

Appendix: Questions Requiring Clarification from Each CCP

Central Counterparty Scope & Product Offering

1. How does your architecture work or is proposed to work? Specifically:
 - Is it an intermediary/clearing member model? On an agency basis?
Clearing member model, with all business being held at clearing member (potentially segregated if customers wish), but allowing full participation from non-clearing members and the buy side.
 - Who is primary regulator?
The FSA. In addition, LCH.Clearnet Ltd. is regulated by the CFTC in the US.
 - Who will clearing members be? What are eligibility criteria?
Current NYSE Liffe/ LCH.Clearnet Ltd. clearing members (all major credit dealers are already clearing members).
 - What documentation (e.g., ISDAs, FCM/clearing agreements, other) will govern relationships between:
 - Clearing members and CCP/clearinghouse?
Current clearing member agreements.
 - Clearing members and customers?
This is a matter between customers and clearers, but typically current agreements, possibly with the addition of these new products within existing annexes.
 - What governing law?
UK law.
2. What CDS products will be supported by the clearing house? Outline what products are supported at launch and when support will be available for the various products (CDS index, index tranche, single name, standard single name). Highlight any differences with current CDS product.
iTraxx Europe ('Main', or 'Investment Grade'), iTraxx Europe HiVol, iTraxx Europe Crossover. For each index maturities of 3, 5, 7 and 10 years are available for series 8, 9, 10 and 11. By necessity, products are cash settled only at the moment. We stand ready to implement physical delivery in accordance with new Restructuring standards, and strongly encourage their agreement and clarification as soon as possible.
3. What is your approach to migrate existing positions into the clearing house? How will any product differences will be priced/ accounted for?
Existing trades can be migrated via:
 - Bclear XML based API
 - Import function using .csv files
 - Manual entry of positions using the Bclear trade entry screenFurther news on connections with affirmation and other industry tools soon.
4. What is your approach in regard to Restructuring Credit Events?
By necessity, products are cash settled only at the moment. We stand ready to implement physical delivery in accordance with new Restructuring standards, and strongly encourage their agreement and clarification as soon as possible.
5. Are there any restrictions in the legal entity that deals must be booked from to face the clearing house (e.g. US only, UK/EMEA only)?
Although we have been granted exemptive relief from the SEC to offer the product in the US, we have not yet done so. The product is available for all other jurisdictions.
6. How will the clearing house approach the differing requirements of regional regulators? Which regulators have approved your CDS solution? What legal analysis has been performed on the bankruptcy regime for your operating jurisdiction?
We are regulated and approved by the FSA. We have also been in close contact with the FRBNY, CFTC and SEC throughout our approvals. We also have exemptive relief from the SEC to offer our product to US customers.

7. If multiple Central Counterparts exists, how will clearing members agree which platform is being used at trade execution? How will the clearing house address a situation in which there is interest by a given counterparty to clear through CCP 1, but the other counterparty to the same trade has an interest to clear through CCP 2?
We are actively participating in the ongoing debate concerning interoperability. At this time, for all active or potential CCPs, both counterparties will need to agree to clear at the same CCP.
8. Describe the various ways clearing participants could access the clearing house: CCP clearing members, non-members etc. What would happen to the trades / positions and collateral of a non-CCP clearing member if their clearer were to fail?
Business must be entered via Bclear by a NYSE Liffe member. However, either (for example, a dealer-customer trade) or both (for example, and interdealer broker trade) counterparties may not be clearing members. All counterparties must have appropriate clearing member relationships in place to allow their business to be cleared.
9. Under your solution, is it possible to "unclear" transactions and revert back to a bilateral contract?
No, our solution is multilateral to offer the full benefits of clearing.
10. What, if anything, in your offering guarantees zero rated Risk Weighted Assets (RWA)?
As a FSA regulated RCH (Recognised Clearing House) products may be assigned zero RWA, as stated in BIPRU 13.
11. What is your long term strategic view with regard to intra-day clearing, supporting future contracts, CDS give-up, compressions and interaction with the Trade Information Warehouse (TIW) etc.?
Our service already clears daily. Within the next few months this will be formally extended to clearing intraday. We intend to extend on offering to other products (CDX and single names) soon. We already fully support give-ups and novations, greatly simplifying this process compared to the current market. All trades are compressed into positions daily. Although lifecycle processing is not performed in the TIW, we have planned architecture to link to the Warehouse in order to display 'bronze' records.

Architecture / Workflow / Process Model:

1. Outline the infrastructure model for the clearing house. Which components of the existing OTC and ETD architecture will be leveraged and which will your CCP look to provide through other means? (Confirmation, Settlement, Margin Collection, Credit Event processing etc)
Workflow diagrams have been provided separately. Lifecycle and credit event processing and calculation of all payments (upfront fees, coupons, margin amounts based on mark-to-market settlement prices) will be performed via TRS. Transfer of all monies is performed via PPS.
2. Provide detailed workflow and trade flows from execution to clearing; for Day 1, for any interim states, for target end state. When exactly in the clearing cycle is a trade legally and physically cleared?
Workflow diagrams have been provided separately. Legal clearing guarantee occurs at the end of the day (but note that in all previous defaults an intraday clearing guarantee has also been provided). This arrangement will soon be extended further so that the clearing guarantee formally exists intraday. Physical clearing (netting of positions) occurs at the end of the day.
3. Will the clearing house net trades? When/ how will this occur? Explain exactly how members will be notified of trade terminations and new net trades.
Daily at the end of day via TRS. Records of all individual trades and of resulting net positions are both shown in TRS.
4. What scenarios can cause a trade rejection? How are these flagged and resolved?

