.

Conditions to Sponsored Member status include, without limitation, that the Sponsored Member:

- (a) has appointed and maintains at least one Agent Member (who is an Approved Applicant) pursuant to both an Agent Member status and Sponsored Member status application form, to perform the Agent Member Services;
- (b) has either: (i) appointed another Agent Member (who is an Approved Applicant and who may or may not be an Agent Member of another Sponsored Member) to perform the Back-up Agent Services and where applicable, the Back-up Paying Agent Services for each such Agent Member appointed pursuant to paragraph (a) above; or (ii) elected to perform the Back-up Agent Services itself on the occurrence of an Agent Close-out Event in respect of the Agent Member that is performing the Agent Member Services and where applicable, elects to perform the Back-up Paying Agent Services itself on the occurrence of a Paying Agent Resignation, in respect of the Agent Member that is performing the Payment Services; and
- (c) where the Sponsored Member has elected to perform the Back-up Agent Services and where applicable, the Back-up Paying Agent Services itself, it satisfies the Back-up Agent Eligibility Criteria.

If granted, where the Sponsored Member has elected to perform the Back-up Agent Services and where applicable, the Back-up Paying Agent Services itself, Sponsored Member status is subject to:

- (a) the Sponsored Member satisfying the Back-up Agent Eligibility Criteria in Section 1.2.3; and
- (b) upon the occurrence of a relevant Agent Close-out Event , and where applicable, Paying Agent Resignation, the Sponsored Member making such transfers of margin required with respect to Contracts registered in such Sponsored Member's name and attributed to such Affected Agent Member, and where applicable such Resigning (Payment Services) Agent Member.

Sponsored Member status is subject to a corresponding Agent Member making such Contributions to the default fund(s) of the Clearing House and such Other Mutualised Contributions to the Clearing House related to the Contracts entered into by the Sponsored Member and attributed to such Agent

Member, as determined by the Clearing House under the SC Default Rules. In addition, while the Sponsored Member will be obliged to provide margin to the Clearing House with respect to Contracts registered in its name, that obligation will be discharged by the corresponding Agent Member where such corresponding Agent Member transfers such margin to the Clearing House in accordance with the Payment Services obligations in SC Regulation 6.

Sponsored Members are required to have contingency payment arrangements in place to ensure that they can continue to meet their margin obligations in the event of failure of their nominated PPS bank(s) and/or a failure by a Sponsored Member's corresponding Agent Member to meet the Payment Services obligations in SC Regulation 6. During the application process, the Clearing House will require the applicant to provide evidence of these arrangements and will test these prior to the applicant becoming a Sponsored Member. Such Sponsored Members will be required to provide evidence of their contingency payment arrangements on an annual basis at the Clearing House's request.

#### 1.1.2 *Agent Member Status*

The terms and conditions binding on each Agent Member are set out in the Agent Membership Agreement and the SC Rulebook (which includes these SC Procedures), each as amended from time to time. Two copies of the Agent Membership Agreement will be provided to the applicant for Agent Member status who must sign both copies of each (but not date them) and return them to the Clearing House's On-boarding Team along with the application documentation.

The applicant for Agent Member status must pay the stipulated application fee to the Clearing House. This fee must accompany the application for Agent Member status and is non-refundable.

If and when Agent Member status is granted, new Agent Members will receive a duly executed (and dated) copy of the Agent Membership Agreement together with the notification of acceptance and details of any condition(s) attached to Agent Member status.

If granted, Agent Member status is subject, where an Agent Member is performing the Agent Member Services, to the Agent Member:

- (a) making such transfers of margin (as paying agent) for the account of its Sponsored Member(s) (in accordance with the Payment Services obligations in SC Regulation 6), related to the Contracts entered into by the Sponsored Member(s) and attributed to such Agent Member on the Clearing Services cleared by the relevant Sponsored Member(s);
- (b) making such transfers of Collateral to such Agent Member's Agent Buffer Account for the benefit of all of the Agent Member's corresponding Sponsored Member(s), with respect to Contracts entered into by such Sponsored Member(s) and attributed to such Agent

Member on the Clearing Services cleared by the relevant Sponsored Member(s);

- (c) making such Contributions to the default fund(s) of the Clearing House and such Other Mutualised Contributions to the Clearing House related to the Contracts entered into by the Sponsored Member(s) and attributed to such Agent Member on the Clearing Services cleared by the relevant Sponsored Member(s); and
- (d) making such transfers of Collateral required as Agent Resource Contributions by the Clearing House which may be applied by the Clearing House in the default management process of any of the Agent Member's corresponding Sponsored Members,

in all cases, as determined by the Clearing House under the SC Regulations and the SC Default Rules (as applicable).

- 1.1.3 If the Agent Member has elected to provide Back-up Agent Services and where applicable, the Back-up Paying Agent Services to a Sponsored Member, Agent Member status is also subject to, upon the occurrence of a relevant Agent Close-out Event or where applicable, Paying Agent Resignation, the Agent Member making such transfers of margin for the benefit of such Sponsored Member with respect to Contracts attributed to such Defaulting Agent Member or where applicable, such Resigning (Payment Services) Agent Member.

1.1.4 *Conditions of Application*

An applicant for Sponsored Member or Agent Member status must accept that the Clearing House:

- (a) is entitled to make enquiries of any nature about the applicant and any person connected or associated with the applicant;
- (b) is entitled to ask the applicant to supply additional information and take whatever steps are necessary to verify information;
- (c) is entitled to provide and/or disclose information to an exchange, governmental department, regulatory organisation, other authority, or to the Clearing House's insurers in connection with any form of insurance, or to any person pursuant to the provisions of the Financial Services and Markets Act 2000 (as amended) and any rules made thereunder, or in accordance with any other statutory requirement, and in accordance with the terms of the Sponsored Membership Agreement or Agent Membership Agreement, as applicable;
- (d) may disclose to any other party the name, address, registered number and details of any exchange or clearing memberships held or applied for; and
- (e) will endeavor to process, consider and decide upon an application in a timely fashion, but owes no duty or obligation to the applicant to do so.

Conditions (a) to (e) apply equally to Sponsored Members and Agent Members.

1.1.5 *Notification of appointment of Agent Member*

A Sponsored Member and an Agent Member must each submit to the Clearing House an application form (which Sponsored Members and Agent Members will be required to complete when applying for Sponsored Member and Agent Member status (as applicable)), the purpose of which is to inform the Clearing House of the appointment of an Agent Member by the Sponsored Member, or the registration of a new Sponsored Member relationship for the Agent Member. The submission of the application forms executed by both the relevant Sponsored Member and the relevant Agent Member shall be definitive proof of the Sponsored Member's appointment of:

- (a) the Agent Member, to act for and on its behalf in providing the Agent Member Services; and
- (b) either: (i) the Agent Member to act for and on its behalf; or (ii) itself to act, in providing the Back-up Agent Services and where applicable, the Back-up Paying Agent Services.

The Clearing House is not obliged to verify the appropriateness or authenticity of the signatures which appear on such application forms, nor that the person signing on behalf of any of the parties had the correct authority to sign.

1.1.6 *Termination of Agent Member*

The Sponsored Member or Agent Member may terminate its Sponsored Member/Agent Member relationship in accordance with the provisions of SC Regulation 7.

Upon the termination of an Agent Member appointment in accordance with the provisions of SC Regulation 7, where such Agent Member is performing the Agent Member Services, the Sponsored Member shall not enter into new Contracts that are attributed to such Agent Member but the Agent Member will remain liable to perform all obligations it has under the SC Rulebook with respect to Contracts attributed to it until the later of: (i) the termination date as confirmed by the Clearing House following receipt of the written notice to the Clearing House in relation to such termination of the Sponsored Member/Agent Member relationship; and (ii) the date on which all Contracts registered in the Sponsored Member's name and attributed to the Agent Member have been closed out so as to ensure that there are no remaining open Contracts in respect of the Sponsored Member attributed to the Agent Member.

Upon the termination of an Agent Member appointment in accordance with SC Regulation 7, where such Agent Member is performing the Back-up Agent Services (and where applicable, the Back-up Paying Agent Services), the Sponsored Member is required to appoint another Agent Member to perform the Back-Up Agent Services (and where applicable, the Back-up Paying Agent



Services) or elect to perform its own Back-up Agent Services (and where applicable, the Back-up Paying Agent Services) pursuant to Section 1.2.2(b).

## 1.2 **Criteria for Sponsored Member Status and Agent Member Status**

### 1.2.1 *General criteria applicable to applicants for Sponsored Member status or Agent Member status*

The Clearing House imposes certain criteria and requirements in relation to Sponsored Member and Agent Member status. The relevant criteria have, in all cases, been established by the Clearing House so as to be non-discriminatory and objective and so as to ensure fair and open access by Sponsored Members and Agent Members (whether existing or potential) to the Clearing House.

The relevant criteria are without prejudice to the provisions of: (a) the Sponsored Membership Agreement which must be executed by the applicant for Sponsored Member status, and must equally be met by Sponsored Members; or (b) the Agent Membership Agreement which must be executed by the applicant for Agent Member status, and must equally be met by the Agent Member.

The Clearing House may, in its sole discretion, refuse an application for membership where it considers it appropriate to do so in accordance with its internal risk management policies and procedures, as amended from time to time. In the event that the Clearing House refuses an application for membership, the Clearing House will provide reasons for such rejection in writing to the relevant applicant. Sponsored Members and Agent Members are referred to the Clearing House's website at <https://www.lch.com/risk-collateral-management/group-risk-management/risk-management-ltd> for further information about the relevant internal risk management policies and procedures.

Sponsored Member or Agent Member status may be granted on a conditional basis before any Clearing House requirements have been fully met, but cannot be operational until such requirements are satisfied.

The applicant for Sponsored Member or Agent Member status, any controller of the applicant, and those of its staff who exercise an executive or managerial role, must have a high standard of integrity and a level of knowledge, as determined by and acceptable to the Clearing House, of the nature, risks and obligations of trading in the markets and contracts they wish to clear or the services they wish to provide with respect to such contracts.

Applicants for Agent Member status must satisfy the minimum net capital requirements, as set out in Section 1.5 (“**Net Capital Requirements**”) or such greater amounts as may be required by the Clearing House.

The applicant for Agent Member or Sponsored Member status must open a protected payments system (“**PPS**”) bank account at one or more of the PPS banks, in accordance with the requirements of an Agent Member or Sponsored

Member (as applicable) under Section 3.3 below and must execute all necessary documentation in relation to this. Please see the PPS section of the Clearing House website for further information.

Agent Members and Sponsored Members that have elected to provide Back-up Agent Services and, where applicable, the Back-up Paying Agent Services are required to have contingency payment arrangements in place to ensure that they can continue to meet their obligations in the event of failure of their nominated PPS bank(s) and/or a failure by a Sponsored Member's corresponding Agent Member to meet the Payment Services obligations in SC Regulation 6. During the application process, the Clearing House will require the applicant to provide evidence of these arrangements and will test these prior to the applicant becoming an Agent Member or a Sponsored Member (as applicable). Agent Members and Sponsored Members will be required to provide evidence of their contingency payment arrangements on an annual basis at the Clearing House's request.

The applicant for Sponsored Member or Agent Member status must refrain from contravening the general prohibition contained in Section 19 of the Financial Services and Markets Act 2000.

If the applicant for Sponsored Member or Agent Member status is a bank, it must at all times be appropriately authorised by the banking supervisors of its home country and additionally meet any notification or authorisation requirements set by banking supervisors in the United Kingdom.

The applicant for Sponsored Member or Agent Member status must satisfy a minimum internal credit score which is determined by the Clearing House based on analysis of a range of quantitative and qualitative inputs. These include financial analysis, external market data as well as consideration of any implicit or explicit support available to the applicant. The analysis is performed on a predetermined methodology applicable to all applicants for Sponsored Member or Agent Member status. The applicant must maintain a back office:

- (a) remote from both the trading floor and/or trading desks;
- (b) with adequate systems (including but not limited to computer and communications systems) and records;
- (c) with an adequate number of administrative staff fully conversant with procedures for the management of business transacted in the markets and contracts cleared by the Clearing House and in which the Sponsored Member or Agent Member participates; and
- (d) with such equipment (including technology and connectivity) as may be stipulated by the Clearing House.

Sponsored Members and Agent Members must at all times respond promptly to enquiries or requests for information made by the Clearing House. Such enquiries may require applicants for Sponsored Member or Agent Member

status to demonstrate compliance with the applicable membership criteria and/or applicable law or regulation.

Each Sponsored Member and Agent Member shall at all times continue to comply with the qualifications and requirements set forth in these SC Procedures and shall promptly notify the Clearing House if it has breached or reasonably expects to breach any such qualifications or requirements.

Each Sponsored Member and Agent Member shall maintain current written risk management policies and procedures which address the risks that the relevant Sponsored Member or Agent Member (as applicable) may pose to the Clearing House, including any policies and procedures that the Clearing House may reasonably request to be incorporated therein. Upon the request of the Clearing House, a Sponsored Member or Agent Member shall promptly provide the Clearing House with a copy of its current policies and procedures for review by the Clearing House.

Sponsored Members and Agent Members are required to promptly notify or pre-notify the Clearing House of any changes which may result in non-compliance with their Sponsored Member or Agent Member status criteria, as stated in these SC Procedures.

#### 1.2.2 *Supplementary Criteria Applicable to Sponsored Member Applicants*

In addition to the financial resource requirements as set out in Section 1.7 below, an applicant for Sponsored Member status must satisfy the following criteria:

- (a) have appointed at least one Agent Member pursuant to both an Agent Member status and Sponsored Member status application form, to perform the Agent Member Services;
- (b) have either:
  - (i) appointed an Agent Member pursuant to the application forms referred to in paragraph (a) above to perform the Back-up Agent Services and where applicable, the Back-up Paying Agent Services, in respect of each Agent Member appointed pursuant to paragraph (a) above; or
  - (ii) elected to perform its own Back-up Agent Services and where applicable, the Back-up Paying Agent Services, in which case the Back-up Eligibility Criteria set out in Section 1.2.3 below apply;
- (c) co-operate fully with the Clearing House to enable a legal opinion to be produced, addressed to the Clearing House from reputable legal counsel in the jurisdiction of incorporation of the applicant confirming that such applicant has the capacity to enter into and perform its obligations under the OTC Transactions and the SC Rulebook;
- (d) have entered into a Sponsored Membership Agreement; and

- (e) have obtained all necessary licences and authorisations to enter into the OTC Transactions.

Sponsored Member status may be granted on a conditional basis before any Clearing House requirements have been fully met, but cannot be operational until such requirements are satisfied.

1.2.3 *[INTENTIONALLY BLANK]*

1.2.4 *Supplementary Criteria Applicable to Agent Member Applicants*

In addition to the minimum Net Capital Requirements as set out in Section 1.5, an applicant for Agent Member status must satisfy the following criteria:

- (a) have entered into an Agent Membership Agreement;
- (b) has obtained all necessary licences and authorisations to affirm its sponsorship of the OTC Transactions via ClearLink API on behalf of Sponsored Members and provide the Agent Member Services, and where applicable, the Back-up Agent Services and/or Back-up Paying Agent Services; and
- (c) either:
  - (i) be authorised and supervised as either a "credit institution" or an "investment firm" by the competent authorities of a member state of the European Union; or
  - (ii) be authorised and supervised as the equivalent of a credit institution or an investment firm by the competent authorities of a country outside the European Union and be subject to prudential rules considered to be as stringent as those applicable to credit institutions and investment firms.

Agent Member status may be granted on a conditional basis before any Clearing House requirements have been fully met, but cannot be operational until such requirements are satisfied.

### 1.3 **Due Diligence and Know Your Customer**

Sponsored Members and Agent Members are required to respond to all due diligence requests, including but not limited to, annual updates, issued by the Clearing House within a reasonable period of time. In addition, all Sponsored Members and Agent Members must ensure that they comply in relevant jurisdictions with all applicable anti-money laundering and sanctions legislation and regulations, including but not limited to, client due diligence and sanctions screening, and upon request from the Clearing House, will be required to evidence the same.

### 1.4 **Termination of Member Status**

- 1.4.1 In the event that a Sponsored Member or Agent Member wishes to retire from Sponsored Member or Agent Member status (as applicable), it may do so by

giving written notice to the Clearing House not less than three months ahead of the proposed termination date, provided that the Clearing House may, at its discretion, agree a period of less than three months. Such retirement shall take effect on the Retirement Effective Date, in accordance with SC Regulation 7.

1.4.2 Subject to SC Regulation 7, on the Retirement Effective Date:

- (a) in the case of a Retiring Sponsored Member, such Retiring Sponsored Member shall be entitled to request that the Clearing House releases and returns to it any Collateral held by the Clearing House that was provided by such Retiring Sponsored Member; and
- (b) in the case of a Retiring Agent Member, such Retiring Agent Member, shall be entitled to request that the Clearing House releases and returns to it: (i) any Collateral attributed to the SM/AM Accounts of its Sponsored Members that was provided by such Agent Member; (ii) any Collateral attributed to its Agent Buffer Account; (iii) any pre-funded financial resources attributed to its ARC Account that have not been applied in its or a corresponding Sponsored Member's default management process, and (iv) any Contributions for the account of its Sponsored Members that have not been applied in its or a corresponding Sponsored Member's default management process.

