

Via CFTC Portal

18th May 2015

Mrs. Parisa Abadi
Commodity Futures Trading Commission
1155 21st Street NW
Three Lafayette Centre
Washington DC 20581

Dear Mrs. Abadi,

Pursuant to CFTC regulation §40.6(a), LCH.Clearnet SA (“LCH.Clearnet”), a derivatives clearing organization registered with the Commodity Futures Trading Commission (the “CFTC”), is submitting for self-certification some amendments to the CDS Clearing Rules (the “Rules”) related to extension of the CDS clearing service to Markit iTraxx Europe Senior Financials Index and the information provided to clearing members subject to a cross trade on a firm day.

The submission changes made to the Rules are attached hereto as appendices.

Part I: Explanation and Analysis

LCH.Clearnet intends to amend to extend its CDS clearing service to the clearing of Markit iTraxx Europe Senior Financials Indices.

The Markit iTraxx Europe Main, already eligible to clearing by LCH.Clearnet, is composed of 125 equally weighted European names which are composed of 20 percent senior financials reference entities.

Adding this index family will allow clearing members to hedge all sectors of the index.

In addition LCH.Clearnet is updating the list of information it is providing to the clearing members when they are required to enter into a cross trade following their contribution to settlement prices.

Part II: Description of Rule Changes

The following document has been modified to take into account the impact of this service extension and update:

- Section 4 of the Procedures with respect to eligibility requirements;
- Section 2 of the Procedures with respect to a margin being added (Wrong Way Risk Margin);
- CDS Clearing Supplement with respect to the treatment of self referencing transactions;
- CDS Clearing Rule Book for consistency purposes and to update the default management process;
- Section 5.18 of the procedures with respect to information provided to clearing members when required to enter into a cross trade.

Part III: Core Principle Compliance

LCH.Clearnet will continue to comply with all Core Principles following the introduction of this change and has concluded that its compliance with the Core Principles would not be adversely affected by this change.

Part IV: Public Information

LCH.Clearnet has posted a notice of pending certifications with the CFTC and a copy of the submission on LCH.Clearnet's website at:

<http://www.lchclearnet.com/rules-regulations/proposed-rules-changes>

Part V: Opposing Views

There were no opposing views expressed to LCH.Clearnet by governing board or committee members, members of LCH.Clearnet that were not incorporated into the rule.

Certification

LCH.Clearnet SA hereby certifies to the Commodity Futures Trading Commission, pursuant to the procedures set forth in the Commission regulation § 40.6, that attached rule submission complies with the Commodity Exchange Act, as amended, and the regulations promulgated there under.

Should you have any questions please contact me at: françois.faure@lchclearnet.com.



Francois Faure
Chief Compliance Officer
+33 1 70 37 65 96

APPENDIX

CDS Clearing Rule Book extracts-Section 4 of the Procedures - Section 2 of the Procedures extracts- CDS Clearing Supplement extracts- Section 5 of the Procedures extracts

CDS Clear

**LCH.Clearnet SA
CDS Clearing Rule Book**

22.09.2014



Table of Contents

	Page
TITLE I GENERAL PROVISIONS & LEGAL FRAMEWORK	1
CHAPTER 1 - DEFINITIONS AND INTERPRETATION	3
Section 1.1.1 Terms defined in the CDS Clearing Rule Book	3
Section 1.1.2 Incorporation of defined terms	5
Section 1.1.3 Interpretation and references	5
CHAPTER 2 - GENERAL PROVISIONS	6
Section 1.2.1 General	6
Section 1.2.2 Modification	6
Section 1.2.3 Publication	9
Section 1.2.4 Extension or waiver	9
Section 1.2.5 Notices - Communications	9
Section 1.2.6 Fees	10
Section 1.2.7 Currency	10
Section 1.2.8 Time reference	10
Section 1.2.9 Obligations of LCH.Clearnet SA to each Clearing Member	10
Section 1.2.10 Liability	10
Section 1.2.11 Force Majeure Events	10
Section 1.2.12 Confidentiality	10
Section 1.2.13 Data protection	10
Section 1.2.14 Governing law	10
Section 1.2.15 Dispute resolution	10
Section 1.2.16 Default Interest	10
Section 1.2.17 Tax	10

CHAPTER 3 - LCH DEFAULT	11
Section 1.3.1.....	11
TITLE II MEMBERSHIP	12
CHAPTER 1 - GENERAL PROVISIONS	13
Section 2.1.1 Participants.....	13
CHAPTER 2 - LEGAL OBLIGATIONS	14
Section 2.2.1 Membership requirements.....	14
Section 2.2.2 Continuing obligations	16
Section 2.2.3 Capital requirements	16
Section 2.2.4 Internal credit scoring	16
Section 2.2.5 Corporate organisation.....	16
Section 2.2.6 Membership of industry organisations or systems relating to CDS contracts.....	16
Section 2.2.7 Third party contractual obligations	17
Section 2.2.8 Test processing	17
CHAPTER 3 - INFORMATION OBLIGATIONS, MONITORING AND AUDIT	18
Section 2.3.1 Information and financial reporting.....	18
Section 2.3.2 Monitoring.....	18
Section 2.3.3 Audit and inspection	18
Section 2.3.4 Record keeping	18
Section 2.3.5 Clearing Member risk management	18
CHAPTER 4 - SUSPENSION AND TERMINATION OF MEMBERSHIP	19
Section 2.4.1 Suspension.....	19
Section 2.4.2 Membership Termination.....	19
Section 2.4.3 Winding Down Event	19

TITLE III CLEARING OPERATIONS	20
CHAPTER 1 - NOVATION AND REGISTRATION	21
Section 3.1.1 Weekly Backloading Cycle.....	21
Section 3.1.2 Daily Backloading Cycle.....	21
Section 3.1.3 Backloading Failure.....	21
Section 3.1.4 Intraday Process	21
Section 3.1.5 Rejected Transactions.....	21
Section 3.1.6 Novation Process	21
Section 3.1.7 Pre-registration.....	21
Section 3.1.8 Margin calculation	21
Section 3.1.9 Loss Distribution Periods.....	21
Section 3.1.10 Registration of Cleared Transactions	21
Section 3.1.11 Reporting requirements.....	21
CHAPTER 2 – HOUSE ACCOUNT STRUCTURE	22
Section 3.2.1 House Trade Account.....	22
Section 3.2.2 House Margin Account.....	22
Section 3.2.3 House Collateral Account.....	22
CHAPTER 3 - COMPRESSION	23
Section 3.3.1 General.....	23
TITLE IV RISK MANAGEMENT	24
CHAPTER 1 - GENERAL PROVISIONS	25
Section 4.1.1.....	25
CHAPTER 2 - MARGIN.....	26
Section 4.2.1 Margin Requirement.....	26

Section 4.2.2	Excess Collateral and the Client Collateral Buffer	Erreur ! Signet non défini.
Section 4.2.3	Collateral Calls	26
Section 4.2.4	Additional Collateral Call	26
Section 4.2.5	Variation Margin	26
Section 4.2.6	Collateral	26
Section 4.2.7	Markit LCH Settlement Price	26
CHAPTER 3	- EVENTS OF DEFAULT	27
Section 4.3.1	Events of Default	27
Section 4.3.2	Measures in case of an Event of Default	27
Section 4.3.3	Recourse following an Event of Default	27
CHAPTER 4	- CDS DEFAULT FUND	32
Section 4.4.1	Purpose of the CDS Default Fund and Relevant Calculations.....	32
Section 4.4.2	Contribution to the CDS Default Fund.....	32
Section 4.4.3	Application of the CDS Default Fund, Replenishment and Multiple Defaults	32
TITLE V	CDS CCM CLIENT CLEARING SERVICES	33
CHAPTER 1	- GENERAL PROVISIONS	34
Section 5.1.1	Provision of CDS Client Clearing Services	34
Section 5.1.2	CDS Client Clearing DMP and Delegation.....	34
Section 5.1.3	Indirect clearing	34
CHAPTER 2	- CCM CLIENT ACCOUNT STRUCTURE.....	35
Section 5.2.1	General Provisions	35
Section 5.2.2	CCM Client Trade Accounts.....	35
Section 5.2.3	CCM Client Margin Accounts	35
Section 5.2.4	CCM Client Collateral Accounts.....	35

CHAPTER 3 - TRANSFER.....	36
Section 5.3.1 General.....	36
Section 5.3.2 Full transfers.....	36
Section 5.3.3 Partial transfers	36
Section 5.3.4 Transfer of Client Assets	36
Section 5.3.5 Transfer process	36
CHAPTER 4 - EARLY TERMINATION	37
TITLE VI CDS FCM CLIENT CLEARING.....	38
CHAPTER 1 - GENERAL PROVISIONS	39
CHAPTER 2 – FCM CLIENT ACCOUNT STRUCTURE	40
Section 6.2.1 General Provisions	40
Section 6.2.2 FCM Client Trade Account.....	40
Section 6.2.3 FCM Client Margin Account	40
Section 6.2.4 FCM Client Collateral Account, FCM Client Financial Account and Related Accounts.....	40
Section 6.2.5 FCM Client Collateral Buffer and FCM Unallocated Client Excess Collateral	40
Section 6.2.6 Customer Margin Requirements	40
CHAPTER 3 - TRANSFER.....	41
Section 6.3.1 General.....	41
Section 6.3.2 Full Transfers	41
Section 6.3.3 Partial Transfers	41
Section 6.3.4 Transfer of Client Assets with Full Transfer	41
Section 6.3.5 Transfer process	41
CHAPTER 4 – LIQUIDATION EVENT	42
APPENDIX 1 CDS DEFAULT MANAGEMENT PROCESS	43

1	Interpretation	43
2	CDS Default Management Process	43
3	Obligations and Undertakings	43
4	CDS Client Clearing Default Management Process	44
5	Competitive Bidding	46
6	Registration of Transfer Positions	49
7	Loss Distribution Process	50
8	Early Termination	50
9	Information regarding the CDS Default Management Process	51
10	Role and Constitution of the CDS Default Management Committee	51
11	Role and Constitution of the CDS Default Management Group	52
12	Participation in the CDS Default Management Committee and CDS Default Management Group	55
13	Subsistence of the CDS Default Management Process	55
14	Liability of LCH.Cleernet SA	55
15	Governing Law	55
	Annex Confidentiality, non-disclosure and participation in the CDS Default Management Group ..	56
	General obligations of the Clearing Member	56
1	Confidentiality	56
2	Secrecy	56
3	Property	56
4	Return of Confidential Material	56
5	No Representations or Warranties; No Conflict of Interest	56
6	Remedies	56
	General Terms of Participation in the CDS Default Management Group	56

7 Conflict of interest 56

8 Confidentiality..... 56

9 Warranty and representation..... 56

TITLE I

GENERAL PROVISIONS

&

LEGAL FRAMEWORK

[Not amended]

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:

CCM Client Collateral Account: With respect to each CCM, an account opened in the books of LCH.Clearnet SA in relation to a CCM Client ~~Margin~~-Account Structure to record the Collateral provided by a CCM for the purpose of satisfying the CCM Client Margin Requirement for such CCM Client ~~Margin~~-Account Structure and allowing the novation of Client Trade Legs of Eligible Intraday Transactions.

CDS Client Clearing DMP or CDS Client Clearing Default Management Process: The process set out in Clause 4 of the CDS Default Management Process and pursuant to which LCH.Clearnet SA will effect the porting of the Relevant Client Cleared Transactions or the liquidation of the Non-Ported Cleared Transactions.

CDS Default Management Committee: The committee 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 with the development and implementation of:

- (i) the CDS Default Management Process; and
- (i) any auction process to liquidate a ~~Sself- Rreferencing Single Name Cleared Transaction~~ 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.~~

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
- (ii) ~~a Clearing Member makes notification to LCH.Clearnet SA an auction process~~ pursuant to Section 9 of Part A or Part B, as applicable, of the CDS Clearing Supplement, ~~with the implementation of any auction process needs to be implemented~~ to liquidate a ~~Sself- Rreferencing Single Name Cleared Transactions Transaction~~ 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.~~

FCM Cleared Transaction: A CDS between LCH.Clearnet SA and an FCM Clearing Member as agent¹ for the account of an FCM Client (as described in FCM CDS Clearing Regulation 1(c)), registered in the relevant FCM Client Trade Account of such FCM Clearing Member, or as principal

¹—Note to reader: the use of the term "agent" is required by the CFTC Regulations. ~~For this reason, we will not use a French legal concept such as "Mandataire" or "Commissionnaire" in the translation into French of such term. We rather intend to use the term "intermédiaire" which It~~ does not refer to any specific legal category under French law.

for its own account, registered in the FCM House Trade Account of such FCM Clearing Member, and resulting from:

- (i) the novation of an FCM Original Transaction;
- (ii) the creation of a Spin-off Single Name Cleared Transaction, a Restructuring Cleared Transaction, a Resulting Single Name Cleared Transaction or a Physically Settled Cleared Transaction (where applicable) pursuant to the CDS Clearing Supplement;
- (iii) the compression of existing FCM Cleared Transactions to a single FCM Cleared Transaction pursuant to TITLE III, Chapter 3;
- (iv) LCH.Clearnet SA entering into hedging transactions with an FCM Clearing Member pursuant to the CDS Default Management Process;
- (v) the transfer of FCM Cleared Transactions or Porting FCM Cleared Transactions in accordance with Section 3.4.1;
- (vi) the Porting of FCM Cleared Transactions in accordance with the CDS Default Management Process; or
- (vii) LCH.Clearnet SA and a Backup Clearing Member entering into a new contract on equivalent terms to a terminated FCM Cleared Transaction as part of Porting pursuant to the CDS Default Management Process.

