

CDS Clear

LCH.Clearnet SA
CDS Clearing Rule Book
24 March 2014



TITLE I

GENERAL PROVISIONS

&

LEGAL FRAMEWORK

CHAPTER 1 - DEFINITIONS AND INTERPRETATION

Section 1.1.1 Terms defined in the CDS Clearing Rule Book

For the purposes of the CDS Clearing Documentation, the following capitalised terms shall, unless otherwise specified, have the respective meanings set out below:

2003 ISDA Credit Derivatives Definitions: This term shall have the meaning set out in Part A of the CDS Clearing Supplement.

2014 ISDA Credit Derivatives Definitions: This term shall have the meaning set out in Part B of the CDS Clearing Supplement.

Approved Matching Provider (AMP): An entity as specified in a Clearing Notice and with whom:

- (i) LCH.Clearnet SA has entered into an agreement regarding the submission of Original Transactions by AMP Participants for registration and clearing by LCH.Clearnet SA; and
- (ii) AMP Participants have entered into a participant agreement in respect of matching and confirming the terms of CDS ~~transactions~~ and designating such CDS ~~transactions~~ for clearing by LCH.Clearnet SA.

CDS Default Management Group: The group which is set up by LCH.Clearnet SA in accordance with the provisions of the CDS Default Management Process in order to assist LCH.Clearnet SA, in circumstances where:

- (i) an Event of Default has been declared by LCH.Clearnet SA as occurring in respect of a Clearing Member, with the implementation of the CDS Default Management Process and liquidation of Cleared Transactions in accordance with this CDS Clearing Rule Book; or
- (i) a Clearing Member makes notification to LCH.Clearnet SA pursuant to Article 9 Section 9 of Part A or Part B, as applicable, of the CDS Clearing Supplement, with the implementation of any auction process to liquidate a self-referencing Single Name Cleared Transactions and enter into an equivalent Single Name Cleared Transaction with a Clearing Member other than the Clearing Member referenced in such Single Name Cleared Transaction.

Competent Authority: Other than for LCH.Clearnet SA, any authority which:

- (i) is recognised as such by a Person's home Member State under the terms of the Banking Consolidation Directive or MiFID; or
- (ii) has concluded a cooperation agreement with the French Competent Authorities in respect of exercising a regulatory or supervisory function under the laws of any jurisdiction to which a Person is subject,

and for LCH.Clearnet SA, each of the AMF, the *Autorité de Contrôle Prudentiel et de Résolution*, the *Banque de France*, the European Securities and Markets Authority, the United Kingdom Prudential Regulation Authority and Financial Services Conduct Authority, the CFTC, any successor body of any of the foregoing and any other body which has concluded a cooperation agreement with the AMF, the *Autorité de Contrôle Prudentiel et de Résolution*, the *Banque de France* in respect of exercising a regulatory or supervisory function under the laws of any jurisdiction and designated as such by LCH.Clearnet SA from time to time.

Fallback Settlement Method: This term shall have the meaning set out in the ~~CDS Clearing Supplement~~ISDA Credit Derivatives Definitions.

ISDA Credit Derivatives Definitions: ~~This term shall have~~The 2003 ISDA Credit Derivatives Definitions or the meaning set out in the CDS Clearing Supplement.2014 ISDA Credit Derivatives Definitions, as applicable.

LCH.Clearnet SA: The commercial name of "*Banque Centrale de Compensation*", a clearing house as defined by Article L. 440-1 of the French Monetary and Financial Code (*Code Monétairemonétaire et Financierfinancier*) complying with Title IV of Book V of the general regulations of the AMF.

Price Contribution Delegate: In respect of a Clearing Member, an entity that:

- (i) is both an Affiliate and a Clearing Member; and
- (ii) has been duly approved by LCH.Clearnet SA to act in the place of such Clearing Member, pursuant to the conditions set forth in Section 5 of the Procedures.

Price Contribution Participant: Each Clearing Member or its Price Contribution Delegate.

Regulatory Body: The Secretary of State, The Prudential Regulation Authority and Financial ServicesConduct Authority or professional body designated under Part XX of the Financial Services and Markets Act 2000 or other body given regulatory powers under that Act, the Bank of England, the CFTC or any department, agency, office or tribunal of a nation or state or any other body or authority which exercises a regulatory or supervisory function under the laws of the United Kingdom or under any foreign law, including any Competent Authority.

Section 1.1.2 Incorporation of defined terms

Section 1.1.3 Interpretation and references

Article 1.1.3.8

~~In the event of inconsistency between different language versions or translations of the CDS Clearing Rule Book:~~

- ~~the French language version of this CDS Clearing Rule Book as approved by the AMF shall prevail over its English language version to govern the relationship with the French Competent Authorities;~~
- ~~the English language version of the CDS Clearing Rule Book shall prevail in the relationship between LCH.Clearnet SA and any Clearing Member or between the Clearing Members themselves.~~

The ~~remainder of the~~ CDS Clearing Documentation shall be drawn up in English. Different language versions or translations of the ~~remainder of the~~ CDS Clearing Documentation may be issued for information purposes. In the event of inconsistency between different language versions or translations of the ~~remainder of the~~ CDS Clearing Documentation, the English language version ~~of the remainder~~ of the CDS Clearing Documentation shall prevail over any other language versions or translations.

To the extent of any conflict between (i) any definition or provision contained in Appendix 1 of this CDS Clearing Rule Book; (ii) the remainder of this CDS Clearing Rule Book; (iii) the CDS

Admission Agreement; (iv) the Pledge Agreement; (v) the CDS Clearing Supplement; (vi) an Index Cleared Transaction Confirmation or Single Name Cleared Transaction Confirmation (as applicable); (vii) the Procedures; or (viii) any Clearing Notices, the first referenced document shall prevail, except with respect to any conflict arising from this CDS Clearing Rule Book being governed by French law and the CDS Clearing Supplement being governed by English law in relation to determining the existence and/or amount of any payment and delivery obligations under any Cleared Transactions, in respect of which the CDS Clearing Supplement, the Index Cleared Transaction Confirmation or Single Name Cleared Transaction Confirmation, as applicable, shall prevail to the extent permitted by law.

