

VIA EMAIL TO: SUBMISSIONS@CFTC.GOV

25 March 2014

Ms. Melissa Jurgens
Commodity Futures Trading Commission
1155 21st Street NW
Three Lafayette Centre
Washington DC 20581

Dear Ms. Jurgens:

Pursuant to CFTC regulation §40.6(a), LCH.Clearnet Limited ("LCH.Clearnet"), a derivatives clearing organization registered with the Commodity Futures Trading Commission (the "CFTC"), is submitting for self-certification changes to its rules. The revised rules are in relation to the collateral management processes of LCH.Clearnet and will be implemented and become effective from April 8, 2014.

LCH.Clearnet is amending its Rulebook and Procedures to clarify opening times for the SwapClear service; provide for changes to its processes in respect of the cut-off times for the acceptance and return of USD cash excess collateral; and to give LCH.Clearnet the ability to require longer notice periods for material lodgements of non-cash collateral as replacement for cash collateral.

Explanation and Analysis

The changes being made are summarised in the rule change matrix below.

In summary, the changes:

- (i) clarify that the SwapClear service remains open until 19:00 New York time, including when the time difference between London and New York is under five hours;
- (ii) provide that LCH.Clearnet will only fulfil requests from FCMs for return of USD excess cash collateral if received by 09:30 New York time;
- (iii) limit the provision of new USD excess cash collateral by Clearing Members to requests made before 14:00 New York time; and
- (iv) give LCH.Clearnet the ability to impose a longer notice period for material substitutions of non-cash collateral for cash, during periods when market liquidity is lower.

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LCH.Clearnet Group Limited | LCH.Clearnet Limited | LCH.Clearnet SA | LCH.Clearnet LLC

| Clearing House Procedures reference | FCM Procedures reference | Explanation |
|-------------------------------------|---------------------------|--|
| - | 2A.2.2 | Amended the closing time from midnight London time to 19:00 hrs New York time. |
| - | 2B.22.1 | Consequential change related to changes in FCM Procedures 4.1.6 |
| Section 3 - 3.2.1.4 | 4.1.6 | New section added in respect of the return and provision of USD cash excess margin |
| Section 4 - 4.1.4 | 4.17 (old 4.1.6) | Amended to allow the Clearing House to extend the required notice period. |
| General Regulations reference | FCM Regulations reference | Explanation |
| - | Regulation 9(v) | Consequential change related to changes in FCM Procedures 4.1.6 |

Part II: Amendments to the Rules and Regulations of LCH.Clearnet

Relevant extracts of the amended Rulebook are attached as appendices to this self-certification letter as follows:

- Appendix A – Section 3, Clearing House Procedures
- Appendix B – Section 4, Clearing House Procedures
- Appendix C – FCM Procedures
- Appendix D – FCM Regulations

Part III: Certification by LCH.Clearnet

LCH.Clearnet certifies to the CFTC, in accordance with CFTC Regulation §40.6, that the planned changes comply with the Commodity Exchange Act and the CFTC Regulations promulgated there under. LCH.Clearnet further certifies that, upon the submission of this material, in compliance with §39.21 of the Commission's regulations, LCH.Clearnet will post a notice of pending certification with the CFTC and a copy of the submission on LCH.Clearnet's website at http://www.lchclearnet.com/rules_and_regulations/ltd/proposed_rules.asp

Part IV: Compliance with Core Principles

LCH.Clearnet will continue to comply with all Core Principles following the introduction of these proposed changes to the Rulebook and Procedures. LCH.Clearnet has concluded that its compliance with the Core Principles would not be adversely affected by these changes. The changes reflected herein will ensure continued compliance with the Core Principles particularly Core Principle F.

Part V: Opposing Views

There were no opposing views expressed to LCH.Clearnet by its governing board or committee members, members of LCH.Clearnet or market participants that were not incorporated in the changes.



Certification

LCH.Clearnet Limited hereby certifies to the Commodity Futures Trading Commission, pursuant to the procedures set forth in Commission regulation §40.6, that the attached rule submission complies with the Commodity Exchange Act, as amended, and the regulations promulgated there under.

Should you have any questions regarding this submission please contact me at julian.oliver@lchclearnet.com.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Julian Oliver".

