

LCH SA CDS Clearing Procedures

Section 1 - Membership

18 July 2019

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SECTION 1 - MEMBERSHIP

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Capitalised terms used in this Membership Procedure and not otherwise defined herein shall have the meaning given pursuant to the remainder of the CDS Clearing Documentation, as such term is defined in the document entitled "CDS Clearing Rule Book" published by LCH SA, as amended from time to time.

1.1 APPLICATION PROCEDURE

(a) Indicative timeline for an application

The following is an indicative, non-binding timeline for the processing of an application. The exact period to process an application will depend on the circumstances; for example, the period may be longer where LCH SA requests that the Applicant provides further information or a legal opinion is required to be issued.

(b) Application Process

Business Day 1

An Applicant shall submit a query to LCH SA's CDSClear Business Development & Relationship Management team, which, in turn, will request such Applicant to provide the LCH SA's application form relating to the CDS Clearing Service which is available on demand (the "**CDSClear Application Form**") and other supporting documents such as, in particular and as a matter of priority:

- (i) the most recent annual financial statements along with any interim statements of such Applicant; and
- (ii) details of any implicit or explicit support available from group or external entities.

Following receipt of the information and documents listed in sub-paragraphs (i) and (ii) above, LCH SA will carry out an initial review to assess the credit risk of the Applicant. LCH SA shall endeavour to review the information and documents within 5 Business Days from receipt by LCH SA but owes no duty or obligation to the Applicant to do so.

Following completion of the initial review, LCH SA will:

- (x) either confirm that the application process may continue. In such a case, the next steps of the application process as set out in sub-paragraphs (c) to (f) below will apply; or
- (y) refuse admission of the Applicant.

The decision of LCH SA shall be communicated to the Applicant. Where an Applicant was refused admission, the decision of LCH SA will indicate the reasons why membership was refused.

The application process, other than the initial review mentioned above in this paragraph (b), shall start upon receipt of all the supporting documents requested by LCH SA.

Business Day 1 to 30

Following receipt of the duly completed CDSClear Application Form and all required supporting documents by LCH SA (including any additional information or documents requested by LCH SA) the application is reviewed by LCH SA and due diligence is carried out on the Applicant which may include an on-site visit.

Further to such review and due diligence, and subject to internal approval by LCH SA of the Applicant's application, the Applicant and LCH SA shall execute the Admission Agreement and the Access Agreement.

Where the country of incorporation of the Applicant is not covered by an existing legal opinion, which will require LCH SA to provide the relevant legal opinion, the indicative timeline as set out in this sub-paragraph (b) will be extended from 30 Business Days to 40 Business Days from receipt of the CDSClear Application Form and required supporting documents by LCH SA (including any additional information or documents requested by LCH SA).

Business Day 30

Application is either: rejected or accepted.

(c) CDSClear Application Form

An Applicant shall complete the CDSClear Application Form. The Applicant must:

- (i) complete all sections of the CDSClear Application Form and in particular, the Applicant must select one of the available types of membership of the CDS Clearing Service (each a "**CDS Membership Type**"); and
- (ii) provide all documents required to be submitted with the CDSClear Application Form. In particular, an Applicant that wishes to be admitted as a Select Member shall: (x) provide LCH SA with the Product Family Form duly completed by that Select Member; and (y) if that Select Member wishes to receive the Price Requirement Files, shall inform LCH SA of the existence of arrangements as are necessary for it to provide LCH SA with Market Data in accordance with Section 5 of the Procedures.

For further information please contact the CDSClear Business Development & Relationship Management team by email at cdsclearbusinessdevrm@lch.com.

LCH SA has the right, at its sole discretion, to amend the CDSClear Application Form.

If an Applicant is an existing clearing member of another clearing service provided by LCH Group Holdings Limited, then LCH SA may waive the requirement to provide certain documents on the basis that LCH SA already holds the relevant information. The CDSClear Business Development & Relationship Management team will notify an Applicant that is an existing clearing member as to the documents it will be required to provide.

Onboarding fees applying to the Applicant, if any, are published on the Website.