1.4.3 For further information on the retirement process, Sponsored Members and Agent Members should contact the Clearing House's On-boarding Team.

1.4.4 If a Sponsored Member has not been active on any market for a continuous period of three months, they may be asked to confirm that they intend to utilise their Sponsored Member status and, failing a satisfactory response, they may be asked to retire from Sponsored Member status.

## 1.5 **Net Capital Requirements**

Agent Members are required to maintain a minimum level of net capital set out below. The requirements set out below are the minimum requirements applicable to Agent Members whose clearing relationship with the Clearing House is confined to the clearing of one market. The requirements may be satisfied in the currencies indicated or in foreign currency equivalents.

The definition of Net Capital is given in Section 1.6.

### **Required Net Capital**

Agent Member	\$10 billion (group consolidated net capital)
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#### 1.5.1 *Additional Net Capital Requirements applicable to Agent Members*

Additional resources may be required when, in the Clearing House's assessment, an Agent Member's Net Capital is not commensurate with its level

of business, being the aggregate exposure of its Sponsored Members under all Open Contracts attributed to such Agent Member.

The Clearing House shall, on a daily basis, compare the market risk associated with each Agent Member's level of business with their level of Net Capital as reported to the Clearing House in order to ascertain whether, in the Clearing House's opinion, such Agent Member is sufficiently capitalised to support the level of risk associated with the Contracts attributed to them. In determining whether an Agent Member is sufficiently capitalised, the Clearing House may also consider:

- (a) the Agent Member's aggregate exposure to other clearing providers and other entities; and
- (b) the total amount of margin, Agent Buffer and Agent Resource Contribution deposited with, transferred to or otherwise delivered to the Clearing House by the Agent Member.

In the event that the Clearing House considers that the Agent Member is not sufficiently capitalised to support the level of risk associated with the Open Contracts attributed to such Agent Member, action may be taken, which could include, but is not limited to, a request for additional Collateral to be transferred to the Clearing House.

## 1.6 **Calculation Of Net Capital**

Net Capital ("**Net Capital**") is broadly defined as:

Permanent Capital plus additional capital less intangible fixed assets (including goodwill, development costs, etc ("**Intangible Fixed Assets**")).

Agent Members must comply with the Net Capital minimum requirements at all times (see Section 1.5).

The Clearing House may vary the definitions below to include forms of capital or to exclude assets, other than those stated. An applicant for Agent Member status wishing to determine the acceptability of specific forms of capital or the treatment of particular categories of assets should contact the Clearing House's On-boarding Team.

### 1.6.1 *Definition of Permanent Capital ("**Permanent Capital**")*

The definition of Permanent Capital includes:

- (a) issued and fully-paid ordinary share capital;
- (b) issued and fully-paid preference share capital; and
- (c) share premium account and reserves not available for distribution.

### 1.6.2 *Definition of Additional Capital ("**Additional Capital**")*

The definition of Additional Capital includes:

- (a) other equity reserves (distributable or otherwise);
- (b) profit and loss reserve;
- (c) redeemable shares; and
- (d) subordinated loans.

Where loans, subordinated or otherwise, are allowed in an Agent Member's Net Capital calculation, the Clearing House may require Agent Members to provide the Clearing House with details of the terms and conditions of the loan(s) (see Section 1.6.3). The Clearing House may, at its discretion, recognise other long-term loans in the calculation of Additional Capital.

#### *1.6.3 Acceptability of Subordinated Loans*

The Clearing House will, in the Net Capital Requirement, allow subordinated loans from a parent company/ies as an acceptable form of capital. Where an Agent Member is reliant upon subordinated loans to meet its minimum requirement, the Clearing House will require assurances that the loan(s) will not be repaid without the prior consent of the Clearing House.

Agent Members who wish to re-structure their Net Capital in a way that subordinated loans become key to their meeting the minimum Net Capital Requirement, should contact the Clearing House's On-boarding Team. Such Agent Members will be required to enter into an agreement with the Clearing House in the standard form prescribed by the Clearing House for these purposes.

#### *1.6.4 Recognition of Irrevocable Letters of Credit*

In cases where the Net Capital Requirement is significantly greater than an Agent Member's regulatory capital requirement, the Clearing House may, at its discretion, but in any case up to a maximum of 50% of the minimum capital requirement, recognise funds committed to the Clearing House under an irrevocable letter of credit from a third party bank in determining whether the minimum requirement is met.

Agent Members falling into this category and interested in meeting the requirements in this way will be required to enter into a standard form agreement with the Clearing House. That agreement is available from the Clearing House's On-boarding Team.

### **1.7 *Additional Financial Resource Requirements applicable to Sponsored Members***

Additional resources will be required when, in the Clearing House's assessment, a Sponsored Member's financial resources are not commensurate with its level of business.

The Clearing House shall, on a daily basis, compare the market risk associated with each Sponsored Member's level of business with their level of financial resources as reported to the Clearing House in order to ascertain whether, in the Clearing House's

opinion, such Sponsored Member is sufficiently capitalised to support the level of risk associated with the Open Contracts to which they are counterparty. In determining whether a Sponsored Member is sufficiently capitalised, the Clearing House may also consider:

- (a) the Sponsored Member's aggregate exposure to other clearing providers and other entities; and
- (b) the total amount of margin and Collateral deposited with, transferred to or otherwise delivered to the Clearing House by or for the account of the Sponsored Member.

In the event that the Clearing House considers that the Sponsored Member is not sufficiently capitalised to support the level of risk associated with its Open Contracts, action may be taken, which could include, but is not limited to, a request for additional Collateral to be transferred to the Clearing House.

## 1.8 **Reporting**

Sponsored Members and Agent Members must provide the information detailed below.

### 1.8.1 *All Sponsored Members and Agent Members*

- (a) All Sponsored Members and Agent Members must, within six months from the date on which their annual accounts are made up, provide the Clearing House with an English-language copy of their profit and loss account and balance sheet, together with a statement that their auditors have reviewed and approved them, drawn up either in accordance with Companies Act requirements or otherwise in accordance with the requirements of the Clearing House. In addition, the Clearing House may at its discretion require the provision of financial accounts for the ultimate or immediate parent of the Sponsored Member or Agent Member.
- (b) All Sponsored Members and Agent Members must provide the Clearing House in a prompt and timely manner with:
  - (i) any information concerning any financial or business development that the Sponsored Member or Agent Member reasonably considers may materially affect the Sponsored Member's or Agent Member's ability to comply with the applicable membership criteria or applicable laws or regulations;
  - (ii) information and documents regarding the Sponsored Member's or Agent Member's risk management policies and practices as requested by the Clearing House. Such information shall include, without limitation, information and documents relating to the liquidity of that Sponsored Member's or Agent Member's financial resources and settlement procedures;



- (iii) any other financial information that the Clearing House determines is necessary to assess whether membership criteria are being met on an on-going basis; and
- (iv) notice, if the Sponsored Member or Agent Member becomes the subject of a bankruptcy petition, receivership proceeding, or the equivalent, or any other event to which it is required to notify the Clearing House under the Sponsored Membership Agreement or or Agent Membership Agreement (as applicable) or the SC Rulebook.

In addition, and upon request from the Clearing House or any Regulatory Body, each Sponsored Member and Agent Member shall promptly provide the information detailed in sub-paragraph (ii) above directly to the any Regulatory Body specified in the relevant request.

1.8.2 *Regulated Sponsored Members and Agent Members*

Regulated Sponsored Members and Agent Members must within 30 calendar days of each of their accounting end dates (as applicable); provide the Clearing House with copies of their regulatory returns. In addition, Sponsored Members and Agent Members must provide the Clearing House with copies of all reports that are required to be filed with the CFTC pursuant to parts 17 and 20 of the CFTC Regulations.

1.8.3 *Non-Regulated Sponsored Members and Agent Members*

Non-regulated Sponsored Members and Agent Members must provide the Clearing House with an English language version of their quarterly balance sheet and profit and loss statement within 30 calendar days of their quarter-end date. This must be signed by two directors, a director and the company secretary, or two authorised signatories. Where the Sponsored Member or Agent Member is a partnership, the balance sheet and profit and loss statement must be signed by two partners of the firm. Please provide evidence of signing authority together with specimen signatures.

#### 1.8.4 *Reduction in Financial Resources*

All Sponsored Members and Agent Members must immediately notify the Clearing House of any significant reduction (usually 10 % or more), from the figures shown in their last financial returns.

### 1.9 **Additional Requirements**

#### **Notification of Changes of Ownership**

Sponsored Members and Agent Members are required, under the terms of their Sponsored Membership Agreement or Agent Membership Agreement, (as applicable) to notify or pre-notify the Clearing House of changes in controlling holdings (defined as the exercise or control of 20% or more of the voting power of the firm). The Clearing House recognises that, in the case of Sponsored Members and Agent Members which are part of large financial groups, changes in controllers may occur with relative frequency, which may only be known after the event and are unlikely to be significant to the Clearing House. However, in cases of changes in ownership, and particularly where those potentially acquiring a dominant stake in the firm are not known to the Clearing House, Sponsored Members and Agent Members are required to pre-notify the Clearing House of their plans. The proposed change of ownership may be subject to an approval process involving the Risk Committee and Board of the Clearing House.

#### 1.10 **Other Conditions**

The Clearing House may, at any time, impose additional conditions in relation to continued Sponsored Member or Agent Member status, and at any time vary or withdraw any such conditions, provided that any such conditions which restrict, or may be considered to have the effect of restricting, access of a Sponsored Member or Agent Member to the Clearing House shall be imposed only in circumstances where, and to the extent that, their object is to control the exposure of the Clearing House to risk. Sponsored Members and Agent Members are referred to the Clearing House's website at <https://www.lch.com/risk-collateral-management/group-risk-management/risk-management-ltd> for further information about the relevant internal risk management policies and procedures of the Clearing House.

The relevant additional conditions imposed on a Sponsored Members or Agent Member may include, but are not limited to, a requirement to transfer additional cash or non-cash Collateral to the Clearing House, as determined by the Clearing House.

## 2. SC REPOCLEAR CLEARING SERVICE

### 2.1 General Information

The RepoClear system processes and stores trades eligible for clearing that are received from any trade Matching System(s) (“MS”) approved for such purposes by the Clearing House, and from any Automated Trading System(s) (“ATS”), as referred to in SC Regulation 14 (*Transactions entered into through a Trading System*) and approved by the Clearing House for such purpose.

2.1.1 *Terminology*: The following terms are defined in the "**Definitions**" Section of the SC Rulebook and are used in the SC Regulations to refer to bi-lateral trades that are registered with the Clearing House through a MS:

#### "RepoClear Transactions"

#### "RepoClear Term £GC Transactions"

The defined terms "**Repo Trades**", "**Bond Trades**" and "**Term £GC Trades**" are used in the SC Regulations to refer to trades transacted through an ATS. See the Definitions section of the SC Rulebook for full definitions.

"**Term £GC**" is the term used in these SC Procedures to refer to term sterling general collateral trades settled in Euroclear UK & Ireland, as described in the SC Rulebook.

For the sake of simplicity, in these SC Procedures we use the terms "**Eligible Repo/Bond Trades**" to refer to all repo or bond trades which are transactions eligible for clearing, whether they are received from a MS or ATS. Thus the term "**Eligible Repo/Bond Trades**" in these SC Procedures is used (for the purposes of these SC Procedures only) to refer to RepoClear Transactions, Repo Trades and Bond Trades as those terms are used in the SC Regulations.

The term "**Eligible Term £GC Trade**" is used in these SC Procedures to refer to all Term £GC Trades that are eligible for clearing, whether they are received from a MS or ATS. Thus the term "**Eligible Term £GC Trades**" in these SC Procedures is used to refer to RepoClear Term £GC Transactions and Term £GC Trades, as those terms are used in the SC Regulations.

Sponsored Members and Agent Members should note that:

- The term "**RepoClear Contract**" is used to refer to a registered contract arising from the registration of a RepoClear Transaction, Repo Trade or Bond Trade.
- The term "**RepoClear Term £GC Contract**" is used to refer to a registered contract arising from the registration of a RepoClear Term £GC Transaction or Term £GC Trade.

2.1.2 *RepoClear Functions*: The following functions are performed within the RepoClear system:

- calculation of delivery obligations;
- calculation of settlement amounts for delivery versus payment or cash only moves;
- calculation of initial, variation and delivery margin requirements;
- calculation of price alignment interest;
- payment and reporting of coupons; and
- reporting of RepoClear Contracts and RepoClear Term £GC Contracts and trade status.

Eligible Repo/Bond Trades and/or Eligible Term £GC Trades submitted via a MS or ATS (see Section 2.3.1 (*Matching System(s) (MS) and Automated Trading System(s) (ATS)*)) will be processed and stored within the RepoClear system. Information regarding RepoClear Contracts and RepoClear Term £GC Contracts and margin are disseminated via Sponsored Member reporting (see Section 2.3.1 (*Matching System(s) (MS) and Automated Trading System(s) (ATS)*)).

- 2.1.3 *Clearing House System Requirements:* In order to submit Eligible Repo/Bond Trades and/or Eligible Term £GC Trades to the Clearing House, a Sponsored Member must be a user of at least one approved MS or ATS (as the case may be).

A Sponsored Member must hold, or have access to, via an Agent Member or where a triparty agent is acting, such triparty agent, both cash and securities settlement accounts with an Approved Depository/Settlement System ("**ADS**") for each eligible RepoClear category of bonds the Sponsored Member intends to register for clearing (see Section 2.4.1 (*Approved Depository/Settlement System(s) ("ADS")*)). The Clearing House will publish details of further ADSs via Clearing Member bulletin.

Sponsored Members and Agent Members must have a system to access Sponsored Member reporting through a connection to the Clearing House's Clearing Member-only website.

- 2.1.4 *Reporting:* An end user reporting tool is provided to Sponsored Members and Agent Members. All RepoClear reports will be disseminated via the Clearing House website portal. There will be no printed report distribution by the Clearing House.

Sponsored Members and Agent Members will be able to produce reports either to print locally or to download in machine readable data-file format. Detailed Expected Shortfall outputs will also be available to Sponsored Members and Agent Members on a daily basis. Expected Shortfall is described in Section 2.8.6(b) (*Initial Margin*).

Queries about the Clearing Member-only website should be directed to the Clearing House Help Desk on +44 (0)20 7426 7200.

2.1.5 *Reporting – following an Agent Close-out Event or Paying Agent Resignation:*

- (i) Where, following an Agent Close-out Event, an Affected Sponsored Member confirms to the Clearing House that another Agent Member has been appointed to perform the Back-up Agent Services, the Clearing House is entitled to send to such Agent Member (immediately and without notice to any person), the Sponsored Member reports described in these SC Procedures (including without limitation the Banking Reports described in paragraph 3.2 below), containing position and account details of the Affected Portfolios. In the circumstances described in this paragraph, the Affected Agent Member will thereafter no longer receive the Sponsored Member reports.
- (ii) Where, following a Paying Agent Resignation, an Affected (Payment Services) Sponsored Member confirms to the Clearing House that another Agent Member has been appointed to perform the Back-up Paying Agent Services, the Clearing House is entitled to send to such Agent Member (immediately and without notice to any person), the Sponsored Member reports described in these SC Procedures (including without limitation the Banking Reports described in paragraph 3.2 below) containing position and account details of the Affected (Paying Agent Resignation) Portfolios. In the circumstances described in this paragraph, the Resigning Agent Member will continue to receive the Sponsored Member reports.

2.1.6 *Power of Attorney:* The Clearing House operates a power of attorney facility in respect of some depository systems and requires Sponsored Members to provide a power of attorney in respect of each depository system/settlement account where it is available (see Section 2.4.1 (*Approved Depository/Settlement System(s) ("ADS")*)).

Under a power of attorney, the Clearing House sends matching settlement instructions to an ADS, on the Sponsored Member's behalf. The use of a power of attorney, where it is available, facilitates the matching of settlement instructions at the relevant depository, and helps to eradicate settlement failure arising as a consequence of unmatched settlements.

For settlement of UK Government Debt Securities and RepoClear Term £GC, the Clearing House sends settlement instructions to Euroclear UK & Ireland using their "**Direct Input**" facility. The Direct Input facility options recorded by Euroclear UK & Ireland against the Euroclear UK & Ireland Member Account of the Sponsored Members or that of the settlement agent) must be set to "Gross trades will be created". This allows Euroclear UK & Ireland to create matched settlement instructions automatically so that participants do not need to instruct Euroclear UK & Ireland for settlement of their obligations with the Clearing House.

Participation in the Direct Input facility (with the automatic matching facility enabled) is compulsory for settlement of UK Government Debt Securities and Term £GC Contracts.

For contingency purposes, participants using Direct Input must have the capability to manually match the Clearing House's settlement instructions at Euroclear UK and Ireland.

*RepoClear Eligible Securities and Eligible Term £GC Baskets:*

- 2.1.7 **"RepoClear Eligible Securities"** are those in respect of which Eligible Repo/Bond Trades or Eligible Term £GC Trades may be registered.

**"Eligible Term £GC Baskets"** are those baskets in respect of which Eligible Term £GC Trades may be registered.

The term **"GC Baskets"** includes Eligible Term £GC Baskets.

