



LCH.CLEARNET LIMITED

PROCEDURES SECTION 2I

FOREXCLEAR CLEARING SERVICE

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1. INTRODUCTION AND INTERPRETATION

These Procedures govern the ForexClear Service, form part of the Rulebook and must be read in conjunction with the other parts of the Rulebook.

Any terms not defined in these Procedures have the definitions given to them in the Rulebook.

References to "**Sections**" shall mean Sections in these Procedures.

References to "**Business Day**", "**Calculation Agent**", "**Currency Pair**", "**Disruption Fallback**", "**Notional Amount**", "**Reference Currency**", "**Scheduled Valuation Date**", "**Settlement Currency**", "**Settlement Currency Amount**", "**Settlement Date**", "**Settlement Rate**", "**Settlement Rate Option**", "**Trade Date**", "**Valuation Date**", "**Valuation Postponement**" shall carry the meanings given to them in the Schedule to the ForexClear Regulations with respect to the relevant Currency Pair.

References to "**business day**" shall carry the meaning given to it in the Rulebook.

Unless otherwise specified, all times are in local London time.

The liability of the Clearing House is as set out in Regulation 52 (*Exclusion of Liability*), which applies to these Procedures in its entirety unless provided otherwise.

1.1 Users of ForexClear

The ForexClear Service is an interface that processes and stores all ForexClear Transactions. Those authorised by the Clearing House to submit trades (as defined below) for clearing in the ForexClear Service fall into two categories – ForexClear Clearing Members ("**FXCCMs**") and ForexClear Dealers ("**FXDs**"). FXCCMs are clearing members who have applied and have been accepted by the Clearing House to clear in the ForexClear Service. FXDs are not FXCCMs, but have met the criteria for registration as a FXD and have entered into a ForexClear Dealer Clearing Agreement with an FXCCM and the Clearing House. FXCCMs and FXDs are collectively known as ForexClear Participants ("**FXPs**"). For membership procedures, please see Section 1 (*Clearing Member and Dealer Status*) of the Procedures.

For identification purposes each FXCCM is assigned a unique three-character mnemonic.

1.1.1 *Termination of FXCCM Status:* Clearing Members should contact the Clearing House Membership Department (+44 (0)207 426 7891/7627/7063; membership@lchclearnet.com) for details of how to resign from the ForexClear Service.

1.1.2 *Termination of FXD Status:* The ForexClear Dealer Agreement and Regulation 8 (*Dealer Status*) set out how the FXD relationship may be terminated.

1.2 Service Scope

1.2.1 *Eligibility:* Non-Deliverable FX Transactions as defined in the Product Specific Contract Terms and Eligibility Criteria Manual ("**NDFs**") may be submitted for clearing through the ForexClear Service. To be eligible to be registered as a ForexClear Contract, a trade must meet the ForexClear Eligibility Criteria (as set out in the Product Specific Contract Terms and Eligibility Criteria Manual as published on the Clearing House's website from time to time).

1.2.2 *Service Operating Hours*

- (a) *Opening Days:* The ForexClear Service will be open each day, except weekends, Christmas Day and New Year's Day.
- (b) *Opening Hours:* The ForexClear Service will be open between 20:00 local London time Sunday night and 01:00 local London time Saturday morning ("**Opening Hours**"). The ForexClear Service will not accept ForexClear Transactions outside of these hours.

1.2.3 *Accounts*

- (a) *Proprietary Accounts and Client Accounts*

- (i) Proprietary Accounts

A FXCCM may request that the Clearing House opens one or more Proprietary Accounts in respect of its House Clearing Business.

Each Proprietary Account will map to two sub-accounts

- (A) a position account; and

- (B) a collateral account

- (ii) Client Accounts

- (A) Types of Client Account

Subject to Regulation 11 (*Client Clearing Business*) of the General Regulations and Section 1.12 (*ForexClear Client Clearing*) below, a FXCCM may request that the Clearing House opens, in respect of its Client Clearing Business, one or more:

- (1) Individual Segregated Accounts;

- (2) Non-Identified Client Omnibus Net Segregated Account;

- (3) Identified Client Omnibus Net Segregated Accounts;
 - (4) Affiliated Client Omnibus Net Segregated Accounts and/or
 - (5) Omnibus Gross Segregated Accounts.
 - (iii) Each Client Account will map to two or more sub-accounts:
 - (A) one or more position accounts; and
 - (B) a collateral account.
- (b) The ForexClear Service provides for:
 - (i) a single house position-keeping account with the account code "H" in respect of ForexClear Clearing House Business and a collateral account associated with the "H" house position-keeping account;
 - (A) Sub-accounts within the FXCCM's "H" house position-keeping account may be set up (e.g. for branches or FXDs). Each such sub-account will carry the unique Bank Identifier Code ("BIC") of the relevant branch/FXD (please see Section 1.2.4).
 - (B) Sub-accounts within the FXCCM's "H" house position-keeping account will be associated with the single collateral account of the FXCCM and information contained across the house position-keeping sub-accounts is consolidated into the single "H" account of each FXCCM.
 - (ii) a single client position-keeping account with the account code "C" in respect of ForexClear Client Clearing Business and a collateral account associated with the "C" client position-keeping account . Each client "C" position-keeping account and the client "C" collateral account of a FXCCM may hold any number segregated sub-accounts. Each Individual Segregated Account of the FXCCM will map onto one such segregated sub-account in the client "C" position-keeping account and one such segregated sub-account in the client "C" collateral account and each Omnibus Segregated Account will map onto one such segregated sub-account in the client "C" position-keeping account and one such segregated sub-account in the client "C" collateral account; and

- (c) The ForexClear Service also provides for a separate account for each FXCCM's ForexClear Default Fund Contribution with the account code "F";
- (d) Only the "H" and "F" accounts are obligatory. The "C" account will be used in respect of any FXCCM which engages in ForexClear Client Clearing Business.

1.2.4 Branches

- (a) Submission of a static data form to LCH's membership department by an FXCCM will also allow an FXCCM to be provided with one or more sub-accounts for any branch of that FXCCM (for position-keeping purposes) within that FXCCM's "H" position-keeping account.
- (b) Because the single account reflects the consolidated balances and liabilities of the FXCCM, the balances and liabilities associated with ForexClear Transactions submitted by FXDs and/or per branch will be provided as an estimate (if applicable) .

1.2.5 Novation and Registration

- (a) An NDF is a ForexClear Transaction (i.e. eligible for registration as a ForexClear Contract) if it satisfies the ForexClear Eligibility Criteria (set out in the Product Specific Contract Terms and Eligibility Criteria Manual as published on the Clearing House's website from time to time) at the Registration Time. The Clearing House will register (or reject) a ForexClear Contract in respect of a ForexClear Transaction presented for registration as quickly as would be technologically practicable if fully automated systems were used.
- (b) Prior to registering a ForexClear Contract, the Clearing House will require the FXCCM in whose name such ForexClear Contract is to be registered to provide and maintain sufficient Collateral in respect of its Liabilities (as defined in paragraph (c) of Section 1.6.2 (*Margin Run Process*)) (or its estimated Liabilities) (taking into account any MER Buffer (as defined at paragraph (f) of Section 1.5.5 (*Initial Margin*)) and any MCE (as defined at Section 1.5.6 (*Mutualised Credit Extension*)) made available by the Clearing House, if any) as a precondition to registration. This Collateral check process is referred to as the "**Incremental Risk Check**" (as defined at paragraph (b) of Section 1.3.3 (Trade Validation and Registration)).
- (c) If any FXCCM has not transferred sufficient Collateral in respect of its Liabilities or estimated Liabilities to the Clearing House (taking into account any MER Buffer and MCE provided by the Clearing House, if any) at the time of the relevant Incremental Risk Check, then any submitted and unregistered ForexClear Transaction to which it is a party and that is subject to such Incremental Risk Check will be rejected.

- (d) Once the ForexClear Transaction has passed the Validation Checks (as defined in paragraph (a) of Section 1.3.3 (*Trade Validation and Registration*)), the Clearing House will send, via the ForexClear Approved Trade Source System, a message confirming the registration of the ForexClear Transaction as two ForexClear Contracts and including a datestamp of the relevant registration time. For the purpose of the ForexClear Regulations, the time of dispatch of such message shall be the "**Registration Time**" of such ForexClear Contracts.
- (e) The definitive report of a registered ForexClear Contract will be shown on the "**All Open Contracts**" report issued by ForexClear Reporting.
- (f) If an FXCCM is declared a Defaulter, the Clearing House will not register any ForexClear Transactions to which the Defaulter was a party. ForexClear Transactions between non-defaulting FXCCMs will continue to be registered (assuming sufficient Collateral in respect of their Liabilities or estimated Liabilities has been transferred to the Clearing House).

1.3 Trade Management

- 1.3.1 *Trade Capture*: After the execution of an NDF (a "**trade**"), each FXP who is a party to the trade will submit individual instructions to the ForexClear Approved Trade Source System for matching and clearing of the trade. FXPs are not required to submit a confirmation of any trade submitted to the Clearing House for registration. Submission of the matched trade terms through the ForexClear Approved Trade Source System will ensure that the agreed terms of the trade are recorded.

Once the ForexClear Approved Trade Source System receives the trade instructions from the FXPs who are parties to the trade, the ForexClear Approved Trade Source System matches both instructions. The ForexClear Approved Trade Source System validates the trade using the ForexClear Eligibility Criteria and will, if appropriate, submit a single message containing the names of the FXPs who are parties to the trade and the terms of the trade to the Clearing House for registration and clearing, such matched trade being known as a "**ForexClear Transaction**". Once the Clearing House receives the ForexClear Transaction message, it will send a message of acknowledgement back via the ForexClear Approved Trade Source System to each FXP that the trade has been matched and accepted for clearing. Instructions which show that one or both sides of the trade do not meet the ForexClear Eligibility Criteria (as per Section 1.3.3 (*Trade Validation and Registration*)) are rejected. Rejections are reported back to the counterparties through the ForexClear Approved Trade Source System.

The Clearing House will provide ForexClear Transaction/ForexClear Contract (as applicable) updates as and when these change e.g. for acceptance, rejection and novation.

- 1.3.2 *The ForexClear Approved Trade Source System*:

FXCCMs must not submit instructions to the Clearing House for trades which will not meet the ForexClear Eligibility Criteria. The Clearing House will register a ForexClear Transaction on the basis of the data provided to it by the ForexClear Approved Trade Source System and has no obligation to verify that the details received from the ForexClear Approved Trade Source System in respect of a ForexClear Transaction properly reflect the trade entered into by the relevant FXCCMs.

Application for ForexClear Approved Trade Source System status shall be made in accordance with the policies published from time to time on the Clearing House's website. A list of ForexClear Approved Trade Source System currently approved by the Clearing House is available on the Clearing House's website. Where the Clearing House approves additional ForexClear Approved Trade Source System, it will notify FXCCMs via a member circular.

The Clearing House is not able to, and will not, verify the authorisation of the source of any details of any ForexClear Transaction reported to it for registration by the ForexClear Approved Trade Source System. The Clearing House shall have no liability in the event that any FXCCM suffers any loss through the unauthorised input of details into a system of a ForexClear Approved Trade Source System.

