



SUBJECT TO REGULATORY APPROVAL

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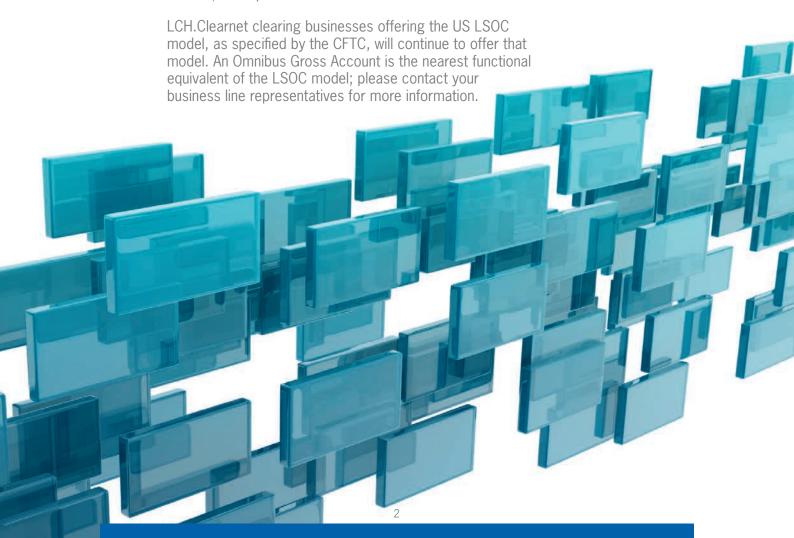
Introduction

The way in which CCPs manage members' and clients' assets is one of the most significant areas of change required by regulators, amid several market reform commitments agreed by the G20 in 2009. In Europe, the European Market Infrastructure Regulation (EMIR) has been designed to reduce the counterparty risk of OTC derivative markets and increase transparency within the markets.

LCH.Clearnet Ltd and LCH.Clearnet SA will offer to their members a choice of Individually Segregated Account (ISA) and Omnibus Segregated Account (OSA) accounts for their Clients, which at a minimum are compliant with EMIR.

This document provides an overview of the models that, subject to regulatory and other approvals, LCH.Clearnet intends to introduce across all services provided by both LCH.Clearnet Ltd and LCH.Clearnet SA.

LCH.Clearnet has received feedback from regulators and members guiding our current design. Should new guidance and choices become available, we will add additional models, when practical.



Relevant EMIR paragraphs

The chart below details the guiding principles outlined under EMIR. LCH.Clearnet has used these principles to design the proposed portability and segregation models.

For further details please visit the ESMA website: www.esma.europa.eu

Ref	Description
L2, 3.1	A CCP must support the Indirect Clearing model, allowing a Direct Client to have Clients of its own.
L1, 39.1	The accounts of a Clearing Member must be kept separate from the accounts of another Clearing Member.
39.2	A CCP will offer an Omnibus Segregated Account model (OSA), and segregate Clearing Member positions and assets from that of the Clearing Member's Clients.
39.3	A CCP will offer an Individually Segregated Account model (ISA), and allow a Clearing Member to open multiple ISAs for their Clients.
39.4	A Clearing Member must segregate Client business from its own business, internally and with the CCP.
39.5	A Clearing Member must offer ISA and OSA Accounts to Clients, including explaining the costs and protections of each Account. A Client must confirm its choice in writing to the Clearing Member.
39.6	For an ISA client, excess margin called from the Client by the Clearing Member must be held at the CCP, be segregated from other Clients and Clearing Members, and not be exposed to losses in any other Account.
39.7	A CCP must publicly disclose all details of each Account model, including levels of protection, costs, and legal implications in each jurisdiction.
39.10	Assets refer to collateral held to cover positions and include the right to the transfer of assets equivalent to that collateral or the proceeds of the realisation of any collateral, but does not include default fund contributions.
48.5 48.6	A CCP must trigger a transfer of Client assets should a Clearing Member be in default, without permission of the defaulting Clearing Member. A successful transfer requires the Client to have a contractual relationship with another Clearing Member who accepts the transfer. If the transfer doesn't complete within a defined transfer period the CCP is free to take any steps it considers necessary.
48.7	Collateral held for specific ISA or OSA accounts must be used exclusively for the specific account. Any balance remaining after any default procedures should be returned to known Clients, or if not the Clearing Member for the account of its Clients.
L2, 5.2	When a Client provides Indirect Clearing, the Client will open a segregated account via a Clearing Member for the exclusive use by the Indirect Client(s) for their positions and assets.

