

SWAPCLEAR AND FOREXCLEAR ARRANGEMENTS

THE SWAPCLEAR AND FOREXCLEAR AGREEMENTS

Introduction

In order to make SwapClear a compelling and viable offering, LCH Limited (**LCH**) harnessed the expertise and the financial resources of 14 of the largest global banks and broker dealers active in the global markets (the **SwapClear Banks**¹) to develop a world-leading interest rate swap clearing service (the **SwapClear Business**).

More recently, LCH undertook a similar initiative with certain banks to develop equivalent services for FX products (the **ForexClear Banks**² and the **ForexClear Business** respectively). In summary, LCH developed arrangements for each of the SwapClear and ForexClear Businesses with the SwapClear and ForexClear Banks, under which the great majority of the cost of developing and operating the SwapClear and ForexClear Businesses were historically borne by the SwapClear and ForexClear Banks, and accordingly financial returns from the SwapClear and ForexClear Businesses are shared with them.

The SwapClear and ForexClear Agreements

In order to give effect to the commercial agreements between LCH and the SwapClear and ForexClear Banks, a SwapClear Agreement and a ForexClear Agreement have been agreed on substantially similar terms:

- a) the SwapClear and ForexClear Banks, through companies established by the SwapClear and ForexClear Banks respectively, have the contractual right to be consulted prior to LCH implementing any change which would have a material impact on certain pre-agreed matters;
- b) each SwapClear and ForexClear Business has a contractually established consultative committee the majority of the members of which are nominated by the SwapClear Banks and ForexClear Banks respectively;
- c) LCH has established separate business units for each of the SwapClear and ForexClear Businesses, each with their own Global Heads and core staffing team, supported by certain central services shared across the LCH businesses (including Risk, Legal and Compliance); and
- d) there are detailed provisions for the allocation of annual revenue earned by LCH in respect of the SwapClear and ForexClear Businesses set out in the SwapClear and ForexClear Agreements. Revenue generated from the operation of the SwapClear and ForexClear Businesses is used to pay LCH a priority share to cover the costs of running and developing the business in question. Thereafter, the remaining revenue is allocated between LCH and the SwapClear and ForexClear Banks.

¹ The SwapClear Banks are as follows: Bank of America Merrill Lynch International Limited, Barclays Bank plc, BNP Paribas, Citigroup Global Markets Limited, Credit Suisse AG (acting through its Guernsey Branch), DB UK Holdings Limited, The Goldman Sachs Group, Inc., HSBC Bank plc, J.P. Morgan Financial Investments Limited, Merrill Lynch International, Morgan Stanley Fixed Income Ventures Inc., Nomura European Investment Limited, The Royal Bank of Scotland plc, Société Générale and UBS AG (acting through its London Branch).

² The ForexClear Banks are as follows: Bank of America Merrill Lynch International Limited, Barclays Bank plc, BNP Paribas, Citigroup Global Markets Limited, Credit Suisse AG (acting through its Guernsey Branch), DB UK Holdings Limited, The Goldman Sachs Group, Inc., HSBC Bank plc, J.P. Morgan Financial Investments Limited, Morgan Stanley Fixed Income Ventures Inc., Nomura European Investment Limited, The Royal Bank of Scotland plc, Société Générale (acting through its London Branch) and UBS AG (acting through its London Branch).