Julian Oliver, Director Compliance and Public Affairs
LCH.Clearnet Ltd

Cc: Jay Iyer, LCH.Clearnet
Kenji Takaki, CFTC
Shawn Durrani, CFTC

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Exhibit A

Clearing House Procedures Section 3 Extract

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3.2.1.4. **Intraday PPS Calls**

The intra-day margin call by the Clearing House is for intra-day Collateral transfers. GBP, EUR or USD can be used to collateralise margin obligations intraday. Between 14.30 - 16.00 (London time) only USD will be called in London.

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

Clearing Members must designate a currency (GBP, EUR or USD) that will be called by default during the hours of London PPS for each mnemonic/sub-account. Clearing Members may request a change to the default currency no later than 09.30 am London time in order for the change to be undertaken the following day. Member can submit a request to change their currency at the following link:

www.lchclearnet.com/risk_management/ltd/preferential_currency_for_intraday_margin_calls_form.asp

The Clearing House has the ability to call US dollars in respect of an intra-day margin call up until 16:00 hours New York Time (21:00 hours 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 Clearing Member's nominated PPS bank(s) within one hour of receipt of the intraday call by the relevant bank branch.

Failure of a bank to confirm a PPS call within one hour may result in the Clearing Member being declared in default. Late confirmation of PPS calls are reported to the regulators of LCH.Clearnet.

3.2.1.5. **Auto repay**

Clearing Members may request that they are automatically repaid any excess cash balances that remain on their accounts at the end of each day. Clearing Members must contact Treasury Operations in order to have auto-repay applied to their accounts. (LCHOperations-Treasury@lchclearnet.com or Tel +44 (0)20 7426 7505)

3.2.1.6. **Value Date**

Although confirmation from the banks that PPS payments will be made must be received within the deadlines set out in sections 3.2.1.4, subject to section 3.2.1.8, all currency transactions are processed by PPS with next business day value with the exception of the following currencies: CAD, EUR, GBP and USD which are processed with value for the same business day.

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Clearing House Procedures Section 4 Extract

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If the Clearing House has received a Substitution Request, it shall, promptly following the Clearing House being satisfied that the New Collateral has been transferred or paid to the Clearing House in accordance with Rules 4.3 and 4.4, take such steps as are necessary to transfer such Original Collateral to or to the order of the Clearing Member, *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 policies on concentration limits in respect of the various types of Collateral held by it from time to time, it shall notify the Clearing Member thereof and shall not be obliged to transfer the Original Collateral.

4.1.4 Lodgement of Non-Cash Collateral as Replacement for Cash Collateral

Clearing Members should note that they must give Treasury Operations no less than two (2) business days notice of their intention to transfer non-cash Collateral to the Clearing House 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 that Clearing Member as a result of such transfer. Treasury Operations must be advised no later than 15:30 two business days prior to the transfer. In the event that a Clearing Member 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 by written notice to Clearing 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 Clearing Members with regard to non-cash 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 Collateral Agent, depository or custodian or other service ("depository") that the Clearing House is using, the termination or suspension of the Clearing House's membership or use of the depository or any variation of the depository's operational timetable, whether or not occasioned by action of the depository operator or other party, or any embargo, unavailability or restriction of bank transfer systems or wires, malfunction or overload of the depository or any other emergency. This provision is without prejudice to the *force majeure* provisions of Clearing Members' agreements with the Clearing House.

4.1.6 Regulatory and Supervisory Information

In every case, the Clearing House will be entitled to supply a depository or Collateral Agent with all the information it requires for any purposes relating to a Clearing Member, or relating to non-cash Collateral received by the Clearing House from a Clearing Member which is or may at any time have been held by the depository or Collateral Agent. Non-cash Collateral will be lodged and held within such depository or other systems as the Clearing House may select or allow, subject to the conditions of such systems and to any applicable law and subordinate rules relating thereto as well as to the terms of the Deed of Charge and these procedures.

4.1.7 Interest Payments (coupons)

The Clearing House will remit interest amounts, taking into account any withheld tax, to Clearing Members' PPS banks on the appropriate value date. These are processed using "Tender" sub-accounts designated "I" for house or "L" for segregated client.

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An end-user report generation and analytical capability is provided by the Clearing House to FCM Clearing Members. All FCM SwapClear reports will be disseminated via the Clearing House's secure password access FCM Clearing Member-only website. These reports are the definitive record as to registration by the Clearing House.

The Clearing House is not liable for any corruption or alteration of messages or loss of data which may take place within any FCM Approved Trade Source System.

