1.1 Introduction and Definitions

1.1.1 The Clearing House is a designated system for the purposes of the Financial Markets and Insolvency (Settlement Finality) Regulations 1999 (the Settlement Finality Regulations) in respect of Transfer Orders. In addition, Part VII of the Companies Act 1989 (the Companies Act 1989) applies in respect of Contracts, the Default Rules and certain other matters relating to the Clearing House. The rules of the Designated System comprise this Chapter 10 (Settlement Finality) and the custody agreement the Clearing House has entered into with the Custodian (the Custody Agreement), the settlement bank agreements the Clearing House has entered into with the Settlement Banks (the Settlement Bank Agreements) and the cash reinvestment agreements the Clearing House has entered into with the Cash Reinvestment Agreements (the Cash Reinvestment Agreements) (together these shall be known as the Settlement Finality Rules).

1.1.2 The purpose of the Settlement Finality Regulations is to allow a system which effects securities and payments transfers to apply to be a designated system and thereby to have the benefit of certain modifications to the general law of insolvency. The modifications seek to minimize the disruption to a system caused by insolvency proceedings brought against a participant in such system. The aim is to ensure that in insolvency proceedings transactions that have been settled in the system are final and irrevocable and to strengthen the enforceability of collateral security. In order to receive these protections, a system must meet the criteria set out in the Settlement Finality Regulations and be designated by the FSA or the Bank of England.

1.1.3 Clearing Members, being participants of the Designated System, are also subject to various obligations and requirements as a result of the Settlement Finality Regulations and Companies Act 1989. Clearing Members must comply with, facilitate compliance by the Clearing House with, and comply with any action taken by the Clearing House pursuant to, the Settlement Finality Regulations and the Companies Act 1989.

1.1.4 Definitions

Cash Reinvestment Agent means an agent through which the Clearing House invests Collateral and/or Contributions;

Designated System means the standardised formal arrangements, common rules and procedures as set out in the Rules and the Settlement Finality Rules (to the extent applicable), and related functionality which:
(a) enables the Clearing House to give instructions to transfer to Clearing Members amounts of money on the accounts of certain banks, credit institutions, investment firms or settlement agents;

(b) enables the Clearing House to give instructions on behalf of Clearing Members and to transfer to the Clearing House amounts of money on the accounts of certain banks, credit institutions, investment firms or settlement agents;

(c) enables the Clearing House to give instructions to a Custodian to arrange for the transfer of title to, and interest in, Securities and cash;

(d) enables Clearing Members to give instructions to any of their custodians or the operators of securities depositories to transfer title to, and interest in, Securities and cash;

(e) enables the Clearing House to give instructions to any of its Cash Reinvestment Agents to arrange for the transfer of title to, and interest in, cash;

(f) enables the Clearing House to become central counterparty to Clearing Members in respect of Transactions;

(g) enables the Clearing House and Clearing Members to fulfill the obligations they incur in respect of Contracts and otherwise to one another pursuant to the Rules;

(h) enables transfers, assignments and novations, however effected, of Contracts between Clearing Members in accordance with the Rules including following a Declaration of Default; and

(i) facilitates supplementary and incidental matters to the satisfaction of obligations pursuant to Contracts and the collection and payment of amounts due in accordance with the Rules.

**Participant** means the Clearing House, each Clearing Member, each Settlement Bank, each Custodian and each Cash Reinvestment Agent that are participants (as defined in the Settlement Finality Regulations) in the Designated System (and this Part 10 shall apply equally to any insolvency practitioner appointed for, or with powers in respect of, a Participant).

**Payment Transfer Order** has the same meaning as in the Settlement Finality Regulations.

**Securities** has the same meaning as in the Settlement Finality Regulations.
Securities Transfer Order has the same meaning as in the Settlement Finality Regulations.

Transfer Order means a Payment Transfer Order or a Securities Transfer Order.