Margin: Any margin, including Initial Margin, Additional Margin, Short Charge Margin, Self-Referencing Protection Margin, Recovery Risk Margin, Interest Rate Risk Margin, Wrong Way Risk Margin, Accrued Fixed Amount Liquidation Risk Margin, Credit Event Margin, Variation Margin, Credit Quality Margin, Concentration Risk Margin and Contingency Variation Margin that LCH.Clearnet SA calculates to be payable by a Clearing Member in accordance with the terms of this CDS Clearing Rule Book and the Procedures.

Payment Failure: Any failure by a Clearing Member to, by the due time, transfer, deliver, deposit with or pay to LCH.Clearnet SA:

- (i) any or all Price Alignment Interest, Initial Payment Amount, Fixed Amounts, cash amounts due upon the occurrence of a Credit Event, securities, deliverable obligations or assets owed to LCH.Clearnet SA or to another Clearing Member in respect of Cleared Transactions registered in the name of the Defaulting Clearing Member with LCH.Clearnet SA;
- (ii) subject to Article 4.2.3.3(iii), Collateral to satisfy its Margin Requirements (including but limited to Initial Margin, Additional Margin, Short Charge Margin, Self-Referencing Protection Margin, Recovery Risk Margin, Interest Rate Risk Margin, Wrong Way Risk Margin, Accrued Fixed Amount Liquidation Risk Margin, Credit Event Margin, Concentration Risk Margin, Credit Quality Margin, Contingency Variation Margin or any additional Margin imposed by LCH.Clearnet SA pursuant to Article 4.2.1.2);
- (iii) Collateral to satisfy its Contribution Requirement; and
- (iv) Cash Payment to satisfy its Variation Margin Requirement.

Ported Collateral: In relation to a CCM Individual Segregated Client Margin-Account Structure, a CCM Indirect Client Segregated Margin-Account Structure, or a CCM Omnibus Segregated Client

~~Margin~~-Account Structure of a Defaulting Clearing Member that is a CCM, and in relation to an FCM Client of a Defaulting Clearing Member that is an FCM Clearing Member:

- (i) the Client Assets; plus
- (ii) any other payments which would have been payable by LCH.Clearnet SA to the Defaulting Clearing Member in respect of the relevant Client ~~Margin~~-Account Structure, but for the operation of Article 1.2.9.2, provided that the relevant Payment Failure was not attributable to the relevant Client ~~Margin~~-Account Structure.

Self Referencing Transaction: This term shall have the meaning set out in the CDS Clearing Supplement.

Wrong Way Risk Margin: The amount calculated by LCH.Clearnet SA, in accordance with Section 2 of the Procedures.

Section 1.1.2 Incorporation of defined terms

[Not amended]

Section 1.1.3 Interpretation and references

[Not amended]

CHAPTER 2 - GENERAL PROVISIONS

Section 1.2.1 General

[Not amended]

Section 1.2.2 Modification

Article 1.2.2.1

LCH.Clearnet SA shall only be permitted to modify the CDS Clearing Documentation from time to time, in accordance with the provisions of this Section 1.2.2. For the avoidance of doubt, this Section 1.2.2 does not apply to the issuance of Clearing Notices.

Article 1.2.2.2

In respect of any proposed modification applying to Clearing Members generally including any proposed new provisions or amendments to and/or revocations of existing provisions, LCH.Clearnet SA shall first consult with the appropriate legal, risk, operational and/or other forums established by LCH.Clearnet SA. ~~Such consultation shall take place in accordance with the processes and the terms of reference of the relevant forums, in which Clearing Members may request to participate.~~ Subject to Article 1.2.2.4 and Article 1.2.2.7, if, pursuant to this consultation process, LCH.Clearnet SA wishes to proceed with a proposed modification, LCH.Clearnet SA shall issue a Rules Proposal to all Clearing Members providing at least 14 days for Clearing Members to respond.

Article 1.2.2.3

Subject to Article 1.2.2.6, following the due completion of the process set out in Article 1.2.2.2, LCH.Clearnet SA may issue a Rules Notice. The Rules Notice shall provide full details of each new, amended or revoked provision of the CDS Clearing Document. Each such Rules Notice shall come into effect two Clearing Days after its publication or upon a later Clearing Day specified in such Rules Notice.

Article 1.2.2.4

Other than in respect of any matter which is a Specific Matter, for which Article 1.2.2.7 shall apply, LCH.Clearnet SA may issue a Rules Notice without having issued a Rules Proposal or provided 14 days for Clearing Members to respond in accordance with Article 1.2.2.2 in the following circumstances:

- (i) the proposed modification is of a limited, technical nature or relates to minor, administrative provisions and, in each case, LCH.Clearnet SA reasonably considers that prior consultation of Clearing Members in accordance with Article 1.2.2.2 is not appropriate;
- (ii) the proposed modification is required, necessary or desirable (whether in accordance with the legal advice received by LCH.Clearnet SA or otherwise) to ensure that LCH.Clearnet SA:
 - (a) complies with Applicable Law, accounting standards or the requirements or recommendations of any Governmental Authority or relevant Regulatory Body; or

- (b) maintains its status as a clearing house within the meaning of Article L. 440-1 of the French Monetary and Financial Code or any other legal or regulatory status it has under any other Applicable Law;
- (c) properly manages any risks to LCH.Clearnet SA arising out of what LCH.Clearnet SA reasonably considers to be Extreme Market Developments;

provided that no modifications shall be made under sub-paragraphs (a) or (b) above without issuing a Rules Proposal and providing 14 days for Clearing Members to respond unless it is impractical for LCH.Clearnet SA to do so or LCH.Clearnet SA acting reasonably and in good faith considers it not to be necessary; and provided that no modifications shall be made under sub-paragraph (c) above without LCH.Clearnet SA having first convened an emergency meeting of the Risk Committee (which shall constitute the appropriate forum for the purposes of Article 1.2.2.2) on whatever notice period LCH.Clearnet SA is able to give and LCH.Clearnet SA's having regard to any advice of the Risk Committee before making any such modifications.

Notwithstanding its rights set out in this Article 1.2.2.4(ii)(c), LCH.Clearnet SA shall deal with an Event occurring in respect of a Clearing Member in accordance with its rights set out in Section 2.4.1 and Section 4.3.1 and shall deal with an Event of Default being declared in respect of a Clearing Member in accordance with Section 4.3.2 and Section 4.3.3. The occurrence of an Event, the declaration of an Event of Default or the due implementation of the CDS Default Management Process shall not constitute Extreme Market Developments.

Article 1.2.2.5

Where LCH.Clearnet SA issues a Rules Notice in the circumstances described in Article 1.2.2.4(i) or (ii), the Rules Notice shall come into effect on the expiry of such period of notice as is set out in such Rules Notice and LCH.Clearnet SA shall not be bound by the minimum period set out in Article 1.2.2.3. Notwithstanding the foregoing, LCH.Clearnet SA agrees that, wherever feasible, a Rules Notice will be published on the Website two Clearing Days prior to it coming into effect.

Article 1.2.2.6

Subject to Article 1.2.2.4 and Article 1.2.2.11, LCH.Clearnet SA shall not, in any circumstances, be permitted to make any modification to the CDS Clearing Documentation that would alter the terms, including, but not limited to, the payment or delivery obligations, of a Cleared Transaction.

Notwithstanding the foregoing, in relation to any relevant index, where the related Index Publisher publishes an updated form of confirmation in respect of CDS referencing such index, or where ISDA publishes an updated form of confirmation for the Single Name Cleared Transaction, LCH.Clearnet SA may, in consultation with the Risk Committee, adopt such form of confirmation in respect of Index Cleared Transactions or Single Name Cleared Transactions, as the case may be, either:

- (i) with respect to existing and future Cleared Transactions referencing such index or Single Name Cleared Transactions, as the case may be; or
- (ii) with respect to future Cleared Transactions referencing such index or Single Name Cleared Transactions, as the case may be, only,

and in each case may make consequential changes to the CDS Clearing Supplement and the Procedures, provided that LCH.Clearnet SA may only adopt such confirmations and make consequential changes following consultation with the Risk Committee and provided further that:

- (a) LCH.Clearnet SA may only adopt such confirmations when LCH.Clearnet SA determines, following consultation with the Risk Committee, that such confirmations are industry standard; and
- (b) LCH.Clearnet SA may only modify existing Cleared Transactions as the case may be, if LCH.Clearnet SA determines, following consultation with the Risk Committee, that such modifications will not result in an MTM Change in respect of the relevant Cleared Transaction, as the case may be.

Without prejudice to its right to make other changes to the CDS Clearing Documentation in accordance with this Section 1.2.2, LCH.Clearnet SA shall not, by Clearing Notice or otherwise, issue any interpretation of any provision of any Cleared Transaction that is or purports to be binding on Clearing Members generally. Following the due completion of the process set out in Article 1.2.2.2, LCH.Clearnet SA will issue a Rules Notice in accordance with Article 1.2.2.3.

Article 1.2.2.7

If LCH.Clearnet SA issues a Rules Proposal which purports to amend, introduce, override, contravene or revoke any Specific Matter, LCH.Clearnet SA shall ensure that the consultation process involving Clearing Members shall be no less than 30 calendar days from the date of the publication of this Rules Proposal and, as part of such consultation process, LCH.Clearnet SA shall act fairly and professionally in accordance with the best interests of the Clearing Members (as a whole) and sound risk management. On completion of the consultation process, LCH.Clearnet SA may issue a Rules Notice, subject that such Rules Notice shall come into effect no earlier than 180 calendar days from the date of its publication. Notwithstanding the foregoing, LCH.Clearnet SA shall be permitted to shorten the 30 calendar day and/or the 180 calendar day period if at least 50% of Clearing Members by number and 75% by contributions to the CDS Default Fund as at the date of its last calculation pursuant to Article 4.4.15 and Article 4.4.1.6 agree in writing to LCH.Clearnet SA.

Notwithstanding the foregoing, this Article 1.2.2.7 shall not apply in respect of any Rules Proposal and Rules Notice issued in order solely to implement a binding direction issued to LCH.Clearnet SA by a Regulatory Body.

Article 1.2.2.8

LCH.Clearnet SA may issue from time to time a Clearing Notice in accordance with this CDS Clearing Rule Book, the CDS Clearing Supplement or the Procedures. LCH.Clearnet SA may amend or revoke any previous Clearing Notice by means of a Clearing Notice. Except in cases where LCH.Clearnet SA considers a modification to guidance to be urgent (where modification may take immediate effect), a Clearing Notice shall take effect two Clearing Days after its publication.

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.

Article 1.2.2.10

The terms of reference of the Risk Committee will be set by the board of directors of LCH.Clearnet SA, and any decision to change thereto will be subject to prior consultation with the Risk Committee. Such changes will be notified in advance to the Clearing Members and made by the board of directors of LCH.Clearnet SA.

Article 1.2.2.11

LCH.Clearnet SA may, in consultation with the Risk Committee and such other appropriate legal, operational and other forums established by LCH.Clearnet SA, modify this CDS Clearing Rule Book, the CDS Clearing Supplement and/or the Procedures in accordance with any relevant CDS industry sponsored protocol or other industry sponsored protocol (or, in each case, other multilateral agreement process) to which, as at 17.00 on the originally scheduled closing date of such protocol or other multilateral agreement process, at least 50% of Clearing Members by number and 50% by contribution to the CDS Default Fund as at the date of its last recalculation pursuant to Article 4.4.1.5 and Article 4.4.1.6 agree to adhere, with such modification to be applicable to all existing or future Cleared Transactions of the relevant CDS Type as set forth in such protocol or multilateral agreement process or resolution.

Article 1.2.2.12

In relation to any proposed modification in accordance with Article 1.2.2.4, LCH.Clearnet SA shall, following consultation with the appropriate legal, risk, operational and/or other forums established by LCH.Clearnet SA in relation to such proposed modification, determine whether such proposed modification will have an MTM Change on any existing Cleared Transaction that will be affected by any such proposed modification and any amount that shall be payable to a Clearing Member by LCH.Clearnet SA or from a Clearing Member to LCH.Clearnet SA to reflect such MTM Change. LCH.Clearnet SA shall, following any determination of an MTM Change in respect of a Cleared Transaction and any payment due in respect thereof, promptly notify each relevant Clearing Member of the same and the date on which such amount shall be due and payable by LCH.Clearnet SA or the Clearing Member as applicable.

