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## 2F. **TURQUOISE DERIVATIVES**

### 2F.1 **INTRODUCTION**

These Procedures form part of the Regulations (the General Regulations, Default Rules and Procedures of the Clearing House) and must be read in conjunction with the other parts of the Regulations. Clearing Members must inform themselves fully of their obligations under the Regulations and under other relevant documentation, such as the Clearing Membership Agreement, the terms of any approval by the Clearing House to extend clearing activities, and any applicable Turquoise Derivatives NCM-GCM Agreement.

Clearing Members should also be familiar with the Turquoise Derivatives Regulations and the rules and procedures of the Approved Turquoise Derivatives Settlement Provider (“ASP”) through which settlement is effected. Such documents are subject to change. Clearing Members should note that:

- (i) where any benefit or thing arises as a result of a Corporate Event (see paragraph 2F.14) these Procedures apply to such benefit or thing whether or not the benefit or thing so arising consists of any Turquoise Derivatives securities; and
- (ii) in the event of any conflict between any provision of these Procedures and any requirement or provision of any third party (including but not limited to any requirement or provision in any market or other rules or other documentation of Turquoise Global Holdings Limited (“TGHL”) , any Co-operating Clearing House, Co-operating Exchange Linked or any ASP Turquoise Derivatives) , these Procedures shall prevail.

Subject to Regulation 39 (e) the Clearing House shall not be liable for any loss or damage of any kind whatsoever suffered by a Clearing Member, NCM TGHL or anyone else arising out of or connected with:

- (iii) any inconsistency or conflict between any provision in the General Regulations, Default Rules and Procedures of the Clearing House or other Clearing House documentation, and the rules and other documentation of TGHL or any Co-operating Clearing House, Co-operating Exchange or any ASP Turquoise Derivatives ;
- (iv) any statement contained within the rules and other documentation of TGHL or any Co-operating Clearing House, Co-operating Exchange or any ASP Turquoise Derivatives.

Where applicable any references to the exchange name will be known as TGHL or Turquoise; and where applicable any references to the exchange code will be known as ED2.

#### 2F.1.2 **Definitions**

For the sake of simplicity, the term “Turquoise Derivatives Transaction” is used in these Procedures to mean any Turquoise Derivatives Orderbook Match, Reported Trade, Cross-Border Re-registration or Cross Border Transfer (as defined in the Definitions section of the Regulations), which is eligible for registration by the Clearing House pursuant to the Turquoise Derivatives Regulations.

### 2F.1.3 **Enquiries**

Enquiries regarding these Turquoise Derivatives Procedures or any other aspects of the operation of the Turquoise Derivatives Service should be directed to the Business Operations Department on +44 (0)20 7426 7688. Enquiries regarding margining and Clearing Member status should be directed to the Risk Operations Department on +44 (0)20 7426 7520.

Full details of contact points may be found on the Clearing House website (<http://www.lchclearnet.com>).

### 2F.1.4 **Service Use**

Where any Clearing Member wishes to participate in any part of the Turquoise Derivatives Service it must first seek appropriate authorisation from the Clearing House.

Details of how to obtain such authorisations may be obtained from the Membership Department on +44 (0)20 7426 7949. The Clearing Member must comply with all Clearing Member status, and other, requirements of the Clearing House (including requirements relating to settlement). In particular with regard to settlement that Clearing Member must at all times ensure:

- (i) appropriate stock account/s is/are nominated and available in the system of the ASP for making or taking delivery of securities resulting from the exercise/expiry of any Turquoise Derivatives Eligible Product; and
- (ii) a fully operational cash account is nominated and available in the system of the ASP in respect of each currency in which an Turquoise Derivatives Transaction may be concluded.

Failure to meet the requirements set out in (i) and (ii) above (and other applicable requirements) may result in that Clearing Member not having appropriate settlement arrangements in place or not fulfilling the relevant criteria prescribed in the Turquoise Derivatives Regulations for registration of a Turquoise Derivatives Transaction.