The Clearing House will determine from time to time which securities will be RepoClear Eligible Securities.

CREST will determine from time to time which securities will be Eligible Term £GC Baskets. However, the Clearing House will reserve the right to reject any ISINs within an Eligible Term £GC Baskets.

A list of RepoClear Eligible Securities and Eligible Term £GC Baskets may be viewed on the Clearing House Clearing Member-only website.

- 2.1.8 *Fees:* Fees arising from the provision of the RepoClear Service will be due from Sponsored Members and collected from the relevant Sponsored Member's Agent Member monthly in arrears through the Clearing House's Protected Payments System ("PPS"). Fees arising from the Agent Member's participation in the RepoClear Service will also be due and collected from Agent Members monthly in arrears through the Clearing House's PPS.

Fees, rates and other applicable charges will be communicated to each Sponsored Member and each Agent Member by means of reports posted for that Sponsored Member and that Agent Member on the Clearing House Clearing Member-only website. Changes to tariffs will be notified to Sponsored Members and Agent Members by means of Clearing Member circular.

- 2.1.9 *Calculation of Price Differential:* The day basis for the calculation of the price differential for RepoClear Contracts involving repos:

UK Government Debt Securities and Eligible Term Actual  
£GC Trades: 365

- (a) *Miscellaneous Provisions:* The operators of some ADSs require participants holding settlement accounts to comply with certain requirements laid down by those operators with regard to the exemption from payment of withholding or other tax for certain debt securities held within those systems.

Some such operators require participants in their systems to complete and deliver to them certificates and/or provide other documentation to them in order to obtain exemption from any relevant tax.

In the event that such certificates or other documentation is required from a Sponsored Member by the operator of any ADS in respect of any bonds which are held within that system (and which are RepoClear Eligible Securities, the Sponsored Member, prior to using the RepoClear Service in respect of those bonds, must:

- (i) provide such certificate or other documentation to the operator of the relevant ADS in accordance with the requirements of that person;
- (ii) obtain confirmation from that person that payments will be made without deduction of withholding tax; and
- (iii) confirm to the Clearing House that exemption from payment of withholding tax has been obtained.

If, after providing any such certificate and procuring the confirmation referred to in (a) above:

- the circumstances of the Sponsored Member change such as to render any statement in that certificate untrue or incomplete; or
- where annual renewal of such documentation is required by the operator of the relevant ADS and this renewal is not obtained,

the Sponsored Member must immediately notify Customer Support on +44 (0)20 7426 7619.

In the unlikely event that the Clearing House incurs any cost, charge, fine, penalty or other expense as a result of the failure or omission of any Sponsored Member to comply with the provisions of this Section 2.1.9(a) or in respect of any withholding tax or other tax or duty in respect of any RepoClear Contract or the underlying RepoClear Eligible Securities thereof, the Sponsored Member shall reimburse the Clearing House in respect of such cost, fine, penalty or other expense. The Clearing House shall be entitled to collect such reimbursement through the PPS system.

## 2.2 Operating Times

2.2.1 *RepoClear Opening Days:* The Clearing House will publish, by Clearing Member circular, details of intended opening days for RepoClear ("**RepoClear Opening Days**").

2.2.2 *Opening Hours:* RepoClear will be operational during the following hours on RepoClear Opening Days:

07:00 to 19:00 London time

- 2.2.3 *Trade Acceptance Hours:* RepoClear Trade Acceptance Hours are constrained by the operating hours of the MSs and ATSS. See Schedule 1, Schedule 2, **Error! Reference source not found.**and Schedule 3 for the Settlement Timetables.

## 2.3 Registration

- 2.3.1 *Matching System(s) (MS) and Automated Trading System(s) (ATS):* The Clearing House will only accept Eligible Repo/Bond Trades and Eligible Term £GC Trades submitted from a MS or ATS approved by the Clearing House in accordance with Section 2.1 (*General Information*) and in an acceptable message format.

Each Sponsored Member must be fully conversant with the operating procedures and deadlines of the MS or ATS which it uses and has entered into such contractual and other arrangements with such MS or ATS as that MS or ATS may require.

A list of MSs and ATSS, as approved by the Clearing House, (with their respective trade acceptance hours) is available on the Clearing House's website. Sponsored Members will be informed of the Clearing House's approval of additional MSs and ATSS by Clearing Member circular. In certain exceptional circumstances, the Clearing House may designate any additional trade matching system to be a MS for a limited period of time. Sponsored Members will, in such circumstances, be notified of such designation and the terms of such designation by means of Clearing Member circular.

Any Sponsored Member wishing to submit for clearing Eligible Term £GC Trades (whether submitted through a MS or ATS) in any Term £GC Basket must first obtain the authorisation of the Clearing House to submit trades in respect of that basket – see Section 2.9 (*Notifications to Clearing House regarding Eligible Term £GC Baskets*).

- 2.3.2 *Submission for Registration:* Sponsored Members who wish a trade to be registered by the Clearing House, must either include the Clearing House identifier code in the appropriate field within the message format, or, in the case of a trade executed through an ATS, elect to have that trade forwarded to the Clearing House for registration.

Eligible Repo/Bond Trades must be registered with the Clearing House ahead of the cut-off time for the type of debt involved in the trade or transaction.

Eligible Term £GC Trades must be registered with the Clearing House ahead of the cut-off times for the respective parts of the service.

The cut-off time is necessary in order to deliver settlement instructions to ADSs by prescribed times. Cut-off times for each type of debt are included in Schedule 1 to 2. Changes to these times will be published via Clearing Member circular from time to time.



The Clearing House is not responsible for the performance by an operator of any MS or ATS of its obligations to any Sponsored Member under any service provision agreement which that Sponsored Member may have with that MS operator or ATS operator for the provision of any trade capture, validation and matching services or trading services, as the case may be.

Without prejudice to SC Regulation 35(e) (*Exclusion of Liability*), the Clearing House is not liable for any losses that a Sponsored Member may suffer arising out of or in connection with any failure or omission by a MS operator or ATS operator to comply with any term of any such service provision agreement (including, but not limited to, the failure or omission of that MS operator or ATS operator to send any trade details to the Clearing House), or any inaccurate or incomplete trade details or other data sent to or received by the Clearing House from that MS operator or ATS operator.

- 2.3.3 *Intra-day Registration*: The Clearing House will seek to register all Eligible Repo/Bond Trades and Eligible Term £GC Trades intra-day. The RepoClear system will promptly respond after processing, by notifying Agent Members via ClearLink API, and their relevant Sponsored Members via Sponsored Member reporting, as to the status (registration, pending or rejection) of the trade.

The Clearing House may require a Sponsored Member in whose name such trades are to be registered, to transfer (or procure the transfer of) Collateral in respect of initial and variation margin obligations of such Sponsored Member to the Clearing House prior to registration.

- 2.3.4 *Rejected Trades*: Trades submitted for registration which:

- (a) do not meet the Product eligibility criteria as set out in the Product Specific Contract Terms and Eligibility Criteria Manual and published on the Clearing House's website from time to time; or
- (b) contain invalid or incomplete message data; or
- (c) the Agent Member does not affirm via ClearLink API that it is sponsoring, within 30 minutes of a trade being submitted to such Agent Member; or
- (d) for any other reason are not eligible for registration,

will be rejected by the Clearing House. If at any time the Clearing House does not register a trade presented for registration, the RepoClear system will notify the contracting parties, via Sponsored Member reporting and in the case of the Agent Member, via ClearLink API, indicating that the trade has been rejected and the reason for rejection.

The Clearing House will also reject a trade if such trade is in respect of an Eligible Term £GC Basket and the Sponsored Member initiating such trade is not authorised by the Clearing House to submit trades in respect of that basket.

Sponsored Members and Agent Members should note that when a trade is rejected by the Clearing House no RepoClear Contracts (or RepoClear Term £GC Contracts, as the case may be) arise between the Clearing House and the Sponsored Member and (subject to SC Regulation 35 (*Exclusion of Liability*)) the Clearing House (that is, LCH Limited, and each other undertaking which is a member of the LCH Group, their officers, employees and agents) has no liability in respect thereof.

- 2.3.5 *Amendment, Cancellation and Deletion of Registered Trades:* Once a trade has been registered in the RepoClear Service for clearing as a RepoClear Contract or RepoClear Term £GC Contract, as the case may be, it cannot be cancelled or deleted.

The contracting parties may, however, wish to agree bi-laterally to submit an equal but opposite transaction to that which gave rise to any RepoClear Contract or RepoClear Term £GC Contract, as the case may be.

The contract terms on which a trade is registered with the Clearing House are set out in the SC Rulebook and, in particular, in the Product Specific Contract Terms and Eligibility Criteria Manual. It should be noted that no amendment or modification or addition to these contract terms is permitted. Such prohibition includes both economic and standard terms.

The Clearing House is aware that parties to the original "trade" may include additional or other terms in their dealings. For example, parties sometimes "trade" on the basis of estimated coupon rates for index linked bonds and then adjust the cash value of the trade once the exact coupon rate is known. Sponsored Members and Agent Members should be aware that once a trade is submitted for clearing and is registered in the RepoClear Service as a RepoClear Contract or RepoClear Term £GC Contract as the case may be, any such terms between the original trading parties fall away and do not form part of the contract registered with the Clearing House.

- 2.3.6 *Substitution – Term £GC Contracts only*

In relation to the Term £GC Contracts specifically, substitution transactions may be automatically generated to support the return of the correct securities to the original giver. Where these transactions fail the Clearing House may hold securities until the required substitution takes place and the correct securities can be returned. Securities which are allocated to participants as a result of the settlement of Term £GC trades must be available for substitution using standard CREST Term DBV functionality. Any costs incurred by the Clearing House as a result of substitution failure due to unavailability of securities may be charged to the Sponsored Member (through its Agent Member) who fails to support the requested substitution. The Clearing House will deduct such costs, charges and expenses via that Sponsored Member's corresponding Agent Member's PPS account.

## 2.4 Netting Process and Settlement

Each day the RepoClear system will run netting processes to determine the delivery obligations for same day or future settlement through ADSs. The netting processes will take place after each of the registration deadlines, as defined in Schedule 1 to 2.

- 2.4.1 *Approved Depository/Settlement System(s) ("ADS")*: The Clearing House will only allow settlement through the following ADSs (using the Clearing House's specified settlement account numbers):

Category	Clearing House RepoClear Agent	ADS	Account Number	Power of Attorney
United Kingdom Government Debt Securities	N/A	Euroclear UK & Ireland	GIKAV	No (but see note below)
Term £GC Baskets for RepoClear Term £GC Contracts	N/A	Euroclear UK & Ireland	LCSGC (Member Account TERMSGC )	No (but see note below)
Note: settlement of UK Government Debt Securities uses the Euroclear UK & Ireland Direct Input facility. This provides an effect similar to that of a power of attorney agreement, such that an instruction sent by the Clearing House to Euroclear UK & Ireland simultaneously generates a counterparty settlement instruction without the need for a separate matching instruction to be sent by the counterparty itself.				

A Sponsored Member must inform the Clearing House of its full settlement account details for settlements resulting from RepoClear Contracts and RepoClear Term £GC Contracts, including cash payment details for currencies supported by RepoClear.

Sponsored Members must be fully conversant with the operating procedures and deadlines of their selected ADSs for each of the above categories for which it wishes to register trades.

Where a Sponsored Member's settlement obligations are discharged by its corresponding Agent Member, such Sponsored Member is required to have an alternative settlement solution.

2.4.2 *Netting Processes: RepoClear Contracts only*

All RepoClear Contracts arising from Eligible Repo/Bond Trades (that is, those contracts arising from registration of RepoClear Transactions, Repo Trades or Bond Trades) will be netted by RepoClear at the RepoClear Participant, securities issue, and ADS level.

**UK Government Debt Securities**

One netting process will be executed every business day and will include all RepoClear Contracts for settlement on that business day.

**RepoClear Term £GC Contracts only**

RepoClear Term £GC contracts will be netted by RepoClear at the RepoClear Participant level, as specified in the contract terms. The results of netting are subject to settlement shaping. The netting process will commence at a predetermined London time and Sponsored Members will be informed of results via Sponsored Member reporting. The shaping size, process and report times are shown in the table below, and any changes to these will be notified to Sponsored Members by Clearing Member circular. The netting process will produce delivery/receipt obligations for securities and for cash, for each Sponsored Member.

<b>Category</b>	<b>Shape size</b>	<b>Start Netting Process</b>	<b>Sponsored Members or Agent Members Informed by</b>
United Kingdom Government Debt Securities	£50mn	11:30	12:30
Term £GC Baskets	£250mn	14:30	15:00

Sponsored Members will be informed of their same day or future (as the case may be) settlement obligations following the completion of the Netting Process. Notification will be via Sponsored Member reporting. *Settlement:* Each Sponsored Member must ensure that sufficient securities are available on intended settlement dates in order to meet their settlement obligations and that all applicable requirements of the relevant ADS are met at all relevant times.

The Clearing House will send its settlement instructions to each of the ADSs. For settlement of UK Government Debt Securities and RepoClear Term £GC Contracts, the Direct Input facility of Euroclear UK & Ireland must be used. .

Failure to ensure compliance with the requirements of these SC Procedures and the requirements of the relevant ADS with regard to matching and settlement can cause delays for other Sponsored Members and RepoClear Clearing Members and may result in costs being incurred by the Clearing House which will be charged back to the relevant Sponsored Member(s) via their Agent Member(s) (see in particular Section 2.4.3 (*Failed and Partial Settlement*)).

In order to give Sponsored Members the full benefit of the automated settlement cycles at relevant ADSs, the RepoClear Service will take full deliveries from CBL, CBF and Euroclear members into its accounts in the daytime bridge which is in place between Euroclear, CBL and CBF – provided that these deliveries are handled within the timeframe and guidelines defined by Euroclear, CBL and CBF.

The Clearing House monitors performance in respect of all RepoClear delivery obligations. If a Sponsored Member does not fully comply with its delivery obligations, the Clearing House will regard this as an incident of poor settlement performance. Contact will be made with the Sponsored Member concerned and the Clearing House shall be entitled to require immediate remedial action.

A Sponsored Member shall ensure that:

- settlement relating to all other RepoClear Contracts and RepoClear Term £GC Contracts occurs in the first available settlement cycle following instruction; and
- it has sufficient cash and/or credit facilities in place in respect of its nominated accounts held at each ADS to allow RepoClear Contracts, and RepoClear Term £GC Contracts to settle on their intended settlement dates in the settle cycles specified above.

Section 2.4.3 (*Failed and Partial Settlement*) describes procedures for settlement of failed and partial settlement.

To reduce the occurrence of fails, it is compulsory for Sponsored Members to participate in securities borrowing programs in good faith where these are provided by the ADS. The extent of the borrowing facility should be commensurate with the value of obligations due to the Clearing House. Sponsored Members should not amend any ADS power of attorney instructions issued over their account.

The settlement timetable for United Kingdom Government Debt Securities is given in Schedule 21.

The settlement timetable for RepoClear Term £GC Contracts (i.e. Term £GC Baskets) is given in 2.

Sponsored Members will be informed of changes to these timetables via Clearing Member circular.

All securities delivered to the Clearing House, whether forming part of RepoClear Contracts or RepoClear Term £GC Contracts, shall form one fungible pool which the Clearing House may use in its absolute discretion in order to meet its obligations arising under both this SC Rulebook and the General Rulebook.

2.4.3 *Failed and Partial Settlement*

- (a) Providing that the Clearing House has the facility to borrow securities, it will, where possible seek to ensure settlement by borrowing securities in a case where a Sponsored Member fails to deliver securities to the Clearing House.

In general, costs, charges and expenses incurred by the Clearing House in connection with such borrowing may be charged back by the Clearing House to any Sponsored Member who fails or omits to deliver or procure delivery as required by the SC Rulebook. The Clearing House will deduct such costs, charges and expenses via the PPS account of such Sponsored Member's corresponding Agent Member.

Where there is no facility to borrow securities, all costs, charges and expenses incurred by the Clearing House in connection with a failure to deliver securities by a Sponsored Member will be charged by the Clearing House to the Sponsored Member who fails to deliver as required by this SC Rulebook. The Clearing House will deduct such costs, charges and expenses via the PPS account of such Sponsored Member's corresponding Agent Member.

Notification of failed settlements will be made via Sponsored Member reporting.

Where, for whatever reason, a Sponsored Member fails to take delivery of a RepoClear Eligible Security or Eligible Securities (as such term is used in the RepoClear Term £GC Contract Terms ) from the Clearing House, all costs, charges and expenses incurred by the Clearing House in connection with such failures will be charged by the Clearing House to the relevant Sponsored Member (through its corresponding Agent Member), who fails to accept delivery as required by the SC Regulations and these SC Procedures. Equally, any costs, charges and expenses incurred by the Clearing House as a result of the action of a Sponsored Member to prevent a partial settlement, will be notified and charged to the Agent Member on behalf of its corresponding Sponsored Member. When possible, the Clearing House will seek to minimise these costs, charges and expenses.

**United Kingdom Government Debt Securities - RepoClear Contracts only**

A failed settlement with regard to a RepoClear Contract will not be re-entered into the next day's netting process.

