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**LCH Limited (the "Clearing House")
Disclosure for Purposes of Article 39(7) of Regulation (EU) No 648/2012
of the European Parliament and the Council of 4 July 2012
on OTC Derivatives, Central Counterparties, and Trade Repositories
("EMIR"), as effective in the EU ("EU EMIR") and retained in the UK under
the European Union (Withdrawal) Act 2018 ("UK EMIR")**

1. Introduction

This information is provided in accordance with the requirement under Article 39(7) of EMIR for a CCP (such as the Clearing House) to disclose publicly certain information in relation to the levels of protection and account segregation which it provides (the "**Disclosure Requirement**"). Terms not otherwise defined in this Disclosure Requirement have the meanings ascribed to them in the General Rulebook (including the Regulations, Default Rules and Procedures of the Clearing House, as published and amended from time to time).

This information relates to the model set out in the General Rulebook and not to the model set out in the FCM Rulebook. The equivalent information for the model set out in the FCM Rulebook can be found at: [Article 39\(7\) EMIR Disclosure Statement FCM](#)

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2. Account Arrangements – Segregation

2.1 *The segregation principle*

The model operated by the Clearing House for the purposes of client clearing is a principal to principal model. This means that the Clearing House (a) faces the clearing members only (as principals) in respect of positions registered with the Clearing House, and (b) receives collateral from the clearing members only in respect of such positions, even where they are held by a clearing member on behalf of a client (except in respect of a Custodial Segregated Account where both the clearing member and the client can provide collateral to the Clearing House, as described under Section 3.3 below).

Under Article 39(2) and Article 39(3), respectively, of EMIR, a CCP is required to offer omnibus client segregation and individual client segregation. The Clearing House does this through four types of account: Omnibus Segregated Accounts ("**OSAs**"), which provide omnibus client segregation, and Individual Segregated Accounts ("**ISAs**"), Custodial Segregated Accounts and Indirect Gross Accounts ("**IGAs**"), which each provide individual client segregation. The key difference between an OSA, on the one hand, and an ISA, a Custodial Segregated Account or an IGA, is that an OSA is held on behalf of multiple clients of a clearing member whilst an ISA, a Custodial Segregated Account or an IGA are each held on behalf of a single client of a clearing member.

In some circumstances, a clearing member might open a single OSA with the Clearing House on behalf of all of its clients. However, under Article 39(5) of EMIR, a clearing member is required to offer its clients, at least, the choice between omnibus client segregation and individual client segregation; in practice, a clearing member may open a number of OSAs, ISAs, Custodial Segregated Accounts and/or IGAs with the Clearing House.

2.2 *Segregation of client positions and assets from house positions and assets*

In both omnibus and individual client segregation, client positions and assets are separated from house positions and assets, and the boundary demarcating what is segregated is at the account level. Hence, client positions and assets are pooled within the relevant account, but are ring-fenced from positions and assets held by a clearing member in its house account with the Clearing House.

The account arrangements within the Clearing House provide for further division between accounts along product lines, meaning that omnibus client segregation and individual client segregation is offered to clearing members on behalf of their clients on a per Service basis. Hence, a clearing member might have a particular combination of one or more Client Accounts, in respect of one Service, and a different combination of Client Accounts, in respect of another Service.

The balance of Client Accounts held by a clearing member in respect of a particular Service will, in part, be driven by characteristics of the Service itself. In addition, the profile of the clearing member, the nature and volume of clients in question and the level of segregation required by those clients will be key factors.

2.3 *Omnibus client segregation*

Multiple clients can be grouped together in an OSA with the Clearing House and there is a pooling of risk (in terms of both exposures relating to positions and the application of assets covering the positions) and mutualisation of losses between the clients sharing in the relevant account.

2.4 *Individual client segregation*

In contrast to omnibus client segregation, individual client segregation involves a demarcation between the positions and assets held by a clearing member on behalf of one client from the positions and the assets held on behalf of other clients. Therefore, individual client segregation is offered on a per client basis and no individually segregated client is exposed to, or has its assets applied in respect of, the positions of any other client or of the clearing member. An ISA, a Custodial Segregated Account and an IGA each provide individual client segregation.