CHAPTER 2 - GENERAL PROVISIONS

Section 1.2.1 General

Section 1.2.2 Modification

Article 1.2.2.9

Clearing Notices may not be used to issue new, or amend or revoke any existing, principles, rights or obligations as set out in the CDS Clearing Rules or any Cleared Transaction. For the avoidance of doubt, Clearing Notices shall not be notices contemplated by or to be given under the terms of Cleared Transactions pursuant to the CDS Clearing Supplement and shall not be subject to Section 1.10 (Requirements Regarding Notices) of [2003 the ISDA Credit Derivatives Definitions](#) or Section 1.38 (Requirements Regarding Notices) of the 2014 ISDA Credit Derivatives Definitions, as applicable.

Section 1.2.3 Publication

Section 1.2.4 Extension or waiver

Section 1.2.5 Notices - Communications

Section 1.2.6 Fees

Section 1.2.7 Currency

Section 1.2.8 Time reference

Section 1.2.9 Obligations of LCH.Clearnet SA to each Clearing Member

Section 1.2.10 Liability

Section 1.2.11 Force Majeure Events

Section 1.2.12 Confidentiality

Section 1.2.13 Data protection

Section 1.2.14 Governing law

Section 1.2.15 Dispute resolution

Section 1.2.16 **Default Interest**

Section 1.2.17 **Tax**

CHAPTER 3 - LCH DEFAULT

Section 1.4.1

TITLE II

MEMBERSHIP

CHAPTER 1 - GENERAL PROVISIONS

Section 2.1.1 Participants

CHAPTER 2 - LEGAL OBLIGATIONS

Article 2.2.0.1

An Applicant shall be required to evidence its ability to comply with the obligations set out in this Chapter 2. LCH.Clearnet SA may refuse to admit an Applicant as a Clearing Member if the conditions set out in Article 2.2.1.1 have not been satisfied, or if it considers that admission of such Applicant as a Clearing Member may adversely affect the operation of the CDS Clearing System or the provision of the CDS Clearing Service.

LCH.Clearnet SA shall be entitled, in consultation with the Risk Committee, at any time to impose, amend or withdraw additional requirements in relation to the membership requirements set out in this Chapter 2, provided that, if such additional requirements are imposed or amended, they are non-discriminatory and their objective is to control the risk for LCH.Clearnet SA.

Further information in respect of the application procedure can be obtained from LCH.Clearnet SA's CDSClear ~~on-boarding and client services~~[Client Services & Relationship Management](#) department whose contact details are set out in Section 1 of the Procedures.

Section 2.2.1 Membership requirements

Section 2.2.2 Continuing obligations

Section 2.2.3 Capital requirements

Section 2.2.4 Internal credit scoring

Section 2.2.5 Corporate organisation

Section 2.2.6 Membership of industry organisations or systems relating to CDS contracts

Section 2.2.7 Third party contractual obligations

Section 2.2.8 Test processing

CHAPTER 3 - INFORMATION OBLIGATIONS, MONITORING AND AUDIT

Section 2.3.1 Information and financial reporting

Section 2.3.2 Monitoring

Section 2.3.3 Audit and inspection

Section 2.3.4 Record keeping

Section 2.3.5 Clearing Member risk management

CHAPTER 4 - SUSPENSION AND TERMINATION OF MEMBERSHIP

Section 2.4.1 Suspension

Section 2.4.2 Membership Termination

Section 2.4.3 Winding Down Event

TITLE III

CLEARING OPERATIONS

CHAPTER 1 - NOVATION AND REGISTRATION

- Section 3.1.1** **Weekly Backloading Cycle**
- Section 3.1.2** **Daily Backloading Cycle**
- Section 3.1.3** **Backloading Failure**
- Section 3.1.4** **Intraday Process**
- Section 3.1.5** **Rejected Transactions**
- Section 3.1.6** **Novation Process**
- Section 3.1.7** **Pre-registration**
- Section 3.1.8** **Margin calculation**
- Section 3.1.9** **Loss Distribution Periods**
- Section 3.1.10** **Registration of Cleared Transactions**

Article 3.1.10.7

The process as described in Article 3.1.10.1 will apply, *mutatis mutandis*, in all other circumstances where termination and creation messages relating to Cleared Transactions of a Clearing Member are to be exchanged between the Approved Matching Provider, LCH.Clearnet SA and such Clearing Member, including, without limitation, in connection with:

(i) ~~compression;~~

(i) the creation of Restructuring Matched Pairs or Settlement Matched Pairs (where applicable and subject to Sections 5 and 6 of Part A or Part B, as applicable, of the CDS Clearing Supplement, as applicable); and

(i) the transfer of Cleared Transactions.

Section 3.1.11 **Reporting requirements**

CHAPTER 2 – HOUSE ACCOUNT STRUCTURE

- Section 3.2.1** **House Trade Account**
- Section 3.2.2** **House Margin Account**
- Section 3.2.3** **House Collateral Account**

CHAPTER 3 - COMPRESSION

- Section 3.3.1** **General**

TITLE IV

RISK MANAGEMENT

CHAPTER 1 - GENERAL PROVISIONS

Section 4.1.1

CHAPTER 2 - MARGIN

Section 4.2.1 Margin Requirement

Section 4.2.2 Excess Collateral and the Client Collateral Buffer

Section 4.2.3 Collateral Calls

Section 4.2.4 Additional Collateral Call

Section 4.2.5 Variation Margin

Section 4.2.6 Collateral

Article 4.2.6.2

On the specific written request of a Clearing Member, LCH.Clearnet SA shall ensure that the Risk Committee is consulted on the acceptance of any type of currency, security or other type of asset as an Eligible Currency or as Eligible Collateral as the case may be, provided that Applicable Law permits ~~a~~LCH.Clearnet SA to accept such currency, security or other asset as ~~collateral~~Collateral. If Applicable Law no longer permits any currency, security or other asset to be accepted by a LCH.Clearnet SA as ~~collateral~~Collateral, LCH.Clearnet SA shall amend the list of Eligible Currencies and Eligible Collateral in accordance with Article 1.2.2.4 (ii)(a).

