
LCH LIMITED
PROCEDURES SECTION 4
MARGIN AND COLLATERAL

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1. Collateral

1.1 GENERAL INFORMATION

The Clearing House is, at its sole discretion, entitled to determine what will be acceptable to it as Collateral and to determine when collateral will cease to be acceptable as Collateral.

If any cash, instrument or security, lodged in accordance with any of the following Procedures, is in any way found to be unacceptable, it will immediately be given a zero value for the purposes of calculating the value of the Clearing Member Current Collateral Balance (the "**Current Collateral Value**").

1.1.1 Instructions

The Clearing House accepts instructions to lodge, release and transfer cash, securities and triparty Collateral via its online CMS and/or any other operational process the Clearing House determines.

If there is an outage of the CMS (or if the Clearing House decides it is appropriate), a Clearing Member may send certain instructions using the appropriate form, by email to: collateral.clientservices@lseg.com.

Collateral Operations can be contacted on [+44 20 7426 7505](tel:+442074267505). A copy of the appropriate form is available here: [LCH Ltd Acceptable Securities | LCH Group](#).

The Clearing House may act upon instructions or communications appearing to have been issued by or on behalf of, or to have come from, a Clearing Member. These will be accepted by the Clearing House as genuine even if, for example, they are later found:

- (a) to be inaccurate, whether in whole or in part; or
- (b) not to have been given by the Clearing Member or with the authority of the Clearing Member.

The Clearing House will only accept delivery of non-cash Collateral from a Clearing Member in accordance with these Procedures and will not sell or purchase cash or non-cash Collateral for Clearing Members, except in so far as it is acting under its Default Rules and related Regulations or in relation to Exchange Rules.

The Clearing House reserves the right to require a Clearing Member to execute revised versions of the Deed of Charge whenever the Clearing House, at its sole discretion, considers that it would be appropriate to do so.

The Clearing House reserves the right to change the information required on instructions received via the CMS or via the relevant form whenever the Clearing House, at its sole discretion, considers that it would be appropriate to do so.

1.1.2 *Excess Collateral*

The Clearing House shall, at least once on each business day, notify each Clearing Member of the Required Margin Amount and the Total Required Margin Amount.

If a Clearing Member's Current Collateral Value exceeds the sum of that Clearing Member's Total Required Margin Amount and any other amounts which the Clearing Member is required to transfer to the Clearing House under Applicable Law (such excess, "**excess collateral value**"), then that Clearing Member may, in accordance with Sections 1.3 and 1.4 of these Procedures, Section 1.3.1(f) of Section 3 of the Procedures (*Financial Transactions*) and/or any other operational process the Clearing House determines, request that some or all of the Collateral comprising its Clearing Member Current Collateral Balance (other than any Client Collateral) having a value not exceeding the excess collateral value (such Collateral being referred to in these Procedures as "**excess collateral**") be returned or repaid by the Clearing House to, or to the order of, that Clearing Member. For the avoidance of doubt, for the purposes of determining whether there is an excess collateral value (for the purposes of this Section 1.1.2) at the time of the Clearing Member's request, the Clearing Member's Total Required Margin Amount shall not include the amounts of any margin requirements from the Clearing Member to the Clearing House (whether or not demanded of the Clearing Member) in respect of which the time for performance has not occurred at the time of such request.

In the event that the Clearing House expressly notifies the Clearing Member of a positive excess collateral value and that the Clearing House intends to levy a charge in respect of the excess collateral with effect from a date notified in that notification, and the Clearing Member does not take all reasonable steps to eliminate the positive excess collateral value before the date so notified, the Clearing House may, in its discretion, but only from the date so notified, charge the Clearing Member in respect of the excess collateral at the rate of 1 basis point per day until the excess collateral is eliminated. Payment of this charge shall be collected on a monthly basis through that Clearing Member's PPS sterling account.

