

VIA CFTC PORTAL

28 April 2016

Mr Christopher Kirkpatrick
Commodity Futures Trading Commission
115 21st Street NW
Three Lafayette Centre
Washington DC 20581

LCH.Cleernet Limited Self Certification : Portfolio Margining Rule Changes

Dear Mr Kirkpatrick

Pursuant to CFTC regulation §40.6(a), LCH.Cleernet Limited ("LCH"), a derivatives clearing organization registered with the Commodity Futures Trading Commission (the "CFTC"), is submitting for self-certification changes to its rules to allow portfolio margining between its SwapClear over the counter ("OTC") interest rate derivatives and its Listed Rates on-exchange interest rate derivatives services. This will be offered to SwapClear Clearing Members ("SCMs") which are Listed Rates Clearing Members and will not initially be available to Futures Commission Merchants ("FCMs").

Part I: Explanation and Analysis

LCH operates both SwapClear, an OTC interest rate derivatives clearing service, and Listed Rates, an on-exchange interest rate derivatives clearing service, which currently clears contracts traded on NASDAQ OMX NLX ("NLX"). NLX is an investment firm authorised by the UK Financial Conduct Authority to operate a multilateral trading facility ("MTF"). LCH has provided clearing services to NLX since the latter's launch in 2013. LCH has identified that certain Listed Rates contracts (short term interest rate futures ("STIRS")) are economically correlated with certain SwapClear contracts and therefore proposes to offer an optional service to qualifying SCMs and their Clients to portfolio margin these contracts (the "Portfolio Margining Service"). In order to participate in the service the SCM must also be a Clearing Member of the Listed Rates Service. A qualifying SCM may portfolio margin SwapClear contracts and eligible Listed Rates contracts held in its Proprietary Accounts. A Client of an SCM may also participate in the service where it has the same kind of Client Account, with the same Clearing Member in both the SwapClear and Listed Rates Services.

Once an SCM or its Client has opted into the Portfolio Margining Service LCH will not automatically commingle all SwapClear Contracts and all eligible Listed Rates Contracts. Instead, at the end of each business day LCH will use a margin calculation tool, known as the "Portfolio Margining Calculation Tool", to determine which eligible Listed Rates Contracts offer initial margin efficiencies when portfolio margined with SwapClear Contracts. Where the Portfolio Margining Calculation Tool identifies such margin efficiencies it will move the relevant Listed Rates

Contracts to be commingled with the SwapClear Contracts in the House or Client account of the SCM, at a predetermined time once a day. Transfers will be immediately reflected in LCH reports.

Currently, the SwapClear and Listed Rates services have separate, segregated default funds and default waterfalls, in order to offer this service, LCH will be creating a single default fund and a single set of default management arrangements for the SwapClear and Listed Rates services. As participation in the Portfolio Margining Service is optional, the combined default fund will be divided into two margin classes: the OTC Rates Class for SwapClear participants and any Clearing Member opted into the Portfolio Margining Service; and the Listed Rates Class for any Clearing Member that participates in the Listed Rates service only. Should a Clearing Member of either margin class default, the default will be managed by a single Default Management Group ("DMG"), which will act dependent on which margin class the defaulting Clearing Member was in and which clearing services it was active in. This will also allow LCH to apply the financial resources of the defaulted and non-defaulted Clearing Members accordingly.

Accordingly, the following principles will be applied to the application of financial resources:

- where a default occurs only in respect of one margin class, financial resources contributed by non-defaulting Clearing Members of the defaulting margin class will be required to absorb losses ahead of non-defaulting Clearing Members of the non-defaulting margin class;
- the Listed Rates margin class is subdivided into a subclass of Clearing Members participating in the Portfolio Margining Service ("Listed Rates Portfolio Margining sub class") and a sub class of all other members of the Listed Rates Class ("Listed Rates-only sub class");
- funded financial resources should be exhausted before assessments are applied; and
- where a default occurs in respect of both margin classes: (i) losses must be attributed by margin class in accordance with the foregoing principles above; and (ii) financial resources contributed by the non-defaulting portfolio margining members of the Listed Rates Portfolio Margining sub class must absorb losses ahead of non-defaulting clearing members in the Listed Rates-only class.

Included as **Appendix VI** are the three possible waterfall scenarios which will be able to occur following these rule changes. The scenarios are (i) a default by a SwapClear-Only Clearing Member; (ii) a Listed Rates-only Clearing Member; and (iii) a default by a Joint Rates Service Clearing Member.

LCH has, separately of this self certification, made a request for an order under section 4d(f)(3)(B) of the CEA, to permit LCH to extend this service to qualifying FCM Clearing Members and their FCM Clients. Should this request be granted, LCH will submit for self-certification further changes to its rules.

The rule changes will go live on, or after, May 23, 2016.

Part II: Description of Rule Changes

To introduce portfolio margining for SCMs, and Listed Rates Clearing Members LCH will be making changes to the following sections of its rulebook:

1. General Regulations
2. Default Rules
3. Procedures Section 2C (SwapClear)
4. Procedures Section 2J (NLX Clearing Service)
5. Product Specific Contract Terms

General Regulations

A number of sections and definitions have been updated to change references from SwapClear to Rates Service, which denotes the combined SwapClear and Listed Rates clearing services.

A number of portfolio margining specific definitions have also been added.

Regulation 5 has been amended to correct cross referencing between the General Regulations and the Default Rules.

Regulation 52(e) has been amended to update the exclusion of liability to include the Portfolio Margining Service.

Regulation 57 and 57A have been amended to include Portfolio Margined Contracts in the aggregation of amounts payable by or to the Clearing House with SwapClear Contracts.

Regulation 59 has been amended to set out that the Portfolio Margining Service shall be provided in accordance with the terms of the Procedures.

Regulation 95 has been updated throughout to amend cross referencing within the General Regulations to provisions added or amended for the Portfolio Margining Service.

Default Rules

A number of sections have been updated to change references from SwapClear to Rates Service, which denotes the combined SwapClear and Listed Rates clearing services.

A number of definitions denoting the creation of a combined default fund for the Rates Service, as well as portfolio margining specific definitions, have been added.

Schedule 1 has been amended to require the Clearing House to combine into a single Client Clearing Default Management Process ("DMP") the contracts of clients participating in the Portfolio Margining Service, in the event that those clients' SCM defaults. Section 4.4. has been amended to clarify that any Backup Clearing Member of those clients participating in the Portfolio Margining Service must also be a Portfolio Margining Clearing Member.

Schedule 2 has been amended to describe the DMP for the combined Rates Service. Section 2 of this Schedule has been amended to set out the auction process for Rates Service Clearing House Business and Rates Service Client Clearing Business. This includes the process for splitting portfolios and particularly the formation of "Basis Portfolios" which will transfer all futures risk associated with Portfolio Margined Contracts into OTC-equivalent risk and an OTC-futures basis position. OTC Auction Portfolios (which will not contain any futures risk) will be auctioned to Non-Defaulting SCMs, whilst each Basis Portfolio will be auctioned to Non-Defaulting Joint Rates Service Clearing Members. Auction Incentive Pools ("AIPs") will continue to be used for OTC Auction Portfolios for the purposes of providing an initial allocation of the resources potentially available to satisfy Auction Losses. AIPs will not include contributions of any Listed Interest Rates Clearing Members who is not a Joint Rates Service Clearing Member nor resources required to meet in full losses incurred in respect of Basis Portfolios. Section 2.5(b) sets out the allocation for each AIP, which is now dependent on whether the defaulter was a SwapClear-Only Clearing Member or Joint Rates Service Clearing Member. In each case, the losses will first be borne by the Non-Defaulting Clearing Members which are the same class as the Defaulting Clearing Member. Section 2.8 has been added to detail the loss attribution related to Exchange Closed-out Contracts. Section 2.9 has been added to detail the loss attribution related to Basis Portfolios. Please see **Appendix VI** for further information on the default waterfall scenarios created by these rule changes.

Schedule 6 has been updated to describe how the amount of the combined Rates Service Default Fund is determined, the steps to be followed in the event that the losses arising from a default exceed the prefunded resources available to the Clearing House in respect of the Rates Service, and the process to replenish the Rates Service default fund after the completion of a default management process. Please see **Appendix VI** for further information on the default waterfall scenarios created by these rule changes.

Part B of Schedule 6 has been added to describe how the contributions to the Rates Service Default Fund by each Clearing Member of the SwapClear Service are calculated, to set out the circumstances in which Unfunded

Contributions may be called from Non-Defaulting Clearing Members of the SwapClear service during a default and to set out how these Unfunded Contributions are calculated.

Part C of Schedule 6 has been added to describe how the contributions to the Rates Service Default Fund by each Clearing Member of the Listed Interest Rates Service are calculated, to set out the circumstances in which Unfunded Contributions may be called from Non-Defaulting Clearing Members of the Listed Interest Rates service during a default and to set out how these Unfunded Contributions are calculated.

Procedures Section 2C

A number of sections have also been updated to change references from SwapClear to Rates Service, which denotes the combined SwapClear and Listed Rates clearing services.

Section 1.27.8 has been amended to refer to the single Rates Service DMG.

Section 1.27.9 has been added to set out the procedures for the liquidation of Rates Service Contracts of Clearing Clients, and is a codification of current processes and extension to Portfolio Margining Service.

Section 1.27.10 has been added to require Rates Service Clearing Members to provide each Clearing Client with a copy of the Rates Service Default Management Disclosure Notice.

Section 2 has been added to describe the Portfolio Margining Service, to set out how a Clearing Member or its Clearing Client can opt into the service, the eligibility criteria for the service, the process for portfolio margining, that portfolio optimisation must be reversed before a transfer of positions takes place and the use of the Portfolio Margining Calculation Tool and the reports Clearing Members will receive in respect of this service.

Procedures Section 2J

Section 1.4.7 has been amended to describe changes in reporting for Clearing Members opted into the Portfolio Margining Service, which will show Clearing Members which trades have been comingled to provide margin efficiencies.

Section 1.10.3 has been added to require Listed Rates Clearing Members to provide each Clearing Client with a copy of the Rates Service Default Management Disclosure Notice.

Section 2 has been added to set out the Portfolio Margining Service as an optional service and mirror the provisions of Procedures Section 2C which are relevant for those Clearing Members opting into the service.

Product Specific Contract Terms

Schedule 7 has been added to set out those Listed Rate products which are eligible for the Portfolio Margining Service.

The text of the changes to General Regulations are attached hereto as **Appendix I**, the Default Rules are attached as **Appendix II**, Procedures Section 2C as **Appendix III**, Procedures Section 2J as **Appendix IV** and Product Specific Contract Terms as **Appendix V**.

Part III: Core Principle Compliance

LCH has reviewed the Portfolio Margining Service against the requirements of Core Principles D and G and finds that the service will continue to comply with all the requirements and standards therein.

LCH has concluded that compliance with the Core Principles will not be adversely affected by this change.

Part IV: Public Information

LCH has posted a notice of pending certification with the CFTC and a copy of the submission on LCH's website at: <http://www.lch.com/rules-regulations/proposed-rules-changes>

Part V: Opposing Views

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

Certification

LCH 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 julian.oliver@lchclearnet.com.

Yours sincerely



Julian Oliver

Chief Compliance Officer

LCH.Clearnet Limited

Appendix I
General Regulations



**GENERAL REGULATIONS OF
LCH.CLEARNET LIMITED**

"Alternative Data"	has the meaning assigned to it in Section 2C1.27.2 of the Procedures
<u>"Annex"</u>	<u>means the Client Clearing Annex, the Rates Service DMP Annex, the RepoClear DMP Annex and the ForexClear DMP Annex</u>
"Applicable Law"	means any applicable statute, law, ordinance, regulation, rule and other instruments in force from time to time, including the rules, codes or practice of a Governmental Authority or Regulatory Body.
"Applied Collateral Excess Proceeds"	means, where the Clearing House has sold, disposed of or appropriated all or any part of the non-cash Collateral held by a Clearing Member with the Clearing House in an exercise of its powers under the Deed of Charge entered into with the relevant Clearing Member, the amount (if any) of realisation proceeds from such sale or disposal remaining after the Clearing House has applied the same in or towards discharge of the Clearing Member's obligations to the Clearing House or, in the case of an appropriation, an amount of such non-cash Collateral (or, where the amount in question is less than the minimum denomination of the relevant non-cash Collateral which can be delivered, cash) having a value equal to the excess (if any) of the value of the appropriated non-cash Collateral (as determined by the Clearing House in accordance with the relevant Deed of Charge) over the Clearing Member's obligations to the Clearing House which have been discharged by that appropriation
"Applied FCM Buffer"	has the meaning assigned to it in the FCM Regulations
"approved agent"	means a person appointed by the Clearing House to perform certain functions on its behalf in respect of an ATP
"Approved Broker"	means a person authorised by the Clearing House to participate as a broker in the LCH EnClear service
"Approved Compression Services Provider (ACSP)"	means an entity other than the Clearing House which is approved by the Clearing House for the facilitation of Multilateral Compression in relation to eligible SwapClear Contracts in accordance with Regulation 56 and relevant Compression Documentation.
"Approved EquityClear Settlement Provider ("ASP")"	means the operator of the securities depository and/or securities settlement system prescribed by the Clearing House from time to time for the provision of settlement services in respect of specified EquityClear Contracts
"Approved EquityClear	means any trading platform approved as such from time to

"Auction Portfolio"	has the meaning assigned to it in the Default Rules
"Automated Trading System"	means an automated trading system in respect of which the Clearing House has an agreement with the operator thereof and in respect of which the Clearing House has notified RepoClear Participants in accordance with the Procedures
"Automatic Early Termination Event"	has the meaning ascribed to such term in Rule 5 of the Default Rules
"Backup Clearing Member"	means the Clearing Member(s) indicated by a Clearing Client as acting as such and notified to the Clearing House from time to time
"Backup Client"	means an Indirect Segregated Account Clearing Client identified by a Clearing Member to the Clearing House for the purposes of a transfer of Related Contracts and Collateral pursuant to a Client to Client Porting
"Backload Registration Cycle"	has the meaning assigned to it in the Procedures
"Backloaded Registration Trade"	has the meaning assigned to it in the Procedures
"Block IRS Trade"	Means a trade the notional amount of which is at or above the minimum block size established by the CFTC pursuant to CTFC Regulation 43.6 for the interest rate asset class and in effect as of the date of submission of such trade to the Clearing House for registration
"Board"	means the board of directors or other governing body (whether called a board, a committee or otherwise) of an Exchange
"Bond Trade"	means a trading activity in which a RepoClear Participant offers to sell RepoClear Eligible Securities, and another RepoClear Participant offers to purchase those RepoClear Eligible Securities, and a trade subsequently ensues
"Business"	means any transactions, liabilities or obligations arising out of any contract and includes, in relation to the relevant Services, Commodities Business, Equities Business, ForexClear Business, Listed Interest Rate Business , RepoClear Business and SwapClear Rates Service Business
"business day"	means in respect of a Cleared Exchange Contract, an OTC Contract (except where specified otherwise in the relevant OTC Contract Terms), an LCH EnClear Contract (except where specified otherwise in the LCH EnClear Contract Terms), and an EquityClear Contract a day on which the

Clearing House is open for business

"buyer"	means a Member (or the Clearing House where the context so requires) who is a buyer under the terms of an exchange contract, a Cleared Exchange Contract, a LSE Derivatives Markets Cleared Exchange Contract, a RepoClear Transaction, a RepoClear Contract, a RepoClear GC Transaction, a RepoClear GC Contract, an EquityClear ATP Match, an EquityClear Novation Transaction or an Eligible EnClear Trade, as the case may be
"Capped Amount"	has the meaning as described in Default Rule 15(c)
"Carrying Clearing Member"	means (a) a SwapClear Clearing Member that has a Client Account in respect of one or more SwapClear Clearing Clients, and from which Relevant SwapClear Contracts and the relevant Associated Collateral Balance(s) may be transferred to a Receiving Clearing Member pursuant to Regulation 60 of these Regulations and in accordance with the Procedures or (b) in respect of a transfer as described in sub-paragraph (ii) of the definition of "Receiving Clearing Member", an FCM Clearing Member
"CEA"	has the meaning assigned to it in the Default Rules
"CFTC"	has the meaning assigned to it in the Default Rules
"CFTC Regulations"	has the meaning assigned to it in the FCM Regulations
"Cleared Exchange Contract"	means a Contract entered into by the Clearing House on the terms of an exchange contract
"Clearing Agreement"	means in relation to Client Clearing Business entered into by a Clearing Member in respect of any Service, suitable contractual arrangements between the Clearing Member and its Clearing Client in relation to the relevant Client Clearing Service
"Clearing Client"	means any RepoClear Clearing Client, SwapClear Clearing Client, EquityClear Clearing Client, LCH EnClear Clearing Client, Turquoise-LSE Derivatives Market Clearing Client, Nodal Clearing Client, ForexClear Clearing Client or NLX Clearing Client. For the avoidance of doubt, the reference to LCH EnClear Clearing Client includes a Customer (as such term is defined in Procedure 2E 1.4 in respect of LCH EnClear Services)
"Clearing House"	means LCH.Clearnet Limited whose registered office is located at Aldgate House, 33 Aldgate High Street, London EC3N 1EA, United Kingdom

Client Buffer

- "Client Clearing Business"** means each of RepoClear Client Clearing Business, SwapClear Client Clearing Business, EquityClear Client Clearing Business, LCH EnClear Client Clearing Business, LSE Derivatives Markets Client Clearing Business, NODAL Client Clearing Business, ForexClear Client Clearing Business and NLX Client Clearing Business
- "Client Clearing Default Management Process"** means the processes of the Clearing House outlined in the Client Clearing Annex to the Default Rules and includes the ~~SwapClear Rates Service~~ DMP in relation to any Contract which is a SwapClear Contract and/or Listed Interest Rates Contract in respect of ~~SwapClear Rates Service~~ Client Clearing Business, the RepoClear DMP in relation to any Fixed Income Contract in respect of RepoClear Client Clearing Business and the ForexClear DMP in relation to any Contract which is a ForexClear Contract in respect of ForexClear Client Clearing Business
- "Client Clearing End-User Notice"** means the Client Clearing End-User Notice as specified by the Clearing House from time to time
- "Client Clearing Entitlement"** has the meaning assigned to it in the Client Clearing Annex to the Default Rules
- "Client Clearing Services"** means SwapClear Client Clearing Services, RepoClear Client Clearing Services, EquityClear Client Clearing Services, LCH EnClear Client Clearing Services, LSE Derivatives Markets Client Clearing Services, NODAL Client Clearing Services, ForexClear Client Clearing Services, NLX Client Clearing Services or FCM Clearing Services
- "Client Excess"** means (i) in respect of a Client Account other than an Omnibus Gross Segregated Account, that part of the Clearing Member Current Collateral Balance which is in excess of the Total Required Margin Amount for such account; and (ii) in respect of an Omnibus Gross Segregated Clearing Client or a group of Combined Omnibus Gross Segregated Clearing Clients, that portion of the amount by which the Clearing Member Current Collateral Balance for such account exceeds the Total Required Margin Amount for such account which is referable to such Omnibus Gross Segregated Clearing Client or Combined Omnibus Gross Segregated Clearing Clients (as applicable) as notified to the Clearing House by the relevant Clearing Member in the relevant Client Excess Spreadsheet
- "Client Excess Spreadsheet"** has the meaning given to the term in Section 1.10 (*Client*

Excess Spreadsheet) of Procedure 4 (*Margin and Collateral*) of the Clearing House's Procedures

"Client to Client Porting"

means the transfer to the appointed Backup Client of all of the open Related Contracts and the balance of the Collateral recorded by the Clearing House as being credited to the relevant Indirect Omnibus Segregated Account

"closing-out contract"

means for the purposes of these Regulations, a contract effected by or on behalf of the Clearing House and registered in a Member's name, being a contract on the same terms (except as to price or premium) as an open contract in the Member's name, save that where the Clearing House is a buyer or a fixed rate payer, as the case may be, under the terms of such open contract the Clearing House shall be a seller or floating rate payer, as the case may be, under the terms of such closing-out contract and vice-versa

"Compression Documentation"

~~means such documentation as may be prescribed from time to time by the Clearing House and/or any ACSP (where applicable) in relation to a Multilateral Compression Cycle or a SwapClear Clearing Member's participation in Multilateral Compression services, including:~~

~~(i) for a Member Compression Cycle, such agreements and documents as the Clearing House may require from all relevant SwapClear Clearing Members in relation to Multilateral Compression in accordance with the relevant Compression Proposal;~~

~~(ii) for an ACSP Compression Cycle, such agreements and documents as may be required by the nominated ACSP and/or the Clearing House in order to allow a SwapClear Clearing Member to receive the services of the ACSP and participate in that ACSP Compression Cycle; and~~

~~(iii) such other documentation as the Clearing House may prescribe from time to time in Procedures, user manuals or other guidance documentation regarding Multilateral Compression.~~

"CMS"

means the Clearing House's collateral management system

"Collateral"

means cash, gold and/or securities which are denominated in currencies and of a description acceptable to the Clearing House as prescribed by these Regulations and the Procedures and which have been transferred, or are to be transferred, to or by the Clearing House in or towards

Commodities Business, less (a) the proportion of the Capped Amount applicable to Commodities Business under Default Rule 15(c) and (b) any sums then immediately payable in respect of Commodities Business Default Losses owed by such Defaulter by any insurer or provider of analogous services under any policy of insurance or analogous instrument written in favour of the Clearing House

"Commodities Fund Amount" means the amount of the commodities default fund established from time to time pursuant to the Commodities Default Fund Supplement

"Commodities Service" means the clearing service of the Clearing House relating to Commodities Business

"Compression Documentation"

means such documentation as may be prescribed from time to time by the Clearing House and/or any ACSP (where applicable) in relation to a Multilateral Compression Cycle or a SwapClear Clearing Member's participation in Multilateral Compression services, including:

(i) for a Member Compression Cycle, such agreements and documents as the Clearing House may require from all relevant SwapClear Clearing Members in relation to Multilateral Compression in accordance with the relevant Compression Proposal;

(ii) for an ACSP Compression Cycle, such agreements and documents as may be required by the nominated ACSP and/or the Clearing House in order to allow a SwapClear Clearing Member to receive the services of the ACSP and participate in that ACSP Compression Cycle; and

(iii) such other documentation as the Clearing House may prescribe from time to time in Procedures, user manuals or other guidance documentation regarding Multilateral Compression.