### **Term £GC Baskets – RepoClear Term £GC Contracts**

Where the Clearing House is unlikely to receive sufficient securities to ensure settlement, the buying Sponsored Member may be required by the Clearing House to accept a partial settlement. Details of any partial settlement will be provided subsequently through Sponsored Member reporting. Partial instructions created by the Clearing House will be created using the Euroclear UK & Ireland Direct Input facility and therefore, will not require matching on the Euroclear UK & Ireland system by the Sponsored Member (or their agent).

Where a Sponsored Member is unable to receive securities against payment by the ADS settlement deadline, the Clearing House may, with the consent of that Sponsored Member, instruct payment, partially or in full, for the Sponsored Member's settlement obligations via the Sterling PPS account operated on their behalf by their corresponding Agent Member. Failed settlements will be re-input into netting unless the trade is due to mature on the next business day.

- (b) Where the Clearing House gives settlement instructions using the Euroclear UK & Ireland Direct Input facility and as a result of an error made by the Clearing House in carrying out such action, a Sponsored Member suffers a loss of interest, that Sponsored Member may submit to RepoClear Operations details of any claim the Sponsored Member, wishes to make for reimbursement of such loss of interest.
  - (i) *Partial Delivery and Default:* In the event that a Default Notice is issued by the Clearing House in respect of a Sponsored Member ("**the Defaulting Sponsored Member**") and:
    - (A) the Defaulting Sponsored Member has (either by itself or by its transferor(s)), at the time of the issue of that Default Notice, delivered to the Clearing House some but not all securities necessary to satisfy its delivery and settlement obligations to the Clearing House in respect of all RepoClear Contracts and RepoClear Term £GC Contracts, to which it is party and which are due for settlement prior to the issue of such Default Notice; or
    - (B) the Clearing House has, at the time of the issue of that Default Notice, delivered to the Defaulting Sponsored Member or any one of more of its nominated transferees, some but not all securities due to be delivered by the Clearing House in respect of all RepoClear Contracts and RepoClear Term £GC Contracts to which it is a party and which are due for settlement prior to the issue of that Default Notice, because any one or more

Sponsored Members (or any one or more of their transferors) has not delivered in a timely fashion such full amount to the Clearing House as those Sponsored Members are required to make in accordance with their obligations to the Clearing House,

the Clearing House shall allocate such securities as are delivered to the Clearing House by the Defaulting Sponsored Member or its transferors in the circumstances set out in (A) above, or as are delivered by the Clearing House to the Defaulting Sponsored Member or any one or more of its transferees in the circumstances set out in (B) above, as the case may be to each of those RepoClear Contracts or RepoClear Term £GC Contracts in accordance with the following provisions. For the purpose of this Section 2, "delivered" means that relevant securities have successfully completed the settlement process in the relevant ADS.

Delivered securities will be allocated by the Clearing House to each such registered RepoClear Contract or RepoClear Term £GC Contract, as the case may be, pro rata as explained in the examples set out below.

For example, if the Defaulting Sponsored Member has been advised that a net amount of 5,000 is due from it but only delivers 2,500 (by itself or by any one or more of its nominated transferors), then such delivery will be deemed by the Clearing House to satisfy only 50% settlement in respect of each such registered RepoClear Contract or RepoClear Term £GC Contract. Similarly, if the Defaulting Sponsored Member has been advised that a net amount of 5,000 is due to be delivered to it by the Clearing House, but only 2,500 can be delivered, as described above, then such delivery will be deemed by the Clearing House to satisfy only 50% settlement in respect of each such registered RepoClear Contract.

Such allocations are without prejudice to the Clearing House's powers under the SC Default Rules and the Clearing House may use any of its powers and take such steps as it deems fit under the SC Default Rules in respect of the Defaulting Sponsored Member.

- (c) *Failed cash settlements:* For cash only transfer messages where the Clearing House utilises the Euroclear UK & Ireland Direct Inputfacility, the Clearing House will send a SWIFT message to EUI requesting a debit to the relevant cash account of the Sponsored Member.

2.4.4 *Cancellation of Original Settlement Obligations:* For RepoClear Eligible Securities the settlement instructions will be cancelled:

- (a) where a partial settlement has been imposed in relation to a RepoClear Term £GC settlement.



The Sponsored Member's settlement instructions will be cancelled by the Clearing House for RepoClear Term £GC Contracts only.

2.4.5 *Coupon Transfer and Reporting:* Repo Trades and RepoClear Repo Transactions

Where a coupon is payable on a bond, it is paid by the issuer, via the ADS, to the current holder (buyer) of the security. However, in a classic repo transaction, the coupon amount is due to the original seller and should be received on the date the coupon is paid. Therefore, the Clearing House will claim the amount from the buying RepoClear Member in respect of the security, and, subject to payment to the Clearing House by that buying RepoClear Member, the Clearing House will pay the coupon amounts to the selling RepoClear Member. There are no coupons adjustments for cash trades.

Some depositories acting on behalf of the bond issuer levy charges for the payment of coupons. In these circumstances, for classic repo transactions the Clearing House will claim the gross coupon from the buying RepoClear Member receiving the coupon payment from the depository, and, subject to payment to the Clearing House by that buying RepoClear Member, the Clearing House will then pay the gross coupon amount to the selling RepoClear Member.

Thus, a Sponsored Member receiving the coupon payment from the depository will bear the cost of any fees charged by the depository in relation to that coupon payment.

The Clearing House will pay or call coupon payment amounts via the Sponsored Member's corresponding Agent Member's PPS accounts on the day the coupon is due. Details of these amounts will be available in Sponsored Member reporting.

**Term £GC Trades**

No coupon realignment will be performed by the Clearing House in respect of Term £GC contracts.

2.4.6 *Insolvency or other default of an issuer:* Sponsored Members or Agent Members are advised that their obligations, set out in this SC Rulebook and any other relevant agreements with the Clearing House including but not limited to obligations regarding settlement and delivery of RepoClear Eligible Securities, or Eligible Securities (as such term is used in the RepoClear Term £GC Contract Terms) as the case may be, shall endure notwithstanding any suspension of trading in such securities (including trading on any trading platform) and notwithstanding that the issuer of such securities passes a resolution or a court makes an order for the winding up of the issuer or a receiver, administrative receiver, administrator, trustee or similar officer is appointed in respect of all or any part of its undertaking, or the issuer enters into a composition or voluntary arrangement with or for the benefit of its creditors or any other event of a similar nature occurs.

Where for any reason (including but not limited to the making of any court, regulatory or administrative order in respect of an issuer or the making of an administration or winding up order or similar order in respect of an issuer) settlement of any RepoClear Eligible Securities or Eligible Securities (as such term is used in the RepoClear Term £GC Contract Terms), as the case may be, is suspended by any ADS, the Clearing House may, in its discretion, cash settle any RepoClear Contract or RepoClear Term £GC Contract in such terms between the relevant Sponsored Members (as buyer and seller) as it deems appropriate in the circumstances.

## 2.5 **Sponsored Member Accounts and Agent Member Accounts**

### 2.5.1 **Sponsored Member Accounts**

A Sponsored Member shall request that the Clearing House opens a SM/AM Account in respect of each Agent Member appointed with respect to such Sponsored Member's RepoClear Business.

### 2.5.2 **Agent Buffer Account**

Each Agent Member will be provided with an Agent Buffer Account to which Agent Buffer is to be credited and the Clearing House shall record in its books the portion of such Agent Buffer attributable to each Sponsored Member of such Agent Member.

### 2.5.3 **ARC Account**

Each Agent Member will be provided with an ARC Account to which Agent Resource Contribution is to be credited and the Clearing House shall record in its books the portion of such Agent Resource Contribution attributable to each Sponsored Member of such Agent Member.

### 2.5.4 **SM/AM Default Fund Account**

Each Sponsored Member will be provided with a SM/AM Default Fund Account for each of its Agent Members, identified by the unique mnemonic assigned to each Sponsored Member/Agent Member relationship.

## 2.6 **Sub-accounts**

Each SM/AM Account, Agent Buffer Account, ARC Account and SM/AM Default Fund Account will map to two or more sub-accounts:

- (i) one or more position accounts; and
- (ii) one or more collateral accounts.

## 2.7 **Position Accounts**

2.7.1 *Position-Keeping Accounts*: No distinction will be made in either SM/AM Accounts or RepoClear Accounts between securities forming part of RepoClear Contracts arising from RepoClear Repo Transactions, RepoClear

Bond Transactions, Bond Trades or Repo Trades and no distinguishing markers will be available in the RepoClear system to distinguish between such securities.

2.7.2 *Identification:* For identification purposes, each Sponsored Member/Agent Member relationship is assigned a unique mnemonic. A Sponsored Member's RepoClear positions are also recorded within the RepoClear system in RepoClear Accounts.

2.7.3 *RepoClear Accounts:* The RepoClear system will provide a position keeping account with respect to each Sponsored Member/Agent Member relationship. Each RepoClear Account must map to a Sponsored Member Account.

A registered RepoClear Contract or RepoClear Term £GC Contract will be identifiable through Sponsored Member reporting, by the code entered on the trade confirmation by the Sponsored Member's relevant Agent Member or by the ATS, where applicable. Each RepoClear Contract or RepoClear Term £GC Contract will also be assigned a unique trade identifier by the Clearing House with respect to each Sponsored Member/Agent Member relationship. Sponsored Member reporting will allow Sponsored Members to identify all RepoClear Contracts and RepoClear Term £GC Contracts registered in their name.

## 2.8 **Margin and Collateral**

Margin and Collateral requirements in respect of RepoClear positions are made up of three basic components:

- 2.8.1 Variation margin;
- 2.8.2 Delivery margin; and
- 2.8.3 Initial and additional margin.

These three components are described below. Further detail on the margin and Collateral requirements in respect of RepoClear positions is available in the RepoClear Service Description. Technical questions should be directed to the Clearing House's Risk Department at [FLRrepoexchanges@lch.com](mailto:FLRrepoexchanges@lch.com).

2.8.4 *Variation Margin:* Variation margin represents the change in the net present value (“NPV”) of a RepoClear Contract or RepoClear Term £GC Contract over a one day period (last RepoClear Opening Day minus current RepoClear Opening Day). All RepoClear Contracts and RepoClear Term £GC Contracts will be marked to market at least daily, in accordance with SC Regulation 18 (*Other Modes of Settlement and Revaluation*). Changes in the NPV of RepoClear Contracts and RepoClear Term £GC Contracts, based on the mark to market calculation, will be paid or received in cash, in the relevant currency of the Contract, on an assumed settlement basis.

With respect to RepoClear Term £GC Contracts, variation margin based on the mark to market calculation, will be calculated for the repo interest only, and Collateral in respect of the variation margin obligations will be transferred

to or from the Clearing House in cash on a daily basis in the currency of the relevant RepoClear Term £GC Contract on an assumed settlement basis.

Separate variation margin calculations are performed for each SM/AM Account of a Sponsored Member.

- (a) *Price Alignment Interest:* The payment of Collateral in respect of variation margin (the change in NPV) on a daily basis would potentially distort the pricing mechanisms for RepoClear Contracts and RepoClear Term £GC Contracts cleared through the Clearing House. In order to minimise the impact of the variation margin obligation, the Clearing House will, for each Sponsored Member, either charge interest on cumulative amounts received by or for the account of Sponsored Member in respect of variation margin obligations or pay interest on cumulative amounts paid.

- 2.8.5 *Delivery Margin: RepoClear Contracts only:* Delivery margin is designed to protect the Clearing House against the possible losses caused by the different timings of the payments of variation margin and the settlement of positions in the event of a Sponsored Member failing to deliver bonds or in the event of a Sponsored Member default.

Delivery margin will be calculated based on cumulative variation margin by delivery. If a Sponsored Member is long cumulative variation margin on a net settlement position in a security for settlement on day 's', it will be called for delivery margin equal to the cumulative variation margin on s-2.

If on the other hand, a Sponsored Member is short cumulative variation margin on a net settlement position in a security for settlement on day 's', it will be called for delivery margin equal to the cumulative variation margin on s-1. Delivery margin will not be called in respect of RepoClear Term £GC Contracts.

- 2.8.6 *Initial Margin:* The Clearing House requires Sponsored Members to transfer (or procure the transfer of) Collateral in respect of the initial margin obligation to the Clearing House. "Expected Shortfall" will be used to calculate initial margin requirements for RepoClear Contracts and RepoClear Term £GC Contracts.

Separate initial margin calculations are performed for each SM/AM Account of a Sponsored Member:

- (a) *Margin Parameters:* Sponsored Members and their relevant Agent Members will be notified by the Clearing House of alterations to margin parameters no later than the RepoClear Opening Day before calls are made, based on the new parameters.
- (b) *Expected Shortfall:* General information on Expected Shortfall, including the Clearing House's Margin Advisor and RepoCalc may be obtained by phoning +44 (0)20 7426 6338. Technical questions should

be directed to the Clearing House's Risk Department at FLRrepoexchanges@lch.com.

- (c) *Additional Margin:* Sponsored Members and their relevant Agent Members should note that additional margin captures the risks not reflected in the Expected Shortfall model.

2.8.7 *Intra-day Margin Calls:* In accordance with the SC Regulations, the Clearing House is entitled to make additional margin calls for payment the same day (intra-day margin calls), where it is considered necessary. To the extent that additional Collateral may be required, intra-day margin calls result in a request for cash Collateral via the PPS which will be satisfied by a Sponsored Member's corresponding Agent Member from its PPS account.

With regard to RepoClear Term £GC Contracts, where Sponsored Members successfully cover before 7.30am London time, all collateral obligations arising from the latest CREST Term £GC mark to market revaluation, any Term £GC margin held in excess of that required to cover the CREST revaluation will be eligible for immediate (same-day) return via PPS, for onward transfer by a Sponsored Member's corresponding Agent Member to such Sponsored Member's designated account, provided the Clearing House receives a specific Agent Member request by 09:30am London time, via the CMS, and in accordance with Section 3 of these SC Procedures. Any excess margin not requested by the Sponsored Member will be held on account and used to cover subsequent member liabilities.

2.8.8 *Margin obligations following a Paying Agent Resignation:* Following a Paying Agent Resignation in accordance with SC Regulation 7(q), any margin obligations that subsequently arise will be allocated and discharged in the following manner:

- (a) such Resigning (Payment Services) Agent Member will still be required to meet the next margin call following the Paying Agent Resignation Effective Time;
- (b) any subsequent margin requirements will be met by either the Affected (Payment Services) Sponsored Member or its corresponding Back-up Paying Agent.
- (c) Without prejudice to the provisions of paragraph (b) above, the Clearing House will be entitled to apply the Agent Buffer pursuant to SC Regulation 7(r) to cover any margin requirements referred to in paragraph (b) above;
- (d) the Affected (Payment Services) Sponsored Member is required to notify the Clearing House, no later than one hour before any margin call referred to in paragraph (b) above, of its decision to invoke the provision of Back-up Paying Agent Services either itself or via its Back-up Paying Agent.

Where the Affected (Payment Services) Sponsored Member has (in accordance with paragraph (d) above), invoked the provision of Back-up Paying Agent Services via its Back-up Paying Agent, such Back-up Paying Agent is required to notify the Clearing House of its acceptance as a Back-up Paying Agent, in respect of the Affected (Paying Agent Resignation) Portfolios.

## 2.9 Notifications to the Clearing House regarding Eligible Term £GC Baskets

2.9.1 *Request from a Sponsored Member to trade Term £GC Baskets:* Any Sponsored Members wishing to trade in any Eligible Term £GC Basket must first obtain the Clearing House's permission. Such request must, in either instance, be addressed to the Director, RepoClear and delivered to the Clearing House in accordance with Section 2.9.2 (*Requirements for giving notice*) below.

A request for permission must be received by the Clearing House no less than 20 Business Days before the earliest date referred to in paragraph (c) below and must contain the following particulars:

- (a) name of the Sponsored Members;
- (b) Email address of the Sponsored Members to which confirmation of receipt of any notice of termination (see Section 2.9.2 (*Requirements for giving notice*) below) is to be given by the Clearing House;
- (c) date upon which the Sponsored Members wishes to commence to trade in the relevant Eligible Term £GC Basket;
- (d) name of each basket for which permission is sought; and
- (e) confirmation of applicable settlement arrangements in respect of each Eligible Term £GC Basket, for which permission is sought.

The Clearing House will give such permission in respect of each GC Basket requested, providing that it is satisfied that appropriate settlement arrangements, meeting the Clearing House's requirements, can be put in place in respect of the settlement of all securities eligible for allocation in each such GC Basket. Such authorisation shall remain in place until terminated by the Clearing House.

Any trade in a GC Basket which would otherwise be eligible for registration by the Clearing House will be rejected by the Clearing House, if the Sponsored Member participating in such trade has not previously been authorised by the Clearing House in respect of that GC Basket or if such an authorisation has been withdrawn by the Clearing House.

2.9.2 *Requirements for giving notice:* Where any notification, authorisation or notice is to be given by a Sponsored Member under this Section 2.9.2, such notice shall be given in writing and may be delivered by hand or sent by first class mail to the relevant addressee at the Clearing House, Aldgate House, 33

Aldgate High Street, London EC3N 1EA, or sent by fax to +44 (0)207 426 7001.