L1: Level 1 of EMIR, namely Regulation (EU) No 648/2012 of the European Parliament of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories.

L2: Level 2 of EMIR, being Commission Delegated Regulations supplementing Regulation (EU) No 648/2012 with regard to regulatory technical standards. The Articles referred to can be found in Commission Delegated Regulations 149/2013 (in relation to indirect clearing arrangements) and 153/2013 (in relation to other requirements).

648/2012: http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2012:201:0001:0059:EN:PDF 149/2013: http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2013:052:0011:0024:EN:PDF 153/2013: http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2013:052:0041:0074:EN:PDF

LCH.Clearnet Records

Information on all client positions is recorded in LCH. Clearnet's systems for all the account models.

Book keeping accounts Holds trades, and for some LCH.Clearnet businesses, derived positions for the House or Client ISA/OSA Represents the IM Liability for the House or Client in each case derived from the relevant Set of Positions Records the assets (cash, securities, gold, bank guarantees, etc.) which cover the IM liability

Positions

- Some business lines refer to the Positions as a Trade account.
- For business presented anonymously the 'holder' of the Position records is the Clearing Member.

IM Liability

 This represents the Initial Margin including any add-ons, such as contingent variation margin and net liquidity value, for one or more sets of Positions.

Collateral Account

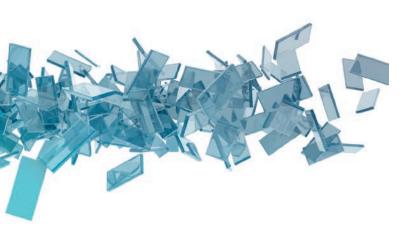
 This represents the LCH.Clearnet internal records of the assets received to cover Initial Margin liabilities, not the physical custody account(s) in which the assets are held.

Overview of account structures

The diagram below outlines the three account types that LCH. Clearnet intends to offer. EMIR does not affect the structure of the House Account, but any Client business within the House account will need to move to one of the new EMIR Client accounts, please contact your business line representative for more details.

LCH.Clearnet Clearing Member House Client ISA **OSA Gross OSA Net** House Set of Set of Client 1 Set of Client 1 Set of Positions Positions **Positions Positions Positions Positions** Client 1 **IM** Liability **IM** Liability **IM** Liability **IM** Liability **IM** Liability Sum of IM Liabilities Collateral Collateral Collateral account Collateral account account account

Business lines can provide as many ISAs or OSAs as needed.



Individually Segregated Account (ISA)

An ISA can only be held by a Client that is a known user of LCH.Clearnet, and has completed the account opening procedures via its Clearing Member.

A Client in an ISA has no co-mingling with any other Client or the House, and is subject to porting procedures entirely independently from any other entity or Account.

Our "asset tagging" model for Individually Segregated Accounts has two main features to protect client assets. We can tag specified assets (securities and/or cash sums) to the client's ISA, which for each individual client identifies what to transfer alongside positions in the event of a default. In addition, we can port the actual assets of the client, rather than the value of the assets, which is now possible following a change in UK law: Part VII of the Companies Act (as amended by the Financial Services and Markets Act 2000) (Over the Counter Derivatives, Central Counterparties and Trade Repositories) Regulations 2013.

LCH.Clearnet has managed defaults in multiple markets and has successfully ported Client positions following member defaults.

ISA							
Set of Positions	Holds Trades and Positions for one known client only						
IM Liability	Holds the IM Liability for one known client only						
Collateral account	Holds eligible assets covering IM for one known client only						

^{*}In respect of UK members we will port in accordance with our Rulebook pursuant to Part VII of the Companies Act (as amended by the Financial Services and Markets Act 2000 (Over the Counter Derivatives, Central Counterparties and Trade Repositories) Regulations 2013).

