LCH The Markets' Partner

CDSClear

LCH SA
CDS Clearing Procedures

Section 4 - Eligibility Requirements

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Capitalised terms used in this Eligibility Requirements Procedure and not otherwise defined herein shall have the meaning given pursuant to the remainder of the CDS Clearing Documentation, the ISDA Credit Derivatives Definitions or the 2006 Definitions, as such terms are defined in the document entitled "CDS Clearing Rule Book" published by LCH SA, as amended from time to time.

4.1 ELIGIBILITY REQUIREMENTS

(a) LCH SA provides CDS Clearing Services in relation to Original Transactions which comply with the requirements set out in paragraph 4.1(c) below (the "**Eligibility Requirements**").

(b) Following receipt from DTCC of the Gold Records File on a Weekly Backloading Start Day, LCH SA will extract the Original Transaction Data in relation to the relevant Backloading Transaction. Such Backloading Transaction will then be subject to the Eligibility Controls pursuant to Article 3.1.1.3 of the CDS Clearing Rule Book.

(c) The following criteria shall constitute the Eligibility Requirements of an Original Transaction for the purposes of Section 3.1.1 (*Weekly Backloading Cycle*), Section 3.1.2 (*Daily Backloading Cycle*) and Section 3.1.4 (*Intraday Process*) of the CDS Clearing Rule Book:

(i) the relevant Clearing Member is not: (I) a Clearing Member that has been suspended in accordance with Section 2.4.1 (*Suspension*) of the CDS Clearing Rule Book; (II) a Defaulting Clearing Member; (III) a Clearing Member in respect of which a Payment Failure has occurred and is continuing; (IV) a Clearing Member that is no longer permitted to introduce risk to LCH SA in accordance with Section 2.2.4 of the CDS Clearing Rule Book; or (V) in respect of an Original Transaction that is an Index Swaption Intraday Transaction, a Clearing Member that is not registered for the Index Swaption Clearing Service;

(ii) LCH SA is permitted, pursuant to Applicable Law, to clear such Original Transaction for the relevant Clearing Member's own account (or for that of its Client or Affiliate, as applicable);

(iii) the Original Transaction is:

(A) subject to paragraphs 4.1(c)(iv)-(v) and paragraph 4.2 below, a CDS referencing an Index Version (as such term is defined in paragraph 4.2(a) below) provided that the following requirements, as set out in the Eligible Index Versions List (as such term is defined in paragraph 4.2(d) below) are met:

(1) the Index Version is an Eligible Index Version (as such term is defined in paragraph 4.2(b) below);

(2) the term is an Eligible Term (as such term is defined in paragraph 4.2(c) below); and

(3) the currency of the Original Notional Amount is eligible for clearing; or

(B) subject to paragraphs 4.1(c)(iv)-(v) and paragraph 4.3 below, a CDS referencing a single Reference Entity (a "**Single Name CDS**"), provided that the following requirements are met:

(1) the Reference Entity is an Eligible Reference Entity (as such term is defined in paragraph 4.3(a) below) in respect of the relevant ISDA Credit Derivatives Definitions;

(2) the Reference Obligation is an Eligible Reference Obligation (as such term is defined in paragraph 4.3(b)(ii) below) for such Reference Entity in respect of the relevant ISDA Credit Derivatives Definitions;

(3) in respect of an Original Transaction which incorporates the Credit Derivatives Physical Settlement Matrix: the Transaction Type is an Eligible Transaction Type (as such term is paragraph 4.3(b)(iv) below);

(4) in respect of an Original Transaction which does not incorporate the Credit Derivatives Physical Settlement Matrix: such Original Transaction is documented by a master confirmation which sets out terms which are substantially similar to those provided for in the Credit Derivatives Physical Settlement Matrix in respect of an Eligible Transaction Type;

(5) in respect of an Eligible Transaction Type which is "Standard North American Corporate" (as such term is defined in the Physical Settlement Matrix), "Restructuring" is not specified as "Applicable";

(6) the currency of the Floating Rate Payer Calculation Amount is eligible for clearing;