FCM Clearing Members will be able to customize and produce reports either to print locally or to download in machine-readable data-file format. Queries about the FCM Clearing Member-only website should be directed to the Clearing House's Service Desk at +44 (0)20 7426 7200.

2A.2 Operating Times And Calendars

2A.2.1 Opening Days

The Clearing House will publish a circular detailing the days on which the FCM SwapClear clearing system will be open.

2A.2.2 Opening Hours

Unless notified otherwise, the FCM SwapClear clearing system will be operational during the following hours:

07:30 London time to ~~24:00~~19:00 hours, London-New York time (a "**Business Day**").

However, FCM Clearing Members should note that FCM Acceptances of an FCM Notification submitted during a Business Day shall be accepted by the Clearing House until 00:01 on the following day. The Clearing House will notify FCM Clearing Members in the event that the FCM SwapClear clearing system is scheduled for closure for operational or other reasons (including compression runs).

2A.2.3 FCM SwapClear Clearing System Calendars

The FCM SwapClear clearing system uses the SwapsMonitor Financial Calendar for its processing. This will require all FCM Clearing Members to be licensees of the SwapsMonitor Financial Calendar. The calendars, as applicable to the FCM SwapClear clearing system, will be available online for inspection and for file download from FCM Clearing Member Reporting (see Section 2A.1.3).

2A.3 Registration

2A.3.1 Submission for Registration

The Clearing House receives details of a new eligible FCM SwapClear Transaction using agreed format messages via an FCM Approved Trade Source System. The FCM Approved Trade Source System will send these trades to the Clearing House once they have been bi-laterally agreed by two Executing Parties, or otherwise executed by or on behalf of two Executing Parties on an FCM US Trading Venue

2B.21.6 Banking Reports

[Follow this link for a full list of Banking reports.](#)³

2B.21.7 Real-time Reporting

A near real-time view of member liabilities, Collateral pledged, Margin and credit utilization will be available from the ForexClear Service Portal (referred to in Section 2B.17)

2B.22 Treasury Operations & Collateral Management

2B.22.1 Cover Distribution

The Clearing House nets each FX FCM's Liabilities (i.e., margins and multipliers) and then the total of cash Collateral and non-cash Collateral are applied to offset those net Liabilities. This process is known as cover distribution ("**Cover Distribution**"). FX FCMs can choose whether cash or non-cash Collateral should be applied first. At the end of this process, if an FX FCM has a shortfall, a PPS (as defined in Section 2B.22.3 below) call for additional Collateral is made. Conversely, any excess cash remaining after the final overnight Margin Run can, if requested before 09:30 hours, ~~London time~~, be repaid to the FX FCM.

2B.22.2 Cover Distribution Notification

FX FCMs are informed via email of their: Liabilities as a percentage of their current total cover (such percentage being shown as a percentage of the aggregate cover in their cash and non-cash Collateral account(s)) and are directed to the ForexClear Service Portal which provides reports (at the times specified in Section 2B.20.1) informing FX FCMs of their (i) total Liabilities under the ForexClear Service; (ii) current total cover posted with the Clearing House for ForexClear; and (iii) Liabilities as a percentage of their current total cover (such percentage being shown as a percentage of the aggregate cover in their cash and non-cash Collateral account(s)).

The reports accessed via the ForexClear Service Portal will enable FX FCMs to log in and examine the underlying data.

2B.22.3 Protected Payment System

The Clearing House operates the Protected Payments System ("**PPS**") for transferring funds to and from its FX FCMs to cover their Margin Requirements. This is similar to a direct debit arrangement where the PPS bank confirms that any Clearing House-specified call is met.

FX FCMs are obliged to hold an account with a London PPS bank in USD, as well as a USD account with a PPS bank in the USA.