Section 4.2.7 Markit LCH Settlement Price

Article 4.2.7.7

In connection with the establishment and validation of an End of Day Contributed Price, each ~~Clearing Member~~Price Contribution Participant shall, in accordance with process set out in Section 5 of the Procedures relating to End of Day Contributed Prices, enter into a CDS ~~transaction~~ with another ~~Clearing Member~~Price Contribution Participant following notification from LCH.Clearnet SA that they are required to do so and the terms on which such CDS ~~transaction~~ should be executed. By the End of Day on the Clearing Day following receipt of such notification from LCH.Clearnet SA, the ~~Clearing Member~~Price Contribution Participant shall evidence that such CDS ~~transaction~~ has been entered into, as described in Section 5 of the Procedures.

Article 4.2.7.8

A Clearing Member can delegate the performance of its obligations: (i) to submit Market Data pursuant to Section 5 of the Procedures; and (ii) to enter into CDS pursuant to Article 4.2.7.7 above to its Price Contribution Delegate.

Notwithstanding the due appointment of a Price Contribution Delegate, the Clearing Member shall remain responsible to LCH.Clearnet SA for the due performance of its obligations under Article 4.2.7.7 above and Section 5 of the Procedures.

CHAPTER 3 - EVENTS OF DEFAULT

Section 4.3.1 Events of Default

Section 4.3.2 Measures in case of an Event of Default

Article 4.3.2.3

Following the declaration of an Event of Default or the making of an Automatic Early Termination Event Stipulation and the issuance of a Default Notice, subject to Article 4.3.2.5, LCH.Clearnet SA may take any of the following measures or any other measures that it deems necessary or useful in respect of the Defaulting Clearing Member, taking into account the Event which has occurred, the need to act promptly in the manner LCH.Clearnet SA thinks best to contain its exposure and the actions to be taken in accordance with the CDS Default Management Process:

- (i) in the case of a CCM, port some or all the Relevant Client Cleared Transactions and some or all of the Ported Collateral of the Defaulting Clearing Member to the appointed Backup Clearing Member in accordance with Clause 4.3 of the CDS Default Management Process and, in the case of an FCM, arrange for porting to take place in accordance with Regulation 4 of the FCM CDS Clearing Regulations and the CDS Default Management Process;
- (ii) terminate the Defaulting Clearing Member's membership of the CDS Clearing Service in accordance with Article 2.4.2.1, it being specified that such termination shall not affect the Delegation, which will remain in full force and effect.
- (iii) enter into and register any new Original Transaction in the name, or for the account, of the Defaulting Clearing Member;
- (iv) suspend the Defaulting Clearing Member's ability to submit any new Original Transactions for clearing by LCH.Clearnet SA or those Original Transactions that LCH.Clearnet SA does not consider as contributing to reducing the risks of the Defaulting Clearing Member;
- (v) impose an increased Margin Requirement in respect of any of the Margin Accounts of the Defaulting Clearing Member in order to secure the performance by the Defaulting Clearing Member of its obligations under the CDS Clearing Documentation;
- (vi) call for Collateral equal to the value of any shortfall in the Defaulting Clearing Member's Contribution, arising from the Event of Default, and the Additional Contribution Amount to be transferred to LCH.Clearnet SA;
- (vii) in the event that the Defaulting Clearing Member was a Matched Buyer for the purposes of Physical Settlement of a Cleared Transaction which was the subject of a Matched Pair, call for Collateral equal to the value of any claim by the corresponding Matched Seller under Sections 9.2(a), (b), (c)(i) or (c)(iv) of the [2003 ISDA Credit Derivatives Definitions](#), [or Sections 11.2\(a\), \(b\), \(c\)\(i\) or \(c\)\(iv\) of the 2014 ISDA Credit Derivatives Definitions as applicable](#), in accordance with [Section 6.4518 of Part A, or Section 6.19 of Part B as applicable](#), of the CDS Clearing Supplement, to be transferred to LCH.Clearnet SA;
- (viii) declare any Cleared Transaction of the Defaulting Clearing Member, other than the Relevant Client Cleared Transactions which have been ported in accordance with Clause

4.3 of the CDS Default Management Process, to be terminated, declare one or more of the obligations of the Defaulting Clearing Member to be due and payable immediately, convert the delivery obligations of the Defaulting Clearing Member or LCH.Clearnet SA into payment obligations and/or set off all the reciprocal payment obligations of the Defaulting Clearing Member and LCH.Clearnet SA, so that these payment obligations will be deemed satisfied, in whole or in part, to the extent of the set-off;

- (ix) execute, for LCH.Clearnet SA's own account, hedging transactions including, without limitation, the purchase, exercise, sale or grant of Cleared Transactions;
- (x) compress and/or liquidate, in respect of each Client Trade Account, any Non-Ported Cleared Transactions, and in respect of the House Trade Account, House Cleared Transactions of the Defaulting Clearing Member (and any hedging transactions executed in accordance with Article 4.3.2.3(ix), in consultation with the CDS Default Management Group and in accordance with Regulation 4 of the FCM CDS Clearing Regulations (in the case of an FCM Clearing Member) and the CDS Default Management Process;
- (xi) obtain any advice, information or assistance from the Defaulting Clearing Member and/or any third party, as LCH.Clearnet SA may deem necessary for any matter arising out of or in connection with an Event of Default and at the expense of the Defaulting Clearing Member;
- (xii) liquidate the Collateral posted by the Defaulting Clearing Member in its House Collateral Account and in respect of any Non-Ported Cleared Transactions, to ensure the performance by the Defaulting Clearing Member of its obligations under the CDS Clearing Documentation;
- (xiii) liquidate the Available Client Collateral Buffer posted by the Defaulting Clearing Member, if any;
- (xiv) in the case of an FCM Clearing Member, liquidate the Collateral posted by the Defaulting Clearing Member in respect of its provision of the CDS Clearing Service to its FCM Clients in accordance with the FCM CDS Clearing Regulations to ensure the performance by the Defaulting Clearing Member of its obligations under the CDS Clearing Documentation;
- (xv) act in lieu of the Defaulting Clearing Member for performing its payment and/or delivery obligations under Cleared Transactions;
- (xvi) impose upon the Defaulting Clearing Member a penalty for late delivery or payment, in the circumstances and at a rate set out by LCH.Clearnet SA;
- (xvii) claim from the Defaulting Clearing Member Damages incurred in relation to the occurrence of an Event of Default or the processing of the Event of Default in accordance with this Article 4.3.2.3 or the CDS Default Management Process; and/or
- (xviii) enforce the security interest granted to LCH.Clearnet SA under, and in accordance with, the Pledge Agreement and/or, in the case of an FCM Clearing Member, Regulation 5 of the FCM CDS Clearing Regulations.