(7) the Fixed Rate is an Eligible Fixed Rate for such Reference Entity (as such term is defined in paragraph 4.3(b)(i) below);

(8) the Fixed Rate Payer Payment Dates are 20 March, 20 June, 20 September and 20 December (each such date, a "**Standard Payment Date**");

(9) the Scheduled Termination Date is an Eligible Scheduled Termination Date (as such term is defined in paragraph 4.3(b)(vii) below);

(10) no valid Credit Event Notice in relation to an M(M)R Restructuring Credit Event in respect of the Reference Entity has been delivered; and

(11) the Reference Entity is neither the relevant Clearing Member, an Affiliate of the relevant Clearing Member nor, where the relevant Clearing Member has also entered into a Client Transaction corresponding to such Original Transaction, the relevant Client or an Affiliate of the Client.

The requirements mentioned in sub-paragraphs (1), (2), (6) and (8) are set out in the Eligible Reference Entities List (as such term is defined in paragraph 4.3(c) below); or

(C) subject to paragraph 4.4 below, an Index Swaption Intraday Transaction provided that the following requirements, as set out in the Eligible Index Swaptions List (as such term is defined in paragraph 4.4 (c) below), are met:

(1) the Expiration Date is an Eligible Expiration Date (as such terms are defined in paragraph 4.4(b) below);

(2) the Index Version of the Underlying Index Transaction is an Eligible Underlying Index Transaction Version (as such term is defined in paragraph 4.4 (b) below);

(3) with respect to each Eligible Underlying Index Transaction Version:

(x) the term is an Eligible Term (as such term is defined in paragraph 4.4(b) below);

(y) the currency of the Original Notional Amount is eligible for clearing; and

(z) no valid Credit Event Notice in relation to an M(M)R Restructuring Credit Event in respect of a Reference Entity referenced by that Underlying Index Transaction has been delivered.

For the avoidance of doubt, the requirements set out in this sub-paragraph 4.1(c)(iii) are checked solely on the basis of the Original Transaction Data received from an Approved Trade Source System or DTCC, as applicable. LCH SA is not aware of, and does not check, the actual terms of the confirmation of the Original Transactions;

(iv) in respect of an FCM Client, a U.S. CCM Client of a Non-U.S. CCM or a CCM Client of a U.S. CCM, the Original Transaction may not be a Single Name CDS or any other SBS identified as such in a Clearing Notice;

(v) in respect of a Non-U.S. CCM Client, the Original Transaction may not be a Single Name CDS or any other SBS identified as such in a Clearing Notice unless such transaction is cleared through a Non-U.S. CCM;

(vi) in respect of:

(A) an Original Transaction that is a CDS, that Original Transaction references an Eligible Index Version or an Eligible Reference Entity; or

(B) an Original Transaction that is an Index Swaption, that Original Transaction is an Eligible Index Swaption

which has a First Novation Date that has occurred on or prior to the Clearing Day on which the Original Transaction is received by LCH SA and a Novation Cut-off Date that has not occurred on or prior to such Clearing Day;

(vii) in respect of an Intraday Transaction, the trade reference for:

(A) each of the protection buyer and protection seller, in respect of an Intraday Transaction that is a CDS Intraday Transaction; or

(B) each of the Swaption Buyer and Swaption Seller, in respect of an Intraday Transaction that is a Index Swaption Intraday Transaction,

to be used when booking the trade in DTCC has been included together with the Transaction Data;

(viii) in respect of a Daily Backloading Transaction, the Daily Backloading Novation Day does not fall on the day preceding a Standard Payment Date;

(ix) the clearing of the Original Transaction by LCH SA will not result in a breach by a Clearing Member of its obligations under any Applicable Law; and

(x) in respect of a Backloading Transaction that is entered into on or after 3 January 2018, that Backloading Transaction is not subject to Mandatory Clearing and the parties to that Backloading Transaction did not agree at the time of execution for the transaction to be subject to clearing.