In the event that, at the time the Clearing House or its agent receives the details of any Turquoise Derivatives Transaction for registration, the Clearing Member in whose name that trade is to be registered has not made available a fully operational cash account or stock account in the system of the ASP, for settlement purposes in respect of that Turquoise Derivatives Transaction, then the Clearing House may, in its absolute discretion, nevertheless decide to register that Turquoise Derivatives Transaction. In such circumstances, the Clearing House may make such arrangements as it considers appropriate in order to facilitate the proper and orderly settlement of that Turquoise Derivatives Transaction. The Clearing House is entitled in those circumstances to debit the PPS account of the Clearing Member for all costs and expenses incurred by the Clearing House.

### 2F.1.5 **Use of Agents for Settlement and/or Delivery Purposes**

Where the Clearing House receives an instruction [in writing?] from a Clearing Member, requesting or requiring that settlement and/or delivery of any Turquoise Derivatives Eligible Product be carried out by any third party acting as agent or other representative of that Clearing Member ("Settlement Agent"), then the

Clearing House will do what it reasonably can to accommodate such request as set out below, providing however that in any such case and notwithstanding such instruction, that Clearing Member shall remain responsible for meeting all obligations to the Clearing House with regard to settlement and delivery under the Regulations (including these Procedures) and any other applicable agreements.

The Clearing House will use its reasonable endeavours to take delivery from or make delivery to such Settlement Agent but the Clearing House has no contractual relationship with such Settlement Agent and shall owe no duty of care nor have any liability whatsoever to such Settlement Agent (whether that person is a Clearing Member or not) or any other person in the event of any act or default of such Delivery/Settlement Agent, or with regard to any matter arising out of or in connection with such delivery.

Subject to the above, any reference in these Procedures to any act to be done by a Clearing Member may be carried out by a Settlement Agent where one has been appointed and the Clearing House has been so notified.

#### 2F.1.6 **Suspension of Trading**

For the avoidance of doubt, any action by TGHL or a Participating Exchange to suspend, de-list or take any other action with regard to a Turquoise Derivatives Eligible Product shall not affect any obligations that a Clearing Member may have to the Clearing House with regard to any unsettled Turquoise Derivatives Cleared Exchange Contract in that Turquoise Derivatives Eligible Product.

#### 2F.1.7 **Liability**

Clearing Members are asked to note that any statements set out in these Procedures regarding the liability of the Clearing House are made without prejudice to the generality of the provisions set out in Regulation 39 (Exclusion of Liability).

The Clearing House does not seek to limit or exclude any liability for personal injury or death caused by its negligence, or for fraud or wilful default on the part of the Clearing House.

#### 2F.2 **GENERAL INFORMATION**

Only Turquoise Derivatives Transactions which meet the relevant criteria for registration as set out in the Turquoise Derivatives Regulations and the other requirements of the Regulations will be registered by the Clearing House as Turquoise Derivatives Cleared Exchange Contracts.

Clearing Members should note that registration of Reported Trades is at the discretion of the Clearing House and subject to Clearing Members meeting the Clearing House's margin requirements with respect to those trades.

Subject to the requirements of the Regulations, participation in the Turquoise Derivatives Service is available to:

- (i) any Clearing Member who has been and remains approved by the Clearing House to participate in the Clearing House Turquoise Derivatives Service and

- (ii) any NCM - see section 2F.2.1 below - who has been admitted to and who remains on the Register of Turquoise Derivatives NCMs.

Please note that, all physically delivered underlyings resulting from Turquoise Derivatives will become EquityClear Contracts and be cleared and settled through the EquityClear service. Any Clearing Member or NCM who is party to Turquoise Derivatives which give rise to such physical underlyings will either need to be approved to participate in the EquityClear service or appoint a GCM who is so approved.