Notwithstanding the foregoing, where an Automatic Early Termination Event Stipulation has been made by LCH.Clearnet SA in respect of a Clearing Member, the Defaulting Clearing Member Termination Date shall arise immediately prior to the Insolvency Proceedings in respect of such Clearing Member without the need for any other or prior notice.

Section 4.3.3 Recourse following an Event of Default

Article 4.3.3.4

Following: (a) porting of Relevant Client Cleared Transactions and any Ported Collateral; and (b) liquidation of all of: (i) the House Cleared Transactions of the Defaulting Clearing Member, and (ii) Non-Ported Cleared Transactions in accordance with the CDS Default Management Process, LCH.Clearnet SA shall determine whether any amount is due to or from the Defaulting Clearing Member, taking into account:

- (i) all costs and expenses for which the Defaulting Clearing Member is liable pursuant to the CDS Clearing Documentation;
- (ii) any liability that LCH.Clearnet SA has to make payments to a Matched Seller (where the Defaulting Clearing Member was a corresponding Matched Buyer in respect of Physical Settlement of Cleared Transactions) in respect of any claim under Sections 9.2(a), (b), (c)(i) or (c)(iv) of the 2003 ISDA Credit Derivatives Definitions, or Sections 11.2(a), (b), (c)(i) or (c)(iv) of the 2014 ISDA Credit Derivatives Definitions as applicable, in accordance with Section 6.15-18 of Part A, or Section 6.19 of Part B as applicable, the CDS Clearing Supplement;
- (iii) any liability that LCH.Clearnet SA has to make payments to the Defaulting Clearing Member as a Matched Seller in respect of any claim by the Defaulting Clearing Member under Sections 9.2(a), (b), (c)(i) or (c)(iv) of the 2003 ISDA Credit Derivatives Definitions, or Sections 11.2(a), (b), (c)(i) or (c)(iv) of the 2014 ISDA Credit Derivatives Definitions as applicable, in accordance with Section 6.15-18 of Part A, or Section 6.19 of Part B as applicable, the CDS Clearing Supplement; and
- (iv) the right of the Defaulting Clearing Member to a return or repayment of any Collateral and/or any other sums due to it pursuant to this CDS Clearing Rule Book and the CDS Clearing Documentation (including return to an FCM Clearing Member of any FCM Unallocated Client Excess Collateral or FCM Available Client Collateral Buffer).

This calculation will be undertaken separately in respect of the Defaulting Clearing Member's House Trade Account and each of its Client Trade Accounts and LCH.Clearnet SA shall notify the Defaulting Clearing Member of the amount(s) which LCH.Clearnet SA owes to the Defaulting Clearing Member or the amount(s) that the Defaulting Clearing Member owes to LCH.Clearnet SA, as the case may be. For the avoidance of doubt, where an amount is payable by LCH.Clearnet SA to the Defaulting Clearing Member in respect of its House Trade Account, the balance of the House Collateral Account shall not be applied to meet the shortfall(s) in the relevant Client Collateral Account(s), if any.

Any payments shall be due and payable on the Defaulting Clearing Member Termination Date.

In the event that LCH.Clearnet SA retains amounts to cover any liability arising in connection with Section 6.15-18 of Part A, or Section 6.19 of Part B as applicable, of the CDS Clearing Supplement, in accordance with sub-paragraph (ii) above, LCH.Clearnet SA shall notify the corresponding Matched Seller and shall pay such amounts to the Matched Seller as soon as possible following the Defaulting Clearing Member Termination Date.

CHAPTER 4 - CDS DEFAULT FUND

Section 4.4.1 Purpose of the CDS Default Fund and Relevant Calculations

Section 4.4.2 Contribution to the CDS Default Fund

Section 4.4.3 Application of the CDS Default Fund, Replenishment and Multiple Defaults

TITLE V

CDS CCM CLIENT CLEARING SERVICES

CHAPTER 1 - GENERAL PROVISIONS

Section 5.1.1 Provision of CDS Client Clearing Services

Section 5.1.2 CDS Client Clearing DMP and Delegation

Section 5.1.3 Indirect clearing

CHAPTER 2 - CCM CLIENT ACCOUNT STRUCTURE

Section 5.2.1 General Provisions

Section 5.2.2 CCM Client Trade Accounts

Section 5.2.3 CCM Client Margin Accounts

Section 5.2.4 CCM Client Collateral Accounts

CHAPTER 3 - TRANSFER

Section 5.3.1 General

Section 5.3.2 Full transfers

Section 5.3.3 Partial transfers

Section 5.3.4 Transfer of Client Assets

Section 5.3.5 Transfer process

CHAPTER 4 - EARLY TERMINATION

TITLE VI

CDS FCM CLIENT CLEARING

CHAPTER 1 - GENERAL PROVISIONS

CHAPTER 2 – FCM CLIENT ACCOUNT STRUCTURE

Section 5.2.1 General Provisions

Section 5.2.2 FCM Client Trade Account

Section 5.2.3 FCM Client Margin Account.