3. **Account Arrangements – OSAs, ISAs, Custodial Segregated Accounts and IGAs**

This section summarises the arrangements and features which characterise the different account types offered by the Clearing House. In particular, it outlines the relevant types of account, how margin requirements will be calculated in respect of each such type of account and how each such type of account will be treated in the event of a default by the relevant clearing member. In addition, the table in Schedule 1 (*Summary of Account Types and Functionality*) provides a high level summary of certain key features relating to the different account types.

3.1 *OSAs*

Where a single OSA is held in the Clearing House for all of a clearing member's clients in respect of a Service, omnibus client segregation will equate to house/client segregation within that Service. However, wherever a clearing member also holds additional Client Accounts in respect of the same Service, there will also be segregation between the clients comprising each of those separate Client Accounts.

(a) Types of OSA The Clearing House offers four different types of OSAs, which may be used by a clearing member in isolation or in any combination:

- (i) the Non-Identified Client Omnibus Net Segregated Account (the "**NOSA**") – this type of account is opened in respect of clients whose identities have not been recorded by the Clearing House in accordance with its procedures and who are grouped together by the clearing member;
- (ii) the Indirect Net Account (the "**INA**") – this type of account is opened in respect of clients (1) whose identities have not been recorded by the Clearing House in accordance with its procedures, and (2) who are each providing clearing services to their own clients. An INA is separate and distinct from a NOSA.
- (iii) the Identified Client Omnibus Segregated Account (the "**IOSA**") – this type of account is opened in respect of clients of a clearing member whose identities are known to the Clearing House; and

- (iv) the Affiliated Client Omnibus Segregated Account (the "**AOSA**") – this type of account is a special kind of IOSA opened in respect of clients who have elected to be grouped together due to the existence of a common relationship between them.
- (b) Calculation of margin requirements

OSAs may be margined on a net or gross basis. Gross margining is only available in relation to specific Services.

Net margining

For a net margined NOSA, AOSA, IOSA or INA, the Clearing House will calculate the margin requirement in respect of the positions recorded in the relevant OSA on a net basis and call the clearing member for a single amount of collateral. Collateral received by the Clearing House will be recorded in the account on behalf of the relevant clients collectively and without attribution of specific assets to specific clients. As a result, there is a pooling of risk and mutualisation of loss between the clients in terms of (i) the performance of the positions recorded to the OSA; and (ii) the quality and (post haircut) value of the collateral recorded to the OSA.

Gross margining

In the General Rulebook, an AOSA or IOSA which is margined on a gross basis is termed an "**Omnibus Gross Segregated Account**" ("**GOSA**"). The Clearing House will calculate the gross margin requirement in respect of the positions recorded in the relevant GOSA and call the clearing member for an amount of collateral in respect of (i) the positions of each client, or (ii) the positions (on a net basis) of each of the clients (termed "**Combined Omnibus Gross Segregated Clearing Clients**" in the General Rulebook) who have elected to be grouped together within the GOSA for the purposes of margining and segregation of positions. A group of Combined Omnibus Gross Segregated Clearing Clients is treated as a unit (as if the clients comprising the relevant group were, collectively, a single client). Hence, within a particular GOSA, there is segregation of positions between each individual group of Combined Omnibus Gross Segregated Clearing Clients just as there is between each individual client. However, clients grouped together as Combined Omnibus Gross Segregated Clearing Clients are not segregated between themselves on a per-client basis.

Collateral received by the Clearing House in respect of a GOSA will be recorded in the account on a shared basis. As a result, each individual GOSA client or each group of Combined Omnibus Gross Segregated Clearing Clients is ascribed a portion of such collateral with a value corresponding to the margin requirement related to its positions but is not entitled to any particular assets comprised in the relevant collateral pool. This type of arrangement provides for the collateral held within a GOSA to be allocated between individual clients/individual groups of Combined Omnibus Gross Segregated Clearing Clients on a "by value" basis. However, there is a pooling of risk and mutualisation of losses between all of the clients and groups of Combined Omnibus Gross Segregated Clearing Clients within a GOSA reflecting the relative quality and haircut value of the collateral that they each originally provided to their clearing member when compared to the by value share of unallocated pooled collateral held, and attributed to them, by the Clearing House in the relevant GOSA.

A client can either elect:

- (i) "Value Omni" segregation, which is the type of segregation described above as being made available to a particular group of Combined Omnibus Gross Segregated Clearing Clients; or
- (ii) "Value Seg" segregation, which is the type of segregation described above as being made available to individual clients within a GOSA (who are not Combined Omnibus Gross Segregated Clearing Clients).