1.2 Transfer Orders Arising

1.2.1 The points at which a Transfer Order takes effect as having been entered into the Designated System are when:

Securities Transfer Orders

(a) the Clearing House sends an instruction to a Custodian by SWIFT message or such other form as set out in the Custody Agreement to receive title to, and interest in, Eligible Securities from an account of the Clearing Member in an account of the Clearing House pursuant to Rule 6.1.5 (a Securities Substitution);

(b) the Clearing House sends an instruction to a Custodian by SWIFT message or such other form as set out in the Custody Agreement to transfer the title to, and interest in, Eligible Securities from an account of the Clearing House to an account of the Clearing Member pursuant to Rule 6.1.7 (a Securities Return);

(c) a Contract is registered by the Clearing House in the Clearing System in accordance with Rule 5.2 (a Contract Order);

(d) the transfer, assignment or novation of any Contract from a Clearing Member to a Transferee Clearing Member occurs pursuant to Rule 5.3 (a Contract Transfer);

(e) the transfer of an Affected Contract from the Defaulting Clearing Member to another Clearing Member occurs (an Affected Contract Transfer);

(f) the transfer of Eligible Securities by the Clearing House from a Clearing Member or a Defaulting Clearing Member to another Clearing Member occurs in respect of a Contract Transfer or an Affected Contract Transfer (a Securities Collateral Transfer);

(g) the Clearing House sends an instruction to a Custodian by SWIFT message or such other form as set out in the Custody Agreement to transfer the title to, and interest in, Eligible Securities from an account of the Clearing House to an account of the Defaulting Clearing Member or its insolvency practitioner pursuant to the Default Rules (a Securities Collateral Return);

Payment Transfer Orders
(h) the Clearing House sends an instruction to a Settlement Bank, by SWIFT message or such other form as set out in the relevant Settlement Bank Agreement, to transfer to the Clearing House an amount of money to be debited from an account of the Clearing Member with the Settlement Bank pursuant to the Rules including in respect of Contracts, Collateral, Contribution, fees and charges, interest on Eligible Cash and Equivalent Distributions (a Collect);

(i) the Clearing House sends an instruction to a Settlement Bank, by SWIFT message or such other form as set out in the relevant Settlement Bank Agreement, to transfer to a Clearing Member an amount of money to be debited from an account of the Clearing House pursuant to the Rules including in respect of Contracts, Collateral, Contribution, interest on Eligible Cash and Equivalent Distributions from the Clearing House’s account at the Settlement Bank to the Clearing Member’s account at the Settlement Bank (a Pay);

(j) the transfer of Eligible Cash by the Clearing House from a Clearing Member or a Defaulting Clearing Member to another Clearing Member occurs in respect of a Contract Transfer or an Affected Contract Transfer (a Cash Collateral Transfer);

(k) the Clearing House sends an instruction to a Settlement Bank, by SWIFT message or such other form as set out in the relevant Settlement Bank Agreement, to transfer to a Defaulting Clearing Member or its insolvency practitioner an amount of money to be debited from an account of the Clearing House pursuant to the Default Rules (a Cash Collateral Return);

(l) the Clearing House sends an instruction to the Custodian, by SWIFT message or such other form as set out in the Custody Agreement, to transfer to the Clearing House or a Clearing Member an amount of money to be debited from an account of the Clearing House with the Custodian as permitted by the Custody Agreement (a Custody Cash Transfer);

(m) the Clearing House sends an instruction to the Cash Reinvestment Agent, by SWIFT message or such other form as set out in the Cash Reinvestment Agreement, to transfer to the Clearing House an amount of money to be debited from an account of the Clearing House with the Cash Reinvestment Agent or an account of the Cash Reinvestment Agent as permitted by the Cash Reinvestment Agreement (a Reinvestment Cash Transfer).

1.3 Transfer Orders Irrevocable

1.3.1 The points at which a Transfer Order may not be revoked are:

Securities Transfer Orders
(a) In respect of a Securities Substitution, the time at which the Securities are transferred to an account in respect of which the Clearing House is beneficially entitled by settlement system or book transfer or the time at which the Custodian confirms to the Clearing House by SWIFT message or such other form as set out in the Custody Agreement that such transfer will be made or that such transfer has been made, whichever is earlier;

(b) In respect of a Securities Return, the time at which the Securities are transferred from an account in respect of which the Clearing House is beneficially entitled by settlement system or book transfer or, provided it is later, the time at which the Custodian confirms to the Clearing House by SWIFT message or such other form as set out in the Custody Agreement that such transfer has been made;

(c) In respect of a Contract Order, from the time of its registration by the Clearing House in the Clearing System in accordance with Rule 5.2;

(d) In respect of a Contract Transfer, the time at which the Clearing House’s books and records are updated to reflect a successful Contract Transfer;

(e) In respect of an Affected Contract Transfer, the time at which the Clearing House’s books and records are updated to reflect a successful Affected Contract Transfer;

(f) In respect of a Securities Collateral Transfer, the time at which the Clearing House’s books and records are updated to reflect a successful Securities Collateral Transfer;