Section 5.2.4 FCM Client Collateral Account, FCM Client Financial Account and Related Accounts

Section 5.2.5 FCM Client Collateral Buffer and FCM Unallocated Client Excess Collateral

Section 5.2.6 Customer Margin Requirements

CHAPTER 3 - TRANSFER

Section 5.5.1 Section 5.3.1 General

Section 5.5.2 Section 5.3.2 Full Transfers

Section 5.5.3 Section 5.3.3 Partial Transfers

Section 5.5.4 Section 5.3.4 Transfer of Client Assets with Full Transfer

Section 5.5.5 Section 5.3.5 Transfer process

CHAPTER 4 – LIQUIDATION EVENT

APPENDIX 1 CDS DEFAULT MANAGEMENT PROCESS

1 Interpretation

Capitalised terms used in this Appendix 1, which sets out the CDS Default Management Process, and not otherwise defined in Clause 1.1, shall have the meaning given in Section 1.1.1 of the CDS Clearing Rule Book, as may be amended from time to time.

1.1 Definitions

"**Nominated Representative**" means an LCH.Clearnet SA representative who is nominated by the CDS Default Management Group to receive **BidBids** in Competitive Bidding, subject that if no one individual is nominated, any of the LCH.Clearnet SA representatives on the CDS Default Management Group;

"**Transaction Categories**" mean the different categories of Cleared ~~Transaction~~**Transactions**, being:

- (i) Index Cleared Transactions together with the relevant off-setting Single Name Cleared Transactions;
- (ii) residual Index Cleared Transactions; and
- (iii) residual Single Name Cleared Transactions;

1.2 Singular, plural, gender

1.3 Headings

1.4 Annexes etc.

2 CDS Default Management Process

3 Obligations and Undertakings

4 CDS Client Clearing Default Management Process

4.1 Scope

4.2 Stages

If a Clearing Member becomes a Defaulting Clearing Member, LCH.Clearnet SA shall:

4.2.1 return any CCM Unallocated Client Collateral or FCM Unallocated Client Excess Collateral (as applicable) to the Defaulting Clearing Member in accordance Article 4.3.2.4;

4.2.2 determine whether any Client Collateral Buffer has been allocated to a particular Client Margin Account in accordance with Article 4.2.2.4 and Section 2 of the Procedures and, to the extent it has:

- (i) if the Defaulting Clearing Member is a CCM, transfer an amount of Collateral which is equal to the CCM Allocated Client Collateral Buffer for the relevant CCM Client Margin Account from the Buffer Collateral Account to the relevant CCM Client Collateral Account; or

- (ii) if the Defaulting Clearing Member is an FCM Clearing Member, transfer an amount of Collateral which is equal to the FCM Allocated Client Collateral Buffer for the relevant FCM Client Margin Requirement from the FCM Buffer Financial Account to the relevant FCM Client Financial Account;

4.2.3 take any action under Article 4.3.2.3 as it shall deem necessary in respect of the Relevant Client Cleared Transactions of the Defaulting Clearing Member and any Collateral recorded in the Client Collateral Account(s) of the Defaulting Clearing Member (provided that any such action taken in respect of a Relevant **Client** Cleared Transaction is clearly referable to the relevant CCM Individual Segregated Account Client, CCM Omnibus Segregated Account Client or FCM Client, as applicable);

4.2.4 if the Defaulting Clearing Member is a CCM and such Defaulting Clearing Member transfers its Client Pledged Eligible Collateral to LCH.Clearnet SA, in accordance with Article 4.3.2.1, , update its books and records to show that the Eligible Collateral has been provided to LCH.Clearnet SA with full title and ensure that the precise Eligible Collateral, provided in respect of each CCM Individual Segregated Account Structure and/or CCM Omnibus Segregated Account Structure, is recorded in the relevant CCM Client Collateral Account(s) in accordance with Section 3 of the Procedures;

4.2.5 ascertain whether:

- (i) if the Defaulting Clearing Member is a CCM, each CCM Individual Segregated Account Client of the Defaulting Clearing Member has appointed a Backup Clearing Member;
- (ii) if the Defaulting Clearing Member is a CCM, each of the CCM Omnibus Segregated Account Clients attributable to a single CCM Omnibus Segregated Account Structure of the Defaulting Clearing Member has appointed the same Backup Clearing Member; **and**
- (iii) if the Defaulting Clearing Member is an FCM Clearing Member, each of the FCM Clients of the Defaulting Clearing Member has appointed a Backup Clearing Member;

within the compulsory timeframe as set out in Clause 4.3.1 or Clause 4.3.2 as the case may be;

4.2.6 determine the Ported Collateral for each Client Margin Account of the Defaulting Clearing Member; (ensuring that any Collateral which has been, or is to be, transferred to the relevant Client Collateral Account pursuant to Clause ~~4.2.1~~ 4.2.2 above is taken into account for these purposes);

4.2.7 where a Backup Clearing Member has been appointed in accordance with Clause 4.3.1 or Clause 4.3.2 as the case may be, send details of the open Relevant Client Cleared Transactions and Ported Collateral to the nominated Backup Clearing Member in respect of (i) each CCM Individual Segregated Account Client and/or each CCM Omnibus Segregated Account Client of the Defaulting Clearing Member to the nominated Backup Clearing Member, if the Defaulting Clearing Member is a CCM, or (ii) each FCM Client, if the Defaulting Clearing Member is an FCM Clearing Member;

4.2.8 if the Defaulting Clearing Member is a CCM and where such Defaulting Clearing Member has failed to transfer its Client Pledged Eligible Collateral to LCH.Clearnet SA

in accordance with Article 4.3.2.1 (i), enforce the security interest granted to it under, and in accordance with, the Pledge Agreement by appropriation of the Defaulting Clearing Member's Client Pledged Eligible Collateral in accordance with Article 4.3.2.6;

- 4.2.9** notify the Defaulting Clearing Member of those Relevant Client Cleared Transactions that will be ported to the appointed Backup Clearing Member(s) and those Non-Ported Cleared Transactions that will be liquidated pursuant to the CDS Client Clearing DMP;
- 4.2.10** effect porting of the Relevant Client Cleared Transactions and transfer of the Ported Collateral to the Backup Clearing Member(s);
- 4.2.11** once LCH.Clearnet SA has determined that porting in respect of a Client Margin Account will not occur, perform such risk neutralisation as is required and thereafter commence the Competitive Bidding process in respect of any Auction Packages containing Non-Ported Cleared Transactions and, if the -Defaulting Clearing Member is a CCM, enforce its security interest under, and in accordance with, the Pledge Agreement and realise the value of the Client Pledged Eligible Collateral (if any), in accordance with Clause 4.4.2, by liquidating such Client Pledged Eligible Collateral.