Section 1.2.3 Publication

[Not amended]

Section 1.2.4 Extension or waiver

[Not amended]

Section 1.2.5 Notices - Communications

[Not amended]

Section 1.2.6 Fees

[Not amended]

Section 1.2.7 Currency

[Not amended]

Section 1.2.8 Time reference

[Not amended]

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

[Not amended]

Section 1.2.10 Liability

[Not amended]

Section 1.2.11 Force Majeure Events

[Not amended]

Section 1.2.12 Confidentiality

[Not amended]

Section 1.2.13 Data protection

[Not amended]

Section 1.2.14 Governing law

[Not amended]

Section 1.2.15 Dispute resolution

[Not amended]

Section 1.2.16 Default Interest

[Not amended]

Section 1.2.17 Tax

[Not amended]

CHAPTER 3 - LCH DEFAULT

Section 1.3.1

[Not amended]

TITLE II

MEMBERSHIP

CHAPTER 1 - GENERAL PROVISIONS

Section 2.1.1 Participants

[Not amended]

CHAPTER 2 - LEGAL OBLIGATIONS

[Not amended]

Section 2.2.1 Membership requirements

Article 2.2.1.1

Any Applicant wishing to be admitted as a Clearing Member by LCH.Clearnet SA should satisfy the following conditions:

- (i) be validly incorporated and existing under the laws of its jurisdiction of incorporation and (if relevant in such jurisdiction) be in good standing;
- (ii) be the subject of supervision by its Competent Authorities;
- (iii) undertake to accept and comply with the CDS Clearing Documentation by executing the CDS Admission Agreement;
- (iv) have a CDS Client Clearing Agreement, meeting the requirements Article 5.1.1.2 (i) (in the case of a CCM) or Article 6.1.1.2 (in the case of an FCM Clearing Member), in place with each of its Clients;
- (v) provide LCH.Clearnet SA with updated documentation and information required pursuant to Section 1 of the Procedures, in respect of each of its Clients;
- (vi) to accept to comply with all Applicable Law relating to its status as a Clearing Member and the performance of its obligations pursuant to the CDS Clearing Documentation;
- (vii) not be subject to Insolvency Proceedings;
- (viii) meet the Capital requirements as specified in Section 2.2.3, and any further liquidity and/or solvency requirements as may be set by LCH.Clearnet SA from time to time in accordance with this CDS Clearing Rule Book, taking into account notably the indicators mentioned in Article 2.3.2.1;
- (ix) satisfy a minimum internal credit score which is determined by LCH.Clearnet SA as set out in Article 2.2.4.1 below;
- (x) satisfy LCH.Clearnet SA that it has sufficient expertise in relation to clearing activities, that its Systems and Operations are operationally reliable and capable of supporting the proper performance of its business as a Clearing Member and that its risk management policy is adequate;
- (xi) participate, or demonstrate that it has: (A) an affiliated Clearing Member or, alternatively, a non-clearing member Affiliate that clears through the Clearing Member, that can successfully participate; or (B) an LCH Approved Outsourcing Agent that can successfully participate in the implementation of the CDS Default Management Process, and participate in (and satisfy LCH.Clearnet SA's requirements with respect to the carrying out of) regular fire drills run by LCH.Clearnet SA from time to time, in accordance with this CDS Clearing Rule Book;
- (xii) have nominated and notified to LCH.Clearnet SA:

- (a) a Person, having director, general partner, trustee or officer status at the Clearing Member (or a Person occupying a similar status or performing similar functions) who is both responsible for the clearing operations of the Clearing Member and authorised to act on behalf of the Clearing Member in respect of all transactions with or involving LCH.Clearnet SA; and
- (b) an alternate Person that satisfies the requirements set out in sub-paragraph (a) above and who is authorised to act on behalf of the Clearing Member in the event that the first Person is incapable or unable to act;
- (xiii) pay all fees and other amounts required by LCH.Clearnet SA in accordance with the CDS Clearing Documentation, including, without limitation, satisfying its Margin Requirement, its Contribution Requirement and its Cash Payment obligations;
- (xiv) be in a position to provide Collateral in satisfaction of its Margin Requirements and its Contribution Requirement, and to perform Cash Payment obligations, including:
 - (a) submitting evidence and details of duly existing cash account(s) (including, at least, one TARGET2 Account) for the purposes of payment of cash amounts, as well as evidence that a Power of Attorney has been issued in favour of LCH.Clearnet SA to allow the debiting or crediting of such cash account(s) for the performance of Cash Payment obligations and the provision of Cash Collateral; and
 - (b) having in place all appropriate settlement solutions (direct access or indirect access to at least one settlement system) in case of Physical Settlement;
- (xv) have at its disposal the technical environment, including facilities, equipment, operational capability, personnel, hardware and software systems as may be required to support the proper performance of its business as a Clearing Member, including such IT links as may be necessary for it to be connected to the CDS Clearing System managed by LCH.Clearnet SA;
- (xvi) have operational competence in CDS substantially similar to Original Transactions eligible for clearing by LCH.Clearnet SA;
- (xvii) be a TIW Participant for the purposes of maintaining Original Transactions and Cleared Transactions in the TIW;
- (xviii) be an AMP Participant for the purpose of submitting Original Transactions for clearing;
- (xix) have access to ~~either LCH.Clearnet SA's eCCW website or Logical Access Point (LCAP) ftp solution~~one of the means of access and reporting mechanism as specified in a Clearing Notice to obtain CDS Clearing System reports;
- (xx) be party to any required documentation with DTCC allowing LCH.Clearnet SA as "Service Provider" to :
 - (a) arrange for the removal of Backloading Transactions from the TIW in accordance with Section 3.1.10;
 - (b) arrange for the registration of Cleared Transactions in the TIW in accordance with Section 3.1.10; and

- (c) send to DTCC messages by which Cleared Transactions would be adhered to Credit Events;
- (xxi) if it is incorporated or registered in the United States of America, be an eligible contract participant, as defined in Section 1a(12) of the Commodity Exchange Act (other than paragraph (C) thereof);
- (xxii) satisfy any additional membership requirements as set out in Section 1 of the Procedures, including without limitation any caps on the aggregate amount of Initial Margin it may have on deposit at any given time with LCH.Clearnet SA.;
- (xxiii) accept to comply with the performance of its obligations pursuant to the Pledge Agreement;
- (xxiv) in respect of any Applicant that is an FCM, be registered with the CFTC as an FCM and a member in good standing with NFA; and
- (xxv) in respect of any Applicant that is an FCM wishing to be admitted as a CCM, provide LCH.Clearnet SA with an opinion of counsel letter confirming that its performance of the obligations of a CCM would not be contrary to Applicable Law relating to such status, in form and content acceptable to LCH.Clearnet SA.

Article 2.2.1.2

In addition each FCM Clearing Member must at all times be registered with the CFTC as an FCM and a member in good standing with NFA.

Article 2.2.1.3

In the event a Clearing Member breaches any of the membership requirements set out in Article 2.2.1.1, LCH.Clearnet SA shall consult with the French Competent Authorities to determine whether such breach shall be publically disclosed in accordance with EMIR.

Section 2.2.2 Continuing obligations

[Not amended]

Section 2.2.3 Capital requirements

[Not amended]

Section 2.2.4 Internal credit scoring

[Not amended]

Section 2.2.5 Corporate organisation

[Not amended]

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

[Not amended]

Section 2.2.7 Third party contractual obligations

[Not amended]

Section 2.2.8 Test processing

[Not amended]

CHAPTER 3 - INFORMATION OBLIGATIONS, MONITORING AND AUDIT

Section 2.3.1 Information and financial reporting

[Not amended]

Section 2.3.2 Monitoring

[Not amended]

Section 2.3.3 Audit and inspection

[Not amended]

Section 2.3.4 Record keeping

[Not amended]

Section 2.3.5 Clearing Member risk management

[Not amended]

CHAPTER 4 - SUSPENSION AND TERMINATION OF MEMBERSHIP

Section 2.4.1 Suspension

[Not amended]

Section 2.4.2 Membership Termination

[Not amended]

Section 2.4.3 Winding Down Event

[Not amended]

TITLE III

CLEARING OPERATIONS

CHAPTER 1 - NOVATION AND REGISTRATION

Section 3.1.1 Weekly Backloading Cycle

[Not amended]

Section 3.1.2 Daily Backloading Cycle

[Not amended]

Section 3.1.3 Backloading Failure

[Not amended]

Section 3.1.4 Intraday Process

[Not amended]

Section 3.1.5 Rejected Transactions

[Not amended]

Section 3.1.6 Novation Process

[Not amended]

Section 3.1.7 Pre-registration

[Not amended]

Section 3.1.8 Margin calculation

[Not amended]

Section 3.1.9 Loss Distribution Periods

[Not amended]

Section 3.1.10 Registration of Cleared Transactions

[Not amended]

Section 3.1.11 Reporting requirements

[Not amended]

CHAPTER 2 – HOUSE ACCOUNT STRUCTURE

Section 3.2.1 House Trade Account

[Not amended]

Section 3.2.2 House Margin Account

[Not amended]

Section 3.2.3 House Collateral Account

[Not amended]

CHAPTER 3 - COMPRESSION

Section 3.3.1 General

[Not amended]

TITLE IV

RISK MANAGEMENT

CHAPTER 1 - GENERAL PROVISIONS

Section 4.1.1

[Not amended]

CHAPTER 2 - MARGIN

Section 4.2.1 Margin Requirement

[Not amended]

Section 4.2.2 Collateral Calls

[Not amended]

Section 4.2.3 Additional Collateral Call

[Not amended]

Section 4.2.4 Variation Margin

[Not amended]

Section 4.2.5 Collateral

[Not amended]

Section 4.2.6 Markit LCH Settlement Price

[Not amended]

CHAPTER 3 - EVENTS OF DEFAULT

Section 4.3.1 Events of Default

[Not amended]

Section 4.3.2 Measures in case of an Event of Default

[Not amended]

Section 4.3.3 Recourse following an Event of Default

Article 4.3.3.1

Any Damage incurred by LCH.Clearnet SA following, and in relation to, the declaration of an Event of Default shall be reduced or covered in descending priority:

- (i) by applying:
 - (a) in respect of the House ~~Margin~~-Account Structure of the Defaulting Clearing Member:
 - (x) any Collateral recorded in the House Collateral Account;
 - (y) regarding CCMs, any Collateral recorded in the Buffer Collateral Account which is equal to the Available Client Collateral Buffer; and
 - (z) any collateral, transferred or granted by the Defaulting Clearing Member to LCH.Clearnet SA as margin cover in respect of a proprietary account, in connection with another clearing service(s) provided by LCH.Clearnet SA where LCH.Clearnet SA has declared the Defaulting Clearing Member to be in default and to the extent such collateral is not applied in the context of such other clearing service(s) in accordance with rules applicable to such other clearing service(s),

to reduce or cover any Damage attributable to the liquidation of the House Cleared Transactions;
 - (b) in respect of any Client ~~Margin~~-Account Structure comprising Non-Ported Cleared Transactions of the Defaulting Clearing Member:
 - (x) in the case of a CCM, any Collateral recorded in the relevant CCM Client Collateral Account; or in the case of an FCM Clearing Member, the Legally Segregated Value recorded in the relevant FCM Client Financial Account;
 - (y) to the extent such Client ~~Margin~~-Account Structure is a CCM Individual Segregated Client ~~Margin~~-Account Structure, any collateral, transferred or granted by the Defaulting Clearing Member to LCH.Clearnet SA as margin cover in respect of a client account held for the benefit of the same CCM Individual Segregated Account Client, in connection with another clearing service(s) provided by LCH.Clearnet SA (to the extent such collateral is

not applied in the context of such other clearing service(s) in accordance with the rules applicable to such other clearing service(s)); and

- (z) any House Excess Collateral remaining following the application of Article 4.3.3.1(i)(a) and in the case of an FCM Clearing Member, any FCM Allocated Client Collateral Buffer (but in no event any FCM Unallocated Client Excess Collateral),

to reduce or cover any Damage attributable to the liquidation of the relevant Non-Ported Cleared Transactions;

- (i) by applying :
 - (a) any Collateral transferred or granted to LCH.Clearnet SA by the Defaulting Clearing Member as a Contribution or Additional Contribution Amount; and
 - (b) any collateral transferred or granted by the Defaulting Clearing Member to LCH.Clearnet SA as a contribution to the default fund, in connection with another clearing service(s) provided by LCH.Clearnet SA (to the extent such collateral is not applied in the context of such other clearing service(s) in accordance with the rules applicable to such other clearing service(s));
- (ii) by applying the LCH.Clearnet SA Contribution;
- (iii) by applying a percentage of the Collateral deposited by each Non Bidder as a Contribution equal to its Total Non Bidder Fraction pro rata each such Non Bidder's proportion of the resources available under this sub-paragraph (iv);
- (iv) by applying *pro rata*:
 - (a) the Collateral deposited by each Non Bidder as a Contribution to the extent this has not been applied in accordance with sub-paragraph (iv) above; and
 - (b) any Collateral deposited by each other Clearing Member (other than Non Bidders) as a Contribution;
- (v) by applying *pro rata* the Collateral deposited by each other Clearing Member as an Additional Contribution Amount (to the extent called, including where called from another Defaulting Clearing Member); and
- (vi) by following the Loss Distribution Process.

Where a Defaulting Clearing Member is a member of another clearing service(s) provided by LCH.Clearnet SA (such other service(s), together with the CDS Clearing Service, the "**LCH Businesses**"), the completion of the default management processes in respect of the LCH Businesses may occur at different times. LCH.Clearnet SA may be required to take action, including applying resources to reduce or cover Damage incurred by LCH.Clearnet SA in accordance with this Article 4.3.3.1, in order to manage the Event of Default at a time when: (x) the action which is taken is contingent on an outcome of the default management process in respect of another clearing service(s) provided by LCH.Clearnet SA, and (y) that outcome has not yet been reached.