If the Clearing House has received a request to return excess collateral, the Clearing House shall promptly take such steps as are necessary to transfer the amount of excess collateral specified in that request to or to the order of the relevant Clearing Member in respect of each account held by the Clearing Member with the Clearing House, provided that:

- (a) the Clearing House shall only be obliged to take such steps with respect to any Collateral pursuant to this Section 1.1.2:
 - (i) to the extent that it constitutes excess collateral;
 - (ii) if the Clearing Member is not a Defaulter;

- (iii) to the extent the Clearing House is permitted to take such steps and make such transfer under Applicable Law and the contractual provisions of any relevant Depository;
 - (iv) if the Clearing House considers it is not necessary or desirable to retain such Collateral in order to effect (or seek to effect) a transfer of Contracts and Collateral from an account of a Clearing Member to another account of a Clearing Member or FCM Clearing Member in accordance with the Rulebook, the FCM Regulations, the FCM Procedures and/or any relevant Collateral Management Agreement;
 - (v) if there is no overnight margin and/or cash call (including an EOD Margin Run call) in respect of the relevant Clearing Member which remains outstanding; and
 - (vi) to the extent the restriction under Section 1.1.8 does not apply to the excess collateral to be returned to the relevant Clearing Member.
- (b) where the Clearing Member has requested that Collateral of a particular type in respect of an account be transferred, the Clearing House shall permit the transfer of such Collateral unless it determines, acting in a commercially reasonable manner, that transferring such Collateral would result in the Clearing House being unable to satisfy its policies on concentration limits in respect of the various types of Collateral held by it from time to time ("**Concentration Limits**"), in which case the Clearing House shall notify the Clearing Member thereof and shall not be obliged to permit the transfer of the requested Collateral; and
- (c) where the Clearing Member has requested that cash Collateral of a particular currency in respect of an account be transferred, the Clearing House shall transfer such cash Collateral unless it determines, acting in a commercially reasonable manner, that transferring such cash Collateral would result in the account not satisfying the Clearing House's requirement for a minimum amount of cash Collateral in a particular currency to be held in, or attributed to, such account ("**Cash Requirement**"), in which case the Clearing House shall notify the Clearing Member thereof and shall not be obliged to transfer the requested cash Collateral.

1.1.3 *Substitution of non-cash Collateral*

At any time, a Clearing Member may notify the Clearing House in accordance with Sections 1.3 and 1.4 of these Procedures that it wishes to substitute any non-cash Collateral in respect of an account which is subject to a Deed of Charge (the "**Original Collateral**") with replacement Collateral in respect of such account having a value not less than the Original Collateral (the "**New Collateral**") (such request being a "**Substitution Request**").

If the Clearing House has received a Substitution Request, it shall, subject to Section 1.1.8 and promptly following the Clearing House being satisfied that the New Collateral has been transferred to the Clearing House in accordance with Section 1.3 and 1.4, take such steps as are necessary to transfer such Original Collateral to or to the order of the Clearing Member in respect of that particular account, provided that, if the Clearing House determines, acting in a commercially reasonable manner, that following such substitution the Clearing House would be unable to satisfy its Concentration Limits, it shall notify the Clearing Member thereof and shall not be obliged to transfer the Original Collateral.

1.1.4 *Lodgement of non-cash Collateral as replacement for cash Collateral*

Clearing Members must give the Clearing House's Collateral Operations no less than two business days' notice of their intention to transfer to the Clearing House non-cash Collateral with a value of £50 million sterling or more, and which is reasonably likely to have the effect that cash Collateral of a similar value is repayable by the Clearing House to that Clearing Member as a result of such transfer. Collateral Operations must be advised no later than 15:30 two business days prior to the transfer. In the event that a Clearing Member requests the return of such cash Collateral without giving such notice, the Clearing House will decline to release such cash Collateral until the end of the required notice period. The Clearing House may extend the required notice period or vary the minimum Collateral value by written notice to Clearing Members.

1.1.5 *Force Majeure*

The Clearing House will not be liable for any failure, hindrance or delay in the performance (in whole or in part) of any of its obligations to Clearing Members with regard to Collateral where such failure, hindrance or delay arises from causes beyond the control of the Clearing House, such as (but not limited to) the failure (whether partial or total), interruption or suspension of any Depository that the Clearing House is using, the termination or suspension of the Clearing House's membership or use of any Depository or any variation of a Depository's operational timetable, whether or not occasioned by action of the Depository operator or any other party, any embargo, unavailability or restriction of bank transfer systems or wires, malfunction or overload of any Depository, or any other emergency. This provision is without prejudice to the *force majeure* provisions of Clearing Members' agreements with the Clearing House.