#### 2F.2.1 **Turquoise Derivatives Transactions of Turquoise Derivatives NCMs**

The Clearing House has a form of agreement, known as the Turquoise Derivatives NCM-GCM Agreement. It sets out the terms which apply to the supply by the Clearing House of clearing services in respect of Turquoise Derivatives Transactions to which persons who are not Clearing Members of the Clearing House are party and whose names are included in the "Register of Turquoise Derivatives NCMs" held by the Clearing House, and who are known as "TGHL Non-Clearing Members" or "Turquoise Derivatives NCMs".

Where any Clearing Member is authorised by the Clearing House to participate in the Clearing House Turquoise Derivatives Service and that Clearing Member wishes the Clearing House to become party to Turquoise Derivatives Transactions initiated by an NCM then it must first enter into an Turquoise Derivatives NCM-GCM Agreement with that NCM (in the form prescribed by the Clearing House) and submit the Agreement to the Clearing House with a request that the Clearing House agrees to become party to it by signing it. The Membership Department on +44 (0)20 7426 7949 will provide details of the correct form to be used in putting forward such Agreement for approval by the Clearing House.

The receipt by the Clearing House of a Turquoise Derivatives NCM-GCM Agreement in the prescribed form, signed by a Clearing Member approved by the Clearing House to clear Turquoise Derivatives Transactions (known in the agreement as a "GCM"), and an NCM shall be conclusive evidence that the Clearing Member party to it agrees to be party to Turquoise Derivatives Transactions arising according to the terms of that agreement. The Clearing House is not obliged to verify the appropriateness or authenticity of the signatures which appear on any such agreement, nor that the person signing on behalf of any of the parties had the correct authority to sign. Any NCM wishing to apply for Clearing Member status must ensure that it has terminated the Turquoise Derivatives NCM to which it is party according to the terms of that agreement, prior to submitting in its new capacity any Turquoise Derivatives Transactions for clearing. Failure to do so may result in delay in registration of trades or their rejection.

Deliveries with regard to Turquoise Derivatives Cleared Exchange Contracts may only be made through one of the settlement systems approved by the Clearing House for such purposes ("Approved Turquoise Derivatives Settlement Provider" or "ASP Turquoise Derivatives"). Clearing Members must familiarize themselves with all operating procedures and applicable rules of the relevant ASP. Appendix [ ] sets out details of which ASPs have been approved by the Clearing House.

#### 2F.2.2 **Service Timetable**

Operating Times:

The Clearing House will publish by Clearing Member circular and on its website (<http://www.lchclearnet.com>) details of the days and times during which the Clearing House Turquoise Derivatives Service will be operational (“Turquoise Derivatives UK Business Days”).

Trade Acceptance Hours:

Please refer to the trade acceptance hours of TGHL on their website.

### 2F.2.3 **Member Reporting**

Clearing Members are able to receive their Clearing House position information in respect of Turquoise Derivatives Transactions via the Bits Clearing System (“BCS”). The Clearing House makes available appropriate clearing information via reports, real time confirmations and other means via existing Clearing Member reporting mechanisms.

TGHL notifies Clearing Members of certain information under its rules via various "Notes" e.g. Settlement Note, Delivery Instruction Note, Expiration Settlement Note. Such reports are issued on behalf of the Clearing House in cases where they indicate obligations as between Clearing Members and the Clearing House.

Detailed margin parameters files are made available to Clearing Members daily on LCH Member Reporting website. There is no printed hard copy report distributed for any part of the Turquoise Derivatives Service. Any queries in connection with margin parameters or reporting should be directed to the Risk Operations Department on +44 (0)20 7426 7520.

### 2F.2.4 **Static Data**

Prior to submission of any Turquoise Derivatives Transactions for registration a Clearing Member is required to complete a static data form.

Copies of the prescribed form can be requested from the Membership Department on +44 (0)20 7426 7949.

Failure to complete and submit the static data form in respect of the particular type of Turquoise Derivatives Eligible Product may result in the rejection of trades.