Follow the link below for a list of PPS banks operating in the UK and US:

[List of PPS Banks](#)⁴

³ http://www.lchclearnet.com/membership/lt/training_and_education/reference_guide_request_form.asp

⁴ http://www.lchclearnet.com/risk_management/lt/pps/

4.1.5 Excess Margin Maintained in Proprietary Accounts

In accordance with FCM Regulation 9(v), FCM Clearing Members are permitted to maintain Excess Margin in their Proprietary Accounts (regardless of whether any such FCM Clearing Member has elected to have one or more of its FCM Omnibus Swaps Client Accounts with LCH subject to the With Excess Client Model), but subject to the right of the Clearing House, in its sole discretion, to return such Excess Margin to the FCM Clearing Member. Alternatively, the Clearing House may notify that FCM Clearing Member of the intention to levy a charge in respect of Excess Margin with effect from such date as is notified to the FCM Clearing Member. In the event that the FCM Clearing Member does not remove Excess Margin before the date so notified, the Clearing House may, in its discretion, charge the FCM Clearing Member at the rate of 1 basis point per day until Excess Margin is removed by the FCM Clearing Member through use of a release instruction. Payment of this charge shall be collected on a monthly basis through that FCM Clearing Member's PPS sterling account. This charge applies only to Margin lodged with respect to FCM Contracts registered to the FCM Clearing Member's Proprietary Account.

The Clearing House shall have absolute discretion to decide whether and to what extent it is holding Excess Margin at any time.

4.1.6 Return and Provision of cash Excess Margin

Requests for the return of USD cash Excess Margin must be received by the Clearing House before 09:30 hours. Requests received after 09:30 hours will be rejected.

The Clearing House will not accept deposits of USD cash Collateral as Excess Margin after 14:00 hours.

The ability of FCM Clearing Members to maintain Excess Margin in its FCM Client Sub-Accounts is governed by the provisions of the FCM Rulebook, including FCM Regulation 9A.

4.1.64.1.7 Lodgement of Non-Cash Collateral as Replacement for Cash Collateral

This Section 4.1.76 applies only to Proprietary Accounts of FCM Clearing Members. FCM Clearing Members should note that they must give Treasury Operations no less than two (2) Business Days' notice of their intention to lodge Collateral with a value of £50 million sterling or more, and which is reasonably likely to have the effect that cash to a similar value is repayable by the Clearing House to that FCM Clearing Member as a result of such lodgment. In the event that an FCM Clearing Member seeks to withdraw 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 by written notice to FCM Clearing Members.

4.1.74.1.8 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 FCM Clearing Members with regard to instruments or securities accepted as 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 or custodian or other service

("depository") that the Clearing House is using, the termination or suspension of the Clearing House's membership or use of the depository or any variation of the depository's operational timetable, whether or not occasioned by action of the depository operator or other party, or any embargo, unavailability or restriction of bank transfer systems or wires, malfunction or overload of the depository or other emergency. This provision is without prejudice to the force majeure provisions of FCM Clearing Members' agreements with the Clearing House.

4.1.84.1.9 **Regulatory and Supervisory Information**

In every case, the Clearing House will be entitled to supply a securities depository with all the information it requires for any purposes relating to an FCM Clearing Member, or to securities received by the Clearing House from an FCM Clearing Member which are or may at any time have been held by the depository. Securities will be lodged and held within such depository or other systems as the Clearing House may select or allow, subject to the conditions of such systems and to any applicable law and subordinate rules relating thereto as well as to the terms of the FCM Rulebook and these FCM Procedures.

4.1.94.1.10 **Interest Payments**

The Clearing House will remit interest amounts, taking into account any withheld tax, to FCM Clearing Members' PPS banks on the appropriate value date. These are processed using "Tender" sub-accounts designated "I" for house or "L" for segregated client.

4.2 **Securities**

4.2.1 **General Information**

Securities must be lodged in the Clearing House's relevant Custodian accounts (see Appendix 4D).

4.2.2 **Settlement procedures – Securities**

All transactions to deposit or withdraw from the Clearing House will be executed free of payment.

4.3 **Instructions via the Collateral Management System**

The Clearing House will action instructions input and authorized via the Collateral Management system. The details input on the Collateral Management system will form the basis of the matching instruction sent to the relevant CSD/custodian. FCM Clearing Members must ensure that the details are input correctly in order to avoid unmatched transactions

It is the responsibility of the FCM Clearing Member to input a cancellation request of any incorrectly input instruction and then subsequently input the correct details in a new instruction. Please note that it may not be possible to cancel an instruction, please see Section 6.8 below for further details.

The Clearing House will update the status of the instruction in the Collateral Management system in relation to the status of the instruction at the CSD/Custodian. On settlement of the transaction the Clearing House will reflect the balance of the securities on the FCM Clearing Member's account and provide value for the purposes of Margin.