## 2.10 RepoClear Term £GC Product

2.10.1 *Introduction:* This Section sets out additional provisions which apply to Eligible Term £GC Trades submitted either through a MS ("**RepoClear Term £GC Transaction**") or through an ATS ("**RepoClear Term £GC Trade**").

2.10.2 *Netting and Allocation Process:* Following the registration deadline time on each Term £GC business day, the Clearing House instructs Euroclear UK & Ireland of:

- The net cash position with respect to repo interest due for settlement on the next Term £GC business day for each Sponsored Member in respect of all relevant Term £GC Basket trades to be settled.
- The net position due for settlement on the current business day for each Sponsored Member in respect of each Term £GC Basket to be settled. Details of the instructions are made available to the Sponsored Member via the Clearing Member-only website.
- Allocation of specific securities occurs automatically by means of the Term DBV process operated by Euroclear UK & Ireland pursuant to its rules and procedures. Securities are allocated by Euroclear UK & Ireland and the Clearing House has no responsibility for such allocation. In order to ensure the smooth return of collateral, the Sponsored Member who receives the allocated securities should not on-deliver securities received through settlement of Term £GC Basket positions outside of the Euroclear UK & Ireland Term DBV service.

## 2.11 Default Management

2.11.1 *RepoClear Contributions:* RepoClear Contributions are payable in Pounds Sterling.

2.11.2 *Further Payments of RepoClear Contributions:* RepoClear Contributions will be called via PPS on the fourth business day of each month or otherwise pursuant to a determination of a RepoClear Contribution under the Default Rules.

Excess RepoClear Contribution amounts due to Agent Members following a RepoClear Determination Date will (subject to the Default Rules) be repaid to the PPS accounts of such Agent Members on the fourth business day immediately following such RepoClear Determination Date.

Interest on RepoClear Contributions will be paid to the PPS accounts of an Agent Member 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, a “**RepoClear Reset Day**”) and ends on (and includes) the calendar day immediately before the next RepoClear Reset Day. Notwithstanding the preceding paragraphs, if the rate of interest payable on RepoClear Contributions is negative, interest shall be payable by Agent Members to the Clearing House.



**SCHEDULE 1 LOSS DISTRIBUTION CHARGES: ALL PAYMENTS OF LOSS DISTRIBUTION CHARGES CALLED UNDER THE DEFAULT RULES SHALL BE POUNDS STERLING.**

**SETTLEMENT TIMETABLE – REPOCLEAR CONTRACT**

Austrian, Dutch, Irish, Finnish, German, Portuguese, Slovenian, Slovakian and Spanish Government Debt Securities, Jumbo Pfandbrief Bonds and International Bonds (including US Dollar International Bonds)

This table shows the settlement timetable (London time) for RepoClear Contracts where Austrian, Dutch, Irish, Finnish, German, Portuguese, Slovenian, Slovakian and Spanish Government Debt Securities, German Jumbo Pfandbrief Bonds and International Bonds (including US \$ International Bonds) are to be delivered. Sponsored Members will be informed of changes to these timetables via Clearing Member circular.

**SCHEDULE 2**  
**SETTLEMENT TIMETABLE – REPOCLEAR CONTRACTS**

United Kingdom Government Debt Securities

This table shows the settlement timetable (London time) for RepoClear Contracts where United Kingdom Government Debt Securities are to be delivered. Sponsored Members will be informed of changes to this timetable via Clearing Member circular.

<b>Euroclear UK &amp; Ireland*</b>		
<b>Time</b>	<b>Sponsored Members or Agent Members*</b>	<b>Clearing House</b>
06:45	ETCMS gateway opens ATS gateway opens	
11:30	ATS and ETCMS deadline for trade registration for same business day settlement	
11:30		LCH Limited Gilt netting process begins
By 12:30	Result of netting process available	
From 13:30		Where necessary, process partial settlement of instructions
14:55	Gilt DVP – end of settlement window	
From 14:55 to 18:00	Match free of payment transactions (as advised by LCH Limited)	Advise participants of free of payment transactions.  Call payment for Free of Payment transactions via PPS accounts.  Create free of payment settlement instructions
16:00 to 16:50	Free of payment instructions settle	
18:00	ATS gateway closes	
18:00	ETCMS matching system closes	
by 19:00		End of Day processing commences

**SCHEDULE 3**  
**SETTLEMENT TIMETABLE – REPOCLEAR TERM £GC CONTRACTS**

Term £GC

This table shows the settlement timetable (London time) for RepoClear Term £GC Contracts which are settled using the Euroclear UK & Ireland Term DBV service. Sponsored Members will be informed of changes to this timetable via Clearing Member circular.

<b>Euroclear UK &amp; Ireland</b>		
<b>Time</b>	<b>Sponsored Members or Agent Members</b>	<b>Clearing House</b>
06:45	ETCMS gateway opens ATS gateway opens	
From 06:00 to 17:30	All Term DBV Returns settle Term £GC interest-only instructions settle (cash-only DELs)	
14:30	ATS and ETCMS deadline for trade registration for same business day settlement	
From 14:45		Send Term DBV settlement instructions to Euroclear UK & Ireland for same business day settlement  Send interest-only settlement instructions to Euroclear UK & Ireland for action next business day (cash-only DELs)
From 15:00	Review Detailed Settlement Obligations RREP0008J Delivery Settlement Tickets RREP0009J	
From 15:00 to 17:30	Term DBV instructions settle	
18:00	ATS gateway closes	
18:00	ETCMS matching system closes	
By 19:00		End of Day processing commences

### **3. FINANCIAL TRANSACTIONS**

#### **3.1 Accounts and ledgers**

##### **3.1.1 Collateral Accounts**

- (a) A Sponsored Member's SM/AM Accounts have one or more collateral sub-accounts within them. These are, inter alia, used to record cash balances and securities/documentary credits. An Agent Member must identify the collateral sub-accounts to which Collateral is to be credited. The Clearing House shall credit such Collateral to the relevant collateral sub-account and record in its books the position of such amounts attributable to each Sponsored Member of such Agent Member.
- (b) An Agent Buffer Account and ARC Account have one or more collateral sub-accounts within them. These are, inter alia, used to record cash balances and securities/documentary credits. An Agent Member must identify the collateral sub-accounts to which Collateral is to be credited. The Clearing House shall credit such Collateral to the relevant collateral sub-account.
- (c) Default Fund Contributions paid by a Sponsored Member's corresponding Agent Member are held on a separate SM/AM Default Fund Account identified by the unique mnemonic assigned to the relevant Sponsored Member/Agent Member relationship. In accordance with the SC Default Rules this account attracts a rate of interest as determined from time to time by the Clearing House.

##### **3.1.2 Collateral Account Postings**

Transactions posted to a collateral account include but are not limited to:

- (a) PPS calls and pays;
- (b) interest and accommodation charges;
- (c) Clearing House fees, charges and rebates;
- (d) amounts credited or debited in respect of variation margin, price alignment interest, price alignment amounts, NPV payments and coupons; and
- (e) cash settlement.

Details of Collateral balances, valuations and instructions are also available using the CMS.

##### **3.1.3 Ledgers**

- (a) Each collateral account may comprise one or more ledgers including:

- (i) non-cover ledger, which is used to record:
  - (A) coupons received on securities held as Collateral;
  - (B) fees, charges, levies and rebates; and
  - (C) interest on cash balances; and
- (ii) cover ledger, which is used to cover all other items.

Liabilities arising from trading activity are recorded against the relevant collateral account only.

### 3.2 **Financial Transaction Reporting**

Banking reports are generated each day and provide Sponsored Members and Agent Members with data relating (but not limited) to: liabilities by market, cash balances, non-cash balances, cash posting and interest rates/fees.

All reports are available via the Clearing House website portal and can be downloaded via the user interface or directly to Sponsored Member or Agent Member back-office systems, via an SFTP connection.

Details of valuations, Collateral instructions and cash and non-cash balances are available through the CMS.

A “Banking Reports Reference Guide” can be requested from the Clearing House. This contains definitions and examples of each of the available reports.

### 3.3 **Protected Payments System**

The Clearing House operates a direct debit system, known as the protected payments system (“**PPS**”), for the transfer of funds to and from: (i) Agent Members, received and made for the account of such Agent Member's corresponding Sponsored Members; (ii) Sponsored Members, where a Sponsored Member is providing Back-up Agent Services and, where applicable, Back-up Paying Agent Services; and (iii) Agent Members, received and made for the account of such Agent Member. The PPS is a recognised interbank payments system overseen by the Bank of England.

The PPS is operated in London (“**UK PPS**”) and the United States (“**US PPS**”). In this Section, a day on which the PPS is open is referred to as a “**working day**”.

Agent Members and, where applicable, Sponsored Members should note that the PPS (in each location mentioned above) is a system for facilitating payment to the Clearing House of moneys due from Agent Members or Sponsored Members (as applicable) to the Clearing House, for the account of such Agent Member's corresponding Sponsored Member or such Sponsored Member (as applicable) and vice versa. The giving of a commitment by a participating bank through the PPS to make any payment, and the receipt of that commitment by the Clearing House, is not to be regarded as satisfaction of any payment due to the Clearing House.

Each Sponsored Member remains fully responsible for the payment to the Clearing House of all moneys due to the Clearing House for its account as required, *inter alia*, by the Sponsored Membership Agreement, clearing extension documentation and the SC Regulations, SC Default Rules and SC Procedures.

Each Agent Member remains fully responsible for the payment to the Clearing House of all moneys due to the Clearing House for the account of its Sponsored Members as required, *inter alia*, by the Agent Membership Agreement, clearing extension documentation and the SC Regulations, SC Default Rules and SC Procedures.

Payment will only be recognized for this purpose if the relevant PPS bank: (i) has performed its concentration function (being the transfer of net funds from the PPS bank to a central account in the name of the Clearing House); and (ii) any time permitted by the relevant payment system for the recall of any such payment has expired or funds received have been paid out to another Clearing Member, Agent Member or Sponsored Member using the same PPS bank.

Where payments are due to a Sponsored Member or Agent Member, payments will be recognised by the Clearing House as having been made as soon as payment instructions in respect of that payment have been given to a PPS bank. For this purpose, a payment instruction will only be recognised to the extent that the Clearing House has taken steps to transfer to the PPS bank any such sums as may be necessary to enable that payment instruction to be performed by the PPS bank.

### 3.3.1 *PPS Mandates*

#### (a) *Introduction*

An Agent Member is required to maintain a:

- (i) US dollar PPS account with any US PPS bank; and
- (ii) PPS bank account with any UK PPS bank in EUR, USD and GBP, and in each other currency in which it incurs settlement or margin obligations, and provides Securities Collateral, to the Clearing House. An Agent Member may use different UK PPS banks for different currencies.

Where a Sponsored Member is providing Back-up Agent Services or, where applicable, Back-up Paying Agent Services, such Sponsored Member is required to maintain a:

- (i) US dollar PPS account with any US PPS bank; and
- (ii) PPS bank account with any UK PPS bank in EUR, USD and GBP, and in each other currency in which it incurs settlement or margin obligations, and provides Securities Collateral, to the Clearing House. A Sponsored Member may use different UK PPS banks for different currencies.

Please refer to the following link for details:

[www.lch.com/risk-collateral-management/collateral-management/protected-payments-system](http://www.lch.com/risk-collateral-management/collateral-management/protected-payments-system)

Agent Members are responsible at all times for ensuring that their PPS banks accounts have sufficient funds or credit lines to be able to meet calls from the Clearing House for their own account and/or the account of their Sponsored Members.

Sponsored Members providing Back-up Agent Services and where applicable, Back-up Paying Agent Services are responsible at all times for ensuring that their PPS banks accounts have sufficient funds or credit lines to be able to meet calls, for their own account, from the Clearing House.

Any bank charges connected with the holding of any PPS bank account or related to any activity on that account must be paid by the Agent Member or relevant Sponsored Member, as applicable, holding the relevant account PPS mandate.

Each Agent Member and each Sponsored Member providing Back-up Agent Services and, where applicable, Back-up Paying Agent Services, is required to complete a standard form UK PPS Mandate and US PPS Mandate (copies are available from [collateral.clientServices@lch.com](mailto:collateral.clientServices@lch.com)) for each bank branch at which they wish to operate an account before clearing can commence. The original of the mandate must be signed by a person with the appropriate authority within the Agent Member, or relevant Sponsored Member institution (as applicable) and then forwarded to the relevant bank. A copy must also be forwarded at the same time to the Clearing House Onboarding Team.

[onboarding@lch.com](mailto:onboarding@lch.com)

(b) *Currency Conversion*

The Clearing House supports cross currency Collateral, which allows the Agent Member to elect to use Collateral denominated in one currency in respect of initial and contingent margin liabilities calculated in another currency. Agent Members must nominate the currency in which they wish to cover margin liabilities for their own account and/or the account of their Sponsored Members, by prior arrangement with LCH Limited Collateral Operations.

A Sponsored Member providing Back-up Agent Services and where applicable, Back-up Paying Agent Services can elect to use Collateral denominated in one currency in respect of initial and contingent margin liabilities calculated in another currency. A Sponsored Member providing Back-up Agent Services and where applicable, Back-up Paying Agent Services must nominate the currency in which they wish to cover margin liabilities for their own account, by prior arrangement with LCH Limited Collateral Operations.

(c) *Morning PPS Calls*

Sponsored Members' and Agent Members' liabilities are calculated overnight UK time. Should the relevant liability not be covered by acceptable forms of Collateral held by the Clearing House (see Section 3.4) any shortfall is called through UK PPS with separate calls made for each currency and each collateral sub-account. It is the responsibility of each Agent Member and relevant Sponsored Member to ensure that its UK PPS bank(s) meets all payment instructions received from the Clearing House.

Confirmation of PPS calls, as notified, must be received by the Clearing House from the relevant UK PPS bank(s) by 09:00 London time on the day on which the PPS call is made.

Failure of a bank to confirm a PPS call within the required deadline may: (i) in respect of the Agent Member performing the Agent Member Services, constitute an Agent Close-out Event; or (ii) with respect to the Sponsored Member performing Back-up Agent Services and where applicable, the Back-up Paying Agent Services, result in a Default in respect of such Sponsored Member.

Where with respect to an Agent Member performing the Back-up Agent Services and where, applicable, the Back-up Paying Agent Services, such Agent Member's nominated PPS bank fails to confirm a PPS call within the required deadline and there is not sufficient Agent Buffer in the relevant Agent Buffer Account to cover the relevant margin call, such Agent Member's corresponding Sponsored Member will be required to meet such margin call themselves within one hour of being notified of the failed PPS call. Late confirmation of PPS calls are reported to the regulators of the LCH Group.

(d) *Intra-day PPS Calls*

An intra-day margin call by the Clearing House is for same-day payments. GBP, EUR or USD can be used to cover margin obligations intra-day. Between 14:30 – 16:00 (London time) only GBP and USD will be called through UK PPS.

Normally the Clearing House will call intra-day margin through UK PPS accounts. However, where the Clearing House wishes to make such an intra-day call after UK PPS closes (16:00 London time), such a call will be made upon the Agent Member's or relevant Sponsored Member's nominated US PPS account.

Agent Members must designate a currency ("**GBP**", "**EUR**" or "**USD**") that will be called by default during the hours of UK PPS for each mnemonic/sub-account. Agent Members and Sponsored Members providing Back-up Agent Services and where applicable, the Back-up Paying Agent Services may request a change to the default currency no later than 09:30 London time in order for the change to be undertaken



the following day. Agent Members and relevant Sponsored Member's may submit a request to change their currency at the following link:

<http://www.lch.com/risk-collateral-management/collateral-management/acceptable-collateral/preferred-currency>

The Clearing House has the ability to call US dollars in respect of an intra-day margin call up until 16:00 New York time (21:00 London time).

It is noted that the Clearing House will not accept delivery of US dollar cash other than in satisfaction of an intra-day margin call after 14:00 hours New York time.

The Clearing House must receive confirmation of payment from the Agent Member's or, as applicable, relevant Sponsored Member's nominated PPS bank(s) within one hour of receipt of the intra-day call by the relevant bank branch.

Failure of a bank to confirm a PPS call within one hour may: (i) in respect of the Agent Member performing the Payment Services, constitute an Agent Close-out Event; or (ii) with respect to the Sponsored Member performing Back-up Agent Services and where applicable, the Back-up Paying Agent Services, result in such Sponsored Member being declared in default.

Where with respect to an Agent Member performing the Back-up Agent Services and where, applicable, the Back-up Paying Agent Services, such Agent Member's nominated PPS bank fails to confirm a PPS call within one hour and there is not sufficient Agent Buffer in the relevant Agent Buffer Account to cover the relevant margin call, the Sponsored Member attributed to such Agent Member may elect to meet such margin call themselves within one hour of being notified of the failed PPS call. Late confirmation of PPS calls are reported to the regulators of the LCH Group.

(e) *Auto repay*

Agent Members may, provided that there has not been an Agent Close-out Event, request that they are automatically repaid any excess cash balances that remain on their accounts or the accounts of such Agent Member's corresponding Sponsored Member, at the end of each day where the relevant Clearing Service of which the Agent Member is a member provides an auto-repay mechanism. Agent Members must contact Collateral Operations in order to have auto-repay applied to their accounts or the accounts of such Agent Member's corresponding Sponsored Member (collateral.clientservices@lch.com or +44 (0)20 7426 7505).

