

# **LCH SA**

## **CDS Clearing Procedures**

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### **Section 3 – Collateral, Variation Margin and Cash Payment**

**26 September 2023**

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Capitalised terms used in this Collateral, Variation Margin and Cash Payment Procedures and not otherwise defined herein shall have the meaning given pursuant to the remainder of the CDS Clearing Documentation, as such term is defined in the document entitled "CDS Clearing Rule Book" published by LCH SA, as amended from time to time and including, for the avoidance of doubt, in the case of FCM/BD Clearing Members, the FCM/BD CDS Clearing Regulations.

For the purpose of this Section 3, any failure, unavailability, impairment, defect, interruption, delay or improper functioning of any technical system, access, connection, solution, specification, equipment, communication network or other resource used by LCH SA and/or a Clearing Member, as applicable, to calculate, instruct, process, communicate and more generally perform its obligation under this Section 3, shall be deemed to constitute an "exceptional circumstance" which shall not give rise to a LCH Default and shall be promptly notified by LCH SA to the relevant Clearing Member.

### 3.1 TYPES OF COLLATERAL

A Clearing Member's obligation to provide Collateral should be fulfilled in accordance with the following table and the remainder of this Section 3 of the Procedures.

Purpose of transfer	Collateral type
Payment of Margins (other than Variation Margin)	Cash Collateral and/or Eligible Collateral
Maintenance of House Excess Collateral and Client Excess Collateral	Cash Collateral and/or Eligible Collateral
Maintenance of CCM Client Collateral Buffer	Cash Collateral and/or Eligible Collateral
Maintenance of FCM/BD Client Collateral Buffer	Cash Collateral and/or Eligible Collateral as being acceptable by LCH SA to be registered in the FCM/BD Client Collateral Account of an FCM/BD Clearing Member
Payment of Contribution and Additional Contribution Amount	Euro denominated Cash Collateral

It should be noted that, notwithstanding the above table any Margin Shortfall must be covered by an automatic debit of Euro denominated Cash Collateral.

### 3.2 MARGIN BALANCE AND CLIENT COLLATERAL BUFFER

The price of Eligible Currencies (other than Euro) and Eligible Collateral (the "**Applicable Price**"), which is taken into account for the purposes of calculating: (i) the Margin Balance for (a) each Margin Account of a Clearing Member or (b) in the case of a CCM Gross Omnibus Segregated Account Structure or CCM Indirect Client Gross Segregated Account Structure, for all the CCM Client Margin Accounts attached to that CCM Gross Omnibus Segregated Account Structure or CCM Indirect Client Gross Segregated Account Structure; and (ii) the Client Collateral Buffer, is determined by LCH SA at 14:00 and 22:00 on each Business Day on the

basis of the latest market prices (as published by Reuters, Interactive Data or such other provider as is notified in a Clearing Notice).

LCH SA will calculate: (i) the Margin Balance for (a) each Margin Account of a Clearing Member or (b) in the case of a CCM Gross Omnibus Segregated Account Structure or CCM Indirect Client Gross Segregated Account Structure, for all the CCM Client Margin Accounts attached to that CCM Gross Omnibus Segregated Account Structure or CCM Indirect Client Gross Segregated Account Structure; and (ii) the Client Collateral Buffer each Business Day (prior to 07:45 and whenever a position corresponding to the relevant trade leg of an Eligible Intraday Transaction is pre-registered in the relevant Clearing Member's Account Structure, in accordance with Section 3.1.7 of the CDS Clearing Rule Book), by determining:

- i) the value of all Collateral recorded in the relevant Collateral Account on the basis of the Applicable Price; or
- ii) in respect of the FCM/BD Margin Balance for each FCM/BD Client Margin Account of an FCM/BD Clearing Member, the Legally Segregated Value recorded in the relevant FCM/BD Client Financial Account on the basis of the Applicable Price, in accordance with Section 2.2 (f) of the Procedures.

LCH SA will recalculate the: (i) Margin Balance for (a) each Margin Account of a Clearing Member or (b) in the case of a CCM Gross Omnibus Segregated Account Structure or CCM Indirect Client Gross Segregated Account Structure, for all the CCM Client Margin Accounts attached to that CCM Gross Omnibus Segregated Account Structure or CCM Indirect Client Gross Segregated Account Structure; and (ii) Client Collateral Buffer, following each Collateral Call.

Where Pledged Eligible Collateral is recorded in a Clearing Member's Collateral Account, LCH SA shall use the most recent Collateral Holding Report received from Euroclear Bank, in accordance with Paragraph 5.13(f) of Section 5 of the Procedures, to determine what Pledged Eligible Collateral should be taken into account for the purposes of calculating the Margin Balance in respect of a particular Account Structure in accordance with this Paragraph 3.2.

Where Eligible Collateral is held in LCH SA's segregated depository account opened in the books of Bank of New York Mellon ("**BNYM US**"), LCH SA shall use the most recent collateral holding report received from BNYM US, in accordance with Paragraph 5.13(f) of Section 5 of the Procedures, to determine what Eligible Collateral should be taken into account for the purposes of calculating the FCM/BD Client Margin Balance in respect of each FCM/BD Client Margin Account(s) of an FCM/BD Clearing Member in accordance with this Paragraph 3.2.

### 3.3 ACCOUNT STRUCTURE

- (a) Collateral Accounts in respect of a CCM

In the books of LCH SA, each CCM has:

- i) one CCM House Collateral Account in which:
  - (x) (I) Collateral provided to cover its CCM House Margin Requirement and (II) CCM House Excess Collateral which can be used to novate House Trade Legs of Eligible Intraday Transactions, is recorded; and

- (y) Collateral provided by such CCM as Client Collateral Buffer is recorded;
- ii) a CCM Client Collateral Account in respect of each CCM Client Account Structure and in which (x) Collateral provided to cover the relevant CCM Client Margin Requirement(s) and (y) CCM Client Excess Collateral which can be used to novate the relevant Client Trade Legs of Eligible Intraday Transactions, is recorded;
- iv) a CCM Unallocated Client Collateral Account in which CCM Unallocated Client Collateral is recorded.

In accordance with Article 5.2.1.1 of the CDS Clearing Rule Book, CCMs are permitted to offer a CCM Individual Segregated Account Structure, a CCM Gross Omnibus Segregated Account Structure, a CCM Net Omnibus Segregated Account Structure and/or a CCM Indirect Client Segregated Account Structure to CCM Clients.

Where:

- i) a CCM Individual Segregated Account Structure is offered, the relevant CCM Client Collateral Account will record (x) the value and denomination of Cash Collateral and (y) the precise Eligible Collateral provided by the CCM in respect of that CCM Individual Segregated Account Client;
- ii) a CCM Gross Omnibus Segregated Account Structure is offered, the relevant CCM Client Collateral Account will record (x) the value and denomination of Cash Collateral and (y) the precise Eligible Collateral provided by the CCM in respect of that CCM Gross Omnibus Client Set;
- iii) a CCM Net Omnibus Segregated Account Structure is offered, the relevant CCM Client Collateral Account will record (x) the value and denomination of Cash Collateral and (y) the precise Eligible Collateral provided by the CCM in respect of that CCM Net Omnibus Client Set; and
- iv) a CCM Indirect Client Segregated Account Structure is offered, the relevant CCM Client Collateral Account will record (x) the value and denomination of Cash Collateral and (y) the precise Eligible Collateral provided by the CCM in respect of that CCM Indirect Client Segregated Account Structure.

To the extent a CCM transfers additional Euro-denominated Cash Collateral, non-Euro denominated Cash Collateral or Eligible Collateral to LCH SA, such CCM must identify which CCM Client Collateral Account Collateral it is provided for in accordance with Paragraphs 3.7 to 3.10 below.

- (b) Collateral Accounts in respect of an FCM/BD Clearing Member

In the books of LCH SA, each FCM/BD Clearing Member has:

- i) one FCM/BD House Collateral Account in which (x) Collateral provided to cover its FCM/BD House Margin Requirement and (y) FCM/BD House Excess Collateral which can be used to novate House Trade Legs of Eligible Intraday Transactions, is recorded; and

- ii) one FCM/BD Swaps Client Collateral Account to record the Collateral held by LCH SA for the benefit of such FCM/BD Clearing Member's Cleared Swaps Customers with respect to Cleared Swaps, the aggregate value of such Collateral being divided amongst, and recorded in:
    - (x) the FCM/BD Swaps Client Financial Account(s);
    - (y) the FCM/BD Swaps Buffer Financial Account; and
    - (z) the FCM/BD Swaps Unallocated Client Collateral Financial Account,
  - iii) where required, one FCM/BD SBS Client Collateral Account to record the Collateral held by LCH SA for the benefit of such FCM/BD Clearing Member's SBS Customers with respect to SBS (excluding SBS that constitute FCM/BD Portfolio Margining Transactions), the aggregate value of such Collateral being divided amongst, and recorded in:
    - (x) the FCM/BD SBS Client Financial Account(s);
    - (y) the FCM/BD SBS Buffer Financial Account; and
    - (z) the FCM/BD SBS Client Excess Collateral Financial Account,
- (c) Segregation of Contribution Balance

The Cash Collateral transferred by a Clearing Member to satisfy its Contribution Requirement is not recorded in any of the Collateral Accounts.

The Contribution Balance is segregated from (x) the Margin Balance for each Margin Account; (y) the Client Collateral Buffer; and (z) the CCM Unallocated Client Collateral, by crediting the Cash Collateral comprising the Contribution Balance to a dedicated LCH SA TARGET2 Account.

### 3.4 TRANSFER OF COLLATERAL

The type and nature of the Collateral as well as the positions being secured will determine how a Clearing Member is required to transfer Collateral to LCH SA:

- (a) Euro denominated Cash Collateral:
  - i) may be transferred by any Clearing Member to be recorded in any of its Collateral Accounts; and
  - ii) must be transferred to LCH SA TARGET2 Accounts (as such term is defined in Paragraph 3.7(a)) in accordance with the procedure set out in Paragraph 3.7.
- (b) Non-Euro denominated Cash Collateral other than US denominated Cash Collateral:
  - i) may be transferred by any Clearing Member to be recorded in its House Collateral Account, and in the case of a CCM only, in any of its Collateral Accounts; and

- ii) must be credited to accounts opened in the name of LCH SA with Euroclear Bank in accordance with the procedure set out in Paragraph 3.8 (f).
- (c) USD denominated Cash Collateral:
- i) may be transferred by a Clearing Member to be recorded in any of its Collateral Accounts; and
  - ii) must be credited:
    - (x) if USD denominated Cash Collateral is transferred to be recorded in its House Collateral Account, or in the case of a CCM, in any of its CCM Client Collateral Accounts, to accounts opened in the name of LCH SA with Euroclear Bank in accordance with the procedure set out in Paragraph 3.8 (f); or
    - (y) if USD denominated Cash Collateral is transferred to be recorded in one of the FCM/BD Client Collateral Accounts of an FCM/BD Clearing Member, to one of the accounts opened in the name of LCH SA with BNYM US in accordance with the procedure set out in Paragraph 3.8 (g).
- (d) Subject to the special provisions for Eligible Collateral to be held with BNYM US (“**BNYM US Eligible Collateral**”) set out in Paragraph 3.4 (e) below, Eligible Collateral must be provided:
- i) by way of full title transfer to be recorded in its House Collateral Account, and in the case of a CCM only, in any of its CCM Client Collateral Accounts, in which case the relevant securities will be transferred to LCH SA, its nominated custodian or Central Securities Depository by instruction through Clearstream Banking Luxembourg, Euroclear Bank or ESES (Euroclear France) in accordance with the procedure set out in Paragraph 3.10; or
  - ii) by way of security interest under the Pledge Agreement to be recorded in its House Collateral Account, and in the case of a CCM only, in any of its CCM Client Collateral Accounts, in which case relevant securities will be transferred to the relevant LCH SA’s pledged account(s) opened in the books of Euroclear Bank by instruction through Euroclear Bank, in accordance with the procedure set out in Paragraph 3.15.
- (e) BNYM US Eligible Collateral transferred by an FCM/BD Clearing Member on behalf of FCM/BD Clients must be provided by way of security interest to be recorded in one of its FCM/BD Client Collateral Accounts, in accordance with the procedure set out in Paragraph 3.17.
- (f) LCH SA will hold all Collateral transferred on behalf of FCM/BD Clients in accordance with the requirements set out in the FCM/BD CDS Clearing Regulations.

### 3.5 ELIGIBLE CURRENCIES

The following currencies are Eligible Currencies:

- (a) Euro;
- (b) Pound sterling ("**GBP**"), provided that GBP shall not be an Eligible Currency in respect of the FCM/BD Client Account Structure of an FCM/BD Clearing Member; and
- (c) US Dollar ("**USD**").

LCH SA may amend this list in accordance with Article 4.2.6.1 and Article 4.4.2.3 of the CDS Clearing Rule Book.

### 3.6 SUBSTITUTION OF ELIGIBLE CURRENCIES

If an Eligible Currency is substituted by another currency, the conversion of the replaced currency to the substitute currency shall be effected on the basis of the Applicable Price and taking into account market practice and/or industry determinations at LCH SA's reasonable discretion. The results of any calculations to be made under this Paragraph 3.6 shall be rounded up to the fourth decimal place. If the fifth decimal is equal to or more than five, the fourth decimal shall be rounded up, and if the fifth decimal is less than five, the fourth decimal shall be rounded down, respectively.

### 3.7 EURO DENOMINATED CASH COLLATERAL

- (a) LCH SA TARGET2 Accounts

LCH SA performs its Collateral Calls by using the following three TARGET2 Accounts opened in its name:

- i) a TARGET2 Account used to make Collateral Calls in relation to the House Margin Requirement, the House Excess Collateral Threshold and in respect of a CCM only, the CCM Client Collateral Buffer Threshold (the "**LCH House TARGET2 Account**"); and
- ii) with respect to Clients of a Clearing Member:
  - (x) a TARGET2 Account used to make Collateral Calls in relation to the Client Margin Requirement(s) of each CCM (the "**LCH CCM Client TARGET2 Account**"); or
  - (y) a TARGET2 Account used to make Collateral Calls in relation to the Client Margin Requirement(s) with respect to Cleared Swaps and FCM/BD Client Collateral Buffer Threshold of each FCM Clearing Member (the "**LCH FCM/BD Swaps Client TARGET2 Account**"), which for the avoidance of doubt forms part of the LCH Cleared Swaps Client Segregated Depository Account for purposes of the FCM/BD CDS Clearing Regulations,
  - (z) where required, a TARGET2 Account used to make Collateral Calls in relation to the Client Margin Requirement(s) with respect to SBS



(excluding SBS that constitute FCM/BD Portfolio Margining Transactions) and FCM/BD Client Collateral Buffer Threshold of each FCM/BD Clearing Member (the “**LCH FCM/BD SBS Client TARGET2 Account**”), which for the avoidance of doubt forms part of the LCH SBS Client Segregated Depository Account for purposes of the FCM/BD CDS Clearing Regulations,

together referred to as the “**LCH Client TARGET2 Accounts**” and individually each as a “**LCH Client TARGET2 Account**”.