1.1.6 *Regulatory and Supervisory Information*

In every case, the Clearing House will be entitled to supply a Depository with all the information it requires for any purposes relating to a Clearing Member or a Clearing Client, or relating to Collateral received by the Clearing House from a Clearing Member or a Custodial Segregated Client which is, or may at any time have been, held by the depository. Collateral that a Clearing Member or a Custodial Segregated Client provides to the Clearing House and that is subject to a Deed of Charge or Client Charge will be lodged and held with

such Depository as the Clearing House may select or allow, subject to the conditions of such Depository, to any Applicable Law and subordinate rules relating thereto, as well as to the terms of the relevant Deed of Charge, Client Charge, Collateral Management Agreement, charge documentation and these Procedures.

1.1.7 *Coupons*

The Clearing House will record coupons that arise in respect of non-cash Collateral of a Clearing Member, taking into account any withheld tax, ("**Coupons**") to such Clearing Member's relevant Client Account or Proprietary Account and to the non-cover ledger within such account (see Section 1.1.4(a)(i) of Section 3 of the Procedures (*Financial Transactions*)) on the appropriate payment date, and such Coupons will be cash Collateral forming part of the Clearing Member Current Collateral Balance of such Client Account or Proprietary Account.

The Clearing House will promptly on or after the appropriate payment date take such steps as are necessary to transfer Coupons to the relevant Clearing Member (except Coupons which are automatically transferred to such Clearing Member by operation of a triparty transaction), provided that the Clearing House shall only be obliged to take such steps pursuant to this Section 1.1.7:

- (a) to the extent that they constitute excess collateral;
- (b) if the Clearing Member is not a Defaulter;
- (c) to the extent the Clearing House is permitted to take such steps and make such transfer under Applicable Law and the contractual provisions of any relevant Depository;
- (d) if the Clearing House considers it is not necessary or desirable to retain such Coupons in order to effect (or seek to effect) a transfer of Contracts and Collateral from an account of a Clearing Member to another account of a Clearing Member or FCM Clearing Member in accordance with the Rulebook, the FCM Regulations, the FCM Procedures and/or any relevant Collateral Management Agreement; and
- (e) if there is no overnight margin and/or cash call (including an EOD Margin Run call) in respect of the relevant Clearing Member which remains outstanding.

1.1.8 *Record Date*

The Clearing House may restrict the lodgement, release and/or transfer of non-cash Collateral on a record date for the payment of a Coupon applicable to such non-cash Collateral where the Clearing House considers this necessary in order to correctly pay such Coupon to the relevant Clearing Member on the Coupon payment date.

Clearing Member shall withdraw all Securities Collateral used to cover their initial margin requirements prior to the maturity record date for the relevant securities, which is the cut-off date used to determine which security holder is entitled to final redemption funds for the relevant securities (“**Final Redemption Record Date**”).

1.1.9 *Charges*

The Clearing House will collect from Clearing Members, monthly via PPS any collateral charges as deemed necessary. In the case of non-cash collateral, such charges include the accommodation charge referred to in the General Regulations.

Examples of such charges may include a collateral agent's overnight custody charge, transfer charges or any charges relating to the movement of non-cash Collateral. For a list of the Clearing House's fees on collateral, please refer to <https://www.lch.com/collateral-management/ltd-collateral-management/ltd-fees-collateral>

1.1.10 *Security Deed*

Notwithstanding clause 5.3 of any Security Deed, a Clearing Member shall provide Collateral to the Clearing House, in respect of an Indirect Gross Account, in accordance with, and subject to, the Rulebook.

1.1.11 *Authorised CSD - Segregation*

A Clearing Member may request that Securities Collateral which the Clearing House holds in an account with an Authorised CSD for the Clearing Member be subject to either Individual CSD-Level Segregation or Omnibus CSD-Level Segregation (each such request, a “**Segregation Request**”).

The Clearing House will, as soon as reasonably practicable after receipt of a Segregation Request and where the Clearing Member is not a Defaulter, implement such Segregation Request.

Each Clearing Member acknowledges that it has read and understood the disclosure document located on the Clearing House website, which relates to the costs, risks and levels of protection associated with Individual CSD-Level Segregation and Omnibus CSD-Level Segregation.