"Compression Proposal"

means, in relation to any Multilateral Compression Cycle, the final statement as to the proposed set of Terminating SwapClear Contracts and the proposed set of resulting Post-Multilateral Compression Contracts, and, in relation to a SwapClear Clearing Member, references to Compression Proposal shall relate to such of the Terminating SwapClear Contracts and Post-Multilateral Compression Contracts as that SwapClear Clearing Member is or will become party to

<u>"Compression Time"</u>	<u>means, on the date designated by the Clearing House for a Multilateral Compression Cycle, the time at which the Clearing House effects a Multilateral Compression by terminating the Terminating SwapClear Contracts and simultaneously registering the Post-Multilateral Compression Contracts in the names of the SwapClear Clearing Members participating in that Multilateral Compression Cycle in accordance with the Compression Proposal</u>
"confirmed contract"	means an original exchange contract which has been confirmed to the Clearing House by or on behalf of a buyer and a seller pursuant to Regulation 13 or 14 and the Procedures, save that where one or more allocations of an original exchange contract have taken place in accordance with Regulation 14 and the Procedures a "confirmed contract" shall only arise when the last allocation of such original exchange contract has been made and confirmed by a Member pursuant to Regulation 14 and the Procedures
"Continuing Member "	has the meaning as described in Default Rule 26
"Contract"	means (i) a contract subject to the Regulations entered into by the Clearing House with a Member for the purposes of or in connection with the provision of clearing services including, without limitation, an open contract, settlement contract, re-opening contract or closing-out contract; and also (ii) in the case of the Default Rules (including the <u>SwapClear Rates Service</u> DMP Annex, RepoClear DMP Annex and ForexClear DMP Annex), the FCM Default Fund Agreement, and any other document, rule or procedure as specified by the Clearing House from time to time, an FCM Contract and an ATS Contract
"contract for differences"	means a Cleared Exchange Contract, an LSE Derivatives Markets Cleared Exchange Contract, an OTC Contract or an LCH EnClear Contract which is to be performed by cash settlement only
"Contribution"	means the contribution of a Clearing Member to a default fund of the Clearing House and includes, in each case in relation to the relevant Service, a Commodities Contribution, an Equities Contribution, a ForexClear Contribution, <u>a RepoClear Contribution and, in relation to the Rates Service, a Listed Interest Rates Contribution,</u> a RepoClear Contribution and a SwapClear Contribution
"Converting SwapClear Clearing Member"	has the meaning assigned to it in Regulation 57A
"Co-operating Clearing	means a clearing house party to an agreement with the

Clearing Client, if and to the extent that Client Excess is available in one or more other Individual Segregated Accounts held by such Clearing Member on behalf of the same Individual Segregated Account Clearing Client, a deduction by the Clearing House from the other Individual Segregated Account(s) of that Client Excess

"Cumulative Net Present Value"

has the meaning assigned to it in Regulation 57A

"daily settlement amounts"

means amounts due to the Clearing House from a Member or to a Member from the Clearing House, as the case may be, arising out of settlement of open contracts pursuant to Regulation 23 or Regulation 75, and the Procedures

"Dealer"

means a ForexClear Dealer, RepoClear Dealer and/or SwapClear Dealer, as the context may require

"Dealer Clearing Agreement"

means a ForexClear Dealer Clearing Agreement, RepoClear Dealer Clearing Agreement, and/or SwapClear Dealer Clearing Agreement, as the context may require

"Dealer Register"

means one or more of the Register of ForexClear Dealers, the Register of RepoClear Dealers and/or the Register of SwapClear Dealers, as the context may require

"Deed of Charge"

means a deed of charge entered into between a Clearing Member and the Clearing House in respect of all non-cash Collateral transferred to the Clearing House by that Clearing Member

"Default"

means the issue, in respect of a Clearing Member, of a Default Notice as provided for by Default Rule 3 or the occurrence, in respect of a Clearing Member, of an Automatic Early Termination Event

"Defaulter"

has the meaning assigned to it in Default Rule 4

"Defaulting Clearing Member"

means a Clearing Member who is a Defaulter

"Defaulting FXCCM"

means a FXCCM who is a Defaulter

"Defaulting Listed Interest Rates Clearing Member"

means a Listed Interest Rates Clearing Member who has defaulted

"Defaulting Rates Service Clearing Member"

means a Rates Service Clearing Member who is a Defaulter

"Defaulting RCM"

means a RCM who is a Defaulter

"Defaulting SCM "

means a SCM who is a Defaulter

"Segregated Clients"	to the Default Rules
"Economic Terms"	means that part of the SwapClear Contract Terms, RepoClear Contract Terms, RepoClear GC Contract Terms, EquityClear Contract Terms, LCH EnClear Contract Terms, or ForexClear Contract Terms as the case may require, designated as Economic Terms by the Clearing House from time to time
"Eligible EnClear Trade"	means a trade eligible for registration in the LCH EnClear Services
<u>"Eligible Listed Interest Rates Contracts"</u>	<u>means those Listed Interest Rates Contracts meeting the eligibility criteria in respect of Portfolio Margined Contracts as set out in the Product Specific Contract Terms and Eligibility Criteria Manual as published on the Clearing House's website from time to time</u>
"Eligible US Trading Venue"	means, in respect of a SwapClear Clearing Member, a US Trading Venue for which the Clearing House's records reflect that such SwapClear Clearing Member has completed the Clearing House's process for enabling the SwapClear Clearing Member to be eligible to submit (or have submitted on its behalf) a transaction executed on such US Trading Venue to the Clearing House for registration
"EMIR"	means Regulation (EU) No 648/2012 of the European Parliament and the Council of 4 July 2012 on OTC Derivatives, Central Counterparties, and Trade Repositories
"EONIA"	means in relation to a RepoClear Contribution, the overnight rate as calculated by the European Central Bank and appearing on the Reuters Screen EONIA Page (or, if such a rate is not available, such EONIA-linked rate as may be determined in light of market conditions at such time by the Clearing House and notified by the Clearing House to Clearing Members)
"Equities Business"	means any transaction, obligation or liability arising out of any Equities Contract
"Equities Clearing Member"	means a Clearing Member which engages in Equities Business and includes an EquityClear Clearing Member
"Equities Contract"	means any cash equity contracts, EquityClear (ccCFD) Contracts and equity derivative contracts cleared by the Clearing House
"Equities Contribution"	the amount of an Equities Clearing Member's Contribution

"EquityClear Open Offer"	means an EquityClear (Equities) Open Offer or EquityClear (ccCFD) Open offer
"EquityClear Regulations"	means those Regulations which apply to EquityClear Contracts as specified in Regulation 67
"EquityClear Service"	the service provided by the Clearing House under the EquityClear Regulations
"€GC Trade"	<p>means a trading activity in which a RepoClear Participant ("the First Participant") offers to sell (or buy) an agreed value of securities comprised in a €GC Basket (as defined in the Procedures), to be allocated in accordance with the RepoClear Procedures applicable to RepoClear €GC Contracts, and another RepoClear Participant ("the Second Participant") offers to buy (or sell, as the case may be) the securities so allocated, on the conditions that:</p> <p>(a) at the end of a specified period of time, the Second Participant sells (or buys, as the case may be) Equivalent Securities (as such term is used in the RepoClear €GC Contract Terms) and the First Participant buys (or sells, as the case may be) those Equivalent Securities; and</p> <p>(b) the understanding of the parties is that their obligations during the term of the transaction will be represented by a series of overnight repurchase transactions affected either through CBL's service under the AutoAssign Supplement, Euroclear's AutoSelect service or any other equivalent service provided by a triparty agent, as the case may be, as contemplated by the RepoClear Procedures applicable to RepoClear €GC Contracts,</p> <p>and a trade subsequently ensues</p>
"Excess Loss"	means in relation to any Relevant Business and any Default, the net sum or aggregate of net sums certified to be payable by the Defaulter by a Rule 19 Certificate in respect of the Relevant Business, less (a) the proportion of the Capped Amount applicable to the Relevant Business under Rule 15(c) and (b) any sums then immediately payable in respect of Default Losses for that Relevant Business by any insurer or provider of analogous services under any policy of insurance or analogous instrument written in favour of the Clearing House, and includes, in relation to the relevant Services, a Commodities Excess Loss, an Equities Excess Loss, a ForexClear Excess Loss, a Listed Interest Rates Excess Loss, a RepoClear Excess Loss and a SwapClear-Rates Service Excess Loss

"Exchange"	means an organisation (whether an exchange, association, company or otherwise) responsible for administering a futures, options, stock or other market, to which the Clearing House provides clearing services
<u>"Exchange Closed-out Contracts"</u>	<u>has the meaning assigned to it in the Rates Service DMP Annex</u>
"exchange contract"	means a class of contract (1) on the terms published from time to time by an Exchange and permitted to be made by a member of such Exchange on the market administered by that Exchange or otherwise in accordance with Exchange Rules, or (2) eligible for submission to the Clearing House for registration pursuant to the Exchange Rules. For the purposes of these Regulations "exchange contract" shall not include any class of contract capable of being made on the London Stock Exchange, or on any ATP
"Exchange Product Specific Eligibility Criteria"	means, as applicable, the relevant the relevant Nodal Contract Terms or the relevant NLX Contract Terms
"Exchange Rules"	means the rules, regulations, administrative procedures, Memorandum and Articles of Association or by-laws which regulate an Exchange and the market administered by it as notified from time to time to the Clearing House and, without prejudice to the generality of the foregoing, any regulations or directions made by the Board and any procedures, practices and administrative requirements of the Exchange. The term "Exchange Rules" shall include the LSE Derivatives Markets Rules, as the case may be, save where the context otherwise requires
"Exchange Transaction"	means an LSE Derivatives Markets Transaction, a Nodal Transaction or a NLX Transaction (as applicable)
"Executing Party"	means each person described as a party to a SwapClear Transaction or a FCM SwapClear Transaction (as applicable) in the details submitted to the Clearing House via the relevant Approved Trade Source System or FCM Approved Trade Source System (as applicable)
"Execution Terms"	means the terms (if any) that apply to a SwapClear Transaction relating to the registration or non-registration of such SwapClear Transaction
"Exempt Client Clearing Member"	means a Clearing Member to which, in the sole determination of the Clearing House, an Exempting Client Clearing Rule would apply upon such Clearing Member becoming a defaulter
"Exempting Client Clearing"	means, in relation to a Clearing Member, any law,

	accordance with the Regulations. In addition, a ForexClear Transaction shall include an FCM ForexClear Transaction where the relevant ForexClear Clearing Member is an executing party
"ForexClear Unfunded Contribution"	has the meaning assigned to it in Rule F8 of the ForexClear Default Fund Supplement
"ForexClear Unfunded Contribution Notice"	has the meaning assigned to it in Rule F8 of the ForexClear Default Fund Supplement
"ForexClear Voluntary Payment"	has the meaning assigned to it in Rule F10 of the ForexClear Default Fund Supplement
"ForexClear Voluntary Payment Notice"	has the meaning assigned to it in Rule F10 of the ForexClear Default Fund Supplement
"Fund Amount"	in relation to the Commodities Business <u>and</u> , the Equities Business and the Listed Interest Rate Business , has the meaning given to the term "Fund Amount" in the Supplement relating to each such Business and includes such amounts and the ForexClear Fund Amount, the General Fund Amount, the RepoClear Segregated Fund Amount and/or the <u>SwapClear Segregated Rates Service</u> Fund Amount as applicable
"GC Trade"	means a €GC Trade or a Term £GC Trade
"Governmental Authority"	means any: <ul style="list-style-type: none"> (a) governmental, inter-governmental, parliamentary or supranational body, entity, agency or department; or (b) regulatory, self-regulatory or other authority, in each case, which has jurisdiction over the Clearing House and/or, in respect of a Clearing Member, the relevant Clearing Member.
"Group Member"	has the meaning assigned to it in Regulation 60A(c)(i)(c)(i)
"Hedged Account"	has the meaning assigned to it in the FCM Regulations
"House Clearing Business"	means, in respect of SwapClear, SwapClear Clearing House Business and FCM SwapClear Clearing House Business, in respect of ForexClear, ForexClear Clearing House Business and FCM ForexClear Clearing House Business, in respect of RepoClear, RepoClear Clearing House Business and in respect of any other Service, Contracts entered into by a Clearing Member with the Clearing House on a proprietary

	an Indirect Omnibus Segregated Account
"Indirect Segregated Account Clearing Client"	means a Clearing Client acting on behalf of Indirect Clearing Clients comprising an Indirect Omnibus Segregated Account
"Individual Segregated Account"	means an account opened within the Clearing House by a Clearing Member or an FCM which enables the relevant Clearing Member or FCM (as applicable) to distinguish the assets and positions held for the account of an Individual Segregated Account Clearing Client from the assets and positions held for the account of its other clients, and which is designated by the Clearing House as an Individual Segregated Account
"Individual Segregated Account Balance"	means, in respect of an Individual Segregated Account Clearing Client, the Clearing Member Current Collateral Balance of the Individual Segregated Account held by the relevant Clearing Member on behalf of such client (together with any receivables, rights, intangibles and any other collateral or assets deposited or held with the Clearing House in connection with such an account)
"Individual Segregated Account Clearing Client"	means a Clearing Client in respect of whom the relevant Clearing Member clears Contracts with the Clearing House in an Individual Segregated Account
"Inflation Clearing Group"	has the meaning assigned to it in Regulation 60A(c)(i)
"Inflation Clearing Group Aggregate"	has the meaning assigned to it in Regulation 60A(c)(ii)
"Inflation FCM SwapClear Contract"	has the meaning assigned to it in the FCM Regulations
"Inflation SwapClear Contract"	means a SwapClear Contract of the type of Contracts which are identified as being Inflation SwapClear Contracts in the Product Specific Contract Terms and Eligibility Criteria Manual, which includes, in the case of the Default Rules (including the SwapClear-Rates Service DMP Annex but excluding, for the avoidance of doubt, the Client Clearing Annex), the FCM Default Fund Agreement and any other document, rule or procedure as specified by the Clearing House from time to time, an Inflation FCM SwapClear Contract
"Inflation Swap Business Day"	has the meaning assigned to it in Regulation 60A(c)(i) (f)(i)
"Inflation Swaps Operational Specifications "	means the operational specifications governing the provision of market data in relation to Inflation SwapClear

	Contracts, as may be amended by the Clearing House from time to time
"initial margin"	means an amount determined and published from time to time by the Clearing House with regard to each category of contract, in respect of which Members may be required to transfer to the Clearing House Collateral in accordance with these Regulations and the Procedures as a condition of registration of a contract by the Clearing House and otherwise in respect of all Contracts registered with the Clearing House, as prescribed by these Regulations and the Procedures
"Insufficient Resources Determination"	has the meaning assigned to it in Rule C10 of the Commodities Default Fund Supplement, Rule E10 of the Equities Default Fund Supplement, Rule L10 of the Listed Interest Rate Default Fund Supplement, Rule S11 of the SwapClear <u>CS5 of the Rates Service</u> Default Fund Supplement, Rule F11 of the ForexClear Default Fund Supplement, or Rule R11 of the RepoClear Default Fund Supplement, as applicable
"Intellectual Property Rights"	has the meaning assigned to it in Regulation 60A(c)(i) (j)
"IRS FCM SwapClear Contract"	has the meaning assigned to it in the FCM Regulations
"IRS SwapClear Contract"	means a SwapClear Contract of the type of Contracts which are identified as being IRS SwapClear Contracts in the Product Specific Contract Terms and Eligibility Criteria Manual, which includes, in the case of the Default Rules (including the SwapClear Rates Service DMP Annex but excluding, for the avoidance of doubt, the Client Clearing Annex), the FCM Default Fund Agreement and any other document, rule or procedure as specified by the Clearing House from time to time, an IRS FCM SwapClear Contract
<u>"Joint Rates Service Clearing Member"</u>	<u>means, for purposes of the Portfolio Margining Service, a clearing member who is both a SwapClear Clearing Member and a Listed Interest Rates Clearing Member</u>
"Key Tenors"	means the Key Tenors as set out in the Inflation Swaps Operational Specifications
"Key Tenors Market Data"	has the meaning assigned <u>to it</u> in Regulation 60A(l)
"LCH Approved Outsourcing Party"	means a party approved for these purposes by the Clearing House, as set out in the FCM Procedures
"LCH.Clearnet Group"	means the group of undertakings consisting of LCH.Clearnet Limited, LCH.Clearnet Group Limited,

LCH.Clearnet LLC, LCH.Clearnet (Luxembourg) S.a.r.l, LCH.Clearnet Service Company Limited and Banque Centrale de Compensation S.A. trading as LCH.Clearnet SA. (any references to a "**member**" of LCH.Clearnet Group Limited within these Regulations is to be construed accordingly)

"LCH EnClear Clearing Client"

means, in respect of LCH EnClear Client Clearing Business, an Individual Segregated Account Clearing Client or an Omnibus Segregated Clearing Client

"LCH EnClear Clearing House Business"

means LCH EnClear Contracts entered into by a LCH EnClear Clearing Member with the Clearing House on a proprietary basis and for its own account

"LCH EnClear Clearing Member"

means a Member who is designated by the Clearing House as an LCH EnClear Clearing Member eligible to clear LCH EnClear Contracts

"LCH EnClear Client Clearing Business"

means the provision of LCH EnClear Client Clearing Services by a LCH EnClear Clearing Member

"LCH EnClear Client Clearing Services"

means the entering into of LCH EnClear Contracts by a LCH EnClear Clearing Member in respect of its Individual Segregated Account Clearing Clients and/or its Omnibus Segregated Clearing Clients

"LCH EnClear Contract"

means a Contract entered into by the Clearing House with an LCH EnClear Clearing Member on any applicable set of Contract Terms prescribed in the LCH EnClear Regulations

"LCH EnClear Contract Terms"

means the relevant Contract Terms in respect of LCH EnClear Contracts as set out from time to time in the Product Specific Contract Terms and Eligibility Criteria Manual

"LCH EnClear Regulations"

means those Regulations which apply to LCH EnClear Contracts as specified in Regulation 73

"LCH EnClear Service"

means the service provided by the Clearing House under the LCH EnClear Regulations

"LCH EnClear Trading Platform" ("ETP")

means any trading platform approved as such from time to time by the Clearing House in respect of the LCH EnClear ~~service~~ [Service](#)

"LCIA Rules"

means the LCIA Arbitration Rules of The London Court of International Arbitration

"LIBOR"	means, in relation to a Contribution, the rate per annum (rounded upwards, if not already such a multiple, to the next whole multiple of one-sixteenth of one per cent) known as the British Bankers' Association Interest Settlement Rate for three-month deposits in sterling being offered to prime banking names in London at or about the time specified by the Procedures for fixing the rate of interest for the period for which interest is payable or, where no such rate is available, such rate as in the opinion of the Clearing House approximates thereto
"Link"	means the trading and/or clearing arrangements established by the Clearing House and a Co-operating Clearing House and, as the case may be, an Exchange in respect of one or more exchange contracts
"Link Agreement"	means an agreement entered into between the Clearing House and a Co-operating Clearing House and if applicable, an Exchange for the purposes of a Link
"Linked Member"	means an member of a Co-operating Exchange
"Listed Interest Rates Business"	means any transaction, obligation or liability arising out of a Listed Interest Rates Contract (which, for the avoidance of doubt, does not include for purposes of the Rates Service DMP Annex any Listed Interest Rates Contracts that are Portfolio Margined Contracts) means any transaction, obligation or liability arising out of a Listed Interest Rate Contract
<u>"Listed Interest Rates Clearing House Business"</u>	<u>means Listed Interest Rates Contracts entered into by a Listed Interest Rates Clearing Member with the Clearing House on a proprietary basis and for its own account</u>
"Listed Interest Rates Clearing Member"	means an NLX Clearing Member means a Clearing Member which engages in Listed Interest Rate Business
<u>"Listed Interest Rates Client Clearing Business"</u>	<u>means the provision of Listed Interest Rates Client Clearing Services by a Listed Interest Rates Clearing Member</u>
<u>"Listed Interest Rates Client Clearing Services"</u>	<u>means the entering into of Listed Interest Contracts by a Listed Interest Rates Clearing Member in respect of its Individual Segregated Account Clearing Clients and/or its Omnibus Segregated Clearing Clients</u>
"Listed Interest Rates Contract"	means any listed interest rate derivative contract cleared by the Clearing House
"Listed Interest Rates Contribution"	means the amount of a Listed Interest Rates Clearing Member's Contribution determined in accordance with <u>Part</u>

	B of the Rates Service the Listed Interest Rate Default Fund Supplement – Listed Interest Rates and shall include any relevant Unfunded Contributions and any relevant Supplementary Contribution deposited and made by the Listed Interest Rates Clearing Member with the Clearing House
"Listed Interest Rates Default Funds Supplement <u>Period</u>"	has the meaning ascribed to it in Rule L2 of part B of the Rates Service Default Fund Supplement – Listed Interest Rates means the Supplement relating to Listed Interest Rates Business
"Listed Interest Rates Determination Date"	has the meaning assigned to "Determination Date" in Rule L2(c) of the Listed Interest Rates Service Default Fund Supplement – Listed Interest Rates Default Fund Supplement
"Listed Interest Rates Excess Loss"	means the net sum or aggregate of net sums certified to be payable by a Defaulter by a Rule 19 Certificate in respect of Listed Interest Rates Business, less (a) the proportion of the Capped Amount applicable to Listed Interest Rates Business under Default Rule 15(c) and (b) any sums then immediately payable in respect of Listed Interest Rates Business Default Losses owed by such Defaulter by any insurer or provider of analogous services under any policy of insurance or analogous instrument written in favour of the Clearing House
"Listed Interest Rates Service"	means the clearing service of the Clearing House relating to Listed Interest Rate Business NLX Service
"lot"	means the standard unit or quantity prescribed by an Exchange, with the approval of the Clearing House, as the trading unit of an exchange contract. In relation to a contract other than an exchange contract, the standard unit or quantity prescribed by the relevant contract terms
"LSE"	means the London Stock Exchange plc or any successor in title
<u>"LSE Derivatives Markets Account"</u>	means an account maintained in the name of LSE plc by the Clearing House pursuant to Regulation 10 in which LSE Derivatives Markets Cleared Exchange Contracts may be registered pursuant to Regulation 77 or in such other circumstances as may be agreed between LSE and the Clearing House from time to time
"LSE Derivatives Markets	means, in respect of LSE Derivatives Markets Client Clearing Business, an Individual Segregated Account