An individual GOSA may feature one or more "Value Omni" sub-accounts and one or more "Value Seg" sub-accounts (in any combination), just as a GOSA may be described as comprising one or more groups of Combined Omnibus Gross Segregated Clearing Clients and one or more individual clients (in any combination). For the avoidance of doubt, all "Value Omni" and "Value Seg" sub-accounts within an individual GOSA will share the same pool of collateral (albeit that such collateral is allocated between those accounts on a "by value" basis).

(c) Default and porting

Immediately following the default of a clearing member, the Clearing House will determine one or more Porting Windows, which is the period of time during which the Clearing House will seek to port the positions and assets in a Client Account to a Backup Clearing Member. The Clearing House may elect to determine different Porting Windows in relation to different Services and/or in relation to different types of Client Account within such Services. A Porting Window will not be shorter than 24 hours, except in the limited circumstances described in paragraph 4.1 of schedule 1 of the Default Rules.

IOSAs, AOSAs and GOSAs

The Clearing House will, in an exercise of its powers under the Default Rules, seek to port the positions and the associated assets recorded in the relevant IOSA, AOSA or GOSA to a Backup Clearing Member. Porting will only be successful if, in respect of:

- (i) an IOSA or AOSA (which is not a GOSA), all of the clients comprising such account and their nominated Backup Clearing Member consent to the port;
- (ii) a GOSA and a client comprising such account who has opted for "Value Seg", such client and its nominated Backup Clearing Member consent to the port; and
- (iii) a GOSA and each group of Combined Omnibus Gross Segregated Clearing Clients (i.e. each group of clients who have opted for a "Value Omni"), all such clients and their nominated Backup Clearing Member consent to the port.

If porting is not desired or cannot be achieved in respect of an IOSA, AOSA or GOSA, the Clearing House will close out the relevant positions and liquidate the collateral and calculate a Client Clearing Entitlement in respect of each relevant client. The Client Clearing Entitlement represents the client's entitlement to amounts due in respect of the close out values of its positions and to the portion of collateral (or its liquidation value) covering those positions, after deducting certain amounts including the costs of hedging and liquidating the relevant positions and (i) in the case of IOSA or AOSA clients (who are not GOSA clients), any amounts due to the Clearing House in respect of other positions held on behalf of other clients in the same IOSA or AOSA; or (ii) in the case of each group of Combined Omnibus

Gross Segregated Clearing Clients in a GOSA (i.e. each group of clients sharing in a "Value Omni"), any amounts due to the Clearing House in respect of other positions held on behalf of other clients in the same group, pro-rated in both such cases between the relevant clients. Here again, clients would face mutualised losses in respect of the close out values of the relevant positions and the application of collateral to such positions. In contrast, non-porting GOSA clients who have opted for "Value Seg" would not experience any such loss mutualisation on positions but, in common with all other clients remaining in the GOSA, would face a pro-rated allocation of loss related to the liquidation and application of collateral to the relevant non-ported positions.

The Clearing House may, subject to the satisfaction of certain conditions, provide Client Clearing Entitlements directly to individual clients. Those conditions include (i) the execution and/or delivery of any documentation required by the Clearing House, (ii) in the case of any AOSA or IOSA (which is not a GOSA), confirmation from each of the clients sharing in the account of their respective identities and pro rata entitlements to the balance on the relevant account (as previously agreed between them), and (iii) that the provision can be achieved within the relevant Return Window. The Clearing House will determine Return Windows in accordance with its default management procedures and risk management obligations and may elect to determine different separate Return Windows in relation to different types of Client Account. Otherwise, the Client Clearing Entitlements will be provided to the defaulter's insolvency officer for the accounts of the relevant clients.

NOSAs and INAs

Porting of positions and associated assets recorded to an OSA will only occur in circumstances where (at the time of porting) the identities of the clients comprising the OSA are formally recorded by the Clearing House in accordance with its procedures. The Clearing House will seek to determine the identities of the clients comprising each NOSA and INA of a defaulter, at the time of implementing its porting arrangements, following the relevant default. Where this process is successful in respect of an account, the relevant account will cease to be a NOSA or an INA (as applicable) and become an IOSA in relation to which porting is a possibility (subject to satisfaction of the conditions described in Section 3.1(c)(i) above).