1.2 **DOCUMENTATION**

1.2.1 *Deed of Charge*

Clearing Members wishing to transfer non-cash Collateral to the Clearing House must complete and maintain a Deed of Charge. This document establishes a fixed charge over the Clearing Member's interests pursuant to the custody relationship which arises upon specified non-cash Collateral being transferred into an account with the Clearing House by the Clearing Member. The document is required to be executed in accordance with the instructions

which accompany it. The Deed of Charge covers, *inter alia*, non-cash Collateral that is transferred to the Clearing House via bilateral settlement or via triparty arrangements. To operate triparty arrangements with the Clearing House, additional documentation must also be executed with the relevant triparty provider.

The Deed of Charge is available from the Clearing House. Where a Clearing Member transfers non-cash Collateral to the Clearing House in respect of a Proprietary Account and a Client Account, it must execute two separate Deeds of Charge.

1.2.2 *Segregation Rules*

Instructions relating to transfers and requests for the return of Collateral must indicate the particular account to which they relate. Any Collateral transferred to the Clearing House in respect of an account will be applied against the Clearing Member's margin liabilities on such account.

Collateral transferred to the Clearing House in respect of a Clearing Member's Client Account will not be applied by the Clearing House to the Clearing Member's liabilities on a Proprietary Account (see Regulation 10(d) (*Accounts*)) or on another Client Account, except in the case of a Cross-ISA Client Excess Deduction or pursuant to Rule 15(a)(ii) of the Default Rules or any Insufficient Resources Determination Rule.

Collateral transferred to the Clearing House in respect of a Clearing Member's Proprietary Account may be applied by the Clearing House towards the payment of any sum whatsoever due by the Clearing Member to the Clearing House, save that, subject to Rule 8(d) of the Default Rules and any Insufficient Resources Determination Rule, no Collateral (other than House Excess and, to the extent not already included in the relevant Clearing Member Current Collateral Balance, Client Buffer) transferred in respect of a Clearing Member's Proprietary Account shall be applied on or towards payment or satisfaction of any of the Clearing Member's liabilities to the Clearing House on any of the Clearing Member's Client Accounts.

1.2.3 *Clearing Client Collateral*

Where a Clearing Member wishes to transfer a Clearing Client's Collateral to the Clearing House, the Clearing Member must, *inter alia*, ensure that at all times it remains expressly agreed with the Clearing Client that the Clearing Member may charge the Collateral to the Clearing House, on the Clearing House's terms and free of the Clearing Client's or another owner's interest, to secure the Clearing Member's obligations to the Clearing House.

The Clearing House gives no undertaking that, on the Default of a Clearing Member, it will not utilise Clearing Clients' Collateral which has been transferred to it by a Clearing Member, before utilising any other form of Collateral the Clearing House may hold.

1.2.4 Japanese Securities

Where a Clearing Member wishes to transfer non-cash Collateral which constitutes Japanese Securities to the Clearing House, the Clearing Member acknowledges and agrees that the Deed of Charge will also constitute a security agreement for the purpose of creating a security interest in such Japanese Securities under the applicable provisions of Japanese law and pursuant to the agreement of the Clearing Member under the Deed of Charge to grant to the Clearing House a pledge (*shichiken*) over such Japanese Securities.

For the purposes of this Section 1.2.4 and Section 1.2.5 below, "**Japanese Securities**" means Japanese government bonds, corporate bonds and shares which are eligible for book-entry transfer through an applicable Japanese settlement system operated either by the Bank of Japan or Japan Securities Depository Center, Incorporated pursuant to the Act on Book-Entry Transfer of Corporate Bonds and Shares of Japan (*shasai, kabushikitou no furikae ni kansuru houritsu*) (Act No. 75 of 2001, as amended) (the "**Japanese Book-Entry Transfer Act**").

1.2.5 Transfer of Japanese Securities

The transfer of non-cash Collateral that consists of Japanese Securities from the Clearing Member to the Clearing House shall be made by a record of the transfer of such Japanese Securities from the proprietary ledger (*hoyu ran*) of the relevant securities account of the Clearing Member opened with a custodian which is authorised under relevant Japanese laws and regulations to act as custodian in respect of the Japanese Securities (the "**Clearing Member Japanese Securities Account**") to the pledge ledger (*shichiken ran*) of the securities account of the Clearing House which is specified by the Clearing House from time to time that is opened with a custodian (the "**Clearing House Japanese Custodian**") which is authorised under relevant Japanese laws and regulations to act as custodian in respect of the Japanese Securities (the "**Clearing House Japanese Securities Account**").