## 2F.3 **REGISTRATION**

### 2F.3.1 **General**

Each Clearing Member and each Turquoise Derivatives NCM requires the express written approval of the Clearing House in order to participate in the Turquoise Derivatives Service. Details of how such approval may be obtained are available from the Membership Department on +44 (0)20 7426 7949.

Each Turquoise Derivatives Transaction must pass the Clearing House's validation procedures to enable it to be registered.

Each Clearing Member authorised to participate in the Turquoise Derivatives Service and each Turquoise Derivatives NCM, must be familiar with the operating procedures and deadlines of TGHL.

### 2F.3.2 **Intra-Day Registration**

The Clearing House registers all Turquoise Derivatives Orderbook Matches and other eligible Turquoise Derivatives trades on an intra-day basis. Registration occurs when they pass all of the Clearing House's validation procedures.

Registration of Reported Trades is at the discretion of the Clearing House and subject to Clearing Members meeting the Clearing House's margin requirements with respect to those trades.

## 2F.4 **POSITION AND FINANCIAL ACCOUNTS**

### 2F.4.1 **Member Accounts**

For identification purposes each Clearing Member is assigned a unique three-character mnemonic. A Clearing Member's position and financial information are further identified by a single character code: H for house and non-segregated business; C for segregated client business; and F for Default Fund contributions. The H and F account are obligatory, the C account is optional. All other accounts are administrative and do not constitute Member accounts as defined in Regulation 5.

### 2F.4.2 **Position-keeping accounts**

Positions are recorded within the clearing system (BCS) in position-keeping accounts which are not Member Accounts as described in Regulation 5.

The basic account types are; house account (this account represents a Clearing Member's principal business); customer/agent account; market maker account; and reject account (this account represents "trades" which have not been assigned to an account").

### 2F.4.3 **Financial Accounts**

Member Accounts have financial accounts associated with them. These are used, among other things, to record cash balances, and securities/ documentary credits. Information contained within position-keeping accounts is mapped to financial accounts upon direction from the Clearing Member.

By accepting a trade into a position-keeping account, a Clearing Member is also deemed to be designating that trade for the associated financial account. There is no facility to change the designation once the market contracts have been registered.

### 2F.4.4 **Other Financial Accounts**

Each Clearing Member's Default Fund Contribution is held in a separate financial account. This account attracts a rate of interest as set out in the Default Fund Rules. The Default Fund financial account is designated by the single character code F.

At the Clearing House's discretion, further financial accounts, used only to record financial balances, may be opened. These will similarly be designated using a single character code: B for buffer accounts, holding additional deposits; and Q for accounts holding supplementary financial resources.

## 2F.5 **MARGINING**

The Clearing House will margin all outstanding Turquoise Derivatives Cleared Exchange Contracts of each Clearing Member. Margin is made up of two basic components:

- (i) Initial Margin; and
- (ii) Variation Margin.

The two components are described below. Questions regarding the margining of Turquoise Derivatives Cleared Exchange Contracts should be directed to the Risk Operations Department on +44 (0)20 7426 7520.

Separate Initial and Variation Margin calculations are performed for a Clearing Member's house (H) and client (C) account; **no offset between these accounts is allowed**. Each account will be margined on a net basis.

### 2F.5.2 **Initial Margin**

The Clearing House will require Clearing Members to post Initial Margin.

Initial Margin requirements will be determined using the SPAN algorithm for all open contracts. Initial Margin requirements will be determined by the ERA algorithm for contracts during the delivery period.

#### 2F.5.2.1 **Initial Margin Parameters**

The margin parameters for SPAN, and ERA, used in the Initial Margin calculation will be made available by the Clearing House on the website. In the event of changes to parameters, Clearing Members will be notified as soon as possible of amendments and no later than the day before calls are made based upon the new parameters.