Clearing Client"	Clearing Client or an Omnibus Segregated Clearing Client
"LSE Derivatives Markets Clearing House Business"	means LSE Derivatives Markets Cleared Exchange Contracts entered into by a LSE Derivatives Markets Clearing Member with the Clearing House on a proprietary basis and for its own account
"LSE Derivatives Markets Client Clearing Business"	means the provision of Turquoise Client Clearing Services by a LSE Derivatives Markets Clearing Member
"LSE Derivatives Markets Client Clearing Services"	means the entering into of LSE Derivatives Markets Cleared Exchange Contracts by a LSE Derivatives Markets Clearing Member in respect of its Individual Segregated Account Clearing Clients and/or its Omnibus Segregated Clearing Clients
"LSE Derivatives Markets Account"	means an account maintained in the name of LSE plc by the Clearing House pursuant to Regulation 10 in which LSE Derivatives Markets Cleared Exchange Contracts may be registered pursuant to Regulation 77 or in such other circumstances as may be agreed between LSE and the Clearing House from time to time
"LSE Derivatives Markets Cleared Exchange Contract"	means a Contract entered into by the Clearing House in accordance with the LSE Derivatives Markets Regulations
"LSE Derivatives Markets Clearing Member"	means a Member authorised by the Clearing House to participate in the LSE Derivatives Markets Service
"LSE Derivatives Markets Contract Specification"	means in respect of an LSE Derivatives Markets Eligible Product, the relevant contract specification set out in the LSE Derivatives Markets Rules.
"LSE Derivatives Markets Eligible Product"	means a product traded under the rules of the London Stock Exchange Derivatives Market which LSE has agreed from time to time with the Clearing House is to be cleared by the Clearing House pursuant to these Regulations
"LSE Derivatives Markets Orderbook"	means the electronic orderbook operated by LSE for the trading of LSE Derivatives Markets Eligible Products
"LSE Derivatives Markets Orderbook Match or Orderbook Match"	means a match made on the LSE Derivatives Markets Orderbook of two sets of LSE Derivatives Markets Trade Particulars submitted by or on behalf of two Members or a match made on the Combined LSE Derivatives Markets Orderbook of two sets of LSE Derivatives Markets Trade Particulars submitted by or on behalf of a Member and a Linked Member
"LSE Derivatives Markets OTC Trade"	means an OTC trade reported to LSE in accordance with its Rules for its OTC Service

"LSE Derivatives Markets Platform"	means LSE in its capacity as a recognised investment exchange
"LSE Derivatives Markets Regulations"	means those Regulations which apply to LSE Derivatives Markets Eligible Products as specified in Regulation 76
"LSE Derivatives Markets Rules"	means the rules, practices, procedures, trading protocols and arrangements of the LSE Derivatives Markets Platform as may be prescribed from time to time relating to LSE Derivatives Markets Eligible Products
"LSE Derivatives Markets Service"	the service provided by the Clearing House under the LSE Derivatives Markets Regulations
"LSE Derivatives Markets Trade Particulars"	means the trade particulars of an order submitted to the LSE Derivatives Markets Orderbook by or on behalf of a Member or, in the case of a Member which is a Co operating Clearing House, submitted to the Combined LSE Derivatives Markets Orderbook by or on behalf of a relevant Linked Member
"LSE Derivatives Markets Transactions"	means an Orderbook Match, LSE Derivatives Markets OTC Trade and Reported Trade Cross-Border Re-registration and a Cross-Border Transfer
"margin"	means initial margin and/or variation margin and any amounts required to be transferred and maintained under Regulation 20(a) (<i>Margin and Collateral</i>)
"Margin Cover"	has the meaning ascribed to such term in Default Rule 15(a)
"market"	means a futures, options, forward, stock or other market, administered by an Exchange, or an OTC market in respect of which the Clearing House has agreed with such Exchange or, in respect of an OTC market, with certain Participants in that market, to provide clearing services on the terms of these Regulations and the Procedures
"Market Data"	has the meaning assigned to it in Chapter XIV(f)(i)
"market day"	means in respect of a commodity, a day on which the market on which that commodity is dealt in is open for trading
"Market Deviation Notice"	has the meaning assigned to it in Chapter XIV(l)
"Member" or "Clearing Member"	(a) subject to (b) means an undertaking (including a firm or company) which is entitled to be party to Contracts with the Clearing House in accordance with a Clearing Membership Agreement and the Procedures or a Co-operating Clearing House,

where so agreed with the Co-operating Clearing House (as applicable). For the avoidance of doubt, the terms "**Member**" and "**Clearing Member**" for the purposes of these Regulations, Default Rules and Procedures, do not mean shareholder of LCH.Clearnet Limited or of any other undertaking in the LCH.Clearnet Group

- (b) "Clearing Member" includes or means (as the case may be) FCM Clearing Member for the purpose of the Default Rules (including the [SwapClear Rates Service](#) DMP Annex and the ForexClear DMP Annex), the FCM Default Fund Agreement and any other document, rule or procedure as specified by the Clearing House from time to time

"Member Compression Cycle" means a Multilateral Compression Cycle requested by two or more SwapClear Clearing Members and agreed to by the Clearing House in relation to eligible SwapClear Contracts held by those requesting SwapClear Clearing Members. For the avoidance of doubt, a Member Compression Cycle will not involve any ACSP

"MER" has the meaning assigned to it in Section 1.3.3 (*Trade Registration Facilitation: SwapClear Tolerance, Client Buffer and MER (Minimum Excess Requirement)*) of Procedure 2C (*SwapClear Clearing Service*) of the Clearing House's Procedures

"Minimum ForexClear Contribution" means USD 5,000,000

"Minimum Non-Tolerance SwapClear Contribution" means £10,000,000 (which, for the avoidance of doubt, excludes the £3,000,000 minimum amount payable by an SCM in respect of the SwapClear Tolerance Contribution Amount);

"Minimum RepoClear Contribution" means EUR 2,500,000

"Minimum RepoClear Contribution Member" means an RCM in respect of which the Preliminary RepoClear Contribution calculated under Rule R2 of the RepoClear Default Fund Supplement, is equal to or less than the Minimum RepoClear Contribution for the time being

"Minimum SwapClear Contribution Member" means an SCM in respect of which the SwapClear Non-Tolerance Contribution Amount calculated under paragraph (hf) of Rule [S2-S1 of Part A](#) of the [SwapClear Rates Service](#) Default Fund Supplement is equal to or less than the Minimum Non-Tolerance SwapClear Contribution

Segregated Clearing Clients

"Nodal Contract"	means a Contract entered into by the Clearing House with a Nodal Service Clearing Member pursuant to the Nodal Regulations
"Nodal Contract Terms"	means the terms of a Nodal Contract as set out from time to time in the Nodal contract specification provided in the Nodal Rules
"Nodal Eligible Derivative Product"	means a derivative product prescribed from time to time by the Clearing House as eligible for the Nodal Service
"Nodal Reference Price"	means a Reference Price in respect of a Nodal Contract
"Nodal Regulations"	means those Regulations which apply to Nodal Contracts as specified in Regulation 89
"Nodal Service"	means the service provided by the Clearing House under the Nodal Regulations
"Nodal Service Clearing Member"	means a Member who is designated by the Clearing House as eligible to clear Nodal Contracts
"Nodal Trading Facility"	means the facility, trading system or systems operated directly or indirectly by Nodal on which Nodal Eligible Derivative Products may be traded
"Nodal Transaction"	means a contract in a Nodal Eligible Derivative Product between Nodal Service Clearing Members arising or registered on a Nodal Trading Facility meeting the requirements of the Regulations and the Procedures
"Nodal Rules"	means the rules, practices, procedures, trading protocols and arrangements of the Nodal Trading Facility as the case may be and as may be prescribed from time to time relating to Nodal Eligible Derivative Products
"Nominated Group Member"	has the meaning assigned to it in Chapter XIV(k)
"Non-Defaulting FXCCM"	means an FXCCM which is not a Defaulter under Rule 4 of the Default Rules
<u>"Non-Defaulting Joint Rates Service Clearing Member"</u>	<u>means a Joint Rates Service Clearing Member which is not a Defaulter under Rule 4 of the Default Rules</u>
<u>"Non-Defaulting Rates Services Clearing Member"</u>	<u>means a Rates Service Clearing Member which is not a Defaulter under Rule 4 of the Default Rules</u>
"Non-Defaulting RCM"	means an RCM which is not a Defaulter under Rule 4 of the Default Rules

"Non-Defaulting SCM"	means an SCM which is not a Defaulter under Rule 4 of the Default Rules
"Non-Deliverable FX Transaction"	has the meaning given to it in the 1998 FX and Currency Option Definitions published by the International Swaps and Derivatives Association, Inc., the Emerging Markets Traders Association, and the Foreign Exchange Committee, or any successor organisations, as amended and updated from time to time
<u>"Non-Eligible Listed Interest Rates Contracts"</u>	<u>means those Listed Interest Rates Contracts other than Eligible Listed Interest Rates Contracts.</u>
"Non-Identified Client Omnibus Net Segregated Account"	means, in relation to a Relevant Client Clearing Business, an account opened within the Clearing House by the relevant Clearing Member on behalf of its Non-Identified Omnibus Segregated Clearing Clients which is designated by the Clearing House as a Non-Identified Client Omnibus Net Segregated Account but, for the avoidance of doubt, does not include any Omnibus Segregated Account comprising Determined Omnibus Net Segregated Clients
"Non-Identified Omnibus Segregated Clearing Client"	means, in relation to a Relevant Client Clearing Business, certain Omnibus Segregated Clearing Clients of the relevant Clearing Member or FCM whose identities are not recorded by the Membership department of the Clearing House and who are grouped together in an Omnibus Segregated Account which is not an Identified Client Omnibus Segregated Account or an Affiliated Client Omnibus Segregated Account of the Clearing Member but, for the avoidance of doubt, does not include any Determined Omnibus Net Segregated Clients
"Non-Member Market Participant ("NCP")"	means, in respect of a particular Service, a person, other than a Clearing Member in such Service, who meets the criteria set out in Procedure 1 (<i>Clearing Member, Non-Member Market Participant and Dealer Status</i>) and has been notified to the Clearing House in accordance with Regulation 7 (Non-Member Market Participant Status)
"Non-Performance Notice"	has the meaning assigned to it in Chapter XIV(m)
"Non-Performer"	has the meaning assigned to it in Section 2C1.27.4 of the Procedures
"NPV Reset"	has the meaning assigned to it in Regulation 57A
"Off-Market Provider"	has the meaning assigned to it in Section 2C1.27.4 of the Procedures
"official quotation"	means a price determined by the Clearing House under

	any agreement entered into with the Member
"OTC Contract Terms"	means the SwapClear Contract Terms in respect of SwapClear Contracts, the RepoClear Contract Terms in respect of RepoClear Contracts, the RepoClear Term £GC Contract Terms in respect of the RepoClear Term £GC Contracts, the RepoClear €GC Contract Terms in respect of RepoClear €GC Contracts and the ForexClear Contract Terms in respect of ForexClear Contracts
"OTC market"	means any dealings in an investment (as defined in section 22(1) and Schedule 2 Part II of the Financial Services and Markets Act 2000) which are entered into otherwise than on or subject to the rules of an Exchange
"OTC Service"	means a service provided by the Clearing House for the clearing of a category of OTC Contract
"OTC Transaction"	means a transaction being a SwapClear Transaction, RepoClear Transaction, RepoClear GC Transaction, Repo Trade, Bond Trade or GC Trade, or ForexClear Transaction
"Own Resources Provision"	means Article 35 of Commission Delegated Regulation (EU) No 153/2013 of 19 December 2012 supplementing Regulation (EU) No 648/2012 of the European Parliament and of the Council with regard to regulatory technical standards on requirements for central counterparties or any law, regulation, rule, official directive or guideline (having the force of law) which replaces, supplements, modifies, amends or varies such provision
<u>"Portfolio Margined Contracts"</u>	<u>means any Listed Interest Rates Contracts recorded in an Account of a Portfolio Margining Clearing Member related to SwapClear Clearing Business following the operation by the Clearing House of the Portfolio Margining Arrangements</u>
<u>"Portfolio Margining Arrangements"</u>	<u>means the operational provisions in respect of the Portfolio Margining Service as set out in Section 2.1 of the Rates Service DMP Annex</u>
<u>"Portfolio Margining Clearing Member"</u>	<u>means a Joint Rates Service Clearing Member who has opted in to the Portfolio Margining Service in accordance with Section 2C of the Procedures</u>
<u>"Portfolio Margining Client"</u>	<u>means, in respect of a Portfolio Margining Clearing Member, an Individual Segregated Account Clearing Client or an Omnibus Segregated Clearing Client which has been opted in to the Portfolio Margining Service in</u>

[accordance with Section 2C of the Procedures](#)

<u>"Portfolio Margining Service"</u>	means the portfolio margining service offered by the Clearing House pursuant to Regulation 59 and as more fully described at Section 2C of the Procedures
"Portfolios"	has the meaning assigned to it in the Default Rules
"Porting Window"	has the meaning assigned to it in the Client Clearing Annex to the Default Rules
"Porting Window Reduction"	has the meaning assigned to it in the Client Clearing Annex to the Default Rules
"Post-Compression Contracts"	means the Post-Multilateral Compression Contracts and/or any replacement SwapClear Contracts referred to in Regulation 56
"Post-Multilateral Compression Contracts"	means, in relation to a Compression Proposal, the SwapClear Contracts registered as a result of Multilateral Compression in accordance with such Compression Proposal
"premium"	means the consideration for the selling of an option payable by the buyer in accordance with these Regulations and the Procedures
"Price"	means in the case of: <ul style="list-style-type: none">(a) a contract on the terms of an exchange contract which is to be performed by delivery of a commodity, the consideration to be paid by the buyer in cash in the currency prescribed by the terms of the exchange contract, and in the case of an exchange contract which is a contract for differences, the valuation quoted as a price under its terms: or(b) an OTC Contract, the price calculated by the Clearing House in accordance with the Regulations and the Procedures; or(c) an EquityClear Contract, the consideration to be paid by the buyer in cash in the currency as set out in the ATP Match or EquityClear Novation Transaction information received by the Clearing House or its relevant approved agent; or(d) an LCH EnClear Contract, the price calculated by the Clearing House in accordance with the

"Quarter Start Date"	has the meaning assigned to it in Regulation 60A(c)
"Rate X" and Rate "Y"	means, in relation to a SwapClear Transaction or a SwapClear Contract, the outstanding payment obligations of each party to the transaction, such that Rate X comprises the outstanding payment obligations of one party to the other and Rate Y comprises the outstanding payment obligations of the other party to the first party
<u>"Rates Service"</u>	<u>means the SwapClear Service and the Listed Interest Rates Service</u>
<u>"Rates Service Business"</u>	<u>means SwapClear Business and/or Listed Interest Rates Business (as applicable)</u>
<u>"Rates Service Clearing House Business"</u>	<u>means SwapClear Clearing House Business and/or Listed Interest Rates Clearing House Business (as applicable)</u>
<u>"Rates Service Clearing Member"</u>	<u>means a Clearing Member which is a SwapClear Clearing Member and/or a Listed Interest Rates Clearing Member</u>
<u>"Rates Service Client Clearing Business" "</u>	<u>means SwapClear Client Clearing Business and/or Listed Interest Rates Client Clearing Business (as applicable)</u>
<u>"Rates Service Default Fund Supplement – Listed Interest Rates"</u>	<u>means the Supplement relating to Listed Interest Rates Business</u>
<u>"Rates Service Default Fund Supplement – SwapClear"</u>	<u>means the Supplement relating to the SwapClear Business</u>
<u>"Rates Service Default Management Disclosure Notice"</u>	<u>means the Rates Service Default Management Disclosure Notice as specified by the Clearing House from time to time</u>
<u>"Rates Service Default Management Process"</u>	<u>has the meaning assigned to it in the Rates Service DMP Annex in the Default Rules</u>
<u>"Rates Service Default Management Process Completion Date"</u>	<u>has the meaning assigned to it in the Rates Service DMP Annex in the Default Rules</u>
<u>"Rates Service Default Period"</u>	<u>means the Listed Interest Rates Default Period and/or SwapClear Default Period (as applicable)</u>
<u>"Rates Service Determination Date"</u>	<u>has the meaning assigned to it in the Rates Service DMP Annex in the Default Rules</u>
<u>"Rates Service DMG"</u>	<u>has the meaning assigned to it in the Rates Service DMP Annex in the Default Rules</u>

<u>"Rates Service DMP"</u>	<u>has the meaning assigned to it in the Default Rules</u>
<u>"Rates Service Excess Loss"</u>	<u>means the net sum or aggregate of net sums certified to be payable by a Defaulter by a Rule 19 Certificate in respect of Rates Service Business less (a) the proportion of the Capped Amount applicable to Rates Service Business under Rule 15(c) of the Default Rules and (b) any sums then immediately payable in respect of Rates Service Business Default Losses owed by such Defaulter by any insurer or provider of analogous services under any policy of insurance or analogous instrument written in favour of the Clearing House</u>
<u>"Rates Service Fund Amount"</u>	<u>has the meaning assigned to it in the Rates Service Default Fund Supplement</u>
<u>"Rates Service Fund Amount – Listed Interest Rate"</u>	<u>means the amount as determined in accordance with Rule CS2 of the Rates Service Default Fund Supplement</u>
<u>"Rates Service Fund Amount - SwapClear"</u>	<u>means the amount as determined in accordance with Rule CS2 of the Rates Service Default Fund Supplement</u>
<u>"Rates Service Voluntary Payment"</u>	<u>has the meaning assigned to it in Rule CS5. of the Rates Service Default Fund Supplement</u>
<u>"Rates Service Voluntary Payment Notice"</u>	<u>has the meaning assigned to it in Rule CS5. of the Rates Service Default Fund Supplement</u>
"Receiving Clearing Member"	means a SwapClear Clearing Member or an FCM Clearing Member nominated by one or more SwapClear Clearing Client(s) to receive the transfer of Relevant SwapClear Contracts and, where applicable, the relevant Associated Collateral Balance(s) held in respect of such SwapClear Clearing Client(s) from a Carrying Clearing Member pursuant to Regulation 60 of these Regulations and in accordance with the Procedures. For the avoidance of doubt, (i) an entity that is a SwapClear Clearing Client may also be a Receiving Clearing Member (other than a Receiving Clearing Member that is an FCM Clearing Member), and (ii) a Receiving Clearing Member that is not an FCM Clearing Member may be nominated to receive a transfer of FCM SwapClear Contracts and associated Collateral attributable to an FCM Client from a Carrying Clearing Member that is an FCM Clearing Member pursuant to Regulation 13 of the FCM Regulations (capitalised terms used in this sub-paragraph (ii) having the meanings set out in the FCM Regulations)

"Regulations"	means the Clearing House's General Regulations which include the Default Rules, and Clearing House Settlement Finality Regulations, from time to time in force
"Regulatory Body"	means the Bank of England, the Secretary of State, the Prudential Regulation Authority, the Financial Conduct Authority or professional body designated under Part XX of the Financial Services and Markets Act 2000 or other body given regulatory powers under that Act, the Commodity Futures Trading Commission of the United States (CFTC) or any other body or authority, in each case, that has jurisdiction to exercise in relation to the provision or use of clearing services a regulatory or supervisory function over the Clearing House and/or, in respect of a Clearing Member, the relevant Clearing Member under the laws of the United Kingdom, the United States or any other applicable jurisdiction
"Related Contract"	means: (i) in relation to the SwapClear Service, a Related SwapClear Contract (as such term is defined in the Procedures); (ii) in relation to the RepoClear Service, a Related RepoClear Contract (as such term is defined in the Procedures); (iii) in relation to the ForexClear Service, a Related ForexClear Contract (as such term is defined in the Procedures); (iv) in relation to the EquityClear Service, a Related EquityClear Contract (as such term is defined in the Procedures); (v) in relation to the LCH EnClear Service, a Related LCH EnClear Contract (as such term is defined in the Procedures); (vi) in relation to the LSE Derivatives Markets Service, a Related LSE Derivatives Markets Cleared Exchange Contract (as such term is defined in the Procedures); (vii) in relation to the Nodal Service, a Related Nodal Contract (as such term is defined in the Procedures); and (viii) in relation to the NLX Service, a Related NLX Contract (as such term is defined in the Procedures)
"Relevant Auction Contract"	has the meaning given to the term in the Client Clearing Annex
"Relevant Business"	has the meaning as described in Default Rule 15(c)
"Relevant Client Clearing Business"	means the Client Clearing Business conducted by a particular Clearing Member in a particular Service
"Relevant Contract"	has the meaning assigned to it in the Client Clearing Annex
"Relevant Default"	has the meaning ascribed to it in Rule S1 of Part A2 of the SwapClear—Rates Service Default Fund Supplement – SwapClear , Rule F2 of the ForexClear Default Fund Supplement or Rule R2 of the RepoClear Default Fund

	which has concluded a Clearing Membership Agreement with the Clearing House in such form as the parties may agree, pursuant to which such organisation clears specific types of Contract and agrees to be bound by these Regulations as a Member, to the extent and subject to any variations agreed in such Clearing Membership Agreement
"Specified Exchange"	means London Stock Exchange plc, Nodal Exchange LLC, Hong Kong Mercantile Exchange Limited or any Exchange succeeding to any such person
"Standard Terms"	means that part of the SwapClear Contract Terms, the RepoClear Contract Terms, the LCH EnClear Contract Terms, or the ForexClear Contract Terms designated as Standard Terms by the Clearing House from time to time
"STM Conversion Contracts"	has the meaning assigned to it in Regulation 57A
"STM Conversion Date"	has the meaning assigned to it in Regulation 57A
"STM Conversion Request"	has the meaning assigned to it in Regulation 57A
"strike price"	means the price specified in an option contract which becomes the price of the commodity under a contract for the future sale and purchase of that commodity for future delivery or, as the case may be, under a delivery contract, in either case on the exercise of the option the subject of such option contract, in accordance with Exchange Rules, these Regulations and the Procedures
"Supplement"	means a supplement specific to a particular Service and includes the Commodities Default Fund Supplement, the Equities Default Fund Supplement, the ForexClear Default Fund Supplement, the Listed Interest Rate Rates Service Default Fund Supplement – Listed Interest Rates , the RepoClear Default Fund Supplement and the SwapClear Rates Service Default Fund Supplement – SwapClear
"Supplementary Contribution"	means a supplementary Contribution of a Clearing Member, provided for under Rule C7(b), E7(b), F7(c); L7(b) , R7(c) or CS7(e) -(as applicable), and referable to the relevant Service provided by the Clearing House
"SwapClear Business"	means any transaction, obligation or liability arising out of any SwapClear Contract (which, for the avoidance of doubt, includes for purposes of the Rates Service DMP Annex the Portfolio Margined Contracts (if any) of a Portfolio Margining Clearing Member)
"SwapClear Clearing Client"	means, in respect of SwapClear Client Clearing Business, an Individual Segregated Account Clearing Client or an