LCH.Clearnet Rule Submission

Appendix D
FCM Regulations Extract

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Regulation 9 Margin and Collateral Generally; Other Obligations

- (a) The Clearing House may in accordance with the FCM Procedures require an FCM Clearing Member to furnish it with Margin, and to keep the Clearing House furnished with sufficient Margin at all times, in an amount determined by the Clearing House in accordance with these FCM Regulations and the FCM Procedures, as security for the performance by such FCM Clearing Member of its obligations to the Clearing House in respect of all FCM Contracts from time to time to be registered in its name as Open Contracts pursuant to these FCM Regulations. The obligation upon an FCM Clearing Member to furnish Margin to the Clearing House pursuant to this paragraph shall be in addition to any other obligation of the FCM Clearing Member to furnish Margin to the Clearing House pursuant to these FCM Regulations. For the avoidance of doubt, margining requirements and policies may vary among each Business Category of FCM Contract and among each Product therein.
- (b) If insufficient monies are standing to the credit of an FCM Clearing Member's account, or if any Collateral deposited by an FCM Clearing Member as Margin is determined by the Clearing House in accordance with the FCM Procedures to be insufficient, such Margin as the Clearing House requires an FCM Clearing Member to furnish to it pursuant to paragraph (a) above, FCM Regulation 30 or FCM Regulation 40 or any other FCM Regulation shall be furnished by the FCM Clearing Member in such form and manner and by such time or times as may be prescribed by the FCM Procedures.
- (c) (i) The Clearing House shall be entitled to assume that all Collateral furnished by an FCM Clearing Member to the Clearing House pursuant to these FCM Regulations or under the terms of any agreement made with the FCM Clearing Member are the sole legal and beneficial property of the FCM Clearing Member or are furnished or deposited for the purposes of these FCM Regulations with the legal and beneficial owner's unconditional consent and with the authority granted to the FCM Clearing Member to repledge such property to the Clearing House. An FCM Clearing Member may not furnish Collateral to the Clearing House otherwise than in conformance with this paragraph. It shall be accepted by every person (including FCM Clients) subject to or dealing on the terms of these FCM Regulations that an FCM Clearing Member has such person's unconditional consent to furnish to the Clearing House any securities or other assets of such person in the FCM Clearing Member's possession as Collateral for purposes of the FCM Rulebook.
- (ii) Each FCM Clearing Member represents and warrants to the Clearing House as at each date on which such FCM Clearing Member furnishes Collateral to the Clearing House pursuant to these FCM Regulations (A) that such FCM Clearing Member is the sole legal and beneficial owner of such Collateral or, as the case may be, such Collateral is so furnished with the legal and beneficial owner's unconditional consent and with the authority granted to the FCM Clearing Member to repledge such property to the Clearing House, and (B) that the provision to the Clearing House of such Collateral pursuant to these FCM Regulations will not constitute or result in a breach of any trust, agreement or undertaking whatsoever.
- (iii) The Clearing House may, in its absolute discretion and at any time, require an FCM Clearing Member to furnish other securities or assets to the Clearing House in substitution of any Collateral furnished to the Clearing House pursuant to this FCM Regulation 9.