Notwithstanding the designation by the Clearing House of a system as a ForexClear Approved Trade Source System, the Clearing House makes no warranty (and will accept no liability) as to the effectiveness, efficiency, performance or any other aspect of the services provided by any ForexClear Approved Trade Source System or the timeliness or otherwise of the delivery of any ForexClear Transaction details by that ForexClear Approved Trade Source System to the Clearing House. Such matters form part of the relationship between the FXCCM and the ForexClear Approved Trade Source System and the terms of such relationship may entitle the ForexClear Approved Trade Source System to suspend the ability of an FXCCM to make submissions from time to time.

The Clearing House accepts no liability for any error within or corruption of any data sent by the ForexClear Approved Trade Source System to the Clearing House or to an FXCCM or any delay in or failure of the transmission of such data to the Clearing House. In the event that the Clearing House registers any ForexClear Contract(s) on the basis of incorrect or corrupted data sent to it by a ForexClear Approved Trade Source System, the FXCCM(s) concerned shall be bound by the terms of such ForexClear Contract(s), unless the ForexClear Contract is subsequently cancelled in accordance with Regulation 91 (*Cancellation of ForexClear Contracts*).

1.3.3 *Trade Validation and Registration*

(a) *Process Flow Description*

- (i) The Clearing House performs a validation check on each trade submitted by FXPs to ensure that each such trade meets the ForexClear Eligibility Criteria and the Counterparty Technical

Validation Check (as defined below) and Incremental Risk Checks (as defined at paragraph (b) of this Section 1.3.3 (*Trade Validation and Registration*) required for ForexClear Transactions (together the "**Validation Checks**").

- (ii) The fields checked are as follows:
- (A) *Counterparties*: (a) are both parties submitting trade particulars FXPs and (b) has each FXCCM in whose name the ForexClear Contract is to be registered not been declared a Defaulter by the Clearing House? (together, the "**Counterparty Technical Validation Check**");
 - (B) *Trade type*: is the instrument type an NDF?
 - (C) *Economic Terms*: does the trade include all the Economic Terms?
 - (D) *Currency Pairs*: are the Reference Currency and the Settlement Currency a Currency Pair (as defined in the Product Specific Contract Terms and Eligibility Criteria Manual).
 - (E) *Settlement Currency*: is the Settlement Currency USD?
 - (F) *Trade tenor eligibility*: does the scheduled Settlement Date fall on a date: (a) not earlier than three business days immediately following the date on which the trade is submitted to the Clearing House for registration (the "**Submission Date**") and (b) not later than the date falling two calendar years plus two business days immediately following the Submission Date? If the ForexClear Transaction arrives after the ForexClear date roll (00.00 local London time), the Submission Date is defined as the next good business day.
 - (G) *Valuation Date and Settlement Date*: do the Valuation Date and Settlement Date for the ForexClear Transaction fall on a valid Business Day for the Currency Pair to which the ForexClear Transaction relates? Does the Settlement Date fall on a Business Day after the Valuation Date? The table below shows the relevant Business Days for determining the Valuation Date and the Settlement Date:¹

¹As amended from time to time as per relevant EMTA Template.

Currency Pair	Business Days for Valuation Date	Relevant City/Cities for Business Day for Valuation Date	Business Days for Settlement Date	Relevant City for Business Day for Settlement Date
USD-BRL	BRL & USD	Any of Rio de Janeiro, Brasilia or São Paulo and New York City	USD	New York City
USD-CLP	USD & CLP	New York and Santiago	USD	New York City
USD-CNY	CNY	Beijing	USD	New York City
USD-COP	USD & COP	New York and Bogota	USD	New York City
USD-IDR	IDR	Jakarta	USD	New York City
USD-INR	INR	Mumbai	USD	New York City
USD-KRW	KRW	Seoul	USD	New York City
USD-MYR	MYR	Kuala Lumpur	USD	New York City
USD-PEN USD &	PEN	New York	and Lima	USD New York
USD-PHP	PHP	Manila	USD	New York City
USD-RUB	USD & RUB	New York and Moscow	USD	New York City
USD-TWD	TWD	Taipei	USD	New York City

- (iii) Trades that pass the Validation Checks are accepted and two trade records are created for the ForexClear Transaction: one for the ForexClear Contract between the Clearing House and the first FXCCM to the ForexClear Transaction and the other for the ForexClear Contract between the Clearing House and the second FXCCM to the ForexClear Transaction.
- (iv) Provided each FXCCM has transferred sufficient Collateral to the Clearing House, the Clearing House will send a message

via the ForexClear Approved Trade Source System confirming the registration or, where the trade fails a Validation Check, the trade will be rejected and a status message will be sent to the ForexClear Approved Trade Source System giving a reason for rejection.

- (v) As provided in paragraph 1.2.5(d) (*Novation and Registration*), in respect of messages confirming registration, the time of dispatch of such message shall be the Registration Time of that ForexClear Contract.
 - (vi) The internal sub-account (i.e. FXCCM, branch, or FXD) into which each trade record is booked is derived from the BIC code within the message from the ForexClear Approved Trade Source System. The BIC links to the FXCCM reference data.
 - (vii) Both new trade records arising out of the ForexClear Transaction have the same unique ForexClear ID (the "**ForexClear ID**"). Any further events or actions are applied on the basis of this ForexClear ID, to ensure consistency.
- (b) *Incremental Risk Checks*
- (i) The Clearing House will apply an "**Incremental Risk Check**" to each individual ForexClear Transaction. The Incremental Risk Check uses a suitable approximation methodology to estimate an FXCCM's Liabilities (including the new ForexClear Transaction) against available Collateral (taking into account any MER Buffer and MCE made available by the Clearing House, if any). However, any ForexClear Transaction submitted by that FXCCM that is risk reducing (i.e. results in a reduction of that FXCCM's Liabilities) will always pass the Incremental Risk Check, even if the FXCCM has not transferred sufficient Collateral in respect of its Liabilities to the Clearing House.
 - (ii) Both FXCCMs to the ForexClear Transaction must pass the Incremental Risk Check in order for the Clearing House to register two ForexClear Contracts in those FXCCM's names.
 - (iii) If either (or both) FXCCM(s) to a ForexClear Transaction fail(s) the Incremental Risk Check(s), then the ForexClear Transaction will be rejected immediately, and a rejection message will be issued to the ForexClear Approved Trade Source System indicating which (or both) FXCCM(s) has failed the Incremental Risk Check(s).

(c) *Registration*

- (i) Once it is confirmed that the transaction has passed the Validation Checks for the relevant FXCCMs, the Clearing House:
- (A) registers each ForexClear Transaction as two ForexClear Contracts and changes the status for each ForexClear Transaction to "NOVATED" and informs the ForexClear Approved Trade Source System; and
 - (B) in respect of relevant ForexClear Contracts being cancelled, cancels the relevant ForexClear Contracts and changes the ForexClear Contract status of each relevant ForexClear Contract to "CANCELLED".
- (ii) The Clearing House acknowledges the ForexClear Contract status and sends a message to the ForexClear Approved Trade Source System that the ForexClear Transaction/ForexClear Contract (as the case may be) is either "NOVATED" or "CANCELLED" as appropriate.

1.3.4 *Manual Trade Rejection, Novation and Cancellation (Exceptional Event)*

- (a) From time to time, as an exceptional event, it may be necessary for the Clearing House to: (i) reject a trade submitted for registration; (ii) register a ForexClear Transaction; or (iii) accept or reject a cancellation request for a ForexClear Contract or a ForexClear Transaction, in each case manually prior to a Margin Run, (e.g. in the case of a default event, when a ForexClear Transaction needs to be registered immediately to expedite the hedging and auction process or to reject a ForexClear Transaction received from a defaulted FXCCM).
- (b) The Clearing House acknowledges the action and sends a status message to the ForexClear Approved Trade Source System of either "REJECTED" in respect of trades being manually rejected; "NOVATED" in respect of trades being manually registered; and "CANCELLED" in respect of a ForexClear Contract or a ForexClear Transaction being manually cancelled, as appropriate.

1.3.5 *Trade Cancellation*

- (a) The Clearing House accepts cancellation messages from FXPs against both non-novated trades (ForexClear Transactions) and novated trades (ForexClear Contracts).
- (b) With respect to any ForexClear Contract, cancellation messages may be submitted via the ForexClear Approved Trade Source System until such ForexClear Contract is "**fixed**" – i.e. when its Settlement Rate has been determined on the relevant Valuation Date.

- (c) A successful cancellation message results in a "CANCELLED" status message if the ForexClear Transaction or the ForexClear Contract (as the case may be) is cancelled during the Opening Hours. The status messages are sent from the Clearing House to the FXCCM via the ForexClear Approved Trade Source System.
- (d) There is no ForexClear Contract or ForexClear Transaction amendment functionality.
- (e) *Process Flow Description*
 - (i) The Clearing House accepts trade cancellation instructions from the ForexClear Approved Trade Source System for ForexClear Transactions or ForexClear Contracts (as the case may be) that have previously been submitted to the ForexClear Service. Cancellation instructions must include the ForexClear ID.
 - (ii) The Clearing House checks that the cancellation instruction contains a valid ForexClear ID which relates to: (a) a ForexClear Transaction or ForexClear Contract (as the case may be) that has not been previously cancelled; and (b) in the case of a ForexClear Contract only, a ForexClear Contract with respect to which the relevant Valuation Date has not yet occurred.
 - (iii) Where a trade has already been rejected (as a result of having failed a Counterparty Technical Validation Check), the ForexClear Service sends a "CANCEL REJECTED" message to the ForexClear Approved Trade Source System for the relevant FXPs.
 - (iv) All trade cancellation instructions must pass the Incremental Risk Check. If any FXCCM has not transferred sufficient Collateral in respect of its Liabilities or estimated Liabilities to the Clearing House (taking into account any MER Buffer and MCE provided by the Clearing House, if any) at the time of the relevant Incremental Risk Check, then any ForexClear trade cancellation instruction to which it is a party will be rejected immediately. However, any ForexClear trade cancellation instruction that is risk reducing (i.e. results in a reduction of that FXCCM's Liabilities) will always pass the Incremental Risk Check, even if the FXCCM has not transferred sufficient Collateral in respect of its Liabilities to the Clearing House.

1.3.6 *Valuation Date Event Management:* The Clearing House is the Calculation Agent and will store and apply the Settlement Rate Option and the Valuation Date for each ForexClear Contract.

On the Valuation Date with respect to each ForexClear Contract, the Settlement Rate will be retrieved from the Settlement Rate Option per

Currency Pair in accordance with the relevant EMTA Templates (as referenced in the Product Specific Contract Terms and Eligibility Criteria Manual). The Market Data provider for Settlement Rates is Reuters.

ForexClear applies the relevant Settlement Rate to ForexClear Contracts using the following criteria:

- (a) Settlement Rate Option source code (as below);
- (b) Valuation Date.

The table below gives the source codes of the Settlement Rate Options to be used as per the relevant EMTA Template:

Currency Pair	Settlement Rate Option (or as per the relevant EMTA Template as amended from time to time)
USD-BRL	BRL PTAX (BRL09)
USD-CLP	CLP DÓLAR OBS (CLP10)
USD-CNY	CNY SAEC (CNY01)
USD-COP	COP TRM (COP2)
USD-IDR	IDR JISDOR (IDR04)
USD-INR	INR RBIB (INR01)
USD-KRW	KRW KFTC18 (KRW02)
USD-MYR	MYR PPKM (MYR03)
USD	PEN INTERBANK AVE (PEN05)
USD-PHP	PHP PDSPEO (PHP06)
USD-RUB	RUB CME-EMTA (RUB03)
USD-TWD	TWD TAIEX1 (TWD03)

The Clearing House applies the Settlement Rate to all relevant ForexClear Contracts at a predefined time (see Section 1.4.3 (*Market Data*) below) following its publication.