In the interests of efficient resolution, LCH.Clearnet SA may, at such point, make assumptions about that outcome, and proceed with the relevant action on that basis. Where any such

assumptions have been made, LCH.Clearnet SA shall, on the completion of the default management processes in respect of all LCH Businesses, make such credits to the default funds relating to the LCH Businesses and such distributions to former Clearing Members as may be necessary to put the default funds and those firms which had contributed to such default funds at the time of the relevant default in the position that they would have been in if the correct outcomes had been used and the relevant assumptions had not been made.

In this Article 4.3.3.1, "applying" shall mean the use, by LCH.Clearnet SA, of the listed resources and the corresponding discharge of its obligations to return an equivalent amount of such resources to the Defaulting Clearing Member and/or Non-Defaulting Clearing Members (as applicable) in accordance with the CDS Clearing Documentation, whether such discharge is through the operation of set-off against LCH.Clearnet SA's rights against the Defaulting Clearing Member pursuant to Article 4.3.3.4, its rights pursuant to Article 4.4.3.2, or otherwise as set out in this CDS Clearing Documentation. In respect of sub-paragraph (iii), an application of the LCH.Clearnet SA Contribution means an amount that LCH.Clearnet SA shall bear for its own account up to the amount of the LCH.Clearnet SA Contribution.

For the avoidance of doubt, any Damage incurred by LCH.Clearnet SA following, and in relation to, the declaration of an Event of Default shall not be reduced or covered by the CDS Client Clearing Entitlement as determined in accordance with Clause 4.4.3 of the CDS Default Management Process.

Article 4.3.3.2

In relation to Article 4.3.3.1, where an Event of Default is declared in respect of a Clearing Member, Collateral which has been provided to LCH.Clearnet SA by a Clearing Member to satisfy its Client Margin Requirement in respect of any of its Client Margin Account(s) shall only be applied to cover Damage incurred by LCH.Clearnet SA attributable to the liquidation of the relevant Non-Ported Cleared Transactions and in the case of an FCM Clearing Member, in accordance with Regulation 6 of the FCM CDS Clearing Regulations.

Article 4.3.3.3

A Defaulting Clearing Member shall be liable for all Damage incurred by LCH.Clearnet SA, including any amounts payable by LCH.Clearnet SA in respect of the liquidation or hedging of its:

- (i) House Cleared Transactions; and/or
- (ii) Non-Ported Cleared Transactions;

which arise out of or in connection with an Event of Default or where an Automatic Early Termination Event Stipulation has been made by LCH.Clearnet SA, as applicable. The Defaulting Clearing Member shall immediately, and in any event no later than the close of business on the Business Day following demand by LCH.Clearnet SA, make up any shortfall in its Contribution arising from the Event of Default. Any positive values arising from the liquidation of the Defaulting Clearing Member's House Cleared Transactions shall be for the account of the Defaulting Clearing Member and any positive values arising from the liquidation of the Defaulting Clearing Member's Non-Ported Cleared Transactions shall form part of the CDS Client Clearing Entitlement (subject to the determination of amounts due from the Defaulting Clearing Member to LCH.Clearnet SA pursuant to Article 4.3.3.4).

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 6.18 of 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 6.18 of 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 6.18 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.

Article 4.3.3.5

To the extent that:

- (i) the porting of the Relevant Client Cleared Transactions of the Defaulting Clearing Member, pursuant to the CDS Default Management Process;
- (ii) liquidation of the Defaulting Clearing Member's House Cleared Transactions, pursuant to the CDS Default Management Process; or
- (iii) liquidation of the Non-Ported Cleared Transactions, pursuant to the CDS Default Management Process;

requires new Cleared Transactions to be created in the TIW reflecting another Clearing Member as counterparty to the Cleared Transaction, LCH.Clearnet SA will have to submit these Cleared Transactions to DTCC in accordance with Article 3.1.10.2 (or Article 3.1.10.3, as the case may be), provided that LCH.Clearnet SA will submit any reports required under Part 45 of the CFTC Regulations in accordance with Section 5 of the Procedures.

CHAPTER 4 - CDS DEFAULT FUND

Section 4.4.1 Purpose of the CDS Default Fund and Relevant Calculations

[Not amended]

Section 4.4.2 Contribution to the CDS Default Fund

[Not amended]

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

[Not amended]

TITLE V

CDS CCM CLIENT CLEARING SERVICES

CHAPTER 1 - GENERAL PROVISIONS

Section 5.1.1 Provision of CDS Client Clearing Services

[Not amended]

Section 5.1.2 CDS Client Clearing DMP and Delegation

[Not amended]

Section 5.1.3 Indirect clearing

[Not amended]

CHAPTER 2 - CCM CLIENT ACCOUNT STRUCTURE

Section 5.2.1 General Provisions

[Not amended]

Section 5.2.2 CCM Client Trade Accounts

[Not amended]

Section 5.2.3 CCM Client Margin Accounts

[Not amended]

Section 5.2.4 CCM Client Collateral Accounts

[Not amended]

CHAPTER 3 - TRANSFER

Section 5.3.1 General

[Not amended]

Section 5.3.2 Full transfers

[Not amended]

Section 5.3.3 Partial transfers

[Not amended]

Section 5.3.4 Transfer of Client Assets

[Not amended]

Section 5.3.5 Transfer process

[Not amended]

CHAPTER 4 - EARLY TERMINATION

[Not amended]

TITLE VI

CDS FCM CLIENT CLEARING

CHAPTER 1 - GENERAL PROVISIONS

[Not amended]

CHAPTER 2 – FCM CLIENT ACCOUNT STRUCTURE

Section 6.5.1 General Provisions

[Not amended]

Section 6.5.2 FCM Client Trade Account

[Not amended]

Section 6.5.3 FCM Client Margin Account

[Not amended]

Section 6.5.4 FCM Client Collateral Account, FCM Client Financial Account and Related Accounts

[Not amended]

Section 6.5.5 FCM Client Collateral Buffer and FCM Unallocated Client Excess Collateral

[Not amended]

Section 6.5.6 Customer Margin Requirements

[Not amended]

CHAPTER 3 - TRANSFER

Section 6.6.1 General

[Not amended]

Section 6.6.2 Full Transfers

[Not amended]

Section 6.6.3 Partial Transfers

[Not amended]

Section 6.6.4 Transfer of Client Assets with Full Transfer

[Not amended]

Section 6.6.5 Transfer process

[Not amended]

CHAPTER 4 – LIQUIDATION EVENT

[Not amended]

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

"**Non Bidder**" means an Auction Participant who does not submit Market Bid(s) in an amount equal to its Minimum Bid Size by the Bid Deadline (and the expiration of any grace period granted by LCH.Clearnet SA, in consultation with the CDS Default Management Group, pursuant to Clause 5.4.3;) provided that such Auction Participant is required to bid for the relevant Auction Package(s) in accordance with Clause 5.4.1;

1.2 Singular, plural, gender

[Not amended]

1.3 Headings

[Not amended]

1.4 Annexes etc.

[Not amended]

2 CDS Default Management Process

2.1 The CDS Default Management Process

[Not amended]

2.2 Status of the CDS Default Management Process

[Not amended]

2.3 LCH.Clearnet SA's financial resources

[Not amended]

2.4 CDS Default Management Guidance Manual

[Not amended]

3 Obligations and Undertakings

3.1 Continuing obligations

[Not amended]

3.2 Sole procedure

[Not amended]

3.3 FCM Clearing Members

[Not amended]

4 CDS Client Clearing Default Management Process

4.1 Scope

The CDS Client Clearing DMP in respect of any Relevant Client Cleared Transactions of the Defaulting Clearing Member shall involve the stages set out in this Clause 4. For the purposes of this Clause 4, a Relevant Client Cleared Transaction will be included in an Auction Package from such time as LCH.Clearnet SA determines that such Relevant Client Cleared Transaction will not be ported. For the avoidance of doubt, any such Auction Package will only contain ~~Relevant Client~~Non-Ported Cleared Transactions. LCH.Clearnet SA shall not be entitled to include ~~Relevant Client~~Non-Ported Cleared Transactions and House Cleared Transactions of the Defaulting Clearing Member in a single Auction Package pursuant to this Clause 4.

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 4.2.2 above is taken into account for these purposes);

4.2.7 where a Backup Clearing Member has been appointed in accordance with Clause ~~Erreur ! Source du renvoi introuvable.~~ or Clause ~~Erreur ! Source du renvoi introuvable.~~ 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 Structure** 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

[Not amended]

4.4 Non-portability of the Relevant Client Cleared Transactions

[Not amended]

4.5 Calculation process

[Not amended]

5 Competitive Bidding

5.1 Principles of Competitive Bidding

[Not amended]

5.2 Construction of Auction Packages

5.2.1 Determination by LCH.Clearnet SA

LCH.Clearnet SA will determine, in consultation with the CDS Default Management Group, the number of Auction Packages to be subject to Competitive Bidding.

LCH.Clearnet SA shall be permitted to establish multiple Auction Packages, divided either by reference to the different Transaction Categories or within the same Transaction Category, provided that the determination of Auction Packages by LCH.Clearnet SA is made in accordance with Clause 4.4.1.

The determination of LCH.Clearnet SA, in consultation with the CDS Default Management Group, shall be made in its discretion depending on the context of the particular Event of Default and the circumstances of the Defaulting Clearing Member.

5.2.2 Off-setting

Where a decision is taken to divide the Auction Portfolio into multiple Auction Packages in accordance with Clause 5.2.1, LCH.Clearnet SA, in consultation with the CDS Default Management Group, shall undertake such division at its discretion in good faith with a view to ensuring that Competitive Bidding is carried out in accordance with the principles set out in Clause 5.1. In exercising its discretion under this Clause 5.2.2, LCH.Clearnet SA, in consultation with the CDS Default Management Group, shall consider, wherever possible, taking into account LCH.Clearnet SA's margining methodology, including within each Auction Package, any Cleared Transactions which have been offset for the purposes of calculating the Defaulting Clearing Member's Margin Requirement under Section 4.2.2.

5.3 Competitive Bidding for multiple Auction Packages

[Not amended]

5.4 Conduct of Competitive Bidding

5.4.1 Participation in Competitive Bidding

All Auction Participants are required to participate in Competitive Bidding for each Auction Package;

(i) save where an Auction Package comprises Single Name Cleared Transactions whose Reference Entity is the Auction Participant, that Auction Participant is not required to participate in Competitive Bidding for that Auction Package; and

~~(ii)~~ (ii) notwithstanding that any Auction Participant may not have registered within its Account Structure a Cleared Transaction of the type included in the relevant Transaction Category for an Auction Package.

Where two or more Auction Participants within a Financial Group request LCH.Clearnet SA to treat them as a single Auction Participant for the purpose of requiring participation in Competitive Bidding under this Clause 5.4.1, LCH.Clearnet SA shall consent to such a request.

5.4.2 Bidding Process

Subject to Clause 9 and in accordance with the procedure set out in the CDS Default Management Guidance Manual, LCH.Clearnet SA, in consultation with the CDS Default Management Group shall determine, and notify to each Auction Participant, the following:

- (i) the number of Auction Packages, the size and direction of each Auction Package and such other information as may reasonably be considered necessary for the Auction Participants to receive;
- (ii) the number of Auction Participants; required to participate in the Competitive Bidding for that Auction Package pursuant to Clause 5.4.1, taking into account the treatment of Auction Participants within a Financial Group as a single Auction Participant;
- (iii) the Minimum Bid Size Denominator;
- (iv) in respect of each Auction Package, the Minimum Bid Size for each Auction Participant; required to participate in the Competitive Bidding for that Auction Package pursuant to Clause 5.4.1;
- (v) the identity of the Nominated Representative; and
- (vi) the Bid Deadline.

5.4.3 Bidding

Each Auction Participant who participates in Competitive Bidding for an Auction Package is required to submit their Bid(s) in accordance with Clauses 5.4.4 to 5.4.7 below, to the Nominated Representative. Each Bid will specify the Bid Size and the Bid Price. By submitting a Bid, an Auction Participant represents that it will accept the registration of Auction Transactions equivalent to the Bid Size of the Bid at a cost determined in accordance with these provisions.

Auction Participants will be required to submit their Bid(s) by the Bid Deadline. However, in the event that LCH.Clearnet SA provides notification to all Auction Participants in reasonable time prior to the Bid Deadline, a grace period may be granted to all Auction Participants

provided that such grace period shall be no longer than one hour, after consultation with the CDS Default Management Group.

Where Bids are received after the Bid Deadline (and the expiration of any grace period granted by LCH.Clearnet SA, pursuant to this Clause 5.4.3), LCH.Clearnet SA may, in its absolute discretion, reject a Bid on the grounds that it would prevent the CDS Default Management Process being completed within the targeted timeframe set out in Clause 2.1.