Those Agent Members who are not on auto-repay or whose corresponding Sponsored Member accounts are not on auto-repay may

request that any cash balances on their accounts or their corresponding Sponsored Member accounts be repaid on the same day, provided that such request is received by the Clearing House by 09:30 London time.

In certain circumstances and following notification to one or more relevant Regulatory Bodies, the Clearing House may disable the auto-repay functionality for all Agent Members of a Clearing Service. The Clearing House will notify affected Agent Members via Clearing Member circular in the event that the functionality is disabled.

(f) *Value Date*

PPS calls and payments are for same-day value for CAD, EUR, GBP and USD and with value on the next day for all other currencies, subject to this paragraph (f). PPS call instructions issued on a day when the Clearing House is not open for business (e.g. Saturdays) are for value the next day for CAD, EUR, GBP and USD and for value two days after the given instruction for all other currencies. Payment instructions will not be issued on a day when the Clearing House is not open for business.

- (i) If, under paragraphs (f) above, a PPS call or payment in a particular currency would be due to be made for value on a day ("**Payment Date**") which is a holiday in respect of that currency, the value date for such PPS transaction will be the first day which is not a holiday in respect of that currency occurring after the Payment Date; and
- (ii) in respect of AUD, if the PPS call or payment is instructed on a day which is a holiday for AUD or on a day when the Clearing House is not open for business (e.g. Saturdays), the value date for such PPS call or payment will be the second day which is not a holiday in respect of AUD occurring after the Payment Date.

Example 1: 20 August is a currency holiday in the USA. The Clearing House is open. 21 August is not a currency holiday in the USA.

On 20 August, the Clearing House will issue USD instructions to PPS banks, and receive confirmation in response to the PPS calls on the same day; the value date for such calls will be 21 August.

Example 2: 20 August is a currency holiday in the UK. The Clearing House is open. 21 August is a currency holiday in Japan. 22 August is not a currency holiday in Japan

On 20 August, the Clearing House will issue JPY instructions to PPS banks, and receive confirmations in response to the PPS calls on the same day; the value date for such calls will be 22 August.

Example 3: 16 January is a Saturday. The Clearing House is not open. 18 and 19 January are not currency holidays in Australia.

On Saturday 16 January, the Clearing House will issue AUD instructions to PPS banks, and receive confirmations in response to the PPS calls on Monday 18 January; the value date for such calls will be Tuesday 19 January.

Example 4: 23 January is a Saturday. The Clearing House is not open. 26 January is a currency holiday in Australia. 25 and 27 January are not currency holidays in Australia.

On Saturday 23 January, the Clearing House will issue AUD instructions to PPS banks, and receive confirmations in response to the PPS calls on Monday 25 January; the value date for such calls will be Wednesday 27 January.

In respect of currency holidays for EUR, GBP and USD ("**Major Currencies**") Agent Members and Sponsored Members (where a Sponsored Member is providing Back-up Agent Services and where applicable, Back-up Paying Agent Services) are required to be able to meet PPS calls in all of the three Major Currencies and therefore must have an account with a PPS bank in London in each of EUR, GBP and USD. If the preferred currency for a mnemonic/sub-account is available to be settled on a currency holiday the Clearing House will call such preferred currency. In the event that such currency is not available to be settled on a particular day the Clearing House will (i) firstly apply excess it may hold in respect of the mnemonic/sub-account, and then (ii) issue calls in the following order:

- (A) on a USD holiday the Clearing House will issue a call in EUR;
- (B) on a GBP holiday the Clearing House will issue a call in USD;
- (C) on a EUR holiday the Clearing House will issue a call in GBP;
- (D) on a day which is both a USD holiday and a EUR holiday, the Clearing House will issue a call in GBP; and
- (E) on a day which is both a USD holiday and a GBP holiday the Clearing House will issue a call in EUR.

The Clearing House will observe a mnemonic/sub-account's currency preferences on all days, other than currency holidays.

Please refer to Clearing Member circulars for details of Clearing House opening days and currency holidays at the following link [Ltd Member Updates | LCH Group](#).

- (g) *Use of UK PPS and US PPS*

These SC Procedures indicate which part of the PPS system will be used in the normal course of events for making PPS calls. Generally UK PPS will be used for morning PPS calls (including Contributions to the Default Fund), remitting surplus cash balances to an Agent Member and for intra-day margin calls up to 16:00 London time. However, Agent Members and relevant Sponsored Members should be aware that the Clearing House reserves the right to direct a morning PPS Call or intra-day margin calls before 16:00 London time to an Agent Member's or, as applicable, relevant Sponsored Member's US PPS account in exceptional circumstances (an “**Exceptional PPS Call**”). The Clearing House will use all reasonable commercial endeavours to notify the Agent Member or, as applicable, relevant Sponsored Member in advance of issuing any such Exceptional PPS Call.

(h) *Contingency Payment Arrangements*

Agent Members and Sponsored Members that have elected to provide Back-up Agent Services and where applicable, the Back-up Paying Agent Services are required to have contingency payment arrangements in place to ensure that they can continue to meet the margin obligations of their Sponsored Members or their own margin obligations (as applicable) in the event of failure of their nominated PPS bank(s). Furthermore, Sponsored Member's are required to have contingency payment arrangements in place to ensure that it continues to meet its' margin obligations where its' corresponding Agent Member fails to meet the Payment Services obligations in SC Regulation 6. During the application process, the Clearing House will require the applicant for Agent Members or Sponsored Members status to provide evidence of these arrangements and will test these prior to the applicant becoming an Agent Member or Sponsored Member (as applicable). Such Agent Member or relevant Sponsored Member (as applicable) will be required to provide evidence of their contingency payment arrangements on an annual basis at the Clearing House's request.

(i) *Recovery from Insolvent PPS Banks*

In the event that payment is not completed by the relevant PPS bank, due to insolvency rather than technical failure, and the affected Agent Member(s) and relevant Sponsored Member(s) make alternative payments, the Clearing House, should it make a recovery from the estate of the PPS bank, will credit such recovery, net of cost, to the accounts of the affected Agent Members or relevant Sponsored Members in proportion to the amount of the original missed payment.

### 3.4 **Acceptable Forms Of Collateral**

The Clearing House accepts certain types of Collateral as determined by the Clearing House from time to time.

Please refer to the following link for further details:

<http://www.lch.com/risk-collateral-management/collateral-management/acceptable-collateral>

**The Clearing House may vary, at its discretion, the standard requirements and valuation procedures set out in this Section 3.4, either generally or in a particular case, without giving prior written notice to Sponsored Members or Agent Members. Further, the Clearing House may vary the types of collateral acceptable to it.**

#### 3.4.1 *Cash*

In order not to fall within the scope of deposit-taking regulations applying to banks and similar institutions, the Clearing House can accept cash from: (i) Agent Members for their own account; (ii) Agent Members for the account of their Sponsored Members; and (iii) from Sponsored Members and in all cases only in relation to current or anticipated obligations.

Cash used as Collateral need not be provided in the same currency as that of the liability of the related Sponsored Member. In such cases, currencies will be notionally converted with reference to quoted exchange rates determined at approximately 16:45 London time the previous business day.

Agent Members or Sponsored Members (where applicable) must give the Clearing House no less than two business days' notice of their intention to substitute existing cash Collateral with non-cash Collateral or cash Collateral in a different currency where the amount of cash is GBP 50 million or greater, whether for their own account or for the account of its Sponsored Members. Where an Agent Member or Sponsored Member (where applicable) fails to give such notice, the Clearing House may decline to transfer or release the cash Collateral until the end of the required notice period.

#### 3.4.2 *Securities*

Please refer to the following pages on our website for notes on Collateral acceptable to the Clearing House:

[http://www.lch.com/risk\\_management/ltd/acceptable\\_collateral.asp](http://www.lch.com/risk_management/ltd/acceptable_collateral.asp)

#### 3.4.3 *Value Notification*

Agent Members and Sponsored Members may obtain details on the value ascribed to non-cash Collateral on their account via:

- (a) the relevant reports available on the Clearing House website portal;
- (b) the CMS; and/or
- (c) SWIFT message sent from the Clearing House to the relevant Agent Member / Sponsored Member.

Please refer to the following pages on our website for haircuts on Collateral:

<https://www.lch.com/risk-collateral-management/ltd-collateral-management/ltd-acceptable-collateral/ltd-acceptable>

#### 3.4.4 *Use of Credits as Collateral*

RepoClear credit variation margin may be used to offset RepoClear debit variation margin and initial margin across currencies. Amounts are not paid in cash, but may be offset against certain specific margin obligations of the relevant Sponsored Member, with the result that the related Agent Member or the Sponsored Member which is itself providing Back-up Agent Services and where applicable, Back-up Paying Agent Services, will need to provide less Collateral in respect of those margin obligations.

### 3.5 **Distribution of Collateral**

**The following SC Procedures are not in any way intended to restrict, vary, or alter the Clearing House's rights to apply any Collateral held by it to meet the relevant Sponsored Member's or Agent Member's liabilities/obligations to the Clearing House.**

#### 3.5.1 *Collateral Application*

The Clearing House will apply Collateral to each liability (in turn) in relation to the collateral utilisation fees charged in respect of each collateral group categorisation by the Clearing House, as published from time to time at the following link:

<https://www.lch.com/risk-collateral-management/ltd-collateral-management/ltd-fees-collateral>

The Clearing House will apply the least expensive collateral group first and thereafter, will apply each collateral group in ascending order of fees.

If the amount charged is the same for more than one collateral group, they will be applied in alphabetical order by collateral group.

The Clearing House will not (i) require the assets of a sub-fund of an umbrella fund to be applied towards the liabilities of another sub-fund or (ii) otherwise prejudice the application of any Irish rule of law concerning segregated liability between sub-funds of umbrella funds. Notwithstanding any provision of the Default Rules:

- (a) if the Clearing House succeeds by any means whatsoever or wheresoever in having recourse to any assets of any sub-fund in the discharge in all or any part of a liability which was not incurred on behalf of that sub-fund, the Clearing House shall be liable to the umbrella fund to a sum equal to the value of the benefit thereby obtained by the Clearing House; and

if the Clearing House succeeds in seizing or attaching by any means, or otherwise levying execution against, any assets of a sub-fund in respect of a liability which was not incurred on behalf of that sub-fund, the Clearing House shall hold those assets or the direct or indirect proceeds of the sale of such assets on trust for the umbrella fund and shall keep those assets or proceeds separately and identifiable as such property.

### **3.5.2 *Cash Currency Preference***

Agent Members (and Sponsored Members, where a Sponsored Member is providing Back-up Agent Services and where applicable, Back-up Paying Agent Services) may nominate the sequence of cash Collateral distribution.

In the absence of a nominated sequence of currency preferences, a Sponsored Member's liabilities will be covered by cash in the same currency as the liability. This means that a GBP liability will be covered in GBP cash, a EUR liability will be covered in EUR cash and so forth. Any further liabilities in the relevant currency will be covered by cash called via PPS.

Agent Members and Sponsored Members (where a Sponsored Member is providing Back-up Agent Services and where applicable, Back-up Paying Agent Services) may define their own sequence of cash Collateral utilisation for each mnemonic and each account type (i.e. House or Buffer). The sequence does not have to be on a like for like basis and a Agent Members and Sponsored Members (where a Sponsored Member is providing Back-up Agent Services and where applicable, Back-up Paying Agent Services) may choose any eligible currency to cover its liability (for example, a GBP liability can be covered in EUR cash).

Any changes to an Agent Member's or a Sponsored Member's nominated currency sequence, or a request relating to excess cash currency balances in a particular currency, should be notified to the Clearing House by providing a minimum of two business days' notice.

### **3.5.3 *Record of Collateral Provided***

Charges and interest shall be calculated in accordance with the information published on the website of the Clearing House.

### **3.5.4 *Use of Collateral - Default or Agent Close-out Event***

The order of priority (in which cash and non-cash Collateral are applied to cover Sponsored Members' liabilities or Agent Members' liabilities, as applicable), set out elsewhere in this Section 3.5, does not necessarily reflect the order of priority of realisation or application of Collateral which the Clearing House may follow in the case of a Default or an Agent Close-out Event. Following a Default or Agent Close-out Event, the Clearing House is entitled to realise and/or apply Collateral in whatever order it deems appropriate.

### **3.6 Interest on Cash Balances and Accommodation Charges**

#### **3.6.1 *Interest Rates***

The Clearing House applies interest to Sponsored Member's and Agent Members' cleared cash balances as published on the Clearing House's website.

#### **3.6.2 *Payment of Interest and Charges***

Interest and accommodation charges are charged monthly, from the last calendar day of the previous month to the penultimate day of the current month. Interest and accommodation charges are calculated on a daily basis and the resultant monthly total is posted to the relevant collateral account(s) of the Sponsored Member or Agent Member (as applicable), for value on the third business day following the penultimate day of the month. A VAT invoice is also issued on the third business day of each month detailing the interest and accommodation charges applicable for the previous month. Separate invoices are issued for each currency which can be found on the Sponsored Member reporting website.

VAT is charged, dependent on contract and accommodation charges, at current rates. On foreign currency amounts VAT is charged in sterling on the converted value of any relevant charges. The sterling collateral account shows separate postings for sterling VAT amounts arising from foreign currency charges.

The net invoice value for each currency is posted to the relevant collateral account for value on the second working day of the month succeeding the month in which the charges arose.

The invoice provides detail in respect of:

- (a) interest due to be credited or debited; and
- (b) accommodation charges.

VAT on accommodation charges is subject to the standard rate, some markets may be excluded.

#### **3.6.3 *Cash Balance Interest Rate***

The Clearing House applies interest to a Clearing Member's cleared cash balances. The following rates are applied:

- (i) RDR – RepoClear Deposit Rate – the rate at which the Clearing House may pay or charge interest on credit cash balances made in EUR, GBP and USD. The current spread rates are published on the Clearing House's website at the following link:  
[http://www.lch.com/fees/ltd/custody\\_services.asp](http://www.lch.com/fees/ltd/custody_services.asp); and



- (ii) LDR – London Deposit Rate – the rate at which the Clearing House will pay or charge interest on credit cash balances for all other currencies. The current spread rates are published on the Clearing House’s website at the following link:  
[http://www.lch.com/fees/ltd/custody\\_services.asp](http://www.lch.com/fees/ltd/custody_services.asp)

Where the Clearing House provides Agent Members and Sponsored Members with at least three days’ written notice (which may be by way of Clearing Member circular), the Clearing House may increase or decrease the RDR. In the event of extreme market conditions, the Clearing House may freely and without notice increase or decrease the RDR for up to five consecutive business days.

Where the Clearing House provides Agent Members and Sponsored Members with at least three days’ written notice (which may be way of Clearing Member circular), the Clearing House may increase or decrease the LDR by up to 10bps. The foregoing shall not apply in the event of extreme market conditions, during which the Clearing House may freely and without notice increase or decrease the LDR for up to five consecutive business days.

### **3.7 Fees**

Details of fees and refunds pending are collated during the month.

An invoice or credit note is produced detailing the fees to be posted to collateral accounts.

The invoice/credit note displays the type of fee, contract, future or option type, currency, fee rate, volume, fee amount, VAT amount, sub totals for each fee class and the overall total posted to a collateral account.

Monthly postings are processed via the relevant collateral account at the beginning of the following month, on the third working day for the relevant currency.

### **3.8 Default Fund Contributions**

Provisions relating to RepoClear Contributions are set out in Section 2 of these SC Procedures.

### **3.9 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 a Contract and any modification or termination of such a 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.

## 4. COLLATERAL

### 4.1 General Information

The Clearing House is, at its sole discretion, entitled to determine what will be acceptable to it as Collateral and to determine when collateral will cease to be acceptable as Collateral.

If any cash instrument or security, lodged in accordance with any of the following SC Procedures, is in any way found to be unacceptable, it will immediately be given a zero value for the purposes of calculating the value of: (i) the SM/AM Current Collateral Balance (the "**SM/AM Current Collateral Value**"); (ii) the Agent Buffer Collateral Balance (the "**Agent Buffer Current Collateral Value**"); (iii) the ARC Account; and (iv) the SM/AM Default Fund Account. Replacement Collateral may be required immediately from the Sponsored Member's corresponding Agent Member or from the Sponsored Member itself where such Sponsored Member is performing Back-up Agent Services and where applicable, Back-up Paying Agent Services.

#### 4.1.1 *Instructions*

The Clearing House accepts instructions to lodge, release and transfer cash, securities and triparty Collateral via its online CMS and/or any other operational process the Clearing House determines.

If there is an outage of the CMS (or if the Clearing House decides it is appropriate), an Agent Member or Sponsored Member may send certain instructions using the appropriate form by email to:

[collateral.clientservices@lch.com](mailto:collateral.clientservices@lch.com)

Collateral Operations can be contacted on +44 (0)20 7426 7593.