The Clearing House calculates the Settlement Currency Amount in the Settlement Currency per ForexClear Contract. FXCCMs can retrieve the

Settlement Rate and Settlement Currency Amount in the Settlement Currency via ForexClear Reporting (as defined in Section 1.7 (*ForexClear Reporting*)) on the ForexClear Service Portal and on MemWeb, which are internet services onto which information is loaded and can be accessed by FXCCMs.

(c) *Process Flow Description*

- (i) After the Registration Time for a ForexClear Contract, the ForexClear Service links a Settlement Rate Option to it in accordance with the relevant EMTA Template for the Currency Pair.
- (ii) On the Valuation Date, the Clearing House uses the Settlement Rate for the Currency Pair for the ForexClear Contract when it is published by Reuters, and calculates the Settlement Currency Amount for each ForexClear Contract in the Settlement Currency by applying the relevant Settlement Rate Option as published.
- (iii) If the Settlement Rate Option set out in the relevant EMTA Template is unavailable at the relevant time, Disruption Fallback alternatives for the determination of the Settlement Rate will apply as set out in the relevant EMTA Template.

1.3.7 *Settlement:* With respect to each ForexClear Contract, the Settlement Currency Amount is calculated by the application of the Settlement Rate to the Notional Amount in accordance with the ForexClear Contract Terms.

From (and including) the Registration Time to (and including) the Business Day immediately preceding the Settlement Date, changes in the daily value of open ForexClear Contracts will have resulted in variation margin credits and debits between the parties (as set out at Section 1.5.2 (*Variation Margin*)). With respect to each ForexClear Contract, on the Business Day immediately preceding the Settlement Date, the Clearing House nets the Settlement Currency Amount against the aggregate net variation margin which has been paid/received through the term of the ForexClear Contract, the result of which is a Net Settlement Amount ("NSA"), which will be reflected in the FXCCMs' cash accounts with the Clearing House on the Settlement Date. As such, with respect to each ForexClear Contract, the transfer to the Clearing House of all the Collateral in respect of the variation margin required during the term of such ForexClear Contract shall satisfy the relevant party's obligation to pay the Settlement Currency Amount on the Settlement Date of such ForexClear Contract. For the purpose of providing Nostro reconciliations, to the relevant parties, the Clearing House will provide Reporting (as defined in Section 1.7 (*ForexClear Reporting*)) which will reflect an entry for the "**Settlement Currency Amount**" and a separate entry for the reversal of the aggregate net variation margin which has been paid/received through the term of the ForexClear Contract. This paragraph applies even if the Settlement Date has been adjusted in accordance with the ForexClear Contract Terms.

- 1.3.8 *Portfolio Management:* The Clearing House allows portfolios of ForexClear Contracts to be transferred between FXCCMs e.g. in the event of merger, or where agreed between the relevant FXPs.

The portfolio transfer capability allows the transfer of:

- (a) A single ForexClear Contract.
- (b) Part of an FXCCM's portfolio (which includes the ability to transfer ForexClear Contracts to various other FXCCMs, e.g. Bank A to Bank B for USD/RUB, Bank A to Bank C for USD/KRW and Bank A to Bank D for USD/BRL).
- (c) Portfolio transfer (i.e. the transfer of all or just one of the portfolios belonging to an FXCCM).
- (d) Multiple portfolio transfers (i.e. the transfer of several portfolios of an FXCCM).

The Clearing House will carry out the portfolio transfer. For transfers under (b), (c) and (d), this can be on a ForexClear Contract by ForexClear Contract or on a Currency Pair basis.

Before the completion of a portfolio transfer, the Clearing House will perform a margin impact analysis of the transfer to the source and destination portfolios. The Clearing House will advise the relevant FXCCM regarding any additional Collateral that may be required in order to complete the portfolio transfer.

- (e) *Legal Documentation:* The Transfer of ForexClear Contracts will be documented in accordance with the standard legal documentation for the transfer of ForexClear Contracts provided by the Clearing House to FXPs. Any such transfer must be authorised by all relevant parties and executed by individuals with appropriate signing authority.

1.3.9 *Reference Data*

- (a) *Holiday Event Calendar:*

The ForexClear Service uses the SwapsMonitor Financial Calendar (as published by Swaps Monitor Publications, INC.) ("**SwapsMonitor Financial Calendar**") in order to determine holidays. This requires all ForexClear Participants to be licensees of the SwapsMonitor Financial Calendar.

When a change is declared that affects the SwapsMonitor Financial Calendar that is referenced on ForexClear, a corresponding calendar adjustment will be made to the ForexClear system. The Clearing House may temporarily close the ForexClear Service to process a calendar adjustment in its clearing system. FXCCMs will be notified in advance of the date, time and expected duration of such closure.

(b) *Date Adjustment:*

As a result of the calendar adjustment process, the Valuation Date and/or the Settlement Date of any affected ForexClear Contracts will automatically be date adjusted in accordance with the provisions of the EMTA Template for the relevant Currency Pair.

The Clearing House will notify the FXCCMs via file download from the Clearing Member Reporting as to the ForexClear Contracts affected and the date adjustments made.

1.4 Market Data

1.4.1 *Sources used by ForexClear Service:* The ForexClear Service collates instrument quotes for the following from multiple market sources (as detailed in Section 1.4.2 (*Market Data Sources and Frequencies*)) in relation to each Currency Pair:

- (a) FX spot rates ("**FX Spot Rates**");
- (b) FX swap points ("**FX Swap Points**");
- (c) Settlement Rate Option;
- (d) Interest rate curves (see paragraph (b) of Section 1.4.5 (*Curve Building in ForexClear*) below) ("**Interest Rate Curves**");
- (e) USD LIBOR Curve;
- (f) PAI rates ("**PAI Rates**"); and
- (g) Country credit spreads (see Section 1.4.6 (*Country Credit Spreads*) below) ("**Country Credit Spreads**"),

together, "**Market Data**".

FX Spot Rates and FX Swap Points are received by the Clearing House via a live link from all eligible FXCCMs during the Opening Hours (as defined in paragraph (b) of Section 1.2.2 (*Service Operating Hours*)).

1.4.2 *Market Data Sources and Frequencies:* The Clearing House receives the following updated raw prices:

- (a) FX Spot Rates:
 - (i) Source – contributing FXCCMs.
 - (ii) Frequency - every time updated by contributing FXCCMs up to a maximum rate of once every five minutes.
- (b) FX Swap Points:
 - (i) Source - all contributing FXCCMs.

- (ii) Frequency - every time updated by contributing FXCCMs up to a maximum rate of once every five minutes.
- (iii) Tenors – as shown in the table below.

Tenor
S/N
1 week
1 month
2 months
3 months
6 months
12 months
24 months

- (c) Settlement Rate Options:
 - (i) Source - Reuters.
 - (ii) Frequency - when published (at the times shown in the table at Section 1.4.3 (*Market Data*) below).
- (d) Interest Rate Curves:
 - (i) Source - internal Clearing House.
 - (ii) Frequency - at each SwapClear margin run.
- (e) Country Credit Spreads:
 - (i) Source - Bloomberg.
 - (ii) Frequency - when published.
- (f) USD LIBOR Curve:
 - (i) Source - SwapClear.
 - (ii) Frequency - at each SwapClear margin run.
- (g) PAI rates:
 - (i) Source - LCH Treasury.
 - (ii) Frequency - daily.

1.4.3 *Market Data*

Reference Currency	Settlement Rate Option (or as per the relevant EMTA Template as amended from time to time)	Settlement Rate Publication Local Time (or as per the relevant EMTA Template as amended from time to time)
BRL	BRL PTAX (BRL09)	13:15 (São Paolo)
CLP	CLP DÓLAR OBS (CLP10)	10:30 (Santiago)
CNY	CNY SAEC (CNY01)	09:15 (Beijing)
COP	COP TRM (COP02)	10.30 (Bogota)
IDR	IDR JISDOR (IDR04)	10:00 (Jakarta)
INR	INR RBIB (INR01)	12:30 (Mumbai)
KRW	KRW KFTC18 (KRW02)	15:30 (Seoul)
MYR	MYR PPKM (MYR03)	11:10 (Kuala Lumpur)
PEN	PEN INTERBANK AVE (PEN05)	14:00 (Lima)
PHP	PHP PDSPEO (PHP06)	11:30 (Manila)
RUB	RUB CME-EMTA (RUB03)	13:30 (Moscow)
TWD	TWD TAIFX1 (TWD03)	11:00 – 12:00 (Taipei)

1.4.4 *Market Data Provision to FXCCMs:* Market Data used in a Margin Run is made available to FXCCMs via ForexClear Reporting (as defined in Section 1.7 (*ForexClear Reporting*)).

1.4.5 *Curve Building in ForexClear*

- (a) *FX Curve (Zero Coupon/Market Rate Curve):* The Clearing House builds for each Currency Pair an FX curve (zero coupon/market rate curve) using the FX Spot Rates, FX Swap Points and the USD LIBOR Curve based on interpolation techniques agreed through the ForexClear Risk & Trading Working Group (a group comprising the Clearing House and FXCCM's risk and trading representatives) ("**RTWG**"). The USD LIBOR Curve is used for discounting; the FX curve is used for capitalisation of forward cash flows.
- (b) *Interest Rate Curve:* The Clearing House applies the linear interpolation method to build the Interest Rate Curve. Linear interpolation is applied on zero coupon curves.

(c) *Curve Use:* End of day is defined as 22.00 local London time ("EOD"). The following EOD data is used in the calculation of risk analytics for an EOD Margin Run (as defined in paragraph (b) of Section 1.6.1 (*Types of Margin Runs*)):

(i) FX Spot Rates; and

(ii) FX Swap Points.

1.4.6 *Country Credit Spreads:* The Clearing House takes country credit spreads (in relation to Brazil, Russia, India, China, Chile, South Korea, Colombia, Indonesia, Malaysia, Philippines and Taiwan) from Bloomberg for use in risk multiplier calculations.

1.5 Valuation and Margin

1.5.1 Product Valuation

(a) *Net Present Value ("NPV"):* From (and including) the Registration Time to the EOD Margin Run on the business day preceding the Valuation Date, each ForexClear Contract is valued in USD using the current market rates and discounted from the future Settlement Date to its present value (being valued using the data submitted by FXCCMs, in accordance with Section 1.4.2 (*Market Data Sources and Frequencies*)).

At EOD on the Valuation Date, the Settlement Rate is used to value the ForexClear Contract.

If Valuation Postponement applies, the ForexClear Contract is valued using the current forward price (based on the data submitted by FXCCMs, in accordance with Section 1.4.2 (*Market Data Sources and Frequencies*)) to (and including) the date on which the Settlement Rate is determined in accordance with the ForexClear Contract Terms.

1.5.2 *Variation Margin:* Separate variation margin calculations are performed for a FXCCM's house "H" account and client "C" accounts and for each "C" Client Account which is a sub account of a FXCCM's Client Account. No offset between the "C" and the "H" accounts is allowed and, except pursuant to a Cross-ISA Client Excess Deduction, no offset is allowed between any Client Accounts.