The transfer of non-cash Collateral that consists of Japanese Securities from the Clearing House to the Clearing Member shall be made by a record of the transfer of such Japanese Securities from the pledge ledger (*shichiken ran*) of the relevant Clearing House Japanese Securities Account maintained by the Clearing House Japanese Custodian to the proprietary ledger (*hoyu ran*) of the relevant Clearing Member Japanese Securities Account.

Any instruction in respect of the transfer of Japanese Securities shall be made by the Clearing Member or the Clearing House, as applicable, to its custodian in accordance with the Japanese Book-Entry Transfer Act.

Unless otherwise specified by the Clearing House, the Clearing House Japanese Securities Account will be an omnibus account in the name of the Clearing House maintained by the Clearing House Japanese Custodian for holding Japanese Securities posted as collateral to the Clearing House by multiple Clearing Members. The Clearing House will maintain separate

records enabling it to distinguish the Japanese Securities held in the Clearing House Japanese Securities Account for, and pledged to the Clearing House by, one Clearing Member under the terms of the Deed of Charge between the Clearing House and that Clearing Member from the Japanese Securities held in the Clearing House Japanese Securities Account for, and pledged by, any other Clearing Member under the terms of the Deed of Charge between the Clearing House and that other Clearing Member.

Where the Clearing Member transfers non-cash Collateral that consists of Japanese Securities to the pledge ledger (*shichiken ran*) of the relevant Clearing House Japanese Securities Account, references in the Regulations and these Procedures to an "Account" or any similar reference shall be construed as including a reference to the relevant Clearing House Japanese Securities Account if the context so requires.

Clearing Members are warned that the transfer of Collateral and the grant of a security interest are complex legal matters. The Rulebook and any communication with the Clearing House (whether of an oral or written nature) are not to be taken as legal or other advice. A Clearing Member should seek its own independent professional advice.

1.3 INSTRUCTIONS VIA CMS

The Clearing House will action instructions relating to Collateral that have been input and authorised via the CMS in accordance with, and subject to, this Section 4 of the Procedures.

For non-cash instructions to transfer securities and triparty Collateral, the details input on the CMS will form the basis of the matching instruction sent to the relevant Depository. Clearing Members must ensure that the details are input correctly in order to avoid unmatched transactions.

For cash instructions via PPS, the details the Clearing Member inputs into the CMS will form the basis of the call or the SWIFT MT202 payment instruction sent to the relevant PPS Bank.

For cash instructions via any real-time gross settlement system (“RTGS”):

- 1.3.1 The Clearing Member must input the relevant details into the CMS, to ensure that the Clearing House credits/debits the correct amount of cash to the Clearing Member’s Collateral Account.
- 1.3.2 If the Clearing House’s policies in respect of concentration limits are satisfied, the Clearing Member will supply the Unique End-to-End Transaction Reference (the “UETR”) of the SWIFT MT202 payment instruction into the UETR field in the CMS.
- 1.3.3 If the payment does not match up with an authorised CMS instruction featuring the same UETR, the Clearing House will return the cash to the Clearing Member on or after the cash deadline for the relevant currency, on

the business day the payment was credited to the Clearing House's account in the relevant RTGS.

The deadlines are published at the following link of the Clearing House's web site, under the heading *Cash Collateral Deposit and Withdrawal Cut-Off Times*: [LCH Ltd Acceptable Cash | LCH Group](#).

It is the responsibility of the Clearing Member to input a cancellation request of any incorrectly input instruction and to subsequently input the correct details in a new instruction. Please note that it may not be possible to cancel an instruction (please refer to Section 1.4.7 below for further details).

The Clearing House will update the status of an instruction in the CMS to reflect the status of the corresponding instruction at the relevant Depository, Central Bank or PPS Bank. On settlement of the relevant transaction at the relevant Depository, Central Bank or PPS Bank, the Clearing House will reflect the balance of the securities or cash on the relevant account of the Clearing Member and take them into account for the purposes of calculating the Clearing Member's Current Collateral Value.

The Clearing House will not be liable for any losses to Clearing Members or third parties caused by non-settlement or by a delay in settlement as a result of the actions or omissions of a Depository, Central Bank or PPS Bank or the Clearing Member (save for any liability which may not be excluded by Applicable Law).