Omnibus Segregated Account (OSA) - Gross margin

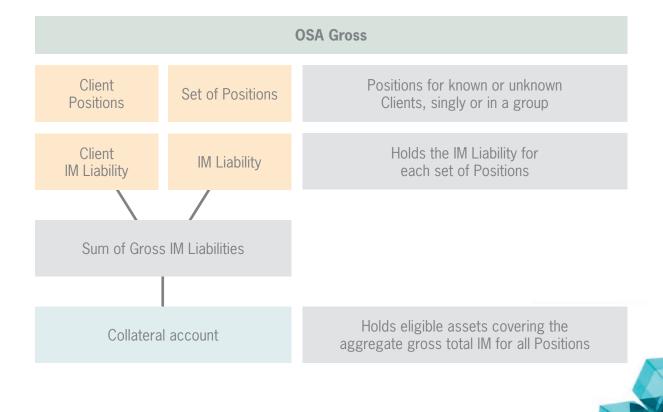
This type of OSA is an arrangement in which one or more Clients share an Account. This would typically be used for cleared exchange traded products and is also the basis of the popular value segregation models already used by cleared swaps customers.

A Set of Positions at LCH.Clearnet can represent the trades (and derived positions) of either

- a single known Client
- a pool of known Clients
- a single unknown Client
- a pool of unknown Clients

The Initial Margin for each Set of Positions is calculated independently and the sum of the IM Liabilities must be covered by assets in the Collateral account.

In the event of porting or liquidation each Client has shared claims over the assets in the account.



Omnibus Segregated Account (OSA) - Net margin

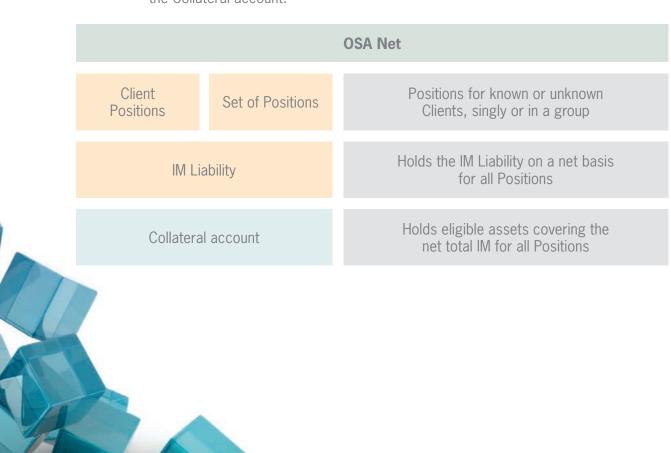
This type of OSA is an arrangement in which one or more Clients share an account. This would typically be used for cleared exchange traded products.

A Set of Positions at LCH. Clearnet can contain the trades (and derived positions) of either:

- a single known Client
- a pool of known Clients
- a single unknown Client
- a pool of unknown Clients

The Initial Margin for each Set of Positions is calculated as a single net liability allowing offsets between all the trades and positions for all the Position records inside of the OSA net structure.

The single net IM liability must be covered by assets in the Collateral account.



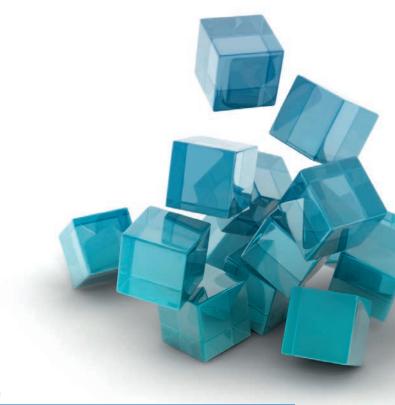
Indirect clearing support

EMIR requires LCH.Clearnet to support the Indirect Clearing Model for OTC products where a Direct Client can have its own Indirect Clients. LCH.Clearnet is capable of offering an Indirect Clearing Model across all our business lines.

For a Direct Client to open an Indirect Client account, the agreement of its Clearing Member and support by the relevant market infrastructure is required to achieve the full clearing workflow.

Clients should contact their Clearing Member for questions about opening an Indirect Account.





Business line support for EMIR accounts

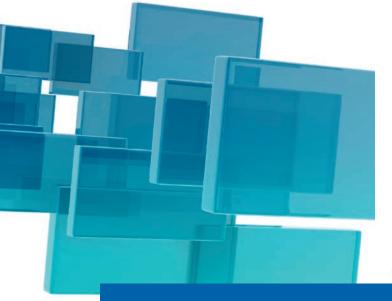
All services provided by LCH.Clearnet Ltd and LCH.Clearnet SA must offer an ISA and an OSA option. For specific details of each offering, please contact the appropriate business line representative.

These models will be introduced upon authorisation where not in use already.