A copy of the appropriate form is available here:

<https://www.lch.com/risk-collateral-management/ltd-collateral-management/ltd-collateral-management-system>

The Clearing House may act upon instructions or communications appearing to have been issued by or on behalf of, or to have come from, an Agent Member or a Sponsored Member (where such Sponsored Member is instructing a security transfer or is performing Back up Agent Services and where applicable, Back up Paying Agent Services). These will be accepted by the Clearing House as genuine, even if, for example, they are later found:

- (a) to be inaccurate, whether in whole or in part; or
- (b) not to have been given by the Agent Member or the Sponsored Member (where applicable), or with the authority of such Agent Member or Sponsored Member (as applicable).

The Clearing House will only accept delivery of non-cash Collateral from an Agent Member or Sponsored Member (as applicable) in accordance with these

SC Procedures, and will not sell or purchase cash or non-cash Collateral for Agent Members or Sponsored Members, except in so far as it is acting under its SC Default Rules and related SC Regulations.

The Clearing House reserves the right to require a Sponsored Member or Agent Member (as applicable) to execute revised versions of the Deed of Charge or the Title Transfer Contract (as applicable) whenever the Clearing House, at its sole discretion, considers that it would be appropriate to do so.

The Clearing House reserves the right to change the information required on instructions received via the CMS or via the relevant form, whenever the Clearing House, at its sole discretion, considers that it would be appropriate to do so.

#### 4.1.2 *Excess Collateral*

The Clearing House shall, at least once on each business day, notify each Sponsored Member and its corresponding Agent Member(s) of the Required Margin Amount and the Total Required Margin Amount in respect of such Sponsored Member. The Required Margin Amount and the Total Required Margin Amount are calculated in respect of each Sponsored Member/Agent Member relationship, as identified by their unique mnemonic (a "**SM/AM Netting Set**").

The Clearing House shall, at least once on each business day, notify each Agent Member of additional resources required in respect of such Agent Member's Agent Buffer Account.

The Clearing House shall, at least once per calendar month, notify each Agent Member of additional resources required in respect of such Agent Member's ARC Account and/or SM/AM Default Fund Account.

If the SM/AM Current Collateral Value exceeds the sum of that Sponsored Member's Total Required Margin Amount (deducting amounts of any such margin requirements from the Sponsored Member to the Clearing House in respect of which time for performance has not yet occurred) and any other amounts which the Sponsored Member is required to transfer to the Clearing House under applicable law or regulation with respect to the relevant SM/AM Netting Set (such excess being referred to in this Section 4.1.2 as the "**excess collateral value**"), then that Sponsored Member or Sponsored Member's corresponding Agent Member may, in accordance with Sections 4.3 and 4.4 of the SC Procedures and/or any other operational process the Clearing House determines, request that some or all of the Collateral comprising the SM/AM Current Collateral Balance having a value not exceeding the excess collateral value (such Collateral being referred to in these SC Procedures as "**excess collateral**") be returned or repaid by the Clearing House to, or to the order of, that Agent Member or Sponsored Member (as applicable).

If the Agent Buffer Collateral Value exceeds the sum of the relevant Agent Member's liabilities to the Clearing House (deducting amounts of any such additional resource requirements from the Agent Member to the Clearing

House in respect of which time for performance has not yet occurred) and any other amounts which such Agent Member is required to transfer to the Clearing House under applicable law or regulation in accordance with these SC Procedures (such excess also being referred to in this Section 4.1.2 as the "**excess collateral value**" (as applicable)), then that Agent Member may in accordance with Sections 4.3 and 4.4 of the SC Procedures and/or any other operational process the Clearing House determines, request that some or all of the Collateral comprising the Agent Buffer Collateral Balance having a value not exceeding the excess collateral value (such Collateral also being referred to in these SC Procedures as "**excess collateral**" (as applicable)) be returned or repaid by the Clearing House to, or to the order of that Agent Member.

If the value of the ARC Account exceeds the sum of the relevant Agent Member's liabilities to the Clearing House (deducting amounts of any such additional resource requirements from the Agent Member to the Clearing House in respect of which time for performance has not yet occurred) and any other amounts which such Agent Member is required to transfer to the Clearing House under applicable law or regulation in accordance with these SC Procedures (such excess being referred to in this Section 4.1.2 as the "**ARC Account excess collateral value**"), then that Agent Member may in accordance with Section 3.3.1(e) of the SC Procedures and/or any other operational process the Clearing House determines, request that some or all of the Collateral comprising the ARC Account having a value not exceeding the ARC Account excess collateral value be returned or repaid by the Clearing House to, or to the order of that Agent Member.

If the value of a SM/AM Default Fund Account exceeds the sum of the relevant Agent Member's liabilities to the Clearing House (deducting amounts of any such additional resource requirements from the Agent Member to the Clearing House in respect of which time for performance has not yet occurred) and any other amounts which such Agent Member is required to transfer to the Clearing House under applicable law or regulation in accordance with these SC Procedures (such excess being referred to in this Section 4.1.2 as the "**Default Fund Account excess collateral value**"), then that Agent Member may in accordance with Section 3.3.1(e) of the SC Procedures and/or any other operational process the Clearing House determines, request that some or all of the Collateral comprising the SM/AM Default Fund Account having a value not exceeding the Default Fund Account excess collateral value be returned or repaid by the Clearing House to, or to the order of that Agent Member.

In the event that the Clearing House expressly notifies the Sponsored Member and/or the corresponding Agent Member (as applicable) of a positive excess collateral value and that the Clearing House intends to levy a charge in respect of the excess collateral with effect from a date notified in that notification, and the Agent Member does not make a request for the return of the excess collateral before the date so notified, the Clearing House may, in its discretion but only from the date so notified, charge the Sponsored Member in respect of any such excess collateral at the rate of 1 basis point per day until the excess collateral is eliminated. Payment of this charge shall be collected on a monthly

basis through that Sponsored Member's corresponding Agent Members' PPS sterling account.

If the Clearing House has received a request to return excess collateral, the Clearing House shall promptly take such steps as are necessary to transfer the amount of excess collateral specified in that request to or to the order of the relevant Agent Member, in respect of each account held by the Agent Member with the Clearing House, provided that:

- (i) the Clearing House shall only be obliged to take such steps with respect to any Collateral pursuant to this Section 4.1.2:
  - (A) to the extent that it constitutes excess collateral;
  - (B) if the corresponding Sponsored Member is not a Defaulter;
  - (C) if the Agent Member is not an Affected Agent Member or a Resigning Agent Member (as applicable);
  - (D) to the extent the Clearing House is permitted to take such steps and make such transfer under applicable law and the contractual provisions of any relevant Depository;
  - (E) if there is no overnight margin and/or cash call in respect of the relevant Agent Member or Sponsored Member (as applicable) which remains outstanding; and
  - (F) to the extent the restriction under Section 4.1.8 of these SC Procedures does not apply to the excess collateral to be returned to the relevant Clearing Member.
- (ii) where the Agent Member or Sponsored Member (as applicable) has requested that non-cash Collateral of a particular type in respect of an account be transferred, the Clearing House shall transfer such non-cash Collateral unless it determines, acting in a commercially reasonable manner, that transferring such non-cash Collateral would result in the Clearing House being unable to satisfy its policies on concentration limits in respect of the various types of non-cash Collateral held by it from time to time ("**Concentration Limits**"), the Clearing House shall notify the Agent Member or Sponsored Member (as applicable) thereof and shall not be obliged to transfer the requested non-cash Collateral; and
- (iii) where the Agent Member has requested that cash Collateral of a particular currency in respect of an account be transferred, the Clearing House shall transfer such cash Collateral unless it determines, acting in a commercially reasonable manner, that transferring such cash Collateral would result in an account not satisfying the Clearing House's requirement for a minimum of cash Collateral in a particular currency to be held in, or attributed to such account ("**Cash Requirement**"), in

which case the Clearing House shall notify the Agent Member thereof and shall not be obliged to transfer the requested cash Collateral.

#### 4.1.3 *Substitution of non-cash Collateral*

At any time, an Agent Member or Sponsored Member (as applicable) may notify the Clearing House in accordance with Sections 4.3 and 4.4 of these SC Procedures that it wishes to substitute any non-cash Collateral in respect of an account which is subject to a Deed of Charge or a Title Transfer Contract (the "**Original Collateral**") with replacement Collateral in respect of such account having a value not less than the Original Collateral (the "**New Collateral**") (such request being a "**Substitution Request**").

If the Clearing House has received a Substitution Request, it shall, subject to Section 4.1.8 of these SC Procedures and promptly following the Clearing House being satisfied that the New Collateral has been transferred to the Clearing House in accordance with Section 4.3 and 4.4 of these SC Procedures, take such steps as are necessary to transfer such Original Collateral to or to the order of the Agent Member or Sponsored Member (as applicable) in respect of that particular account, provided that, if the Clearing House determines, acting in a commercially reasonable manner, that following such substitution the Clearing House would be unable to satisfy its Concentration Limits, it shall notify the Agent Member or Sponsored Member (as applicable) thereof and shall not be obliged to transfer the Original Collateral.

#### 4.1.4 *Lodgement of non-cash Collateral as replacement for cash Collateral*

Agent Members and Sponsored Members (as applicable) must give the Clearing House's Collateral Operations Team no less than two business days' notice of their intention to transfer to the Clearing House non-cash Collateral with a value of £50 million sterling or more, and which is reasonably likely to have the effect that cash Collateral of a similar value is repayable by the Clearing House to the corresponding Agent Member as a result of such transfer. Collateral Operations must be advised no later than 15:30 two business days prior to the transfer. In the event that any Agent Member or Sponsored Member (as applicable) requests the return of such cash Collateral without giving such notice, the Clearing House will decline to release such cash Collateral until the end of the required notice period. The Clearing House may extend the required notice period or vary the minimum Collateral value by written notice to Sponsored Members and Agent Members.

#### 4.1.5 *Force Majeure*

The Clearing House will not be liable for any failure, hindrance or delay in the performance (in whole or in part) of any of its obligations to Sponsored Members or Agent Members with regard to Collateral where such failure, hindrance or delay arises from causes beyond the control of the Clearing House, such as (but not limited to) the failure (whether partial or total), interruption or suspension of any Depository that the Clearing House is using; the termination or suspension of the Clearing House's membership or use of

any Depository or any variation of a Depository's operational timetable, whether or not occasioned by action of the Depository operator or any other party, any embargo, unavailability or restriction of bank transfer systems or wires, malfunction or overload of any Depository; or any other emergency. This provision is without prejudice to the *force majeure* provisions of Sponsored Membership Agreement or Agent Membership Agreement with the Clearing House.

#### 4.1.6 *Regulatory and Supervisory Information*

In every case, the Clearing House will be entitled to supply a Depository with all the information it requires for any purposes relating to a Sponsored Member or an Agent Member, or relating to non-cash Collateral received by the Clearing House from an Agent Member or Sponsored Member which is, or may at any time have been held by the Depository. Collateral that an Agent Member or Sponsored Member provides to the Clearing House and that is subject to a Deed of Charge or a Title Transfer Contract will be lodged and held with such Depository as the Clearing House may select or allow, subject to the conditions of such Depository, to any applicable law and subordinate rules relating thereto, as well as to the terms of the relevant Deed of Charge and charge documentation or a Title Transfer Contract (as applicable) and these SC Procedures.

#### 4.1.7 *Coupons*

The Clearing House will record coupons that arise in respect of non-cash Collateral of an Agent Member or Sponsored Member, taking into account any withheld tax (“**Coupons**”), to such Agent Buffer Account or such SM/AM Account and to the non-cover ledger within such account (see Section 3.1.3) on the appropriate payment date and such Coupons will be cash Collateral forming part of the SM/AM Current Collateral Balance of such SM/AM Account or forming part of the Agent Buffer Collateral Balance of such Agent Buffer Account (as applicable).

The Clearing House will promptly on or after the appropriate payment date take such steps as are necessary to transfer Coupons to the relevant Agent Member (except Coupons which are automatically transferred to such Agent Member or Sponsored Member by operation of a triparty transaction), provided that the Clearing House shall only be obliged to take such steps pursuant to this Section 4.1.7:

- (i) to the extent that such Coupons constitute excess collateral;
- (ii) if in respect of Coupons applied to an SM/AM Account, the corresponding Sponsored Member is not a Defaulter;
- (iii) if in respect of Coupons applied to an Agent Buffer Account, the Agent Member is not an Affected Member;

- (iv) to the extent the Clearing House is permitted to take such steps and make such transfer under applicable law and the contractual provisions of any relevant Depository; and
- (v) if there is no overnight margin and/or cash call in respect of the relevant Agent Member or Sponsored Member which remains outstanding.

#### 4.1.8 *Record Date*

The Clearing House may restrict the lodgement, release and/or transfer of non-cash Collateral on a record date for the payment of a Coupon applicable to such non-cash Collateral where the Clearing House considers this necessary in order to correctly pay such Coupon to the relevant Sponsored Member or Agent Member (as applicable) on the Coupon payment date.

#### 4.1.9 *Charges*

The Clearing House will collect any charges incurred as deemed necessary using PPS and charging the Sponsored Member's PPS account or, as applicable, a PPS account of its corresponding Agent Member. Examples of such charges may include a collateral agent's overnight custody charge, transfer charges or any charges relating to the movement of non-cash Collateral. For a list of the Clearing House's custody services fees, please refer to:

<https://www.lch.com/risk-collateral-management/ltd-collateral-management/ltd-fees-collateral>

## 4.2 **Documentation**

### 4.2.1 *Deed of Charge or Title Transfer Contract*

Sponsored Members wishing to, or to permit their Agent Members to, transfer non-cash Collateral to the Clearing House on such Sponsored Member's behalf must complete and maintain either a *Deed of Charge or Title Transfer Contract*.

The Deed of Charge establishes a fixed charge over the Sponsored Member's interests pursuant to the custody relationship which arises upon specified non-cash Collateral being transferred into the SM/AM Account with the Clearing House by the Sponsored Member or Agent Member (as applicable).

Under the Title Transfer Contract, the Sponsored Member transfers to the Clearing House full right, title and interest in non-cash Collateral to the Clearing House on terms that, when the Sponsored Member discharges the Covered Obligations (as defined in the Title Transfer Deed) to the Clearing House, the Clearing House will transfer title to equivalent non-cash Collateral to the Sponsored Member.



Either document must be executed in accordance with the instructions accompanying it. Each deals with, *inter alia*, non-cash Collateral that is transferred to the Clearing House via bilateral settlement or via triparty arrangements. To operate triparty arrangements with the Clearing House additional documentation must also be executed with the relevant triparty provider.

Agent Members wishing to transfer non-cash Collateral to the Clearing House on such Agent Member's behalf must complete and maintain a *Deed of Charge*. This document establishes a fixed charge over the Agent Member's interests pursuant to the custody relationship, which arises upon specified non-cash Collateral being transferred into the Agent Buffer Account with the Clearing House by the Agent Member. The document is required to be executed in accordance with the instructions which accompany it. The Deed of Charge covers, *inter alia*, non-cash Collateral that is transferred to the Clearing House via bilateral settlement or via triparty arrangements. To operate triparty arrangements with the Clearing House, additional documentation must also be executed with the relevant triparty provider.

Copies of both the Deed of Charge and the Title Transfer Contract are available from the Clearing House.

<p><b>Sponsored Members and Agent Members are warned that the transfer of Collateral and the grant of a security interest are complex legal matters. The SC Rulebook and any communication with the Clearing House (whether of an oral or written nature) are not to be taken as legal or other advice. Sponsored Members and Agent Members should seek their own independent professional advice.</b></p>
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#### 4.2.2 *Segregation Rules*

Instructions relating to transfers and requests for the return of Collateral must indicate the particular account to which they relate. Any Collateral transferred to the Clearing House in respect of an account will be applied against margin liabilities on such account.

Collateral transferred to the Clearing House in respect of a SM/AM Account will not be applied by the Clearing House to the Agent Member's liabilities on the Agent Buffer Account, ARC Account or SM/AM Default Fund Account (see Section 2.5) or on another SM/AM Account, except as pursuant to the SC Default Rules.

Collateral transferred to the Clearing House in respect of an Agent Buffer Account will not be applied by the Clearing House to the Agent Member's liabilities on a SM/AM Account, ARC Account or SM/AM Default Fund Account (see Section 2.5) or on another Agent Buffer Account, except as pursuant to the SC Default Rules.

Collateral transferred to the Clearing House in respect of an ARC Account will not be applied by the Clearing House to the Agent Member's liabilities on a

SM/AM Account, Agent Buffer Account or SM/AM Default Fund Account (see Section 2.5) or on another Agent Buffer Account, except as pursuant to the SC Default Rules.

Collateral transferred to the Clearing House in respect of an SM/AM Default Fund Account will not be applied by the Clearing House to the Agent Member's liabilities on a SM/AM Account, Agent Buffer Account or ARC Account (see Section 2.5) or on another SM/AM Default Fund Account, except as pursuant the SC Default Rules.

Collateral transferred to the Clearing House in respect of an account may be applied by the Clearing House towards the payment of any sum whatsoever due by the Sponsored Member and/or Agent Member (as applicable) to the Clearing House, with respect to Contracts registered against such accounts.

#### **4.3 Instructions via CMS**

The Clearing House will action instructions relating to Collateral that have been input and authorised via the CMS in accordance with, and subject to, this Section 4 of the SC Procedures.