(d) Due diligence and review process

An Applicant must accept that during the review process LCH SA:

- (i) is entitled to make enquiries of any nature about the Applicant and any person connected or associated with the Applicant;
- (ii) is entitled to ask the Applicant to supply additional information and take whatever steps are necessary to verify information;
- (iii) is entitled to provide and/or disclose information to a Competent Authority, Regulatory Body, LCH SA's insurers in connection with any form of insurance, or otherwise in accordance with the CDS Clearing Documentation;
- (iv) is entitled to request that operational tests are carried out to ensure that the Applicant is operationally capable of using the CDS Clearing Service; and
- (v) may disclose to a third party (for example, technology providers or settlement service providers) the name, address, registered number and details of any exchange or clearing memberships held or applied for to the extent that such disclosure is required to facilitate the Applicant's membership application.

During the review process, the Applicant must notify LCH SA by email to the CDSClear Business Development & Relationship Management team at cdsclearbusinessdevrm@lch.com of changes to the:

- (i) information and any other documentation supplied (at any stage) to LCH SA with the CDSClear Application Form and/or in support of the application; and
- (ii) facts and circumstances concerning the Applicant which would affect its ability to perform its obligations under the CDS Clearing Documentation and/or the orderly conduct of its activities as a Clearing Member

As part of the review process one or more LCH SA representatives (which may include any of LCH SA's third party advisers) may carry out one or more on-site visit(s) to the Applicant's operations office. LCH SA will give an Applicant reasonable advance notice of any proposed visit. An Applicant may refuse access to any or all LCH SA representatives or third party advisers but any such refusal of access may result in the application process being delayed and/or LCH SA being unable to process the Applicant's application. During this visit the Applicant should be able to show the LCH SA representatives the following:

- (i) operational personnel – who may be questioned to identify their individual knowledge of CDS and, as the case may be, Index Swaptions;
 - (ii) computer systems; and
 - (iii) on-site procedures.
- (e) Membership approval or rejection

The decision of LCH SA to reject or accept the application of the Applicant in accordance with the indicative timeline set out in paragraph (b) above shall be communicated by LCH SA to the Applicant, using the contact details specified in the application.

The CDS Membership Type to which the Clearing Member has been admitted and as the case may be, its registration for the Index Swaption Clearing Service, will be specified in the approval notification sent by LCH SA.

LCH SA may refuse an Applicant admission to membership if the conditions set out in Article 2.2.1.1 of the CDS Clearing Rule Book have not been satisfied or if it considers that such admission may adversely affect the operation of the CDS Clearing System or the provision of the CDS Clearing Service. The decision to refuse admission to membership will indicate the reasons why membership was refused.

- (f) Fulfilment of any conditions following approval

LCH SA may impose limitations on the exercise of certain rights under the CDS Clearing Documentation, provided that such limitations are imposed without discrimination.

If the Applicant is approved as a Clearing Member it shall:

- (i) before submission of its first Original Transaction, make its initial Contribution to the CDS Default Fund in accordance with Article 4.4.2.2 of the CDS Clearing Rule Book;
- (ii) post sufficient Collateral before the submission of the first Intraday Transaction for registration and clearing by LCH SA; and

- (iii) comply at all times with all continuing obligations set out Article 2.2.2.1 of the CDS Clearing Rule Book.

A Clearing Member must begin clearing operations within six months after LCH SA provides notice of its admission, unless LCH SA agrees to extend the time limits. Where the Clearing Member fails to start clearing operations within six months, the admission decision may be revoked and any new admission will require compliance with the provisions of this Paragraph 1.1.

- (g) The provision of CDS Client Clearing Services by a Clearing Member

Pursuant to Article 5.1.1.1, or Article 6.1.1.1 as applicable, of the CDS Clearing Rule Book, a Clearing Member must, in respect of each prospective Client, provide LCH SA with:

- (i) a form relating to the provision of CDS Client Clearing Services (the “**Client Clearing Form**”) which is available upon request to LCH SA’s CDSClear Business Development & Relationship Management team (cdsclearbusinessdevrm@lch.com); and
- (ii) all documents required to be submitted with the Client Clearing Form.

LCH SA shall:

- (i) review the Client Clearing Form and the related supporting documents; and
- (ii) endeavour to confirm, within 10 Business Days from the date of their receipt, that the Client Clearing Form and the related supporting documents have been duly filled and submitted (the “**Confirmation Notice**”).

The Confirmation Notice takes the form of an email sent to the person designated as the relevant contact in the Client Clearing Form.

The Clearing Member may start providing CDS Client Clearing Services to the relevant Client 5 Business Days from the receipt of the Confirmation Notice.