The LCH House TARGET2 Account and the LCH Client TARGET2 Accounts shall be together referred to as the “**LCH TARGET2 Accounts**”.

(b) Clearing Member TARGET2 Accounts

A CCM has no obligation to hold two TARGET2 Accounts (or arrange its Payment Agent holding a TARGET2 Account (the “**TARGET2 Payment Agent**”) to hold two cash account(s)) for the purposes of the Collateral Calls in respect of (i) its CCM House Margin Requirement, CCM House Excess Collateral Threshold and CCM Client Collateral Buffer Threshold and (ii) its Client Margin Requirement(s). It may either:

- i) hold one TARGET2 Account (or one cash account of its TARGET2 Payment Agent), in which case such TARGET2 Account will be used for the debits and credits made out of both the LCH Client TARGET2 Account and the LCH House TARGET2 Account; or
- ii) hold two TARGET2 Accounts (or two cash accounts of its TARGET2 Payment Agent), in which case one TARGET2 account will be used for the debits and credits made out of the LCH Client TARGET2 Account and the other will be used for the debits and credits made out of the LCH House TARGET2 Account.

An FCM/BD Clearing Member has an obligation to hold the following TARGET2 Accounts (or arrange its TARGET2 Payment Agent to hold such cash account(s)) for the purposes of the Collateral Calls in respect of: (i) its FCM/BD House Margin Requirement and FCM/BD House Excess Collateral Threshold; (ii) its Client Margin Requirement(s) with respect to Cleared Swaps and FCM/BD Client Collateral Buffer Threshold (which for the avoidance of doubt forms part of the FCM Cleared Swaps Client Segregated Depository Accounts for purposes of the FCM/BD CDS Clearing Regulations); and (iii) where required, its Client Margin Requirement(s) with respect to SBS (excluding SBS that constitute FCM/BD Portfolio Margining Transactions) and FCM/BD Client Collateral Buffer Threshold (which for the avoidance of doubt forms part of the LCH SBS Client Segregated Depository Account for purposes of the FCM/BD CDS Clearing Regulations). Therefore, an FCM/BD Clearing Member will hold such TARGET2 Accounts (or such cash accounts of its TARGET2 Payment Agent), in which case one TARGET2 account will be used for the debits and credits made out of the LCH FCM/BD Swaps Client TARGET2 Account, one TARGET2 Account will be used for the debits and credits made out of the LCH House TARGET2 Account and, if established, one TARGET2 account will be used for the debits and credits made out of the LCH FCM/BD SBS Client TARGET2 Account.

If a Clearing Member wishes to add a new TARGET2 Account or replace an existing TARGET2 Account with another for the purposes of the Collateral Calls, it may do so by providing LCH SA with the details of the relevant TARGET2 Account with at least 15 days' prior notice.

(c) Timing of Collateral Calls

Where a Clearing Member is required to transfer Euro denominated Cash Collateral at a Collateral Call, LCH SA will automatically debit such Clearing Member's relevant TARGET2 Account(s) (or the relevant cash account(s) of its TARGET2 Payment Agent) on the basis of its Power of Attorney and credit the relevant LCH TARGET2 Account with the corresponding amounts.

Where a Clearing Member is due to receive Euro denominated Cash Collateral, LCH SA will automatically credit such Clearing Member's TARGET2 Account(s) (or the relevant cash account(s) of its TARGET2 Payment Agent) with the relevant amounts.

The debits or credits on each Clearing Member's TARGET2 Account(s) (or the relevant cash account(s) of its TARGET2 Payment Agent) will occur in accordance with the following time slots:

- i) initial slot: 08:00-08:55 (used for the purposes of the Morning Call) (the "**Initial Slot**");
- ii) post-initial slot: 9:30-9:45 (used for the purposes of making Cash Payments and/or Variation Margin Collateral Transfers and returning Euro denominated Cash Collateral to Clearing Member(s))(the "**Post-Initial Slot**");
- iii) first intraday slot: 11:25-11:50 (used for the purposes of the First Intraday Call) (the "**First Intraday Slot**");
- iv) additional specific collateral slot: 12:25-12:55 (used for the purposes of Collateral substitution upon a Clearing Member's request) (the "**Additional Specific Collateral Slot**");
- v) second intraday slot: 15:25-15:55 (used for the purposes of the Second Intraday Call) (the "**Second Intraday Slot**"); or
- vi) any other slot available to LCH SA in exceptional circumstances (the "**Exceptional Slot**");

Once the Euro denominated Cash Collateral has been debited by LCH SA it will immediately form part of the Margin Balance for the relevant Margin Account, or in the case of a CCM Gross Omnibus Segregated Account Structure, for all the CCM Client Margin Accounts attached to that CCM Gross Omnibus Segregated Account Structure, and/or the Client Collateral Buffer or the Contribution Balance, as applicable.

(d) Netting of payments made through TARGET2

LCH will make such debits or credits as the case may be in respect of the relevant CCM House Margin Account, CCM Client Margin Account(s), FCM/BD House Margin Account and FCM/BD Client Margin Account(s) as calculated in accordance with this

sub-section 3.7(d). If any CCM or FCM/BD Clearing Member does not make a requisite payment at the Initial Slot, LCH SA shall recalculate any amounts due to be paid at the Post-Initial Slot. Notwithstanding the foregoing, and for the avoidance of doubt, where the whole or part of any credit offsets a corresponding debit in any other currency which is still outstanding at the time of the Post-Initial Slot then such debit shall be taken into account for the calculation of the requisite amounts to be paid at Post-Initial Slot.

i) Aggregation of payments made in respect of the House Account Structure of a Clearing Member

(x) In relation to the Initial Slot in respect of the House Account Structure of a Clearing Member, LCH SA will aggregate:

(A) Euro denominated Cash Payments and/or Variation Margin Collateral Transfers (being the House Variation Margin Requirement plus any Euro denominated Cash Payments due in respect of the House Account Structure); and

(B) Euro denominated Cash Collateral transfers (being the House Margin Shortfall, the House Excess Collateral Shortfall, the Contribution Shortfall and in respect of a Clearing Member that is a CCM: the CCM Client Collateral Buffer Shortfall),

which are due to be made by that Clearing Member to LCH SA through TARGET2;

(y) In relation to the Post-Initial Slot in respect of the House Account Structure of a Clearing Member, LCH SA will aggregate:

(A) Euro denominated Cash Payments and/or Variation Margin Collateral Transfers due to be made; and

(B) Euro denominated Cash Collateral due to be returned, by LCH SA to that Clearing Member through TARGET2; and

(z) In relation to the First Intraday Slot, Second Intraday Slot and any Exceptional Slot, in respect of the House Account Structure of a Clearing Member, LCH SA will aggregate:

(A) Euro denominated Cash Payments and/or Variation Margin Collateral Transfers (being the House Variation Margin Requirement plus any Cash Payments due in respect of the House Account Structure) and Euro denominated Cash Collateral transfers (being the House Margin Shortfall, the House Excess Collateral Shortfall, the Contribution Shortfall and in respect of a Clearing Member that is a CCM: the CCM Client Collateral Buffer Shortfall), which are due to be made by that Clearing Member to LCH SA through TARGET2; and

- (B) Euro denominated Cash Payments and/or Variation Margin Collateral Transfers due to be made, and Euro denominated Cash Collateral due to be returned, by LCH SA to that Clearing Member through TARGET2.
- ii) Aggregation of payments made in respect of the CCM Client Account Structure of a CCM
  - (x) In relation to the Initial Slot, in respect of the CCM Client Account Structure of a CCM, LCH SA will aggregate:
    - (A) Euro denominated Cash Payments and/or Variation Margin Collateral Transfers (being the Client Variation Margin Requirement(s) and/or Client NPV Payment Requirement(s) plus any Euro denominated Cash Payments due in respect of each CCM Client Margin Account of that CCM Client Account Structure); and
    - (B) Euro denominated Cash Collateral transfers (being the Total Client Margin Shortfall),which are due to be made by that CCM to LCH SA through TARGET2;
  - (y) In relation to the Post-Initial Slot in respect of the CCM Client Account Structure of a CCM, LCH SA will aggregate:
    - (A) Euro denominated Cash Payments and/or Variation Margin Collateral Transfers due to be made; and
    - (B) Euro denominated Cash Collateral due to be returned, by LCH SA to that CCM through TARGET2; and
  - (z) In relation to the First Intraday Slot, Second Intraday Slot and any Exceptional Slot, in respect of the CCM Client Account Structure of a CCM, LCH SA will aggregate:
    - (A) Euro denominated Cash Payments and/or Variation Margin Collateral Transfers (being the Client Variation Margin Requirement(s) and/or Client NPV Payment Requirement(s) plus any Cash Payments due in respect of that CCM Client Account Structure) and Euro denominated Cash Collateral transfers (being the Total Client Margin Shortfall) which are due to be made by that CCM to LCH SA through TARGET2; and
    - (B) Euro denominated Cash Payments and/or Variation Margin Collateral Transfers due to be made, and Euro

denominated Cash Collateral due to be returned, by LCH SA to that CCM through TARGET2.

- iii) Aggregation of payments made in respect of the FCM/BD Client Account Structure of an FCM/BD Clearing Member

In respect of the FCM/BD Client Account Structure of an FCM/BD Clearing Member, at the time of any time slot as set out in Paragraph 3.7 (c) above, no aggregation of payments will be made between:

- (x) any Euro denominated Cash Payments (being the Client NPV Payment Requirement(s) and any other Euro denominated Cash Payments) due to be made by that FCM/BD Clearing Member or LCH SA through TARGET2; and
- (y) any Euro denominated Cash Collateral transfers due to be made by that FCM/BD Clearing Member or to be returned by LCH SA through TARGET2.

In relation to the First Intraday Slot, Second Intraday Slot and any Exceptional Slot, without prejudice to the provisions applicable to the aggregation of the payments made through TARGET2 in respect the FCM/BD Client Account Structure of an FCM/BD Clearing Member as set out in Paragraph 3.7(d)(iii) above, if the aggregate amount that would be payable by one party (in respect either of the House Account Structure, any CCM Client Account Structure or any FCM/BD Client Account Structure of a Clearing Member) exceeds the amount that would otherwise have been payable by the other party (in respect of such House Account Structure, CCM Client Account Structure or FCM/BD Client Account Structure), then the obligations of each party pursuant to this Paragraph 3.7 and Paragraph 3.18 below shall be automatically satisfied and discharged on payment by the party by whom the larger aggregate amount would have been payable to the other party of the excess of the larger aggregate amount over the smaller aggregate amount.

Notwithstanding the payment netting contemplated by this Paragraph 3.7(d), LCH SA shall ensure that its books and records properly reflect the transfer of Euro-denominated Cash Collateral and Variation Margin and payment of Cash Payments, made in respect of the relevant Margin Account(s), on a gross basis.

- (e) Interest

LCH SA pays interest on Euro denominated Cash Collateral, resulting from the application of the relevant applicable interest rate published by LCH SA on the Website.

- (f) Transfer of Euro denominated Cash Collateral

On a given Business Day ("Day") (before 17:15)

If:

- (i) a Clearing Member wishes to transfer Euro denominated Cash Collateral to be recorded in its House Collateral Account, in the case of an FCM/BD Clearing

Member, as FCM/BD Client Collateral Buffer in its FCM/BD Client Collateral Account and in the case of a CCM, in any of its CCM Client Collateral Accounts (other than in the case that a Clearing Member is called to transfer Euro denominated Cash Collateral to LCH SA to satisfy the Required Collateral Amount pursuant to a Collateral Call, in accordance with Article 4.2.3.2 of the CDS Clearing Rule Book); or

- (ii) a Clearing Member wishes to transfer Euro denominated Cash Collateral to be recorded in any of its Collateral Accounts for the purpose of substituting such Euro denominated Cash Collateral for any Collateral recorded in its Collateral Accounts,

it shall notify LCH SA by submitting the relevant form by any means as specified in a Clearing Notice. The Clearing Member must specify to which Collateral Account(s) such Euro denominated Cash Collateral should be recorded. The process that a Clearing Member and LCH SA must follow to process the return of substituted Collateral to the Clearing Member is set out in paragraph 3.8(h) (for non-Euro denominated Cash Collateral), 3.8(i) (for USD denominated Cash Collateral), 3.10.1(c) (for Eligible Collateral transferred with full title on a bilateral basis), 3.10.2(d) (for Eligible Collateral transferred with full title pursuant to a triparty arrangement), 3.15(b) (for Pledged Eligible Collateral) and 3.17(b) (for Eligible Collateral held at BNYM US), as applicable.

In respect of a CCM only, if such CCM notifies to LCH SA that Euro denominated Cash Collateral will be transferred to the LCH CCM Client TARGET2 Account but the CCM does not specify to which CCM Client Collateral Account(s) some or all of such amounts should be recorded, LCH will proceed with the debit of the CCM's relevant TARGET2 Account (or the relevant cash account of its TARGET2 Payment Agent) but will treat any amounts which have not been specifically identified as being for a particular CCM Client Collateral Account as CCM Unallocated Client Collateral and record such amounts in the CCM Unallocated Client Collateral Account.

A Clearing Member must notify LCH SA as set out above by no later than 10:45 in order for a Clearing Member's request to be processed and the Euro denominated Cash Collateral called at the First Intraday Slot on the same day. A Clearing Member must notify LCH SA as set out above between 10:45 and 17:15 in order for a Clearing Member's request to be processed and the Euro denominated Cash Collateral called at the next TARGET2 time slot, including any Exceptional Slot. It is the Clearing Member's responsibility to ensure the due receipt by LCH SA of the relevant notification. Accordingly, the Clearing Member should confirm its request no later than 17:15 by a phone call to LCH SA's collateral management team on (+33) (0)1 70 37 66 86/66 37/65 35, although a failure to do so shall not invalidate any request actually received by LCH SA.

On Day at the relevant TARGET2 time slot:

LCH SA will debit the Clearing Member's relevant TARGET2 Account(s) (or the relevant cash account(s) of its TARGET2 Payment Agent) with the amount of Euro denominated Cash Collateral notified by the Clearing Member.

On Day at any time, a Clearing Member may transfer Euro denominated Cash Collateral by:

- i) notifying LCH SA through the relevant form by any means as specified in a Clearing Notice. The Clearing Member must specify to which Collateral Account(s) such Euro denominated Cash Collateral should be recorded, and
- ii) crediting LCH TARGET 2 Account before 18:00.

Transfer of Euro denominated Cash Collateral at any time later than the First Intraday Slot will be subject to a cap as defined by LCH SA and made available on its website.