	Omnibus Segregated Clearing Client
"SwapClear Clearing House Business"	means SwapClear Contracts entered into by a SwapClear Clearing Member with the Clearing House on a proprietary basis and for its own account
"SwapClear Clearing Member" or "SCM"	means a Member who is designated by the Clearing House as a SwapClear Clearing Member eligible to clear SwapClear Contracts which includes, in the case of the Default Rules (including the SwapClear-Rates Service DMP Annex), the FCM Default Fund Agreement and any other document, rule or procedure as specified by the Clearing House from time to time, an FCM Clearing Member
"SwapClear Client Clearing Business"	means the provision of SwapClear Client Clearing Services by a SwapClear Clearing Member
"SwapClear Client Clearing Services"	means the entering into of SwapClear Contracts by a SwapClear Clearing Member in respect of its Individual Segregated Account Clearing Clients and/or its Omnibus Segregated Clearing Clients
"SwapClear Contract"	means a Contract entered into by the Clearing House with a SwapClear Clearing Member on the SwapClear Contract Terms which includes, in the case of the Default Rules (including the SwapClear-Rates Service DMP Annex but excluding, for the avoidance of doubt, the Client Clearing Annex), the FCM Default Fund Agreement and any other document, rule or procedure as specified by the Clearing House from time to time, an FCM SwapClear Contract
"SwapClear Contract Terms"	means the terms applicable to each SwapClear Contract as set out from time to time in the Product Specific Contract Terms and Eligibility Criteria Manual
"SwapClear Contribution"	means the amount of an SCM's Contribution determined in accordance with Part A of the SwapClear-Rates Service Default Fund Supplement – SwapClear and shall include any SwapClear Unfunded Contributions and any relevant Supplementary Contribution deposited and made by the SCM with the Clearing House

"SwapClear CTM Contract"	means a SwapClear Contract that is not a SwapClear STM Contract
"SwapClear Dealer Clearing Agreement"	means a written agreement, in the form and on the terms prescribed by the Clearing House between a SwapClear Dealer, a SwapClear Clearing Member and the Clearing House
"SwapClear Dealer" or "SD"	means a person admitted by the Clearing House to the Register of SwapClear Dealers and who has not been removed from the Register
"SwapClear Default Period"	has the meaning ascribed to it in Rule S1 of Part A2 of the SwapClear – Rates Service Default Fund Supplement – SwapClear
"SwapClear Determination Date"	has the meaning ascribed to it in Rule S1 of Part A of the Rates Service Default Fund Supplement – SwapClear has the meaning assigned to it in Rule S2 of the SwapClear Default Fund Supplement
"SwapClear Eligibility Criteria"	means the product eligibility criteria in respect of SwapClear Transactions as set out in the Product Specific Contract Terms and Eligibility Criteria Manual as published on the Clearing House's website from time to time
"SwapClear End of Day Price"	h Has the meaning assigned to it in Chapter XIV(1)
"SwapClear Regulations"	means those Regulations which apply to SwapClear Contracts as specified in Regulation 54
"SwapClear Service"	the service provided by the Clearing House under the SwapClear Regulations
"SwapClear STM Contract"	Means a SwapClear Contract that is either registered at the Clearing House as a SwapClear STM Contract pursuant to Regulation 55(b), is converted into a SwapClear STM Contract by the Clearing House pursuant to Regulation 57A, or is a SwapClear STM Contract through novation pursuant to Regulation 12(b), in each case the terms of which therefore include the SwapClear STM Terms.
"SwapClear STM Terms"	means the part of the SwapClear Contract Terms designated as the SwapClear STM Terms by the Clearing House from time to time
"SwapClear Tolerance"	has the meaning assigned to it in Section 1.3.3 (<i>Trade Registration Facilitation: SwapClear Tolerance, Client Buffer and MER (Minimum Excess Requirement)</i>) of Procedure 2C (<i>SwapClear Clearing Service</i>) of the

	Clearing House's Procedures
"SwapClear Tolerance Utilisation"	means, in respect of each SCM, the value of the SwapClear Tolerance utilised by that SCM at any particular time, as determined by the Clearing House in its sole discretion
"SwapClear Transaction"	means any transaction the details of which are presented to the Clearing House via an Approved Trade Source System for the purpose of having such transaction registered at the Clearing House as two SwapClear Contracts or one SwapClear Contract and one FCM SwapClear Contract (as the case may be), regardless of whether such transaction (a) is an existing swap transaction, (b) was entered into in anticipation of clearing, or (c) is contingent on clearing
"SwapClear Unfunded Contribution"	has the meaning assigned to it in Rule S7 of Part A8 of the SwapClear Rates Service Default Fund Supplement – SwapClear
"SwapClear Unfunded Contribution Notice"	has the meaning assigned to it in Rule S7 of Part A of the Rates Service Default Fund Supplement – SwapClear has the meaning assigned to it in Rule S8 of the SwapClear Default Fund Supplement
"TARGET2"	means the Trans-European Automated Real-Time Gross Settlement Express Transfer payment system which utilises a single shared platform and which was launched on 19 November 2007
"Target Settlement Day"	means any day on which TARGET2 is open for the settlement of payments in euro
"tender"	means a notice given by or on behalf of a seller (or buyer where Exchange Rules so require) pursuant to Exchange Rules, these Regulations and the Procedures, of an intention to make (or take) delivery of a commodity
"Term £GC Trade"	means a trading activity in which a RepoClear Participant (" the First Participant ") offers to sell (or buy) an agreed value of securities comprised in a Term £GC Basket (as defined in the Procedures), to be allocated in accordance with the RepoClear Procedures applicable to RepoClear Term £GC Contracts, and another RepoClear Participant (" the Second Participant ") offers to buy (or sell, as the case may be) the securities so allocated, on the conditions that: <ul style="list-style-type: none"> a) at the end of a specified period of time, the Second Participant sells (or buys, as the case may be) Equivalent Securities (as such term is used in the RepoClear Term £GC Contract Terms) and the First Participant buys (or sells, as the case may be) those

REGULATION 5 RESIGNING AND RETIRING MEMBERS

- (a) A Clearing Member may resign from a particular Service by exercising its rights under Rules C7(e), E7(e), F3(e), L67(e), R3(d) or S32(e) of the Default Rules (each an "**Accelerated Termination Provision**"), or by giving no less than three months' written notice to the Clearing House by completing a Resignation Letter, a copy of which can be obtained from the Clearing House Membership Department. Resignation takes effect on the Resignation Effective Date, which is:
- (i) where the Clearing Member is exercising its rights under, and has complied with the requirements of, the Accelerated Termination Provision for the relevant Service, the date determined in accordance with that Accelerated Termination Provision; or
 - (ii) otherwise, the later of: (A) the resignation date specified in the written notice to the Clearing House in relation to the relevant Service; and (B) the date on which all Contracts registered in the Resigning Member's name on the relevant Service have been closed out or transferred so as to ensure that there are no remaining open Contracts in respect of the relevant Service to which the Resigning Member is a party.
- (b) Upon the Clearing House being satisfied that the Resigning Member is not a Defaulter and that all obligations of the Resigning Member to which the relevant Collateral is capable of being applied in accordance with the Rulebook have been irrevocably paid or discharged in full and that no such obligations are capable of arising:
- (i) the Clearing House shall: (A) in the case of cash Collateral transferred to the Clearing House for the purpose of collateralising the Resigning Member's obligations in respect of the relevant Service (other than any constituting Clearing Member Returned Collateral or Clearing Member Applied Collateral), transfer an amount of cash to the Resigning Member equal to such cash; and (B) in the case of non-cash Collateral transferred to the Clearing House for the purpose of collateralising the Resigning Member's obligations in respect of the relevant Service (other than any constituting Clearing Member Returned Collateral or Clearing Member Applied Collateral), transfer that same Collateral (or equivalent Collateral) to the Resigning Member; and
 - (ii) the Resigning Member shall, in the case of cash Collateral transferred to the Resigning Member for the purpose of collateralising the Clearing House's obligations in respect of the relevant Service (other than any constituting Clearing House Returned Collateral or Clearing House Applied Collateral), transfer an amount of cash to the Clearing House equal to such cash.
- (c) A Resigning Member other than a Defaulter who is resigning from a particular Service shall be liable in respect of Aggregate Excess Losses relating to any Default which arises in the relevant Service prior to the relevant Resignation Effective Date. In such circumstances, and as further provided in the Default Rules, the Resigning Member may be required to maintain some or all of its Contribution in connection with that Service until after the completion of the default management process related to the relevant Default, notwithstanding that the relevant Resignation Effective Date might occur prior to such time.

REGULATION 52 EXCLUSION OF LIABILITY

- (a) Without prejudice to the provisions of Regulations 2 and 32 and 52(e) neither the Clearing House, nor any other member of the LCH.Clearnet Group shall have any liability whatsoever to any Member or to any other person (including, without limitation, any Clearing Client of a Member) in contract, tort (including, without limitation, negligence), trust, as a fiduciary or under any other cause of action in respect of any damage, loss, cost or expense of whatsoever nature suffered or incurred by a Member or any other person, as the case may be, as a result of: any suspension, restriction or closure of the market administered by an Exchange, an ATP or a Co-operating Clearing House, whether for a temporary period or otherwise or as a result of a decision taken on the occurrence of a market emergency; any failure by the Clearing House or an Exchange or a Co-operating Clearing House or an ATP or its operator or the relevant approved agent or the Approved EquityClear Settlement Provider to supply each other with data or information in accordance with arrangements from time to time established between any or all of such persons; the failure of any systems, communication facilities or technology supplied, operated or used by the Clearing House, an Exchange, or a Co-operating Clearing House; any event which is outside the control of the Clearing House; any act or omission of an Exchange, or a Co-operating Clearing House in connection with a Co-operating Clearing House Contract or any contracts made on such terms, including, without limitation, any error in the establishment of a settlement price made by an Exchange; any act or omission of the Clearing House, an Exchange, or a Co-operating Clearing House (as the case may be) in connection with the operation of a Link or the arrangement for the transfer of Contracts under a Link.
- (b) Neither the Clearing House nor any other member of the LCH.Clearnet Group shall have any liability to a Member or any other person (including without limitation a SwapClear Dealer, or a RepoClear Dealer or a ForexClear Dealer) in respect of any dispute arising from or in relation to any OTC Transaction, Eligible EnClear Trade, or an ATP Match including, but not limited to, any dispute as to the validity or otherwise of such OTC Transaction, Eligible EnClear Trade, the terms of such OTC Transaction, Eligible EnClear Trade, trade or ATP Match, or whether any alleged agreement or arrangement constitutes an OTC Transaction or Eligible EnClear Trade.
- (c) Without prejudice to the provisions of Regulation 2 and Regulation 52(e), neither the Clearing House nor any other member of the LCH.Clearnet Group shall have any liability whatsoever to any SwapClear Clearing Member, RepoClear Clearing Member, EquityClear Clearing Member, LCH EnClear Clearing Member, ForexClear Participant or to any other person (including, without limitation, a SwapClear Dealer or a RepoClear Dealer) in contract, tort (including without limitation, negligence), trust, as a fiduciary or under any other cause of action in respect of any damage, loss, cost or expense of whatsoever nature suffered or incurred as a result of: any suspension of an OTC Service or the EquityClear Service or the LCH EnClear Services (or any part thereof), whether for a temporary period or otherwise, a step taken by the Clearing House under Regulation 16(i), Regulation 37, Regulation 38, Regulation 55(h), or Regulation 72 or any failure or malfunction of any systems, communication lines or facilities, software or technology supplied, operated or used by the Clearing House or the relevant approved agent; the occurrence of any event which is outside the control of the Clearing House; or any exercise by the Clearing

House of its discretion under the Regulations, or any decision by the Clearing House not to exercise any such discretion.

- (d) Without prejudice to Regulation 52(c) and Regulation 52(e), unless otherwise expressly provided in the Regulations or in any other agreement to which the Clearing House is party, neither the Clearing House nor any other member of the LCH.Clearnet Group shall have any liability under any circumstances (including, without limitation, as a result of any negligence by the Clearing House, or any other member of the LCH.Clearnet Group Limited, or their respective officers, employees, agents or representatives), to any Member, or a SwapClear Dealer, a RepoClear Dealer, or a ForexClear Dealer for any indirect or consequential loss or damage, or loss of anticipated profit (whether direct or indirect) or loss of bargain, suffered or incurred by any such Member, SwapClear Dealer, RepoClear Dealer, or a ForexClear Dealer, and shall not in any circumstances be liable for any loss, cost, damage or expense suffered or incurred by any person as a result of any negligence on the part of the Clearing House, or any other member of the LCH.Clearnet Group Limited, or their respective officers, employees, agents or representatives.
- (e) Nothing in this Regulation 52 shall be construed as an attempt by the Clearing House to exclude any liability for any fraud, fraudulent misrepresentation or wilful default on the part of the Clearing House. The Clearing House accepts liability for any personal injury or death caused by the negligence of the Clearing House, ~~and~~ for any fraud or wilful default on the part of the Clearing House, for any gross negligence or wilful misconduct on the part of the Clearing House in connection with the operation of the Portfolio Margining Service, if any, offered to Clearing Members from time to time, and for any actions that it may take on the basis of advice given to it by the ~~SwapClear Rates Service~~ DMG, and for the accuracy of the information that it distributes to the SwapClear Clearing Members in connection with the ~~SwapClear Rates Service~~ DMP pursuant to the ~~SwapClear Rates Service~~ DMP Annex in the Default Rules, and for any actions that it may take on the basis of advice given to it by the ForexClear DMG, and for the accuracy of the information that it distributes to the ForexClear Clearing Members in connection with the ForexClear DMP pursuant to the ForexClear DMP Annex in the Default Rules.
- (f) Without prejudice to the provisions of Regulation 2 and Regulation 32 and Regulation 52(e) neither the Clearing House, nor any other member of the LCH.Clearnet Group shall have any liability whatsoever to any Member or to any other person (including, without limitation, any Clearing Client of a Member or a member of a Co-operating Clearing House or any Clearing Client of such member) in contract, tort (including, without limitation, negligence), trust, as a fiduciary or under any other cause of action in respect of any damage, loss, cost or expense of whatsoever nature suffered or incurred by a Member or any other person, as the case may be, as a result of the failure of any systems, communication facilities or technology supplied, operated or used by LSE or as a result of any negligence, wrongdoing, or other act, error, failure or omission on the part of LSE, in supplying any services to the Clearing House with regard to the LSE Derivatives Markets Services or as a result of or in connection with any inconsistency or conflict between any provision contained in the LSE Derivatives Markets Rules on the one hand and any provision of these Regulations, Default Rules and Procedures and any other Clearing House documentation on the other hand.

CHAPTER XIV – SWAPCLEAR REGULATIONS

REGULATION 54 APPLICATION OF SWAPCLEAR REGULATIONS

- (a) The Clearing House shall provide the SwapClear Service subject to and in accordance with the terms of these SwapClear Regulations and the Procedures.
- (b) SwapClear Clearing Members shall be bound by these SwapClear Regulations. Applications to become a SwapClear Clearing Member shall be made in accordance with Regulation 54(d) and (e). Other than as expressly specified in this Regulation 54, the remainder of the Regulations shall not apply to the SwapClear Service. A summary table of those Regulations which apply to the SwapClear Service as described in Regulation 54(a) to (q) is provided at Regulation 54(r).
- (c) Regulation 2 and Regulation 3 of the Regulations apply to the SwapClear Service.

SwapClear Clearing Membership

- (d) A Clearing Member may apply to become a SwapClear Clearing Member in accordance with the Procedures.
- (e) Regulation 4 applies to membership of the SwapClear Service and applications for such membership.
- (f) Regulation 5 applies to a SwapClear Clearing Member.

Accounts

- (g) Regulation 10 applies to the opening and operation of accounts with respect to a SwapClear Clearing Member. Such accounts shall be designated in accordance with Regulation 15.

Client Clearing

- (h) Regulation 11 applies to those SwapClear Clearing Members who provide (or wish to provide) Client Clearing Services.

Formation, registration and transfers of SwapClear Contracts

- (i) Regulation 16(b), Regulation 16(c), Regulation 17 and Regulation 55 apply to the registration and formation of a SwapClear Contract.
- (j) Regulation 18 (and, insofar as relevant, Regulation 12(b)) apply to a SwapClear Contract entered into by a SwapClear Clearing Member in respect of SwapClear Clearing House Business.
- (k) Regulation 60 applies to a SwapClear Contract entered into by a SwapClear Clearing Member in respect of SwapClear Client Clearing Business, save that where a SwapClear Clearing Member is a Defaulter, Regulation 12(b) applies insofar as relevant.
- (l) Regulation 54 to Regulation 60 apply to the SwapClear Service.

Margin and Collateral

- (m) Regulation 20 applies to a SwapClear Clearing Member.

Reference prices and Revaluation

- (n) Regulation 22 applies to open SwapClear Contracts.

Other Applicable Regulations

- (o) Regulation 37 to Regulation 46 inclusive apply to SwapClear Clearing Members and SwapClear Contracts.

Default Rules

- (p) The Default Rules (including the [SwapClear Rates Service DMP Annex](#)) apply to SwapClear Clearing Members and SwapClear Contracts.

Clearing House Settlement Finality Regulations

- (q) The Clearing House Settlement Finality Regulations apply in relation to SwapClear Clearing Members and SwapClear Contracts.

Summary table of Regulations which apply to the SwapClear Service

- (r) The Regulations listed in this Regulation 54(r) apply to the SwapClear Service as described under Regulation 54(a) to (q).

<i>Regulation</i>	<i>Title</i>
Regulation 2	Obligation to the Clearing House to each Member
Regulation 3	Performance by the Clearing House of its Obligations under the Terms of an Open Contract
Regulation 4	Clearing Member Status of the Clearing House
Regulation 5	Resigning and Retiring Members
Regulation 8	Dealer Status
Regulation 9	Service Withdrawal
Regulation 10	Accounts
Regulation 11	Client Clearing Business
Regulation 12(b)	Novation
Regulation 15	Designation
Regulation 16(b)	Registration

Regulation	Title
and (c)	
Regulation 17	Trading Information
Regulation 18	Transfer
Regulation 20	Margin and Collateral
Regulation 22	Official Quotations and Reference Price
Regulation 25	Other Modes of Settlement and Revaluation
Regulation 37	Market Disorders, Impossibility of Performance, Trade Emergency
Regulation 38	Force Majeure
Regulation 39	Invoicing Back
Regulation 40	Currency Conversion
Regulation 41	Disclosure and Reporting
Regulation 42	Fees and Other Charges
Regulation 43	Records
Regulation 44	Alteration of Regulations and the Procedures
Regulation 45 and Regulation 46	Netting and Distribution of Assets
Regulation 47	Procedures
Regulation 48(b)	Interpretation of these Regulations
Regulation 49	Waiver
Regulation 50(a)	Validity of Regulations and Action
Regulation 51	Governing Law and Jurisdiction
Regulation 52	Exclusion of Liability
Regulation 54 to Regulation 60	SwapClear Regulations
Default Rules	Default Rules (including SwapClear Rates Service DMP Annex)

REGULATION 57 COLLATERALISATION OF SWAPCLEAR CTM CONTRACTS

(a) The net present value of each SwapClear CTM Contract shall be calculated by the Clearing House for the purposes of determining required variation margin in such manner and at such times as may be provided in the Procedures. Except as prescribed in the Procedures, the net present value calculated by the Clearing House may in no circumstances be called in question.

(b) The Clearing House shall, at least daily:

(i) where the net present value of an outstanding SwapClear CTM Contract has moved in favour of the Clearing House since the last valuation, call on the SwapClear Clearing Member to transfer to the Clearing House cash in an amount equal to (A) the net present value to the Clearing House of the relevant SwapClear Contract minus (B) the current balance of cash Collateral provided to the Clearing House by such SwapClear Clearing Member in respect of its variation margin obligations in respect of that SwapClear CTM Contract; and

(ii) where the net present value of an outstanding SwapClear CTM Contract has moved in favour of the SwapClear Clearing Member since the last valuation, transfer to the SwapClear Clearing Member cash in an amount equal to (A) the net present value to the SwapClear Clearing Member of the relevant SwapClear CTM Contract minus (B) the current balance of cash Collateral provided to such SwapClear Clearing Member by the Clearing House in respect of its variation margin obligations in respect of that SwapClear CTM Contract,

provided that:

(iii) (A) and/or (B), as used in sub-paragraphs (i) and (ii) above, may be negative numbers where the net present value of a SwapClear Contract has moved in favour of the party that was "out of the money" at the time of the preceding valuation;

(iv) any time the calculation provided for in this Regulation 57(b) is performed for the first time in respect of any particular SwapClear CTM Contract that SwapClear CTM Contract shall for the purpose of sub-paragraphs (i) and (ii) above be deemed to have had a net present value of zero at the time of the preceding valuation; and

(v) the calculations under this Regulation 57(b) shall disregard any amount previously determined to be payable by one party to the other pursuant to Regulation 57(d) but which has not yet been so transferred.

(c) Cash provided by the Clearing House or a SwapClear Clearing Member under Regulation 57(b) is provided by way of title transfer and, other than where the provision of cash reduces a party's current balance of cash Collateral, for the purpose of collateralising the relevant party's obligations under the relevant SwapClear CTM Contract(s).

(d) In respect of all SwapClear CTM Contracts, on every Business Day, the Clearing House shall aggregate:

- (i) the sums which would otherwise have been payable by the SwapClear Clearing Member to the Clearing House as cash Collateral (in respect of variation margin obligations) on such date, any coupon payments which would otherwise have been due on that date from the SwapClear Clearing Member to the Clearing House and any other sums which would otherwise have been payable by the SwapClear Clearing Member to the Clearing House on such date (including, for the avoidance of doubt, any amounts due in respect of an obligation to return cash Collateral and any settlement amounts payable under a SwapClear CTM Contract [or a Portfolio Margined Contract](#)); and
- (ii) the sums which would otherwise have been payable by the Clearing House to the SwapClear Clearing Member as cash Collateral (in respect of variation margin obligations) on such date, any coupon payments which would otherwise have been due on that date from the Clearing House to the SwapClear Clearing Member and any other sums which would otherwise have been payable by the Clearing House to the SwapClear Clearing Member on such date (including, for the avoidance of doubt, any amounts due in respect of an obligation to return cash Collateral and any settlement amounts payable under a SwapClear CTM Contract [or a Portfolio Margined Contract](#)),

(in each case which are payable in the same currency and which are payable in respect of the same Client Account or the same Proprietary Account), and all such sums shall be automatically satisfied and discharged and only the excess of the larger aggregate amount over the smaller aggregate amount shall be payable by the party by whom the larger aggregate amount would otherwise have been payable.

(e) The parties acknowledge that effect of Regulation 57(d) is that any settlement payment obligation of a Clearing Member (or of the Clearing House) under a SwapClear CTM Contract and any obligation of the Clearing House's (or of the Clearing Member) on the date of such settlement to return same-currency cash Collateral provided to it by way of variation margin in respect of that SwapClear CTM Contract will be netted against each other, with only the balance being payable in accordance with Regulation 57(d).