The variation margin requirement in respect of each ForexClear Contract is calculated at EOD as the change from the preceding business day in its NPV. The net sum of the variation margin requirements with respect to all of the open ForexClear Contracts is credited or debited (separately for the house account and each Client Account of the relevant FXCCM) once a day, following the EOD Margin Run.

Collateral in respect of variation margin (adjusted by PAI, as set out below) will be transferred each business day by or to each FXCCM in respect of all of

its open ForexClear Contracts. The variation margin will be calculated in, and must be paid in, USD.

For the avoidance of doubt, any transfers of cash Collateral by an FXCCM to the Clearing House in respect of the FXCCM's variation margin obligations or by the Clearing House to an FXCCM in respect of the Clearing House's variation margin obligations shall be for the purposes of collateralisation and not settlement of obligations under the relevant contracts.

With respect to each ForexClear Contract, the variation margin requirement is calculated every business day from (and including) the Registration Time to (and including) the EOD on the business day immediately preceding the Settlement Date.

- 1.5.3 *Reporting Breakdown*: ForexClear margin reports show the portfolio of open ForexClear Contracts of each FXCCM and of each FXD by Currency Pairs and in the Settlement Currency (i.e. USD).
- 1.5.4 *Price Alignment Interest ("PAI")*: The effect of daily transfers of cash Collateral in respect of variation margin results in the need for PAI. Without this adjustment, the pricing of ForexClear Contracts would differ from identical uncleared trades, as cash earned from favourable daily price moves would be priced into the product.
- (a) *PAI Calculation Methodology*: PAI is calculated at EOD on each business day from (and including) the first business day after the Trade Date to (and including) the business day immediately preceding the Settlement Date.

In this Section 1.5.4 (*Price Alignment Interest*), "**T**" means any given business day; "**T-1**" means the business day immediately preceding T; "**T+1**" means the business day immediately following T; and "**MTM**" means the total value (expressed in USD) of an FXCCM's portfolio open of ForexClear Contracts after valuation in accordance with Section 1.5.2 (*Valuation Margin*) at close of business on any business day. The Clearing House calculates PAI in USD once a day at EOD.

- (i) Principles:
- (A) MTM is calculated at EOD on T-1.
 - (B) Change in MTM (net variation margin obligations in respect of an FXCCM's portfolio of open ForexClear Contracts) is paid/ received on the morning of T.
 - (C) PAI Rate for T to be applied is known at EOD T.
 - (D) PAI is calculated on the night of T, for MTM of T-1 for ForexClear Contracts up to the business day before their Settlement Date.
 - (E) PAI is paid / received on morning of T+1 via PPS.

- (ii) Components:
 - (A) PAI Rate (annualised interest applied to an FXCCM's MTM).
 - (B) MTM.
 - (C) Accrual Factor (factor used to convert the PAI Rate from an annual rate to a daily rate, on a basis of a year of 360 days).
- (iii) So:
 - (A) $PAI T = PAIT \text{ Rate} \times MTMT-1 \times \text{Accrual Factor}$.

The Clearing House uses the PAI Rate from the relevant EOD overnight index swap curves, which is sourced from the Clearing House.

- (b) *variation margin/PAI Adjustment:* With respect to each FXCCM, the Clearing House makes the following adjustment to the EOD variation margin:
 - (i) if, with respect to its portfolio of open ForexClear Contracts, such FXCCM has (to but excluding the relevant EOD) paid an amount of Collateral in respect of variation margin greater than the amount of Collateral in respect of variation margin it has received, such FXCCM will receive PAI; and
 - (ii) if, with respect to its portfolio of open ForexClear Contracts, such FXCCM has (to but excluding the relevant EOD) received an amount of Collateral in respect of variation margin greater than the amount of Collateral in respect of variation margin it has provided, such FXCCM will pay PAI.

1.5.5 *Initial Margin:* The Clearing House will require FXCCMs to transfer Collateral to the Clearing House in respect of initial margin.

- (a) *Calculation of Initial Margin:* Separate initial margin calculations are performed for a FXCCM's Proprietary Account and for each Client Account. No offset between a Proprietary Account and a Client Account is allowed and, except pursuant to a Cross-ISA Client Excess Deduction, no offset is allowed between any Client Accounts.

The initial margin obligation will be calculated within the day and at EOD on each business day as part of each Margin Run. With respect to each FXCCM, it is calculated for the portfolio of open ForexClear Contracts and ForexClear Transactions using ForexClear's Portfolio Analysis and Risk ("**FxPAR**") margining model, FxPAR is based on a modified historical simulation value-at-risk methodology. All open ForexClear Contracts and ForexClear Transactions in each Currency Pair are re-valued under a series of cross portfolio yield curve

scenarios to estimate the potential portfolio profit and loss and therefore the initial margin requirement.

These scenarios will be continually monitored and reviewed periodically or on an ad hoc basis according to market conditions. ForexClear Clearing Members will usually be notified by the Clearing House of alterations to margin parameters no later than the day before calls are made based on the new parameters. Further details of this method are available upon request from the ForexClear Risk team.

FxPAR uses the market data submitted by FXCCMs pursuant to paragraph 1.5.1(a) (*Product Valuation*).

Initial Margin Risk Multipliers: Credit risk, liquidity risk and sovereign risk are measured and applied to FXCCMs as part of the initial margin requirement calculation.

- (b) *Credit Risk Multiplier ("CRiM"):* The CRiM applied will consider the FXCCM's credit worthiness, initial margin obligation level and/or stress testing exposures in accordance with LCH.Clearnet Credit Risk Policy.
- (c) *Liquidity Risk multiplier ("LRMM")*
 - (i) Where an FXCCM has an exposure above set thresholds in a particular Currency Pair or tenor of ForexClear Contracts, the LRMM is applied and additional Collateral in respect of the initial margin obligation is required. The LRMM is calculated in accordance with parameters set by the ForexClear Default Management Group (the "FXDMG") according to tenor and notional concentration. The thresholds are reviewed quarterly and use prevailing perceptions of market conditions as seen by the FXDMG.
 - (ii) LRMM increases the Collateral called in respect of the initial margin obligation due to concentrated Currency Pair exposure by tenor of ForexClear Contracts. Additional Collateral is called to mitigate the risk of a position not being closed out in five days and/or the extra hedging costs that may be incurred.
 - (iii) The Clearing House calculates and applies LRMM as part of each Margin Run, based on the LRMM for each Currency Pair in the FXCCM's "H" position-keeping account.
- (d) *Sovereign Risk multiplier ("SRM")*
 - (i) An SRM is applied when there is a perceived risk of sovereign default or a change in a country's currency regime which would impact ForexClear Contracts transacted in certain Reference Currencies. The SRM takes into account:

- (A) the probability of sovereign default or a regime change event occurring; and
 - (B) the depreciation or appreciation risk of the Reference Currencies.
- (ii) The SRM sovereign default probability is calculated by assessing the three month probability of default for the different sovereign countries, based on the country's 5-year credit default swap (CDS) spread. The probability of a regime change event is estimated based on historical events and publicly available data for the different sovereign countries. The country CDS spreads are reviewed and updated weekly.
- (iii) The Clearing House calculates and applies the SRM as part of each Margin Run, for each Currency Pair in the FXCCM's house position-keeping account.
- (e) *Additional Margin:* The Clearing House may require an FXCCM to transfer additional Collateral to the Clearing House (in addition to amounts of Collateral already transferred to the Clearing House in respect of initial margin and variation margin obligations) as security for the performance by an FXCCM of its obligations to the Clearing House in respect of ForexClear Contracts to which such FXCCM is a party in accordance with Regulation 20 (*Margin and Collateral*). This may be required from time to time where, in the opinion of the Clearing House, the risk inherent in ForexClear Contracts to which such FXCCM is a party not adequately covered by the Collateral transferred in respect of the initial margin or variation margin obligations. This may cover instances where stress testing losses under various scenarios provided in the ForexClear Default Rules have increased.
- (f) *Minimum Excess Requirement Buffer ("MER Buffer"):* To facilitate the intraday registration of ForexClear Contracts, at each EOD Margin Run, the Clearing House will call from each FXCCM an amount of Collateral in respect of the initial margin obligation referred to as "**Minimum Excess Requirement Buffer**" ("**MER Buffer**") in respect of that FXCCM's potential intraday Liabilities (as defined below at Section 1.6.2 (*Margin Run Process*)) for the following day.

The required amount of MER Buffer for an FXCCM is expressed as a percentage of the FXCCM's start-of-day portfolio initial margin, and is calibrated daily based on recent member activity such that higher levels of intraday trade volumes lead to a proportionally higher MER Buffer requirement and vice versa. The MER Buffer percentage is calculated as a given percentile of intraday peak relative initial margin changes over a given number of historical business days.

The parameters of the MER model are: MER percentile, MER lookback period, relative MER cap and absolute MER floor. The

values of these parameters are calibrated based on the quantitative analysis of the FXCCMs' initial margin history across the ForexClear Service.

As ForexClear Contracts are registered in an FXCCM's name, the Clearing House will, in accordance with the Margin Run process, calculate an FXCCM's intraday Liabilities (or, in the case of an Incremental Risk Check, the FXCCM's estimated Liabilities), taking into account any MER Buffer.

At each EOD Margin Run, the Clearing House will recalculate and call the FXCCM's MER Buffer for the following day.

- 1.5.6 *Mutualised Credit Extension ("MCE")*: If an FXCCM has insufficient Collateral to enable the registration of further ForexClear Contracts in its name, then the Clearing House may make available to an FXCCM intraday credit by way of a Mutualised Credit Extension ("MCE") to enable the FXCCM to register further ForexClear Contracts. An FXCCM may utilise MCE intraday on a one-to-one basis to the value of the Collateral in respect of initial margin that would have been required to cover that FXCCM's Liabilities (or, in the case of Incremental Risk Checks, the FXCCM's estimated Liabilities). The amount of the MCE made available to an FXCCM in aggregate during any one day must not exceed an amount that is the lesser of: (a) 50% of the ForexClear MCE Default Fund Buffer; or (b) the sum of the FXCCM's Collateral in respect of initial margin and ForexClear Contribution. The amount of the "**ForexClear MCE Default Fund Buffer**" is currently zero and therefore the Clearing House will not provide MCE to any FXCCM until further notice.

For the avoidance of doubt, MCE is provided in the form of intraday initial margin forbearance and an FXCCM's utilisation of MCE does not give rise to any payment or transfer of collateral by the Clearing House nor does it result in any use of the ForexClear Fund Amount (except in events of default).

All MCE credit extended on any given day shall be revoked at the close of business on such day (unless revoked earlier in accordance with the following paragraph). As part of each EOD Margin Run, the Clearing House will call Collateral in respect of initial margin obligations from each FXCCM to replace any utilised MCE and that FXCCM's MCE will be reset for the following day (assuming such FXCCM has satisfied any margin calls). Any failure of an FXCCM to satisfy an initial margin call relating to the replacement of MCE constitutes a default by such FXCCM – just as any failure by an FXCCM to satisfy any other type of initial margin call constitutes a default.

The MCE is made available at the Clearing House's sole discretion. In particular (but without limitation), the Clearing House may refuse to extend MCE to any or all FXCCMs on risk management grounds, and may at any time require an FXCCM to provide Collateral in respect of initial margin in place of any utilised MCE.