(g) In respect of a Securities Collateral Return, the time at which the Securities are transferred from an account in respect of which the Clearing House is beneficially entitled by settlement system or book transfer or, provided it is later, the time at which the Custodian confirms to the Clearing House by SWIFT message or such other form as set out in the Custody Agreement that such transfer has been made;

Payment Transfer Orders

(h) In respect of a Collect, the time at which the Settlement Bank gives confirmation to the Clearing House by SWIFT message type MT910 (Confirmation of Credit) or, in the event of a failure of the SWIFT system or access to the SWIFT system failing, by fax or in another form agreed in the relevant Settlement Bank Agreement, that such payment will be made or that such payment has been made by book transfer, whichever is earlier;

(i) In respect of a Pay, the time at which the Settlement Bank gives confirmation to the Clearing House by SWIFT or, in the event of a failure of the SWIFT system or access
to the SWIFT system failing, by fax or in another form as agreed in the relevant Settlement Bank Agreement, that such payment has been made by book transfer;

(j) In respect of a Cash Collateral Transfer, the time at which the Clearing House’s books and records are updated as a result of a successful transfer to reflect the Cash Collateral Transfer;

(k) In respect of a Cash Collateral Return, the time at which Settlement Bank gives confirmation to the Clearing House by SWIFT or, in the event of a failure of the SWIFT system or access to the SWIFT system failing, by fax or in another form as agreed in the relevant Settlement Bank Agreement, that such payment has been made by book transfer;

(l) In respect of a Custody Cash Transfer, the time at which the Custodian gives confirmation to the Clearing House by SWIFT or, in the event of a failure of the SWIFT system or access to the SWIFT system failing, by fax or in another form as agreed in the Custody Agreement of such debit of cash from the account of the Clearing House with the Custodian;

(m) In respect of a Reinvestment Cash Transfer, the time at which the Cash Reinvestment Agent gives confirmation to the Clearing House by SWIFT or, in the event of a failure of the SWIFT system or access to the SWIFT system failing, by fax or in another form as agreed in the Cash Reinvestment Agreement of such debit of cash from the account of the Clearing House with the Cash Reinvestment Agent or the account of the Cash Reinvestment Agent.

1.3.2 A Transfer Order shall not be revoked or purport to be revoked by any Participant (or any insolvency practitioner appointed in relation to the Participant), and shall be binding on all such persons, after the times specified in this Rule 1.3 as being the time at which such Transfer Order becomes irrevocable.

1.3.3 If two or more Transfer Orders exist in respect of the same obligation before becoming irrevocable, all such Transfer Orders shall be valid. No duplication of an obligation to pay should be considered valid and should not be considered as duplicate solely on the grounds that they relate to the same obligation.

1.4 Further provisions on Transfer Orders

1.4.1 No Transfer Order shall arise, enter the Designated System or become irrevocable except as set out in the Settlement Finality Rules.

1.4.2 A Transfer Order and the provisions relating to it under this chapter 10 of the Rules are not dependent on the validity of the Contract to which it relates.
1.5 **Provision of Information**

1.5.1 The Clearing House and any Participant must provide, upon payment of a reasonable charge, the following information to any person who requests it, save where the request is frivolous or vexatious, within fourteen (14) days of a request being made:

(a) details of the Designated System; and

(b) information about the main rules governing the functioning of the Designated System.

1.5.2 The Clearing House will provide a copy of the information referred to in Rule 1.5.1 to any Clearing Member upon request.

1.5.3 Each Participant will provide to the Clearing House such information as the Clearing House may reasonably require from time to time in order to meet its obligations as operator of the Designated System.

1.6 **Notice to the FSA**

1.6.1 Each Participant shall notify the Chief Operating Officer of the Clearing House, the Manager of the Markets Division of the FSA and the Manager of the Payment Systems Oversight Financial Resilience Division of the Bank of England forthwith in the event that:

(a) a creditors’ voluntary winding up resolution is passed in respect of the Participant;

(b) a trust deed granted by the Participant becomes a protected trust deed; or

(c) any analogous event occurs in respect of the Participant under the laws of a jurisdiction other than England.

1.6.2 Any such notice shall be given in writing and delivered in person or sent by recorded or special delivery post to the recipient. If delivered in person, it shall be deemed to be given when left at the relevant address. If sent by recorded or special delivery post, it shall be deemed to be given two Business Days after posting.

1.6.3 The addresses for notices are set out below:

CME Clearing Europe Limited
One New Change
London EC4M 9AF
Financial Services Authority
25 The North Colonnade
London E14 5HS

Bank of England
Threadneedle Street
London EC2R 8AH