1.4 **SETTLEMENT PROCEDURES – SECURITIES PROVIDED BY A CLEARING MEMBER TO THE CLEARING HOUSE ON A BILATERAL BASIS**

All transactions to transfer non-cash Collateral from a Clearing Member to the Clearing House or from the Clearing House to a Clearing Member will be executed free of payment. Members are encouraged to instruct with provisions to allow settlement in late day windows (e.g. Daylight, Priority 90 and other such local market indicators).

1.4.1 *Instruction Deadlines*

Clearing Members may input security instructions via the CMS at any time. Instructions will only be actioned by the Clearing House during operational hours.

The Collateral Operations' operational hours are Monday to Friday 07:00 – 21:00 (UK time).

For settlement in Austraclear, the Collateral Team in Sydney are available Monday to Friday 09:00 – 16:30 (AEST).

Instruction deadlines are available on the LCH website.

1.4.2 *Deliveries to and from Local Markets*

The Clearing House is bound by the settlement deadlines of the relevant Depository. Clearing Members should refer to the relevant Depository for these deadlines. Note that for transactions from local markets the settlement deadline may be earlier than the Clearing House hours of operation and should therefore be instructed the day before the settlement date (i.e. on S-1). Instructions to the Clearing House must be provided at least one hour before the market deadline for same day settlement.

For example:

Deliveries from Local Market	Depository Deadline	Instruction Deadline to Clearing House (UK time)
Japan	07:55	17:00 on S-1
Belgium	14.:0	13:50 on S
Italy	15:00	14:00 on S

1.4.3 *Transfer of Securities Collateral from a Clearing Member to the Clearing House*

Subject to Section 1.1.8, instructions for the transfer of securities Collateral from a Clearing Member to the Clearing House that are input via the CMS or, when directed by the Clearing House, via one of the forms available on the website prior to the deadlines advised by the Clearing House for same day settlement will be actioned and settled transactions will be taken into account for the purposes of calculating the Clearing Member's Current Collateral Value following settlement.

Transfer instructions for future settlement dates will (subject to Section 1.1.8) be instructed same day if received prior to the deadlines. Instructions received after the deadlines will (subject to Section 1.1.8) be instructed the following day only where the intended settlement day is in the future. The Clearing House will reject instructions for same day settlement, which are received after the deadline.

1.4.4 *Transfer of Securities Collateral from the Clearing House to a Clearing Member*

(a) *Release where Sufficient Collateral is Available*

Instructions to release existing securities Collateral of a Clearing Member that are received before the deadlines above for same day settlement will (subject to Sections 1.1.2 and 1.1.8) be actioned and the Collateral specified in those instructions will (subject to Sections 1.1.2 and 1.1.8) no longer be included when calculating the Clearing Member's Current Collateral Value on confirmation of those instructions by the Clearing House.

(b) *Release where Sufficient Collateral is Unavailable*

Instructions to release existing securities Collateral of a Clearing Member received by 16:30 UK time on S-1. The Clearing Member will then be requested to transfer additional cash Collateral as part of the overnight margin call process. Following confirmation of the transfer of such cash Collateral, the settlement instruction will, subject to Sections 1.1.2 and 1.1.8, be sent to the Depository by the Clearing House and the Collateral specified in those instructions will, subject to Sections 1.1.2 and 1.1.8, no longer be included when calculating the Clearing Member's Current Collateral Value.

1.4.5 *Substitutions*

Substitution instructions will, subject to Sections 1.1.3 and 1.1.8, and to confirmation of those instructions by the Clearing House, be actioned on the same day if input prior to the deadlines advised by the Clearing House.

Clearing Members must first input the relevant lodge instruction(s) and then link the associated release instruction(s) to the lodge instruction(s).

Substitution instructions sent via manual form should be instructed by 16:30 (UK time) on the business day before the intended settlement to afford the maximum time for both the lodge and release instructions to settle in sequence. All instructions are subject to Sections 1.1.3 and 1.1.8, and confirmation of those instructions by the Clearing House.

1.4.6 *Transfers*

Transfer instructions may be input via the CMS and will (subject to Sections 1.1.2 and 1.1.8) be actioned on the same day during operational hours.

Note: transfers are only permitted between mnemonics of the same Clearing Member and are subject to client segregation rules.