In respect of each Clearing Member, following the transfer of Euro denominated Cash Collateral:

- i) the Cash Collateral will be recorded in its House Collateral Account, the relevant FCM/BD Client Collateral Account (and the value of such Collateral provided as FCM/BD Swaps Client Collateral Buffer in the relevant FCM/BD Buffer Financial Account), the relevant Client Collateral Account(s) and/or its CCM Unallocated Client Collateral Account, as applicable; and
  - ii) to the extent Cash Collateral has been credited to its CCM Unallocated Client Collateral Account, such CCM must inform LCH SA by no later than the End of Real Time on Day how the CCM Unallocated Client Collateral should be recorded within its CCM Client Collateral Account(s). Where the CCM does not provide LCH SA with this information within this timeframe, the CCM Unallocated Client Collateral shall be returned to the CCM's relevant TARGET2 Account (or the relevant cash account(s) of its TARGET2 Payment Agent).
- (g) Return of Euro denominated Cash Collateral

- i) In respect of a Clearing Member's House Collateral Account

1- A Clearing Member may request LCH SA to automatically credit Euro denominated Cash Collateral recorded in its House Collateral Account to the Clearing Member's TARGET2 Account (or the relevant cash account of its TARGET2 Payment Agent) provided the amount to be credited would not result in:

- (x) the House Margin Requirement exceeding the Margin Balance for the House Margin Account; and
- (y) in respect of a Clearing Member that is a CCM: the CCM Client Collateral Buffer falling below its CCM Client Collateral Buffer Threshold.

LCH SA will credit the relevant amount of such excess Euro denominated Cash Collateral at the next Post-Initial Slot.

A Clearing Member must notify LCH SA of its request to have Euro denominated Cash Collateral automatically credited to the Clearing Member's TARGET2 Account (or the relevant cash account of its TARGET2 Payment Agent) by submitting the relevant form by any means as specified

in a Clearing Notice by no later than 16:00 on a Business Day in order for the Clearing Member's request to be processed on the next following Business Day.

Once a Clearing Member has notified LCH SA of its request to have Euro denominated Cash Collateral automatically credited, LCH SA will apply it, until such time as LCH SA has been otherwise instructed by the relevant Clearing Member.

2- A Clearing Member may request, on an ad hoc basis, LCH SA to return Euro denominated Cash Collateral recorded in its House Collateral Account to the Clearing Member's TARGET2 Account (or the relevant cash account of its TARGET2 Payment Agent) provided the amount to be returned would not result in:

- (x) the House Margin Requirement exceeding the Margin Balance for the House Margin Account; and
- (y) in respect of a Clearing Member that is a CCM: the CCM Client Collateral Buffer falling below its CCM Client Collateral Buffer Threshold,

as determined at the time when the request is received and processed by LCH SA. Where this would be the case, the Clearing Member's request will be rejected.

Following receipt of a request in accordance with this Paragraph 3.7(g) i), 2, LCH SA will credit the relevant amount of Euro denominated Cash Collateral to the relevant TARGET2 Account of the Clearing Member (or the relevant cash account of its TARGET2 Payment Agent) at the next Post-Initial Slot, or any TARGET2 time slot in which a Variation Margin payment is due to be performed.

3- Where a CCM wishes to have Euro denominated Cash Collateral recorded as CCM Client Collateral Buffer in its CCM House Collateral Account returned to its TARGET2 Account (or the relevant cash account of its TARGET2 Payment Agent), it shall first reduce its CCM Client Collateral Buffer Threshold by sending the relevant form to LCH SA in accordance with Section 2 of the Procedures. LCH SA will then recalculate the CCM Margin Balance for that CCM House Margin Account so that any CCM Client Collateral Buffer that is in excess of the CCM Client Collateral Buffer Threshold will be treated as CCM House Excess Collateral, allowing the CCM to request LCH SA to return that CCM House Excess Collateral in accordance with sub-paragraph 1 or sub-paragraph 2 of this Paragraph 3.7(g) i).

- ii) In respect of a CCM's CCM Client Collateral Account(s)

A CCM may request LCH SA to return Euro denominated Cash Collateral recorded in any of its CCM Client Collateral Accounts provided the amount to be returned would not result in:

- (x) the relevant CCM Client Margin Requirement(s), plus



- (y) the CCM Allocated Client Collateral Buffer, if any,

exceeding the Margin Balance for the relevant CCM Client Account Structure, as determined at the time when the request is received and processed by LCH SA. Where this would be the case, the Clearing Member's request will be rejected.

Following receipt of a request in accordance with this Paragraph 3.7(g) ii), LCH SA will credit the relevant amount of Euro denominated Cash Collateral to the relevant TARGET2 Account of the Clearing Member (or the relevant cash account of its TARGET2 Payment Agent) at the next Post-Initial Slot, or any TARGET2 time slot in which a Variation Margin payment is due to be performed.

- iii) In respect of an FCM/BD Clearing Members's FCM/BD Client Collateral Account

An FCM/BD Clearing Member may request LCH SA to return Euro denominated Cash Collateral recorded in its FCM/BD Client Collateral Account provided that LCH SA holds Collateral (other than that which is to be released) to cover the FCM/BD Client Margin Requirement for each FCM/BD Client Margin Account and to satisfy the FCM/BD Clearing Member's obligation in respect of its FCM/BD Client Collateral Buffer Threshold, as determined when the request is received and processed by LCH SA.

Provided the conditions set out in this Paragraph 3.7(g) are satisfied, LCH SA will credit the relevant amount of Euro denominated Cash Collateral to the relevant TARGET2 Account of the FCM/BD Clearing Member (or the relevant cash account of its TARGET2 Payment Agent) at the next Post-Initial Slot, or any TARGET2 time slot in which a Variation Margin payment is due to be performed.

By exception to the time limits for notification as set out in paragraphs 3.7 (f) and (g), in case of atypical market conditions (*i.e.* periods of time with reduced activity and lowered liquidity), including but not limited to the end of the year period (*i.e.* the period starting from 22 December of each year to 2 January of the following year), LCH SA may inform by any means the Clearing Members that notifications of movement (transfer or return) of Euro denominated Cash Collateral, for value on Day, must be received by LCH SA on Day minus five before 16.00. Such information will contain the implementation measure of the extension of the notification period.

- (h) Transfer of Euro denominated Cash Collateral to satisfy a Contribution Shortfall

Where a Clearing Member is required to transfer Euro denominated Cash Collateral to LCH SA to satisfy a Contribution Shortfall, in accordance with Article 4.4.1.7 of the CDS Clearing Rule Book, it shall make arrangements to credit the LCH House TARGET2 Account with the required amount of Euro denominated Cash Collateral.

### 3.8 NON-EURO DENOMINATED CASH COLLATERAL

(a) Multi-currency accounts held by LCH SA

LCH SA holds non-Euro Cash Collateral provided by Clearing Members in the following three multi-currency accounts opened in the books of an eligible commercial bank selected in accordance with Paragraph 3.8(c) below:

- i) a multi-currency account used to credit non-Euro Cash Collateral which is transferred by a Clearing Member to be recorded in its House Collateral Account (the “**LCH House Non-Euro Account**”); and
- ii) a multi-currency account used to credit non-Euro Cash Collateral which is transferred by a CCM to be recorded in its CCM Client Collateral Account(s) (the “**LCH CCM Client Non-Euro Account**”).

The LCH House Non-Euro Account and the LCH CCM Client Non-Euro Account shall be together referred to as the “**LCH Non-Euro Accounts**”.

LCH SA may invest non-Euro Cash Collateral in accordance with Paragraph 3.11(b).

(b) USD cash accounts held by LCH SA

LCH SA holds USD Cash Collateral provided by FCM/BD Clearing Members on behalf of their FCM/BD Clients in the following USD cash accounts:

- i) one opened in the books of BNYM US;
  - ii) one used to credit USD Cash Collateral which is transferred by FCM/BD Clearing Members to be recorded in their FCM/BD Swaps Client Collateral Account (the “**LCH FCM/BD Swaps Client USD Account**”), which for the avoidance of doubt forms part of the LCH Cleared Swaps Client Segregated Depository Account for purposes of the FCM/BD CDS Clearing Regulations; and
  - iii) where required, another account used to credit USD Cash Collateral which is transferred by FCM/BD Clearing Members to be recorded in their FCM/BD SBS Client Collateral Account (the “**LCH FCM/BD SBS Client USD Account**”), which for the avoidance of doubt forms part of the LCH SBS Client Segregated Depository Account for purposes of the FCM/BD CDS Clearing Regulations,
- together referred to as the “**LCH FCM/BD Client USD Accounts**” and individually as a “**LCH FCM/BD Client USD Account**”.

LCH SA may invest USD Cash Collateral in accordance with Paragraph 3.11(b) and the FCM/BD CDS Clearing Regulations.

## (c) Eligible commercial banks

LCH SA will hold:

- i) non-Euro Cash Collateral, where LCH SA does not invest it in accordance with Paragraph 3.11(a), in the LCH Non-Euro Accounts; and
- ii) USD Cash Collateral provided by FCM/BD Clearing Members on behalf of their FCM/BD Clients, where LCH SA does not invest it in accordance with Paragraph 3.11(b) and the FCM/BD CDS Clearing Regulations, in the relevant LCH FCM/BD Client USD Accounts

opened in the books of any commercial bank which has been selected in accordance with the LCH.Clearnet Group Limited risk collateral policy (the “**LCH Group Risk Collateral Policy**”).

The LCH Group Risk Collateral Policy sets out, amongst other things, the principles that LCH SA must adhere to when arranging for the custody of Cash Collateral and is kept under review by the Risk Committee. One of those principles is that LCH SA may select a commercial bank to act as custodian for Cash Collateral, subject to it meeting the following criteria:

- an average credit rating of at least A-, or a guarantee from a sovereign government or parent company with an average credit rating of at least A-. Where there is a subsequent downgrade of the bank's credit rating, reference will be made to the LCH Group Risk Collateral Policy and the Risk Committee's policy; and
- has demonstrable operational suitability (confirmed by LCH SA's own due diligence).

On the basis of these criteria, LCH SA has selected:

- i) Euroclear Bank to act as depository of non-Euro denominated Cash Collateral provided by Clearing Members; and
- ii) BNYM US to act as depository of USD Cash Collateral provided by FCM/BD Clearing Members on behalf of their FCM/BD Clients,

together referred to as the “**Eligible Commercial Banks**” and individually as an “**Eligible Commercial Bank**”.

## (d) FX conversion and discounts

Whenever LCH SA is required to convert non-Euro denominated Cash Collateral, transferred by a Clearing Member, to Euros such conversion shall be effected on the basis of the Applicable Price. LCH SA shall additionally be entitled to apply discounts to such non-Euro denominated Cash Collateral, at its discretion, as published on the Website.

- (e) Interest
- LCH SA pays interest on non-Euro denominated Cash Collateral and USD Cash Collateral deposited in the Eligible Commercial Banks, resulting from the application of the relevant applicable interest rate published by LCH SA on the Website.
- (f) Transfer of non-Euro denominated Cash Collateral (other than USD denominated Cash Collateral to be recorded in the LCH FCM/BD Client USD Accounts)

On Day minus one

If:

- (i) a Clearing Member wishes to transfer additional non-Euro denominated Cash Collateral to be recorded in its House Collateral Account and, in the case of a CCM, in any of its CCM Client Collateral Accounts; or
- (ii) a Clearing Member wishes to transfer non-Euro denominated Cash Collateral to be recorded in any of its Collateral Accounts for the purpose of substituting such non-Euro denominated Cash Collateral for any Collateral recorded in its Collateral Accounts,

it shall notify LCH SA by submitting the relevant form by any means as specified in a Clearing Notice. The Clearing Member must specify in such form to which Collateral Account(s) the non-Euro denominated Collateral should be recorded. The process that a Clearing Member and LCH SA must follow to process the return of substituted Collateral to the Clearing Member is set out in paragraph 3.7(g) (for Euro denominated Cash Collateral), 3.8(i) (for USD denominated Cash Collateral), 3.10.1(c) (for Eligible Collateral transferred with full title on a bilateral basis), 3.10.2(d) (for Eligible Collateral transferred with full title pursuant to a triparty arrangement), 3.15(b) (for Pledged Eligible Collateral) or 3.17(b) (for Eligible Collateral held at BNYM US), as applicable.

In respect of a CCM only, if such CCM notifies to LCH SA that non-Euro denominated Cash Collateral will be transferred to the LCH CCM Client Non-Euro Account but the CCM does not specify to which CCM Client Collateral Account(s) some or all of such amounts should be recorded, LCH SA will treat such amounts which have not been specifically identified as being for a particular CCM Client Collateral Account as CCM Unallocated Client Collateral and record such amounts in the CCM Unallocated Client Collateral Account when they are received.

The Clearing Member must notify LCH SA as set out above by no later than 16:45 on Day minus one in order for the Clearing Member's request to be processed on the next following Business Day and to enable the transfer of non-Euro denominated Cash Collateral to occur on Day. It is the Clearing Member's responsibility to ensure the due receipt by LCH SA of the relevant notification. Accordingly, the Clearing Member should confirm its request no later than 16:45 by a phone call to LCH SA's collateral management team on (+33) (0)1 70 37 66 86/66 37/65 35, although a failure to do so shall not invalidate any request actually received by LCH SA.

On Day

The Clearing Member transfers the amount of the non-Euro denominated Cash Collateral notified to LCH SA on Day minus one to the relevant LCH Non-Euro Account opened with Euroclear Bank.

If non-Euro denominated Cash Collateral is received:

- i) before 10:30 on Day, such non-Euro denominated Cash Collateral (other than CCM Unallocated Client Collateral) will form part of the Margin Balance or of the CCM Available Client Collateral Buffer and be taken into account for the purposes of the First Intraday Call on Day;
- ii) at or after 10:30 but prior to 11:45 on Day, such non-Euro denominated Cash Collateral (other than CCM Unallocated Client Collateral) will form part of the relevant Margin Balance or of the CCM Available Client Collateral Buffer and be taken into account for the purposes of calculations in relation to a Collateral substitution request which is to be effected using the Additional Specific Collateral Slot;
- iii) at or after 11:45 but prior to 14:30 on Day, such non-Euro denominated Cash Collateral (other than CCM Unallocated Client Collateral) will form part of the relevant Margin Balance or of the CCM Available Client Collateral Buffer and be taken into account for the purposes of the Second Intraday Call on Day;
- iv) at or after 14:30 on Day, such non-Euro denominated Cash Collateral (other than CCM Unallocated Client Collateral) will form part of the relevant Margin Balance or of the CCM Available Client Collateral Buffer and be taken into account for the purposes of the Morning Call on the next following Business Day.

In respect of a CCM only, to the extent Cash Collateral has been credited to its CCM Unallocated Client Collateral Account, the CCM must inform LCH SA by no later than 16:00 on Day how the CCM Unallocated Client Collateral should be recorded within its CCM Client Collateral Account(s). Where the CCM does not provide LCH SA with this information within this timeframe, the CCM Unallocated Client Collateral shall be returned to the relevant account of the CCM.