### 2F.5.3 **Variation Margin**

All open contracts have Variation Margin calculated daily by the Clearing House in accordance with Turquoise Derivatives' Regulations. The official quotation is used as the market price. Profits or losses are either credited or debited from the Clearing Member's financial accounts (realised margin) or they form non-realised contingent liabilities or credits.

#### 2F.5.3.1 **Realised Variation Margin**

Realised Variation Margin is the calculated profit or loss arising from a comparison between the value of open positions at the relevant official quotations with the value of positions recorded in BCS; i.e. the trade price for new trades and the previous day's official quotation for other positions. All futures contracts' variation margin amounts are realised into postings to Clearing Members' financial accounts.

**2F.5.3.2 Contingent Variation Margin**

Contingent Variation Margin is calculated with reference to the original trade or delivery price and the relevant official quotation. Contingent Variation Margin is applicable to all 'forward style' future contracts.

**2F.5.3.3 Option Variation Margin**

Option variation margin (also known as Option Net Liquidation Value or Option Market Value) is the value of the unexpired options, calculated with reference to the official quotation. Bought and sold options generate credit and debit option variation margin respectively.

**2F.5.4 Intra-day margin calls**

The Clearing House will calculate each Clearing Member's Initial and Variation Margin on a routine basis at several points throughout the day. The Clearing House will re-calculate the Clearing Member's liabilities using current market prices and current Clearing Members' positions. In the event that a Clearing Member has insufficient cover with the Clearing House, an intra-day PPS call will be issued. In addition, the Clearing House reviews the Initial and Variation Margin requirements of each Clearing Member throughout the business day. In the event of an increase in a Clearing Member's liability, the Clearing House will make further intra-day adjustments on a Clearing Member specific basis. In the event of a Clearing Member having insufficient cover, the Clearing House will make further intra-day calls. Clearing Members should ensure that they are, at any point throughout the day, in a position to meet a PPS call.

**2F.6 INSOLVENCY AND DEFAULT****2F.6.1 Insolvency of an Issuer**

For the avoidance of doubt, Clearing Members are advised that their obligations set out in these Regulations and Procedures and any other relevant agreements with the Clearing House including but not limited to obligations regarding settlement and delivery continue notwithstanding any suspension of trading in such securities on any Exchange (including TGHL, any Co-operating Exchange and Co-operating Clearing House) or other trading platform and notwithstanding that the Issuer of such securities passes a resolution or the court makes an order for the winding up of the Issuer or a receiver, administrative receiver, administrator, trustee or similar officer is appointed in respect of all or any part of its undertaking, or the Issuer enters into a composition or voluntary arrangement with or for the benefit of its creditors or any other event of a similar nature occurs.

Where settlement of any securities cannot take place because of a court, administrative or regulatory order or because of an insolvency event affecting the Issuer of such securities, the Clearing House may in its discretion, give notice to Clearing Members who are party to open contracts in respect of those securities, that such contracts will be cash settled at such price as the Clearing House may set in its reasonable discretion. Clearing Members should note that in such circumstances the reference price may be NIL.

**2F.6.2 Default of an NCM**

In the event that an NCM (“the Defaulting NCM”) is declared to be in default by TGH in accordance with their default rules, the Clearing Member with whom that NCM has a subsisting Turquoise Derivatives NCM-GCM Agreement, remains fully responsible for meeting all obligations to the Clearing House in respect of all contracts arising from trades executed on TGH by or on behalf of that NCM. Similarly where a non - Turquoise Derivatives member (“the OSE Defaulter”) clearing through OSLO Clearing (OC) (directly or indirectly) is declared to be in default by OC, OC remains fully responsible for meeting all obligations to the Clearing House in respect of all Turquoise Derivatives Cleared Exchange Contracts arising from the trades executed or entered into on or through the joint order book or otherwise registered by TGH as Turquoise Derivatives Transactions by that OC Defaulter.