In the case of:

- (i) a NOSA (which has not become an IOSA as described above), the Clearing House will calculate a single Aggregate Omnibus Client Clearing Entitlement in respect of all clients sharing in the relevant account on a collective basis. The Aggregate Omnibus Client Clearing Entitlement represents the aggregate entitlement of those clients to amounts due in respect of the close out values of their positions and to the collateral (or its liquidation value) held in the relevant account, after deducting certain amounts including the costs of hedging and liquidating the relevant positions. The Clearing House will provide the Aggregate Omnibus Client Clearing Entitlement to the defaulter's insolvency officer, rather than providing it directly to the relevant clients; and
- (ii) an INA (which has not become an IOSA as described above), the Clearing House will calculate a single Aggregate Indirect Net Account Client Clearing Entitlement in respect of all clients sharing in the relevant account on a collective basis. The Aggregate Indirect Net Account Client Clearing Entitlement represents the aggregate

entitlement of those clients to amounts due in respect of the close out values of their positions and to the collateral (or its liquidation value) held in the relevant account, after deducting certain amounts including the costs of hedging and liquidating the relevant positions. The Clearing House will provide the Aggregate Indirect Net Account Client Clearing Entitlement to the defaulter's insolvency officer, rather than providing it directly to the relevant clients.

3.2 ISAs

In contrast to the segregation arrangements described in relation to OSAs, an ISA holds the positions entered into, and the collateral assets delivered, by a clearing member in respect of an individual client. Hence, there is no pooling of risk or mutualisation of losses between different clients of the same clearing member.

(a) Calculation of margin requirements

The Clearing House will calculate the margin requirement in respect of all of the positions recorded in the relevant ISA and call for collateral from the clearing member accordingly. Any collateral the Clearing House receives from the clearing member (including any excess margin, as described in Article 39(6) of EMIR) will be recorded as being held in the relevant ISA. By virtue of these arrangements, in the event of a clearing member default, an ISA is not exposed to fluctuations in the value of positions recorded to another account or to losses on those positions (except as described in Section 3.4 below). In addition, the specific items of collateral the clearing member provides to the Clearing House are attributed to the ISA and will not be applied towards exposures on other accounts (except as described in Section 3.4 below).

(b) Default and porting

In the event of a default of a clearing member, the Clearing House will seek to port the positions and the associated assets recorded in the relevant ISA to a Backup Clearing Member.

Porting is likely to be facilitated where an ISA client has appointed one or more clearing member(s) to act as Backup Clearing Member in advance of the time when its original clearing member defaults. However, it is recognised that this will not always have been possible and there is nothing, in principle, to prevent an ISA client appointing a Backup Clearing Member at the time of the relevant default. Irrespective of the timing of appointment of a Backup Clearing Member, porting will only be successful if the Backup Clearing Member and the client consent to the port.

If porting is not desired by the client or cannot be achieved, the Clearing House will close out the positions and calculate the Client Clearing Entitlement related to the relevant ISA. As part of the calculation, deductions are made for losses associated with the positions recorded to the account and the costs of hedging and liquidating those positions. However, the amount of the Client Clearing Entitlement reflects the value of the positions and assets attributable to the relevant client only and is in no way referable to the positions or assets attributable to other clients. The Clearing House may, subject to the satisfaction of certain conditions, provide the Client Clearing Entitlement directly to the client. Those conditions include the execution and/or delivery of any documentation required by the Clearing House and that the provision

can be achieved within the relevant Return Window. Otherwise, the Client Clearing Entitlement will be provided to the defaulter's insolvency officer for the account of the client.

3.3 *Custodial Segregated Accounts*

A Custodial Segregated Account is the same as an ISA, except that a client may choose to provide collateral assets directly to the Clearing House ("**Client Collateral**"), rather than providing collateral, first, to its clearing member and the clearing member, then, providing collateral to the Clearing House (where collateral the clearing member provides to the Clearing House is "**Clearing Member Collateral**").

Accordingly, as with an ISA, a Custodial Segregated Account provides individual client segregation. A Custodial Segregated Account records the positions a clearing member enters into with the Clearing House, in respect of an individual client, and also records the Client Collateral and the Clearing Member Collateral provided to the Clearing House, in respect of such positions. There is no pooling of risk or mutualisation of losses between different clients of the same clearing member.