- (g) Transfer of USD denominated Cash Collateral to be recorded in the LCH FCM Client USD Accounts

On Day minus one (before 17:00)

If:

- (i) an FCM/BD Clearing Member wishes to transfer additional USD denominated Cash Collateral to be recorded as FCM/BD Client Collateral Buffer in its FCM/BD Swaps Client Collateral Account (or, if established, its FCM/BD SBS Client Collateral Account, as applicable); or
- (ii) an FCM/BD Clearing Member wishes to transfer USD denominated Cash Collateral to be recorded in its FCM/BD Swaps Client Collateral Account (or, if

established, its FCM/BD SBS Client Collateral Account, as applicable), for the purpose of substituting such USD denominated Cash Collateral for any Collateral recorded in its FCM/BD Swaps Client Collateral Account (or, if established, its FCM/BD SBS Client Collateral Account, as applicable),

it shall notify LCH SA by submitting the relevant form by any means as specified in a Clearing Notice. The process that an FCM/BD Clearing Member and LCH SA must follow to process the return of substituted Collateral to the FCM/BD Clearing Member is set out in paragraph 3.7(g) (for Euro denominated Cash Collateral), 3.8(h) (for non-Euro denominated Cash Collateral) or 3.17(b) (for Eligible Collateral held at BNYM US), as applicable.

The form Clearing Member must notify LCH SA by no later than 17:00 on a Business Day (“Day minus one”) in order for the FCM/BD Clearing Member’s request to be processed and to enable the transfer to occur no later than 18:00 on a Business Day (“Day minus one”). It is the FCM/BD Clearing Member’s responsibility to ensure the due receipt by LCH SA of the relevant notification. Accordingly, the FCM/BD Clearing Member should confirm its request no later than 17:00 by a phone call to LCH SA’s collateral management team on (+33) (0)1 70 37 66 86/66 37/65 35, although a failure to do so shall not invalidate any request actually received by LCH SA.

#### On Day minus one (before 18:00)

A FCM/BD Clearing Member transfers the amount of the USD denominated Cash Collateral, notified on Day minus one before 17:00, to LCH SA’s LCH FCM/BD Swaps Client USD Account (or, if established, LCH SA’s LCH FCM/BD SBS Client USD Account, as applicable), opened with BNYM US.

If USD denominated Cash Collateral is received before 18:00 on Day minus one, such USD denominated Cash Collateral will be taken into account in the relevant FCM/BD Margin Balance or in the FCM/BD Available Client Collateral Buffer used for the Morning Margin Call on Day.

- (h) Return of non-Euro denominated Cash Collateral (other than USD denominated Cash Collateral to be recorded in the LCH FCM/BD Client USD Accounts)

#### On Day minus one

A Clearing Member must notify LCH SA of its request to have non-Euro denominated Cash Collateral returned to it by submitting the relevant form by any means as specified in a Clearing Notice. A Clearing Member must specify, on this form, the account to which the non-Euro denominated Cash Collateral should be returned.

The Clearing Member must notify LCH SA as set out above by no later than 16:00 on a Day minus one in order for the Clearing Member’s request to be processed on the next following Business Day and to allow LCH SA to give instructions (in the circumstances described below) to make the transfer on Day during the Additional Specific Collateral Slot. It is the Clearing Member’s responsibility to ensure the due receipt by LCH SA of the relevant notification. Accordingly, the Clearing Member should confirm its request by 16:00 by a phone call to LCH SA’s Treasury Operations team on +33 1 70 37 66 86/66 37/65 35, although a failure to do so shall not invalidate any request actually received by LCH SA.

Any request received by LCH SA pursuant to this Paragraph 3.8(h) shall be deemed firm and irrevocable.

Where a CCM wishes to have non-Euro denominated Cash Collateral recorded as CCM Client Collateral Buffer in its CCM House Collateral Account returned to it, it shall first reduce its CCM Client Collateral Buffer Threshold by sending the relevant form to LCH SA in accordance with Section 2 of the Procedures. LCH SA will then recalculate the CCM Margin Balance for that CCM House Margin Account so that any CCM Client Collateral Buffer that is in excess of the CCM Client Collateral Buffer Threshold will be treated as CCM House Excess Collateral, allowing the CCM to request LCH SA to return that CCM House Excess Collateral in accordance with this Paragraph 3.8(h).

#### On Day

- In respect of a Clearing Member's House Collateral Account and Client Collateral Account(s)

Following the First Intraday Slot and, in any event, by 12:00 at the latest, LCH SA will re-calculate the value of the non-Euro denominated Cash Collateral to be returned to the Clearing Member (the "**Non-Euro Cash Collateral Value**") and if:

- 1- (i) LCH SA holds sufficient Collateral (other than that which is to be returned) to cover the Margin Requirement for the relevant Margin Account;  
  
(ii) in respect of a CCM House Collateral Account, LCH SA holds sufficient Collateral (other than that which is to be returned) to satisfy the CCM's obligation in respect of its CCM Client Collateral Buffer Threshold;  
  
(iii) in respect of a CCM Client Collateral Account, LCH SA holds sufficient Collateral (other than that which is to be returned) to cover the CCM Allocated Client Collateral Buffer, if any; and  
  
(iv) the Non-Euro Cash Collateral Value does not exceed the amount of non-Euro denominated Cash Collateral previously provided to LCH SA through a Collateral Call,

LCH SA will process the return of the non-Euro denominated Cash Collateral to the Clearing Member in accordance with the remaining provisions of this Paragraph 3.8(h); or

- 2- LCH SA does not hold sufficient Collateral (other than that which is to be returned) to cover the Margin Requirement for the relevant Margin Account and, in respect of a Clearing Member that is a CCM, to satisfy the CCM's obligation in respect of its CCM Client Collateral Buffer Threshold or, to cover the CCM Allocated Client Collateral Buffer, if any, LCH SA will debit an amount of Euro-denominated Cash Collateral equal to the Non-Euro Cash Collateral Value from the relevant TARGET2 Account of the Clearing Member (or the relevant cash account of its TARGET2 Payment Agent) during the Additional Specific Collateral Slot. Provided an amount of Euro-denominated Cash Collateral equal to the Non-Euro Cash Collateral Value is received by LCH SA, LCH SA will process the return of

the non-Euro denominated Cash Collateral to the Clearing Member in accordance with the remaining provisions of this Paragraph 3.8(h).

- Return of the Non-Euro Cash Collateral Value

In the event that LCH SA is required to, but has not been able to, debit an amount of Euro-denominated Cash Collateral equal to the Non-Euro Cash Collateral Value from the Clearing Member's TARGET2 Account(s) or the relevant cash accounts of its TARGET2 Payment Agent), the Clearing Member's request to have non-Euro denominated Cash Collateral returned to it will be deemed void and LCH SA shall retain the non-Euro denominated Cash Collateral which the Clearing Member requested to be returned. LCH SA's inability to debit Euro-denominated Cash Collateral equal to the Eligible Collateral Value intra-day through TARGET2 shall not constitute a Payment Failure in respect of the Clearing Member.

Save in the circumstances described above, LCH SA will give instructions to Euroclear Bank to credit the relevant account(s) of the Clearing Member (as notified in the form on Day minus one) with the non-Euro denominated Cash Collateral between 13:00 and 15:00.

- (i) Return of USD denominated Cash Collateral recorded in the LCH FCM/BD Client USD Accounts

#### On Day

An FCM/BD Clearing Member must notify LCH SA of its request to have USD denominated Cash Collateral recorded in the LCH FCM/BD Client USD Account(s) returned to it by submitting the relevant form by any means as specified in a Clearing Notice. An FCM/BD Clearing Member must specify, on this form, the FCM/BD Cleared Swaps Client Segregated Depository Account (or, if established, its FCM/BD SBS Client Segregated Depository Account, as applicable), to which the USD denominated Cash Collateral should be returned.

The FCM/BD Clearing Member must notify LCH SA by no later than 17:00 on a Business Day ("Day") in order for the FCM/BD Clearing Member's request to be processed on the same Business Day ("Day") and to allow LCH SA to give instructions (in the circumstances described below) to make the transfer on Day. It is the FCM/BD Clearing Member's responsibility to ensure the due receipt by LCH SA of the relevant notification. Accordingly, the FCM/BD Clearing Member should confirm its request by 17:00 by a phone call to LCH SA's Treasury Operations team on +33 1 70 37 66 86/66 37/65 35, although a failure to do so shall not invalidate any request actually received by LCH SA.

Any request received by LCH SA pursuant to this Paragraph 3.8(i) shall be deemed firm and irrevocable.



### On Day

By 17:00 at the latest, LCH SA will re-calculate the value of the USD denominated Cash Collateral to be returned to the FCM/BD Clearing Member (the “**USD Cash Collateral Value**”) and if:

- 1- LCH SA holds sufficient Collateral (other than that which is to be returned) to cover the FCM/BD Client Margin Requirement for each FCM/BD Client Margin Account and to satisfy the FCM/BD Clearing Member’s obligation in respect of its FCM/BD Client Collateral Buffer Threshold, LCH SA will process the return of the USD denominated Cash Collateral to the FCM/BD Clearing Member (up to the amount of USD denominated Cash Collateral provided originally by the FCM/BD Clearing Member) before 18:00; or
- 2- LCH SA does not hold sufficient Collateral (other than that which is to be returned) to cover the FCM/BD Client Margin Requirement for each FCM/BD Client Margin Account and to satisfy the FCM/BD Clearing Member’s obligation in respect of its FCM/BD Client Collateral Buffer Threshold, LCH SA will reject FCM/BD Clearing Member request to have USD denominated cash collateral returned to it.

Provided the conditions set out in this Paragraph 3.8(i) are satisfied, LCH SA will process the return of the US denominated Cash Collateral to the FCM/BD Clearing Member by giving instructions to BNYM US to credit the FCM/BD Clearing Member’s relevant account(s) (as notified in the form on Day) with the USD denominated Cash Collateral immediately.

Such instructions will, in any event, be made on Day at 18:00 CET, i.e. in advance of the relevant commercial bank’s currency cut-off time (except in exceptional circumstances, as determined by LCH SA in an objective and commercially reasonable manner).

By exception to the time limits for notification as set out in paragraphs 3.8 (f), (g), (h) and (i), in case of atypical market conditions (*i.e.* periods of time with reduced activity and lowered liquidity), including but not limited to the end of the year period (*i.e.* the period starting from 22 December of each year to 2 January of the following year) LCH SA may inform by any means the Clearing Members that notifications of movement (transfer or return) of non-Euro Cash Collateral, for value on Day, must be received by LCH SA on Day minus five before 16.00. Such information will contain the implementation measures of the extension of the notification period.

### 3.9 **ELIGIBLE COLLATERAL**

A list of the securities that constitute Eligible Collateral, together with applicable haircuts (the “**List of Eligible Securities**”) and concentration limits, are set out on the Website. Additional eligibility criteria and concentration limits in respect of Eligible Collateral transferred with full title pursuant to a triparty arrangement are also set out in the Triparty Documentation (as defined in paragraph 3.10.2 (a)).

LCH SA may amend the List of Eligible Securities by publication of a Clearing Notice and additional eligibility criteria and concentration limits in respect of Eligible Collateral transferred with full title pursuant to a triparty arrangement, subject to the prior consent of

the relevant triparty agent in accordance with the Triparty Documentation, pursuant to paragraph 3.10.2 (a).

For risk management purposes, LCH SA does not permit a Clearing Member to transfer “self-issued securities” as Eligible Collateral (i.e. securities issued by such Clearing Member or by any of its Affiliates).

(a) Withholding tax

Each Clearing Member should ensure that the Eligible Collateral submitted to LCH SA's accounts with custodians or Central Securities Depositories on a bilateral basis or pursuant to a triparty arrangement or transferred to LCH SA's pledged account at Euroclear Bank pursuant to a collateral arrangement, or BNYM US pursuant to a security arrangement, is not subject to withholding tax.

If the Eligible Collateral is subject to withholding tax and a Clearing Member does not request the return of Eligible Collateral prior to the relevant record date of the securities to enable the Clearing Member to receive the gross coupon or dividend, any coupon or dividend will be paid to the Clearing Member by LCH SA net of withholding tax.

(b) FX conversion and discounts

A discount shall be applied to the value of Eligible Collateral transferred by a Clearing Member. The amount of the discount shall be notified on the Website. Such discounts may be modified at any time and at the sole discretion of LCH SA.

Whenever LCH SA is required to convert non-Euro denominated Eligible Collateral, transferred by a Clearing Member, to Euros such conversion shall be effected on the basis of the Applicable Price.

(c) Events affecting the eligibility of Eligible Collateral

Where a security which constitutes Eligible Collateral (other than Eligible Collateral transferred with full title pursuant to a triparty arrangement) is affected by one of the following events (each, a “**Collateral Event**” and together, the “**Collateral Events**”):

- i) a suspension from trading of such security by an exchange, or
- ii) the public announcement of a take-over bid, public exchange offer, split or reverse split involving the entity issuing such security,

LCH SA will publish a Clearing Notice on the Website notifying Clearing Members that such security will no longer constitute Eligible Collateral. The Clearing Notice will specify the effective date, which shall be no later than 2 Business Days following the date of the Collateral Event, as of which the securities will no longer constitute Eligible Collateral.

In respect of Eligible Collateral transferred with full title pursuant to a triparty arrangement, Collateral Events shall be managed by the relevant triparty agent in accordance with the Triparty Documentation.

Where a Clearing Member has transferred such securities to LCH SA with full title on a bilateral basis or pursuant to a triparty arrangement or to LCH SA's pledged account(s) at Euroclear Bank, or to LCH SA's segregated depository account(s) at BNYM US, such Clearing Member should request a return of the securities in accordance with Paragraph 3.10.1(c), 3.10.2(d), 3.15(b) or 3.17(b), as appropriate, and transfer alternative Collateral to LCH SA in accordance with this Section 3 to satisfy any of its Margin Requirements and its obligation in respect of its House Excess Collateral Threshold.

Where the Clearing Member does not request a return of the securities and/or transfer alternative Collateral to LCH SA prior to the effective date specified in the Clearing Notice published in accordance with this Paragraph 3.9(c), LCH SA will calculate the Margin Balance of the Clearing Member's House Collateral Account and each of its affected Client Collateral Accounts, in accordance with Paragraph 3.2, on the effective date specified in such Clearing Notice, excluding the suspended securities. As a result of this calculation LCH SA shall determine whether or not there is a Margin Shortfall for any Margin Account or in the case of a CCM Gross Omnibus Segregated Account Structure or CCM Indirect Client Gross Omnibus Segregated Account Structure, for all the CCM Client Margin Accounts attached to that CCM Gross Omnibus Segregated Account Structure or CCM Indirect Client Gross Omnibus Segregated Account Structure of the Clearing Member. Where there is a Margin Shortfall this will be detailed in the AC0103E Report which is sent to the Clearing Member in accordance with Paragraph 5.16(b) of Section 5 of the Procedures and LCH SA shall be taken into account for the purposes of calculating the Required Collateral Amount for the purposes of the Morning Call on the next Business Day.

For the avoidance of doubt, LCH SA shall retain the suspended securities until such time as the Clearing Member requests their return in accordance with this Paragraph 3.9(c) but they shall not be taken into account for the purposes of calculating any Margin Balance of the Clearing Member on subsequent Business Days.