4.3 Portability of the Relevant Client Cleared Transactions

- 4.3.1** Provided that (a) (I) a CCM Individual Segregated Account Client of a Defaulting Clearing Member that is a CCM or (II) an FCM Client of a Defaulting Clearing Member that is an FCM Clearing Member has appointed a Backup Clearing Member and informed LCH.Clearnet SA of the identity of such Backup Clearing Member at such time as determined by LCH.Clearnet SA; (b) within such period as LCH.Clearnet SA may determine of the service of a Default Notice on the relevant Clearing Member pursuant to Article 4.3.1.3, LCH.Clearnet SA has received confirmation from the Backup Clearing Member of its unconditional agreement (such agreement to be in such form as LCH.Clearnet SA may require at the relevant time) to act as Backup Clearing Member in relation to all the Relevant Client Cleared Transactions registered in the Client Trade Account(s) of the relevant CCM Individual Segregated Account Structure and the receipt of the related Ported Collateral; (c) -LCH.Clearnet SA has received confirmation from the relevant CCM Individual Segregated Account Client or FCM Client (as applicable) (in respect of such matters and in such form as LCH.Clearnet SA may require at the relevant time); and (d) if the Defaulting Clearing Member is a CCM, such Defaulting Clearing Member has transferred ownership of the Client Pledged Eligible Collateral to LCH.Clearnet SA in accordance with the CDS Admission Agreement [and Section 3 of the Procedures](#) or LCH.Clearnet SA has enforced the security interest granted to it under, and in accordance with, the Pledge Agreement by appropriating the Defaulting Clearing Member's Client Pledged Eligible Collateral (if any) in accordance with Article 4.3.2.6:

- (i) LCH.Clearnet SA shall either: (a) transfer all of the open Relevant Client Cleared Transactions entered into by the Defaulting Clearing Member in respect of the relevant CCM Individual Segregated Account Client or FCM Client (as applicable) to the appointed Backup Clearing Member; or (b) terminate and close out such Relevant Client Cleared Transactions at their market value (as determined by LCH.Clearnet SA in its discretion) and enter into replacement Cleared Transactions on equivalent terms to such Relevant Client Cleared Transactions with the appointed Backup Clearing Member in respect of the

relevant CCM Individual Segregated Account Client or FCM Client (as applicable). Transferred or replacement Relevant Client Cleared Transactions will be registered in a Client Trade Account of the Backup Clearing Member and the Ported Collateral will be credited to the relevant Client Collateral Account of the Backup Clearing Member overnight, in accordance with this Clause 4.3.1;

- (ii) where the relevant CCM Individual Segregated Account Client or FCM Client (as applicable) instructs a transfer of the Ported Collateral attributable to the relevant Client Collateral Account (including the Client Collateral Account of a CCM Indirect Client Segregated Account Structure, if applicable) to the appointed Backup Clearing Member, LCH.Clearnet SA shall give effect to such instruction; and
- (iii) the amount due to be returned to the Defaulting Clearing Member in respect of the relevant Individual Segregated Account Client or FCM Client (as applicable) shall be reduced by an amount equal to the value of the Ported Collateral transferred to the Backup Clearing Member, as referred to in paragraph (ii) of this Clause 4.3.1;

4.3.2 Provided, if the Defaulting Clearing Member is a CCM, that (a) all of the CCM Omnibus Segregated Account Clients within a CCM Omnibus Client Set of the Defaulting Clearing Member have appointed the same Backup Clearing Member and informed LCH.Clearnet SA of the identity of such Backup Clearing Member at such time as determined by LCH.Clearnet SA; (b) within such period as LCH.Clearnet SA may determine of the service of a Default Notice on the relevant Clearing Member pursuant to Article 4.3.1.3, LCH.Clearnet SA has received confirmation from the Backup Clearing Member of its unconditional agreement (such agreement to be in such form as LCH.Clearnet SA may require at the relevant time) to act as Backup Clearing Member in relation to all the Relevant Client Cleared Transactions registered in the relevant Client Trade Accounts and the receipt of the related Ported Collateral; (c) LCH.Clearnet SA has received confirmation from each of such CCM Omnibus Segregated Account Clients (in respect of such matters and in such form as LCH.Clearnet SA may require at the relevant time); and (d) if the Defaulting Clearing Member is a CCM, such Defaulting Clearing Member has transferred ownership of the Client Pledged Eligible Collateral to LCH.Clearnet SA in accordance with the CDS Admission Agreement or LCH.Clearnet SA has enforced the security interest granted to it under, and in accordance with, the Pledge Agreement by appropriating the Defaulting Clearing Member's Client Pledged Eligible Collateral (if any) in accordance with Article 4.3.2.3:

- (i) LCH.Clearnet SA shall either (a) transfer all of the open Relevant Client Cleared Transactions entered into by the Defaulting Clearing Member in respect of the CCM Omnibus Segregated Account Clients within the relevant CCM Omnibus Client Set to the appointed Backup Clearing Member; or (b) terminate and close out such Relevant Client Cleared Transactions at their market value (as determined by LCH.Clearnet SA in its discretion) and enter into replacement Cleared Transactions on equivalent terms to such Relevant Client Cleared Transactions with the appointed Backup Clearing Member in respect of the relevant CCM Omnibus Segregated Account Clients. Transferred or replacement Relevant Client Cleared Transactions will be registered in Client Trade Accounts of the Backup Clearing Member and the Ported Collateral will be credited to the

relevant Client Collateral Account of the Backup Clearing Member overnight, in accordance with this Clause 4.3.1;

- (ii) where all of the CCM Omnibus Segregated Account Clients within the relevant CCM Omnibus Client Set instruct a transfer of the Ported Collateral attributable to the relevant CCM Client Collateral Account to the appointed Backup Clearing Member, LCH.Clearnet SA shall give effect to such instruction; and
- (iii) the amount due to be returned to the Defaulting Clearing Member in respect of the Omnibus Segregated Account Clients within the relevant Omnibus Client Set shall be reduced by an amount equivalent to the Ported Collateral transferred to the Backup Clearing Member, as referred to in paragraph (ii) of this Clause 4.3.1.