**2F.6.3 Suspension of the Open Offer in respect of an NCM**

At any time while a valid Turquoise Derivatives NCM-GCM Agreement is in operation, the Clearing Member party to such Agreement may request suspension of the Turquoise Derivatives Open Offer (and/or, where applicable, registration of Reported Trades) with regard to the Turquoise Derivatives NCM which is party to that agreement. Such request must be made in accordance with these Procedures. Clearing Members should note that the following provisions are applicable only to a request for suspension made under the relevant provision of the applicable Turquoise Derivatives NCM-GCM Agreement. They do not apply to the Clearing House’s powers (as set out in Regulation 79 of the Turquoise Derivatives Regulations) to suspend any part of the Turquoise Derivatives Service. These powers may be exercised in such manner as the Clearing House deems appropriate in the circumstances.

A request for suspension of any Turquoise Derivatives NCM may only be made by a Clearing Member if that Clearing Member shall have previously given notice to LCH’s Risk Management Department in writing setting out the following matters:

- (i) a list (“the Authorised List”) of the names, telephone and fax numbers (and email addresses where applicable) of each person (“Authorised Person”) who is authorised from time to time by that Clearing Member to make any such suspension request. The Clearing Member may from time to time add or remove any names, and accompanying particulars from such list.
- (ii) a specimen of the signature of each person whose name appears on the Authorised List.

A request to suspend may be made either by telephone or in writing to the Clearing House by any person whose name appears on the Authorised List at the time of such request.

The Clearing House may rely on any written request for suspension which reasonably appears to the Clearing House to be given by any Authorised Person without any need for the Clearing House to make any checks or carry out any verification regarding the origin or authenticity of such a request. The Clearing House may also rely upon telephone request for suspension providing that it forms the reasonable opinion that the giver of such request is an Authorised Person. The Clearing House shall be under no obligation to inquire into the authority of the

signatory of any such written request for suspension or the giver of any such telephone request, nor to inquire into the reasons for any such requested suspension.

A request for suspension may only be made if prior notice of the Clearing Member's intention to make such request has been given to TGHL.

Any request for suspension, whether made by telephone or in writing, shall contain the following information: the name of the requesting Clearing Member;

- (iii) the name and address of the NCM as it appears on the relevant NCM-GCM Agreement/s to which the Clearing Member and the NCM are party;
- (iv) the requested date and time for commencement and end of suspension. In the event of a telephone request, the Clearing Member may request suspension to take effect from a time no earlier than 1 hour from the time of the telephone call. In respect of a written request, the Clearing Member may request suspension to take effect from a time no earlier than 3 hours from the time of receipt by the Clearing House of such written request. Where the Clearing Member does not wish to nominate an end date and time for the suspension, it may request indefinite suspension providing a start date and time is nominated;
- (v) the name, telephone number and fax number and/or email address of the person with whom the Clearing House may communicate in respect of such request and any subsequent suspension;
- (vi) the date and time of notification to TGHL of that Clearing Member's intention to request suspension and the identity and telephone number of the person to whom such notification was given.

In the absence of any part or parts of the above information from such request, the Clearing House may decline to give effect to such request.

Any telephone request for suspension may only be made to the following telephone number during the following times:

Clearing House Membership Department +44 (0)20 7426 7949

09:30 – 17:30 hours London time on any Turquoise Derivatives UK Business Day

It must promptly be confirmed by facsimile (addressed to the Head of Risk Management, LCH.Clearnet Limited) sent to the following number+44 (0)20 7667 7351.

Any written request for suspension must be addressed to the Head of Risk Management, LCH.Clearnet Limited, and marked "Urgent-NCM suspension request". It must be received by the Clearing House during the hours of 09:00 - 17:30 hours London time on any Turquoise Derivatives UK Business Day. Delivery may be effected by post, or courier.

Requests for suspension may not be made in any manner or form other than as set out above.

Following receipt of such a request for suspension, the Clearing House may in its absolute discretion but without being under any obligation to do so, make such inquiries of the requesting Clearing Member, relevant NCM, TGHL and each relevant ASP and such other persons as it considers appropriate in the circumstances.