- 1.5.7 *Initial Margin Management Events Service ("IMMES")*: IMMES aims to find risk and initial margin reducing ForexClear Contracts amongst participating FXCCMs. IMMES can be run on all Currency Pairs that are cleared through the ForexClear Service, although the primary focus will be on those Currency Pairs that contribute to the largest Collateral requirement.

FXCCMs who wish to obtain further information about, or to participate in, IMMES should contact ForexClear Business Operations on 0207 426 7527. To be eligible to participate in IMMES, an FXCCM must enter into an IMMES agreement with the Clearing House (the "**IMMES Agreement**").

(a) *Step-By-Step Details*

- (i) The Clearing House usually conducts the IMMES at least monthly.
- (ii) A reminder that there is an IMMES run taking place is sent out the week before to each FXCCM which is a party to an IMMES Agreement with LCH and each FXCCM is asked to confirm their participation.
- (iii) On the day of the scheduled IMMES run, the Clearing House analyses all participating FXCCMs' profiles to find ForexClear Contracts with equivalent and opposite delta values by tenor and Currency Pair to compile a list of offsetting suggested trades that are mutually beneficial in terms of initial margin obligation reduction (the "**IMMES Trades**").
- (iv) The Clearing House then analyses the relevant FXCCM ForexClear Contract portfolios with the IMMES Trades and determines the change in NPV, initial margin, delta and zero yield sensitivity from the IMMES Trades.
- (v) The FXCCMs on either side of the trades are advised of the economic details of the IMMES Trades.
- (vi) If the two FXCCMs agree to undertake the IMMES Trades, the Clearing House will then put them in touch with each other. The FXCCMs will enter into the bilateral IMMES Trades and submit them to the Clearing House through the ForexClear Approved Trade Source System for registration.

1.6 **General Margining Process**

A "**Margin Run**" is the process by which the Clearing House calculates an FXCCM's initial margin requirement (if any) and, during an EOD Margin Run, its variation margin requirement and PAI adjustment (if required) (together its "**Margin Requirements**") and applies that FXCCM's Collateral to satisfy the Margin Requirements for that FXCCM in respect of the ForexClear Contracts within that FXCCM's portfolio.

- 1.6.1 *Types of Margin Runs*: There are three types of Margin Run:

- (a) *ITD/Ad Hoc - Day Margin Run*
 - (i) ITD/Ad-hoc London daytime Margin Runs are initiated as and when dictated by the schedule published by the Clearing House and notified to FXCCMs from time to time (the "**Schedule**") or as necessary, and are performed in the time period during which a PPS call can be made (the "**ITD/Ad-hoc Day Margin Run**"). PPS times are published on the Clearing House's website at: http://www.lchclearnet.com/risk_management/itd/pps/.
 - (ii) ITD/Ad-hoc Margin Runs are calls in respect of the initial margin obligation only. The variation margin obligation and PAI are not included in ITD/Ad-hoc Margin Runs.
- (b) *EOD Margin Run*
 - (i) The EOD Margin Run is the final ITD/Ad-hoc Day Margin Run that completes by 24:00 local London time on that business day (the "**EOD Margin Run**").
 - (ii) EOD Margin Runs are calls in respect of initial margin as well as variation margin obligations and PAI.
- (c) *ITD / Ad Hoc - Night Margin Run*
 - (i) ITD/Ad-hoc London overnight Margin Runs are initiated as and when dictated by the Schedule or as necessary, and are performed in the time period during which a PPS call cannot be made (the "**ITD/Ad-hoc Night Margin Run**").
 - (ii) ITD/Ad-hoc Night Margin Runs are calls in respect of the initial margin obligation only. The variation margin obligation and PAI are not included in ITD/Ad-hoc Night Margin Runs.

1.6.2 *Margin Run Process*

- (a) Margin Runs cover all registered ForexClear Contracts with the status "**NOVATED**".
- (b) Margin runs will be carried out for each ForexClear Contract and ForexClear Transaction (as the case maybe) until (and including) the later of:
 - (i) EOD Margin Run on the Settlement Date; or
 - (ii) EOD Margin Run after the Settlement Rate is published.
- (c) During every Margin Run the Clearing House calculates the Collateral required in respect of the initial margin obligations and (where applicable) the Collateral required in respect of the variation margin obligations and PAI required to cover each FXCCM's relevant open

ForexClear Contracts and ForexClear Transactions (each a "**Liability**" and together the "**Liabilities**"). For these purposes, liabilities in respect of the open ForexClear Contracts and ForexClear Transactions registered in an FXCCM's Proprietary Account and in each of the FXCCM's Client Accounts will be calculated separately.

- (d) Each FXCCM's Liability:
 - (i) in respect of the open ForexClear Contracts registered in an FXCCM's Proprietary, is offset against that FXCCM's non-cash collateral account (being a sub-account of the FXCCM's "**H**" collateral account) (for Collateral in respect of initial margin only) or funds in that FXCCM's "**H**" house cash account (being a sub-account of the FXCCM's "**H**" collateral account) (for variation margin/PAI/initial margin); and
 - (ii) in respect of the open ForexClear Contracts registered in a particular FXCCM's Client Account, is offset against the relevant non-cash collateral account (being a sub-account of the FXCCM's Client Account) (for Collateral in respect of initial margin only) or funds in the relevant "**C**" client cash account (being a sub-account of the FXCCM's Client Account) (for variation margin/PAI/initial margin).
- (e) FXCCMs are informed via email of their Liabilities as a percentage of their current total Collateral (such percentage being shown as a percentage of the aggregate Collateral in their cash and non-cash collateral account(s)) and are directed to the ForexClear Service portal (being a secure website made available to FXCCMs) (the "**ForexClear Service Portal**") which provides reports (at the times specified in Section 1.7.1 (*Margin Liability Reports*)) informing FXCCMs of their (i) total Liabilities under the ForexClear Service; (ii) current total Collateral posted with the Clearing House for the ForexClear Service (including any MCE, if any); and (iii) Liabilities as a percentage of their current total Collateral (such percentage being shown as a percentage of the aggregate Collateral in their cash and non-cash collateral account(s)).
- (f) If following a Margin Run an FXCCM is required to provide additional collateral, this is also indicated by email and via the ForexClear Service Portal. In the case of ITD/Ad-hoc Margin Runs, where an FXCCM's Liabilities exceed its available Collateral and any MCE, then the Clearing House will issue a margin call for the amount of the shortfall plus 50% of the FXCCM's MER Buffer.

1.7 ForexClear Reporting

The Clearing House produces a suite of treasury reports for members across each of the Clearing House services. Some of these reports are cross-service reports and others are specific to the ForexClear Service, thus an FXCCM will receive reports in respect of ForexClear and may also receive cross-service reports where it is a member

of another service. Follow this link to the information available from the LCH.Clearnet website: [Banking Reports](http://www.lchclearnet.com/members-clients/training-education) <http://www.lchclearnet.com/members-clients/training-education>

In respect of the ForexClear Service, on each business day the Clearing House will provide two sets of reports to FXCCMs: (1) Banking Reports; and (2) reports direct from the ForexClear Service (together "**ForexClear Reporting**"). These Procedures reference the ForexClear Service specific reports. Each day's report will remain available for download by FXCCMs from the ForexClear Service Portal for five days.

The Clearing House (acting, where applicable, through the entity to which it has elected to delegate the relevant reporting obligation) shall report to a trade repository or similar body the details of a ForexClear Contract and any modification or termination of such contract without duplication and no later than the working day following the conclusion, modification or termination of such contract, in line with the requirements of applicable law.

- 1.7.1 *Margin Liability Reports:* Reports detailing Liabilities are provided to FXCCMs following every scheduled Margin Run in accordance with Section 1.6.2 (*Margin Run Process*) and where additional Collateral has been called by the Clearing House. Additionally, a report, including sensitivities, is provided at ForexClear Contracts level at 22.00 local London time. If the EOD Margin Run has not completed by 22:00 local London time on a particular business day, the report generated at EOD will reflect that certain Liabilities of FXCCMs are not discharged at the relevant time. A report will also be provided detailing an FXCCM's Collateral utilisation level. If an FXCCM's Liabilities exceed its total available Collateral, ForexClear will alert the FXCCM.
- 1.7.2 *Market Data Reports:* Reports detailing Market Data are provided to FXCCMs following every scheduled Margin Run. They include reports of Market Data and Settlement Rate used in the valuation of ForexClear Contracts and reports of Market Data shifts for each historic scenario used in the initial margin requirement calculations.
- 1.7.3 *Trade Reports:* Reports are provided that enable FXCCMs to monitor their firms' trading events and positions in respect of ForexClear. Reports on open ForexClear Contracts and on cancelled ForexClear Transactions and ForexClear Contracts are generated at EOD and reports on transferred ForexClear Contracts are made on an ad hoc basis.
- 1.7.4 *Trade Fixing and Settlement Reports:* Reports are published on each business day detailing the ForexClear Contracts to which the Settlement Rate has been applied on that business day (the "**NDF Fixings**" report), ForexClear Contracts that have been settled during that current business day (the "**Settlements Today**" report) and ForexClear Contracts that will settle the next business day (the "**NDF's Fixed with Settlement Tomorrow**" report).

- 1.7.5 *Fees Reports:* Reports on trading volumes on a daily and monthly basis are provided to FXCCMs. Monthly reports are provided on the last business day of each month. They include the full trading volumes on which the monthly transaction fees will be charged to those FXCCMs choosing to have tariffs levied per transaction.
- 1.7.6 *Banking Reports:* [Follow this link for a full list of Banking reports.](#)²
- 1.7.7 *Real-time Reporting:* A near real-time view of member liabilities, collateral pledged, collateral and credit utilisation will be available from the ForexClear Service Portal (referred to in paragraph (e) of Section 1.6.2 (*Margin Run Process*)).

1.8 Treasury Operations & Collateral Management

- 1.8.1 *Cover Distribution:* The Clearing House nets each FXCCM'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 collateral distribution ("**Collateral Distribution**"). FXCCMs can choose whether cash or non-cash Collateral should be applied first. At the end of this process, if an FXCCM has a shortfall, a PPS (as defined in Section 1.8.2 (*Protected Payment System*) below) call for additional Collateral is made. Conversely, any excess cash remaining after the final overnight Margin Run can, if requested before 09:30 local London time, be repaid to the FXCCM.

(a) *Cover Distribution Notification*

- (i) FXCCMs are informed via email of their: Liabilities as a percentage of their current total Collateral (such percentage being shown as a percentage of the aggregate Collateral 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 1.7.1 (*Margin Liability Reports*)) informing FXCCMs of their (i) total Liabilities under the ForexClear Service; (ii) current total Collateral posted with the Clearing House for ForexClear; and (iii) Liabilities as a percentage of their current total Collateral (such percentage being shown as a percentage of the aggregate Collateral in their cash and non-cash collateral account(s)).
- (ii) The reports accessed via the ForexClear Service Portal will enable FXCCMs to log in and examine the underlying data.
- 1.8.2 *Protected Payment System:* The Clearing House operates the Protected Payments System ("**PPS**") for transferring funds to and from its FXCCMs 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.

²http://www.lchclearnet.com/membership/training_and_education/

FXCCMs 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:
<http://www.lchclearnet.com/risk-collateral-management/collateral-management/protected-payments-system>

1.8.3 *Acceptable Forms of Collateral Cover:* Follow the link below for a detailed description of acceptable collateral and processes applicable from time to time:
<http://www.lchclearnet.com/risk-collateral-management/collateral-management/acceptable-collateral>

1.8.4 *Interest and Accommodation:* Interest is paid to FXCCMs on cash Collateral held by the Clearing House. The London Deposit Rate ("**LDR**") is applied.