For the purpose of the application of sub-paragraphs (iv) and (v) above, a CCM (and not LCH SA) shall be responsible for (i) determining whether each of its CCM Clients is a Non-U.S. CCM Client or a U.S. CCM Client, and (ii) informing the CDSClear Business Development & Relationship Management team of such determination when providing the Client Clearing Form (as such term is defined in Section 1 of the Procedures), or thereafter by email at cdsclearbusinessdevrm@lch.com if a change of status occurs in respect of a CCM Client. LCH SA shall not be held liable for any such determinations made by a CCM.

(d) The Eligibility Requirements shall be deemed satisfied if the relevant Original Transaction is not rejected, pursuant to the CDS Clearing Rule Book, prior to the Novation Time.

(e) If the Eligibility Requirements set out in paragraphs 4.1(c) above are deemed satisfied at the Novation Time in respect of an Original Transaction, pursuant to paragraph 4.1(d) above, then LCH SA shall, in accordance with Section 3.1.1 (*Weekly Backloading Cycle*), Section 3.1.2 (*Daily Backloading Cycle*) and Section 3.1.4 (*Intraday Process*) of the CDS Clearing Rule Book, as applicable, novate such Original Transaction in accordance with Section 3.1.6 (*Novation Process*) of the CDS Clearing Rule Book.

(f) For the avoidance of doubt, Article 3.1.6.4 of the CDS Clearing Rule Book shall apply regardless of whether the Eligibility Requirements were in fact satisfied.

4.2 ELIGIBLE INDEX VERSIONS

(a) "**Index Version**" is defined as a version of a CDS index series as issued by the Index Publisher.

(b) LCH SA will, in consultation with the CDSClear Product Committee, identify the Index Versions which shall be considered as "**Eligible Index Versions**".

(c) With respect to each Eligible Index Version, LCH SA will, in consultation with the CDSClear Product Committee, determine, without limitation:

(i) each term which is eligible for clearing (an "**Eligible Term**"); and

(ii) the currency of the Original Notional Amount which is eligible for clearing.

(d) The Eligible Index Versions identified in accordance with paragraph 4.2(b) as well as the Eligible Terms shall be set out in a table published on the Website (the "**Eligible Index Versions List**").

(e) LCH SA may, in consultation with the CDSClear Product Committee, amend the Eligible Index Versions List and following such amendment will inform the Clearing Members of:

(i) in the case of an addition of an Eligible Index Version to such list, the relevant First Novation Date; or

(ii) in the case of a deletion of an Eligible Index Version from such list, the relevant Novation Cut-off Date.

(f) Notwithstanding the above:

(i) a Novation Cut-off Date or a First Novation Date arising as a result of the occurrence of a Credit Event or a Succession Event shall be determined in accordance with the CDS Clearing Supplement; and

(ii) if and for so long as any Clearing Member has one or more Open Position(s) registered in any of its Margin Accounts, such Clearing Member may submit for clearing an Original Transaction which does not meet the Eligibility Requirements set out in paragraph 4.1(c)(iv) pursuant to the CDS Clearing Documentation if such Original Transaction is a risk reducing transaction (as determined by LCH SA) in respect of the relevant Margin Account and it is not unlawful or illegal for LCH SA to accept such Original Transaction for clearing.

4.3 ELIGIBLE REFERENCE ENTITIES

(a) LCH SA will, in consultation with the CDSClear Product Committee, identify the Reference Entities which shall be considered as **"Eligible Reference Entities"** under each of the 2003 ISDA Credit Derivatives Definitions and the 2014 ISDA Credit Derivatives Definitions.

(b) With respect to each Eligible Reference Entity under the 2003 ISDA Credit Derivatives Definitions and/or the 2014 ISDA Credit Derivatives Definitions, LCH SA

will, in consultation with the CDSClear Product Committee, determine, without limitation, the following characteristics:

(i) each Fixed Rate that is eligible for clearing (an "**Eligible Fixed Rate**");

(ii) each Reference Obligation that is eligible for clearing (an "**Eligible Reference Obligation**");

(iii) the Reference Obligation under which the Cleared Transaction(s) on the Eligible Reference Entity will be registered (the "**CDSClear Preferred Reference Obligation**") where no Standard Reference Obligation is published for this Eligible Reference Entity;

(iv) the Transaction Type that will be eligible for clearing with respect to each relevant Eligible Reference Entity (the "**Eligible Transaction Type**");

(v) the currency(ies) of the Floating Rate Payer Calculation Amount that is, or are, eligible for clearing with respect to each relevant Eligible Reference Entity;

(vi) the date of publication of the Credit Derivatives Physical Settlement Matrix which the Cleared Transaction(s) on the Eligible Reference Entity will reference (the "**Relevant Physical Settlement Matrix**"); and

(vii) each Scheduled Termination Date that is eligible for clearing (the "**Eligible Scheduled Termination Date**").