		Direct Client Accounts				Indirect Client Accounts				
Entity	Business Line	ISA	OSA Gross	OSA Net (Single Position set)	OSA Net (Multiple Position sets)				OSA Net (Multiple Position sets)	
SA	Cash Equities	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	
SA	Derivatives	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	
SA	CDSClear	Yes			Yes			Yes		
SA	Fixed Income	Yes			Yes			Yes		
Ltd	RepoClear	Yes			Yes			Yes		
Ltd	ForexClear	Yes	Yes		Yes			Yes		
Ltd	SwapClear	Yes	Yes		Yes			Yes		
Ltd	EquityClear	Yes		Yes	Yes			Yes		
Ltd	LME	Yes		Yes				Yes		
Ltd	NLX	Yes	Yes	Yes	Yes			Yes		
Ltd	LSE DM	Yes		Yes				Yes		
Ltd	EnClear	Yes		Yes	Yes			Yes		
Ltd	Nodal	Yes	Yes		Yes			Yes		
Ltd	FEX*	Yes	Yes	Yes	Yes			Yes		

^{*}Clearing Service not yet live

An Omnibus account can contain one or more Sets of Positions, as described on pages 7 and 8.



Porting a client following a member default

Should a Clearing Member default, LCH.Clearnet will work with Clients to transfer Positions and Assets to an alternative Clearing Member. Achieving a transfer is not guaranteed by LCH.Clearnet.

LCH.Clearnet's default management approach has been proven in recent times. In November 2011, following the default of MF Global, over 300 client positions were transferred to the Clearing Member of clients' choice.

Optimum conditions to achieve Client porting include:

- The Client being known to LCH. Clearnet and fully identified (i.e. not in an anonymous account).
- The Client having established a clearing relationship with an alternative Clearing Member.
- The Client nominating an alternative Clearing Member within the time specified by LCH.Clearnet.
- The nominated alternative Clearing Member accepting the Client's porting request.
- The Client having over-collateralised its account.

In order to ensure that the client clearing mechanism contained in the rulebook, in particular the porting of clients' assets and positions following a clearing member default, are legally enforceable, non-UK clearing members will be required to execute a Security Deed. Execution of a Security Deed will be mandatory for any non-UK clearing members who wish to offer client clearing. Security Deeds will need to be executed prior to LCH's authorisation and LCH will circulate Security Deeds for execution in Autumn 2013 for execution by the end of the year.

Where a clearing member is incorporated in the United Kingdom the clearing member will not be required to execute a Security Deed as sufficient protection is provided by United Kingdom legislation to enable porting.



Summary of impacts

Upon authorisation of a CCP, ESMA requires all Client business to be held in segregated accounts, such as an ISA or OSA, and segregated from House business.

Being in a current ISA or OSA can speed up migration once LCH.Clearnet upgrades accounts to be fully EMIR compliant upon authorisation.

Existing ISAs and OSAs will be upgraded as part of LCH.Clearnet's EMIR authorisation.

Migration options or obligations can be discussed with the appropriate LCH.Clearnet business line representative.