In the event that the Clearing House receives a request for suspension, it will use its reasonable endeavours to give effect to it in accordance with Section 2F.8.8. However, it shall be under no obligation to give effect to that request for suspension where the Clearing House in its absolute discretion believes that to do so would damage the integrity of the Clearing House, cause disruption or disorder to any relevant market or expose the Clearing House to any unacceptable risk.

For these purposes, the following constitutes giving effect to a request for suspension by the Clearing House in respect of an NCM:

Notification to TGHL, in accordance with any procedures as may be agreed from time to time with TGHL, that the Clearing House will, for the period of time stated in such notification (“the period of suspension”) withdraw the relevant Open Offer in respect of, and decline to register, any Turquoise Derivatives Transaction executed or entered into or reported by or on behalf of that NCM. Where no such period is stated, then the Clearing House will state the time and date from which it will decline to register any trades of that NCM until further notice (that period being the “period of suspension”).

During the period of suspension the Clearing House will be entitled to decline to register any Turquoise Derivatives Transaction executed or entered into or reported by or on behalf of that NCM.

Notwithstanding any such suspension, the Clearing Member who requested the suspension will continue to be bound by its obligations as set out in the relevant Turquoise Derivatives NCM-GCM Agreement and under the Regulations and these Procedures in respect of any trade (and any subsequent Contract arising from it) executed before or during the period of the suspension and thereafter for so long as that Agreement subsists, including but not limited to the fulfillment of its obligations to the Clearing House in respect of any trade which is submitted for registration and is registered by the Clearing House during the period of the suspension.

When the Clearing House carries out any suspension in respect of any NCM it will use its reasonable endeavours to notify that NCM of the fact and length of the suspension. The failure or omission to give any such notice to that NCM will not give rise to any liability whatsoever on the part of the Clearing House with regard to any trade/s rejected by the Clearing House during the period of suspension, or otherwise.

Clearing Members should note that the Clearing House is under no obligation to notify that NCM that it has received a request to suspend. The Clearing Member requesting suspension should ensure that the relevant NCM is aware of that Clearing Member’s intention to request suspension.

## 2F.7 **OPTION EXERCISE AND EXPIRY**

Clearing Members should note that option contracts must be exercised either manually or automatically through BCS in accordance with the relevant Turquoise

Derivatives Rules, other relevant TGHL documentation which set out times at which notification of exercise must be given and the Clearing House General Regulations and these Procedures.

On expiry, an automatic exercise facility is available. Once a deadline is met, the ability to exercise is withdrawn. For full details Clearing Members should consult the relevant TGHL documentation.

When an option is exercised, a delivery or cash settlement obligation will arise, depending on the contract terms. Options that are not exercised (i.e. deny exercise request) by the time of expiry will expire worthless.

#### 2F.7.1 **Non Standard Exercise of Options**

##### Stock Options

Stock options for Turquoise Derivatives Orderbook Matches are American style (Tailor Made contracts and Reported Trades can be either American/European style) and accordingly Clearing Members are permitted to input exercise orders at any time during the lifetime of the option. Exercise orders may be submitted either via the BCS or via fax to TGHL in the manner and times prescribed in the Turquoise Derivatives Rules.

#### 2F.7.2 **Standard Exercise of Options**

##### Stock Options

Exercise Rules are specified by the Turquoise Derivatives Rule Book, which determine the times that exercise notifications must be given and by which automatic exercise operates. Automatic exercise of in-the-money options can be overridden by Clearing Members on any option contract by submitting a deny exercise order request in the manner and times prescribed in the Turquoise Derivatives Rules.

Clearing Members wishing to exercise an out-of-the-money option, or an option that is not to be automatically exercised, must input an instruction via the manual exercise screen or by submitting a fax to TGHL.