1.4.7 *Settlement Cancellations*

Clearing Members may request the cancellation of an instruction via the CMS. The Clearing House will cancel any instruction that has not yet been processed. The Clearing House will seek, using its best endeavours, to cancel any settlement instructions already sent to the relevant Depository, but cannot guarantee that the transaction will not settle.

1.4.8 *Instruction Status*

The status of an instruction can be monitored via the CMS. Statuses reflect the status of the instruction at the Clearing House and not at the relevant Depository, Central Bank or PPS Bank. Please refer to the CMS user guide for status definitions.

1.5 TAX ARRANGEMENTS

1.5.1 US Securities

For tax reasons, the Clearing House is required to segregate foreign (i.e. non-US) owners' securities from US owners' securities. Clearing Members must deliver securities to the correct account. The Clearing House operates accounts with Citibank N.A., BMO Harris and Bank of New York Mellon.

In order to reduce or to eliminate US withholding tax, the correct tax documentation must have been provided in respect of each owner. To this end, Clearing Members will be expected to provide one of the forms noted below to the Clearing House. A current form will be required for each Member.

The relevant forms will be valid for three calendar years and will normally be one of:

- (a) 'W-9 (Request for Taxpayer Identification Number and Certification)'; which applies to a US corporation including a foreign branch of a US corporation and is valid indefinitely; or
- (b) 'W-8BEN (Certificate of Foreign Status)'; which applies to non-resident alien individuals, foreign corporations, partnerships and estates; and

Clearing Members may obtain originals of forms W-8BEN and W-9 from Collateral Operations.

Note: The Clearing House's arrangements with its Depositories only allow for securities holdings of US corporations or foreign (i.e. non-US) entities or individuals. Clearing Members who wish to discuss the possibility of lodging securities belonging to owners excluded from this arrangement should contact Collateral Operations.

The Clearing House's acceptance of US securities does not indicate any responsibility for the adequacy or otherwise of tax documentation. Any queries in relation to these tax forms should be referred to your company accountant or professional advisers.

Completed tax forms should be returned to Collateral Operations for onward transmission to the relevant Depository.

1.5.2 Italian Securities

For tax purposes the Clearing House operates an account with Euroclear Bank specifically for deliveries of Italian securities from a Clearing Member – account 91737.

This account is operated by the Clearing House in accordance with "Euroclear Procedures to Obtain Exemption from Italian Withholding Tax on Italian Domestic Debt Securities".

Beneficial owners are entitled to exemption at source from Italian Withholding Tax on Italian securities if they are:

- (a) resident in a country that has entered into a double taxation agreement with Italy (except blacklist countries/countries that do not have a tax treaty with Italy); or
- (b) a corporation resident in Italy; or
- (c) a supranational organisation recognised by Italian law.

Beneficial owners are required to supply duly completed and executed official forms as proof of eligibility to the exemption and where applicable supply additional documentation, before a delivery can be made into this account.

Official forms are available on request from the Collateral Operations Department.

Original forms are to be received by the Clearing House before Italian securities can be accepted within the gross account 91737.

The effective date depends on the type and terms of the security:

- Coupon debt securities (BTPs, CCTs and CTOs)

The new regime applies to the Coupons that arise on these securities on or after 1 January 1997, regardless of the issue date.
- Zero coupon debt securities with a maturity of less than one year (BOTs)

The regime applies to all securities issued on or after 1 January 1997.

Clearing Members should consult their own tax advisers before lodging Collateral to the Clearing House or submitting any tax documentation.

1.5.3 *Withholding tax – Depositories*

A Depository may offer a recovery service for overseas taxes on government bonds. The Clearing House will assist in the recovery process and remit to Clearing Members any relevant recovery in withholding tax credited to the Clearing House's account by the relevant Depository.

In certain cases, the Clearing House or the relevant Depository will withhold tax on a Coupon if the correct documentation is not lodged with the Clearing House or such Depository.

1.6 REFERENCES

These Procedures should be read in conjunction with the relevant contractual provisions, user guides and/or manuals of the relevant Depository. Please also refer to

each relevant Depository for the relevant settlement deadlines in particular those for deliveries from local markets to Clearing House accounts.

1.7 CONTINGENCY ARRANGEMENTS

In the event of an outage of the CMS, the Clearing House will notify Clearing Members via member circular and Clearing Members may send certain instructions, using the appropriate form, to the Clearing House by email (see Section 1.1.1 of these Procedures). Forms are available on the Clearing House's website.