A utilisation fee, known as an accommodation charge, is charged on securities lodged at the Clearing House to cover liabilities. For an overview of interest and accommodation charges, please contact the Clearing House's Treasury Operations or follow the link below:

<http://www.lchclearnet.com/members-clients/members/fees-ltd/custody-services>

1.9 **Payment of Stamp Tax**

Each FXCCM shall pay any Stamp Tax or duty levied or imposed upon it or in respect of its execution or performance of the Clearing Membership Agreement, the Regulations and the Procedures (including any registration of a ForexClear Contract) by a jurisdiction in which it is incorporated, organised, managed and controlled, or considered to have its seat, or in which a branch or office through which it is acting is located ("**Stamp Tax Jurisdiction**") or by any other jurisdiction and shall indemnify the Clearing House against any Stamp Tax or duty levied or imposed upon the Clearing House or in respect of the Clearing House's execution or performance of the Clearing Membership Agreement, the Regulations and the Procedures (including any registration of a ForexClear Contract) by any such Stamp Tax Jurisdiction or by any other jurisdiction.

1.10 **Default Management**

1.10.1 *Portfolio Splitting:* As part of the ForexClear Default Management Process, the Clearing House may divide an Auction Portfolio into two or more individual Auction Portfolios. In circumstances where such portfolio splitting is adopted, the Clearing House will, in consultation with the ForexClear Default Management Group, seek to create:

- (a) one or more individual Auction Portfolios which have comparatively greater levels of risk associated with them, thereby isolating such Auction Portfolios from those which are more risk neutral; and
- (b) one or more individual Auction Portfolios which are more risk neutral.

- 1.10.2 *Acceptance of Bids:* In deciding whether to accept a bid, the Clearing House will generally accept the best bid in respect of any individual Auction. However, the Clearing House is entitled to reject a bid in the event that it considers, in its reasonable discretion that accepting the bid may:
- (a) cause the Clearing House to breach any legal or regulatory requirement applicable to it by virtue of its being a Recognised Clearing House or a Derivatives Clearing Organization;
 - (b) cause the Clearing House or its membership any reputational harm;
 - (c) cause legal action or proceedings to be taken against the Clearing House; or
 - (d) endanger the Clearing House, any of its clearing members or the financial markets in which the Clearing House operates.

Where the Clearing House receives more than one bid from the same ForexClear Clearing Member and in respect of the same Auction the Clearing House is entitled to accept the last bid received by it in respect of that Auction. Where the Clearing House does not receive a bid that was made by a ForexClear Clearing Member for operational, technological or other similar reasons and as a result of which a bid does not reach the Clearing House, the Clearing House will be unable to accept a bid and shall not be liable for any failure to accept such bid.

- 1.10.3 *Affiliate Bidding:* ForexClear Clearing Members are entitled to bid for an Auction Portfolio on behalf of an affiliated ForexClear Clearing Member. Where a ForexClear Clearing Member makes a bid and that ForexClear Clearing Member has an affiliated ForexClear Clearing Member that does not make a bid, the Clearing House shall not (unless instructed otherwise in accordance with the paragraph below) assume that the bidding ForexClear Clearing Member has made the relevant bid on behalf of a non-bidding, affiliated ForexClear Clearing Member.

A ForexClear Clearing Member may notify the Clearing House, in advance of an Auction, that it wishes to bid on behalf of an affiliated ForexClear Clearing Member. Where it wishes to do so, the ForexClear Clearing Member should contact the Clearing House's Client Services Team (membership@lchclearnet.com; +44 (0)207 426 7949).

- 1.10.4 *Default Fund: ForexClear Contributions:* ForexClear Contributions will be called via PPS on the fourth working day of each month or more frequently pursuant to a determination of the ForexClear Contribution under Rule F2(a) of the Default Rules (each a "**ForexClear Reset Day**"). ForexClear Contribution requirements will be notified to ForexClear Clearing Members at least two working days prior to each ForexClear Reset Day on Member Intranet Report 000032.

Excess ForexClear Contribution amounts due to ForexClear Clearing Members following the adjustment to the ForexClear Contribution will be

repaid to ForexClear Clearing Members' PPS accounts on the ForexClear Reset Day immediately following the adjustment to the ForexClear Contribution.

Interest on ForexClear Contributions will be paid to ForexClear Clearing Members' PPS accounts on the first working day after the ForexClear Reset Day following the end of the relevant "**interest accrual period**". Interest is calculated in respect of each "**interest accrual period**", which commences on (and includes) a ForexClear Reset Day and ends on (and includes) the calendar day immediately before the next ForexClear Reset Day.

- 1.10.5 *Quantifying ForexClear Contributions*: For the purposes of calculating the ForexClear Margin Weight under Rule F2(d) of the ForexClear Default Fund Supplement, the average daily requirement for the initial margin obligation applied to an FXCCM shall be determined by reference to the ForexClear Contracts comprising both the ForexClear House Business and the ForexClear Client Clearing Business of that FXCCM.
- 1.10.6 *Outsourcing*: Pursuant to Section 1 (*Clearing Member and Dealer Status*) of the Procedures, an FXCCM may appoint a third party to fulfil one or both of the Clearing House's Membership requirements to: (i) participate in a ForexClear "**fire drill**" run by the Clearing House; and (ii) participate in the ForexClear Default Management Process operated by the Clearing House. Where an FXCCM chooses to outsource one or both of these functions it must appoint and maintain at least three LCH Approved Outsourcing Agents.

The following entities are eligible for appointment as an LCH Approved Outsourcing Agent:

- A ForexClear Clearing Member
- any other entity that the Clearing House deems appropriate in its sole discretion.

Where an FXCCM wishes to appoint a third party to carry out any obligation on its behalf, it should contact the Clearing House's Membership Department with the:

- (a) details of the third party entity that the FXCCM wishes to appoint as an LCH Approved Outsourcing Agent. Such information should include details of the applicant's regulatory status;
- (b) evidence of the existence of a legally binding agreement between the FXCCM Clearing Member and the third party; and
- (c) such other information that the Clearing House reasonably considers necessary for the purposes of determining whether an entity should be approved as an LCH Approved Outsourcing Agent.

Following the receipt of all of the information above, the Clearing House shall determine in its sole discretion, whether to approve the third party as an LCH Approved Outsourcing Agent. In making its determination, the Clearing

House shall consider the third party's ability to demonstrate that it has the necessary operational infrastructure and appropriate asset class expertise.

Where an FXCCM successfully appoints an LCH Approved Outsourcing Agent, that FXCCM may be subject to increased margin requirements to cater for the additional time required to invoke an outsourcing process in the event of a default

FXCCMs should note that LCH Approved Outsourcing Agents may be subject to a more rigorous driving test and fire-drill than FXCCM (i.e. required to demonstrate an ability to price and bid a greater number of trades at tighter pricing tolerances and within more onerous timeframes). In addition, the Clearing House may require an FXCCM, that has appointed an LCH Approved Outsourcing Agent, to participate in an ad-hoc fire-drill or driving test with such notice as the Clearing House deems appropriate in its sole discretion.

The Clearing House reserves the right to revoke an entity's status as an LCH Approved Outsourcing Agent, in its sole discretion and without notice. In the event of such a revocation, the relevant FXCCM shall be required to assume those responsibilities that were previously outsourced. Such revocation may occur where the Clearing House considers that there is an insufficient number of third party entities that are providing outsourced default management services (usually a minimum of five providers at any one time).

Other than in exceptional circumstances and in the Clearing House's sole discretion, an LCH Approved Outsourcing Agent may not act on behalf of more than three clearing members.

The appointment of an LCH Approved Outsourcing Agent does not absolve an FXCCM of its obligations under the ForexClear DMP (including its obligation to participate in an Auction) and an LCH Approved Outsourcing Agent's participation in the ForexClear DMP on behalf of an FXCCM, in the event of a default, shall not extend beyond the provision of operational and other ancillary support to that FXCCM.

- 1.10.7 ForexClear DMG: The necessary involvement of FXCCMs and the ForexClear DMG in the ForexClear DMP entails the assessment and dissemination of information that could give rise to conflicts of interest. To ensure that such potential conflicts are demonstrably contained, Schedule 1 (*Confidentiality, non-disclosure and participation in the ForexClear Default Management Group*) establishes binding obligations of confidentiality, anonymity and the extent of dissemination of information on FXCCMs (and their executives or directors who participate from time to time in the ForexClear DMG) and on the Clearing House.

Each FXCCM who makes available a representative to serve on the ForexClear DMG agrees, and shall procure that, to the extent applicable, its representatives agree to be bound by and to ensure that it and any of its executives or directors serving on the ForexClear DMG complies with Schedule 1 (*Confidentiality, non-disclosure and participation in the*

ForexClear Default Management Group) covering confidentiality, non-disclosure and other terms.

1.11 Provision of Tax Forms

The Clearing House and each FXCCM shall provide to each FXCCM or the Clearing House, as relevant, (i) any forms or documents specified in the ForexClear Contract between the Clearing House and the FXCCM and (ii) any other form, document, statement or certification reasonably requested in writing by the FXCCM or the Clearing House in order to allow the FXCCM or the Clearing House to make a payment under the Rules of the Clearing House or any ForexClear Contract without deduction or withholding for or on account of any tax or with such deduction or withholding at a reduced rate unless the Clearing House or the FXCCM can no longer deliver such form, document, statement or certification solely as a result of a change in law (including double tax treaty) or interpretation thereof after the date of the ForexClear Contract between the Clearing House and the FXCCM. In the case of the Clearing House, the forms required pursuant to item (ii) above include an Internal Revenue Service Form W-8BEN. Additionally, the Clearing House will take such further actions as necessary to ensure that payments made to it can be made without deduction or withholding for or on account of any Tax.

1.12 ForexClear Client Clearing

1.12.1 *ForexClear Clearing Client Clearing – Ancillary Documentation*

- (a) *Security Deed*: Unless specified otherwise by the Clearing House, a ForexClear Clearing Member must enter into a Security Deed in respect of its Clearing Clients in relation to amounts due to it from the Clearing House pursuant to the Client Clearing Annex. Further information in relation to such Security Deed is prescribed by the Clearing House from time to time and published on the Clearing House's website.
- (b) *Prescribed Language and End-User Notice*: Pursuant to the Clearing House's General Regulations, each ForexClear Clearing Member is required to ensure that it includes certain language in its agreement with its ForexClear Clearing Client (the "**Clearing House Prescribed Language**"). The Clearing House Prescribed Language is shown at Schedule 2 of Procedure 4 (*Margin and Collateral*) of the Clearing House Procedures.