##### Index Options

Index options are European style and accordingly are only subject to exercise on the expiry day. Automatic exercise instructions for **all** option contracts are pre-set to exercise those contracts whose strike price is above or below reference price. Automatic exercise of in-the-money options can be overridden by Clearing Members on any option contract by submitting a deny exercise order request in the manner and times prescribed in the Turquoise Derivatives Rules.

Clearing Members wishing to exercise an out-of-the-money option, or an option that is not to be automatically exercised, must input an instruction via the manual exercise screen or by submitting a fax to TGHL.

#### 2F.7.3 **Reference Prices**

The reference prices to determine option exercise used by BCS on the expiry day shall be calculated in accordance with the contract terms as outlined in the Turquoise Derivatives Rules.

## 2F.8 **SETTLEMENT**

### 2F.8.1 **Daily Cash Settlement**

Certain Turquoise Derivatives Eligible Products will be subject to a daily cash settlement. The daily cash settlement of a contract is a cash payment derived by reference to the traded/registered price and the official closing price for the contract. The daily cash settlement amount is debited from or credited to Clearing Members' financial accounts in the original currency of the contract.

A list of Turquoise Derivatives Eligible Products that are subject to a daily cash settlement can be found in the Turquoise Derivatives Rules.

### 2F.8.2 **Interim Cash Settlement for Cleared Only Contracts**

The interim settlement occurs on a monthly basis in accordance with the contract terms as outlined in the Turquoise Derivatives Rules. The cash payment settlement day takes place in accordance with the contract terms.

The interim settlement amount is derived by reference to:

For Mortgage Bonds or a Credit Market Instrument, the difference in value between the Interim Settlement Yield and the Transaction Yield.

For the STIBOR-FRA and NIBOR-FRA contracts the difference between the Interim Settlement Rate and the Registered Rate.

### 2F.8.3 **Final Cash Settlement**

Cash settlement is the final settlement of a contract by way of a cash payment derived by reference to:

For futures, the difference between the expiry price and the price of the contract from the previous business day.

For options, the difference between the option reference price and the strike price.

The cash settlement amount is debited from or credited to Clearing Members' financial accounts in the original currency of the contract.

### 2F.8.4 **Option Premium**

Option premium on all contracts are settled up-front on the business day after the day of trade. The traded premium is debited from the buying Clearing Member's financial account, and credited to the selling Clearing Member's financial account in the currency of the contract.

### 2F.8.5 **Delivery**

Contracts remaining open at expiry are settled by physical delivery of the underlying at the price, EDSP as determined by the relevant contract terms.

**2F.8.6 Official Quotations**

Official quotations are based on 'closing price', 'base prices', 'expiration settlement price' or 'fixing price' and are supplied by TGHL at the close of business each business day.

Should TGHL fail to determine official quotations, the Clearing House will itself determine these as necessary. This will be done at the Clearing House's discretion and be announced as soon as possible.

**2F.9 POSITION TRANSFERS**

Clearing Members wishing to effect a position transfer to another Clearing Member approved to participate in the Clearing House Turquoise Derivatives Service should submit a written request to LCH Risk Operations.

Provided they relate to valid positions and adequate cover is available from both Clearing Members, the transfer will normally be authorised. Should insufficient cover be available, the transfer may not be authorised until additional cover is provided.

**2F.10 SUSPENSION OF THE SERVICE**

Members should be aware that the Clearing House may suspend the Clearing Turquoise Derivatives Services in the circumstances set out in Regulation 79.

**2F.11 DELIVERY PROCEDURES**

All physically delivered underlyings resulting from Turquoise Derivatives will become EquityClear Contracts and be cleared through the EquityClear service in accordance with the Procedures as outlined in section 2D. For these purposes, the Clearing Member, GCM or NCM who is party to the relevant Turquoise Derivative contract will need to be approved to participate in the EquityClear service as a GCM or Clearing Member or, alternatively, will need to appoint a GCM which participates in the EquityClear service to act on its behalf.

