

## FCM Rates Service Default Management Disclosure Notice

### 1. Introduction

LCH Limited (the “**Clearing House**”) provides a clearing service in respect of certain interest rate swaps (the “**SwapClear Service**”) to its members (each, a “**FCM SwapClear Member**”) and a separate clearing service in respect of certain exchange-traded futures contracts (the “**FCM Listed Interest Rates Service**”) to its members (each, a “**Listed Interest Rates Clearing Member**”). The SwapClear Service and the Listed Interest Rates Service are combined into one single service (the “**Rates Service**”), which shares a common default fund and default management arrangements. This Rates Service default management disclosure notice (“**Notice**”) is intended to provide FCM Clients with important information regarding the Rates Service default management arrangements.

Capitalised terms used, but not defined, in this Notice shall have the meanings specified in the Clearing House’s FCM Regulations, FCM Procedures, Default Rules and Settlement Finality Regulations, as published at [www.lch.com](http://www.lch.com) and amended from time to time.

### 2. Portfolio Margining Service

The Clearing House permits FCM Joint Rates Service Clearing Members (i.e. FCM SwapClear Members that are also FCM Listed Interest Rates Clearing Members) the right to participate in its portfolio margining service (the “**Portfolio Margining Service**” and each such member, a “**Portfolio Margining Clearing Member**”), whereby Listed Interest Rates Contracts are commingled with economically-correlated FCM SwapClear Contracts. All FCM Contracts commingled in this way are treated as FCM SwapClear Contracts for margining purposes. A Portfolio Margining Clearing Member may also use the Portfolio Margining Service in respect of its FCM Client Sub-Accounts and FCM Clients, subject to the eligibility criteria set out in the FCM Procedures.

### 3. Default Management

The Clearing House has adapted its Rates Service default management process (“**Rates Service DMP**”) to account for the commingling of FCM Listed Interest Rates Contracts with SwapClear Contracts, as a consequence of the Portfolio Margining Service.

#### 3.1 *Porting*

If a Portfolio Margining Clearing Member becomes a Defaulter, the Clearing House will seek to port the Defaulter’s FCM Portfolio Margined Contracts and FCM SwapClear Contracts, and associated Collateral, that are recorded to one or more FCM Client Sub-Account(s) to another member that is also a Portfolio Margining Clearing Member in accordance with, and subject to, the Default Rules.

#### 3.2 *Hedging and auction*

The Clearing House may determine that the FCM Contracts and Collateral recorded to a Non-Porting FCM Client Account will not port to another member under the Default Rules and will establish one or more notional default management accounts (each, a “**DMA**”), to which it will transfer one or more Set of Non-Porting Contracts, in order to hedge and auction such FCM Contracts to Non-Defaulting SCMs.

As each DMA is a notional account only, the establishment and operation of the DMAs does not involve any actual commingling of the FCM Contracts or Collateral relating to any FCM Clients following the Default of the FCM Clearing Member. Rather, the use of the DMAs is to facilitate the efficient hedging and liquidation of the Defaulter's Contracts that are notionally transferred to any such DMA.

The Clearing House may determine, on a particular day, that a Set of Non-Porting Contracts from a number of Non-Porting FCM Client Accounts will be transferred to one or more DMA(s), regardless of the FCM Clients for whom such Contracts are held. Therefore, the FCM Contracts that the Defaulter held for one FCM Client may be notionally referenced in a DMA with FCM Contracts that the Defaulter held for a different FCM Client. Similarly, an FCM Client that participates only in the SwapClear Service may find that the FCM SwapClear Contracts held for it by the Defaulter are notionally referenced in a DMA with FCM Listed Interest Rates Contracts and FCM SwapClear Contracts held for other FCM Clients. The Clearing House will hedge and auction the FCM Contracts within a DMA a collective basis.

Hedging costs, changes in the net present value of Contracts, and auction gains and losses, arising in respect of FCM Contracts referenced in a DMA will be allocated to each relevant Non-Porting FCM Client Account in accordance with the methodology specified under Section 2.1.17(f) of the FCM Procedures.

While the Clearing House believes that hedging and auctioning FCM Contracts recorded to Non-Porting FCM Client Accounts on a collective basis is efficient and cost effective, and that the method of allocation of hedging costs, losses and gains arising from FCM Contracts referenced in the DMAs is fair, there can be no assurance that a particular Non-Porting FCM Client Account's gains or losses will be equal to those it would have received or incurred had its FCM Contracts been hedged and auctioned separately and not allocated to a DMA.

#### **4. More Information**

More information regarding (a) the Portfolio Margining Service (including eligibility requirements) can be found in the FCM Procedures, and (b) the Clearing House's arrangements for hedging and auctioning Contracts recorded to Non-Porting FCM Client Accounts can be found at Section 2.1.17(f) of the FCM Procedures.

#### **Important Note**

This Notice is provided for information purposes only and does not constitute a full description of the default management arrangements applicable to the Clearing House's Rates Service. In providing this Notice, the Clearing House is not making any recommendation or providing any advice to any person in relation to the use, economic consequences or selection of any particular level of protection and/or account type.

The Clearing House makes no representation, warranty or guarantee (express or implied) as to the accuracy or completeness of the information in this Notice and gives no undertaking to supplement, update, revise or correct such information. You may not rely upon the information in this Notice and should seek your own independent legal, investment, tax and other advice.

The Clearing House shall have no liability to any person, whether arising in tort, contract, trust, as a fiduciary or otherwise, for any loss, claim, demand, action, cost or expense of any nature arising out of, or in connection with, the information in this document (except that the Clearing House accepts liability that cannot be excluded by applicable law).