ForexClear Clearing Clients' attention is drawn to the End-User Notice which is published on the Clearing House's website:

<http://www.lchclearnet.com/about-us/governance/end-user-notice>

1.12.2 *Transactions in Respect of ForexClear Clearing Client Default to FXCCM*

- (a) This Section describes certain transactions that, under certain conditions, can be carried out by an FXCCM in respect of one of its ForexClear Clearing Clients that has defaulted in its obligations to the FXCCM.
- (b) A request or instruction from an FXCCM to the Clearing House to carry out a transaction described in Sections 1.12.3 (*Transfers between Client Accounts and Proprietary Accounts*) or 1.12.4 (*ForexClear Contracts Entered into, or Cancelled, on behalf of Defaulted Clients*) below shall in every case be deemed a representation by the FXCCM to the Clearing House that (i) the affected ForexClear Clearing Client is in default of its obligations to the FXCCM, (ii) the FXCCM has provided and will provide (as applicable) any required notices to the ForexClear Clearing Client of its default and the FXCCM's transactions effected under Sections 1.12.3 (*Transfers between Client Accounts and Proprietary Accounts*) and/or 1.12.4 (*ForexClear Contracts Entered into, or Cancelled, on behalf of Defaulted Clients*) below, and (iii) the FXCCM is permitted by its agreements with the ForexClear Clearing Client and applicable law, and has authority to effect the transactions specified in the FXCCM's requests and/or instructions to the Clearing House in respect of such ForexClear Clearing Client. FXCCMs are not permitted to effect or attempt to effect a transaction described in Sections 1.12.3 (*Transfers between Client Accounts and Proprietary Accounts*) or 1.12.4 (*ForexClear Contracts Entered into, or Cancelled, on behalf of Defaulted Clients*) below where the preceding representations are not satisfied.
- (c) In any other circumstance not covered by Sections 1.12.3 (*Transfers between Client Accounts and Proprietary Accounts*) or 1.12.4 (*ForexClear Contracts entered into on behalf of Defaulted Clients*), a FXCCM may only instruct the Clearing House to transfer a ForexClear Contract from its Client Account to its Proprietary Account in circumstances where the Clearing House has received from the FXCCM:
 - (i) evidence of the relevant ForexClear Clearing Client's consent to such transfer in a form suitable to the Clearing House; and
 - (ii) an indemnity in a form suitable to the Clearing House.

The Clearing House will usually arrange a transfer of any ForexClear Contracts to be transferred pursuant to this paragraph (c) within 24 hours of receipt (to the extent applicable) of the documents listed in sub-paragraphs (i) and (ii) above, unless such transfer is contested by the relevant ForexClear Clearing Client.

1.12.3 *Transfers between Client Accounts and Proprietary Accounts*

- (a) If at any time an early termination date (howsoever described) occurs in respect of one or more of the transactions between a FXCCM and a ForexClear Clearing Client in respect of which such FXCCM is a party to Related ForexClear Contracts and, at the time of such early termination date, the relevant FXCCM is not a Defaulter, the FXCCM may, in connection with a defaulted ForexClear Clearing Client, transfer a ForexClear Contract from the applicable Client Account to its Proprietary Account, provided that the following conditions are met (in addition to any other generally applicable provisions of the Rulebook):
- (i) the representations described above in paragraph (b) of Section 1.12.2 (*Transactions in Respect of ForexClear Clearing Client Default to FXCCM*) are not or would not be breached;
 - (ii) satisfactory evidence of the ForexClear Clearing Client's default in its obligations to the FXCCM is presented to the Clearing House, which evidence may be, to the extent permitted by the Clearing House in its sole discretion, nothing other than the FXCCM's instruction to effect the transfer (provided that the Clearing House shall be entitled to request additional evidence in its discretion);
 - (iii) a copy of a notice served by the FXCCM on the ForexClear Clearing Client alerting that ForexClear Clearing Client of the FXCCM's intention to transfer the relevant ForexClear Contract to the Clearing House;
 - (iv) at all times the FXCCM maintains sufficient Collateral in its Proprietary Account and the applicable Client Account; and
 - (v) on demand from the Clearing House, an indemnity from the FXCCM in a form suitable to the Clearing House is provided to the Clearing House.

For the purposes of this Section 1.12.3 a "**Related ForexClear Contract**" means, in respect of a transaction between a FXCCM and a ForexClear Clearing Client which has been terminated on an early termination date, the open position represented by the ForexClear Contract entered into with the Clearing House by such FXCCM on behalf of the relevant ForexClear Clearing Client on equal and opposite terms to such transaction.

- (b) The Clearing House will typically (but shall not be required to) transfer the relevant ForexClear Contract within 24 hours of receipt of the above.

- (c) A ForexClear Contract transferred in this manner shall be transferred through novation, from the ForexClear Clearing Client to the FXCCM in the case of a transfer from a Client Account to the Proprietary Account, and from the FXCCM to the ForexClear Clearing Client in the case of a transfer from a Proprietary Account to a Client Account.

1.12.4 *ForexClear Contracts Entered into, or Cancelled, on Behalf of Defaulted Clients*

- (a) An FXCCM may register, in the name of a defaulted ForexClear Clearing Client but without the direction of such ForexClear Clearing Client, ForexClear Contracts (including hedging and/or compression transactions) to such Client Account, or cancel ForexClear Contracts without the direction of such ForexClear Clearing Client under the following conditions (in addition to any other generally applicable provisions of the Rulebook):
 - (i) the representations described above in paragraph 1.12.2(b) (*Transactions in respect of ForexClear Clearing Client Default to FXCCM*) are not or would not be breached;
 - (ii) satisfactory evidence of the ForexClear Clearing Client's default in its obligations to the FXCCM is presented to the Clearing House, which evidence may be, to the extent permitted by the Clearing House in its sole discretion, nothing other than the FXCCM's instruction to effect the transfer (provided that the Clearing House shall be entitled to request additional evidence in its discretion);
 - (iii) at all times the FXCCM maintains sufficient Collateral in the applicable Client Account;
 - (iv) a copy of a notice served by the FXCCM on the ForexClear Clearing Client alerting that ForexClear Clearing Client of the FXCCM's intention to register the relevant ForexClear Contract(s) is provided to the Clearing House; and
 - (v) on demand from the Clearing House, an indemnity from the FXCCM in a form suitable to the Clearing House is provided to the Clearing House.
- (b) Such a ForexClear Contract submitted for registration in the name of a defaulted ForexClear Clearing Client must reference the applicable ForexClear Clearing Client and Client Account as would ordinarily occur; however, the transaction may be submitted using either the ForexClear Clearing Client's ForexClear Approved Trade Source System identification number or an alternative ForexClear Approved Trade Source System identification number other than that of the ForexClear Clearing Client (e.g., the FXCCM's ForexClear Approved Trade Source System identification numbers), as applicable.

1.12.5 *Backup Clearing Members:*

A ForexClear Clearing Client may appoint a Backup Clearing Member for the purposes of the porting of the ForexClear Contracts entered into by a ForexClear Clearing Member on its behalf, in accordance with the Client Clearing Annex.

Where, following the Default of a ForexClear Clearing Member, the Clearing House is notified of the existence of such a Backup Clearing Member in respect of a ForexClear Clearing Client, the Clearing House is entitled, in accordance with the Client Clearing Annex, to immediately and without notice to any person, send details of the Relevant Contracts and Account Balances to that appointed Backup Clearing Member. The Clearing House shall not require consent from any person in advance of sending these details.

Note: The appointment by a ForexClear Clearing Client of a Backup Clearing Member and the notification of a Backup Clearing Member to the Clearing House does not mean that ForexClear Contracts will always be transferred to that Backup Clearing Member. Porting of ForexClear Contracts, following a ForexClear Clearing Member's Default is always subject to the Clearing House's receipt of consent from the relevant Backup Clearing Member.

1.13 **Provision of Tax Forms**

The Clearing House and each FXCCM shall provide to each FXCCM or the Clearing House, as relevant, (i) any forms or documents specified in the ForexClear Contract between the Clearing House and the FXCCM and (ii) any other form, document, statement or certification reasonably requested in writing by the FXCCM or the Clearing House in order to allow the FXCCM or the Clearing House to make a payment under the Rules of the Clearing House or any ForexClear Contract without deduction or withholding for or on account of any tax or with such deduction or withholding at a reduced rate unless the Clearing House or the FXCCM can no longer deliver such form, document, statement or certification solely as a result of a change in law (including double tax treaty) or interpretation thereof after the date of the ForexClear Contract between the Clearing House and the FXCCM. In the case of the Clearing House, the forms required pursuant to item (ii) above include an Internal Revenue Service Form W-8BEN. Additionally, the Clearing House will take such further actions as necessary to ensure that payments made to it can be made without deduction or withholding for or on account of any Tax.

1.14 **Indirect Clearing**

1.14.1 In circumstances where an early termination date (howsoever described) occurs in respect of all of the transactions between a ForexClear Clearing Member and a ForexClear Clearing Client acting on behalf of Indirect Clearing Clients comprising an Indirect Omnibus Segregated Account in respect of which such ForexClear Clearing Member (i) is a party to Related ForexClear Contracts and (ii) at the time of such early termination date, is not a Defaulter, that ForexClear Clearing Member may instruct the Clearing House to take one of the following steps:

- (a) in circumstances where (i) the ForexClear Clearing Member notifies a single Backup Client in respect of all of the relevant Indirect Clients and (ii) within such time as the Clearing House may determine of the receipt of the relevant instructions from the ForexClear Clearing Member, the Clearing House has received confirmation in writing from the Backup Client of its agreement to act as Backup Client in relation to the arrangement described in this paragraph (a) (in such form as the Clearing House may require at the relevant time), transfer to the appointed Backup Client all of the open Related ForexClear Contracts and the balance of the Collateral recorded by the Clearing House as being credited to the relevant Indirect Omnibus Segregated Account (a "**Client to Client Porting**");
- (b) transfer the relevant Related ForexClear Contracts from the relevant Indirect Omnibus Segregated Account to a new Omnibus Segregated Account opened within the Clearing House by the relevant ForexClear Clearing Member directly on behalf of the relevant clients (a "**Direct Account Opening**"); or
- (c) transfer the relevant Related ForexClear Contracts from the relevant Indirect Omnibus Segregated Account to its Proprietary Account (an "**Initial Transfer**").

The Clearing House will determine whether a Client to Client Porting or a Direct Account Opening is possible within the period of time considered by the Clearing House (in its sole discretion) to be appropriate in the relevant circumstances and published on its website in relation to the relevant ForexClear Clearing Client. In the event of a determination by the Clearing House that the relevant step is impossible (an "**Impossibility Determination**"), the Clearing House will arrange a transfer of the Related ForexClear Contracts to the ForexClear Clearing Member's Proprietary Account (a "**Fallback Transfer**").

1.14.2 Each of the steps referred to in paragraphs 1.14.1 (a), (b) and (c) above and any Fallback Transfer will be subject to receipt by the Clearing House of the following:

- (a) a copy of the notice from the relevant ForexClear Clearing Member to the relevant ForexClear Clearing Client or from the relevant ForexClear Clearing Client to the relevant ForexClear Clearing Member, copied to each of the relevant Indirect Clearing Clients, designating the relevant early termination date or, if such early termination date has occurred automatically, evidence of the relevant event of default or termination event;
- (b) a copy of a notice served by the relevant ForexClear Clearing Member on the relevant ForexClear Clearing Client and copied to each of the relevant Indirect Clearing Clients, alerting that ForexClear Clearing Client and those Indirect Clearing Clients (i) of its intention to request a Client to Client Porting or a Direct Account Opening (as applicable) in respect of the relevant Related ForexClear Contracts; and (ii) that, in

the event of an Impossibility Determination in respect of a request for Porting or a Direct Account Opening, a Fallback Transfer is likely to occur; and

- (c) an indemnity from the relevant ForexClear Clearing Member in a form suitable to the Clearing House.