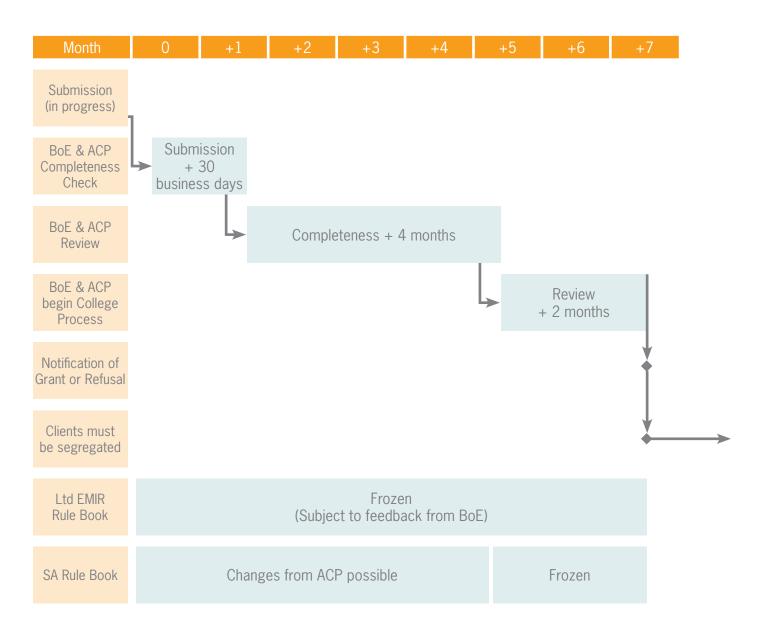
Country	Business Line	Client business now?	ISA available now?	Current ISA meets EMIR rules?	Omnibus Account available now?	Current Omnibus meets EMIR rules?			Technical changes?
SA	Cash Equities	Yes	Yes	No	Yes	No	Yes	Yes	Yes
SA	Derivatives	Yes	Yes	No	Yes	No	Yes	Yes	Yes
SA	CDSClear	Yes	Yes	Yes	Yes	Yes	No	No	No
SA	Fixed Income	Yes	No	N/A	Yes	Yes	Yes	Yes	N/A
Ltd	RepoClear	Yes	No	N/A	Yes	Yes	N/A	Yes	N/A
Ltd	ForexClear	No	No	N/A	No	N/A	Yes	Yes	No
Ltd	SwapClear	Yes	No	N/A	Yes	Yes	Yes	Yes	Yes
Ltd	EquityClear	Yes	No	N/A	Yes	Yes	N/A	Yes	N/A
Ltd	LME	Yes	No	N/A	Yes	No	Yes	Yes	Yes
Ltd	NLX	Yes	No	N/A	Yes	No	Yes	Yes	Yes
Ltd	LSE DM	Yes	No	N/A	Yes	No	Yes	Yes	Yes
Ltd	EnClear	Yes	No	N/A	Yes	No	Yes	Yes	Yes
Ltd	Nodal	Yes	No	N/A	Yes	No	Yes	Yes	Yes
Ltd	FEX*	No	No	N/A	No	N/A	N/A	Yes	N/A

^{*}Clearing Service not yet live

LCH.Clearnet authorisation timeline

Below is the authorisation timeline based on guidance from the regulators for the authorisation of LCH.Clearnet SA and LCH.Clearnet Ltd.

LCH.Clearnet will remain in constant dialogue with regulators during every step of the process.



Business lines will communicate their implementation dates through the normal channels.



LCH.Clearnet Limited Banking and Settlement

Collateral Management System changes

The following changes will be implemented in CMS

Collateral balances on screen and in reports will be provided for all EMIR account types including ISA and OSA models.

It will be possible to instruct movements of collateral to and from ISAs and OSAs.

• Enter instructions into CMS as per usual, and select the ISA or OSA the asset is intended for.

Clearing Members will be able to search for Client accounts by specifying either the Client Identifier (for the relevant business) or the Client (Sub Account) Identifier.

It will be possible to view the following in CMS for each account:

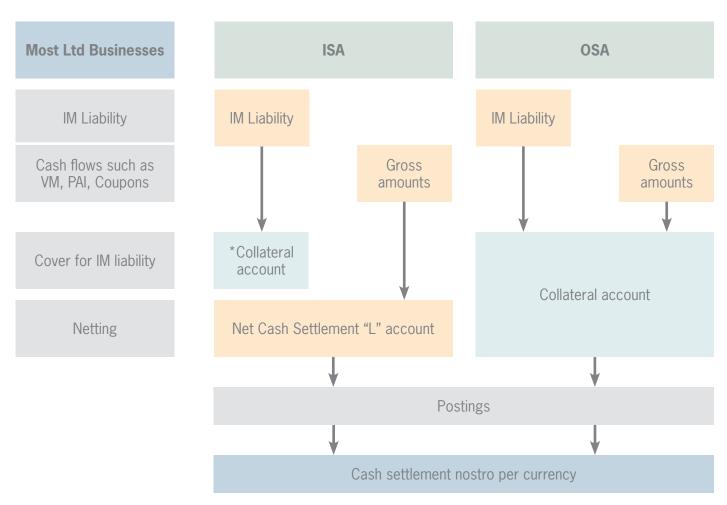
- Liabilities
- Individual assets and asset values
- Excess collateral/deficits on the account, i.e. "headroom" for withdrawals

The collateral withdrawal process will check that sufficient headroom is available for same day release of collateral at the point that the instruction is entered by the Clearing Member. This is subject to clearing house procedures for collateral release.