(d) Transfer of Eligible Collateral (other than BNYM US Eligible Collateral)

Subject to the requirement applicable to BNYM US Eligible Collateral transferred by an FCM/BD Clearing Member on behalf of FCM/BD Clients as set out in Paragraph 3.9 (e) below, a Clearing Member can transfer Eligible Collateral to LCH SA, either:

- i) with full title, in accordance with Paragraph 3.10 to be recorded in its House Collateral Account and in the case of a CCM only, in any of its CCM Client Collateral Accounts; or
- ii) by way of security interest whereby the Eligible Collateral would be transferred to the relevant LCH SA pledged account at Euroclear Bank and held pursuant to a Belgian law pledge in accordance with Paragraph 3.15 and to be recorded in its House Collateral Account and in the case of a CCM only, in any of its CCM Client Collateral Accounts.

- (e) Transfer of BNYM US Eligible Collateral provided by an FCM/BD Clearing Member on behalf of FCM/BD Clients

If an FCM/BD Clearing Member wishes to transfer BNYM US Eligible Collateral on behalf of FCM/BD Clients, it shall be transferred by way of security interest and recorded in accordance with Paragraph 3.14.

### 3.10 ELIGIBLE COLLATERAL TRANSFERRED WITH FULL TITLE

Eligible Collateral transferred with full title may be provided by a Clearing Member either on a bilateral basis in accordance with Paragraph 3.10.1 or pursuant to a triparty arrangement in accordance with Paragraph 3.10.2.

#### 3.10.1 Eligible Collateral provided on a bilateral basis

- (a) Securities accounts

LCH SA holds Eligible Collateral transferred to it with full title on a bilateral basis in the following sets of accounts opened in the books of Clearstream Banking Luxembourg, Euroclear Bank and Euroclear France, as applicable:

- i) a security account in each of Clearstream Banking Luxembourg, Euroclear Bank and Euroclear France used to credit Eligible Collateral which is transferred by Clearing Members to be recorded in their House Collateral Account (the “**LCH House Securities Account**”); and
- ii) a security account in each of Clearstream Banking Luxembourg, Euroclear Bank and Euroclear France used to credit Eligible Collateral which is transferred by Clearing Members to be recorded in any of their CCM Client Collateral Accounts (the “**LCH Client Securities Account**”).

The LCH House Securities Account and the LCH Client Securities Account shall be together referred to as the “**LCH Securities Accounts**”.

LCH SA may invest Eligible Collateral provided to LCH SA with full title on a bilateral basis in accordance with Paragraph 3.11(b).

- (b) Transfer of Eligible Collateral

#### On Day

If:

- (i) a Clearing Member wishes to transfer additional Eligible Collateral with full title on a bilateral basis to be recorded in its House Collateral Account, and in the case of a CCM, in any of its CCM Client Collateral Accounts; or
- (ii) a Clearing Member wishes to transfer Eligible Collateral with full title on a bilateral basis to be recorded in its House Collateral Account, and in the case of a CCM, in its CCM Client Collateral Account, for the purpose of substituting such Eligible Collateral for any Collateral recorded in its Collateral Accounts,

it shall notify LCH SA of its request to transfer such Eligible Collateral with LCH SA by submitting the relevant form by any means as specified in a Clearing Notice. The process that a Clearing Member and LCH SA must follow to process the return of substituted Collateral to the Clearing Member is set out in paragraph 3.7(g) (for Euro denominated Cash Collateral), 3.8(h) (for non-Euro denominated Cash Collateral), 3.8(i) (for USD denominated Cash Collateral), 3.10.2(d) (for Eligible Collateral transferred with full title pursuant to a triparty arrangement) or 3.15(b) (for Pledged Eligible Collateral), as applicable.

In respect of a CCM only, if such CCM notifies to LCH SA that Eligible Collateral will be transferred to the LCH Client Securities Account but the CCM does not specify to which CCM Client Collateral Account(s) some or all such Eligible Collateral should be recorded, LCH SA will not accept the request to transfer such Eligible Collateral.

The Clearing Member must notify LCH SA as set out above by no later than 17:15 on a Business Day (“Day”) in order for the Clearing Member’s request to be processed on Day and to enable the transfer to occur on Day. It is the Clearing Member’s responsibility to ensure the due receipt by LCH SA of the relevant notification. Accordingly, the Clearing Member should confirm the request by 17:15 by a phone call to LCH SA’s collateral management team on (+33) (0)1 70 37 66 86/66 37/65 35, although a failure to do so shall not invalidate any request actually received by LCH SA.

#### On Day

A Clearing Member must submit instructions (Franco or Sell Free of payment) via Clearstream Banking Luxembourg, Euroclear Bank or ESES (Euroclear France), as applicable, and LCH SA must submit instructions (Buy free of payment) if Clearing Member uses Sell free of payment, for matching through Clearstream Banking Luxembourg, Euroclear Bank or ESES (Euroclear France).

If LCH SA receives the confirmation of settlement from Clearstream Banking Luxembourg, Euroclear Bank or ESES (Euroclear France):

- i) before 10:30 on Day, the Eligible Collateral will form part of the relevant Margin Balance or of the CCM Available Client Collateral Buffer and be taken into account for the purposes of the First Intraday Call on Day;
- ii) at or after 10:30 but prior to 11:45 on Day, the Eligible Collateral will form part of the relevant Margin Balance or of the CCM Available Client Collateral Buffer and be taken into account for the purposes of calculations in relation to a Collateral substitution request which is to be effected using Additional Specific Collateral Slot;
- iii) at or after 11:45 but prior to 14:30 on Day, the Eligible Collateral will form part of the relevant Margin Balance or of the CCM Available Client Collateral Buffer and be taken into account for the purposes of the Second Intraday Call on Day;
- iv) at or after 14:30 but prior to 17:15 on Day, the Eligible Collateral will form part of the relevant Margin Balance or of the CCM Available Client Collateral Buffer and be taken into account solely for the purposes of novating Intraday Transactions;

- v) at or after 17:15 on Day, the Eligible Collateral will form part of the relevant Margin Balance or of the CCM Available Client Collateral Buffer and be taken into account for the purposes of the Morning Call on the next following Business Day.
- (c) Return of Eligible Collateral

On Day minus one

A Clearing Member must notify LCH SA of a request to have Eligible Collateral provided by way of full title transfer on a bilateral basis returned to it by submitting the relevant form by any means as specified in a Clearing Notice.

The Clearing Member must notify LCH SA by no later than 16:00 on a Business Day ("Day minus one") in order for the Clearing Member's request to be processed on the next following Business Day ("Day") and to allow LCH SA to give instructions (in the circumstances described below) to make the transfer to occur on Day during the Additional Specific Collateral Slot. It is the Clearing Member's responsibility to ensure the due receipt by LCH SA of the relevant notification. Accordingly, the Clearing Member should confirm the request by 16:00 by a phone call to LCH SA's collateral management team on +33 1 70 37 66 86/66 37/65 35, although a failure to do so shall not invalidate any request actually received by LCH SA.

Any request received by LCH SA pursuant to this process shall be deemed firm and irrevocable.

Where a CCM wishes to have Eligible Collateral provided by way of full title transfer on a bilateral basis recorded as CCM Client Collateral Buffer in its CCM House Collateral Account returned to it, it shall first reduce its CCM Client Collateral Buffer Threshold by sending the relevant form to LCH SA in accordance with Section 2 of the Procedures. LCH SA will then recalculate the CCM Margin Balance for that CCM House Margin Account so that any CCM Client Collateral Buffer that is in excess of the CCM Client Collateral Buffer Threshold will be treated as CCM House Excess Collateral, allowing the CCM to request LCH SA to return that CCM House Excess Collateral in accordance with this Paragraph 3.10.1(c).

On Day

Following the First Intraday Slot and, in any event, by 12:00 at the latest, LCH SA will re-calculate the value of the Eligible Collateral to be returned (the "**Eligible Collateral Value**") and if:

- 1- (i) LCH SA holds sufficient Collateral (other than that which is to be returned) to cover the Margin Requirement for the relevant Margin Account;
- (ii) in respect of a CCM House Collateral Account, LCH SA holds sufficient Collateral (other than that which is to be returned) to satisfy the CCM's obligation in respect of its CCM Client Collateral Buffer Threshold; and
- (iii) in respect of a CCM Client Collateral Account, LCH SA holds sufficient Collateral (other than that which is to be returned) to cover the CCM Allocated Client Collateral Buffer, if any,

LCH SA will process the return of the Eligible Collateral on request of the Clearing Member in accordance with the remaining provisions of this Paragraph 3.10.1(c); or

- 2- LCH SA does not hold sufficient Collateral (other than that which is to be returned) to cover the Margin Requirement for the relevant Margin Account, and, in respect of a Clearing Member that is a CCM, to satisfy the CCM's obligation in respect of its CCM Client Collateral Buffer Threshold or, to cover the CCM Allocated Client Collateral Buffer, if any LCH SA will debit an amount of Euro-denominated Cash Collateral equal to the Eligible Collateral Value from the relevant TARGET2 Account(s) of the Clearing Member (or the relevant cash accounts of its TARGET2 Payment Agent) during the Additional Specific Collateral Slot. Provided an amount of Euro-denominated Cash Collateral equal to the Eligible Collateral Value is received by LCH SA, LCH SA will process the return of the Eligible Collateral to the Clearing Member in accordance with the remaining provisions of this Paragraph 3.10.1(c).

In the event that LCH SA is required to, but has not been able to, debit an amount of Euro-denominated Cash Collateral equal to the Eligible Collateral Value from the Clearing Member's TARGET2 Account(s) (or the relevant cash accounts of its TARGET2 Payment Agent), the Clearing Member's request to have Eligible Collateral returned to it will be deemed void and LCH SA shall retain the Eligible Collateral which the Clearing Member requested to be returned. LCH SA's inability to debit Euro-denominated Cash Collateral equal to the Eligible Collateral Value intra-day through TARGET2 shall not constitute a Payment Failure in respect of the Clearing Member.

Save in the circumstances described above, LCH SA will send instructions (Sell Free of Payment) submitted via Clearstream Banking Luxembourg, Euroclear Bank or ESES (Euroclear France), as applicable, and the Clearing Member shall submit instructions (Buy Free of Payment), for matching through Clearstream Banking Luxembourg, Euroclear Bank or ESES (Euroclear France) between 13:00 and 15:00.

Such instructions will, in any event, be sent on Day in advance of the relevant Central Securities Depository/International Central Securities Depository cut-off time (except in exceptional circumstances, as determined in an objective and commercially reasonable manner).

By exception to the time limits for notification as set out in paragraphs 3.10.1 (b) and (c), in case of atypical market conditions (*i.e.* periods of time with reduced activity and lowered liquidity), including but not limited to the end of the year period (*i.e.* the period starting from 22 December of each year to 2 January of the following year) LCH SA may inform by any means the Clearing Members that notifications of movement (transfer or return) of Eligible Collateral transferred with full title, for value on Day, must be received by LCH SA on Day minus five before 16.00. Such information will contain the implementation measure of the extension of the notification period.

### 3.10.2 Eligible Collateral provided pursuant to a triparty arrangement

#### (a) General Information

In order for a Clearing Member to transfer Eligible Collateral with full title to LCH SA using a triparty arrangement, such Clearing Member, the relevant triparty agent (Euroclear Bank or Euroclear France) and LCH SA shall have completed and signed the relevant triparty documentation (the “**Triparty Documentation**”). Please contact LCH SA’s CDS Clear Business Development & Relationship Management team at [cdsclearbusinessdevrm@lch.com](mailto:cdsclearbusinessdevrm@lch.com) for more information.

Under the Triparty Documentation, the relevant triparty agent will be authorised by LCH SA and the Clearing Member to enter settlement instructions on their behalf into the relevant securities settlement system to transfer with full title securities as Eligible Collateral between LCH SA and the Clearing Member.

#### (b) Securities accounts

LCH SA holds Eligible Collateral transferred to it with full title pursuant to a triparty arrangement in the following sets of accounts opened in the books of Euroclear Bank and Euroclear France, as applicable:

- i) a security account in each of Euroclear Bank and Euroclear France used to credit Eligible Collateral which is transferred by Clearing Members to be recorded in their House Collateral Account (the “**LCH House Triparty Securities Account**”); and
- ii) a security account in each of Euroclear Bank and Euroclear France used to credit Eligible Collateral which is transferred by Clearing Members to be recorded in any of their CCM Client Collateral Accounts (the “**LCH Client Triparty Securities Account**”).

The LCH House Triparty Securities Account and the LCH Client Triparty Securities Account shall be together referred to as the “**LCH Triparty Securities Accounts**”.

LCH SA may invest Eligible Collateral provided to LCH SA with full title pursuant to a triparty arrangement in accordance with Paragraph 3.11(b).

#### (c) Transfer of Eligible Collateral

##### On Day minus one

If:

- (i) a Clearing Member wishes to transfer additional Eligible Collateral with full title pursuant to a triparty arrangement to be recorded in its House Collateral Account, and in the case of a CCM, in any of its CCM Client Collateral Accounts; or
- (ii) a Clearing Member wishes to transfer Eligible Collateral with full title pursuant to a triparty arrangement to be recorded in its House Collateral Account, and in the case of a CCM, in its CCM Client Collateral Account, for the purpose of



substituting such Eligible Collateral for any alternative Collateral recorded in its Collateral Accounts,

it shall notify LCH SA of its request to transfer such Eligible Collateral with LCH SA by submitting the relevant form by any means as specified in a Clearing Notice. The process that a Clearing Member and LCH SA must follow to process the return of substituted Collateral to the Clearing Member is set out in paragraph 3.7(g) (for Euro denominated Cash Collateral), 3.8(h) (for non-Euro denominated Cash Collateral), 3.8(i) (for USD denominated Cash Collateral), 3.10.1(c) (for Eligible Collateral transferred with full title on a bilateral basis) or 3.15(b) (for Pledged Eligible Collateral), as applicable.

In respect of a CCM only, if such CCM notifies to LCH SA that Eligible Collateral will be transferred to the LCH Client Triparty Securities Account but the CCM does not specify to which CCM Client Collateral Account(s) some or all such Eligible Collateral should be recorded, LCH SA will not accept the request to transfer such Eligible Collateral.

The Clearing Member must notify LCH SA as set out above by no later than 16:00 on a Business Day (“Day minus one”) in order for the Clearing Member’s request to be processed on the next following Business Day (“Day”) and to enable the transfer to occur on Day in respect of the relevant Collateral Account. It is the Clearing Member’s responsibility to ensure the due receipt by LCH SA of the relevant notification. Accordingly, the Clearing Member should confirm the request by 16:00 by a phone call to LCH SA’s collateral management team on (+33) (0)1 70 37 66 86/66 37/65 35, although a failure to do so shall not invalidate any request actually received by LCH SA.

The relevant instructions must be submitted, via Euroclear Bank or Euroclear France, as applicable, on Day minus one.