Unless contested by the relevant ForexClear Clearing Client, the Clearing House will usually arrange a transfer of Related ForexClear Contracts: (i) in the case of an Initial Transfer, within 24 hours of receipt (to the extent applicable) of the documents listed in paragraphs (a), (b) and (c) of this Section 1.14.2; and (ii) in the case of a Fallback Transfer, within 24 hours of the relevant Impossibility Determination.

For the purposes of this Section 1.14, a "Related ForexClear Contract" has the same meaning as ascribed to such term in Section 1.12.3 save that, in this Section 1.14 the ForexClear Clearing Client is acting on behalf of Indirect Clearing Clients comprising an Indirect Omnibus Segregated Account.

SCHEDULE 1
CONFIDENTIALITY, NON-DISCLOSURE AND PARTICIPATION IN THE
FOREXCLEAR DEFAULT MANAGEMENT GROUP

1. Definitions

- 1.1 **"Confidential Material"** means data (including but not limited to portfolio data) and documents, which are not in the public domain and which are disclosed to the FXCCM, its associated companies and advisers, or to which the FXCCM, its associated companies and advisers obtains or otherwise has access as a result of participation in the ForexClear Default Management Process, (which, for the avoidance of doubt, does not include any information, data or documents provided to the Clearing House by the FXCCM).
- 1.2 **"FXDMG Member"** means an individual appointed by a Nominating FXCCM.
- 1.3 **"Nominating FXCCM"** means a ForexClear Member who, through their obligations under the ForexClear DMP Annex, makes available a representative to serve on the FXDMG.
- 1.4 **"Permitted Purpose"** means proper fulfilment by the FXCCM of its duties under the ForexClear DMP Annex and includes, after the completion of the Auction, the use by the FXCCM its associated companies and advisers (to be determined by it at its discretion) of any data or documents related to portfolios successfully won through the Auction, for the purposes of its own ongoing portfolio management and to enable it to comply with ongoing legal or regulatory requirements.
- 1.5 References denoting the masculine (including **"his"** and **"he"**) shall be construed as the feminine if the FXDMG Member is female.
- 1.6 All other terms have the meaning ascribed to them in the Default Rules (including the ForexClear DMP Annex).

Confidentiality and Non-Disclosure: General Obligations of the FXCCM

2. Confidentiality

- 2.1 The FXCCM agrees that, in consideration of being given Confidential Material, it will keep all such Confidential Material in the strictest confidence, adhere to the provisions of this Agreement in respect thereof and, subject to paragraph 2.3 below, will not disclose it to any person without the prior written permission of the Managing Director, Risk of the Clearing House or a Director of Risk Management of the Clearing House, providing always that the FXCCM shall be relieved of such an obligation of confidentiality in respect of any Confidential Material if :
- (a) it comes into the public domain other than through a breach by the FXCCM of this Agreement; or
 - (b) the FXCCM is expressly obliged to do so by order of a court of competent jurisdiction upon the application of a third party, or as a result of any request to disclose such part or parts of the Confidential Material in connection with

any inquiry or other request by a regulatory authority or self-regulatory authority asserting jurisdiction over the FXCCM.

- 2.2 The FXCCM further agrees that it will not use any Confidential Material for any purpose other than the Permitted Purpose. In this regard the FXCCM expressly acknowledges and agrees that the Confidential Material may contain commercially sensitive information which if used inappropriately or otherwise than in accordance with this Schedule 1 might result in the gaining of an unfair commercial advantage by the FXCCM over other members of the Clearing House ForexClear Service.
- 2.3 Subject to paragraph 2.4 below the FXCCM may disclose any Confidential Material to any of its employees, representatives, associated companies and advisers on a "**strictly need to know**" basis, in the event that any such person needs that Confidential Material for the Permitted Purpose (and to that extent only).
- 2.4 The FXCCM agrees to establish and adhere to adequate procedures (including, without limitation, the establishment of appropriate Chinese walls) to ensure that any employee or representative to whom any Confidential Material is disclosed shall not use any part or all of that Confidential Material for any proprietary purpose outside the scope of the Permitted Purpose.
- 2.5 This paragraph and the duties hereunder shall survive the termination of this Schedule 1 and, in relation to any Confidential Material, shall expire on the second anniversary of the date the Confidential Material was first provided to the FXCCM.

3. **Secrecy**

- 3.1 Except in accordance with the terms of this Schedule 1, the FXCCM agrees that it shall treat as strictly confidential and shall not disclose or allow to be divulged to any person:
 - (a) Confidential Material;
 - (b) the fact that it has received any Confidential Material;
 - (c) the existence of any discussions or negotiations between the parties in this matter.
 - (d) details of the Permitted Purpose and any of the proposals, terms, conditions, facts or other matters relating to any of the forgoing. Subject only to the FXCCM being relieved of such an obligation because of the circumstances covered in paragraphs 2.1(a) and 2.1(b).
- 3.2 The Clearing House undertakes to ensure that the FXCCM is fully apprised of information on the ForexClear Default Management Process that it makes public and which is accordingly of relevance to the FXCCM's obligations.

4. **Property**

The parties acknowledge that the property in the Confidential Material (or any part of it) shall not pass to the FXCCM or any FXCCM, and the property in the media on

which it is conveyed to the receiving party shall not pass to the FXCCM or any FXCCM unless expressly so agreed by the Clearing House in writing.

5. **Return of Confidential Material**

Upon request by the Clearing House, and in any event upon fulfilment of the Permitted Purpose, the FXCCM shall promptly return to the Clearing House by a secure method of transportation all or any part of the Confidential Material and all copies thereof in its possession or control or that of its employees or representatives, including all other papers, programs and records incorporating any of that Confidential Material, or shall destroy such information and shall certify to the Clearing House in writing that it has done so provided that the FXCCM is permitted to retain copies of any Confidential Material which it requires as part of its portfolio management or otherwise for legal or regulatory reasons.

6. **No Representations or Warranties; No Conflict of Interest**

6.1 Subject to references made in Paragraph 7 (*Liability*), the Confidential Material is disclosed by the Clearing House without any representation or warranty whatsoever as to its accuracy or completeness or otherwise.

6.2 The Clearing House acknowledges and agrees that, subject to compliance with the terms of this Schedule 1 by the FXCCM and any of its employees or representatives to whom Confidential Material is provided in accordance with this Schedule 1, the FXCCM's participation in the ForexClear Default Management Process shall not prevent the FXCCM from carrying out any transaction, or otherwise providing investment services in respect of, investments that the FXCCM may subsequently learn are the subject of Confidential Material and, furthermore, the Clearing House agrees that it shall not be able to assert that the FXCCM has a conflict of interest in doing so nor shall the Clearing House have a claim or action in respect of the foregoing against the FXCCM or any of its directors, employees or other representatives.

7. **Liability**

7.1 Subject to Regulation 52 (*Exclusion of Liability*), the parties agree and acknowledge that neither the Clearing House nor any of its employees or representatives shall have any liability whatsoever to the FXCCM or any of its employees or representatives, for any loss or damage of whatsoever kind howsoever arising directly or indirectly out of or in connection with the disclosed Confidential Material or its use.

7.2 The Clearing House accepts liability for any personal injury or death caused by the negligence of the Clearing House and any fraud or wilful default on the part of the Clearing House, for any actions that it may take on the basis of advice given to it by the FXDMG, and for the accuracy of the information (confidential material as defined in this Schedule 1) that it distributes to the FXCCM in connection with the ForexClear Default Management Process.

7.3 Under no circumstances shall the Clearing House have any liability to the FXCCM for (a) any consequential loss or other indirect loss of whatsoever kind or (b) loss of anticipated profit (whether direct or indirect).

8. Remedies

Without affecting any other rights or remedies that the Clearing House may have, the FXCCM acknowledges that the Clearing House may be irreparably harmed by any breach of the terms of this Schedule 1 and that damages alone may not necessarily be an adequate remedy. Accordingly, the Clearing House will be entitled to the remedies of injunction, specific performance and other equitable relief, or any combination of these remedies, for any threatened or actual breach of its terms, and not proof of special damages will be necessary to enforce this Agreement.

Confidentiality and Non-Disclosure and General Terms of Participation in ForexClear Default Management Group

9. Conflict of Interest

The FXCCM shall procure that, in the event that a FXDMG Member takes the view that a possible conflict of interest may arise with regard to any matter forming part of the business of the FXDMG, he shall promptly report his view to the Chairman of the FXDMG, who shall act accordingly, taking the advice of other FXDMG Members as appropriate.

10. Confidentiality

10.1 Subject to paragraph 10.3 below, the FXCCM shall procure that the FXDMG Member shall keep all Confidential Material strictly confidential to himself and will not disclose it to any person who is not a FXDMG Member (including, for the avoidance of doubt, the FXCCM who recommended his appointment to the FXDMG (the Nominating FXCCM) or his employer (if different) or any other employee, adviser, officer or fellow worker of that FXCCM or his employer) without the prior written permission of the Managing Director, Risk of the Clearing House or his properly authorised delegate, providing always that the FXDMG Member shall be relieved of such an obligation of confidentiality in respect of any Confidential Material if it comes into the public domain in the circumstances covered in paragraphs 2.1(a) and 2.1(b) above.

10.2 Subject to paragraph 10.3 below, the FXCCM shall procure that the FXDMG Member shall not use any Confidential Material for any purpose other than the proper fulfilment of his duties as a FXDMG Member.

10.3 The parties acknowledge that, in the event that a Default Notice is issued by the Clearing House in respect of any ForexClear Clearing Member, the FXDMG Member may be required by the Nominating FXCCM and/or his employer (if different) to provide certain services to the Clearing House in the management of the default. In such event, and only in such event, the parties acknowledge that the FXDMG Member shall be entitled to disclose any part or parts of the Confidential Material as may be agreed by the Clearing House, in such manner and form and in accordance with such procedures as may be prescribed by the Clearing House and/or the FXDMG with regard to the management of that default.

10.4 Upon request by the Clearing House, and in any event upon termination of the membership of the FXDMG Member of the FXDMG, the FXCCM shall procure that

the FXDMG Member shall promptly return to the Clearing House by a secure method of transportation all or any part of the Confidential Material and all copies thereof in his possession or control, including all abstracts, notes, drawings and other papers, programs and records incorporating any of that Confidential Material, or shall destroy such information and shall certify to the Clearing House in writing that it has done so, provided that the FXDMG Member is permitted to retain a copy thereof to comply with applicable legal or regulatory requirements.

11. **Warranty and Representation**

The FXCCM represents and warrants that it will procure that:

- (a) the Nominating FXCCM and the FXDMG Member's employer (if different) are aware of the obligations of confidentiality arising out of this Procedure; and
- (b) nothing in this Schedule 1 will cause the FXDMG Member to breach any duty or obligation (whether arising pursuant to contract or otherwise) which he owes to the Nominating FXCCM or to his employer, if different, or any other contract counterparty of the FXDMG Member.

12. **Confidentiality and Non-Disclosure: General Obligations of the Clearing House**

The Clearing House will treat all Confidential Material in the terms envisaged in Schedule 1 (*Confidentiality, non-disclosure and participation in the ForexClear Default Management Group*), confining use to the ForexClear Default Management Process, restricting its availability on a "**strictly need to know basis**", and exercising every duty of care required of it as a Recognised Clearing House and as a Derivatives Clearing Organization.