

*This Client Clearing End-User Notice (this "**Notice**"), in respect of EquityClear Client Clearing Business, is provided for information only and is neither a full description of the EquityClear Client Clearing Services (collectively, the "**Service**") nor a recommendation to make use of them. Accordingly, you may not rely upon the contents of this Notice and should make your own decisions in relation to the Service based upon independent advice obtained from such advisers as you consider necessary. This Notice does not apply to client clearing services which an FCM Clearing Member provides to an FCM Client.*

## **Definitions**

All terms which begin with a capital letter, but which are not defined, in this Notice shall have the meaning given to them in the "General Regulations" of LCH Limited ("**LCH**") published by LCH from time to time and located at [www.lch.com](http://www.lch.com) (or such alternative website as determined by LCH).

## **Description of the Service**

An EquityClear Clearing Member ("**ECM**") who engages in EquityClear Client Clearing Business provides the Service to one or more of its EquityClear Clearing Client(s) (each, a "**Client**").

The Service operates on the basis that LCH enters into one or more EquityClear Contracts with the ECM on a principal to principal basis, and such ECM enters into one or more matching transactions with any relevant Client on the same economic terms as the EquityClear Contracts.

LCH records such EquityClear Contracts, and any collateral provided in respect of such EquityClear Contracts, to the relevant client account which the ECM has opened with LCH in respect of its Client(s) (each such account, an "**EquityClear Client Account**").

There are three types of EquityClear Client Account:

1. **Individual Segregated Account ("ISA")** – This is an account which an ECM opens in respect of a single Client. The ECM will provide collateral to LCH in respect of the EquityClear Contracts the ECM enters into in respect of such Client. LCH will record such EquityClear Contracts and collateral to the account.
2. **Omnibus Segregated Account ("OSA")** – This is an account which an ECM opens in respect of multiple Clients. The ECM will provide collateral to LCH in respect of the EquityClear Contracts the ECM enters into in respect of any such Client. LCH will record such EquityClear Contracts and collateral to the account.
3. **Indirect Accounts** – There are two types of Indirect Account:
  - (a) **Indirect Gross Account** – This is an account which an ECM opens in respect of a single Client, who is, in turn, providing clearing services to its clients. The ECM will provide collateral to LCH in respect of the EquityClear Contracts the ECM enters into in respect of the Client. LCH will record such EquityClear Contracts and collateral to the account.

The account operates in the same way as an ISA, but with certain characteristics resulting from regulation applicable to indirect clearing services<sup>1</sup>, including that LCH will determine margin requirements on a “gross” basis for this account, meaning that such requirements will be determined, separately, in respect of the EquityClear Contracts referable to a particular indirect client, rather than on a net basis across all EquityClear Contracts registered to the account; and

- (b) **Indirect Net Account** – This is a type of OSA which an ECM opens in respect of multiple Clients who are, in turn, providing clearing services to their clients. The ECM will provide collateral to LCH in respect of the EquityClear Contracts the ECM enters into in respect of any such Client. LCH will record such EquityClear Contracts and collateral to the account.

The account types each have different costs and levels of protection. For example, porting of EquityClear Contracts and associated collateral from an ECM which is a Defaulter to a Backup Clearing Member may be less likely to succeed in respect of an OSA compared with an ISA, or in respect of an Indirect Net Account compared with an Indirect Gross Account.

### **Client Money and Client Assets Rules**

LCH is (a) a recognised central counterparty under the Financial Services and Markets Act 2000, (b) recognised as a third country CCP under Regulation (EU) No. 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories, and (c) supervised by the Bank of England within the UK regulatory framework.

LCH is not subject to the Financial Conduct Authority’s client assets and client money rules (the "**CASS Rules**"). As a result, EquityClear Client Accounts do not benefit from the client money or client asset protections afforded by the CASS Rules. Please contact your ECM for further details.

### **Porting and Close-Out**

If an ECM of a Client becomes a Defaulter, then either:

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<sup>1</sup> This regulation is:

- (a) Article 30 of Regulation (EU) No. 600/2014;
- (b) Commission Delegated Regulation (EU) 2017/2154 of 22 September 2017 supplementing Regulation (EU) No. 600/2014 with regard to regulatory technical standards on indirect clearing arrangements;
- (c) Commission Delegated Regulation (EU) 2017/2155 of 22 September 2017 amending Delegated Regulation (EU) No. 149/2013 with regard to regulatory technical standards on indirect clearing arrangements; and
- (d) Regulation (EU) No. 600/2014 and all related implementing or supplementary legislation and technical standards, as it (a) has become retained EU law and effective in the United Kingdom under the European Union (Withdrawal) Act 2018, and (b) is amended from time to time.

1. **Port** – LCH will port the EquityClear Contracts and associated collateral recorded to the EquityClear Client Account, in respect of such Client, to a substitute ECM in accordance with, and subject to, the Default Rules ("**Porting**"); or
2. **Close-out** – if Porting is unsuccessful or not possible, LCH will close-out such EquityClear Contracts and transfer any resulting net collateral balance to the Client (or to the ECM which is a Defaulter for the account of the Client) in accordance with, and subject to, the Default Rules ("**Close-out**").

A Client may not, at any time prior to the Default of its ECM, instruct LCH as to the treatment of EquityClear Client Account(s) that such ECM has opened in respect of the Client, except to notify LCH of any substitute ECM who is prepared to act as a Backup Clearing Member for the Client following such Default.

However, LCH will accept instructions from such Client following the Default of its ECM provided such instructions are in a form acceptable to LCH and they accord with, and are permitted under, the rules, agreements, deeds and other documentation of LCH.

An ECM which offers Client Clearing Services to a Client and which is incorporated in a particular jurisdiction specified by LCH, must enter into a Security Deed under which it charges its right, title and interest in and to any relevant Account Balances and Client Clearing Entitlements in favour of such Client. The aim of the Security Deed (where required) is to maximise the possibility of Porting or Close-out where the ECM of a Client becomes a Defaulter. In some jurisdictions, the Security Deed may need to be registered or filed as a security arrangement and there may be other legal or regulatory requirements or obligations under the law of such jurisdictions (collectively, the "**Requirements**"). Accordingly, a Client should be aware that its rights under the Security Deed may depend, *inter alia*, upon any applicable Requirements being fulfilled and a Client should take advice as to such Requirements.

A Client may be required to enter into appropriate legal commitments or agreements with LCH in order to facilitate Porting or Close-out.