

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

Definitions

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

Description of the Service

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

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

LCH will record such SwapClear Contracts, and any collateral provided in respect of such SwapClear Contracts, to the relevant client account which the SCM has opened with LCH in respect of its Client(s) (each such account, a "**SwapClear Client Account**").

There are four types of SwapClear Client Account:

1. **Individual Segregated Account ("ISA")** – This is an account which an SCM opens in respect of a single Client. The SCM will provide collateral to LCH in respect of the SwapClear Contracts the SCM enters into in respect of such Client. LCH will record such SwapClear Contracts and collateral to the account.
2. **Custodial Segregated Account** – This is an account which an SCM opens in respect of a single Client and is the same as ISA, except that the Client has the option to provide collateral directly to LCH in addition to, or instead of, the SCM providing collateral to LCH. LCH will record any SwapClear Contracts the SCM enters into in respect of such Client, as well as any collateral the SCM and/or the Client provides to LCH in respect of such SwapClear Contracts, to the account.
3. **Omnibus Segregated Account ("OSA")** – This is an account which an SCM opens in respect of multiple Clients. The SCM will provide collateral to LCH in respect of the SwapClear Contracts the SCM enters into in respect of any such Client. LCH will record such SwapClear Contracts and collateral to the account.
4. **Indirect Accounts** – There are two types of Indirect Account:

- (a) **Indirect Gross Account** – This is an account which an SCM opens in respect of a single Client, who is, in turn, providing clearing services to its clients. The SCM will provide collateral to LCH in respect of the SwapClear Contracts the SCM enters into in respect of the Client. LCH will record such SwapClear Contracts and collateral to the account. The account operates in the same way as an ISA, but with certain characteristics resulting from European regulation applicable to indirect clearing services¹, including that LCH will determine margin requirements on a “gross” basis for this account, meaning that such requirements will be determined, separately, in respect of the SwapClear Contracts referable to a particular indirect client, rather than on a net basis across all SwapClear Contracts registered to the account; and
- (b) **Indirect Net Account** – This is a type of OSA which an SCM opens in respect of multiple Clients who are, in turn, providing clearing services to their clients. The SCM will provide collateral to LCH in respect of the SwapClear Contracts the SCM enters into in respect of any such Client. LCH will record such SwapClear Contracts and collateral to the account.

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

Portfolio Margining

The Portfolio Margining Service is an optional service available which provides portfolio-margining functionality in respect of pairs of accounts which are held in the SwapClear Service and the Listed Interest Rates Service. This potentially enables the transfer of Eligible Listed Interest Rates Contracts between a Listed Interest Rates Service Client Account and a SwapClear Client Account, in order to reduce the amount of collateral that must be provided to LCH in respect of Contracts recorded to such Client Accounts. Please see section 2 of Section 2C of the LCH Procedures for more information on this optional service.

Client Money and Client Assets Rules

LCH, a recognised central counterparty, is authorised under Regulation (EU) No. 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories and is supervised by the Bank of England within the UK regulatory framework.

LCH is not subject to the Financial Conduct Authority’s client assets and client money rules (the "**CASS Rules**"). As a result, SwapClear Client Accounts do not benefit

¹ This European regulation is:

- (a) Article 30 of Regulation (EU) No. 600/2014;
(b) <https://ec.europa.eu/transparency/regdoc/rep/3/2017/EN/C-2017-6270-F1-EN-MAIN-PART-1.PDF>; and
(c) <http://ec.europa.eu/transparency/regdoc/rep/3/2017/EN/C-2017-6268-F1-EN-MAIN-PART-1.PDF>.

from the client money or client asset protections afforded by the CASS Rules. Please contact your SCM for further details.

Porting and Close-Out

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

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

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

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

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

A Client may be required to enter into appropriate legal commitments or agreements with LCH in order to facilitate Porting or Close-out. Additional information is available at www.lch.com/members-clients/members/fees-ltd/annual-account-structure-fees.

Discounting Rate Transition

The following documents are available at the links below, in connection with the change in the discounting rate from the Fed Funds Rate to the Secured Overnight Financing Rate ("**SOFR**"), and from the Euro Overnight Index Average to the Euro Short Term Rate:

1. The LCH SOFR risk disclosure, which is located at <https://www.lch.com/risk-management/risk-management-ltd/ltd-risk-notice/lchs-transition-fed-funds-sofr-discounting-its>; and

2. General Regulation 60B and the 'SwapClear SCM Service – Rate Change Annex – Euro Short Terms Rate (€STR)' and the 'SwapClear SCM Service – Rate Change Annex – Secured Overnight Financing Rate (SOFR)' within Section 2C of the LCH Procedures, which are located at www.lch.com/resources/rules-and-regulations/ltd-rulebooks.