(a) Calculation of margin requirements

The Clearing House will calculate the margin requirement in respect of all of the positions recorded in the relevant Custodial Segregated Account and, to the extent that the client does not provide Client Collateral to meet such margin requirement, will call for Clearing Member Collateral from the clearing member accordingly.

Client Collateral and/or Clearing Member Collateral received by the Clearing House, including any excess margin as described in Article 39(6) of EMIR, will be recorded to the Custodial Segregated Account. By virtue of these arrangements, in the event of a clearing member default, a Custodial Segregated Account is not exposed to fluctuations in the value of positions recorded to another account or to losses on those positions (except as described in Section 3.4 below). In addition, the specific items of Client Collateral and/or Clearing Member Collateral provided to the Clearing House are attributed to the Custodial Segregated Account and will not be applied towards exposures on other accounts (except as described in Section 3.4 below).

(b) Default and porting

In the event of a default of a clearing member, the Clearing House would seek to port the positions and the associated assets recorded in the relevant Custodial Segregated Account to a Backup Clearing Member.

Porting is likely to be facilitated where a Custodial Segregated Account client has appointed one or more clearing member(s) to act as Backup Clearing Member in advance of the time when its original clearing member defaults. However, it is recognised that this will not always have been possible and there is nothing, in principle, to prevent a Custodial Segregated Account client appointing a Backup Clearing Member at the time of the relevant default. Irrespective of the timing of appointment of a Backup Clearing Member, porting will only be successful if the Backup Clearing Member and the client consent to the port.

If porting is not desired by the client or cannot be achieved, the Clearing House will close out the positions and calculate the Client Clearing Entitlement related to the relevant Custodial

Segregated Account. As part of the calculation, deductions are made for losses associated with the positions recorded to the account and the costs of hedging and liquidating those positions. However, the amount of the Client Clearing Entitlement reflects the value of the positions, and Clearing Member Collateral provided by the clearing member to the Clearing House, that (in each case) are attributable to the relevant client only and is in no way referable to the positions or assets attributable to other clients. The Clearing House may, subject to the satisfaction of certain conditions, provide the Client Clearing Entitlement directly to the client. Those conditions include the execution and/or delivery of any documentation required by the Clearing House and that the provision can be achieved within the relevant Return Window. Otherwise, the Client Clearing Entitlement will be provided to the defaulter's insolvency officer for the account of the client. In addition, the Clearing House will return any remaining Client Collateral which the client has provided directly to the Clearing House, in respect of the Custodial Segregated Account, as described in Section 4.2 below.

3.4 *ISAs and Custodial Segregated Accounts - Same Client*

A clearing member may open one or more ISAs and/or Custodial Segregated Accounts for the same client. For example, a clearing member may open (a) one ISA and one Custodial Segregated Account for the same client, or (b) one ISA in a particular Service for a client and another ISA in a different Service for the same client.

In this case, and if the clearing member were to default, the Clearing House would seek to port the positions and the associated assets recorded in such accounts to a Backup Clearing Member (as described Sections 3.2(b) and 3.3(b)).

If porting is not desired by the client or cannot be achieved for a particular account, the Clearing House may apply assets recorded to such account to losses attributable to (a) that account, or (b) another ISA or Custodial Segregated Account the defaulting clearing member has opened for the same client. This may have the effect of reducing the Client Clearing Entitlement or any remaining Client Collateral (as described Sections 3.2(b) and 3.3(b)) which the client receives (or, where applicable, the defaulter's insolvency officer receives for the account of the client) in respect of the account for which porting has failed.

3.5 *IGAs*

An IGA is the same as an ISA, except that (a) a clearing member opens an IGA in respect of a single client ("**Direct Client**") who is, in turn, providing clearing services to its clients (each, an "**Indirect Clearing Client**"), and (b) the Clearing House will record the positions such clearing member enters into with the Clearing House, in respect of its Direct Client, and which are referable to a particular Indirect Clearing Client, to an Indirect Gross Sub-Account within the IGA, and will determine margin requirements and the Client Clearing Entitlement, separately, in respect of each such Indirect Gross Sub-Account as described in (i) and (ii) below.

As with an ISA and a Custodial Segregated Account, an IGA provides individual client segregation. There is no pooling of risk or mutualisation of losses between different clients of the same clearing member.