5.4.4 Minimum Bid Size

For each Auction Package, each Auction Participant who is required to bid for that Auction Package in accordance with Clause 5.4.1 above shall be required to submit Bid(s) in an amount equal to or greater than its Minimum Bid Size. The Minimum Bid Size ("**MBS**") shall be calculated by LCH.Clearnet SA in accordance with the following formula and expressed as a percentage:

$$MBS = \left[\frac{A}{B} \right] \times C$$

Where:

A is the amount of the Auction Participant's contribution to the CDS Default Fund as at the last revaluation date prior to the declaration of the relevant Event of Default by LCH.Clearnet SA in accordance with Article 4.4.1.3. For the purposes of this calculation, an Auction Participant's contribution shall be the aggregate of its Contribution and the Contribution of any other Clearing Member in its Financial Group and with whom it is being treated as a single Auction Participant, pursuant to Clause 5.4.1.

B is the ~~size of the CDS Default Fund as at the last revaluation date~~ sum of Contributions of all Auction Participants who are required to bid for that Auction Package in accordance with Clause 5.4.1 above, as at the last revaluation date of the CDS Default Fund prior to the declaration of the relevant Event of Default by LCH.Clearnet SA in accordance with Article 4.4.1.5 and Article 4.4.1.6, ~~minus the Contribution(s) of the Defaulting Clearing Member.~~

C is the Minimum Bid Size Denominator.

5.4.5 Satisfying the Minimum Bid Size

An Auction Participant can satisfy the requirement set out in Clause 5.4.4 by submitting multiple Bids with differing Bid Prices and Bid Sizes provided that, in aggregate, the Bid Size(s) of the Bids equals or exceeds the Minimum Bid Size. Accordingly, there is no requirement for an Auction Participant to submit a single Bid whose Bid Size equals the Minimum Bid Size, although it is entitled to do so.

5.4.6 Bids in excess of the Minimum Bid Size

An Auction Participant can submit Bid(s) whose Bid Size(s) alone, or in aggregate, exceed the Minimum Bid Size for any Auction Package, subject that an Auction Participant shall be prohibited from submitting Bid(s) whose Bid Size(s), alone or in aggregate, exceed 100 per cent. of the relevant Auction Package.

5.4.7 Bid Price

Auction Participants shall have sole discretion to specify the Bid Price that will apply to the Bid(s) submitted in the course of Competitive Bidding and neither LCH.Clearnet SA nor the CDS Default Management Group is permitted to specify, in advance of Competitive Bidding commencing, a minimum or maximum Bid Price that will apply in respect of a particular Auction Package.

5.4.8 Assessment of Non-Market Bids

Following the Bid Deadline, LCH.Clearnet SA, in consultation with the CDS Default Management Group, shall review the Bid(s) received in the course of Competitive Bidding to determine whether any Non Market Bid(s) have been submitted. LCH.Clearnet SA shall have the discretion to deem any Bid which does not satisfy the Market Bid Metric to be a Market Bid and in determining whether to exercise such discretion, in consultation with the CDS Default Management Group, shall take into account the relevant Auction Participant's Bid(s) as a whole.

5.5 Non Bidders

For the avoidance of doubt, if:-

5.5.1 an Auction Participant has submitted Market Bid(s) in respect of an Auction Package which, in aggregate, equal or are in excess of its Minimum Bid Size, LCH.Clearnet SA shall not be entitled to deem such Auction Participant to be a Non Bidder in respect of other Bid(s) submitted for the same Auction Package which could otherwise be deemed Non Market Bid(s); and/or

5.5.2 an Auction Participant is not required to bid for an Auction Package in accordance with Clause 5.4.1(i) above, LCH.Clearnet SA shall not be entitled to deem such Auction Participant to be a Non Bidder in respect of that Auction Package.

5.6 Allocation of the Auction Package

[Not amended]

5.7 Review of Competitive Bidding

[Not amended]

5.8 Recalculated Allocation of the Auction Package and Initial Registration

[Not amended]

5.9 Conduct of Competitive Bidding for the Residual Auction Package

[Not amended]

5.10 LCH.Clearnet SA determination of financial resources

[Not amended]

6 Registration of Transfer Positions

6.1 Registration of Winning Bids

[Not amended]

6.2 Registration Obligations

[Not amended]

6.3 Failed Registration Obligations

[Not amended]

6.4 Off-setting

[Not amended]

7 Loss Distribution Process

7.1 Adjustment of Variation Margin payments

[Not amended]

7.2 Application of Cash Gainer Adjustment

[Not amended]

7.3 Adjustment to Loss Distribution Cap Amount

[Not amended]

7.4 No rebate

[Not amended]

7.5 Application of any recoveries

[Not amended]

8 Early Termination

8.1 Early Termination Trigger

[Not amended]

8.2 CDS Repayment Amount

[Not amended]

8.3 Observable Market Price

[Not amended]

8.4 Available CDS Funds

[Not amended]

8.5 LCH Repayment Amounts

[Not amended]

8.6 Notification of LCH Repayment Amounts

[Not amended]

8.7 Payment of LCH Repayment Amounts and repayment/redelivery of Collateral

[Not amended]

8.8 Recalculation of Available CDS Funds

[Not amended]

8.9 Recovery of LCH Repayment Amounts

[Not amended]

8.10 Conversion

[Not amended]

8.11 No Rebate

[Not amended]

8.12 LCH Default

[Not amended]

9 Information regarding the CDS Default Management Process

9.1 Notifications

[Not amended]

9.2 Sensitive Information

[Not amended]

9.3 Competitive Bidding

[Not amended]

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

[Not amended]

11 Role and Constitution of the CDS Default Management Group

11.1 Role

11.1.1 CDS Default Management Process

The CDS Default Management Group shall meet within one hour, or as soon as reasonably practical, following notification by LCH.Clearnet SA that a Clearing Member is the subject of an Event of Default in accordance with Article 4.3.1.2, and at sufficiently frequent intervals thereafter for so long as may be necessary to assist LCH.Clearnet SA in the implementation of the CDS Default Management Process. Such implementation shall include, without limitation, the provision of default management advice with regard to:

- (i) the ongoing obligations of LCH.Clearnet SA to Non-Defaulting Clearing Members;
- (ii) Hedging and closing-out of Cleared Transactions registered in the name of the Defaulting Clearing Member; and
- (iii) the registration of Transfer Positions in accordance with the CDS Default Management Process.

11.1.2 Auctions in respect of ~~Sself-R~~-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 ~~Sself-R~~-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

11.2.1 Membership

The CDS Default Management Group shall be made up of the following individuals each to be appointed by LCH.Clearnet SA in consultation with the CDS Default Management Committee and the Risk Committee:

- (i) the ~~chief executive or deputy chief executive~~ Global Head of LCH.Clearnet SA, CDSClear who shall act as chairman or any director of CDSClear as may be appointed by the Chairman as the Vice Chairman;
- (ii) representatives from the trading function of at least five Clearing Members, being senior executives with appropriate skills and expertise, knowledge of the CDS Default Management Process and experience of fire drills undertaken by the CDS Default Management Committee, who shall be nominated by the relevant Clearing Members and appointed in accordance with Clause 11.2.2 below;
- (iii) at least one director (staff member of director grade) of the LCH.Clearnet SA risk management department; and
- (iv) such other individuals as the CDS Default Management Group considers appropriate from time to time in relation to individual meetings.

In making such appointments, LCH.Clearnet SA shall ensure that the composition of the CDS Default Management Group is such as to provide effective review of the CDS Default Management Process and has suitable expertise and representation of market-making capacity in the event of an Event of Default.

11.2.2 Appointment of Clearing Member representatives

Each Clearing Member is required to notify LCH.Clearnet SA of at least two representatives that can be called upon to participate, on behalf of that Clearing Member, as a member of the CDS Default Management Group in accordance with a rotational plan maintained by the CDS Default Management Committee in accordance with Clause 10.1.6 above ("**DMG Representatives**").

In nominating DMG Representatives, each Clearing Member shall identify a representative that shall be its principal DMG Representative and representative(s) that shall be its back-up DMG Representative(s).

Each proposed DMG Representative and each individual mentioned in Clause 11.2.1(iv) shall be required to file a Fitness Self Certification and a CV with LCH.Clearnet SA. LCH.Clearnet SA shall be permitted to undertake reasonable diligence in respect of any proposed DMG Representative before approving such representative's inclusion, on behalf of the relevant Clearing Member, on the rotational plan (the "**DMG Rotation Plan**") and may require a Clearing Member to nominate alternative DMG Representative(s) if it is not reasonably satisfied that the nominated representative(s) comply with the requirements set out in Clause 11.2.1(ii). LCH.Clearnet SA shall also be permitted to undertake reasonable diligence in respect of any individual mentioned in Clause 11.2.1(iv) and to refuse to appoint any such individual.

The DMG Rotation Plan will be managed by the CDS Default Management Committee in accordance with the following principles:

- (i) the DMG Rotation Plan will list all DMG Representatives and the Clearing Member that each DMG Representative represents;
- (ii) the DMG Rotation Plan will set out a timetable for the appointment/retirement of Clearing Members to/from the CDS Default Management Group, the timetable being set by the CDS Default Management Committee in its discretion with a view to ensuring that the composition of the CDS Default Management Group at any one time has suitable expertise and representation of market-making capacity in the event of a default;
- (iii) at least five different Clearing Members shall be appointed to the CDS Default Management Group at any one time. For the avoidance of doubt, in the event that the CDS Default Management Group is required to convene in accordance with Clause 11.1.1, a Clearing Member that has been appointed to the CDS Default Management Group shall be permitted to provide any (but not all) of its principal or back up DMG Representatives to assist LCH.Clearnet SA in the management of the relevant Event of Default;
- (iv) the duration of each Clearing Member's appointment to the CDS Default Management Group shall be for a minimum of 6 months and a maximum of 5 years (at the discretion of the relevant Clearing Member) (the "**DMG Term**");
- (v) at the end of a Clearing Member's DMG Term (save where the expiry of such DMG Term arises in the course of management of an Event of Default, in which case the Clearing Member's DMG Term shall be extended at the discretion of the CDS Default Management Committee), the DMG Representatives representing such Clearing Member shall retire from the CDS Default Management Group and DMG Representatives (representing a different Clearing Member), as set out in the DMG Rotation Plan, shall be appointed to the CDS Default Management Group simultaneously in his/her place(s);
- (vi) only two Clearing Members may retire from the CDS Default Management Group and be replaced, in accordance with paragraph (v) above, in any 3 month period so as to maintain continuity of participation in the CDS Default Management Group.

11.2.3 Additional members

Following consultation with the CDS Default Management Group, LCH.Clearnet SA may invite the Defaulting Clearing Member to nominate one or more representatives to join the CDS Default Management Group to assist it in carrying out its functions under the CDS Default Management Process for that Defaulting Clearing Member. LCH.Clearnet SA may also request that representatives from other Clearing Members join the CDS Default Management Group, following consultation with the CDS Default Management Group.

In the event of receiving such request, the Defaulting Clearing Member and/or the Clearing Member, as appropriate, will be obliged to provide its CDS Default Management Committee representative, or an alternate with appropriate skills, experience and expertise as if that representative were a member of the CDS Default Management Committee, to participate in the CDS Default Management Group. The CDS Default Management Committee shall be

able to request a substitute where it believes the Defaulting Clearing Member and/or the Clearing Member's nominated representative, as appropriate, does not have the requisite skills or expertise.

11.3 Organisation

[Not amended]

12 Participation in the CDS Default Management Committee and CDS Default Management Group

12.1 No liability

[Not amended]

12.2 LCH.Clearnet SA's Actions

[Not amended]

13 Subsistence of the CDS Default Management Process

13.1 Applications for membership

[Not amended]

13.2 Condition of Continuing Membership

[Not amended]

13.3 Automatic Termination

[Not amended]

13.4 Survival

[Not amended]

14 Liability of LCH.Clearnet SA

[Not amended]

15 Governing Law

[Not amended]

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

General obligations of the Clearing Member

1 Confidentiality

[Not amended]

2 Secrecy

[Not amended]

3 Property

[Not amended]

4 Return of Confidential Material

[Not amended]

5 No Representations or Warranties; No Conflict of Interest

[Not amended]

6 Remedies

[Not amended]

General Terms of Participation in the CDS Default Management Group

7 Conflict of interest

[Not amended]

8 Confidentiality

[Not amended]

9 Warranty and representation

[Not amended]



LCH.Clearnet SA
CDS Clearing Supplement

~~22.09.2014~~ [●]



This document is for use with the clearing of index linked transactions and single name transactions. The CDS Clearing Supplement is split into two parts, Part A and Part B.

Part A of the CDS Clearing Supplement shall only be used in connection with any single name transactions or components of index linked transactions that incorporate the 2003 ISDA Credit Derivatives Definitions, as published by the International Swaps and Derivatives Association, Inc.

Part B of the CDS Clearing Supplement shall only be used in connection with any single name transactions or components of index linked transactions that incorporate the 2014 ISDA Credit Derivatives Definitions, as published by the International Swaps and Derivatives Association, Inc.

PART A
CDS CLEARING SUPPLEMENT

**FOR INDEX CLEARED TRANSACTIONS AND SINGLE NAME TRANSACTIONS
INCORPORATING THE 2003 ISDA CREDIT DERIVATIVES DEFINITIONS**

1. GENERAL PROVISIONS

1.2 Terms defined in the CDS Clearing Supplement

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

CCM Client Cleared Transaction: A Cleared Transaction between a CCM and LCH.Clearnet SA registered in a CCM Client Trade Account of a CCM.

CCM Client Transaction: A Transaction between a CCM and a CCM Client which is on the same economic terms as its corresponding CCM Client Cleared Transaction.

