

*This Client Clearing End-User Notice (this "**Notice**"), in respect of LSE Derivatives Markets Client Clearing Business, is provided for information only and is neither a full description of the LSE Derivatives Markets 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 LSE Derivatives Markets Clearing Member ("**LSEDM Clearing Member**") who engages in LSE Derivatives Markets Client Clearing Business provides the Service to one or more of its LSE Derivatives Markets Clearing Clients (each, a "**Client**").

The Service operates on the basis that LCH enters into one or more LSE Derivatives Markets Clearing Exchange Contracts with the LSEDM Clearing Member on a principal to principal basis, and such LSEDM Clearing Member enters into one or more matching transactions with any relevant Client on the same economic terms as the LSE Derivatives Markets Clearing Exchange Contracts.

LCH records such LSE Derivatives Markets Clearing Exchange Contracts, and any collateral provided in respect of such Contracts, to the relevant client account which the LSEDM Clearing Member has opened with LCH in respect of its Client(s) (each such account, an "**LSE Derivatives Markets Client Account**").

There are three types of LSE Derivatives Markets Client Account:

1. **Individual Segregated Account ("ISA")** – This is an account which a LSEDM Clearing Member opens in respect of a single Client. The LSEDM Clearing Member will provide collateral to LCH in respect of the LSE Derivatives Markets Cleared Exchange Contracts the LSEDM Clearing Member enters into in respect of such Client. LCH will record such LSE Derivatives Markets Cleared Exchange Contracts and collateral to the account.
2. **Omnibus Segregated Account ("OSA")** – This is an account which an LSEDM Clearing Member opens in respect of multiple Clients. The LSEDM Clearing Member will provide collateral to LCH in respect of the LSE Derivatives Markets Cleared Exchange Contracts the LSEDM Clearing Member enters into in respect of any such Client. LCH will record such LSE Derivatives Markets Cleared Exchange Contracts and collateral to the account.
3. **Indirect Accounts** – There are two types of Indirect Account:

- (a) **Indirect Gross Account** – This is an account which an LSEDM Clearing Member opens in respect of a single Client, who is, in turn, providing clearing services to its clients. The LSEDM Clearing Member will provide collateral to LCH in respect of the LSE Derivatives Markets Clearing Exchange Contracts the LSEDM Clearing Member enters into in respect of the Client. LCH will record such LSE Derivatives Markets Clearing Exchange 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 LSE Derivatives Markets Clearing Exchange Contracts referable to a particular indirect client, rather than on a net basis across all LSE Derivatives Markets Clearing Exchange Contracts registered to the account; and
- (b) **Indirect Net Account** – This is a type of OSA which an LSEDM Clearing Member opens in respect of multiple Clients who are, in turn, providing clearing services to their clients. The LSEDM Clearing Member will provide collateral to LCH in respect of the LSE Derivatives Markets Clearing Exchange Contracts the LSEDM Clearing Member enters into in respect of any such Client. LCH will record such LSE Derivatives Markets Clearing Exchange Contracts and collateral to the account.

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

Client Money and Client Assets Rules

LCH, 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, LSE Derivatives Markets Client Accounts do not benefit from the client money or client asset protections afforded by the CASS Rules. Please contact your LSEDM Clearing Member for further details.

Indirect Accounts

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>.

Where an LSE Derivatives Markets Cleared Exchange Contract that a Clearing Member has entered into with LCH, in respect of a Client, is registered to an Indirect Account within the LSE Derivatives Markets Service, such Contract shall, at the point of Conversion², cease to be registered to such Indirect Account and shall, instead, be registered to such Client Account (which is not an Indirect Account) within the EquityClear Service as LCH determines and which such Clearing Member has opened in respect of the Client.

Porting and Close-Out

If an LSEDM Clearing Member of a Client becomes a Defaulter, then either:

1. **Port** – LCH will port the LSE Derivatives Markets Cleared Exchange Contracts and associated collateral recorded to the LSE Derivatives Markets Client Account, in respect of such Client, to a substitute LSEDM Clearing Member 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 LSE Derivatives Markets Cleared Exchange Contracts and transfer any resulting net collateral balance to the Client (or to the LSEDM Clearing Member which is a Defaulter for the account of the Client) in accordance with, and subject to, the Default Rules ("**Close-out**").

A Client may not, at any time prior to the Default of its LSEDM Clearing Member, instruct LCH as to the treatment of LSE Derivatives Markets Client Account(s) that such LSEDM Clearing Member has opened in respect of the Client, except to notify LCH of any substitute LSEDM Clearing Member 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 LSEDM Clearing Member 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 LSEDM Clearing Member 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 LSEDM Clearing Member of a Client becomes a Defaulter. In some jurisdictions, the Security Deed may need to be registered or filed as a security arrangement and there may be other legal or regulatory requirements or obligations under the law of such jurisdictions (collectively, the "**Requirements**"). Accordingly, a Client should be aware that its rights under the Security Deed may depend, *inter alia*, upon any applicable Requirements being fulfilled and a Client should take advice as to such Requirements.

² "Conversion" is defined in section 1.15 of Section 2D of the Procedures:
www.lch.com/documents/731485/762691/section-2d-of-the-procedures-ba-+9-june-17.pdf/bff2b862-06d0-4cc5-a148-0ad10b7845da

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.