#### On Day

If LCH SA receives the confirmation of settlement from Euroclear Bank or Euroclear France:

- i) before 10:30 on Day, the Eligible Collateral will form part of the relevant Margin Balance or of the CCM Available Client Collateral Buffer and be taken into account for the purposes of the First Intraday Call on Day;
- ii) at or after 10:30 but prior to 11:45 on Day, the Eligible Collateral will form part of the relevant Margin Balance or of the CCM Available Client Collateral Buffer and be taken into account for the purposes of calculations in relation to a Collateral substitution request which is to be effected using Additional Specific Collateral Slot;
- v) at or after 11:45 but prior to 15:00 on Day, the Eligible Collateral will form part of the relevant Margin Balance or of the CCM Available Client Collateral Buffer and be taken into account for the purposes of the Second Intraday Call on Day;
- vi) at or after 15:00 but prior to 17:15 on Day, the Eligible Collateral will form part of the relevant Margin Balance or of the CCM Available Client Collateral Buffer

and be taken into account solely for the purposes of novating Intraday Transactions;

- v) at or after 17:15 on Day, the Eligible Collateral will form part of the relevant Margin Balance or of the CCM Available Client Collateral Buffer and be taken into account for the purposes of the Morning Call on the next following Business Day.

(d) Return of Eligible Collateral

On Day

A Clearing Member must notify LCH SA of a request to have Eligible Collateral provided by way of full title transfer pursuant to a triparty arrangement returned to it by submitting the relevant form by any means as specified in a Clearing Notice.

The Clearing Member must notify LCH SA by no later than 12:00 on a Business Day (“Day”) in order for the Clearing Member’s request to be processed on Day and to allow LCH SA to give instructions (in the circumstances described below) to make the transfer to occur on Day during the Additional Specific Collateral Slot. It is the Clearing Member’s responsibility to ensure the due receipt by LCH SA of the relevant notification. Accordingly, the Clearing Member should confirm the request by 12:00 by a phone call to LCH SA’s collateral management team on +33 1 70 37 66 86/66 37/65 35, although a failure to do so shall not invalidate any request actually received by LCH SA.

Any request received by LCH SA pursuant to this process shall be deemed firm and irrevocable.

Where a CCM wishes to have Eligible Collateral provided by way of full title transfer pursuant to a triparty arrangement recorded as CCM Client Collateral Buffer in its CCM House Collateral Account returned to it, it shall first reduce its CCM Client Collateral Buffer Threshold by sending the relevant form to LCH SA in accordance with Section 2 of the Procedures. LCH SA will then recalculate the CCM Margin Balance for that CCM House Margin Account so that any CCM Client Collateral Buffer that is in excess of the CCM Client Collateral Buffer Threshold will be treated as CCM House Excess Collateral, allowing the CCM to request LCH SA to return that CCM House Excess Collateral in accordance with this Paragraph 3.10.2(d).

On Day

Following the First Intraday Slot and, in any event, by 12:00 at the latest, LCH SA will re-calculate the value of the Eligible Collateral to be returned (the “**Eligible Triparty Collateral Value**”) and if:

- 1- (i) LCH SA holds sufficient Collateral (other than that which is to be returned) to cover the Margin Requirement for the relevant Margin Account;
- (ii) in respect of a CCM House Collateral Account, LCH SA holds sufficient Collateral (other than that which is to be returned) to satisfy the CCM’s obligation in respect of its CCM Client Collateral Buffer Threshold; and

(iii) in respect of a CCM Client Collateral Account, LCH SA holds sufficient Collateral (other than that which is to be returned) to cover the CCM Allocated Client Collateral Buffer, if any,

LCH SA will process the return of the Eligible Collateral on request of the Clearing Member in accordance with the remaining provisions of this Paragraph 3.10.2(d); or

- 2- LCH SA does not hold sufficient Collateral (other than that which is to be returned) to cover the Margin Requirement for the relevant Margin Account, and, in respect of a Clearing Member that is a CCM, to satisfy the CCM's obligation in respect of its CCM Client Collateral Buffer Threshold or, to cover the CCM Allocated Client Collateral Buffer, if any, LCH SA will debit an amount of Euro-denominated Cash Collateral equal to the Eligible Triparty Collateral Value from the relevant TARGET2 Account(s) of the Clearing Member (or the relevant cash accounts of its TARGET2 Payment Agent) during the Additional Specific Collateral Slot. Provided an amount of Euro-denominated Cash Collateral equal to the Eligible Triparty Collateral Value is received by LCH SA, LCH SA will process the return of the Eligible Collateral to the Clearing Member in accordance with the remaining provisions of this Paragraph 3.10.2(d).

In the event that LCH SA is required to, but has not been able to, debit an amount of Euro-denominated Cash Collateral equal to the Eligible Triparty Collateral Value from the Clearing Member's TARGET2 Account(s) (or the relevant cash accounts of its TARGET2 Payment Agent), the Clearing Member's request to have Eligible Collateral returned to it will be deemed void and LCH SA shall retain the Eligible Collateral which the Clearing Member requested to be returned. LCH SA's inability to debit Euro-denominated Cash Collateral equal to the Eligible Triparty Collateral Value intra-day through TARGET2 shall not constitute a Payment Failure in respect of the Clearing Member.

Save in the circumstances described above, the relevant instructions will, in any event, be submitted via Euroclear Bank or Euroclear France, as applicable, on Day between 13:00 and 15:00, in advance of the relevant Central Securities Depository/International Central Securities Depository cut-off time (except in exceptional circumstances, as determined in an objective and commercially reasonable manner).

By exception to the time limits for notification as set out in paragraphs 3.10.2 (c) and (d), in case of atypical market conditions (*i.e.* periods of time with reduced activity and lowered liquidity), including but not limited to the end of the year period (*i.e.* the period starting from 22 December of each year to 2 January of the following year) LCH SA may inform by any means the Clearing Members that notifications of movement (transfer or return) of Eligible Collateral transferred with full title pursuant to a triparty arrangement, for value on Day, must be received by LCH SA on Day minus five before 16.00 (for transfer) or 12:00 (for return). Such information will contain the implementation measure of the extension of the notification period.

### 3.11 LCH SA'S RIGHTS IN RESPECT OF COLLATERAL AND VARIATION MARGIN TRANSFERRED WITH FULL TITLE

(a) Full title

Collateral (except Pledged Eligible Collateral and Eligible Collateral held at BNYM US) and Variation Margin shall be transferred to LCH SA with full title.

(b) Use of Collateral and Variation Margin

LCH SA may use Collateral (except Pledged Eligible Collateral and Eligible Collateral held at BNYM US) in accordance with the principles set out in the LCH Group Risk Collateral Policy and all applicable legal and regulatory provisions governing Collateral applicable to LCH SA acting as a clearing house and/or a securities settlement system.

LCH SA shall, in its sole discretion, invest Cash Collateral in liquid principal protected assets, as detailed on the collateral management section of the Website, and in accordance with the principles set out in the LCH Group Risk Collateral Policy.

LCH SA may use Variation Margin transferred by Clearing Members for the purposes of transferring corresponding Variation Margin or making corresponding NPV Payment(s) to other Clearing Members in accordance with the CDS Clearing Rules.

(c) French law restrictions on use

Collateral and Variation Margin that is transferred with full title to LCH SA shall be subject to all applicable legal and regulatory provisions governing Collateral provided to a clearing house and securities settlement systems, including, without limitation, Article L. 330-2, and L. 440-7 and L. 440-8 of the French Monetary and Financial Code.

Under Articles L. 440-7 and L. 440-8 of the French Monetary and Financial Code:

- i) without prejudice to Paragraph 3.11(b), Collateral transferred for the purpose of meeting a Clearing Member's Margin Requirements shall only be used by LCH SA in the event that amounts are due in the context of the liquidation of such Clearing Member's Cleared Transactions (where it is a Defaulting Clearing Member) in accordance with Article 4.3.3.1 of the CDS Clearing Rule Book and/or in the event that any other sums are owed by the relevant Clearing Member to LCH SA; and
- ii) no creditor of either a Clearing Member or LCH SA, no representative of a Clearing Member and no insolvency official (*mandataire judiciaire*) appointed under French insolvency proceedings (under Book VI of the French Commercial Code) may claim any right over the Collateral and/or Variation Margin transferred for the purpose of meeting a Clearing Member's Margin Requirements and/or Variation Margin Requirements (even in the context of an LCH Insolvency Proceeding or insolvency proceedings opened outside of France which are equivalent or similar to those set out in Book VI of the French Commercial Code).

Under Article L. 330-2 of the French Monetary and Financial Code:

- i) without prejudice to Paragraph 3.11(b), Collateral and/or Variation Margin transferred by a Clearing Member shall be used by LCH SA in accordance with the CDS Clearing Rules; and
- ii) no creditor of either a Clearing Member or LCH SA may claim any right over the Collateral and/or Variation Margin transferred by a Clearing Member (even in the context of an LCH Insolvency Proceeding, insolvency proceedings opened outside France which are equivalent to those set out in Book VI of the French Commercial Code, civil enforcement proceedings or the exercise of an opposition right (*droit d'opposition*)).

In the event of any conflict between the provisions of Article L. 211-38, whereby Collateral may be enforced in accordance with the provisions of the Financial Collateral Directive as transposed into French law, and the provisions of Articles L. 440-7 and L. 440-8, the provisions of Articles L. 440-7 and L. 440-8 shall prevail.

(d) Governing law

Pursuant to Article 9(2) of the Settlement Finality Directive, the validity and enforceability of a guarantee on book entry securities is assessed according to the law of the Member State where the account, in which the rights with respect to the relevant securities are recorded, is located.

Accordingly, when Eligible Collateral is posted to one of the relevant LCH SA's accounts located in France, Belgium or Portugal, the related securities are transferred to LCH SA with full title, in accordance with applicable law as follows:

- i) France: Articles L. 440-7 and L. 330-2 of the French Monetary and Financial Code; or
- ii) Belgium: Article 12 of the Belgian law dated 15 December 2004 "relative aux sûretés financières et portant des dispositions fiscales diverses en matière de conventions constitutives de sûreté et de prêts portant sur des instruments financiers"; or
- iii) Portugal: Article 261 n°4 of the Portuguese Securities Code.

### 3.12 CORPORATE EVENTS OCCURRING IN RESPECT OF ELIGIBLE COLLATERAL TRANSFERRED WITH FULL TITLE ON A BILATERAL BASIS

Corporate events occurring in respect of Eligible Collateral transferred with full title on a bilateral basis are subject to the provisions of this Paragraph 3.12.

(a) Coupons and dividends

Dividends will be remitted to the Clearing Member in one of the following ways at the option of the Clearing Member:

- i) share dividends will be remitted to the Clearing Member's accounts with a depository as notified to LCH SA for this purpose; or

- ii) cash dividends and coupons will be credited to the relevant TARGET2 Account(s) of the Clearing Member (or the relevant cash account(s) of the Clearing Member's TARGET2 Payment Agent) or the Clearing Member's accounts with a central bank as notified to LCH SA for this purpose.

A minimum of 1 Business Day before the relevant record date, LCH SA will contact Clearing Members by telephone to the telephone number specified by the Clearing Member in its application for membership of the CDS Clearing Service to ask which of the above options the Clearing Member prefers. If a Clearing Member does not express a preference, or if LCH SA has insufficient time to process a Clearing Member's preference, the dividend or coupon will be credited (in accordance with Paragraph 3.7(b)) to the relevant TARGET2 Account(s) of the Clearing Member (or the relevant cash account(s) of the Clearing Member's TARGET2 Payment Agent).

Dividends and coupons will only be remitted or credited to the Clearing Member's account(s) once LCH SA has received the relevant dividends and coupons. Dividends and coupons are remitted on the same day if received before 16:00, or the next Business Day if received after 16:00.

- (b) Subscription or allotment rights

Where a subscription or allotment right can be detached from a security provided as Eligible Collateral it will be remitted to the Clearing Member's account with the relevant depository as soon as LCH SA has received the relevant right. The remittance will be performed in Clearstream Banking Luxembourg, Euroclear Bank or Euroclear France on the same day if the right is received before 16:00, or the next Business Day if received after 16:00.

- (c) Maturity

If a security provided as Eligible Collateral is due to mature and a Clearing Member wishes it to be returned, then a Clearing Member should request the return of that security before the relevant maturity date in accordance with Paragraph 3.10.1.

Where a security provided as Eligible Collateral matures, LCH SA will credit (in accordance with Paragraph 3.7(b)) the Clearing Member's TARGET2 Accounts (or the relevant cash accounts of such Clearing Member's TARGET2 Payment Agent) on the same day if funds are received before 16:00, or will credit the Clearing Member's TARGET2 Accounts (or the relevant cash accounts of such Clearing Member's TARGET2 Payment Agent) on the next day if the funds are received after 16:00.

### 3.13 ELIGIBLE COLLATERAL TRANSFERRED TO LCH SA'S PLEDGED ACCOUNTS AT EUROCLEAR BANK

A Clearing Member may provide Eligible Collateral by way of a collateral arrangement taking the form of a Pledge Agreement put in place in accordance with this Paragraph 3.13.

(a) Collateral arrangement in the form of a Pledge Agreement

The Pledge Agreement shall be implemented as follows:

- i) A Clearing Member wishing to post Eligible Collateral pursuant to the collateral arrangement will be required to enter into a Pledge Agreement with LCH SA which is governed by Belgian law (in particular the Belgian Royal Decree n° 62 of 10 November 1967 concerning the custody and clearing of fungible financial instruments (as coordinated in 2004) and the Law of 15 December 2004 on financial collateral implementing the Directive 2002/47/EC on financial collateral arrangements);
- ii) LCH SA and the Clearing Member will be required to enter into standard form documentation with Euroclear Bank, taking the form of the Single Pledgor Pledged Account Terms and Conditions ("**SPPA**") and the Terms and Conditions Governing Use of Euroclear;
- iii) Under the SPPA, Euroclear Bank agrees to act as pledge holder in accordance with the terms set out in the SPPA;
- iv) LCH SA and each Clearing Member willing to post Pledged Eligible Collateral under the Pledge Agreement will open the following separate special pledged accounts in Euroclear Bank's books:
  - (x) a pledged account which shall be used to register Pledged Eligible Collateral recorded in the House Collateral Account of such Clearing Member (the "**House Pledged Account**"), and
  - (y) in the case of a CCM, a pledged account which shall be used to register Pledged Eligible Collateral recorded in its CCM Client Collateral Account(s) (the "**Client Pledged Account**").

The House Pledged Account and the Client Pledged Account shall be together referred to as the "**Pledged Accounts**".

(b) Pledged Accounts

The Pledged Accounts shall be held in the name of LCH SA as pledgee. However, the title in the Pledged Eligible Collateral shall not be transferred to LCH SA (see Article 2 in fine and Article 13 of the Royal Decree 62 - the pledgee only acts as a "custodian" and does not become the owner of the securities (ownership stays with the pledgor (see in particular Article 41 of Title XVII, Book III of the Belgian civil code)).