CCM Client Transaction Documents: The documentation entered into by a CCM and its CCM Client to document a CCM Client Transaction.

Clearing Member Self Referencing Transaction: A Single Name Cleared Transaction which is registered in the Account Structure of the Clearing Member and in respect of which, the Reference Entity is either the relevant Clearing Member or an Affiliate of such Clearing Member.

Client Self Referencing Transaction: A Single Name Cleared Transaction (a) that is registered in the Client Account Structure of a Clearing Member; and (b) in respect of which, the Reference Entity is either the relevant Client or an Affiliate of such Client.

~~**CCM Client Cleared Transaction:** A Cleared Transaction between a CCM and LCH.Clearnet SA registered in a CCM Client Trade Account of a CCM.~~

~~**CCM Client Transaction:** A Transaction between a CCM and a CCM Client which is on the same economic terms as its corresponding CCM Client Cleared Transaction.~~

~~**CCM Client Transaction Documents:** The documentation entered into by a CCM and its CCM Client to document a CCM Client Transaction.~~

Self Referencing Transaction: A Clearing Member Self Referencing Transaction or a Client Self Referencing Transaction, as applicable.

9. SELF-REFERENCING TRANSACTIONS

9.1 Occurrence of Self Referencing Transaction

(a) Duty to notify

In respect of a Single Name Cleared Transaction, that is registered in the House Account Structure of a Clearing Member, the relevant Clearing Member shall, unless prohibited from so doing by applicable law or its internal policies, notify LCH.Clearnet SA as soon as reasonably practicable if:

- (i) such Clearing Member is or consolidates or amalgamates with, or merges into, or transfers all or substantially all of its assets to, the Reference Entity in relation to such Single Name Cleared Transaction, or enters into any agreement in respect of any of the foregoing;
- (ii) such Clearing Member and the Reference Entity in relation to such Single Name Cleared Transaction are or become Affiliates; or
- (iii) in respect of a Restructuring Cleared Transaction, such Clearing Member is or becomes the Reference Entity in relation to such Restructuring Cleared Transaction as a result of the occurrence of the relevant Restructuring Credit Event.

(b) Auction of Affected Transactions

Following receipt of any such notification, LCH.Clearnet SA will, unless otherwise agreed in consultation with the CDS Default Management Group and the affected Clearing Member, and with the assistance of the CDS Default Management Group, conduct an auction process to liquidate the relevant Single Name Cleared Transaction and enter into an equivalent Single Name Cleared Transaction with a Clearing Member other than the affected Clearing Member.

(c) Alternative Action

If LCH.Clearnet SA, after consultation with the CDS Default Management Group and the affected Clearing Member, believes that the circumstances are such that an auction may be inappropriate, LCH.Clearnet SA may take such other action in consultation with the Risk Committee as it considers reasonably necessary to achieve its primary aim in these circumstances of addressing the risks resulting from a Clearing Member being party to a Single Name Cleared Self Referencing Transaction ~~where the Reference Entity is that Clearing Member~~, while endeavouring, as far as is reasonably practicable in the

circumstances without prejudicing the achievement of the primary aim, to avoid materially and adversely affecting the relevant Clearing Member.

9.2 Occurrence of Self Referencing Transactions in respect of Clients

(a) Notification

In respect of a Single Name Cleared Transaction ~~entered into by a CCM which has also entered into a corresponding CCM registered in the Client Transaction or an FCM Account Structure of a~~ Clearing Member ~~as agent for an FCM Client~~, the ~~CCM or FCM~~relevant Clearing Member, ~~as applicable~~, shall, unless prohibited from so doing by applicable law or its internal policies, notify LCH.Clearnet SA as soon as reasonably practicable if ~~it receives a notice from the CCM Client or FCM Client, as applicable, that~~:

~~(i) the CCM Client or FCM Client, as applicable, such Clearing Member is or consolidates or amalgamates with, or merges into, or transfers all or substantially all of its assets to, the Reference Entity in relation to such Single Name Cleared Transaction, or enters into any agreement in respect of any of the foregoing;~~

~~(ii) such Clearing Member and the Reference Entity in relation to such Single Name Cleared Transaction are or become Affiliates; or~~

~~(iii) in respect of a Restructuring Cleared Transaction, such Clearing Member is or becomes the Reference Entity in relation to such Restructuring Cleared Transaction as a result of the occurrence of the relevant Restructuring Credit Event;~~

~~or it receives a notice from the relevant Client that:~~

(iv) the Client is or has consolidated or amalgamated with, or merged into, or has transferred all or substantially all of its assets to, the Reference Entity in relation to such Single Name Cleared Transaction or entered into any agreement in respect of any of the foregoing;

(v) the ~~CCM Client or FCM Client, as applicable~~, and the Reference Entity in relation to such Single Name Cleared Transaction are or have become Affiliates; or

(vi) in respect of a Restructuring Cleared Transaction, the ~~CCM Client or FCM Client, as applicable~~, is or has become the Reference Entity in relation to such Restructuring Cleared Transaction as a

result of the occurrence of the relevant Restructuring Credit Event.

(b) **Transfer and Auction Process**

Following the giving of any such notification or occurrence of a Self Referencing Transaction due to a Transfer under Title V Chapter 3, Title VI Chapter 3 or article 4.3 of the Default Management Process,

(i) If the Self Referencing Transaction is a Clearing Member Self Referencing Transaction, the relevant Client may request the transfer of such Self Referencing Transaction to a Receiving Clearing Member which is not, and none of its Affiliates are, the Reference Entity of the affected Single Name Cleared Transaction, in accordance with Title V Chapter 3 or Title VI Chapter 3 as applicable of the CDS Clearing Rule Book;

~~(i)(ii)~~ if such transfer has not been completed in a reasonable timeframe as determined by LCH.Clearnet SA in consultation with the Carrying Clearing Member, or the Self Referencing Transaction is a Client Self Referencing Transaction, LCH.Clearnet S.A. will, unless otherwise agreed in consultation with the CDS Default Management Group and the relevant ~~CCM or FCM~~ Clearing Member, as applicable, and conduct an auction process in consultation with the CDS Default Management Group and the relevant ~~CCM, conduct an auction process~~ Clearing Member, to liquidate the relevant Single Name Cleared Transaction and enter into an equivalent Single Name Cleared Transaction with ~~a CCM or FCM~~ another Clearing Member, ~~as applicable;~~ and

~~(ii)(iii)~~ the provisions of Section 9.1. (Occurrence of Self Referencing Transaction) will apply *mutatis mutandis*, provided that:

(A) Section 9.1(a) (*Duty to Notify*) and 9.1(b) (*Auction of Affected Transactions*) shall not apply;

~~(B) Section 9.1(c) (*Alternative Action*) is amended by deleting the words "Clearing Member being party to a Single Name Cleared Transaction where the Reference Entity is that Clearing Member" and replacing them with the words "CCM or FCM Clearing Member, as applicable, being a party to a Single Name CCM Client Transaction where the Reference Entity is the CCM Client or FCM Client, as applicable";~~

~~(C)~~ (B) Section 9.1(d) (*Compression of Affected Transactions prior to Auction*) is amended by deleting the words "to

paragraph (b) above" and replacing them with the words "as a result of Section 9.2 (*Occurrence of Self Referencing Transactions in respect of Clients*)";

~~(D)~~(C) Section 9.1(d) (*Compression of Affected Transactions prior to Auction*) is amended in the case of CCM Clients only by inserting the words "that have a corresponding CCM Client Transaction with the affected CCM Client" immediately after the words "in respect of fungible Single Name Cleared Transactions";

~~(E)~~(D) Section 9.1(e) (*Auction Terms*) is amended by ~~deleting~~inserting the words "~~(excluding", where the affected~~relevant Self Referencing Transaction is a Clearing Member"; Self Referencing Transaction only, " immediately after the word "excluding" in the final paragraph thereof;

~~(F)~~(E) Section 9.1(f) (*Creation of New Transactions and Termination of Existing Transactions*) is amended by ~~deleting~~inserting the words " if the relevant Self Referencing Transaction is a Clearing Member Self Referencing Transaction" immediately after the words "other than the affected Clearing Member";" in the first paragraph thereof; and

~~(G)~~(F) Each reference to "affected Clearing Member" in Section 9.1 (*Occurrence of Self Referencing Transaction*) is deleted and replaced with a reference to "relevant Clearing Member".

(c) Costs of LCH.Clearnet SA

The cost of the associated bid/offer spread and any reasonable out-of-pocket costs and expenses of LCH.Clearnet SA in connection with such auction(s) or any alternative action shall be allocated to the CCM Client Collateral Account or the FCM Client Collateral Account as applicable.

PART B
CDS CLEARING SUPPLEMENT

**FOR INDEX CLEARED TRANSACTIONS AND SINGLE NAME TRANSACTIONS
INCORPORATING THE 2014 ISDA CREDIT DERIVATIVES DEFINITIONS**

1. GENERAL PROVISIONS

1.2 Terms defined in the CDS Clearing Supplement

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

CCM Client Cleared Transaction: A Cleared Transaction between a CCM and LCH.Clearnet SA registered in a CCM Client Trade Account of a CCM.

CCM Client Transaction: A Transaction between a CCM and a CCM Client which is on the same economic terms as its corresponding CCM Client Cleared Transaction.

CCM Client Transaction Documents: The documentation entered into by a CCM and its CCM Client to document a CCM Client Transaction.

Clearing Member Self Referencing Transaction: A Single Name Cleared Transaction which is registered in the Account Structure of the Clearing Member and in respect of which, the Reference Entity is either the relevant Clearing Member or an Affiliate of such Clearing Member.

Client Self Referencing Transaction: A Single Name Cleared Transaction (a) that is registered in the Client Account Structure of a Clearing Member, and (b) in respect of which, the Reference Entity is either the relevant Client or an Affiliate of such Client.

~~**CCM Client Cleared Transaction:** A Cleared Transaction between a CCM and LCH.Clearnet SA registered in a CCM Client Trade Account of a CCM.~~

~~**CCM Client Transaction:** A Transaction between a CCM and a CCM Client which is on the same economic terms as its corresponding CCM Client Cleared Transaction.~~

~~**CCM Client Transaction Documents:** The documentation entered into by a CCM and its CCM Client to document a CCM Client Transaction.~~

Self Referencing Transaction: A Clearing Member Self Referencing Transaction or a Client Self Referencing Transaction, as applicable.

9. SELF-REFERENCING TRANSACTIONS

9.1 Occurrence of Self Referencing Transaction

(a) Duty to notify

In respect of a Single Name Cleared Transaction, that is registered in the House Account Structure of a Clearing Member, the relevant Clearing Member shall, unless prohibited from so doing by applicable law or its internal policies, notify LCH.Clearnet SA as soon as reasonably practicable if:

- (i) such Clearing Member is or consolidates or amalgamates with, or merges into, or transfers all or substantially all of its assets to, the Reference Entity in relation to such Single Name Cleared Transaction, or enters into any agreement in respect of any of the foregoing;
- (ii) such Clearing Member and the Reference Entity in relation to such Single Name Cleared Transaction are or become Affiliates; or
- (iii) in respect of a Restructuring Cleared Transaction, such Clearing Member is or becomes the Reference Entity in relation to such Restructuring Cleared Transaction as a result of the occurrence of the relevant Restructuring Credit Event.

(b) Auction of Affected Transactions

Following receipt of any such notification, LCH.Clearnet SA will, unless otherwise agreed in consultation with the CDS Default Management Group and the affected Clearing Member, and with the assistance of the CDS Default Management Group, conduct an auction process to liquidate the relevant Single Name Cleared Transaction and enter into an equivalent Single Name Cleared Transaction with a Clearing Member other than the affected Clearing Member.

(c) Alternative Action

If LCH.Clearnet SA, after consultation with the CDS Default Management Group and the affected Clearing Member, believes that the circumstances are such that an auction may be inappropriate, LCH.Clearnet SA may take such other action in consultation with the Risk Committee as it considers reasonably necessary to achieve its primary aim in these circumstances of addressing the risks resulting from a Clearing Member being party to a Single Name Cleared Self Referencing Transaction where the Reference Entity is that Clearing

Member, while endeavouring, as far as is reasonably practicable in the circumstances without prejudicing the achievement of the primary aim, to avoid materially and adversely affecting the relevant Clearing Member.

9.2 Occurrence of Self Referencing Transactions in respect of Clients

(a) Notification

In respect of a Single Name Cleared Transaction ~~entered into by a CCM which has also entered into a corresponding CCM registered in the Client Transaction or an FCM Clearing Member as agent for an FCM Client, the CCM or FCM Account Structure, the relevant~~ Clearing Member, as applicable, shall, unless prohibited from so doing by applicable law or its internal policies, notify LCH.Clearnet SA as soon as reasonably practicable if ~~it receives a notice from the CCM Client or FCM Client, as applicable, that:~~

- (i) such Clearing Member is or consolidates or amalgamates with, or merges into, or transfers all or substantially all of its assets to, the Reference Entity in relation to such Single Name Cleared Transaction, or enters into any agreement in respect of any of the foregoing;
- (ii) such Clearing Member and the Reference Entity in relation to such Single Name Cleared Transaction are or become Affiliates; or
- (iii) in respect of a Restructuring Cleared Transaction, such Clearing Member is or becomes the Reference Entity in relation to such Restructuring Cleared Transaction as a result of the occurrence of the relevant Restructuring Credit Event;

or if it receives a notice from the CCM Client or FCM Client, as applicable, that:

- (i) the Client is or has consolidated or amalgamated with, or merged into, or has transferred all or substantially all of its assets to, the Reference Entity in relation to such Single Name Cleared Transaction or entered into any agreement in respect of any of the foregoing;
- (ii) the ~~CCM Client or FCM Client, as applicable,~~ and the Reference Entity in relation to such Single Name Cleared Transaction are or have become Affiliates; or
- (iii) in respect of a Restructuring Cleared Transaction, the ~~CCM Client or FCM Client, as applicable,~~ is or has become the Reference

Entity in relation to such Restructuring Cleared Transaction as a result of the occurrence of the relevant Restructuring Credit Event.