4.3.3 For the purposes of Clause 4.3.1 and Clause 4.3.2 above, the relevant CCM Individual Segregated Account Client or CCM Omnibus Segregated Account Clients (as applicable, where the Defaulting Clearing Member is a CCM) or the FCM Client (where the Defaulting Clearing Member is an FCM Clearing Member) may provide consent to LCH.Clearnet SA in writing (including by facsimile and email) and shall not be entitled to withdraw such consent once received by LCH.Clearnet SA.

4.4 Non-portability of the Relevant Client Cleared Transactions

4.5 Calculation process

5 Competitive Bidding

5.1 Principles of Competitive Bidding

LCH.Clearnet SA, in consultation with the CDS Default Management Group, shall ensure that Competitive Bidding is carried out in accordance with the following principles:

- (i) all Non-Defaulting Clearing Members (directly or through an ~~Affiliate~~[Affiliate](#) or an LCH Approved Outsourcing Agent acting in its place as the Auction Participant) shall be required to participate in Competitive Bidding;
- (ii) all Auction Participants should be encouraged and incentivised to participate in Competitive Bidding; and
- (iii) Competitive Bidding should be structured to ensure that the risk associated with the Defaulting Clearing Member is offloaded by the cancellation of the Defaulting Clearing Member's Cleared Transactions at a price set in a commercially reasonable manner and their replacement with equivalent Cleared Transactions registered within the Account Structure of Non-Defaulting Clearing Member(s).

5.2 Construction of Auction Packages

5.3 Competitive Bidding for multiple Auction Packages

5.4 Conduct of Competitive Bidding

5.5 Non Bidders

5.6 Allocation of the Auction Package

5.6.1 Calculation of the Initial Allocation Price

5.6.2 Process of Allocation

5.6.3 Non Bidders

5.6.4 Notification of Initial Allocation Price

Following the calculation of:

- (i) the Initial Allocation Price and the Initial Transfer Payable or Initial Transfer Receivable for each Auction Participant (excluding Non Bidders); and
- (ii) the Non Bidder Allocation Price and the Initial Transfer Payable or Initial Transfer Receivable for each Non Bidder,

and provided that LCH.Clearnet SA has determined that it has sufficient financial resources in accordance with Clause 5.10 and that it does not need to hold a second round of Competitive Bidding in accordance with Clause 5.7.1, LCH.Clearnet SA will notify all Auction Participants that the Competitive Bidding process for the relevant Auction Package has been concluded and shall additionally notify each Clearing Member with an Initial Winning Bid(s), the details of the Initial Allocation Price or Non Bidder Allocation Prices (as the case may be) and the Initial Transfer Payable or Initial Transfer Receivable. -Subject to Clause 6.3.2, an Initial Winning Bidder shall be contractually bound to accept registration of the Transfer Positions within ~~their~~ Account Structure in accordance with Clause 6.1.

5.7 Review of Competitive Bidding

5.8 Recalculated Allocation of the Auction Package and Initial Registration

5.8.1 Recalculation of Initial Allocation Price

5.8.2 Notification of recalculated Initial Allocation Price

Following any recalculation of:

- (i) the Initial Allocation Price and the Initial Transfer Payable or Initial Transfer Receivable for each Auction Participant (excluding Non Bidders); and
- (ii) the Non Bidder Allocation Price and the Initial Transfer Payable or Initial Transfer Receivable for each Non Bidder,

pursuant to Clause 5.8.1, provided it has determined that it has sufficient financial resources in accordance with Clause 5.10, LCH.Clearnet SA will notify all Auction Participants of the results of the Competitive Bidding process including, for each Clearing Member with an Initial Winning Bid(s), the details of the Initial Allocation Price or Non Bidder Allocation Prices (as the case may be) and the Initial Transfer Payable or Initial Transfer Receivable. -Subject to Clause 6.3.2, an Initial Winning Bidder shall be contractually bound to accept registration of the Transfer Positions within ~~their~~ Account Structure in accordance with Clause 6.1.

5.9 Conduct of Competitive Bidding for the Residual Auction Package

5.9.1 Recalculated Minimum Bid Size

5.9.2 Competitive Bidding Process

5.9.3 Notification of Residual Allocation Price

Following the calculation of:

- (i) the Residual Allocation Price and the Residual Transfer Payable or Residual Transfer Receivable for each Auction Participant (excluding Non Bidders); and
- (i) the Non Bidder Allocation Price and the Residual Transfer Payable or Residual Transfer Receivable for each Non Bidder,

pursuant to Clause 5.9, LCH.Clearnet SA will notify all Auction Participants of the results of the second round of Competitive Bidding including, for each Clearing Member with a Residual Winning Bid(s), the details of the Residual Allocation Price or Non Bidder Allocation Price (as the case may be) and the Residual Transfer Payable or Residual Transfer Receivable. –Subject to Clause 6.3.2, a Residual Winning Bidder shall be contractually bound to accept registration of the Transfer Positions within ~~their~~its Account Structure in accordance with Clause 6.1.

5.10 LCH.Clearnet SA determination of financial resources

6 Registration of Transfer Positions

7 Loss Distribution Process

8 Early Termination

9 Information regarding the CDS Default Management Process

9.1 Notifications

Whenever the CDS Default Management Process is implemented by LCH.Clearnet SA in respect of a Defaulting Clearing Member, LCH.Clearnet SA will, with the assistance of the CDS Default Management Group, provide such ongoing information to Clearing Members as LCH.Clearnet SA deems reasonably appropriate in respect of the progress of the CDS Default Management Process.