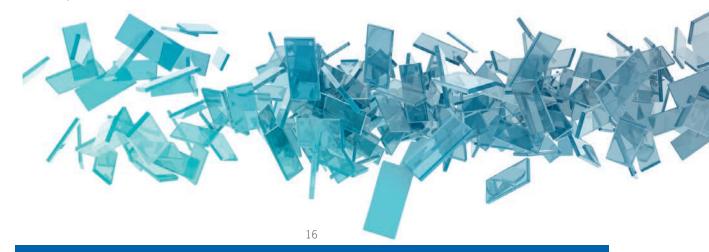


Settlement | All Ltd business lines (except SwapClear)

Cash flows other than cover for Initial Margin can be settled in a flexible way. IM Liabilities are covered by the related Collateral account, to which the non-IM cash flows can also be posted for OSAs. For ISAs, it is recommended to net all non-IM cash flows into a single Net Cash Settlement ("L") account to minimise PPS movements.

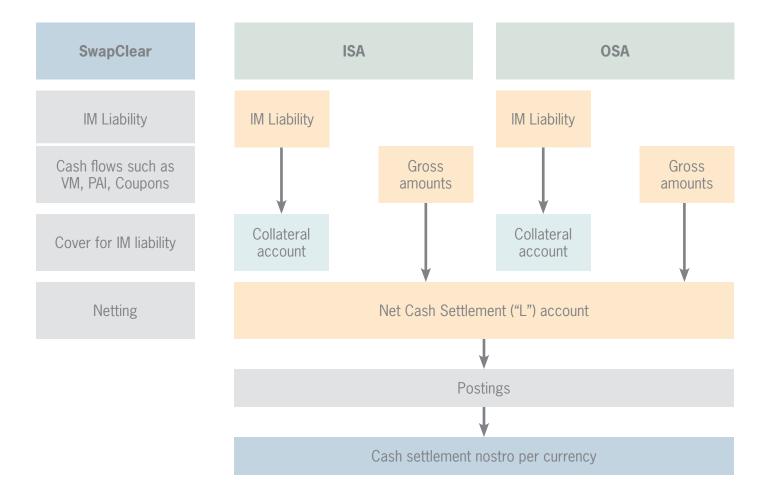


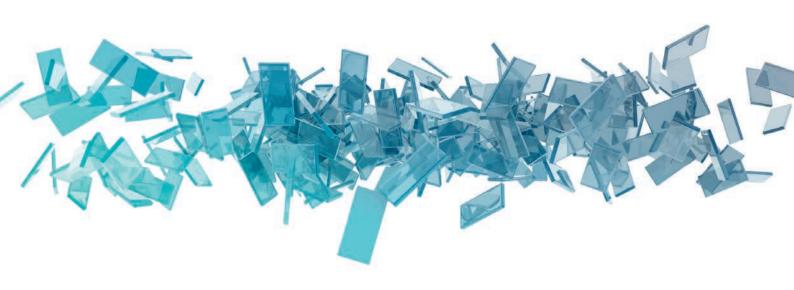
*In line with EMIR requirement 30.6.



Settlement | SwapClear

For SwapClear, all non-IM postings are netted in a single Net Cash Settlement account ("L") to minimise PPS movements.





Margin calls

Initial Margin

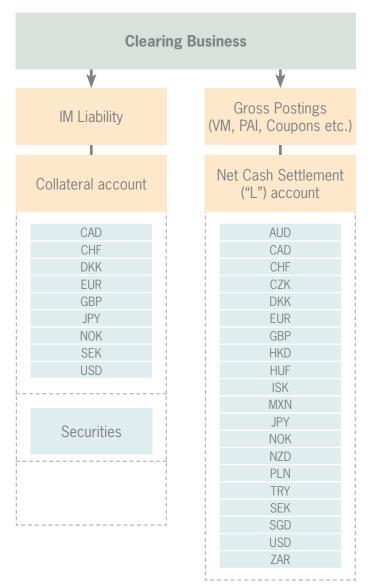
- An IM Liability must be covered at all times with eligible assets.
- In event of a shortfall, LCH.Clearnet would call additional margin via PPS.

Other postings

For all business lines except SwapClear it is recommended that variation margin, PAI,
Coupons and other cash flows for ISAs are netted per currency through the "L"
account (see example below). Alternatively, Clearing Members may request that
postings are applied to each ISA. This option will increase PPS traffic and it is therefore
necessary to discuss the impact with the LCH.Clearnet and the relevant PPS Bank.

For information about deliveries online and other businesses, please contact the usual business line representative.

Interest on IM cash and any Accommodation charges will be posted monthly to the ISA/OSA Collateral Account that accrued the payment charge.