(c) Use of Pledged Eligible Collateral

Subject to Paragraphs 3.13(d) and 3.13(e), LCH SA shall be prevented from using for any purpose, re-hypothecating or transferring Pledged Eligible Collateral which is pledged to LCH SA pursuant to the collateral arrangement described in this Paragraph 3.13.

(d) Perfection and enforceability

Provided that LCH SA provides Euroclear Bank with a copy of the Default Notice issued by LCH SA in accordance with Article 4.3.1.3 of the CDS Clearing Rule Book, LCH SA shall be able to perfect and enforce the pledge on Pledged Eligible Collateral against the Defaulting Clearing Member, any other creditors of the Defaulting Clearing Member and/or the trustee in bankruptcy, without having to notify, or secure any further consent from the Defaulting Clearing Member or any other person, and without having to obtain any court approval (see article 8 of the Law of 15 December 2004).

In the event that LCH SA elects to enforce the pledge by appropriating the Client Pledged Eligible Collateral in accordance with the Article 4.3.2.6 of the CDS Clearing Rule Book, the Eligible Securities so appropriated shall be credited to the LCH Client Securities Account.

(e) Transfer of Client Cleared Transactions and related Client Assets in respect of a CCM

Provided that:

- i) LCH SA provides Euroclear Bank with a copy of the Client Full Transfer Form transmitted by the Receiving Clearing Member to LCH SA, in accordance with Section 5 of the Procedures; and
- ii) the deadline for the Carrying Clearing Member to reject the transfer of Client Cleared Transactions and Client Assets, by submission of the Carrying Clearing Member Response Form in accordance with Section 5 of the Procedures, has expired,

LCH SA shall be able to instruct Euroclear Bank to transfer the relevant Client Pledged Eligible Collateral from the Carrying Clearing Member's Client Pledged Account to the Receiving Clearing Member's Client Pledged Account in accordance with the conditions and timeline set out in Section 5 of the Procedures.

### 3.14 **ELIGIBLE COLLATERAL TRANSFERRED TO LCH SA'S DEPOSITORY ACCOUNT AT BNYM US**

An FCM/BD Clearing Member may provide BNYM US Eligible Collateral by way of security interest governed by laws of the State of New York in accordance with this Paragraph 3.14 and the FCM/BD CDS Clearing Regulations.

(a) Segregated depository account opened with BNYM US

To permit an FCM/BD Clearing Member to transfer Eligible Collateral on behalf of its FCM/BD Clients, LCH SA has opened a segregated depository account in BNYM US'



books which shall be used to register such Eligible Collateral, one in connection with Cleared Swaps cleared for its Cleared Swaps Customers (the “**LCH Swaps Client Depository Account**”), and shall, upon request, open another in connection with SBS (other than SBS that constitute FCM/BD Portfolio Margining Transactions) for its SBS Customers (the “**LCH SBS Client Depository Account**”). The LCH Swaps Client Depository Account and, if established, the LCH SBS Client Depository Account, are together referred to as “**LCH Client Depository Accounts**”.

The LCH Swaps Client Depository Account forms part of the LCH Cleared Swaps Client Segregated Depository Account and, if established, the LCH SBS Client Depository Account shall form part of the LCH SBS Client Segregated Depository Account for purposes of the FCM/BD CDS Clearing Regulations.

(b) Transfer of FCM/BD Client Cleared Transactions and related Account Assets

Provided that LCH SA provides BNYM US with a copy of the Client Full Transfer Form transmitted by the Receiving Clearing Member to LCH SA in accordance with Section 5 of the Procedures, LCH SA shall be able to transfer the relevant Eligible Collateral from the Carrying Clearing Member’s relevant LCH Client Depository Account to the Receiving Clearing Member’s relevant LCH Client Depository Account in accordance with the conditions and timeline set out in Section 5 of the Procedures.

### 3.15 **ELIGIBLE COLLATERAL TRANSFER PURSUANT TO THE PLEDGE AGREEMENT**

(a) Transfer of Pledged Eligible Collateral

On Day

If:

- (i) a Clearing Member wishes to transfer additional Pledged Eligible Collateral to be recorded in its House Collateral Account and, in the case of a CCM, in any of its CCM Client Collateral Accounts; or
- (ii) a Clearing Member wishes to transfer Pledged Eligible Collateral to be recorded in any of its Collateral Accounts for the purpose of substituting such Pledged Eligible Collateral for any Collateral recorded in its Collateral Accounts,

it shall notify LCH SA of its request to transfer Pledged Eligible Collateral to the relevant Pledged Account by submitting the relevant form by any means as specified in a Clearing Notice. The process that a Clearing Member and LCH SA must follow to process the return of substituted Collateral to the Clearing Member is set out in paragraph 3.7(g) (for Euro denominated Cash Collateral), 3.8(h) (for non-Euro denominated Cash Collateral), 3.8(i) (for USD denominated Cash Collateral), 3.10.1(c) (for Eligible Collateral transferred with full title) or 3.10.2(d) (for Eligible Collateral transferred with full title pursuant to a triparty arrangement), as applicable.

In respect of a CCM only, if such CCM notifies to LCH SA that Pledged Eligible Collateral will be transferred to the Client Pledged Account but the CCM does not specify to which CCM Client Collateral Account(s) some or all such Pledged Eligible Collateral

should be recorded, LCH SA will not accept the request to transfer such Pledged Eligible Collateral.

The Clearing Member must notify LCH SA as set out above by no later than 17:15 on a Business Day ("Day minus one") in order for the Clearing Member's request to be processed on the next following Business Day ("Day") and to enable the transfer to occur on Day. It is the Clearing Member's responsibility to ensure the due receipt by LCH SA of the relevant notification. Accordingly, the Clearing Member should confirm the request by 17:15 by a phone call to LCH SA's collateral management team on + 33 1 70 37 66 86/66 37/65 35, although a failure to do so shall not invalidate any request actually received by LCH SA.

#### On Day

A Clearing Member must submit instructions (Franco or Sell Free of payment) via Euroclear Bank and LCH SA must submit instructions (Buy free of payment) if Clearing Member uses Sell free of payment, for matching through Euroclear Bank.

If LCH SA receives the confirmation of settlement from Euroclear Bank:

- i) before 10:30 on Day, the Pledged Eligible Collateral will form part of the relevant Margin Balance or of the CCM Available Client Collateral Buffer and be taken into account for the purposes of the First Intraday Call on Day;
- ii) at or after 10:30 and prior to 11:45 on Day, the Pledged Eligible Collateral will form part of the relevant Margin Balance or of the CCM Available Client Collateral Buffer and be taken into account for the purposes of calculations in relation to a Collateral substitution request which is to be effected using the Additional Specific Collateral Slot;
- iii) before at or after 11:45 and prior to 14:30 on Day, the Pledged Eligible Collateral will form part of the relevant Margin Balance or of the CCM Available Client Collateral Buffer and be taken into account for the purposes of the Second Intraday Call on Day;
- iv) at or after 14:30 but prior to 17:15 on Day, the Pledged Eligible Collateral will form part of the relevant Margin Balance or of the CCM Available Client Collateral Buffer and be taken into account solely for the purposes of novating Intraday Transactions;
- v) if LCH SA receives the confirmation of settlement from Euroclear Bank at or after 17:15 on Day, the Pledged Eligible Collateral will form part of the relevant Margin Balance or of the CCM Available Client Collateral Buffer and be taken into account for the purposes of the Morning Call on the next following Business Day.

## (b) Release of Pledged Eligible Collateral

On Day minus one

A Clearing Member must notify LCH SA of a request to have Pledged Eligible Collateral released by submitting the relevant form by any means as specified in a Clearing Notice.

The Clearing Member must notify LCH SA by no later than 16:00 on a Business Day (“Day minus one”) in order for the Clearing Member’s request to be processed on the next following Business Day (“Day”) and to allow LCH SA to give instructions (in the circumstances described below) to make the transfer to occur on Day. It is the Clearing Member’s responsibility to ensure the due receipt by LCH SA of the relevant notification. Accordingly, the Clearing Member should confirm the request by 16:00 by a phone call to LCH SA’s collateral management team on +33 1 70 37 66 86/66 37/65 35, although a failure to do so shall not invalidate any request actually received by LCH SA.

Any request received by LCH SA pursuant to this process shall be deemed firm and irrevocable.

Where a CCM wishes to have Pledged Eligible Collateral recorded as CCM Client Collateral Buffer in its CCM House Collateral Account released to it, it shall first reduce its CCM Client Collateral Buffer Threshold by sending the relevant form to LCH SA in accordance with Section 2 of the Procedures. LCH SA will then recalculate the CCM Margin Balance for that CCM House Margin Account so that any CCM Client Collateral Buffer that is in excess of the CCM Client Collateral Buffer Threshold will be treated as CCM House Excess Collateral, allowing the CCM to request LCH SA to release that CCM House Excess Collateral in accordance with this Paragraph 3.15 (b).

On Day

Following the first intraday TARGET2 payment window (11:25-11:50) and, in any event, by 12:00 latest, LCH SA will re-calculate the value of the Pledged Eligible Collateral to be released (the “**Pledged Eligible Collateral Value**”) and if:

- 1- (i) LCH SA holds Collateral (other than that which is to be released) to cover the Margin Requirement for the relevant Margin Account;
- (ii) in respect of a CCM House Collateral Account, LCH SA holds sufficient Collateral (other than that which is to be released) to satisfy the CCM’s obligation in respect of its CCM Client Collateral Buffer Threshold; and
- (iii) in respect of a CCM Client Collateral Account, LCH SA holds sufficient Collateral (other than that which is to be released) to cover the CCM Allocated Client Collateral Buffer, if any,

LCH SA will process the release of the Pledged Eligible Collateral on request of the Clearing Member in accordance with the remaining provisions of this Paragraph 3.15(b); or

- 2- LCH SA does not hold sufficient Collateral (other than that which is to be released) to cover the Margin Requirement for the relevant Margin Account, and, in respect of a Clearing Member that is a CCM, to satisfy the CCM's obligation in respect of its CCM Client Collateral Buffer Threshold or, to cover the CCM Allocated Client Collateral Buffer, if any, LCH SA will notify the Clearing Member by 12:20 and debit an amount of Euro denominated Cash Collateral equal to the Pledged Eligible Collateral Value from the relevant TARGET2 Account(s) of the Clearing Member (or the relevant cash account(s) of its TARGET2 Payment Agent) during the Additional Specific Collateral Slot. Provided an amount of Euro-denominated Cash Collateral equal to the Pledged Eligible Collateral Value is received by LCH SA, LCH SA will process the return of the Pledged Eligible Collateral to the Clearing Member in accordance with the remaining provisions of this Paragraph 3.15(b).

In the event that LCH SA is required to, but has not been able to, debit an amount of Euro-denominated Cash Collateral equal to the Pledged Eligible Collateral Value from the Clearing Member's TARGET2 Account(s) (or the relevant cash accounts of its TARGET2 Payment Agent), the Clearing Member's request to have Pledged Eligible Collateral released to it will be deemed void and LCH SA shall not release Pledged Eligible Collateral to the Clearing Member. LCH SA's inability to debit Euro-denominated Cash Collateral equal to the Pledged Eligible Collateral Value intra-day through TARGET2 shall not constitute a Payment Failure in respect of the Clearing Member.

Save in the circumstances described above, LCH SA will send instructions (Sell Free of Payment) submitted via Euroclear Bank and the Clearing Member shall submit instructions (Buy Free of Payment), for matching through Euroclear Bank between 13:00 and 15:00.

LCH SA's instructions via Euroclear Bank shall constitute the release of the relevant Pledged Eligible Collateral.

Such instructions will, in any event, be sent on the same Business Day in advance of the relevant International Central Securities Depository cut-off time (except in exceptional circumstances, as judged in an objective and commercially reasonable manner).

By exception to the time limits for notification as set out in paragraphs 3.15 (a) and (b), in case of atypical market conditions (*i.e.* periods of time with reduced activity and lowered liquidity), including but not limited to the end of the year period (*i.e.* the period starting from 22 December of each year to 2 January of the following year) LCH SA may inform by any means the Clearing Members that notifications of movement (transfer or release) of Pledged Eligible Collateral, for value on Day, must be received by LCH SA on Day minus five before 16.00. Such information will contain the implementation measure of the extension of the notification period.

### **3.16 TRANSFER OF CLIENT PLEDGED ELIGIBLE COLLATERAL FOLLOWING AN EVENT OF DEFAULT**

In the event that a Defaulting Clearing Member or a Backup Clearing Member is a CCM, any transfer of Client Pledged Eligible Collateral shall be undertaken in accordance with this Paragraph 3.16 and the CDS Clearing Documentation.

(a) Transfer of Client Pledged Eligible Collateral to LCH SA

In order to transfer Client Pledged Eligible Collateral to LCH SA, in order to satisfy a request made in accordance with Article 4.3.2.1(i) of the CDS Clearing Rule Book, the Defaulting Clearing Member must provide LCH SA with its consent to the debit of Client Pledged Eligible Collateral from its Client Pledged Account by Euroclear, pursuant to an instruction of LCH SA, and credit of the Client Pledged Eligible Collateral to be credited to the LCH Client Securities Account. The Defaulting Clearing Member must evidence its consent by submitting the relevant form by any means as specified in a Clearing Notice.

Following the receipt of the consent of the Defaulting Clearing Member, LCH SA will submit instructions via Euroclear Bank. When LCH SA receives the confirmation of settlement from Euroclear Bank or Euroclear France, as applicable, LCH SA shall update the relevant CCM Client Collateral Account(s) of the Defaulting Clearing Member to reflect that such Eligible Collateral has been transferred with full title on a bilateral basis to LCH SA.

Provided the Defaulting Clearing Member has sent its consent in accordance with this Paragraph 3.16(a), within the timeframe specified by LCH SA pursuant to Article 4.3.2.1(i), the Defaulting Clearing Member shall be treated as having satisfied its obligation to transfer ownership in the Client Pledged Eligible Collateral to LCH SA as required by the CDS Admission Agreement. If, however, the Defaulting Clearing Member has not sent its consent within the timeframe specified by LCH SA pursuant to Article 4.3.2.1(i), LCH SA shall be entitled to enforce the security interest granted to it under, and in accordance with, the Pledge Agreement and, in accordance with the CDS Clearing Rule Book by appropriation of the Defaulting Clearing Member's Client Pledged Eligible Collateral.

(b) Transfer of Eligible Collateral to the Backup Clearing Member

On the day prior to the registration of the Relevant Client Cleared Transactions and the Ported Collateral in the CCM Client Account Structure of the Backup Clearing Member, in accordance with the CDS Client Clearing DMP, LCH SA will update its books and records so that the Eligible Collateral recorded in the LCH Client Securities Account is recorded as Eligible Collateral which has been transferred with full title on a bilateral basis by the Backup Clearing Member to be recorded in the relevant CCM Client Collateral Account(s) of the Backup Clearing Member.