(i) Calculation of margin requirements

The Clearing House will calculate the margin requirement, separately, in respect of the positions recorded to each Indirect Gross Sub-Account and call for collateral from the clearing member accordingly. Any collateral the Clearing House receives from the clearing member (including any excess margin, as described in Article 39(6) of EMIR) will be recorded as being held in the relevant IGA on a shared basis.

By virtue of these arrangements, in the event of a clearing member default, an IGA is not exposed to fluctuations in the value of positions recorded to another account or to losses on those positions. In addition, the specific items of collateral the clearing member provides to the Clearing House are attributed to the IGA and will not be applied towards exposures on other accounts.

(ii) Default and porting

In the event of a default of a clearing member, the Clearing House would seek to port the positions and the associated assets recorded in the relevant IGA to a Backup Clearing Member.

Porting is likely to be facilitated where the Direct Client has appointed one or more clearing member(s) to act as Backup Clearing Member in advance of the time when its original clearing member defaults. However, it is recognised that this will not always have been possible and there is nothing, in principle, to prevent a Direct Client appointing a Backup Clearing Member at the time of the relevant default. Irrespective of the timing of appointment of a Backup Clearing Member, porting will only be successful if the Backup Clearing Member and the Direct Client consent to the port.

If porting is not desired by the Direct Client or cannot be achieved, the Clearing House will close out the positions and calculate a Client Clearing Entitlement in respect of each Indirect Gross Sub-Account within the IGA. As part of the calculation, the Clearing House will, in respect of each Indirect Gross Sub-Account, attribute a portion of the value of the collateral recorded to the IGA to such Indirect Gross Sub-Account (based on the initial margin requirement for such Indirect Gross Sub-Account) and will make deductions for losses associated with the positions recorded to such Indirect Gross Sub-Account and the costs of hedging and liquidating those positions. The amount of the Client Clearing Entitlement reflects the value of the positions and assets attributable to the relevant Indirect Gross Sub-Account only and is in no way referable to the positions or assets attributable to other Indirect Gross Sub-Accounts or accounts. The Clearing House may, subject to the satisfaction of certain conditions, provide the Client Clearing Entitlements directly to the Direct Client. Those conditions include the execution and/or delivery of any documentation required by the Clearing House and that the provision can be achieved within the relevant Return Window. Otherwise, the Client Clearing Entitlements will be provided to the defaulter's insolvency officer for the account of the Direct Client.

4. **Insolvency Law**

4.1 *ISAs, OSAs and IGAs*

As described under Section 2.1 above, ISAs, OSAs and IGAs reflect the traditional principal to principal model of client clearing where a clearing member enters into positions with the

Clearing House and delivers Clearing Member Collateral to the Clearing House, albeit on behalf of a client.

As a result, in the context of a clearing member default, a porting of positions and assets to a Backup Clearing Member and the provision to (or for the account of) a client of a Client Clearing Entitlement both involve acts by the Clearing House on behalf of clearing clients but in respect of property to which the defaulting clearing member has title. This is equally true whether the accounts are segregated on an individual or omnibus basis.

Therefore, the arrangements for porting and for the provision of Client Clearing Entitlements rely upon some form of protective mechanism which entitles the Clearing House to deal with the relevant positions and assets in a way which recognises the beneficial entitlement of the client and keeps them outside of the defaulter's insolvency estate.

Under the legal regimes applicable to some clearing members, the mechanism has been enshrined in statute. The definition for this type of mechanism in the General Rulebook is an "Exempting Client Clearing Rule". The Clearing House will determine (based on appropriate legal advice) whether an Exempting Client Clearing Rule is available in respect of a clearing member. In cases where no such Exempting Client Clearing Rule is available, the clearing member will be required to enter into a Security Deed in favour of its clearing clients. Under the Security Deed, a clearing member creates a security interest in favour of the client, which is enforceable in the event of a default of such clearing member, over the clearing member's rights, title and interests in and to (i) the Account Balance relating to the client (where porting occurs); or (ii) the Client Clearing Entitlement(s) relating to the client (where porting does not occur).