**REGULATION 59 ~~DEFAULT MANAGEMENT IN RESPECT OF SWAPCLEAR~~
~~CLIENT CLEARING BUSINESS~~PORTFOLIO MARGINING SERVICE**

The Clearing House shall provide the Portfolio Margining Service subject to and in accordance with the terms of the Procedures~~process for default management in respect of SwapClear Client Clearing Business is set out in the Client Clearing Annex to the Default Rules.~~

CHAPTER XXII – NLX REGULATIONS

REGULATION 95 APPLICATION

General

- (a) The Clearing House shall provide the NLX Service subject to and in accordance with the terms of this Regulation and the Procedures.
- (b) Clearing Members which are NLX Service Clearing Members, and applicants to become NLX Service Clearing Members, shall be bound by this Regulation and the other Regulations specified in this Regulation to apply to the NLX Service. Other than as specified in this Regulation, the remainder of the Regulations shall not apply to the NLX Service.
- (c) Regulations 2 and 3 of the Regulations apply to the NLX Service.

NLX Service Clearing Membership

- (d) A Clearing Member may apply to become a NLX Service Clearing Member in accordance with the Procedures.
- (e) Regulation 4 applies to NLX Service Clearing Membership and applications therefor.
- (f) Regulation 5 applies to a NLX Service Clearing Member.
- (g) In the event of any inconsistency between NLX's Rules and the NLX Regulations, the NLX Regulations shall prevail.

Accounts

- (h) Regulation 10 applies to the opening and operation of accounts with respect to a NLX Service Clearing Member. Such accounts shall be designated in accordance with Regulation 15.

Client Clearing

- (i) Regulation 11 applies to those NLX Service Clearing Member who provide (or wish to provide Client Clearing Services.

Formation, registration and transfers of NLX Contracts

- (j) NLX's Rules govern the formation of a NLX Transaction.
- (k) Regulation 13 (except Regulation 13(d)) and Regulation 16 govern the registration and formation of a NLX Contract.
- (l) Regulation 18 (and, insofar as relevant, Regulation 12(b)) apply to a NLX Contract which is an open contract.

Margin and Collateral

- (m) Regulation 20 applies to a NLX Service Clearing Member.

Daily settlement

- (n) [Regulation 20\(w\)](#), Regulation 21, Regulation 22, Regulation 23 and Regulation 24 apply to the daily settlement to market of open NLX Contracts.

Options

- (o) Regulation 26 and Regulation 27 apply to NLX Contracts which are options.

Physical settlement

- (p) Regulation 28 to 32 (inclusive) and Regulation 36 apply to NLX Contracts.

Arbitration

- (q) Regulation 33 and Regulation 34 apply to NLX Contracts.

Market disorders; force majeure; invoicing back; currency conversion; disclosure; fees and other charges; records; Procedures; alteration of Regulations and Procedures; interpretation; waiver; validity; governing law and jurisdiction; exclusion of liability; netting

- (r) Regulation 36 to Regulation 52 (inclusive) apply to NLX Service Clearing Members and NLX Contracts.

Portfolio Margining Service

- ~~(s)~~(s) [Regulation 59 applies to NLX Service Clearing Members which are also SwapClear Clearing Members and which have opted in to the Portfolio Margining Service in accordance with the Procedures.](#)

Default Rules

- ~~(s)~~(t) The Default Rules apply to NLX Service Clearing Members and NLX Contracts.

Clearing House Settlement Finality Regulations

- ~~(u)~~(u) The Clearing House Settlement Finality Regulations apply in relation to NLX Service Clearing Members and NLX Contracts.

Summary table of Regulations which apply to the NLX Service

- ~~(v)~~(v) The Regulations listed in this [Regulation 95\(v\)](#)~~(v)~~ apply to the NLX Service as described under ~~(a)~~ ~~(t)~~ [Regulation 95\(a\) to Regulation 95\(u\)](#).

<i>Regulation</i>	<i>Title</i>
Regulation 2	Obligation to the Clearing House to each Member
Regulation 3	Performance by the Clearing House of its Obligations under

<i>Regulation</i>	<i>Title</i>
	the Terms of an Open Contract
Regulation 4	Clearing Member Status of the Clearing House
Regulation 5	Resigning and Retiring Members
Regulation 7	Non-Member Market Participant Status
Regulation 9	Service Withdrawal
Regulation 10	Accounts
Regulation 11	Client Clearing Business
Regulation 12(b)	Novation
Regulation 13 (except Regulation 13(d))	Presentation of Particulars of Original Exchange Contracts and Confirmation of Original Exchange Contracts
Regulation 14	Allocation of Original Exchange Contracts
Regulation 15	Designation
Regulation 16	Registration
Regulation 17	Trading Information
Regulation 18	Transfer
Regulation 20	Margin and Collateral
Regulation 21	Premium under Option Contracts
Regulation 22	Official Quotations and Reference Price
Regulation 23	Daily Settlement or Marking to Market
Regulation 24	Settlement and Revaluation: Clearing Processing System
Regulation 26	Exercise of Options
Regulation 27	Delivery Contract Arising upon the Exercise of an Option
Regulation 28	Obligation to Make and Accept Tender under Cleared Exchange Contracts
Regulation 29	Delivery Contracts

<i>Regulation</i>	<i>Title</i>
Regulation 30	Open Contracts Subject to Tender
Regulation 31	Arrangements for Delivery and Payment of Price
Regulation 32	Restrictions on Clearing House's Obligations and Liability
Regulation 33	Arbitration: Cleared Exchange Contracts, LSE Derivatives Markets Cleared Exchange Contracts, EquityClear Contracts or LCH EnClear Contracts (for Physical Delivery)
Regulation 34	Collateral in Event of a Claim
Regulation 36	Default of a Member: Substituted Obligation
Regulation 37	Market Disorders, Impossibility of Performance, Trade Emergency
Regulation 38	Force Majeure
Regulation 39	Invoicing Back
Regulation 40	Currency Conversion
Regulation 41	Disclosure and Reporting
Regulation 42	Fees and Other Charges
Regulation 43	Records
Regulation 44	Alteration of Regulations and the Procedures
Regulation 45	Netting
Regulation 46	Distribution of Assets
Regulation 47	Procedures
Regulation 48	Interpretation of these Regulations
Regulation 49	Waiver
Regulation 50	Validity of Regulations and Action
Regulation 51	Governing Law and Jurisdiction
Regulation 52	Exclusion of Liability
Regulation 590	NLX Regulations Portfolio Margining Service

<i>Regulation</i>	<i>Title</i>
<u>Regulation 95</u>	<u>NLX Regulations</u>
Default Rules	Default Rules
Settlement Finality Regulations	Settlement Finality Regulations

**Appendix II
Default Rules**



LCH.CLEARNET LIMITED
DEFAULT RULES

The Clearing House has prepared a statement explaining: (i) how a transfer under the Client Clearing DMP will work, and (ii) the main legal implications of such a transfer, including information on the applicable insolvency law in the relevant jurisdictions. This statement is available on the Clearing House's website at <http://www.lchclearnet.com/members-clients/members/fees-ltd/annual-account-structure-fees>.

LCH.CLEARNET LIMITED

The Financial Services and Markets Act 2000 (Recognition Requirements for Investment Exchanges and Clearing Houses) Regulations 2001, Part IV

DEFAULT RULES

1. Save where expressly stated to the contrary these Default Rules ("**Rules**") have effect with regard to the provision of clearing services for all markets cleared by the Clearing House. These Rules (including each Supplement) form part of the Clearing House's Rulebook but do not apply in relation to a Co-operating Clearing House.

The Rules comprise:

- these general Default Rules (Rules 1 to 27 inclusive);
- Supplements specific to the following Service(s): the Commodities Service, the Equities Service, the ForexClear Service, the ~~Listed Interest Rate Derivatives~~Rates Service ~~and~~, the RepoClear Service ~~and the SwapClear Service~~.

Each Supplement establishes a separate default fund specific to the Service to which the Supplement relates. The Supplements establish the size of each default fund, the basis for calculating Contributions to each default fund, and include supplementary provisions addressing cases where the relevant default fund has been utilised. The general Default Rules establish the mechanisms, which apply severally to each default fund, for utilisation of the default funds, and for other matters common to all default funds. In the event of any inconsistency between the provisions of the Default Rules and the provisions of a Supplement or an Annex, the Supplement or Annex (as applicable) will prevail.

The allocation by the Risk Committee of the Clearing House of a Contract to a particular Service to which a Supplement applies shall be done in accordance with the definitions set out in the Supplements, and each decision of the Risk Committee in this respect is conclusive.

2.
 - (a) Words and expressions defined in the Clearing House's Rulebook shall have the same meanings in these Rules, save that in relation to the provision of clearing services by an FCM Clearing Member, words and expressions defined in the Clearing House's FCM Regulations shall have the same meanings in these Rules and such meanings shall prevail over any other meaning given to the relevant word or expression in the Clearing House's Rulebook;

- (b) a reference to a numbered Regulation in these Rules is a reference to the Regulation so numbered in the Regulations Section of the Rulebook and a reference to a numbered FCM Regulation is a reference to the FCM Regulation so numbered in the FCM Regulations. A reference to a numbered Rule is a reference to the Rule so numbered in these Rules;
 - (c) the expression "**relevant office-holder**" in these Rules has the meaning given to it in section 189 of the Companies Act 1989 and a reference to the Defaulter shall include (where the context permits) a reference to the relevant office-holder; and
 - (d) a reference to an agreement in these Rules is a reference to that agreement as amended, modified or varied from time to time.
3. In the event of a Clearing Member appearing to the Clearing House to be unable, or to be likely to become unable, to meet its obligations in respect of one or more Contracts, the Clearing House may (or upon the occurrence of an Automatic Early Termination Event, in which case such Contracts will automatically terminate, the Clearing House will) take the steps listed in Rule 6, it deems appropriate in the circumstances:
- (a) to discharge all the Clearing Member's rights and liabilities under or in respect of all Contracts to which it is party or upon which it is or may be liable; and
 - (b) to complete the process set out in Rule 8.

Before taking any such step the Clearing House shall (i) have regard to the interests of the members of any market that the Clearing Member may belong to (ii) where it is reasonably practicable to do so and without prejudice to those interests if applicable or to the interests of the Clearing House, consult any relevant Exchange to whose Exchange Rules open contracts registered in the name of the Clearing Member are subject and (iii) inform the Bank of England of the proposed step(s) to be taken. As soon as practicable after the Clearing House has elected to take any such step in relation to a Clearing Member (or in the case of an Automatic Early Termination Event (as described in Rule 5 below) as soon as practicable after the occurrence of such an event) the Clearing House shall send to ~~the relevant~~ such Clearing Member: (i) a notice of such step being taken or a notice of the occurrence of an Automatic Early Termination Event (a "**Default Notice**"), and shall publish a copy of the Default Notice; and (ii) ~~in relation to a Defaulter who is a Clearing Member,~~ copies of any written notices received from the Individual Segregated Account Clearing Client(s) and/or any of the Affiliated Omnibus Segregated Clearing Clients or Identified Omnibus Segregated Clearing Clients of that Defaulter confirming their instructions for the Clearing House to arrange for a transfer or termination, close-out and re-establishment of their open Contracts to/with the relevant Back-up Clearing Member(s), **provided however that** the Clearing House shall have no liability for any failure to deliver such notices.

4. A Clearing Member (i) in respect of whom the Clearing House has issued a Default Notice under Rule 3; or (ii) in respect of whom an Automatic Early Termination Event has occurred, is in these Rules called a "**Defaulter**".

- (k) where the Defaulter is party to an open contract subject to tender (or an FCM Exchange Contract Subject to Delivery Notice), to declare the Defaulter's rights and liabilities in respect of performance thereof discharged, whereupon the provisions of Rule 7 shall apply to the Defaulter in respect of the open contract;
- (l) to make or to procure the making of one or more contracts, including (without limitation) original contracts, and contracts on an exchange that does not qualify as an Exchange, for the purpose of hedging market risk to which the Defaulter is exposed, and to register the same in the Defaulter's name under the Regulations or the FCM Regulations (as the case may be);
- (m) to enter into ATS Contracts for the purposes of engaging in Risk Mitigation or Liquidity Management pursuant to Schedule 4 (RepoClear DMP Annex) hereto
- (n) to make or to procure the making of one or more contracts, whether or not in the terms of exchange contracts (or FCM Exchange Transactions), for the sale, purchase or other disposition of a commodity, and to register the same in the Defaulter's name under the Regulations;
- (o) to designate a currency as a currency of account and at the Defaulter's expense to convert any sum payable by or to the Defaulter in another currency into the currency of account;
- (p) to take any step which in the circumstances is open to the Clearing House under any applicable Exchange Rules including, without limitation, to transfer (whether by way of transfer or by way of termination, close-out and re-establishment) an open contract of the Defaulter to a Co-operating Clearing House to be registered at the Co-operating Clearing House in accordance with its rules;
- (q) without prejudice to any other right of the Clearing House under the Regulations, to take such action as the Clearing House may deem necessary for its protection in the name and at the expense of the Defaulter with regard to any open contract standing in its name;
- (r) in respect of Contracts standing in the Defaulter's name, to charge to its account the amount (or, if the amount is not finally known, the estimated amount) of any expenses incurred by the Clearing House with regard to or in consequence of the circumstances mentioned in Rule 3 or the steps which are or may be taken under this Rule, the Regulations or the FCM Regulations (as the case may be) and any expenses incurred with regard thereto under Rule 13;
- (s) to take any other step calculated by the Clearing House to complete the process set out in Rule 8; and
- (t) to obtain such advice or assistance, whether legal or otherwise, as the Clearing House may deem necessary and at the expense of the Defaulter for any matter arising out of or in connection with the default,

provided that:

- (i) in the case of all Client Clearing Contracts, the Clearing House: (A) shall act in accordance with the provisions of the Client Clearing Annex (which deals, amongst other things, with certain specific arrangements, procedures and steps for the transfer, termination, close-out and re-establishment or the close-out and/or settlement of such Client Clearing Contracts pursuant to this Rule 6); and (B) may also take any of the other steps set out in this Rule 6 to the extent that they do not conflict with the steps set out in the Client Clearing Annex and, provided that, in no circumstances will the Clearing House sell any security deposited as Collateral in a Client Account and forming part of the Clearing Member Current Collateral Balance in respect of such Client Account pursuant to (without limitation) paragraphs (e), (h), (p) or (r) of this Rule 6, the Client Clearing Annex to these Default Rules or otherwise for the duration of the Porting Window applicable to the relevant Clearing Client, other than (1) with the consent, to the selling of such securities, of the relevant Clearing Client (in the case of an Individual Segregated Account) or all of the Clearing Clients grouped together in and comprising the relevant Omnibus Segregated Account (in the case of an Omnibus Segregated Account); or (2) where a Clearing Client (in the case of an Individual Segregated Account) or each of the Clearing Clients grouped together in and comprising the relevant Omnibus Segregated Account (in the case of an Omnibus Segregated Account) has appointed a Backup Clearing Member who is unable to accept or otherwise rejects a transfer of the relevant securities as part of the transfer of an Account Balance in accordance with the provisions of the Client Clearing Annex to these Default Rules;
- (ii) in the case of SwapClear Contracts and/or Listed Interest Rates Contracts related to Rates Service SwapClear Clearing House Business ~~and SwapClear Contracts which are Relevant Auction Contracts,~~ the Clearing House: (A) shall act in accordance with the provisions of the SwapClear Rates Service DMP Annex to these Default Rules (which deals, amongst other things, with certain specific arrangements, procedures and steps for the close-out and/or settlement of such SwapClear Contracts and/or Listed Interest Rates Contracts pursuant to this Rule 6); and (B) may also take any of the other steps set out in this Rule 6 to the extent that they do not conflict with the steps set out in the SwapClear Rates Service DMP Annex to these Default Rules;
- (iii) in the case of ForexClear Contracts related to ForexClear Clearing House Business and ForexClear Contracts which are Relevant Auction Contracts, the Clearing House: (A) shall act in accordance with the provisions of the ForexClear DMP Annex to these Default Rules (which deals, amongst other things, with certain specific arrangements, procedures and steps for the close-out and/or settlement of such ForexClear Contracts pursuant to this Rule 6); and (B) may also take any of the other steps set out in this Rule 6 to the extent that they do

not conflict with the steps set out in the ForexClear DMP Annex to these Default Rules; and

- (iv) in the case of Fixed Income Contracts related to RepoClear Clearing House Business and Fixed Income Contracts which are Relevant Auction Contracts, the Clearing House: (A) shall act in accordance with the provisions of the RepoClear DMP Annex to these Default Rules (which deals, amongst other things, with certain specific arrangements, procedures and steps for the close-out and/or settlement of such Fixed Income Contracts pursuant to this Rule 6); and (B) may also take any of the other steps set out in this Rule 6 to the extent that they do not conflict with the steps set out in the RepoClear DMP Annex to these Default Rules.

7.

- (a) Where the Clearing House declares the Defaulter's rights and liabilities under an open contract subject to tender (or an FCM Exchange Contract Subject to Delivery Notice) discharged under Rule 6(k):
 - (i) those rights and liabilities and the rights and liabilities of the Clearing House under the open contract shall be discharged; and
 - (ii) there shall arise between the Defaulter and the Clearing House in respect of the open contract an obligation to account, as directed by the Clearing House, for a settlement amount determined by the relevant Board under this Rule.
- (b) The settlement amount referred to in Rule 7(a) shall be an amount which, at the request of the Clearing House, the relevant Board determines to represent adequate compensation (in the circumstances known to the Board) for the discharge of the mutual rights and liabilities of the Defaulter and the Clearing House under the open contract. The determination of the Board shall be conclusive. The Clearing House shall direct how the settlement amount is to be accounted for between the Defaulter and itself.
- (c) Neither the Clearing House nor any relevant Board or Exchange shall have any liability whatsoever for anything done or omitted in the determination of a settlement amount under this Rule.

8. Upon the determination of the outstanding rights and liabilities of the Defaulter under or in respect of all Contracts to which it is party or upon which it is or may be liable (in accordance with Rule 6 and the ~~SwapClear-Rates Service~~ DMP Annex, the ForexClear DMP Annex, the RepoClear DMP Annex and the Client Clearing Annex (as applicable)), the following process shall be completed by the Clearing House in order to determine any net amounts which remain payable between the Defaulter and the Clearing House in respect of each "**kind of account**" as described in Rule 11(b):

- (a) there shall be brought into account all sums payable:
 - (i) by or to a Defaulter in respect of Contracts (other than FCM Contracts); any other sum due under the Regulations; any sum due in respect of

accordance with the ~~SwapClear~~ Rates Service DMP Annex), the Clearing House shall allocate any costs associated with such closing out and liquidation process (including hedging costs (including the gains and losses associated with hedging transactions) and liquidation/auction costs and losses) among the FCM Clients whose positions were liquidated, by allocation to such FCM Clients' FCM Client Sub-Accounts that are held in the Defaulter's FCM Omnibus SwapClear Client Account with LCH, in the manner set out in Section 2A.15.6 of the FCM Procedures and in accordance with Parts 22 and 190 of the CFTC Regulations and any other Applicable Law;

- (g) in the event that the Clearing House elects to close out and to liquidate FCM ForexClear Contracts attributable to FCM Clients of the Defaulter (in accordance with the ForexClear DMP Annex), the Clearing House shall allocate any costs associated with such closing out and liquidation process (including hedging costs (including the gains and losses associated with hedging transactions) and liquidation/auction costs and losses) among the FCM Clients whose positions were liquidated, by allocation to such FCM Clients' FCM Client Sub-Accounts that are held in the Defaulter's FCM Omnibus ForexClear Client Account with LCH, in the manner set out in Section 2B.23.6 of the FCM Procedures and in accordance with Parts 22 and 190 of the CFTC Regulations and any other Applicable Law; and
- (h) in the event that the Clearing House elects to close out and to liquidate FCM EnClear Contracts attributable to FCM Clients of the Defaulter, the Clearing House shall allocate any costs associated with such closing out and liquidation process (including hedging costs (including the gains and losses associated with hedging transactions) and liquidation/auction costs and losses) among the FCM Clients whose positions were liquidated, by allocation to such FCM Clients' FCM Client Sub-Accounts that are held in the Defaulter's FCM Omnibus EnClear Client Account with LCH, in the manner set out in Section 2C.1.20 of the FCM Procedures and in accordance with Parts 22 and 190 of the CFTC Regulations and any other Applicable Law.

For the purposes of Rule 8(a) above the Clearing House may assess the sum payable by or to the Defaulter in respect of any breach of the Regulations or the FCM Regulations (as the case may be) in such reasonable manner as it thinks fit; **provided, that** in the case of breaches of the FCM Regulations, the assessment by the Clearing House shall not be in violation of the CFTC Regulations (including Part 22 thereof).

With respect to any Unallocated Excess maintained in the Unallocated Excess Sub-Account of the Defaulter, the Clearing House shall not be permitted to apply any such Unallocated Excess to the obligations of the Defaulter to the Clearing House (on behalf of the Defaulter's FCM Clients or otherwise) or take any such Unallocated Excess into account for purposes of determining net sums under this Rule 8, except to the extent required or permitted by Applicable Law or directed by the applicable bankruptcy trustee or Regulatory Body in accordance with Applicable Law.

- 9. The sum, or each sum, finally payable by the Defaulter to the Clearing House or by the Clearing House to the Defaulter (including any sums payable to the Defaulter for the benefit of one or more of its FCM Clients), or the fact that no sum is finally payable by either such party to the other, as the case may be upon completion of the

- (vi) with regard to a net sum produced by reference to FCM Contracts registered in an FCM Omnibus Futures Client Account with LCH of the Defaulter, that FCM Omnibus Futures Client Account with LCH, or (if there is more than one) all such FCM Omnibus Futures Client Accounts with LCH of the Defaulter combined;
 - (vii) with regard to a net sum produced by reference to Contracts registered in one or more Proprietary Accounts of the Defaulter, that Proprietary Account or those Proprietary Accounts combined and (if the Clearing House has elected in accordance with Rule 11(a)) any Treasury Accounts of the Defaulter; and
 - (viii) with regard to a net sum produced by reference to one or more Treasury Accounts of the Defaulter, that Treasury Account or those Treasury Accounts combined, and (if the Clearing House has elected in accordance with Rule 11(a)) any Proprietary Accounts.
- (d) Notwithstanding any provision of the Rulebook to the contrary, any loss which relates to a Treasury Account may not be treated as a Default Loss, whether or not Collateral has been applied in respect of such loss. Nothing in this Rule 11(d) requires the Clearing House to apply Collateral in respect of any such loss, except that the Clearing House may not apply Collateral in respect of any such loss to the extent that doing so would give rise to an Excess Loss.
12. Without further authorisation, permission or cooperation from the Defaulter, the Clearing House may appoint any person to take or assist it in taking any step under these Rules or to complete or assist it in completing the process set out in Rule 8.
13. The Clearing House may co-operate, by the sharing of information and otherwise, with any Regulatory Body or relevant Exchange, any relevant office-holder acting in relation to the Defaulter or its estate and any other authority or body having responsibility for, or any Clearing Member having an interest in, any matter arising out of or connected with the circumstances mentioned in Rule 3.
14. In addition to such copy report as it supplies under section 162(3) of the Companies Act 1989, the Clearing House shall report to the Defaulter, or any relevant office-holder acting in relation to the Defaulter or its estate, on steps taken in relation to the Defaulter under Rule 6.