In particular LCH.Clearnet SA shall notify each Clearing Member:

- 9.1.1** when a Default Notice has been issued in respect of a Clearing Member, in accordance with Article 4.3.1.3;
- 9.1.2** in advance of both the first and second round of Competitive Bidding, as the case may be, those items listed in Clause 5.4.2;
- 9.1.3** whether or not a grace period has been granted to Auction Participants as a whole, or a particular Auction Participant, pursuant to Clause 5.4.3;
- 9.1.4** whether or not some or all of their Bid(s) have been deemed to be Market Bid(s) in the course of either the first or second round of Competitive Bidding (if applicable);
- 9.1.5** whether or not they are an Initial Winning Bidder, what the Initial Allocation Price is and what the Initial Transfer Payable or Initial Transfer Receivable, as the case may be, is in accordance with Clause 5.6.4 and/or Clause 5.8.1;
- 9.1.6** whether or not they have been deemed a Non Bidder, what the Non Bidder Allocation Price is and what the Initial Transfer Payable or Initial Transfer Receivable, as the case may be, is in accordance with Clause 5.6.3;

9.1.7 which Transfer Positions are to be registered within theirs Account Structure as a result of being deemed an Initial Winning Bidder or a Non Bidder, as the case may be, in respect of the first round of Competitive Bidding and in respect thereof:

- (i) what the procedure and timeline will be for registration of the Transfer Positions, arising from the first round of Competitive Bidding, within theirs Account Structure;
- (ii) prior to -registering the Transfer Positions within theirs Account Structure, what the increase to the Winning Bidder's House Margin Requirement or Client Margin Requirement (as the case may be) will be;
- (iii) prior to registering the Transfer Positions within theirs Account Structure, what the Initial Transfer Payable, or the Initial Transfer Receivable, as appropriate, will be

9.1.8 whether or not a second round of Competitive Bidding will be held;

9.1.9 to the extent a second round of Competitive Bidding is held, whether or not they are the holder of a Residual Winning Bid, what the Residual Allocation Price is and what the Residual Transfer Payable or Residual Transfer Receivable, as the case may be, is;

9.1.10 which Transfer Positions are to be registered within theirs Account Structure as a result of being deemed an Residual Winning Bidder or a Non Bidder, as the case may be, in respect of the second round of Competitive Bidding and in respect thereof:

- (i) what the procedure and timeline will be for registration of the Transfer Positions, arising from the second round of Competitive Bidding, within theirs Account Structure;
- (ii) prior to -registering the Transfer Positions within theirs Account Structure, what the increase to the Winning Bidder's House Margin Requirement or Client Margin Requirement (as the case may be) will be;
- (iii) prior to registering the Transfer Positions within theirs Account Structure, what the Residual Transfer Payable or the Residual Transfer Receivable, as appropriate, will be; and

9.1.11 where LCH.Clearnet SA has determined that its financial resources are not sufficient to meet its obligations arising from either the first or second round of Competitive Bidding, as the case may be, in accordance with Clause 5.8.1, of the failure of Competitive Bidding and the occurrence of an LCH Default.

9.2 Sensitive Information

9.3 Competitive Bidding

10 Role and Constitution of the CDS Default Management Committee

10.1 Role

The CDS Default Management Committee shall meet at regular intervals (at least quarterly) in order to:

10.1.1 determine the provisions of the CDS Default Management Guidance Manual that will supplement the principles set out in the CDS Default Management Process and assist

the members of the CDS Default Management Group in implementing the CDS Default Management Process;

- 10.1.2 keep both the CDS Default Management Process and the CDS Default Management Guidance Manual under review and to assist LCH.Clearnet SA in the design, testing and further improvement of the CDS Default Management Process;
- 10.1.3 participate in regular fire drills in relation to the CDS Default Management Process;
- 10.1.4 keep Section 9 of Part A or Part B, as applicable, of the CDS Clearing Supplement and Section 4.2 of the Procedures under review and assist members of the CDS Default Management Group in implementing the auction procedure to terminate any self-referencing Single Name Cleared Transactions and enter into equivalent Single Name Cleared Transactions with other Clearing Members;
- 10.1.5 keep under review the Terms of Reference for both the CDS Default Management Committee and the CDS Default Management Group to ensure they remain appropriate;
- 10.1.6 maintain and keep under review the DMG Rotation Plan, as described at Clause 11.2.2 below;
- 10.1.7 consider appropriate supplements or amendments to the CDS Default Management Process and/or the CDS Default Management Guidance Manual in order to improve the procedures in place;
- 10.1.8 keep under review the manner in which Auction Participants should be encouraged and incentivised to participate in Competitive Bidding and the consequences (if any) for non-participation or non market participation in Competitive Bidding; and
- 10.1.9 consider any other business relevant to the CDS Default Management Process which any member of the CDS Default Management Committee from time to time sees fit to raise at such meetings.

10.2 Composition

11 Role and Constitution of the CDS Default Management Group

11.1 Role

11.1.1 CDS Default Management Process

11.1.2 Auctions in respect of self-referencing Single Name Cleared Transactions

In the event that LCH.Clearnet SA determines to conduct an auction pursuant to Section 9 of Part A or Part B, as applicable, of the CDS Clearing Supplement, the CDS Default Management Group shall meet as soon as reasonably practical, following notification by LCH.Clearnet SA that an auction to terminate any self-referencing Single Name Cleared Transactions and enter into equivalent Single Name Cleared Transactions with other Clearing Members is required, and at sufficiently frequent intervals thereafter for so long as may be necessary to assist LCH.Clearnet SA in the implementation of the relevant auction procedure.

- 11.2 Composition
- 11.3 Organisation
- 12 Participation in the CDS Default Management Committee and CDS Default Management Group
- 13 Subsistence of the CDS Default Management Process
- 14 Liability of LCH.Clearnet SA
- 15 Governing Law

Annex
Confidentiality, non-disclosure and participation in the CDS Default Management Group

General obligations of the Clearing Member

- 1 Confidentiality**
- 2 Secrecy**
- 3 Property**
- 4 Return of Confidential Material**
- 5 No Representations or Warranties; No Conflict of Interest**
- 6 Remedies**

General Terms of Participation in the CDS Default Management Group

- 7 Conflict of interest**
- 8 Confidentiality**
- 9 Warranty and representation**