In respect of a Clearing Member which submits its first Client Clearing Form, the above-mentioned timeline is subject to:

- (i) the successful completion of the operational tests requested by LCH SA to ensure that the Clearing Member is operationally capable of using the LCH SA’s client clearing platform; and
- (ii) the putting in place of a Power of Attorney in respect of one of its TARGET2 Accounts or Bank of New York Mellon, as applicable in accordance with Section 3 of the Procedures, for the purposes of posting Collateral, transferring Variation Margin and making Cash Payments in respect of its Client Margin Accounts in accordance with Article 2.2.7.5 of the CDS Clearing Rule Book and Section 3 of the Procedures.

Where CDS Client Clearing Services are provided by a CCM to a CCM Client which is, in turn, providing indirect clearing services to its CCM Indirect Clients, the CCM will request LCH SA to open a CCM Indirect Client Net Omnibus Segregated Account Structure and one or more CCM Indirect Client Gross Omnibus Segregated Account Structures in accordance with the wishes of the CCM Indirect Clients of such CCM Client by submitting a form which is available upon request to LCH SA's CDSClear Business Development & Relationship Management team (cdsclearbusinessdevrm@lch.com).

LCH SA will confirm, within 2 Business Days from the date of their receipt, that the form has been duly filled and submitted, by sending an email to the person designated as the relevant contact in the submitted form.

The relevant CCM Indirect Client Segregated Account Structures will be opened by LCH SA 5 Business Days from the receipt of the e-mail referred to in the previous paragraph.

Branches

- (a) Each branch of a Clearing Member that wishes to use the CDS Clearing Service must complete a reduced CDSClear Application Form and be approved by LCH SA at its sole discretion. Further details relating to the CDSClear Application Form or the application process for branches can be obtained from the CDSClear Business Development & Relationship Management team by email at cdsclearbusinessdevrm@lch.com.
- (b) Clearing codes

This paragraph applies to a branch that has been accepted to participate in the CDS Clearing Service.

If the branch has a TIW Participant code that is different to that of the existing Clearing Member's, that branch will be assigned its own separate clearing code.

Although each branch is the same legal entity as the relevant Clearing Member, for operational purposes, each clearing code is treated as though it is a separate clearing member. For example, each clearing code will be allocated to an Account Structure that will record Cleared Transactions, will have its own Margin Requirements and will be required to transfer requisite Collateral in respect of such Margin Requirements. Additionally, each branch (operating under a separate clearing code) is required make a separate Contribution to the CDS Default Fund.

- (c) Participation in the CDS Clearing Service

Each Clearing Member participates in the CDS Clearing Service as single entity, irrespective of the number of participating branches and clearing codes. In particular, each Clearing Member: (i) may have a maximum of one representative on the CDS Default Management Group; and (ii) will have one vote for the purposes of Article 1.2.2.7. An Event of Default which is declared

in respect of a Clearing Member will apply in respect of all its clearing codes and branches.

1.2 CHANGE PROCEDURE

If a Clearing Member wishes to change its CDS Membership Type or to be registered, or to be no longer registered, for the Index Swaption Clearing Service, that Clearing Member must contact the CDSClear Business Development & Relationship Management team by email at cdsclearbusinessdevrm@lch.com for further information.

Depending on the new CDS Membership Type it has selected or where such Clearing Member wishes to be registered for the Index Swaption Clearing Service, the CDS Clearing Member may be requested to provide additional information and/or documents.

Where a Clearing Member requests to be unregistered from the Index Swaption Clearing Service, LCH SA will not approve this request as long as there is any Index Swaption Cleared Transaction registered in that Clearing Member's Account Structure.

LCH SA shall notify the Clearing Member of its decision to:

- (i) admit that Clearing Member to the new CDS Membership Type; and /or
- (ii) register or unregister, that Clearing Member for/from the Index Swaption Clearing Service,

and the effective date of such change, by sending an approval letter.

1.3 SETTLEMENT FINALITY DIRECTIVE

The following information is provided for the purpose of Article 1.0.1.2 of the CDS Clearing Rule Book.

Article R.330-3 of the French Monetary and Financial Code (*Code Monétaire et Financier*) which implements articles 6 and 10 of the Directive n°98/26/CE into French law, states that any person with a legitimate interest can obtain information about a system notified to the European Commission and its rules from its participants, upon request. A participant can fulfil its information obligation by referring to the rules approved by the *Autorité des Marchés Financiers* (www.amf-france.org). The rules approved by the *Autorité des Marchés Financiers* are the rules in the CDS Clearing Documentation.