Reduction of Losses on Default

15. Subject to: (i) any contrary provision of the Rulebook and/or (ii) any variation or modification in, or clarification of, the application of the resources described below set out in an Annex, where a Defaulter fails to pay any sum payable to the Clearing House, the Clearing House shall reduce or bear its loss in the manner provided by this Rule:
- (a) first, to the extent the Clearing House determines appropriate, in applying any Collateral transferred to the Clearing House by the Defaulter and any other sum owed to the Defaulter other than any Contribution (together, "**Margin Cover**"), **provided that** (i) Margin Cover related to a particular type of

Business is to be applied first to any loss attributable to that Business until such loss is absorbed; and (ii) save in the case where the relevant Client Accounts are two or more Individual Segregated Accounts opened by the Defaulter on behalf of the same Clearing Client (or, in the case of a Defaulter who is an FCM Clearing Member, two or more FCM Client Sub-Accounts held in the name of the same FCM Client or two or more FCM Omnibus Futures Client Accounts with LCH, [as applicable](#)), in no circumstances will Margin Cover transferred by the Defaulter in respect of obligations arising on a Client Account be applied by the Clearing House pursuant to this stage (a) in respect of any loss attributable to any of the Defaulter's other accounts;

- (b) second, by (i) recourse to the Defaulter's relevant Contribution in respect of the type of Business to which the loss relates, followed by (ii) recourse to any other Contribution made by the Defaulter to the extent not utilised under (i) above. The Clearing House will exercise its rights of recourse under this stage (b) by set-off against the Clearing House's obligation to repay the relevant Contributions to the Defaulter;
- (c) third, by payment from the Clearing House's own account of an amount (the "**Capped Amount**") (i) determined by the Clearing House from time to time in accordance with the requirements relating to the calculation and the setting aside of dedicated own resources under the Own Resources Provision; or (ii) in the case of a subsequent Default occurring before the Clearing House has reinstated the dedicated resources required in accordance with the Own Resources Provision, representing the residual amount of such dedicated own resources.

Where there are amounts due from the Defaulter at this stage in respect of more than one type of Business (each a "**Relevant Business**" in respect of the Defaulter), a separate Capped Amount determined in accordance with Rule 15(c)(i)-(ii) will be paid from the Clearing House's own account under this stage (c) in respect of such Relevant Business.

- (d) fourth, to the extent that any insurance or analogous arrangement is not available to the Clearing House, by recourse to the indemnities given under Rule 21 by Clearing Members other than the Defaulter (which shall be satisfied by set-off against the Clearing House's obligation to repay the relevant Contributions of such Clearing Members). If the criteria specified in a relevant Supplement for calling any Unfunded Contributions have been satisfied, then references to the Contributions of Clearing Members other than the Defaulter in this Rule 15(d) shall include such Unfunded Contributions;
- (e) fifth, by recourse to any insurance cover or analogous arrangement;
- (f) sixth, by recourse to the indemnities given under Rule 21 by Clearing Members other than the Defaulter (which shall be satisfied by set-off against the Clearing House's obligation to repay the relevant Contributions of such Clearing Members). If the criteria specified in a relevant Supplement for calling any Unfunded Contributions have been satisfied, then the references to the Contributions of Clearing Members other than the Defaulter in this Rule 15(f) shall include such Unfunded Contributions;

- (g) seventh, by recourse to any other indemnities, guarantees, undertakings or monies provided by Clearing Members;
- (h) eighth, in respect of RepoClear Business only, by recourse to the Service Closure Payments set out in Rule R11; or
- (i) ninth, and in respect of RepoClear Excess Loss only, as a loss borne by the Clearing House for its own account. For the avoidance of doubt, amounts will only be paid under this stage (i) if and to the extent that to do so would not result in the Clearing House being unable to meet all its other liabilities (taking into account for these purposes the obligation of the Clearing House to return cash Collateral transferred to the Clearing House in respect of Clearing Members' margin obligations and to repay the Contributions of all Clearing Members).

Any Excess Loss remaining in respect of a particular Business after application of the available resources under stages (a) to (g) under this Rule 15 shall be addressed as provided under the relevant Supplement without any recourse to Service Closure Payments (except with regard to RepoClear only) or other loss allocation provisions under any other Supplement or (except as provided in stage (i) with regard to RepoClear only) to the capital of the Clearing House.

Where a Defaulter is engaged in more than one ~~type of~~ Relevant Business, the completion of the default management processes in respect of such Relevant Businesses may occur at different times. The Clearing House may be required to make a determination in respect of one Relevant Business (including certification of a Default Loss under Rule 16(b), certification of a net sum payable under Rule 19(a) or the value of an Excess Loss) in order to manage the Default at a time when (a) the determination is contingent on an outcome of the default management process in respect of some other Relevant Business, and (b) that outcome has not yet been reached. In the interests of efficient resolution, the Clearing House may at such point make assumptions about that outcome, and proceed with the relevant process on that basis. Where any such assumptions have been made, the Clearing House shall, on the completion of the default management processes in respect of all Relevant Businesses, make such credits to the default funds relating to the Relevant 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 reached and the relevant assumptions had not been made.

This Rule has effect without prejudice to any rights of the Clearing House or any other person against the Defaulter.

Terms on which Contribution is held

16.

- (a) Subject to Rules 16(b) and (c) below, the outstanding balance of a Clearing Member's Contribution (or, as appropriate, part thereof) shall be repayable to the Clearing Member on the earliest to occur of the following events:

to an aggregate amount not exceeding the amount of the Non-Defaulting Clearing Member's Contribution in respect of the Relevant Business as calculated at the Determination Date immediately before the relevant Default together with the amount of any Unfunded Contribution, Loss Distribution Charge and/or Supplementary Contribution in respect of the Relevant Business that the Clearing House has called or would be entitled to call from the Non-Defaulting Clearing Member in relation to that Default;

- (b) The amount due by a Non-Defaulting Clearing Member in respect of an Excess Loss shall, save as otherwise provided under the ForexClear DMP Annex, the ~~SwapClear~~ [Rates Service](#) DMP Annex or the RepoClear DMP Annex, be the Non-Defaulting Clearing Member's *pro rata* share of such loss arising upon the relevant Default calculated as the proportion of such Member's relevant Contribution relative to the aggregate relevant Contributions of all Clearing Members engaged in the Relevant Business other than the relevant Defaulter at the time of the relevant Default, as applicable. Without prejudice to any other right of set-off or application of funds to which the Clearing House may be entitled, the Clearing House shall forthwith without notice set off any amount due in accordance with Rule 16(c) to a Clearing Member in respect of the relevant Contribution of such Clearing Member in or towards satisfaction of the amount payable by such Clearing Member under this Rule 21.
22. This Rule applies to a Defaulter (the "**First Defaulter**") where the Contribution of the First Defaulter has not been repaid to the First Defaulter or applied by the Clearing House under Rule 19, and Aggregate Excess Losses arise upon the Defaults of other Clearing Members. Where this Rule applies, Rule 21 shall have effect with the following modifications:
- (a) the balances (if any) of the First Defaulter's relevant Contributions may be applied under Rule 21 in respect of such relevant Aggregate Excess Losses up to and including the date three months after the date of issue of the Default Notice in respect of the First Defaulter's Default; and
- (b) after three months after the date of issue of such Default Notice, the balances (if any) of the First Defaulter's relevant Contributions may not be applied under Rule 21 in respect of such relevant Aggregate Excess Losses, but they may be retained on account of losses arising upon the First Defaulter's own Default and, for the purposes of Rule 21, they shall be disregarded.
23. The Clearing House shall give notice to each Clearing Member as soon as practicable after an amount has become due in accordance with Rule 21 and of the manner in which it has been satisfied.
24. If, in relation to a Default, the Clearing House has not yet certified in any Rule 19 Certificates issued on or before the Determination Date occurring immediately after the Default all sums which may be or become due to the Clearing House from the Defaulter (because such sums will not or may not become liquidated or for any other reason payable until a later date), the Clearing House shall maintain a Contribution from each Clearing Member (other than the Defaulter) as cover for the performance by such Clearing Member of its obligation to indemnify the Clearing House in

SCHEDULE 1
CLIENT CLEARING ANNEX

1. The Client Clearing DMP in respect of any contract which is a Contract entered into in respect of Client Clearing Business other than FCM Contracts (each a "**Relevant Contract**") shall involve the stages set out in this Annex. For the avoidance of doubt, in the case of a Defaulter who engages in more than one Relevant Client Clearing Business, the stages set out in this Annex will be implemented
 - (a) subject to paragraph (b) below, separately in relation to the Relevant Contracts entered into by such Defaulter in respect of each such Relevant Client Clearing Business; and
 - (b) as a single process in respect of all Relevant Contracts that are Rates Service Contracts entered into by a Defaulter on behalf of its Portfolio Margining Clients on a combined basis.

~~1. separately in relation to the Relevant Contracts entered into by such Defaulter in respect of each such Relevant Client Clearing Business. The Except in respect of Relevant Contracts entered into in respect of Rates Service Client Clearing Business, the Clearing House will not combine Relevant Contracts relating to different Relevant Client Clearing Businesses in a single Client Clearing DMP. The terms "**Account Balance**", "**Clearing Client**", "**Relevant Contract**", "**Relevant Auction Contract**", "**Individual Segregated Account**", "**Individual Segregated Account Clearing Client**", "**Individual Segregated Account Balance**", "**Omnibus Segregated Account**", "**Non-Identified Client Omnibus Net Segregated Account**", "**Identified Client Omnibus Net Segregated Account**", "**Affiliated Client Omnibus Net Segregated Account**", "**Omnibus Gross Segregated Account**", "**Non-Identified Omnibus Segregated Clearing Client**", "**Identified Omnibus Segregated Clearing Client**", "**Affiliated Omnibus Segregated Clearing Client**", "**Omnibus Gross Segregated Clearing Client**", "**Omnibus Segregated Account Balance**", "**Indirect Client**", "**Client Clearing Entitlement**", "**Aggregate Omnibus Client Clearing Entitlement**" and "**Clearing Agreement**" where used in paragraphs 2 to 18 of this Annex shall be interpreted accordingly.~~
2. For the purposes of this Annex, a Relevant Contract relating to ForexClear Clearing Client Business or ~~SwapClear~~ Rates Service Client Clearing Business of a Clearing Member and a Relevant Contract relating to RepoClear Client Clearing Business of a Clearing Member which is a Fixed Income Contract (each a "**Relevant Auction Contract**") will be included in a Portfolio (as such term is defined in, respectively, the ForexClear DMP Annex to the Default Rules, the Rates Service ~~SwapClear~~ DMP Annex to the Default Rules and the RepoClear DMP Annex to the Default Rules) from such time as the Clearing House determines that such Relevant Auction Contract will not be ported. For the avoidance of doubt, any such Portfolio will only contain Relevant Auction Contracts entered into by a Clearing Member on behalf of its Clearing Clients. The Clearing House shall not be entitled to combine client and house positions in a single Portfolio.

3. In the case of a Relevant Contract other than a Relevant Auction Contract which cannot be ported in accordance with the terms of this Annex, the Clearing House may take any one or more of those other steps which are set out in Rule 6 of the Default Rules (and which are applicable to open contracts of the relevant type) in respect of such Relevant Contract, from such time as the Clearing House determines that porting will not occur.
4. If a Clearing Member becomes a Defaulter, the Clearing House shall:
 - 4.1 determine one or more Porting Windows in respect of the relevant Default where "**Porting Window**" means the period of time, commencing on the day of the relevant Default and being at least 24 hours (other than in the case of a Porting Window Reduction (as defined below)), during which the Clearing House will seek to transfer Relevant Contracts entered into by the Defaulter and the Account Balances held in any Client Accounts opened by the Defaulter with the Clearing House to one or more Backup Clearing Members in accordance with the provisions of this Client Clearing Annex. Each such Porting Window will:
 - (a) be determined by the Clearing House in its sole discretion separately in respect of each type of Client Account within each separate Relevant Client Clearing Business of the relevant Defaulter (where Individual Segregated Accounts, Omnibus Gross Segregated Accounts, Identified Client Omnibus Net Segregated Accounts and Affiliated Client Omnibus Net Segregated Accounts are each a different "type of Client Account") and published on its website; and
 - (b) reflect, where applicable, any subsequent extension of the relevant period of time or, for a particular Client Account, a reduction of such period of time (a "**Porting Window Reduction**") applied by the Clearing House in its sole discretion and notified by means of a further publication on its website, provided, however, that (i) a Porting Window Reduction may be applied by the Clearing House to a particular Client Account solely where the Required Margin Amount in respect of such Client Account following the relevant Default becomes equal to 50% or more of the value of the Clearing Member Current Collateral Balance of such Client Account at the time of such Default; and (ii) in no circumstances will the total duration of the Porting Window following a Porting Window Reduction be less than 12 hours;
 - 4.2 determine the Account Balances;
 - 4.3 in the case of any Non-Identified Client Omnibus Net Segregated Account of a Defaulter who is an Exempt Client Clearing Member, seek to determine, in accordance with its default management procedures, the identities, and entitlements in respect of Contracts entered into by the relevant Exempt Client Clearing Member, in respect of each of the Clearing Clients grouped together in and comprising the relevant Non-Identified Client Omnibus Net Segregated Account. Where the Clearing House so determines the identities and entitlements of all of the relevant Clearing Clients to its satisfaction and in its sole and absolute discretion, those Clearing Clients shall cease to be designated as Non-Identified Omnibus Net Segregated Clearing Clients and shall instead become Determined Omnibus Net

Segregated Clients (and the term "**Determined Omnibus Net Segregated Clients**" is defined accordingly);

- 4.4 ascertain to its satisfaction whether each Clearing Client of the Defaulter from whom porting instructions are received has appointed a Backup Clearing Member. For the avoidance of doubt where the Defaulter is a Portfolio Margining Clearing Member and the relevant Clearing Client(s) is or are Portfolio Margining Client(s) (as applicable), each Backup Clearing Member appointed by such Portfolio Margining Client(s) in respect of the Relevant Contracts entered into in respect of Rates Service Client Clearing Business, must also be a Portfolio Margining Clearing Member; and
- 4.5 where applicable, send details of the open Relevant Contracts and the Account Balances to the nominated Backup Clearing Member for each relevant Individual Segregated Account, each relevant Omnibus Gross Segregated Clearing Client, each relevant group of Combined Omnibus Gross Segregated Clearing Clients and each relevant Omnibus Segregated Account of the Defaulter.
5. Following the occurrence of a Default, the Clearing House will specify (and publish on its website) the deadline in respect of that particular Default by which time a consent to porting must be received from a client for the purposes of paragraphs 6.1 and 6.2, 7 or 8.1 and 8.2 (as applicable) in order for the Clearing House to seek to port that client's Relevant Contracts. Any such consent may be provided in writing (including by facsimile and email) and, once received by the Clearing House, may not be withdrawn.
6. Subject to paragraph 14 below, in circumstances where (a) an Individual Segregated Account Clearing Client or an individual Omnibus Gross Segregated Clearing Client (other than a Combined Omnibus Gross Segregated Clearing Client) has appointed a Backup Clearing Member; and (b) within such period as the Clearing House may determine of the service of a Default Notice on the relevant Clearing Member pursuant to Rule 3 of the Default Rules or the Clearing House becoming aware of the occurrence of an Automatic Early Termination Event in respect of that Clearing Member (as the case may be) and the Clearing House has received confirmation in writing from the Backup Clearing Member of its agreement to act as Backup Clearing Member in relation to the arrangements described in paragraph 6.1 below and from the relevant client:
 - 6.1 the Clearing House shall (a) transfer all of the open Relevant Contracts entered into by the Defaulter in respect of the relevant Clearing Client to the appointed Backup Clearing Member; or (b) terminate and close out such contracts at their market value (as determined by the Clearing House in its discretion) and enter into new contracts on equivalent terms to such contracts with the appointed Backup Clearing Member in respect of the relevant Clearing Client;
 - ~~6.2~~ where the relevant Clearing Client (in an exercise of its rights under the relevant Security Deed or, in the case of such a client of a Defaulter who is an Exempt Client Clearing Member, following acceleration of the obligations of the Defaulter under its Undertaking to Pay or Deliver, so that such obligations become immediately due and payable, and satisfaction of such obligations by the Clearing House enforcing the security granted in its favour by the Defaulter under the relevant Deed of Charge)

instructs a transfer of the Account Balance attributable to it to the appointed Backup Clearing Member, the Clearing House shall give effect to such instruction;

6.36.2

- (a) upon the Clearing House taking the actions specified in paragraph 6.1(a) above: (i) that portion (if any) of the Clearing House Current Collateral Balance in respect of the Defaulter which is attributable to the Relevant Contracts referred to in that paragraph (the "**Relevant Portion**") shall be reduced to zero; and (ii) the Clearing House Current Collateral Balance in respect of the Backup Clearing Member shall be increased by an amount equal to the value of the Relevant Portion immediately prior to the reduction referred to in (i) immediately above; and
- (b) upon the Clearing House taking the actions specified in paragraph 6.1(b) above, the Clearing House Current Collateral Balance in respect of the Backup Clearing Member shall be increased by an amount equal to the value of that portion of the Clearing House Current Collateral Balance in respect of the Defaulter which was attributable to the Relevant Contracts referred to in that paragraph immediately prior to the termination and close-out of such Relevant Contracts in accordance with that paragraph; and

6.46.3 the amount of Collateral due to be returned to the Defaulter in respect of the relevant Client Account or the monetary value representing such amount of Collateral shall be reduced by an amount: (a) equivalent to the amount of Collateral comprising the Account Balance attributable to the relevant Clearing Client; or (b) equalling the monetary value representing such Account Balance (as applicable), transferred to the Backup Clearing Member, as referred to in paragraph 6.2 above.

- 7. Subject to paragraph 14 below, in circumstances where (a) an Individual Segregated Account Clearing Client of a Defaulter has appointed a Backup Clearing Member and is acting on behalf of Indirect Clearing Clients; and (b) within such period as the Clearing House may determine of the service of a Default Notice on the relevant Clearing Member pursuant to Rule 3 of the Default Rules or the Clearing House becoming aware of the occurrence of an Automatic Early Termination Event in respect of that Clearing Member (as the case may be), the Clearing House has received confirmation (i) in writing from the Backup Clearing Member of its agreement to act as Backup Clearing Member in relation to the arrangements described in paragraph 6.1; (ii) from the relevant client; and (iii) from each of the relevant Indirect Clearing Clients, the arrangements described in paragraphs 6.1, 6.2, 6.2 and 6.36.4 above will apply to (i) the Relevant Contracts entered into by the Defaulter in respect of the relevant Individual Segregated Account Clearing Client acting on behalf of its Indirect Clearing Clients; (ii) the Clearing House Collateral Balance in respect of the Defaulter and the Backup Clearing Member which is attributable to the Relevant Contracts specified in (i) immediately above; and (iii) the Individual Segregated Account Balance credited to the Individual Segregated Account opened within the Clearing House by the Defaulter in respect of the relevant Individual Segregated Account Clearing Client acting on behalf of its Indirect Clearing Clients.