- (d) Notwithstanding paragraph (c) above, the Clearing House shall be entitled at its absolute discretion, without assigning any reason and without prior notice to an FCM Clearing Member, to modify the amount of Initial Margin applicable to an FCM Contract or to call for larger or additional amounts of Margin for Initial Margin to be furnished to it by an FCM Clearing Member, either before registration of a contract or at any time after registration. Any Margin called by the Clearing House pursuant to this paragraph shall be furnished by the FCM Clearing Member on demand and in such form as the Clearing House may require.
- (e) The Clearing House shall be entitled at any time to demand immediate furnishing of Margin from an FCM Clearing Member in an amount deemed necessary by the Clearing House without reference to Official Quotations or Reference Prices in respect of any Open Contract in the FCM Clearing Member's name, if, in the opinion of the Clearing House, the furnishing of such Margin by the FCM Clearing Member is necessary in the circumstances then prevailing which may be affecting or may in the Clearing House's opinion be likely to affect market conditions or the FCM Clearing Member's performance of its obligations under the terms of such FCM Contracts or under the terms of any original or confirmed contract to which the FCM Clearing Member is party. In this paragraph, "immediate provision" means payment, deposit or delivery to the Clearing House within one hour of demand.
- (f) The Clearing House shall be entitled to make an accommodation charge at a rate determined by the Clearing House and specified in the FCM Procedures, in respect of any security furnished to it as Collateral in a form prescribed by the FCM Procedures. Any alteration in the basis of calculating the rates of accommodation charge shall become effective in respect of all current and future business by the time specified in the FCM Procedures.
- (g) Without prejudice to the requirements of paragraph (c) above or any other applicable requirements contained in the FCM Rulebook, the Clearing House may at its absolute discretion accept Collateral in an agreed amount and in a form other than those specified in the FCM Procedures, subject always to the Clearing House's prior assessment as to the appropriateness of such form of Collateral in accordance with its standard risk management procedures, the requirements of applicable law and with any special arrangements which the Clearing House may prescribe in each case (including as to valuation and haircut). The Clearing House may at its discretion make an accommodation charge at a special rate.
- (h) If, in the sole discretion of the Clearing House, any Collateral which has been furnished to it by an FCM Clearing Member pursuant to these FCM Regulations is no longer either of sufficient value or otherwise acceptable to the Clearing House, the Clearing House shall be entitled to demand further provision of Margin from such FCM Clearing Member. Such Collateral shall be furnished by such FCM Clearing Member on demand in a form prescribed by the FCM Procedures; provided, that at any time the Clearing House shall be entitled to require the FCM Clearing Member to furnish it with Collateral in a specified form and to demand that the FCM Clearing Member replace the whole or part of any Collateral furnished by an FCM Clearing Member pursuant to these FCM Regulations with Collateral in the form of cash.
- (i) Without prejudice to the requirements of paragraph (c) above or any other applicable requirements contained in the FCM Rulebook, and subject to FCM Regulation 9A and the settlement of any other obligations of an FCM Clearing Member to the Clearing House, upon the close-out or termination of an FCM

Contract in accordance with the FCM Rulebook, the Clearing House shall return all (or the applicable portion of) Initial Margin attributable to such FCM Contract to the respective FCM Clearing Member to the extent that such Initial Margin has become Excess Margin following the close-out or termination of the relevant FCM Contract, provided, that such FCM Clearing Member is not a defaulter.

- (j) If the Clearing House takes any step under the Default Rules in relation to an FCM Clearing Member, any sum (including the price due to be paid by the Clearing House in respect of the delivery of any property or currency by or on behalf of the FCM Clearing Member) standing to the credit of any of the FCM Clearing Member's accounts shall be treated as Margin; provided, that notwithstanding anything to the contrary in these FCM Regulations, under no circumstances (except as may be required to comply with applicable law or any order or instruction of a Regulatory Body or court) will any Margin maintained in any FCM Omnibus Swaps Client Account with LCH be applied to satisfy proprietary obligations of the FCM Clearing Member or any other obligations not related to such FCM Clearing Member's FCM Client Business in such Business Category of FCM Contract (except that where an FCM Client is in default with respect to the Margin required by the Clearing House in respect of its FCM Contracts, any Excess Margin attributable to such FCM Client in respect of any Business Category of FCM Contract may be applied to offset such FCM Client's Margin shortfall in respect of any other Business Category of FCM Contract).
- (k) Each FCM Clearing Member and, to the extent applicable, such FCM Clearing Member's guarantor in accordance with FCM Regulation 3(c), shall be obligated to perform all of its respective obligations (including to pay or deliver all amounts due) as required pursuant to the FCM Regulations, the Default Rules and the Default Fund Rules, as applicable. Each FCM Clearing Member and, to the extent applicable, such FCM Clearing Member's guarantor in accordance FCM Regulation 3(c), shall be entitled to the return of any amounts due to them (after all obligations to the Clearing House have been satisfied) pursuant to the FCM Regulations, the Default Rules and the Default Fund Rules, as applicable.
- (l) Unless the Clearing House otherwise agrees in writing, Collateral furnished to the Clearing House in the form of cash shall not be capable of assignment by any person. Any purported assignment by an FCM Clearing Member (whether by way of security or otherwise) of Collateral in the form of cash shall be void. An FCM Clearing Member shall not otherwise encumber (or seek to encumber) any Collateral in the form of cash.
- (m) Creation of Security Interest. Each FCM Clearing Member hereby grants the Clearing House a first priority security interest in and a first priority and unencumbered first lien upon any and all Collateral, Margin, cash, securities, receivables, rights and intangibles and any other collateral or assets deposited with or transferred to the Clearing House, or otherwise held by the Clearing House (including all property deposited in or attributable to the default funds of the Clearing House, a Proprietary Account, an FCM Omnibus Client Account with LCH or any LCH Client Segregated Depository Account, or any amounts owing to an FCM Clearing Member in the default funds of the Clearing House or a Proprietary Account), including all substitutions for and proceeds of, any such property, in connection with any FCM Contracts cleared for such FCM Clearing Member, its Affiliates or its FCM Clients, as security for unconditional payment and satisfaction of the obligations and liabilities of the FCM Clearing Member to the Clearing House. The FCM Clearing Member agrees to take any and all actions, including but not limited to the execution of any and all documents, requested by the