We monitor prices entered relative to other live market prices to screen for obvious 'fat finger' errors. Trades may be rejected if they are well away from prevailing market prices, but the goal is to protect against errors rather than be restrictive in relation to trade prices. If a trade is entered into Bclear at an obviously erroneous price a NYSE Liffe market analyst will send a message to the user informing him of the issue. The trade may be re-entered at an adjusted price and then accepted. The trader and the market analyst will typically speak throughout this process.

Confirmation, Settlement & Margining:

1. Will the clearing house trades be traded under a standard ISDA agreement or under a proprietary legal framework? Detail all differences between any elements of proprietary frameworks and a standard ISDA agreement and what steps have been taken to ensure this can be electronically confirmed.
Proprietary legal framework, but based on ISDA 2003 definitions (and subsequent updates, including recent Big Bang changes) and the relevant Markit standard terms supplement, with permission from ISDA/Markit. A proprietary framework allows all trades deals to be netted daily and users to move in and out of a position with multiple counterparties.
2. Where is the original bilateral trade and the new cleared trade legally confirmed? DTCC, Clearing House, offline? Paper or electronic? If electronic, will the clearing house support multiple matching platforms?
Confirmed in TRS, but discussions continue about using existing confirmations tools. Expect further information shortly.
3. How will the clearing house allow for cashflow calculation, reconciling, netting and settlement? Describe the process for fees, coupons and credit event payments.
All payments are calculated and displayed in TRS and displayed using LCH's PPS banking system. Credit event payments cash settle using a factor based approach and the result of ISDA credit event auctions (with permission).
4. Will the clearing house leverage existing CLS central settlement infrastructure, settle bilaterally or other?
Settlement will be centrally via the CCP using LCH Protected Payment System (PPS).
5. How are the prices collected and monitored on a daily basis in order to generate margin calls? Do you plan on offering cross product margining?
Based on a suite of data products provided by Markit. We currently offer cross margining between different CDS products, and will consider extending this to other products in due course.
6. Do you plan to provide a mechanism that provides for client collateral protection (ie. a Control Agreement)?
We already offer account segregation for client positions.

Event Processing:

1. Outline the detailed process flow for handling credit events: determination; adherence; reversioning of contracts; calculation and fees, rebates and future coupons. Will you abide by the ISDA Determinations Committee decisions or will your approach differ?
We will abide by Determination Committee decisions. All contracts processed via our solution will be bound by this decision - no individual adherence is required. Coupons will be adjusted based on the re-weighting of the event constituent in the index (factor based approach). An Event Protection Contract (EPC) will be created for the constituent with weighting reduced to zero, and this EPS will be cash settled against the ISDA auction price. Since no standard has yet been agreed by the industry for Restructuring/physical delivery treatment within a CCP when there is no ISDA auction, we will currently also cash settle in non-auction circumstances using pre-determined

rates. This final provision will be wholly replaced by the new Restructuring/physical delivery standard when it is agreed by the industry.

2. Outline the same process for successor events, both a rename scenario and a split (e.g. 2-for-1) scenario.

We will abide by Determination Committee decisions. Constituents will be renamed or split 2:1 as appropriate.

3. Outline the same process for mergers / acquisitions of clearing house members (e.g. bank A merges with bank B, both of whom are clearing members).

It is possible for multiple legal entities within the same bank to be different clearing members, and positions are held per legal entity. If Bank A completes a takeover of Bank B, then Bank B's positions will still be held by that legal entity, albeit that it may now be wholly owned by Bank A.

If Bank B is entirely subsumed by Bank A, then the positions will be transferred to Bank A and netted.

- What happens upon a clearing member failure/default?
 - Will other clearing members be responsible for the failed clearing member's losses/shortfall facing CCP/clearinghouse? What about customers of failed clearer?

Customers can transfer their positions if they are held segregated. The defaulting member's margin is used to dispose of the positions. If this is not sufficient (and it has been sufficient in all previous defaults) then losses are mutualised via the default fund.
 - Will positions of customers of the failed clearing member be transferred to a solvent clearing member? If so will collateral be transferred as well?

As stated above, LCH may, under its Default Rules, transfer positions. All collateral is accepted to cover a clearing member's obligations as principal (which may derive from business dealt for customers) - this may be transferred at LCH's discretion.
 - What customer remedies and protections - both for positions and collateral - will exist if a customer's clearing member fails?

See above.
 - What rights will a customer have vis-à-vis collateral posted by the failed clearing member at the CCP/clearinghouse?

The clearing member is the principal to the collateral, so this would occur under the general insolvency process.
 - What legal process will govern recovery of client assets/collateral from a failed clearing member?

This would occur under the general insolvency process.

Technology, Testing & Implementation:

1. How will participants interface with the clearing house? Messaging, uploads, internet, application?

Both Bclear (trade entry) and TRS (trade and position processing and clearing) can be interfaced via secure log-on screens or APIs.
2. What is the maximum volume the clearing house will be able to handle? Daily transactions, overall portfolio size etc.

Both Bclear (trade entry) and TRS (trade and position processing and clearing) can be interfaced via secure log-on screens or APIs.
3. Explain clearing house testing requirements and operational sign off process for clearing to commence. What period of testing is available for bank validation of margin calculations?

Our service is already available for clearing. We offer a UAT (user acceptance test) environment for members to test their interface to the service.

4. How will the clearing house manage the implementation of new processes or products?
How will timelines and requirements be agreed?
Our service is already available for clearing. We offer a UAT (user acceptance test) environment for members to test their interface to the service.