Banking and settlement – other information

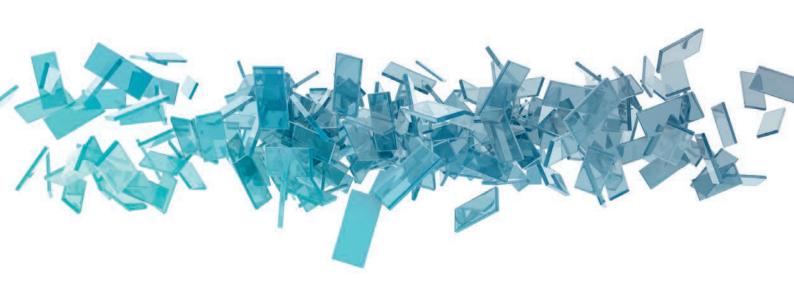
Will EMIR change any PPS arrangements?

- No, the same facilities exist now to map any PPS bank accounts to the LCH.Clearnet accounts for settlement.
- The same PPS bank accounts that currently exist may be used, or alternatively, new PPS accounts can be requested for new ISA or OSAs.

Will EMIR change collateral arrangements?

 No, CMS will continue to deliver (lodge) cash or securities into the relevant Collateral account for a specific Client.

There is flexibility in settlement arrangements. Contact a business line representative for more information.



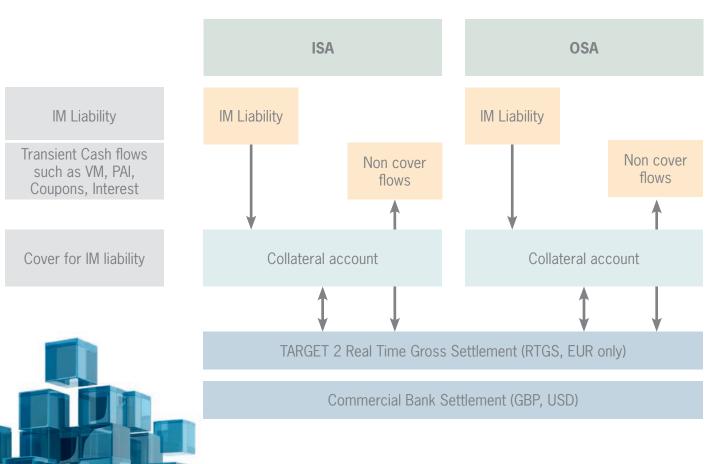


LCH.Clearnet SA Banking and Settlement

Collateral automated treasury system in SA

There will be no changes to the Collateral Automated Treasury System under EMIR.

- EUR is settled via TARGET2 RTGS.
- GBP & USD are settled via commercial banks.
- Securities are lodged using the same process as now.





LCH.Clearnet Limited/SA Custody of Securities

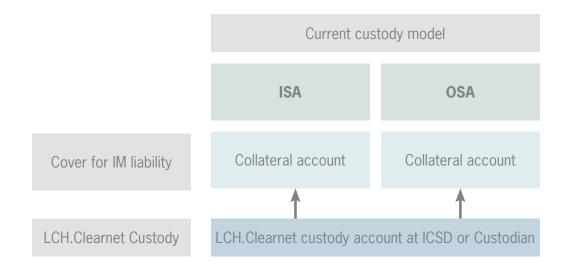
Custody of securities

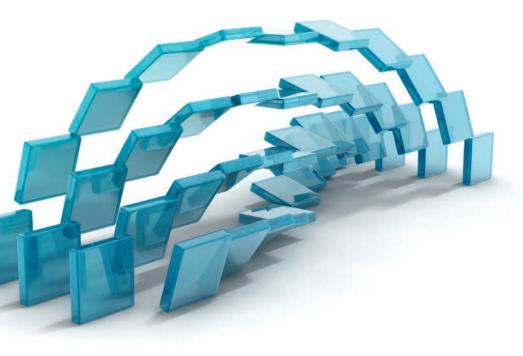
LCH.Clearnet book keeping must record assets as covering liabilities on specific ISA or OSA accounts.

Assets are held in an account with an LCH.Clearnet ICSD or Custodian.

A Clearing Member deposits assets by indicating which ISA or OSA they are covering to ensure the assets are recorded in the relevant Collateral account.

LCH.Clearnet is looking to introduce physical segregation (i.e. segregation on the books & records of a customer's custodian) across certain business lines subsequent to EMIR re-authorisation.





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