Clearing House in order to perfect, maintain or enforce the security interest granted to the Clearing House hereunder. The Clearing House may exercise any and all rights available to it with respect to the security interest granted hereunder, in accordance with the FCM Regulations and applicable laws. Notwithstanding the foregoing, in no event shall the Clearing House's security interest in the property and assets attributable to an FCM Clearing Member's FCM Omnibus Client Account with LCH be exercised to satisfy any obligations or liabilities of (i) such FCM Clearing Member other than in connection with obligations or liabilities relating to such FCM Clearing Member's FCM Omnibus Client Accounts with LCH; or (ii) an FCM Client with an FCM Client Sub-Account by application of Margin attributable to the FCM Client Sub-Account of another FCM Client.

- (n) Each FCM Clearing Member shall ensure that with respect to an FCM Transaction results in the registration of an FCM Contract on behalf of an FCM Contract that is of a "non-hedging nature" (as such term is used in Part 39 the CFTC Regulations), it shall collect or remain furnished with additional FCM Client Funds from the relevant FCM Client in respect of such non-hedging FCM Contract in an amount which shall be no less than the minimum percentage as required by the Clearing House and as notified to the relevant FCM Clearing Member from time to time, as further specified in the FCM Procedures.
- (o) Each FCM Clearing Member shall ensure that no FCM Client withdraws FCM Client Funds from an FCM Client Segregated Depository Account unless the "net liquidating value" (as such term is used in Part 39 of the CFTC Regulations) plus the FCM Client Funds attributable to such FCM Client remaining in such FCM Client Segregated Depository Account after such withdrawal is sufficient to meet the level of Required Margin, as calculated by the Clearing House in respect of all FCM Contracts entered into on behalf of that FCM Client.
- (p) Gross and Net Margining Requirements – FCM Client Positions.
 - (i) *Swap Products.* FCM Clients and FCM Contract positions established for FCM Clients in each Business Category of FCM Contract consisting of Swap Products shall be subject to gross margin requirements on all such positions within each such Business Category of FCM Contract, on an FCM Client by FCM Client basis. Each individual FCM Client's position in any such single Business Category of FCM Contract shall be margined on a net basis, and such margining shall only be netted within that single Business Category of FCM Contract and shall *not* be netted across multiple Business Categories of FCM Contract where such FCM Client has positions in multiple Business Categories of FCM Contract. Each FCM Clearing Member shall require its FCM Clients to satisfy such requirements as applicable.
 - (ii) *Futures Products.* FCM Clients and FCM Contract positions established for FCM Clients in each Business Category of FCM Contract consisting of Futures Products shall be subject to gross margin requirements on all such positions within each such Business Category of FCM Contract, on an FCM Client by FCM Client basis. Each individual FCM Client's position in any such single Business Category of FCM Contract shall be margined on a net basis, and such margining shall only be netted within that single Business Category of FCM Contract and shall *not* be netted across multiple Business Categories of FCM Contract where such FCM Client has positions in multiple Business Categories of FCM Contract. Each FCM Clearing Member shall require its FCM Clients to satisfy such

requirements as applicable. In relation to this FCM Regulation 9(p)(ii), each FCM Clearing Member which clears Futures Products on behalf of FCM Clients shall make reports pursuant to FCM Regulation 4(c)(iv).