Normal service hours will apply to such instructions. However, deadlines for manual instructions are earlier. Please refer to the Clearing House's website for details.

The Clearing House will notify Clearing Members via a member circular when the CMS is available again.

1.8 TRIPARTY SERVICE OF EUROCLEAR AND CLEARSTREAM

1.8.1 *General Information*

In order for a Clearing Member to transfer securities to the Clearing House using a triparty arrangement, such Clearing Member, the relevant triparty agent and the Clearing House must have completed and signed the relevant documentation. Please contact the Clearing House on +44 (0)207 426 7237 for more information.

Clearing Members may execute a triparty transaction to cover initial margin requirements at the Clearing House. Triparty instructions must be provided to the Clearing House via the CMS. Instructions may be input for future settlement dates.

If a Clearing Member is unable to make triparty instructions via the CMS, it will be possible to instruct using the relevant triparty contingency forms found on the Clearing House's website.

Triparty transactions must be a minimum of one million GBP, EUR or USD.

Settlement deadlines can be found on the Clearing House's website.

Sufficient Collateral:

Where the Clearing Member has sufficient Collateral available, the closure of a triparty transaction or the decrease of the transaction amount of a triparty transaction will be processed on the same day and the resulting reduction of Collateral will be taken into account for the purpose of calculating the Clearing Member's Current Collateral Value.

Insufficient Collateral:

Where the Clearing Member has insufficient Collateral to close a triparty transaction or to decrease the transaction amount of a triparty transaction, the Clearing Member's Current Collateral Value will be deemed to be decreased

overnight and, the following morning, the Clearing House will only close the triparty transaction or decrease the transaction amount of the triparty transaction after 09.00 (UK time) when any PPS cash calls have been confirmed.

Triparty deficits:

In the event that the Clearing House determines that a shortfall exists under a triparty arrangement, whether because of a decrease in the value of securities provided or otherwise, and such shortfall has not been made good by the inclusion of additional securities, the Clearing House shall be entitled to make one or more PPS cash calls in respect of such shortfall. Cash calls in relation to shortfalls will be called in accordance with Section 1.3 (*Protected Payments System (PPS)*) of Section 3 of the Procedures (*Financial Transactions*). Such cash shall either be credited to the Clearing Member upon the Clearing Member or the relevant Custodial Segregated Client making good the deficit pursuant to the triparty arrangement or retained as Collateral if the Clearing Member or a relevant Custodial Segregated Client does not make good the deficit.

1.9 CUSTODIAL SEGREGATED ACCOUNTS

A Clearing Member may, in respect of a Custodial Segregated Account, affirm an increase or decrease of the transaction amount of a triparty transaction between the Clearing House, the relevant Custodial Segregated Client (or its custodian) and the triparty agent in the circumstances set out in the relevant Collateral Management Agreement.

A Clearing Member may, via the CMS, elect to make such affirmation either manually ("**Manual Affirmation**") or using the auto-affirmation options in CMS. If a Clearing Member has elected Manual Affirmation, then the deadline by which it may affirm an increase or decrease of the transaction amount of a triparty transaction, via the CMS, is as follows:

Manual Affirmation deadline	17:00 (UK time)
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1.10 [RESERVED]

1.11 SWAPCLEAR INTRA-DAY MARGIN CALL: COLLATERAL MANAGEMENT

For the avoidance of doubt, this Section 1.11 applies only in respect of the SwapClear Service.

1.11.1 General – Intra-day Margining

Following an intra-day margin call and unless notified otherwise by a SwapClear Clearing Member at the time of an intra-day margin call, the

Clearing House will deduct cash, in the appropriate currency, directly from the relevant SwapClear Clearing Member's PPS account to cover that intra-day margin call.

Standard Clearing House rules as to the currencies in which cash Collateral may be transferred to the Clearing House to satisfy an intra-day Collateral requirement will apply.

It is the responsibility of the SwapClear Clearing Members to ensure that they have sufficient cash funds in place with their PPS Bank(s) in order to enable the Clearing House to deduct cash within 1 hour of the intra-day margin call.

If the Clearing House is unable to contact the SwapClear Clearing Member in order to arrange an alternative payment method for the intra-day margin call, the Clearing House will automatically issue a PPS call to debit the SwapClear Clearing Member's PPS account in the appropriate currency.