Once the books and records update has been processed, the relevant Eligible Collateral will form part of the CCM Margin Balance for the relevant CCM Client Margin Account of the Backup Clearing Member to be taken into account for the purposes of the Morning Call on the next following Business Day. If the Backup Clearing Member wishes that such Eligible Collateral be transferred to its relevant Client Pledged Account, it shall follow the process to substitute the Eligible Collateral for Pledged Eligible Collateral as set out in Paragraph 3.10.1(c) and 3.15(a) of this Section 3.

### 3.17 **TRANSFER OF BNYM US ELIGIBLE COLLATERAL ON BEHALF OF FCM/BD CLIENTS**

- (a) Transfer of BNYM US Eligible Collateral on behalf of FCM/BD Clients

On Day

If:

- (i) an FCM/BD Clearing Member wishes to transfer additional BNYM US Eligible Collateral to be recorded as FCM/BD Client Collateral Buffer in its FCM/BD Swaps Client Collateral Account (or, if established, its FCM/BD SBS Client Collateral Account, as applicable); or
- (ii) an FCM/BD Clearing Member wishes to transfer BNYM US Eligible Collateral to be recorded in its FCM/BD Swaps Client Collateral Account (or, if established, its FCM/BD SBS Client Collateral Account, as applicable), for the purpose of substituting such Eligible Collateral for any Collateral recorded in its FCM/BD Swaps Client Collateral Account (or, if established, its FCM/BD SBS Client Collateral Account, as applicable),

it shall notify LCH SA of its request to transfer such Eligible Collateral to the LCH Swaps Client Depository Account (or, if established, its FCM/BD SBS Client Depository Account, as applicable), by submitting the relevant form by any means as specified in a Clearing Notice. The process that an FCM/BD Clearing Member and LCH SA must follow to process the return of substituted Collateral to the FCM/BD Clearing Member is set out in paragraph 3.7(g) (for Euro denominated Cash Collateral) or 3.8(i) (for USD denominated Cash Collateral), as applicable.

The FCM/BD Clearing Member must notify LCH SA as set out above by no later than 17:15 on Day in order for the FCM/BD Clearing Member's request to be processed before 18:00 on the same Day. It is the FCM/BD Clearing Member's responsibility to ensure the due receipt by LCH SA of the relevant notification. Accordingly, the FCM/BD Clearing Member should confirm the request by 17:15 by a phone call to LCH SA's collateral management team on + 33 1 70 37 66 86/66 37/65 35, although a failure to do so shall not invalidate any request actually received by LCH SA.

On Day

An FCM/BD Clearing Member must submit instructions (Franco or Sell Free of payment) via BNYM US and LCH SA must submit instructions (Buy free of payment) if an FCM/BD Clearing Member uses Sell free of payment, for matching through BNYM US.

If LCH SA receives the confirmation of settlement from BNYM US before 18:00 on Day, BNYM US Eligible Collateral will be taken into account in the relevant Margin Balance or FCM/BD Available Client Collateral Buffer.

## (b) Release of Eligible Collateral held at BNYM US on behalf of FCM/BD Clients

On Day

An FCM/BD Clearing Member must notify LCH SA of a request to have Eligible Collateral held at BNYM US released by submitting the relevant form by any means as specified in a Clearing Notice.

The FCM/BD Clearing Member must notify LCH SA as set out above by no later than 17:00 on a Business Day ("Day") in order for the FCM/BD Clearing Member's request to be processed and to allow LCH SA to give instructions (in the circumstances described below) to make the transfer to occur on the Business Day ("Day") before 18:00. It is the FCM/BD Clearing Member's responsibility to ensure the due receipt by LCH SA of the relevant notification. Accordingly, the FCM/BD Clearing Member should confirm the request by 17:00 by a phone call to LCH SA's collateral management team on +33 1 70 37 66 86/66 37/65 35, although a failure to do so shall not invalidate any request actually received by LCH SA. Any request received by LCH pursuant to this process shall be deemed firm and irrevocable.

On Day

By 17:00 at the latest, LCH SA will re-calculate the value of Eligible Collateral held at BNYM US to be released (the "**Eligible Collateral Value**") and if:

- 1- LCH SA holds Collateral (other than that which is to be released) to cover the FCM/BD Client Margin Requirement for each FCM/BD Client Margin Account and to satisfy the FCM/BD Clearing Member's obligation in respect of its FCM/BD Client Collateral Buffer Threshold, LCH SA will process the release of Eligible Collateral held at BNYM US on request of the FCM/BD Clearing Member (up to the amount of Eligible Collateral held at BNYM US provided originally by the FCM/BD Clearing Member); or
- 2- LCH SA does not hold sufficient Collateral (other than that which is to be released) to cover the FCM/BD Client Margin Requirement for each FCM/BD Client Margin Account and to satisfy the FCM/BD Clearing Member's obligation in respect of its FCM/BD Client Collateral Buffer Threshold, LCH SA will reject the FCM/BD Clearing Member's request.

Provided the conditions set out in this Paragraph 3.17(b) are satisfied, LCH SA will process the release of Eligible Collateral held at BNYM US to the FCM/BD Clearing Member, by sending instructions (Sell Free of Payment) via BNYM US and the FCM/BD Clearing Member shall submit instructions (Buy Free of Payment), for matching through BNYM US between 17:00 and 18:00.

LCH SA's instructions via BNYM US shall constitute the release of the relevant Eligible Collateral held at BNYM US.

Such instructions will, in any event, be made on Day at 18:00, i.e. in advance of the BNYM US's cut-off time (except in exceptional circumstances, as determined by LCH SA in an objective and commercially reasonable manner).

By exception to the time limits for notification as set out in paragraphs 3.17 (a) and (b), in case of atypical market conditions (*i.e.* periods of time with reduced activity and lowered liquidity), including but not limited to the end of the year period (*i.e.* the period starting from 22 December of each year to 2 January of the following year) LCH SA may inform by any means the FCM/BD Clearing Members that notifications of movement (transfer or release) of BNYM US Eligible Collateral, for value on Day, must be received by LCH SA on Day minus five before 18.00. Such information will contain the implementation measure of the extension of the notification period.

### 3.18 CASH PAYMENTS AND VARIATION MARGIN COLLATERAL TRANSFERS

#### (a) Currencies for Cash Payments and Variation Margin Collateral Transfers

A Clearing Member is required to satisfy the following Cash Payment and Variation Margin Collateral Transfer obligations in accordance with the following table:

Cash Payment/Variation Margin Type	Cash Payment/cash transfer
CDS or Index Swaption-related payments (Initial Payment Amount, Fixed Amounts or as the case may be, Premium, cash amounts due upon the occurrence of Credit Events and cash amounts due in connection with an MTM change)	Cash in CDS Contractual Currency
Variation Margin, Price Alignment Interest	Cash in CDS Contractual Currency
NPV Payment, Price Alignment Amount	Cash in CDS Contractual Currency
Clearing House Adjustments	Cash in an Eligible Currency
Fees	Cash in Euro
Remuneration	Cash in the currency of the relevant Cash Collateral deposit

By exception to the above table, LCH SA shall be entitled to require from a Clearing Member that it performs its Cash Payments and/or Variation Margin Collateral Transfer obligations in a currency other than the CDS Contractual Currency of the



relevant Cleared Transaction(s), in the conditions and manner as set out in Paragraph 3.18 (d) below.

(b) Cash Payments and/or Variation Margin Collateral Transfer in Euro

With respect to a Clearing Member's Cleared Transactions with a CDS Contractual Currency in Euro, the relevant Clearing Member is required to satisfy the associated Cash Payment and/or Variation Margin Collateral Transfer obligations through TARGET2. Where a Clearing Member is required to make a Cash Payment and/or Variation Margin Collateral Transfer in Euro, its relevant TARGET2 Account(s) (or the relevant cash account(s) of its TARGET2 Payment Agent) will be automatically debited by LCH SA using its Power of Attorney.

Where a Clearing Member is due to receive a Cash Payment and/or Variation Margin Collateral Transfer in Euro, its relevant TARGET2 Account(s) (or the relevant cash account(s) of its TARGET2 Payment Agent) will be automatically credited by LCH SA using its Power of Attorney.

For the purpose of making or receiving Cash Payments in Euro, LCH SA will use:

- (i) the LCH House TARGET Account to satisfy Cash Payments and/or Variation Margin Collateral Transfer obligations in Euro with respect to all relevant House Cleared Transactions of each Clearing Member; and
- (ii) the LCH CCM Client TARGET2 Account to satisfy Cash Payments and/or Variation Margin Collateral Transfer obligations in Euro with respect to all relevant Client Cleared Transactions of each Clearing Member.

For the avoidance of doubt, in respect of the FCM/BD Clearing Members' Client Cleared Transactions:

- (x) the FCM/BD Clearing Member's TARGET 2 Account (or the cash account of its TARGET2 Payment Agent) established for the purposes of the Collateral Calls in respect of its Client Margin Requirement(s) with respect to Cleared Swaps and FCM/BD Client Collateral Buffer Threshold will be used for the debits and credits made out the LCH CCM Client TARGET2 Account for the purposes of satisfying Cash Payments obligations regarding all relevant Client Cleared Transactions of that FCM/BD Clearing Member that are Cleared Swaps; and
- (y) the FCM/BD Clearing Member's TARGET 2 Account (or the cash account of its TARGET2 Payment Agent) established for the purposes of the Collateral Calls in respect of, where required, its Client Margin Requirement(s) with respect to SBS (excluding SBS that constitute FCM/BD Portfolio Margining Transactions) and FCM/BD Client Collateral Buffer Threshold will be used for the debits and credits made out the LCH CCM Client TARGET2 Account for the purposes of satisfying Cash Payments obligations regarding all relevant Client Cleared Transactions of that FCM/BD Clearing Member that are SBS (excluding SBS that constitute FCM/BD Portfolio Margining Transactions).

## (c) Cash Payments and/or Variation Margin Collateral Transfer in USD

With respect to a Clearing Member's Cleared Transactions with a CDS Contractual Currency in USD, LCH SA will require such Clearing Member to satisfy the associated Cash Payment and/or Variation Margin Collateral Transfer obligations in USD. For the purpose of making or receiving Cash Payments and/or Variation Margin Collateral Transfer in USD, LCH SA will use the following accounts opened in its name in the books of BNYM US:

- (i) a cash account used to debit or credit USD to satisfy Cash Payments and/or Variation Margin Collateral Transfer obligations in USD with respect to all relevant House Cleared Transactions of each Clearing Member (the "**LCH House BNYM Account**"); and
- (ii) a cash account used to debit or credit USD to satisfy Cash Payments and/or Variation Margin Collateral Transfer obligations in USD with respect to all relevant Client Cleared Transactions of each Clearing Member (the "**LCH Client BNYM Account**").

The LCH House BNYM Account and the LCH Client BNYM Accounts shall be together referred to as the "**LCH BNYM Accounts**".

For the purpose of satisfying its Cash Payments and/or Variation Margin Collateral Transfer obligations in USD, a Clearing Member shall open, or use a Payment Agent having, one or more cash account(s) in the books of BNYM US (the "**BNYM Accounts**").

A CCM has no obligation to hold two BNYM Accounts (or arrange its Payment Agent to hold two cash account(s)) for the purposes of satisfying its Cash Payments and/or Variation Margin Collateral Transfer obligations in respect of (i) its House Cleared Transactions and (ii) its Client Cleared Transactions. It may either:

- (x) hold one BNYM Account (or one cash account of its Payment Agent), in which case such BNYM Account will be used for the debits and credits made out of both the LCH House BNYM Account and the LCH Client BNYM Account; or
- (y) hold two BNYM Accounts (or two cash accounts of its Payment Agent), in which case one BNYM Account will be used for the debits and credits made out of the LCH House BNYM Account and the other will be used for the debits and credits made out of the LCH Client BNYM Account.

An FCM/BD Clearing Member has an obligation to hold the following BNYM Accounts (or arrange its Payment Agent to hold such cash account(s)) for the purposes of satisfying its Cash Payments and/or Variation Margin Collateral Transfer obligations in respect of: (i) its House Cleared Transactions; (ii) its Client Cleared Transactions that are Cleared Swaps; and (iii) where required, its Client Cleared Transactions that are SBS (excluding SBS that constitute FCM/BD Portfolio Margining Transactions). Therefore, an FCM/BD Clearing Member will hold such BNYM Accounts (or such cash accounts of its Payment Agent), in which case one BNYM Account will be used for the debits and credits made out of the LCH House BNYM Account in respect of its House Cleared Transactions, one will be used for the debits and credits made out of

the LCH Client BNYM Account in respect of its Client Cleared Transactions that are Cleared Swaps, and, if established, the other will be used for the debits and credits made out of the LCH Client BNYM Account in respect of its Client Cleared Transactions that are SBS (excluding SBS that constitute FCM/BD Portfolio Margining Transactions).

If a Clearing Member wishes to add a new BNYM Account or replace an existing BNYM Account with another, it may do so by providing LCH SA with the details of the relevant BNYM Account with at least 15 days' prior notice (unless otherwise agreed by LCH SA).

Where a Clearing Member is required to make a Cash Payment and/or Variation Margin Collateral Transfer in USD, its relevant BNYM Account(s) (or the relevant cash account(s) of its Payment Agent) will be automatically debited by LCH SA using its Power of Attorney.

Where a Clearing Member is due to receive a Cash Payment and/or Variation Margin Collateral Transfer in USD, its relevant BNYM Account(s) (or the relevant cash account(s) of its BNYM Payment Agent) will be automatically credited by LCH SA using its Power of Attorney.

(d) Timing for Cash Payments and/or Variation Margin Collateral Transfer

Debiting or crediting the TARGET2 Account(s) or BNYM Account(s) will occur on each Cash Payment Day, at the times of the Initial Slot and Post-Initial Slot set out in Paragraph 3.7(c) above with the exception that crediting any BNYM Account(s) of a Clearing Member will occur by no later than 16:30 on that Cash Payment Day.

In the event that:

- (i) any BNYM Account(s) of a Clearing Member cannot be debited within the time slots set out above in this Paragraph 3.18 (d); and
- (ii) such Clearing Member has not made its Cash Payments and/or Variation Margin Collateral Transfers in USD during the Initial Slot by 10:00,

such Clearing Member shall be required to satisfy such Cash Payments and/or Variation Margin Collateral Transfer obligations in Euro through TARGET2 at the time of the First Intraday Slot as set out in Paragraph 3.7 (c) above. LCH SA shall convert the USD amount in respect of such Cash Payment and/or Variation Margin Collateral Transfer obligation into a Euro amount at the FX rate dealt by LCH SA on the market and shall notify the relevant Clearing Member of such Euro amount in accordance with, subject to and at the times set out in Section 5 of the Procedures. The relevant Clearing Member will be liable for costs incurred by LCH SA in connection with the conversion of those Cash Payments and/or Variation Margin Collateral Transfers initially due in USD into Euro, that will be debited from the relevant TARGET2 Account(s) of that Clearing Member (or the relevant cash account(s) of its TARGET2 Payment Agent).

Once the relevant cash amount is debited by LCH SA, it will satisfy the Clearing Member's Cash Payment and/or Variation Margin Collateral Transfer obligations.