8. Subject to paragraph 14 below, in circumstances where (a) all of the Identified Omnibus Net Segregated Clearing Clients of a Defaulter identified by the Clearing House as comprising a single Identified Client Omnibus Net Segregated Account or all of the Affiliated Omnibus Net Segregated Clearing Clients of a Defaulter identified by the Clearing House as comprising a single Affiliated Client Omnibus Net Segregated Account or each of the Omnibus Gross Segregated Clearing Clients comprising a group of Combined Omnibus Gross Segregated Clearing Clients, have appointed a single Backup Clearing Member; and (b) within such period as the Clearing House may determine following the service of a Default Notice on the relevant Clearing Member pursuant to Rule 3 of the Default Rules or the Clearing House becoming aware of the occurrence of an Automatic Early Termination Event in respect of that Defaulter (as the case may be), the Clearing House has received confirmation in writing from the Backup Clearing Member of its agreement to act as Backup Clearing Member in relation to the arrangements described in paragraph 8.1 below and from the relevant clients (in such form as the Clearing House may require at the relevant time):
- 8.1 the Clearing House shall (a) transfer all of the open Relevant Contracts entered into by the Defaulter in respect of the relevant clients to the appointed Backup Clearing Member; or (b) terminate and close out such contracts at their market value (as determined by the Clearing House in its discretion) and enter into new contracts on equivalent terms to such contracts with the appointed Backup Clearing Member in respect of the relevant clients;
- 8.2 where all of the relevant clients (in an exercise of their respective rights under the relevant Security Deed or, in the case of such clients of a Defaulter who is an Exempt Client Clearing Member, following acceleration of the obligations of the Defaulter under its Undertaking to Pay or Deliver, so that such obligations become immediately due and payable, and satisfaction of such obligations by the Clearing House enforcing the security granted in its favour by the Defaulter under the relevant Deed of Charge) instruct a transfer of the Omnibus Segregated Account Balances attributable to them to the appointed Backup Clearing Member, the Clearing House shall give effect to such instructions;
- 8.3
- (a) upon the Clearing House taking the actions specified in paragraph 8.1(a) above: (i) that portion (if any) of the Clearing House Current Collateral Balance in respect of the Defaulter which is attributable to the Relevant Contracts referred to in that paragraph (the "**Relevant Portion**") shall be reduced to zero; and (ii) the Clearing House Current Collateral Balance in respect of the Backup Clearing Member shall be increased by an amount equal to the value of the Relevant Portion immediately prior to the reduction referred to in (i) immediately above; and
- (b) upon the Clearing House taking the actions specified in paragraph 8.1(b) above, the Clearing House Current Collateral Balance in respect of the Backup Clearing Member shall be increased by an amount equal to the value of that portion of the Clearing House Current Collateral Balance in respect of the Defaulter which was attributable to the Relevant Contracts referred to in that

paragraph immediately prior to the termination and close-out of such Relevant Contracts in accordance with that paragraph; and

- 8.4 the amount of Collateral due to be returned to the Defaulter in respect of the Omnibus Segregated Account in which the relevant Omnibus Segregated Clearing Clients have an interest or the monetary value representing such amount of Collateral shall be reduced by an amount: (a) equivalent to the aggregate amount of Collateral comprising the Omnibus Segregated Account Balances attributable to the relevant Omnibus Segregated Clearing Clients or (b) equalling the aggregate monetary values representing such Omnibus Segregated Account Balances (as applicable) transferred to the Backup Clearing Member, as referred to in paragraph 8.2 above.
9. The Clearing House will seek to port Relevant Contracts and Account Balances under paragraphs 6.1 and 6.2, 7 or 8.1 and 8.2 above within the relevant Porting Window. In relation to those Clearing Clients of the Defaulter (including any such Clearing Clients who are acting on behalf of Indirect Clearing Clients) whose open Relevant Contracts are not dealt with pursuant to paragraphs 6.1 and 6.2, 7 or 8.1 and 8.2 above, the processes described in paragraphs 9.1 to 9.3 below shall occur.
- 9.1 In the case of those Clearing Clients who are Individual Segregated Account Clearing Clients, Identified Omnibus Segregated Clearing Clients or Affiliated Omnibus Segregated Clearing Clients, the Clearing House shall calculate the entitlement to Collateral and amounts in respect of the close-out of Relevant Contracts (the "**Client Clearing Entitlement**") of the Defaulter in respect of each such Clearing Client reflecting (a) the addition of any sums due from the Clearing House in respect of the close-out of the Relevant Contracts entered into by the Defaulter in respect of the relevant Clearing Client and (b) the deduction of (i) the costs of any hedging undertaken; (ii) amounts required to discharge all obligations owed to the Clearing House relating to Relevant Contracts entered into by the Defaulter in respect of the relevant Clearing Client (in the case of Relevant Auction Contracts, such amounts, together with the amounts referred to in (a) and the costs referred to in (b)(i) of this paragraph 9.1, being determined by the Clearing House under the processes provided for by the [SwapClear Rates Service](#) DMP Annex, the ForexClear DMP Annex or the RepoClear DMP Annex (as applicable)); (iii) any amounts to be deducted to reflect the operation of any set-off provision contained in a Clearing Agreement entered into between the Defaulter and the relevant Clearing Client and confirmed in writing to the Clearing House by or on behalf of both such parties; (iv) in respect of Clearing Clients who are identified by the Clearing House as comprising an Omnibus Segregated Account which is not an Omnibus Gross Segregated Account, amounts required to discharge all obligations owed to the Clearing House relating to Relevant Contracts entered into by the Defaulter in respect of other Omnibus Segregated Clearing Clients identified by the Clearing House as comprising the relevant Omnibus Segregated Account in question, in each case allocated *pro rata* as the Clearing House sees fit, in its sole discretion and (v) in respect any Omnibus Gross Segregated Clearing Client forming part of a group of Combined Omnibus Gross Segregated Clearing Clients, amounts required to discharge all obligations owed to the Clearing House relating to Relevant Contracts entered into by the Defaulter in respect of other Omnibus Gross Segregated Clearing Clients forming part of the same group of Combined Omnibus Gross Segregated Clearing Clients, in each case allocated *pro rata* as the Clearing House sees fit, in its sole discretion.

Save in the case of any amount paid to a Clearing Client in accordance with paragraph 9.2 below, the Clearing House will (upon, where applicable, instruction from the relevant Clearing Client in an exercise of its rights under the relevant Security Deed or, in the case of such a client of a Defaulter who is an Exempt Client Clearing Member, following acceleration of the obligations of the Defaulter under its Undertaking to Pay or Deliver, so that such obligations become immediately due and payable, and satisfaction of such obligations by the Clearing House enforcing the security granted in its favour by the Defaulter under the relevant Deed of Charge) pay the amounts of the Client Clearing Entitlements calculated by it under this paragraph 9.1 to the Defaulter for the account of the relevant clients.

9.2 Where the relevant Individual Segregated Account Clearing Client, Identified Omnibus Segregated Clearing Client or Affiliated Omnibus Segregated Clearing Client (in an exercise of its rights under the relevant Security Deed or, in the case of such a client of a Defaulter who is an Exempt Client Clearing Member, following acceleration of the obligations of the Defaulter under its Undertaking to Pay or Deliver, so that such obligations become immediately due and payable, and satisfaction of such obligations by the Clearing House enforcing the security granted in its favour by the Defaulter under the relevant Deed of Charge) instructs the Clearing House to pay an amount to it equal to the Client Clearing Entitlement due to be returned in respect of it to the Defaulter, the Clearing House shall seek to give effect to such instructions, subject to:

- (a) the delivery by the relevant Clearing Client and/or, where applicable, execution by the relevant Clearing Client, of appropriate documentation as specified on the Clearing House's website from time to time (which may, without limitation, include an indemnity (secured or otherwise));
- (b) in the case of any deduction made pursuant to (iii) in paragraph 9.1 of this Annex, the provision of appropriate documentation by or on behalf of the Defaulter;
- (c) in the case of an Affiliated Omnibus Net Segregated Clearing Client or an Identified Omnibus Net Segregated Clearing Client (for the purposes of this paragraph 9.2, the "**relevant Omnibus Net Segregated Clearing Client**") the delivery to the Clearing House by the relevant Omnibus Net Segregated Clearing Client of notification, setting out (to the satisfaction of the Clearing House, at its sole and absolute discretion and without the need for independent verification): (i) the identity of the relevant Omnibus Net Segregated Clearing Client; (ii) the relevant Omnibus Net Segregated Clearing Client's pro rata entitlement to the Collateral and amounts in respect of the close-out of Relevant Contracts held in the relevant Omnibus Segregated Account; and (iii) confirmation that the pro rata share referred to in (ii) has been agreed between the relevant Omnibus Net Segregated Clearing Client and all of the other Clearing Clients identified by the Clearing House as comprising the same single Omnibus Segregated Account as the relevant Omnibus Net Segregated Clearing Client (for the purposes of this paragraph 9.2, each such other Clearing Client being a "**relevant other Omnibus Net Segregated Clearing Client**"); and

- (d) in the case of a relevant Omnibus Net Segregated Clearing Client, the delivery to the Clearing House by each of the relevant other Omnibus Net Segregated Clearing Clients in respect of that relevant Omnibus Net Segregated Clearing Client, of notification setting out the equivalent information in respect of the relevant other Omnibus Net Segregated Clearing Client as is required to be provided to the Clearing House in the notification described in paragraph (c) above in respect of a relevant Omnibus Net Segregated Clearing Client.

The Clearing House will determine in its sole and absolute discretion, in accordance with its default management procedures applicable to the Relevant Client Clearing Business and its risk management obligations, the period of time (the "**Return Window**") during which it will seek to give effect to instructions received from Clearing Clients in accordance with this paragraph 9.2. The Clearing House may determine a different Return Window in respect of each different type of Client Account opened by the Defaulter with the Clearing House (where Individual Segregated Accounts, Omnibus Gross Segregated Accounts, Identified Client Omnibus Net Segregated Accounts and Affiliated Client Omnibus Net Segregated Accounts are each a different "type of Client Account") and will publish each such Return Window on its website. Any Client Clearing Entitlement which has not been paid by the Clearing House to the relevant Clearing Client in accordance with this paragraph 9.2 by the time of the expiry of the relevant Return Window shall instead be paid to the Defaulter for the account of the relevant Clearing Client in accordance with paragraph 9.1 above.

- 9.3 In the case of the Non-Identified Omnibus Segregated Clearing Clients of a Defaulter, the Clearing House shall calculate the aggregate entitlement to Collateral and amounts in respect of the close-out of Relevant Contracts (the "**Aggregate Omnibus Client Clearing Entitlement**") of the Defaulter in respect of all such clients collectively reflecting (a) the addition of any sums due from the Clearing House in respect of the close-out of the Relevant Contracts entered into by the Defaulter in respect of the relevant clients and (b) the deduction of (i) the costs of any hedging undertaken; (ii) amounts required to discharge all obligations owed to the Clearing House relating to Relevant Contracts entered into by the Defaulter in respect of the relevant client (in the case of Relevant Auction Contracts, such amounts, together with the amounts referred to in (a) and the costs referred to in (b)(i) of this paragraph 9.3, being determined by the Clearing House under the processes provided for by the [SwapClear Rates Service DMP Annex](#), the [ForexClear DMP Annex](#) or the [RepoClear DMP Annex](#) (as applicable)); (iii) any amounts to be deducted to reflect the operation of any set-off provision contained in a Clearing Agreement entered into between the Defaulter and any such relevant client and confirmed in writing to the Clearing House by or on behalf of both such parties; and (iv) amounts required to discharge all obligations owed to the Clearing House relating to Relevant Contracts entered into by the Defaulter in respect of the other Non-Identified Omnibus Segregated Clearing Clients of the Defaulter, in each case allocated *pro rata* as the Clearing House sees fit in its sole discretion. All amounts calculated in respect of Aggregate Omnibus Client Clearing Entitlements under this paragraph 9.3 shall be paid by the Clearing House to the Defaulter for the account of the relevant clients.
10. Risk Neutralisation and the auction process relating to the Relevant Auction Contracts which are SwapClear Contracts [and/or Listed Interest Rates Contracts](#) shall be

conducted in accordance with the provisions of the [Rates Service SwapClear](#)-DMP Annex, save that no hedging shall be undertaken in respect of any Relevant Contract relating to [Rates Service SwapClear](#)-Client Clearing Business until such time as the Clearing House has determined that the Relevant Contract in question will not be ported, from which time such contract shall be a Relevant Auction Contract and included in a Portfolio in accordance with the terms of paragraph 2 of this Client Clearing Annex and the terms of such [Rates Service SwapClear](#)-DMP Annex.

11. Risk Neutralisation and the auction process relating to the Relevant Auction Contracts which are ForexClear Contracts shall be conducted in accordance with the provisions of the ForexClear DMP Annex, save that no hedging shall be undertaken in respect of any Relevant Contract relating to ForexClear Clearing Client Business until such time as the Clearing House has determined that the Relevant Contract in question will not be ported, from which time such contract shall be a Relevant Auction Contract and included in a Portfolio in accordance with the terms of paragraph 2 of this Client Clearing Annex and the terms of such ForexClear DMP Annex.
12. Risk Mitigation and the auction process relating to the Relevant Auction Contracts which are Fixed Income Contracts shall be conducted in accordance with the provisions of the RepoClear DMP Annex, save that no hedging shall be undertaken in respect of any Fixed Income Contract which is a Relevant Contract relating to RepoClear Client Clearing Business until such time as the Clearing House has determined that the Relevant Contract in question will not be ported, from which time such contract shall be a Relevant Auction Contract and included in a Portfolio in accordance with the terms of paragraph 2 of this Client Clearing Annex and the terms of such RepoClear DMP Annex.
13. Determination of the Account Balances, the Client Clearing Entitlements and the Aggregate Omnibus Client Clearing Entitlements will be undertaken by the Clearing House in accordance with its own records based on information provided to it by the Defaulter. The Clearing House shall be under no obligation to verify or to conduct any independent enquiry in respect of any such information and shall be entitled for all purposes to treat it as definitive. However, the Clearing House may, in its absolute discretion, adjust its records to reflect any matter which it believes should be taken into account in determining the Account Balances, the Client Clearing Entitlements and/or the Aggregate Omnibus Client Clearing Entitlements.
14. Nothing in this Client Clearing Annex shall give rise to a requirement for the Clearing House to take any action which would contravene the provisions of Applicable Law or of any United Nations, European Union or other sanctions or other similar measures implemented or effective with respect to a Clearing Client which is, or is controlled by or otherwise connected with, a person resident in, incorporated in or constituted under the laws of, or carrying on business in a country to which any such sanctions or other similar measures apply, or is otherwise the target of any such sanctions or other similar measures.
15. Subject to this paragraph and to paragraph 16 below, a person who is not a party to this Client Clearing Annex (the parties to this Client Clearing Annex for these purposes being the Clearing House and the Clearing Members) has no right under the Contracts (Rights of Third Parties) Act 1999 (the "**Third Parties Act**") to enforce any term of this Client Clearing Annex.

SCHEDULE 2
SWAPCLEAR RATES SERVICE DMP ANNEX

1. Scope and Interpretation

1.1 The SwapClear Service and Listed Interest Rates Service share a common default fund. Accordingly, the risk profile of participating in either one of such Services may be impacted by other Clearing Members participating in the other such Service whether or not as a Portfolio Margining Clearing Member.

1.2 The Clearing House has established a SwapClear Rates Service DMP which will apply to Rates Service SwapClear Contracts following the issue of a Default Notice relating to a Rates Service SwapClear Clearing Member and in respect of which, for the avoidance of doubt, the Clearing House will have no recourse to the process of invoicing-back in respect of SwapClear Contracts. The fundamental principles of the Rates Service SwapClear DMP are elaborated to the fullest extent possible in this Annex. Where exhaustive detail cannot be laid out in the provisions of this Annex, the Rates Service SwapClear DMP will be undertaken on the basis of the principles contained herein.

1.3 Whilst this Annex sets out the default management process in respect of all Rates Service Contracts, it provides for the various types of such Contracts to be treated differently (i.e. depending on whether such Contracts are SwapClear Contracts, Portfolio Margined Contracts or Listed Interest Rates Contracts that are not Portfolio Margined Contracts). Given the scope of the Contracts it covers, the Annex sets out a default management process that applies to defaulting Clearing Members and non-defaulting Clearing Members who are SCMs (whether or not such SCMs are also Listed Interest Rates Clearing Members or Portfolio Margining Clearing Members) and to Listed Interest Rates Clearing Members (whether or not they are also SCMs or, indeed, Portfolio Margining Clearing Members) and, for the purposes of this Annex, unless the context specifically requires otherwise, the terms "SCM" "Defaulting SCM" and "Non-Defaulting SCM" should all be construed to include SCMs who are Joint Rates Service Clearing Members.

1.4 The Clearing House has an obligation to ensure the on-going integrity of the SwapClear service and SwapClear Contracts Service, the Listed Interest Rates Service, the SwapClear Contracts and the Listed Interest Rates Contracts in the interests of the Non-Defaulting SCMs Rates Service Clearing Members. When an SCM SwapClear Clearing Member defaults, Non-Defaulting SCMs are required to supply impartial expertise through the SwapClear Rates Service DMG and to bid for the Auction Portfolios of thea Defaulting SCM, as laid out in this Annex. In addition, Rates Service Clearing Members and most SCMs or their parent companies and/or subsidiaries and/or fellow subsidiaries, have direct interests in that the ongoing integrity of the SwapClear Service and Listed Interest Rates Service, notably as contributors to the various default funds of the Clearing House. Each Each SCM Rates Service Clearing Member shall take all steps and execute all documents necessary or required by the Clearing House to comply with its obligations as a Rates Service Clearing Member SCM arising out of this Annex.

1.5 The initial margining process in respect of SwapClear Contracts will be such so as to ensure that the acceptance of bids for the Auction Portfolios of a Defaulting SCM will

recognise risk premiums, and that equivalent premiums will be paid by the Clearing House in closing-out large positions in other Contracts traded on exchange of ~~ATF~~ ATS -organised markets.

1.41.6 In this Annex:

"AIP" has the meaning given in Rule- 2.52.4 of this Annex;

"Auction" means the process of bidding by Non-Defaulting SCMs ~~SwapClear Clearing Members~~ for an OTC Auction Portfolio or by Non-Defaulting Joint Rates Service Clearing Members for a Basis Portfolio as prescribed by the Clearing House following consultation with the SwapClear Rates Service DMG from time to time in accordance with Rule 2.32.4 of this Annex;

"Auction Losses" has the meaning given in the first paragraph of Rule 2 of this Annex ~~Rule 2.5(b) of this Annex~~;

"Auction Portfolio Category" means in relation to a OTC Auction Portfolio, the SwapClear Contract Category to which the SwapClear Contracts in the OTC Auction Portfolio belong, provided that in the case of an OTC Auction Portfolio containing both IRS SwapClear Contracts and Inflation SwapClear Contracts, the relevant Auction Portfolio Category shall be deemed to be the Inflation SwapClear Contract Category; ~~means (i) a Portfolio; or (ii) a group of SwapClear Contracts resulting from the splitting of a Portfolio pursuant to Rule 2.1 of this Annex including any connected hedging trades concluded by the Clearing House through Risk Neutralisation;~~

~~"Auction Portfolio Category" means in relation to an Auction Portfolio, the SwapClear Contract Category to which the SwapClear Contracts in the Auction Portfolio belong, provided that in the case of an Auction Portfolio containing both IRS SwapClear Contracts and Inflation SwapClear Contracts, the relevant Auction Portfolio Category shall be deemed to be the Inflation SwapClear Contract Category;~~

"Auction Portfolio Currency" means in relation to a OTC Auction Portfolio, the currency in which the Contracts in the OTC Auction Portfolio are denominated; ~~means in relation to an Auction Portfolio, the SwapClear currency in which the SwapClear Contracts in the Auction Portfolio are denominated;~~

"Bankruptcy Code" means the U.S. Bankruptcy Code, as amended;

"Basis Portfolio" means a Portfolio containing both SwapClear Contracts and Portfolio Listed Interest Rates Contracts, as more fully defined in Rule 2.3 below;

"CEA" means the U.S. Commodity Exchange Act, as amended;

"CFTC" means the U.S. Commodity Futures Trading Commission;

"Defaulting Joint Rates Service Clearing Member" means a Joint Rates Service Clearing Member who is a Defaulter;

"Derivatives Clearing Organization" means an organisation designated and registered as such by way of United States Code Title 7, Chapter 1, paragraph 7a-1;

"**Equal Bid**" has the meaning given in Rule 2.43(e) of this Annex;

"Exchange Closed-out Contracts" means those Listed Interest Rates Contracts of a Defaulting Listed Interest Rates Clearing Member that are closed-out under the Exchange Rules of the Exchange to which they relate, which, for the avoidance of doubt, will be all Listed Interest Rates Contracts of a Defaulting Listed Interest Rates Clearing Member who is not a Joint Rates Service Clearing Member and those Listed Interest Contracts of a Defaulting Joint Rates Service Clearing Member that are not Portfolio Listed Interest Rates Contracts;

"**Expected Auction Participant**" means, in respect of an OTC Auction Portfolio, any Non-Defaulting SCM who, at the time the Clearing House declares a Default, has at least one Resembling Contract registered in its name;

"**FCM SwapClear Client Business**" means the provision of FCM SwapClear Client Clearing Services by an FCM Clearing Member to its FCM Clients;

"**FCM SwapClear House Business**" means the FCM SwapClear Contracts entered into by an FCM Clearing Member for its ~~own account or for the account of an affiliate~~ Proprietary Account;

"**Guidance**" means guidance, in the form of one or more written notices, issued from time to time ~~pursuant to Rule 1.2 of this Annex~~ by or on behalf of the Clearing House to SwapClear Clearing Members, supplementing the detail or conduct of any aspect of the SwapClear Rates Service DMP;

~~"Higher Bid" and "Higher Bidder" have the meanings given in Rule 2.5(e) of this Annex;~~

"**Inflation SwapClear Contract Category**" means the category of SwapClear Contracts which comprises Inflation SwapClear Contracts registered with the Clearing House;

"**Initial Resources**" has the meaning given in Rule 2.65(b) of this Annex;

"**IRS SwapClear Contract Category**" means the category of SwapClear Contracts which comprises IRS SwapClear Contracts registered with the Clearing House;

"Listed Interest Rates Out Bidder" has the meanings given in Rule 2.6(f)(ii) of this Annex;

"Listed Interest Rates Short Bidder" has the meaning given in Rule 2.5(d2.6(f)(ii) of this Annex;

"**Losing AP Type**" has the meaning given in Rule 2.65(d) of this Annex;

"Losing Original Joint Rates Service Clearing Member" has the meaning given in Rule 2.52.6(g) of this Annex;

"**Losing Original SCM**" has the meaning given in Rule 2.65(d) of this Annex;

"Losing Unfunded Joint Rates Service Clearing Member" has the meaning given in Rule 2.6(n) of this Annex;

"**Losing Unfunded SCM**" has the meaning given in Rule 2.65(kg) of this Annex;

"**Margin Cover**" has the meaning given in Rule 15(a) of the Default Rules;

"**Non-Defaulters' Listed Interest Rates Contributions**" means the Listed Interest Rates ~~SwapClear~~ Contributions made by Non-Defaulting Listed Interest Rates Clearing Members~~SCMs to the SwapClear Default Fund~~;

"Non-Defaulters' SwapClear Contributions" means the SwapClear Contributions made by Non-Defaulting SCMs;

"**Original Listed Interest Rates Contributions**" has the meaning given in Rule 2.65(fe) of this Annex;

"Original SwapClear Contributions" has the meaning given in Rule 2.6(c) of this Annex;

"OTC Auction Portfolio" means (i) a Portfolio containing only SwapClear Contracts; or (ii) a group of SwapClear Contracts resulting from the splitting of a Portfolio pursuant to Rule 2.1 of this Annex, including in both such cases any connected hedging swap transactions (but not any hedging Listed Interest Rates Contracts or other exchange contracts) concluded by the Clearing House through Risk Neutralisation;

"Out Bid" has the meaning given in Rule 2.6(c)(ii) of this Annex;

"Participating Non-Defaulting Joint Rates Service Clearing Member" has the meaning given in Rule 2.9(a)(iv)(B) of this Annex;

"**Portfolio**" means, in respect of each SwapClear currency, the SwapClear Contracts in such currency registered in the name of a Defaulting SCM in respect of House Clearing Business or the SwapClear Contracts in such currency registered in the name of a Defaulting SCM in respect of Client Clearing Business and, in both such cases includes, where relevant, any Portfolio Margined Contracts and any Listed Interest Rates Contracts and/or other hedging trades connected to the relevant SwapClear Contracts or Portfolio Margined Contracts (as the case may be) concluded by the Clearing House through Risk Neutralisation. For the avoidance of doubt, a Portfolio containing ~~SwapClear~~ Contracts relating to the Client Clearing Business of a Defaulting SCM will only contain ~~SwapClear~~ Contracts relating to Client Clearing Business. The Clearing House shall not be entitled to combine client and house positions in a single Portfolio;

"Portfolio Listed Interest Rates Contracts" means those Listed Interest Rates Contracts of a Defaulting Joint Rates Service Clearing Member that are included in a Portfolio, whether such Listed Interest Rates Contracts are Portfolio Margined Contracts or Listed Interest Rates Contracts concluded by the Clearing House through Risk Neutralisation;

"**Potential Listed Interest Rates Unfunded Contributions**" has the meaning given in Rule 2.54(b) of this Annex;