(b) **Transfer and Auction Process**

Following the giving of any such notification or occurrence of a Self Referencing Transactions due to a Transfer under Title V Chapter 3, Title VI Chapter 3 or article 4.3 of the Default Management Process,

(i) If the Self Referencing Transaction is a Clearing Member Self Referencing Transaction, the relevant Client may request the transfer of such Self Referencing Transaction to a Receiving Clearing Member which is not, and none of its Affiliates are, the Reference Entity of the affected Single Name Cleared Transaction, in accordance with Title V Chapter 3 or Title VI Chapter 3 as applicable of the CDS Clearing Rule Book;

~~(iv)~~(ii) If such transfer has not been completed in a reasonable timeframe as determined by LCH.Clearnet SA in consultation with the Carrying Clearing Member, or the Self Referencing Transaction is a Client Self Referencing Transaction, LCH.Clearnet S.A. will, unless otherwise agreed in consultation with the CDS Default Management Group and the relevant ~~GCM or FCM~~ Clearing Member, ~~as applicable, and~~ conduct an auction process in consultation with the CDS Default Management Group and the relevant ~~GCM, conduct an auction process~~ Clearing Member, to liquidate the relevant Single Name Cleared Transaction and enter into an equivalent Single Name Cleared Transaction with ~~a GCM or FCM~~ another Clearing Member, ~~as applicable;~~ and

~~(v)~~(iii) the provisions of Section 9.1. (Occurrence of Self Referencing Transaction) will apply mutatis mutandis, provided that:

(A) Section 9.1(a) (*Duty to Notify*) and 9.1(b) (*Auction of Affected Transactions*) shall not apply;

~~(B) Section 9.1(c) (*Alternative Action*) is amended by deleting the words "Clearing Member being party to a Single Name Cleared Transaction where the Reference Entity is that Clearing Member" and replacing them with the words "GCM or FCM Clearing Member, as applicable, being a party to a Single Name GCM Client Transaction where the Reference Entity is the GCM Client or FCM Client, as applicable";~~

~~(E)~~(B) Section 9.1(d) (*Compression of Affected Transactions prior to Auction*) is amended by deleting the words "to paragraph (b) above" and replacing them with the words "as a result of Section 9.2 (*Occurrence of Self Referencing Transactions in respect of Clients*)";

~~(D)~~(C) Section 9.1(d) (*Compression of Affected Transactions prior to Auction*) is amended in the case of CCM Clients only by inserting the words "that have a corresponding CCM Client Transaction with the affected CCM Client" immediately after the words "in respect of fungible Single Name Cleared Transactions";

~~(E)~~(D) Section 9.1(e) (*Auction Terms*) is amended by ~~deleting~~inserting the words "~~(excluding~~where the ~~affected~~relevant Self Referencing Transaction is a Clearing Member)~~";~~ Self Referencing Transaction only." Immediately after the word "excluding" in the final paragraph thereof;

~~(F)~~(E) Section 9.1(f) (*Creation of New Transactions and Termination of Existing Transactions*) is amended by ~~deleting~~inserting the words "if the relevant Self Referencing Transaction is a Clearing Member Self Referencing Transaction" immediately after the words "other than the affected Clearing Member";" in the first paragraph thereof; and

~~(G)~~(F) Each reference to "affected Clearing Member" in Section 9.1 (*Occurrence of Self Referencing Transaction*) is deleted and replaced with a reference to "relevant Clearing Member".

(c) Costs of LCH.Clearnet SA

The cost of the associated bid/offer spread and any reasonable out-of-pocket costs and expenses of LCH.Clearnet SA in connection with such auction(s) or any alternative action shall be allocated to the CCM Client Collateral Account or the FCM Client Collateral Account as applicable.



LCH.Clearnet SA CDS Clearing Procedures Section 2 – Margin and Price Alignment Interest

~~16 December 2014~~



Capitalised terms used in this Margin and Price Alignment Interest Procedure and not otherwise defined herein shall have the meaning given pursuant to the remainder of the CDS Clearing Documentation, as such term is defined in the document entitled "CDS Clearing Rule Book" published by LCH.Clearnet SA, as amended from time to time.

2.1 Overview

All Clearing Members are required to pay Margin to LCH.Clearnet SA.

Further information about the Margin components and the calculation methodology in respect of each such component set out in this Section 2 is available to Clearing Members on the secure section of the Website and through any reporting mechanism specified in a Clearing Notice and/or upon request from LCH.Clearnet SA's Risk Management Department on +33 1 70 37 10 43 or Lchclearnetsa_CDS_Risk@lchclearnet.com. Such information will be updated and/or re-issued following consultation with the Risk Committee.

Section 3 of the Procedures provides further detail of how Collateral should be transferred, and Cash Payments made, by Clearing Members to LCH.Clearnet SA.

2.2 Margin

(a) Margin Requirement

For each Margin Account of each Clearing Member, the Margin Requirement consists of the following components:

- (i) Initial Margin;
- (ii) Short Charge Margin;
- (iii) Recovery Risk Margin;
- (iv) Self-Referencing Protection Margin;
- (v) Interest Rate Risk Margin;
- (vi) Liquidity and Concentration Risk Margin;
- (vii) Wrong Way Risk Margin;
- (viii) Accrued Fixed Amount Liquidation Risk Margin;
- ~~(viii)~~ Credit Event Margin;
- ~~(ix)~~ Additional Margin;
- ~~(x)~~ in respect of the House Margin Requirement only: Credit Quality Margin; and
- ~~(xi)~~ Contingency Variation Margin;

Details of each of these components are set out below.

2.7 Initial Margin, Short Charge Margin, Self-Referencing Protection Margin, Recovery Risk Margin and Interest Rate Risk Margin and Wrong Way Risk Margin

Initial Margin, Short Charge Margin, Self-Referencing Protection Margin, Recovery Risk Margin ~~and~~, Interest Rate Risk Margin and Wrong Way Risk Margin cover the potential costs caused by a Defaulting Clearing Member and/or a double Event of Default, i.e. a combined Credit Event of a Reference Entity and a Clearing Member Event of Default (in which the Clearing Member is a CDS Seller).

(a) Initial Margin

The Initial Margin is calculated using the Value-at-Risk (VaR) model which is based on the following principles: at the Margin Account level, a distribution of potential losses is built from simulated scenarios based on the joint credit spread variations observed in the past. LCH.Clearnet SA then determines the Initial Margin based on a quantile of the worst losses that the Margin Account could bear in the case of unfavourable credit spread fluctuations.

The Initial Margin calculated in respect of the House Margin Account covers the potential costs of liquidating House Cleared Transactions of the Defaulting Clearing Member whilst the Initial Margin calculated in respect of each Client Margin Account covers the potential costs of liquidating any Non-Ported Cleared Transactions attributable to such Client Margin Account. It covers the potential future credit spread fluctuations in case of unfavourable market movements under normal circumstances.

With respect to each Margin Account of each Clearing Member:

- (i) Cleared Transactions for which the relevant Clearing Member acts as CDS Buyer are treated as assets with positive liquidation value; and
- (ii) Cleared Transactions for which the relevant Clearing Member acts as CDS Seller are treated as liabilities with negative liquidation value.

(b) Initial Margin Floor

LCH.Clearnet SA may, by Clearing Notice, specify an Initial Margin Floor applicable to a particular CDS Type approved by the board of directors of LCH.Clearnet SA following consultation with the Risk Committee.

Where the calculation of Initial Margin would result in the Initial Margin for any Margin Account of a Clearing Member being less than the Initial Margin Floor, the Initial Margin requirement for such Margin Account shall be equal to the Initial Margin Floor.

(c) Short Charge Margin

Where a Clearing Member is acting as a CDS Seller, Short Charge Margin will be required to cover the risk that the Clearing Member is subject to an Event of Default at the same time as a Credit Event occurs with respect to a Reference Entity.

The Short Charge Margin is calculated using an algorithm, approved by the board of directors of LCH.Clearnet SA following consultation with the Risk Committee, based on the Open Positions registered in the relevant Margin Account of the Clearing Member.

(d) Self-Referencing Protection Margin

Where a Clearing Member is acting as a CDS Seller in respect of a Cleared Transaction for which such Clearing Member is, or becomes, the Reference Entity, Self-Referencing Protection Margin will be required to cover the protection that would have to be paid by LCH.Clearnet SA with respect to this Clearing Member should the Clearing Member be subject to an Event of Default.

The Self-Referencing Protection Margin is calculated using an algorithm, approved by the board of directors of LCH.Clearnet SA following consultation with the Risk Committee, based on the Open Positions registered in the relevant Margin Account of the Clearing Member.

(e) Recovery Risk Margin

Recovery Risk Margin covers the risk of future price fluctuations in case of unfavourable recovery rate movements under normal circumstances and when liquidating a Defaulting Clearing Member's portfolio of House Cleared Transactions or Non-Ported Cleared Transactions.

The Recovery Risk Margin is calculated using an algorithm, approved by the board of directors of LCH.Clearnet SA following consultation with the Risk Committee, based on the Open Positions registered in the relevant Margin Account of the Clearing Member.

(f) Interest Rate Risk Margin

Interest Rate Risk Margin covers the risk of future price fluctuations in case of unfavourable interest rate movements under normal circumstances and when liquidating a Defaulting Clearing Member's portfolio of House Cleared Transactions or Non-Ported Cleared Transactions.

The Interest Rate Risk Margin is calculated using an algorithm, approved by the board of directors of LCH.Clearnet SA following consultation with the Risk Committee, based on the Open Positions registered in the relevant Margin Account of the Clearing Member.

(g) Wrong Way Risk Margin

Wrong Way Risk Margin is required to cover the anticipated financial contagion effect that would arise in case of a Clearing Member being declared in default in accordance with Title IV Chapter 3 of the CDS Clearing Rule Book, such contagion effect triggering additional spread or correlation risk not currently captured by the Initial Margin.

The Wrong Way Risk Margin is calculated using an algorithm, approved by the board of directors of LCH.Clearnet SA following consultation with the Risk Committee, based on the Open Positions registered in the relevant Margin Account of the Clearing Member.

CDS Clear

LCH.Clearnet SA CDS Clearing Procedures Section 4 – Eligibility Requirements, Eligible Index Versions and Eligible Reference Entities

~~22.09.2014~~



Capitalised terms used in this Eligibility Requirements, Eligible Index Versions and Eligible Reference Entities Procedure and not otherwise defined herein shall have the meaning given pursuant to the remainder of the CDS Clearing Documentation or the ISDA Credit Derivatives Definitions, as such terms are defined in the document entitled "CDS Clearing Rule Book" published by LCH.Clearnet SA, as amended from time to time.