For non-cash instructions, the details input on the CMS will form the basis of the matching instruction sent to the relevant Depository. Agent Members and, where applicable, Sponsored Members must ensure that the details are input correctly in order to avoid unmatched transactions.

It is the responsibility of the Agent Member or, as applicable, the Sponsored Member (where such Sponsored Member is instructing a security transfer or is performing Back up Agent Services and where applicable, Back up Paying Agent Services) to input a cancellation request of any incorrectly input instruction and to subsequently input the correct details in a new instruction. Please note that it may not be possible to cancel an instruction, (please refer to Section 4.4.7 below for further details).

The Clearing House will update the status of an instruction in the CMS to reflect the status of the corresponding instruction at the relevant Depository or PPS bank. On settlement of the relevant transaction, the Clearing House will reflect the balance of the securities or cash on the relevant account of the Sponsored Member, or Agent Member as applicable, and take them into account for the purposes of calculating the SM/AM Current Collateral Value or Agent Buffer Current Collateral Value.

The relevant account details that an Agent Member or Sponsored Member should use for matching transactions at a Depository are located at:

<https://www.lch.com/risk-collateral-management/ltd-collateral-management/ltd-collateral-management-system>

The Clearing House will not be liable for any losses to Sponsored Members or Agent Members or third parties caused by non-settlement or by a delay in settlement as a result of the actions or omissions of a Depository or, as applicable, the Agent Member or the Sponsored Member (save for any liability which may not be excluded by applicable law).

#### 4.4 Settlement Procedures – Securities provided on a bilateral basis

All transactions to transfer non-cash Collateral to or from the Clearing House will be executed free of payment. Members are encouraged to instruct with provisions to allow settlement in late day windows (e.g. Daylight, Priority 90 and other such local market indicators).

##### 4.4.1 *Instruction Deadlines*

Agent Members and where applicable Sponsored Members may input security instructions via the CMS at any time. Instructions will only be actioned by the Clearing House during operational hours.

The Collateral Operations Team’s operational hours are: Monday – to Friday 07:00 – 21:00 (UK time).

Instruction deadlines are available on the LCH website at the following location:

<https://www.lch.com/risk-collateral-management/ltd-collateral-management/ltd-acceptable-collateral/ltd-acceptable>

##### 4.4.2 *Deliveries to and from Local Markets*

The Clearing House is bound by the settlement deadlines of the relevant Depository. Agent Members and relevant Sponsored Members should refer to the relevant Depository for these deadlines. Note that for transactions from local markets the settlement deadline may be earlier than the Clearing House hours of operation and should therefore be instructed the day before the settlement date (i.e. on S-1). Instructions to the Clearing House must be provided at least one hour before the market deadline for same day settlement.

For example:

<b>Deliveries from Local Market</b>	<b>Depository Deadline</b>	<b>Instruction Deadline to Clearing House (UK time)</b>
Japan	07.55	17.00 on S-1
Belgium	14.50	13.50 on S
Italy	15.00	14.00 on S

##### 4.4.3 *Transfer of Securities Collateral to the Clearing House*

Instructions for the transfer of securities Collateral to the Clearing House that are input via the CMS or, when directed by the Clearing House, via one of the forms available on the website by: (i) the Agent Member for their own account or for the account of its corresponding Sponsored Member; or (ii) Sponsored Members for their own account, prior to the deadlines advised by the Clearing House for same day settlement will (subject to Section 4.1.8 of these SC

Procedures) be actioned and settled transactions will be taken into account for the purposes of calculating the SM/AM Current Collateral Value or Agent Buffer Current Collateral Value (as applicable) following settlement.

Transfer instructions for future settlement dates will (subject to Section 4.1.8 of these SC Procedures) be instructed same day if received prior to the deadlines. Instructions received after the deadlines will (subject to Section 4.1.8 of these SC Procedures) be instructed the following day only where the intended settlement day is in the future. The Clearing House will reject instructions for same day settlement, which are received after the deadline.

#### 4.4.4 *Transfer of Securities Collateral from the Clearing House*

##### (a) *Release where Sufficient Collateral is Available*

Instructions to release existing non-cash Collateral of an Agent Member or a Sponsored Member that are received before the deadlines above for same day settlement will (subject to Sections 4.1.2 and 4.1.8 of these SC Procedures) be actioned and the Collateral specified in those instructions will (subject to Sections 4.1.2 and 4.1.8 of these SC Procedures) no longer be included when calculating the SM/AM Current Collateral Value or Agent Buffer Current Collateral Value, as applicable, on confirmation of those instructions by the Clearing House.

##### (b) *Release where Sufficient Collateral is Unavailable*

Instructions to release existing non-cash Collateral of an Agent Member or a Sponsored Member must be received by 16.30 UK time on S-1. The Agent Member will then be requested to transfer additional cash Collateral as part of the overnight margin call process. Following confirmation of the cash call, the settlement instruction will, subject to Sections 4.1.2 and 4.1.8 of these SC Procedures, be sent to the Depository by the Clearing House and the Collateral specified in those instructions will, subject to Sections 4.1.2 and 4.1.8 of these SC Procedures, no longer be included when calculating the SM/AM Current Collateral Value or Agent Buffer Current Collateral Value, as applicable.

#### 4.4.5 *Substitutions*

Substitution instructions will, subject to Sections 4.1.3 and 4.1.8 of these SC Procedures, and to confirmation of those instructions by the Clearing House, be actioned on the same day if input prior to the deadlines advised by the Clearing House.

Agent Members or Sponsored Members must first input the relevant lodge instruction(s) and then link the associated release instruction(s) to the lodge instruction(s). Substitution instructions sent via manual form should be instructed by 16.30 UK time on the business day before the intended settlement to afford the maximum time for both the lodge and release

instructions to settle in sequence. All instructions and subject to Section 4.1.3 and confirmation of those instructions by the Clearing House.

#### 4.4.6 *Transfers*

Transfer instructions may be input via the CMS and will (subject to Sections 4.1.2 and 4.1.8 of these SC Procedures) be actioned on the same day during operational hours.

Note: transfers are only permitted between accounts of the same Sponsored Member/Agent Member relationship and are subject to segregation rules.

#### 4.4.7 *Settlement Cancellations*

Agent Members and Sponsored Members (as applicable) may request the cancellation of an instruction via the CMS. The Clearing House will cancel any instruction that has not yet been processed. The Clearing House will seek, using its best endeavours to cancel any settlement instructions already sent to the relevant Depository but cannot guarantee that the transaction will not settle.

#### 4.4.8 *Instruction Status*

The status of an instruction can be monitored via the CMS. Statuses reflect the status of the instruction at the Clearing House and not at the Depository or PPS bank. Please refer to the CMS user guide for status definitions.

### 4.5 **Tax Arrangements**

#### 4.5.1 *US Securities*

For tax reasons, the Clearing House is required to segregate foreign (i.e. non-US) owners' securities from US owners' securities. Agent Members and Sponsored Members must deliver securities to the correct Depository account. The Clearing House operates accounts with Citibank N.A., BMO Harris and Bank of New York Mellon.

In order to reduce or to eliminate US withholding tax, the correct tax documentation must have been provided in respect of each owner and each Depository. To this end, Sponsored Members will be expected to provide one of the forms noted below to the Clearing House where US securities will be used as non-cash Collateral on one or more SM/AM Account for the respective Sponsored Member. Agent Members will be expected to provide one of the forms noted below to the Clearing House where US securities will be used as non-cash Collateral on their Agent Buffer Account.

The relevant forms will normally be one of:

- (a) 'W-9 (Request for Taxpayer Identification Number and Certification)'; which applies to a US corporation including a foreign branch of a US corporation and is valid indefinitely; or

- (b) 'W-8BEN (Certificate of Foreign Status)'; which applies to non-resident alien individuals, foreign corporations, partnerships and estates; and
- (c) valid for three calendar years.

Sponsored Members and Agent Members may obtain originals of forms W-8BEN and W-9 from Collateral Operations.

**Note:** The Clearing House's arrangements with its Depositories only allow for securities holdings of US corporations or foreign (i.e. non-US) entities or individuals. Sponsored Members or Agent Members who wish to discuss the possibility of lodging securities belonging to owners excluded from this arrangement should contact Collateral Operations.

Unless the Clearing House has already received the appropriate tax form, transfers into A/c #090401 or #735136 must be accompanied by form W-9 and transfers into A/c #090372 or #735137 normally by form W-8BEN.

**The Clearing House's acceptance of US securities does not indicate any responsibility for the adequacy or otherwise of tax documentation. Any queries in relation to these tax forms should be referred to your company accountant or professional advisers.**

Completed tax forms should be returned to Collateral Operations for onward transmission to the relevant Depository.

#### 4.5.2 *Italian Securities*

For tax purposes the Clearing House operates an account with Euroclear Bank specifically for deliveries of Italian securities from a Sponsored Member or Agent Member – account 91737.

This account is operated by the Clearing House in accordance with "Euroclear Procedures to Obtain Exemption from Italian Withholding Tax on Italian Domestic Debt Securities".

Beneficial owners are entitled to exemption at source from Italian Withholding Tax on Italian securities, if they are:

- (a) resident in a country that has entered into a double taxation agreement with Italy (except black list countries/countries that do not have a tax treaty with Italy); or
- (b) a corporation resident in Italy; or
- (c) a supranational organisation recognised by Italian law.

Beneficial owners are required to supply duly completed and executed official forms as proof of eligibility to the exemption and where applicable supply additional documentation, before a delivery can be made into this account.

Official forms are available on request from the Collateral Operations Team.

Original forms are to be received by the Clearing House before Italian securities can be accepted within the gross account 91737.

The effective date depends on the type and terms of the security:

- Coupon debt securities (BTPs, CCTs and CTOs)

The new regime applies to the Coupons that arise on these securities on or after 1 January 1997, regardless of the issue date.

- Zero coupon debt securities with a maturity of less than one year (BOTs)

The regime applies to all securities issued on or after 1 January 1997.

**Sponsored Members and Agent Members should consult their own tax advisers before lodging Collateral to the Clearing House or submitting any tax documentation.**

#### 4.5.3 *Withholding tax – Depositories*

A Depository may offer a recovery service for overseas taxes on government bonds. The Clearing House will assist in the recovery process and remit to the relevant Sponsored Members or Agent Members, as applicable, any relevant recovery in withholding tax credited to the Clearing House's account by the relevant Depository.

In certain cases the CSDs/Custodian and Clearing House will withhold tax on a coupon if the correct documentation is not lodged with the CSDs/Custodian and the Clearing House at the time when a coupon is due.

#### 4.6 **References**

These SC Procedures should be read in conjunction with the relevant contractual provisions, user guides and/or manuals of the relevant Depository. Please also refer to each relevant Depository for the relevant settlement deadlines, in particular those for deliveries from local markets to Clearing House accounts.

#### 4.7 **Contingency Arrangements**

In the event of an outage of the CMS, the Clearing House will notify Agent Members and Sponsored Members via the Clearing Member circular and Agent Members and Sponsored Members may send certain instructions, using the appropriate form to the Clearing House by email (see Section 4.1.1).

The new forms are available here:

<https://www.lch.com/risk-collateral-management/ltd-collateral-management/ltd-collateral-management-system>

Normal service hours will apply to such instructions. However, deadlines for manual instructions are earlier. Please refer to the following page of the LCH website for details:

<https://www.lch.com/risk-collateral-management/ltd-collateral-management/ltd-acceptable-collateral/ltd-acceptable>

The Clearing House will notify Agent Members and Sponsored Members via the Clearing Member circular when the CMS is available again.

## 4.8 **Triparty Service of Euroclear and Clearstream**

### 4.8.1 *General Information*

In order for a Sponsored Member or Agent Member to transfer securities to the Clearing House using a triparty arrangement, such Sponsored Member or Agent Member, the relevant triparty agent and the Clearing House, must have completed and signed the relevant documentation. Please contact Collateral Operations on +44 (0)207 426 7237 for more information.

Sponsored Members and Agent Members may execute a triparty transaction to cover initial margin requirements at the Clearing House. Triparty instructions must be provided to the Clearing House via the CMS by the Agent Member or the Sponsored Member. Instructions may be input for future settlement dates.

If the Agent Member or Sponsored Member is unable to make triparty instructions via the CMS, it will be possible to instruct using the relevant triparty contingency forms found at the following page of the LCH website:

<https://www.lch.com/risk-collateral-management/ltd-collateral-management/ltd-collateral-management-system>

Triparty transactions must be a minimum of one million GBP, EUR or USD.

Settlement deadlines can be found on the LCH website at the following location:

<https://www.lch.com/risk-collateral-management/ltd-collateral-management/ltd-collateral-management-system>

**Sufficient Collateral:**

Where the Sponsored Member has sufficient Collateral available, the release or closure of a triparty transaction or the decrease of the transaction amount of a triparty transaction will be processed on the same day and the resulting reduction of Collateral will be taken into account for the purpose of calculating the SM/AM Current Collateral Value.

Where the Agent Member has sufficient Collateral available, the release or closure of a triparty transaction or the decrease of the transaction amount of a triparty transaction will be processed on the same day and the resulting



reduction of Collateral will be taken into account for the purpose of calculating the Agent Buffer Current Collateral Value.

**Insufficient Collateral:**

Where the Sponsored Member has insufficient Collateral to close a triparty transaction or to decrease the transaction amount of a triparty transaction, the SM/AM Current Collateral Value will be deemed to be decreased overnight and the following morning the Clearing House will only close the triparty transaction or decrease the transaction amount of the triparty transaction after 09.00 (UK time) when any PPS cash calls have been confirmed.

Where the Agent Member has insufficient Collateral to close a triparty transaction or to decrease the transaction amount of a triparty transaction, the Agent Buffer Current Collateral Value will be deemed to be decreased overnight and, the following morning the Clearing House will only close the triparty transaction or decrease the transaction amount of the triparty transaction after 09.00 (UK time) when any PPS cash calls have been confirmed.

**Triparty deficits:**

In the event that the Clearing House determines that a shortfall exists for the SM/AM Account under a triparty arrangement, whether because of a decrease in the value of securities provided or otherwise, and such shortfall has not been made good by the inclusion of additional securities, the Clearing House shall be entitled to make one or more PPS cash calls on the relevant Sponsored Member's Agent Member or, where the Sponsored Member is performing Back-up Agent Services and where applicable, Back-up Paying Agent Services, on that Sponsored Member, in respect of such shortfall. Cash calls in relation to shortfalls will be called in accordance with Section 3.3 (*Protected Payments System (PPS)*) of these SC Procedures. Such cash shall either be credited to the Sponsored Member's corresponding Agent Member or, where the Sponsored Member is performing Back-up Agent Services and where applicable, Back-up Paying Agent Services, such Sponsored Member upon the Sponsored Member making good the deficit pursuant to the triparty arrangement or retained as Collateral if the Sponsored Member does not make good the deficit.

In the event that the Clearing House determines that a shortfall exists for the Agent Buffer Account under a triparty arrangement, whether because of a decrease in the value of securities provided or otherwise, and such shortfall has not been made good by the inclusion of additional securities, the Clearing House shall be entitled to make one or more PPS cash calls on the relevant Agent Member in respect of such shortfall. Cash calls in relation to shortfalls will be called in accordance with Section 3.3 (*Protected Payments System (PPS)*) of these SC Procedures. Such cash shall either be credited to the Agent Member upon the Agent Member making good the deficit pursuant to the triparty arrangement or retained as Collateral if the Agent Member does not make good the deficit.

## 4.9 **Authorised CSD - Segregation**

### 4.9.1 *Agent Member*

An Agent Member may request that Securities Collateral which the Clearing House holds in an account with an Authorised CSD for the Agent Member be subject to either Individual CSD-Level Segregation or Omnibus CSD-Level Segregation (each such request, an “**Agent Member Segregation Request**”).

The Clearing House will, as soon as reasonably practicable after receipt of an Agent Member Segregation Request and where the Agent Member is not a Defaulter or an Affected Member, implement such Agent Member Segregation Request.

Each Agent Member acknowledges that it has read and understood the disclosure document located on the Clearing House website, which relates to the costs, risks and levels of protection associated with Individual CSD-Level Segregation and Omnibus CSD-Level Segregation.

### 4.9.2 *Sponsored Member*

A Sponsored Member may request that Securities Collateral which the Clearing House holds in an account with an Authorised CSD for the Sponsored Member be subject to either Individual CSD-Level Segregation or Omnibus CSD-Level Segregation (each such request, a “**Sponsored Member Segregation Request**”).

The Clearing House will, as soon as reasonably practicable after receipt of a Sponsored Member Segregation Request and where the Sponsored Member is not a Defaulter, implement such Sponsored Member Segregation Request.

Each Sponsored Member acknowledges that it has read and understood the disclosure document located on the Clearing House website, which relates to the costs, risks and levels of protection associated with Individual CSD-Level Segregation and Omnibus CSD-Level Segregation.

Schedule A  
**THE REGISTERED CONTRACTS**

Contract parties: (Sponsored Member) and LCH Limited (the "**Clearing House**").

<u>Contract LCH Reference</u>	<u>Contract SM Reference</u>	<u>Date of Registration</u>
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