The Clearing House will make a determination as to the availability of an effective Exempting Client Clearing Rule or, in the absence of such a rule, the effectiveness of the Security Deed in the case of every clearing member applying to offer Client Clearing Services. Where the Clearing House cannot be satisfied as to the existence of either alternative, the clearing member's application will be declined. For the purposes of making its determinations, the Clearing House has obtained legal opinions from external counsel in respect of each relevant jurisdiction (namely, the jurisdictions in which current clearing members are incorporated and, where applicable, the jurisdiction in which the branch through which a clearing member operates is established) and relevant entity type. The legal opinions contain details of the main legal implications of the respective levels of segregation offered including information on the insolvency law applicable in the relevant jurisdictions (including, but not limited to, information on how the default rules interact with applicable local insolvency laws). The legal opinions form part of the Clearing House's internal conflicts of law policy and will be updated on a reasonable basis.

Copies of the legal opinions are available at www.lch.com/resources/rules-and-regulations/ltd-rulebooks/jurisdictional-legal-opinions. It is important to note that legal opinions made available pursuant to these arrangements are done so on a non-reliance basis and for information purposes only. Parties should seek their own independent legal advice in relation to the use, economic consequences and selection of particular account types and in relation to the different levels of protection and segregation arrangements.

The table at Schedule 2 (*Exempting Client Clearing Rule Jurisdictions*) identifies the jurisdictions in which the Clearing House considers that a Security Deed is required because no Exempting Client Clearing Rule is available.

4.2 *Custodial Segregated Accounts*

As described under Section 3.3, a Custodial Segregated Account is the same as an ISA, except that a client may choose to provide Client Collateral directly to the Clearing House, rather than providing collateral, first, to its clearing member and the clearing member, then, providing Clearing Member Collateral to the Clearing House. Accordingly, the legal position and issues described in Section 4.1 above apply equally to positions and Clearing Member Collateral recorded to the Custodial Segregated Account.

However, a different legal position and issues apply to Client Collateral as described in this Section 4.2.

In particular, a client grants a charge over its rights, title and interests in and to the Client Collateral in favour of the Clearing House pursuant to the relevant Client Charge. If the clearing member defaults, the Clearing House will either port the Client Collateral via the legal mechanisms described in Section 4.2(a) below or, where porting is unsuccessful, return Client Collateral to the client as described in Section 4.2(b) below.

(a) Client Collateral - Porting

If the clearing member of the client defaults, then the Clearing House will seek to port the positions and the associated assets (including any Client Collateral) recorded to the relevant Custodial Segregated Account to either (i) an ISA which a Backup Clearing Member has opened in respect of the client ("**ISA Port**"), or (ii) a Custodial Segregated Account which a Backup Clearing Member has opened in respect of the client ("**Custodial Segregated Account Port**").

The Clearing House will effect the port in accordance with the relevant Collateral Management Agreement, the relevant Client Charge and the Rulebook and, in particular, the port of Client Collateral will operate as follows:

- (i) **ISA Port** - The client will be deemed to have transferred its rights, title and interests in the Client Collateral to the Clearing House and, immediately after obtaining such rights, title and interests, the Clearing House will be deemed to have transferred them to the relevant Backup Clearing Member. The Backup Clearing Member's rights, title and interests in the Client Collateral will become "Charged Property" as defined under the relevant Deed of Charge of the Backup Clearing Member and such Client Collateral will be deemed to be Clearing Member Collateral which such Backup Clearing Member has provided to the Clearing House, in respect of the ISA to which the defaulted clearing member's positions and collateral assets are ported; and
- (ii) **Custodial Segregated Account Port** - The client will be deemed to have transferred its rights, title and interests in the Client Collateral to the Clearing House and, immediately after obtaining such rights, title and interests, the Clearing House will be deemed to have transferred them to the client. The client's rights, title and interests in the Client Collateral will become "Charged Property" under the Client Charge between the client, the relevant Backup Clearing Member and the Clearing House,

and such Client Collateral will be deemed to be Client Collateral which the client has provided to the Clearing House, in respect of the Custodial Segregated Account to which the defaulted clearing member's positions and collateral assets are ported.

(b) Client Collateral - Failure to Port

If the clearing member of the client defaults, and porting is not desired by the client or cannot be achieved, then the Clearing House will close out the positions and calculate and provide the Client Clearing Entitlement related to the Custodial Segregated Account as described under Section 3.3(b) above.

In addition, the Clearing House will apply any Client Collateral recorded to the Custodial Segregated Account to the secured obligations under the relevant Client Charge, where such secured obligations are, at such point in time, broadly any:

- (i) obligation of the clearing member to the Clearing House in respect of the Custodial Segregated Account, which is not discharged;
- (ii) obligation of the clearing member to the Clearing House in respect of any other Custodial Segregated Account or any ISA that, in each case, the clearing member has opened on behalf of the same client, which is not discharged; and
- (iii) other obligation of the client to the Clearing House in respect of the Client Charge.