(c) The Eligible Reference Entities identified in accordance with paragraph 4.3(a) above as well as the characteristics mentioned in paragraph 4.3(b) above shall be set out in a table published on the Website (the "**Eligible Reference Entities List**").

(d) LCH SA may, in consultation with the CDSClear Product Committee, amend the Eligible Reference Entities List by issuing a Clearing Notice. Any such Clearing Notice shall specify:

(i) in the case of an addition of an Eligible Reference Entity to such list, the relevant First Novation Date;

(ii) in the case of a deletion of an Eligible Reference Entity from such list, the relevant Novation Cut-off Date; or

(iii) in the case of an amendment to the characteristics of any Eligible Reference Entity, the Clearing Day on which such amendment shall take effect in accordance with Article 1.2.2.8 of the CDS Clearing Rule Book.

(e) Notwithstanding the above:

(i) a Novation Cut-off Date or a First Novation Date arising as a result of the occurrence of a Credit Event, a Succession Event or a Rename Event shall be determined in accordance with the CDS Clearing Supplement; and

(ii) if and for so long as any Clearing Member has one or more Open Position(s) registered in any of its Margin Accounts, such Clearing Member may submit

for clearing an Original Transaction which does not meet the Eligibility Requirements set out in paragraph 4.1(c)(iv) pursuant to the CDS Clearing Documentation if such Original Transaction is a risk reducing transaction (as determined by LCH SA) in respect of the relevant Margin Account and it is not unlawful or illegal for LCH SA to accept such Original Transaction for clearing.

4.4 ELIGIBLE INDEX SWAPTIONS

(a) LCH SA will, in consultation with the CDSClear Product Committee, identify the Index Swaptions which shall be considered as "**Eligible Index Swaptions**".

(b) LCH SA will, in consultation with the CDSClear Product Committee, determine, without limitation, the following characteristics of an Eligible Index Swaption:

(i) each Expiration Date that is eligible for clearing (an "**Eligible Expiration Date**");

(ii) each Index Version of the Underlying Index Transaction which is eligible for clearing (an "**Eligible Underlying Index Transaction Version**") and with respect to each Eligible Underlying Index Transaction Version:

(A) each term which is eligible for clearing (an "**Eligible Term**"); and

(B) the currency of the Original Notional Amount which is eligible for clearing.

(c) The Eligible Index Swaptions identified in accordance with paragraph 4.4(a) as well as the characteristics mentioned in paragraph 4.4(b) above shall be set out in a table published on the Website (the "**Eligible Index Swaptions List**").

(d) LCH SA may, in consultation with the CDSClear Product Committee, amend the Eligible Index Swaptions List and following such amendment will inform the Clearing Members of:

(i) in the case of an addition of an Eligible Index Swaption to such list, the relevant First Novation Date; or

(ii) in the case of a deletion of an Eligible Index Swaption from such list, the relevant Novation Cut-off Date.

(e) Notwithstanding the above:

(i) a Novation Cut-off Date or a First Novation Date arising as a result of the occurrence of an M(M)R Restructuring Credit Event shall be determined in accordance with the CDS Clearing Supplement; and

(ii) if and for so long as any Clearing Member has one or more Open Position(s) registered in any of its Margin Accounts, such Clearing Member may submit for clearing an Original Transaction which does not meet the Eligibility Requirements set out in paragraph 4.1(c)(vi) pursuant to the CDS Clearing Documentation if such Original Transaction is a risk reducing transaction (as determined by LCH SA) in respect of the relevant Margin Account and it is

not unlawful or illegal for LCH SA to accept such Original Transaction for clearing.