4.1 ELIGIBILITY REQUIREMENTS

- (a) LCH.Clearnet SA provides CDS Clearing Services in relation to Original Transactions which comply with the requirements set out in paragraph 4.1(c) below (the "**Eligibility Requirements**").
- (b) Following receipt from DTCC of the Gold Records File on a Weekly Backloading Start Day, LCH.Clearnet SA will extract the Original Transaction Data in relation to the relevant Backloading Transaction. Such Backloading Transaction will then be subject to the Eligibility Controls pursuant to Article 3.1.1.3 of the CDS Clearing Rule Book.
- (c) The following criteria shall constitute the Eligibility Requirements of an Original Transaction for the purposes of Section 3.1.1 (*Weekly Backloading Cycle*), Section 3.1.2 (*Daily Backloading Cycle*) and Section 3.1.4 (*Intraday Process*) of the CDS Clearing Rule Book:
 - (i) the relevant Clearing Member is not: (I) a Clearing Member that has been suspended in accordance with Section 2.4.1 (*Suspension*) of the CDS Clearing Rule Book; (II) a Defaulting Clearing Member; (III) a Clearing Member in respect of which a Payment Failure has occurred and is continuing; or (IV) a Clearing Member that is no longer permitted to introduce risk to LCH.Clearnet SA in accordance with Section 2.2.4 of the CDS Clearing Rule Book;
 - (ii) LCH.Clearnet SA is permitted, pursuant to Applicable Law, to clear such Original Transaction for the relevant Clearing Member's own account (or for that of its Client or Affiliate, as applicable);
 - (iii) the Original Transaction is:
 - (A) subject to paragraph 4.2 below, a CDS referencing an Index Version provided that the following requirements, as set out in the Eligible Index Versions List (as such term is defined in paragraph 4.2(~~ed~~) below) are met:
 - (1) the Index Version is an Eligible Index Version; (as such term is defined in paragraph 4.2(b) below); and
 - (2) the term is an Eligible Term (as such term is defined in paragraph 4.2(~~ed~~) below); or

- (B) subject to paragraph 4.3 below, a CDS referencing a single Reference Entity, provided that the following requirements are met:
- (1) the Reference Entity is an Eligible Reference Entity in respect of the relevant ISDA Credit Derivatives Definitions;
 - (2) the Reference Obligation is an Eligible Reference Obligation (as such term is defined in paragraph 4.3(b)(ii) below) for such Reference Entity in respect of the relevant ISDA Credit Derivatives Definitions;
 - (3) in respect of an Original Transaction which incorporates the Credit Derivatives Physical Settlement Matrix: the Transaction Type is ~~“Standard European Corporate”~~ an Eligible Transaction Type (as such term is ~~defined in the Credit Derivatives Physical Settlement Matrix~~ paragraph 4.3(b) below);
 - (4) in respect of an Original Transaction which does not incorporate the Credit Derivatives Physical Settlement Matrix: such Original Transaction is documented by a master confirmation which sets out terms which are substantially similar to those provided for in the Credit Derivatives Physical Settlement Matrix in respect of ~~a Standard European Corporate~~ an Eligible Transaction Type (as such term is defined in ~~the Credit Derivatives Physical Settlement Matrix~~ paragraph 4.3(b) below);
 - (5) the currency of denomination of the Floating Rate Payer Calculation Amount is Euros;
 - (6) the Fixed Rate is an Eligible Fixed Rate for such Reference Entity (as such term is defined in paragraph 4.3(b)(i) below);
 - (7) the Fixed Rate Payer Payment Dates are 20 March, 20 June, 20 September and 20 December (each such date, a **“Standard Payment Date”**);
 - (8) the Scheduled Termination Date is (x) on a day that is a Standard Payment Date; and (y) no later than the first Standard Payment Date after the day that is 10 years after the Clearing Day on which the Original Transaction was received by LCH.Clearnet SA; and
 - (9) the Reference Entity is neither the relevant Clearing Member, an Affiliate of the relevant Clearing Member nor, where the relevant Clearing Member has also entered into a Client Transaction corresponding to such Original Transaction, the relevant Client; or an Affiliate of the Client;

The requirements mentioned in sub-paragraphs (1), (2) and (6) are set out in the Eligible Reference Entities List (as such term is defined in paragraph 4.3(c) below).

For the avoidance of doubt, the requirements set out in this subparagraph 4.1(c)(iii) are checked solely on the basis of the Original Transaction Data received from an Approved Matching Provider or DTCC, as applicable. LCH.Clearnet SA is not aware of, and does not check, the actual terms of the confirmation of the Original Transactions.

- (iv) the Original Transaction references an Eligible Index Version or an Eligible Reference Entity which has a First Novation Date that has occurred on or prior to the Clearing Day on which the Original Transaction is received by LCH.Clearnet SA and a Novation Cut-off Date that has not occurred on or prior to such Clearing Day;
 - (v) in respect of an Intraday Transaction, the trade reference for each of the protection buyer and protection seller, in respect of such Original Transaction, to be used when booking the trade in DTCC has been included together with the Transaction Data; and
 - (vi) in respect of a Daily Backloading Transaction, the Daily Backloading Novation Day does not fall on the day preceding a Standard Payment Date;
- (d) The Eligibility Requirements shall be deemed satisfied if the relevant Original Transaction is not rejected, pursuant to the CDS Clearing Rule Book, prior to the Novation Time.
- (e) If the Eligibility Requirements set out in paragraphs 4.1(c) above are deemed satisfied at the Novation Time in respect of an Original Transaction, pursuant to paragraph 4.1(d) above, then LCH.Clearnet SA shall, in accordance with Section 3.1.1. (*Weekly Backloading Cycle*), Section 3.1.2 (*Daily Backloading Cycle*) and Section 3.1.4 (*Intraday Process*) of the CDS Clearing Rule Book, as applicable, novate such Original Transaction in accordance with Section 3.1.6 (*Novation Process*) of the CDS Clearing Rule Book.
- (f) For the avoidance of doubt, Article 3.1.6.4 of the CDS Clearing Rule Book shall apply regardless of whether the Eligibility Requirements were in fact satisfied.

4.2 ELIGIBLE INDEX VERSIONS

(a) "Index Version" is defined as a version of a CDS index series as issued by the Index Publisher.

~~(a)~~(b) LCH.Clearnet SA will, in consultation with the CDSClear Product Committee, identify the Index Versions which shall be considered as "**Eligible Index Versions**".

~~(b)~~(c) With respect to each Eligible Index Version, LCH.Clearnet SA will, in consultation with the CDSClear Product Committee, determine, without limitation, each term which is eligible for clearing (an "**Eligible Term**").

~~(c)~~(d) The Eligible Index Versions identified in accordance with paragraph 4.2(a) as well as the Eligible Terms shall be set out in a table published on the Website (the "**Eligible Index Versions List**").

~~(d)~~(e) LCH.Clearnet SA may, in consultation with the CDSClear Product Committee, amend the Eligible Index Versions List by issuing and following such amendment will inform the Clearing Notice. ~~Any such Clearing Notice shall specify~~Members of:

- (i) in the case of an addition of an Eligible Index Version to such list, the relevant First Novation Date; or
- (ii) in the case of a deletion of an Eligible Index Version from such list, the relevant Novation Cut-off Date.

~~(e)~~(f) Notwithstanding the above:

- (i) a Novation Cut-off Date or a First Novation Date arising as a result of the occurrence of a Credit Event or a Succession Event shall be determined in accordance with the CDS Clearing Supplement; and
- (ii) if and for so long as any Clearing Member has one or more Open Position(s) registered in any of its Margin Accounts, such Clearing Member may submit for clearing an Original Transaction which does not meet the Eligibility Requirements set out in paragraph 4.1(c)(iv) pursuant to the CDS Clearing Documentation if such Original Transaction is a risk reducing transaction (as determined by LCH.Clearnet SA) in respect of the relevant Margin Account and it is not unlawful or illegal for LCH.Clearnet SA to accept such Original Transaction for clearing.

4.3 ELIGIBLE REFERENCE ENTITIES

(a) LCH.Clearnet SA will, in consultation with the CDSClear Product Committee, identify the Reference Entities which shall be considered as “**Eligible Reference Entities**” under each of the 2003 ISDA Credit Derivatives Definitions and the 2014 ISDA Credit Derivatives Definitions.

(b) With respect to each Eligible Reference Entity under the 2003 ISDA Credit Derivatives Definitions and/or the 2014 ISDA Credit Derivatives Definitions, LCH.Clearnet SA will, in consultation with the CDSClear Product Committee, determine, without limitation, the following characteristics:

- (i) each Fixed Rate that is eligible for clearing (an “**Eligible Fixed Rate**”);
- (ii) each Reference Obligation that is eligible for clearing (a “**Eligible Reference Obligation**”);
- (iii) the Reference Obligation under which the Cleared Transaction(s) on the Eligible Reference Entity will be registered (the “**CDSClear Preferred Reference Obligation**”) where no Standard Reference Obligation is published for this Eligible Reference Entity; ~~and~~

(iv) The Transaction Type that will be eligible for clearing with respect to each relevant Eligible Reference Entity (“the Eligible Transaction Type”); and

- (~~iv~~)(v) the date of publication of the Credit Derivatives Physical Settlement Matrix which the Cleared Transaction(s) on the Eligible Reference Entity will reference (the “**Relevant Physical Settlement Matrix**”).
- (c) The Eligible Reference Entities identified in accordance with paragraph 4.3(a) above as well as the characteristics mentioned in paragraph 4.3(b) above shall be set out in a table published on the Website (the “**Eligible Reference Entities List**”).
- (d) LCH.Clearnet SA may, in consultation with the CDSClear Product Committee, amend the Eligible Reference Entities List by issuing a Clearing Notice. Any such Clearing Notice shall specify:
- (i) in the case of an addition of an Eligible Reference Entity to such list, the relevant First Novation Date;
 - (ii) in the case of a deletion of an Eligible Reference Entity from such list, the relevant Novation Cut-off Date; or
 - (iii) in the case of an amendment to the characteristics of any Eligible Reference Entity, the Clearing Day on which such amendment shall take effect in accordance with Article 1.2.2.8 of the CDS Clearing Rule Book.
- (e) Notwithstanding the above:
- (i) a Novation Cut-off Date or a First Novation Date arising as a result of the occurrence of a Credit Event, a Succession Event or a Rename Event shall be determined in accordance with the CDS Clearing Supplement; and
 - (ii) if and for so long as any Clearing Member has one or more Open Position(s) registered in any of its Margin Accounts, such Clearing Member may submit for clearing an Original Transaction which does not meet the Eligibility Requirements set out in paragraph 4.1(c)(iv) pursuant to the CDS Clearing Documentation if such Original Transaction is a risk reducing transaction (as determined by LCH.Clearnet SA) in respect of the relevant Margin Account and it is not unlawful or illegal for LCH.Clearnet SA to accept such Original Transaction for clearing.

CDS Clear

**LCH.Clearnet SA
CDS Clearing Procedures
Section 5 - CDS Clearing Operations
16 December 2014
[•] 2015**



5.16 REPORTS

- (a) **Backloading Transaction Reports**
- (iii) **Collateral management reports**
- (C) **AC0110E Report**

"**AC0110E Report**" means the report described in this paragraph.

- (1) Initial and Global Financial Reports

"**Initial and Global Financial Reports**" means the Initial Financial Report and Global Financial Report sections of the AC0110E Report.

Description: LCH.Clearnet SA will send the Initial and Global Financial Reports to each Clearing Member using ~~Euro~~, non-Euro currencies, Bonds and shares, as Collateral.

(A) **Initial Financial Report**

"**Initial Financial Report**" means the section of the AC0110E Report described in this paragraph.

The Initial Financial Report contains the detail of available and allocated cash, bonds and shares and non Euro currencies, per market and per sub-account.

Timing: published by LCH.Clearnet SA before each ~~Collateral Call on each Business Day.~~ TARGET2 time slot on each Business Day and upon a Clearing Member crediting LCH.Clearnet SA TARGET2 Account as described under Section 3.7(f). In the latter case, it will only be made available to the relevant Clearing Member.

(B) **Global Financial Report**

"**Global Financial Report**" means the section of the AC0110E Report described in this paragraph.

The Global Financial Report contains details of the type of Eligible Collateral (ISIN code or code of non euro currency), and the related quotations, its value calculated in Euro, the applied haircut rate and its allocated and available amounts.

Timing: published by LCH.Clearnet SA before each ~~Collateral Call~~ TARGET2 time slot on each Business Day and upon a Clearing Member crediting LCH.Clearnet SA TARGET2 Account as described under Section 3.7(f). In the latter case, it will only be made available to the relevant Clearing Member.

5.18 END OF DAY PRICE CONTRIBUTION

5.18.5 Trade crossing

In order to validate the Market Data submitted by Price Contribution Participants in accordance with this Paragraph 5.18, LCH.Clearnet SA shall require Price Contribution Participants to undertake trade crossing in accordance with Article 4.2.7.7 of the CDS Clearing Rule Book.

(a) Firm Days

LCH.Clearnet SA shall determine a number of "Firm Days" being the last Clearing Day of each quarter and 30 other Clearing Days in any calendar year chosen at LCH.Clearnet SA's sole discretion, and shall communicate such Firm Days to Price Contribution Participants promptly after the closure of the submission window at 16:35 on each such Firm Day.

(b) Determination of cross trades

The Index Publisher will inform LCH.Clearnet SA on each Business Day where prices submitted by Price Contribution Participants in accordance with this Paragraph 5.18 do not reflect the quoted daily spread for a particular CDS. On each Firm Day, Price Contribution Participants whose price(s) do not reflect the quoted daily spread for a particular CDS on such Firm Day will be required to execute a CDS with another Price Contribution Participant on pre-determined terms, as set out in Paragraph 5.18.5(c) below. CDS must be executed by a Price Contribution Participant prior to End of Day on the Clearing Day following the relevant Firm Day.

(c) Terms of cross trades

LCH.Clearnet SA shall notify the relevant Price Contribution Participant of the following required CDS terms by issuing a Cross Trade Report in accordance with Paragraph 5.16(c)(iii) above:

- ~~• trade reference identifier;~~
- ~~• CDS Type;~~
- Index Version or Reference Entity as applicable
- Red code
- Original Notional Amount; or Floating Rate Payer Calculation Amount as applicable
- Currency
- Fixed Rate
- Fixed Rate Payer
- Floating Rate Payer
- Scheduled Termination Date
- applicable ISDA Credit Derivatives Definitions
- Initial Payment Amount;
- ~~• transaction date; and~~
- ~~• Price Contribution Participant counterparty.~~

- Initial Payment Payer
- Initial Payment Receiver
- Transaction Type

(d) Notification of execution

Price Contribution Participants required to execute cross trades in accordance with this Paragraph 5.18.5 must provide LCH.Clearnet SA with the DTCC trade reference identifier (TRI) before End of Day on the Clearing Day following the relevant Firm Day by emailing this to LCH.Clearnet SA's Operations department at lchclearnetsa_do_cds@lchclearnet.com.