Any Client Collateral which remains after the Clearing House has applied it to such secured obligations will be returned to the client. The Client Collateral would not be treated as the property of the Clearing House or the clearing member and is returnable to the client subject to the satisfaction of the secured obligations under the relevant Client Charge.

5. Cash Deposits and the Custody of Securities Collateral

The Clearing House will in all cases comply with its obligations under Article 47 of EMIR to: (a) perform cash deposits through highly secure arrangements with authorised financial institutions or, alternatively, through the use of standing deposit facilities of central banks or other comparable means provided for by central banks; and (b) deposit securities posted to it as margin with operators of securities settlement systems that ensure the full protection of those securities or, alternatively, using other highly secure arrangements with authorised financial institutions.

However, the Clearing House is not required to, and does not, indemnify or assume liability to clearing members or clients against losses incurred due to the default of: (a) a central bank, authorised credit institution or equivalent third country financial institution in which deposits are made in respect of cash received from clearing members (including on behalf of clients) or from clients; or (b) the operator of a securities settlement system or an authorised financial institution holding: (i) securities delivered by clearing members (including on behalf of clients) or clients in respect of margin obligations; or (ii) other assets representing the re-investment by the Clearing House of cash or securities received by the Clearing House from clearing members or clients.

SCHEDULE 1
SUMMARY OF ACCOUNT TYPES AND FUNCTIONALITY

Account Type	Exposure to house positions? (Y/N)	Exposure to other client positions? (Y/N)	Exposure to other client collateral? (Y/N)	Restrictions on porting?
ISA	N	N	N	Porting is subject to consent from the client and the Backup Clearing Member
Custodial Segregated Account	N	N	N	Porting is subject to consent from the client and the Backup Clearing Member
IGA	N	N	N	Porting is subject to consent from the Direct Client and the Backup Clearing Member
NOSA	N	Y	Y	Porting is subject to (i) (at the time of porting) the identities of the clients comprising the OSA being recorded by the Clearing House (in which case the relevant account will cease to be a NOSA and become, instead, an IOSA); (ii) all of the clients comprising the OSA consenting and nominating the same Backup Clearing Member and (iii) consent from that Backup Clearing Member
INA	N	Y	Y	Porting is subject to (i) (at the time of

				porting) the identities of the direct clients comprising the OSA being recorded by the Clearing House (in which case the relevant account will cease to be a NOSA and become, instead, an IOSA); (ii) all of the direct clients comprising the OSA consenting and nominating the same Backup Clearing Member and (iii) consent from that Backup Clearing Member
IOSA (net)	N	Y	Y	Porting is subject to (i) all of the clients comprising the OSA consenting and nominating the same Backup Clearing Member and (ii) consent from that Backup Clearing Member
AOSA (net)	N	Y	Y	
GOSA	N	N ¹	Y	Porting is subject to (i)(a) an individual client (who is not a Combined Omnibus Gross Segregated Clearing Client) or (b) a group of Combined Omnibus Gross Segregated Clearing Clients, as applicable, in each case, consenting and nominating a

¹ However, Combined Omnibus Gross Segregated Clearing Clients who have elected to have their positions combined with the positions of one or more other Combined Omnibus Gross Segregated Clearing Clients for the purposes of calculating applicable margin requirements will be exposed to the positions of those other Combined Omnibus Gross Segregated Clearing Clients.

				Backup Clearing Member independently of the other clients in the relevant GOSA and (ii) consent from the Backup Clearing Member
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SCHEDULE 2
LIST OF EXEMPTING CLIENT CLEARING JURISDICTIONS

Relevant Jurisdiction	Security Deed Required (Y/N)
Australia	Y
Austria	N
Belgium	N
Canada (Ontario)	Y
Canada (Quebec)	Y ²
Denmark	Y
England & Wales	N
Finland	N
France	N
Germany	Y
Hong Kong	Y
Ireland	N
Italy	N
Japan	Y
Netherlands	Y
Norway	N
Poland	Y
Portugal	Y
Scotland	N
Spain	N
Sweden	Y
Switzerland	Y

² Please note amendments to the current pro forma Security Deed will be required.