- (q) Net Margining of Proprietary Accounts. FCM Contract positions established in an FCM Clearing Member's Proprietary Account shall be subject to net margin requirements with respect to the relevant Business Category of FCM Contract, such that an FCM Clearing Member shall be required to deposit a net margin amount with the Clearing House in connection with all of the FCM Contracts registered in the relevant Proprietary Account for the relevant Business Category of FCM Contract.
- (r) Required Margin Increase in an FCM Client Sub-Account. Certain provisions regarding the satisfaction by FCM Clearing Members of their obligations with respect to increases in Required Margin applicable to an FCM Client Sub-Account under both the Without Client Excess Model and the With Client Excess Model are set forth in FCM Regulation 9A(e) and FCM Regulation 9A(f), respectively.
- (s) Required Margin Increase in an FCM Omnibus Futures Client Account with LCH. If the Required Margin applicable to the FCM Contracts registered to an FCM Omnibus Futures Client Account with LCH is increased by the Clearing House and such increase cannot be immediately satisfied by Excess Margin in such FCM Omnibus Futures Client Account with LCH, the obligation of the FCM Clearing Member to satisfy such deficit shall be discharged by:
- (i) the applicable FCM Clearing Member furnishing additional Margin to the Clearing House in respect of the applicable FCM Omnibus Futures Client Account with LCH; and
 - (ii) if the obligation of the FCM Clearing Member to satisfy the deficit has not been fully discharged pursuant to clause (i) above, by other means (if any) available to the Clearing House in accordance with the FCM Rulebook.
- (t) Required Margin Increase in a Proprietary Account. Where the amount of Required Margin applicable to the FCM Contracts of an FCM Clearing Member's Proprietary Account is increased by the Clearing House, the obligation of the applicable FCM Clearing Member to furnish additional Margin to the Clearing House to satisfy such increased Required Margin shall be discharged by:
- (i) if and to the extent that there is Excess Margin available in the FCM Clearing Member's Proprietary Account, deduction by the Clearing House of amounts from such Excess Margin;
 - (ii) the FCM Clearing Member furnishing additional Margin to the Clearing House in respect of such Proprietary Account; and
 - (iii) if the obligation of the FCM Clearing Member to satisfy the Required Margin has not been fully discharged pursuant to clauses (i) and (ii) above, by other means (if any) available to the Clearing House in accordance with the FCM Rulebook.
- (u) Excess Margin in FCM Client Accounts.

- (i) *Swap Products.* Certain provisions regarding Excess Margin in FCM Omnibus Swaps Client Accounts with LCH and the FCM Client Sub-Accounts therein (under both the Without Client Excess Model and the With Client Excess Model) are set forth in FCM Regulation 9A.
- (ii) *Futures Products.* An FCM Clearing Member is permitted to maintain Excess Margin with the Clearing House in respect of its FCM Omnibus Futures Client Accounts with LCH. Excess Margin held in an FCM Omnibus Futures Client Account with LCH of an FCM Clearing Member shall be treated as belonging to the FCM Clients of the FCM Clearing Member to the extent such FCM Clients have FCM Contracts attributed to such FCM Omnibus Futures Client Account with LCH. An FCM Clearing Member may withdraw Excess Margin from an FCM Omnibus Futures Client Account with LCH subject to FCM Regulation 6(b) (and in accordance with any other applicable provisions of the FCM Rulebook). Even where an FCM Clearing Member has not requested the return of its Excess Margin held in an FCM Omnibus Futures Client Account with LCH, the Clearing House may, in its discretion, elect at any time to return any such Excess Margin to the applicable FCM Clearing Member. Upon withdrawal or return of Excess Margin from an FCM Omnibus Futures Client Account with LCH, the treatment of any residual interest the FCM Clearing Member may have in such withdrawn collateral will be subject to and governed by FCM Regulation 4(l) and the relevant CFTC Regulations. For the avoidance of doubt, Excess Margin in an FCM Omnibus Futures Client Account with LCH shall not be applied to satisfy obligations of the relevant FCM Clearing Member in its proprietary capacity.
- (v) Excess Margin in Proprietary Accounts. An FCM Clearing Member is permitted to maintain Excess Margin with the Clearing House in respect of its Proprietary Accounts. In accordance with the FCM Procedures, an FCM Clearing Member that is not a Defaulter may request the return of any such Excess Margin ~~at any time,~~ and upon such request the Clearing House shall return such Excess Margin, except the Clearing House may determine not to return such Excess Margin where an unsatisfied margin call is outstanding in respect of one or more of such FCM Clearing Member's FCM Omnibus Client Accounts with LCH, including in respect of any FCM Client Sub-Account therein. Even where an FCM Clearing Member has not requested the return of its Excess Margin held in a Proprietary Account, the Clearing House may, in its discretion, elect at any time to return any such Excess Margin to the applicable FCM Clearing Member.