"**Potential SwapClear Unfunded Contributions**" has the meaning given in Rule 2.5(b)(iii) of this Annex;

"**Rates Service Default Management Process Completion Date**" means the date when the Rates Service Default Management Process in relation to a Default has been completed as determined by the Clearing House in consultation with the Rates Service DMG and notified to all Rates Service Clearing Members;

"**Rates Service DMG**" means the advisory Default Management Group established by the Clearing House pursuant to the terms of this Annex;

"**Rates Service DMP or Rates Service Default Management Process**" means the processes of the Clearing House outlined in this Annex, as the same may be supplemented and/or amended from time to time in accordance with this Annex;

"**Recognised Clearing House**" mean an organisation which is declared to be a recognised clearing house by a recognition order (that is for the time being in force) made under section 290(1)(b) of the Financial Services and Markets Act 2000;

"**Relevant Listed Interest Rates Unfunded Contributions**" has the meaning given to it in Rule 2.6(m) of this Annex;

"**Relevant Original Listed Interest Rates ~~Original~~ Contributions**" has the meaning given to it in Rule 2.65(fe) of this Annex;

"**Relevant Original SwapClear Contributions**" has the meaning given to it in Rule 2.6(c) of this Annex;

"**Relevant SwapClear Unfunded Contributions**" has the meaning given to it in Rule 2.65(jf) of this Annex;

"**Remaining Non-Defaulting Joint Rates Service Clearing Member**" means each Non-Defaulting Joint Rates Service Clearing Member which is not a Participating Non-Defaulting Joint Rates Service Clearing Member;

"**Remaining Original Listed Interest Rates Short Bidder**" has the meaning given in Rule 2.6(f)(ii) of this Annex~~2.5(e) of this Annex~~;

"**Remaining Original SwapClear Short Bidder**" has the meaning given in Rule 2.6(c)(ii) of this Annex;

"**Remaining Unfunded Listed Interest Rates Short Bidder**" has the meaning given to it in Rule 2.6(m)(ii) of this Annex~~2.5(f) of this Annex~~;

"**Remaining Unfunded SwapClear Short Bidder**" has the meaning given to it in Rule 2.6(j)(ii) of this Annex;

"**Resembling Contract**" means, in respect of the SwapClear Contracts in a specific OTC Auction Portfolio, a SwapClear Contract registered in the name of a

Non-Defaulting SCM that (i) is denominated in the same Portfolio Currency as such SwapClear Contracts and (ii) belongs to the SwapClear Contract Category which corresponds to the Auction Portfolio Category of such OTC Auction Portfolio;

~~"Resembling Contract" means, in respect of the SwapClear Contracts in a specific Auction Portfolio, a SwapClear Contract registered in the name of a Non-Defaulting SCM that (i) is denominated in the same Portfolio Currency as such SwapClear Contracts and (ii) belongs to the SwapClear Contract Category which corresponds to the Auction Portfolio Category of such Auction Portfolio;~~

"**Risk Neutralisation**" means the process of reducing the market risk associated with a Defaulting SCM's obligations to the Clearing House under SwapClear Contracts and/or Portfolio Margined Contracts by hedging the exposure prior to the auction process as described in Rule 2.2 of this Annex;

~~"Short Bidder" has the meaning given in Rule 2.5(e) of this Annex;~~

"**SwapClear Contract Category**" means a category of SwapClear Contracts, being either the Inflation SwapClear Contract Category or the IRS SwapClear Contract Category;

"**SwapClear Default Management Process Completion Date**" means the date when the SwapClear Default Management Process in relation to a Default has been completed as determined by the Clearing House in consultation with the SwapClear DMG and notified to all SCMs;

"SwapClear-Only Clearing Member" means an SCM that is not a Joint Rates Service Clearing Member (i.e., that is not also a Listed Interest Rates Clearing Member);

"SwapClear Out Bidder" has the meanings given in Rule 2.6(c)(ii) of this Annex;

~~"SwapClear DMG" means the advisory Default Management Group established by the Clearing House pursuant to the terms of this Annex;~~

~~"SwapClear DMP or SwapClear Default Management Process" means the processes of the Clearing House outlined in this Annex, as the same may be supplemented and/or amended from time to time in accordance with this Annex;~~

"SwapClear Short Bidder" has the meaning given in Rule 2.6(c)(ii) of this Annex;
and

and

"**Worst Case Loss**" means, in respect of (i) the ~~SwapClear~~ Contracts in an OTC Auction Portfolio or (ii) the Resembling Contracts of a particular Non-Defaulting SCM, the largest loss which could be incurred by the Clearing House in respect of the relevant group of SwapClear Contracts, as determined by the Clearing House using the SwapClear PAIRS margining algorithm based on 2,500 historical scenarios (10 years history) and a holding period of 5 days.

Terms used in this Annex which are not defined herein shall have the meanings given to them in the Regulations and in the FCM Regulations.

2. **Rates Service SwapClear-Clearing House Business, Relevant Auction Contracts in respect of Rates Service Client Clearing Business and FCM SwapClear House Clearing House Business and FCM SwapClear House Business**

The SwapClear-Rates Service Default Management Process in respect of SwapClear Rates Service Clearing House Business-, Relevant Auction Contracts in respect of Rates Service Client Clearing Business and FCM SwapClear House Business shall involve the processes described in this Rule 2. Rules 2.1 to 2.4 describe the steps for the determination of losses to the Clearing House in respect of OTC Auction Portfolios and Basis Portfolios by way of an auction process. Rules 2.5 to 2.7 describe the steps for the allocation of resources to losses arising from the auction of OTC Auction Portfolios (the "**Auction Losses**"). Rules 2.8 and 2.9 describe the steps for the allocation of resources to losses incurred by the Clearing House in respect of Exchange Closed-out Contracts and Basis Portfolios, respectively and ~~FCM SwapClear House Business shall involve the stages described in this Rule 2.~~

Resources will be allocated based on the order that the processes described in Rules 2.1 to 2.9 are carried out. Accordingly, once a process is commenced the relevant resources will be allocated in accordance with the steps and order set out in the relevant Rule which applies to that process. Allocation of resources pursuant to a process or the order in which processes are carried out may (i) reduce the resources which are available to meet the losses in respect of any subsequent process and (ii) consequently impact the allocation of losses amongst non-defaulting Clearing Members. For the avoidance of doubt, the Clearing House may in its sole and absolute discretion determine the order in which the processes described in Rules 2.1 to 2.9 are commenced.

2.1 ***Portfolio Splitting***

The Clearing House, in consultation with and with the assistance of the SCMs within the Rates Service SwapClear-DMG, shall determine the composition of each OTC Auction Portfolio and shall have the discretion to divide a Portfolio into create two or more individual OTC Auction Portfolios from a Portfolio (including a Basis Portfolio), whether by simply dividing such Portfolio or separating certain Contracts from such Portfolio, with the aim of facilitating the efficiency of, and reducing the risk associated with, the auction process provided for in Rule 2.3 of this Annex. The overriding principle behind the portfolio splitting process is that the Clearing House will structure OTC Auction Portfolios with the intention of ensuring a SwapClear Rates Service DMP which best protects the resources of the Clearing House, subject to compliance with applicable provisions of the CEA and the CFTC Regulations regarding segregation of client assets. Therefore, nothing in this Rule 2.1 shall be deemed to imply: (a) that the Clearing House is under any obligation to split a particular Portfolio of a Defaulting SCM (regardless of the number of SwapClear Contracts that such Portfolio contains); or (b) any particular requirements as to the composition of an individual-individual OTC Auction Portfolio, (including in terms of: (i) combining or separating SwapClear Contracts belonging to different SwapClear Contract Categories; (ii) combining or separating Inflation SwapClear Contracts having different underlying indices; and/or (iii) creating one or more OTC Auction

~~Portfolios from a Basis Portfolio, except that, subject to overriding risk procedures, it is broadly anticipated that: (a) the parameters of any OTC Auction Portfolio shall not be materially different to those set out in the Clearing House's fire drill; and (b) an OTC Auction Portfolio containing Inflation SwapClear Contracts will often also contain SwapClear Contracts which are not Inflation SwapClear Contracts for the purposes of interest rate risk neutralisation only. Auction Portfolio, (including in terms of combining or separating (i) SwapClear Contracts belonging to different SwapClear Contract Categories or (ii) Inflation SwapClear Contracts having different underlying indices), except that, subject to overriding risk procedures, it is broadly anticipated that; (a) the parameters of any Auction Portfolio shall not be materially different to those set out in the Clearing House's fire drill and (b) an Auction Portfolio containing Inflation SwapClear Contracts will often also contain SwapClear Contracts which are not Inflation SwapClear Contracts for the purposes of interest rate risk neutralisation only.~~

2.2 *Risk Neutralisation*

~~The Clearing House will, in consultation with, and with the assistance of, the Rates Service DMG, reduce the market risk associated with a Defaulting Rates Service Clearing Member's obligations to the Clearing House so far as is reasonably practicable by hedging the Clearing House's exposure in open Rates Service Contracts to which the Defaulting SCM is party. Such hedging will be achieved in part by: (x) the splitting of Portfolios pursuant to Rule 2.1 above; and/or (y) transfers of certain Rates Service Contracts to one or more Hedged Accounts as described more fully in the Procedures (or, in respect of a defaulting FCM Clearing Member, in the FCM Procedures). In addition, the Clearing House may transfer Listed Interest Rates Contracts and/or enter into new swaps transactions, Listed Interest Rates Contracts and/or exchange contracts (as appropriate) for the purpose of hedging with Non-Defaulting Rates Service Clearing Members (in each such case, on the basis of a separate agreement between the Clearing House and the relevant Non-Defaulting Rates Service Clearing Member) or with third parties. The aim of Risk Neutralisation is to reduce market exposure to within defined tolerance limits expressed as deltas or other measures of market risk and as established from time to time by the Clearing House in consultation with the Rates Service DMG or as may reasonably be determined by the Clearing House in consultation with the Rates Service DMG once a Default has been declared under the Default Rules. For the avoidance of doubt, Risk Neutralisation may happen prior to, as part of, concurrently with and/or subsequently to the splitting of a Portfolio pursuant to Rule 2.1 above.~~

2.3 *Basis Portfolio Composition*

~~Prior to each Auction and for each Auction Portfolio Currency the Clearing House shall, in consultation with and with the assistance of the Rates Service DMG, construct an OTC-futures basis portfolio through entering into hedging swaps transactions with one or more Non-Defaulting Joint Rates Service Clearing Members ("Basis Portfolio"). The aim in constructing the Basis Portfolio is to transfer all futures risk associated with the Portfolio Margined Contracts into (1) OTC-equivalent risk; and (2) an OTC-futures basis position.~~

~~The Clearing House will, in consultation with and with the assistance of the SwapClear DMG, reduce the market risk associated with a Defaulting SCM's~~

~~obligations to the Clearing House so far as is reasonably practicable by hedging the Clearing House's exposure in open SwapClear Contracts to which the Defaulting SCM is party. All such hedging shall be undertaken by the Clearing House with SCMs, on the basis of separate agreements between the Clearing House and each such SCM. The aim of Risk Neutralisation is to reduce market exposure to within defined tolerance limits expressed as deltas or other measures of market risk and as established from time to time by the Clearing House in consultation with the SwapClear DMG or as may reasonably be determined by the Clearing House in consultation with the SwapClear DMG once a Default has been declared under the Default Rules. For the avoidance of doubt, Risk Neutralisation may happen prior to, concurrently with and/or subsequently to the splitting of a Portfolio pursuant to Rule 2.1 above.~~

2.32.4 Auction

(a) Following the completion of Risk Neutralisation, the Clearing House shall auction each OTC Auction Portfolio to Non-Defaulting SCMs and each Basis Portfolio to Non-Defaulting Joint Rates Service Clearing Members, in both such cases in order to:

- (i) ~~in order to~~ seek to re-establish with those Non-Defaulting SCMs and Non-Defaulting Joint Rates Service Clearing Members (as applicable) the positions the Clearing House had with the Defaulting SCM under the relevant Rates Service Contracts; and
- (ii) seek to determine the net value of those Rates Service Contracts for the purposes of determining the extent of any losses to the Clearing House which are to be reduced or borne broadly in the manner provided by Rule 15 (Reduction of Losses on Default) of the Default Rules or, as the case may be, the extent of any gains to the Clearing House which the Clearing House must pay to the Defaulting SCM.

The Clearing House, in consultation with the Rates Service DMG, shall prescribe such procedures (in addition to those set out herein) for the conduct of the auction process as it considers reasonably appropriate from time to time.

~~(a) the positions it had with the Defaulting SCM under the SwapClear Contracts in each Auction Portfolio with Non-Defaulting SCMs and to seek to determine the net value of those SwapClear Contracts for the purposes of determining the extent of any losses to the Clearing House which are to be reduced or borne in the manner provided by Rule 15 (Reduction of Losses on Default) of the Default Rules or, as the case may be, the extent of any gains to the Clearing House which the Clearing House must pay to the Defaulting SCM. The Clearing House, in consultation with the SwapClear DMG, shall prescribe such procedures (in addition to those set out herein) for the conduct of the auction process as it considers reasonably appropriate from time to time.~~

- (b) ~~The Clearing House shall notify each Non-Defaulting SCM of all details that may be reasonably required in relation to an OTC Auction Portfolio and each Non-Defaulting Joint Rates Service Clearing Member of all details that may be reasonably required in relation to a Basis Portfolio, prior to the relevant Auction. Clearing House shall notify each SCM of all details that may be reasonably required in relation to an Auction Portfolio prior to the relevant Auction.~~
- (c) ~~The auction process may take place over a number of days and Auctions of different OTC Auction Portfolios and different Basis Portfolios may take place at different times. auction process may take place over a number of days and Auctions of different Auction Portfolios may take place at different times.~~
- (d) ~~SCMs will submit bids to the Clearing House representatives on the SwapClear DMG, who will ensure that the identities of the bidders are not revealed to the SCM representatives on the SwapClear DMG. For the avoidance of doubt, an SCM shall be entitled to submit a bid on behalf of one or more affiliated SCMs. The SwapClear DMG will oversee the bidding process in a manner which it considers best protects the resources of the Clearing House and ensures an orderly process.~~ The relevant Non-Defaulting SCMs (in respect of each OTC Auction Portfolio) and Non-Defaulting Joint Rates Service Clearing Members (in respect of each Basis Portfolio) will submit bids to the Clearing House representatives on the Rates Service DMG, who will ensure that the identities of the bidders are not revealed to the Rates Service Clearing Member representatives on the Rates Service DMG. For the avoidance of doubt, a Non-Defaulting SCM shall be entitled to submit a bid in respect of an Auction of an OTC Auction Portfolio on behalf of one or more affiliated SCMs. The Rates Service DMG will oversee the bidding process in a manner which it considers best protects the resources of the Clearing House and ensures an orderly process.
- (e) The Clearing House in consultation with the Rates Service ~~SwapClear~~ DMG will have full discretion in deciding whether or not to accept a particular bid in an Auction and, in so deciding, will take into account the relevant factors that determine risk premiums, as well as the range of bids received relative to the amount of Collateral held in respect of initial margin and, subject to their availability, the Clearing House resources as set out in Rule 15 of the Default Rules. In the event that more than one Non-Defaulting SCM or Non-Defaulting Joint Rates Service Clearing Member ~~SCM~~ submits a bid of the same value (each an "**Equal Bid**"), the Clearing House will, subject to its discretion to reject all such Equal Bids, select the bid which was received first in time.
- (f) In the case of an Auction in which no bid is accepted or received ~~(as the case may be)~~, one or more further Auctions will be held in relation to the relevant OTC Auction Portfolio or Basis Portfolio (as applicable). As soon as practicable following an Auction:
- (i) in the event that a bid was accepted, the Clearing House will notify (1) in the case of an Auction of an OTC Auction Portfolio, the Expected Auction Participants together with any other Non-Defaulting SCMs

who participated in the Auction that a bid was accepted; (2) in the case of an Auction of a Basis Portfolio, the Non-Defaulting Joint Rates Service Clearing Members who participated in the Auction that a bid was accepted; and (3) in both such cases, the SCM who submitted the accepted bid that its bid was accepted; and the event that a bid was accepted, the Clearing House will notify the Expected Auction Participants together with any other SCMs who participated in the Auction that a bid was accepted and shall notify the SCM who submitted the accepted bid that its bid was accepted;

- (ii) in the event that no bid was accepted, the Clearing House will notify (1) all Non-Defaulting SCMs of the details of any further Auction in respect of an OTC Auction Portfolio; and (2) all Non-Defaulting Joint Rates Service Clearing Members of the details of any further Auction in respect of a Basis Portfolio.~~all SCMs of the details of any further Auction.~~

- (g) The SCM agrees to use all reasonable efforts to make a bid in an Auction for an Auction Portfolio in respect of which such SCM is an Expected Auction Participant.~~Each Non-Defaulting SCM agrees to use all reasonable efforts to make a bid in an Auction for an OTC Auction Portfolio in respect of which it is an Expected Auction Participant and each Non-Defaulting Joint Rates Service Clearing Member agrees to use all reasonable efforts to make a bid in an Auction for a Basis Portfolio.~~

2.4.2.5 Auction Incentive Pools

- (a) Before commencing the auction process, the~~The~~ Clearing House will calculate (i) an auction incentive pool (each an "AIP") for each individual OTC Auction Portfolio for the purposes of providing an initial allocation of the resources potentially available to it to satisfy any loss incurred in the Auction of each such Auction Portfolio. Notwithstanding such initial allocation, any resources utilised by the Clearing House will be allocated in accordance with Rule 2.5 below.~~Auction Losses, which, for the avoidance of doubt, will not include amounts in respect of the following:-~~
 - (i) the Listed Interest Rates Contribution of any Listed Interest Rates Clearing Member who is not a Joint Rates Service Clearing Member (whether or not such Listed Interest Rates Clearing Member is the Defaulter); and
 - (ii) the value of the resources required to be applied to meet in full losses incurred by the Clearing House in respect of the auction to Non-Defaulting Joint Rates Service Clearing Members of each of the Basis Portfolios containing Contracts of the relevant Defaulter.

Notwithstanding such initial allocation, any resources utilised by the Clearing House will be allocated to Auction Losses in accordance with Rule 2.6 below.

(a) —

(b) For each AIP, the resources shall be allocated as follows:

(i) the resources of the Defaulting SCM, which such resources shall comprise the following:

(A) in respect of a Defaulting SCM who is a SwapClear-Only Clearing Member: (i) the Margin Cover for the SwapClear Contracts of the Defaulting SCM available pursuant to Rule 15(a) of the Default Rules at the time of the auction process notwithstanding the proviso in (ii) of Rule 15(a) of the Default Rules, treating such available Margin Cover as split into two separate amounts for these purposes – one in respect of Margin Cover delivered by the Defaulting SCM to the Clearing House in respect of SwapClear Contracts relating to the SwapClear Clearing House Business of such Defaulting SCM which will be allocated to AIPs relating to OTC Auction Portfolios containing SwapClear Contracts relating to SwapClear Clearing House Business of the Defaulting SCM, only; and the other in respect of Margin Cover delivered by the Defaulting SCM to the Clearing House in respect of SwapClear Contracts relating to the SwapClear Client Clearing Business of such Defaulting SCM which will be allocated to AIPs relating to OTC Auction Portfolios containing SwapClear Contracts relating to the SwapClear Client Clearing Business of the Defaulting SCM, only; and (ii) the SwapClear Contribution made by the Defaulting SCM available pursuant to Rule 15(b) of the Default Rules at the time of the auction process will be allocated to the AIPs based on the proportion that (a) the risk of the relevant OTC Auction Portfolio bears to (b) the aggregate of the risks (on an absolute basis) for all OTC Auction Portfolios; and

(B) in respect of a Defaulting Joint Rates Service Clearing Member: (i) the Margin Cover relating to the SwapClear Contracts and the Listed Interest Rates Contracts of the Defaulting Joint Rates Service Clearing Member available pursuant to Rule 15(a) of the Default Rules at the time of the auction process but (1) taking into account (to the extent applicable) the utilisation of such Margin Cover pursuant to Rule 2.9(a)(i) and 2.9(b)(i) of this Annex; and (2) notwithstanding the proviso in (ii) of Rule 15(a) of the Default Rules, treating such available Margin Cover as split into two separate amounts for these purposes – one in respect of Margin Cover delivered by the Defaulting Joint Rates Service Clearing Member to the Clearing House in respect of SwapClear Contracts and Listed Rates Contracts relating to the House Clearing Business of such Defaulting Joint Rates Service Clearing Member which will be allocated to AIPs relating to OTC Auction Portfolios containing SwapClear Contracts relating to SwapClear Clearing House Business of the Defaulting Joint Rates Service Clearing Member, only; and the other in respect of Margin Cover delivered by the

Defaulting Joint Rates Service Clearing Member to the Clearing House in respect of SwapClear Contracts and Listed Rates Contracts relating to the Client Clearing Business of such Defaulting Joint Rates Service Clearing Member which will be allocated to AIPs relating to OTC Auction Portfolios containing SwapClear Contracts relating to the SwapClear Client Clearing Business of the Defaulting Joint Rates Service Clearing Member, only; and (ii) the SwapClear Contribution and Listed Interest Rates Contribution made by the Defaulting Joint Rates Service Clearing Member available pursuant to Rule 15(b) of the Default Rules at the time of the auction process taking into account (to the extent applicable) the utilisation of such Contributions pursuant to 2.9(a)(ii) and 2.9(b)(ii) of this Annex, will be allocated to the AIPs based on the proportion that (a) the risk of the relevant OTC Auction Portfolio bears to (b) the aggregate of the risks (on an absolute basis) for all OTC Auction Portfolios;

(ii) the Capped Amount available in respect of the SwapClear Business of the Defaulting SCM pursuant to Rule 15(c) of the Default Rules (taking into account (to the extent applicable) the utilisation of such Capped Amount pursuant to Rule 2.9(a)(iii) and 2.9(b)(iii) of this Annex) will be allocated to the AIPs based on the proportion that (a) the risk of the relevant OTC Auction Portfolio bears to (b) the aggregate of the risks (on an absolute basis) for all OTC Auction Portfolios;

~~(b) —~~

~~(i) — the resources of the Defaulting SCM (in the form of: (i) that part of the Margin Cover for the SwapClear Contracts of the Defaulting SCM pursuant to Rule 15(a) of the Default Rules and (ii) the SwapClear Contribution made by the Defaulting SCM to the SwapClear Default Fund) available pursuant to Rule 15(b) of the Default Rules at the time of the auction process will be allocated to the AIPs based on the proportion that (a) the risk of the relevant Auction Portfolio bears to (b) the aggregate of the risks (on an absolute basis) for all Auction Portfolios; the portion of the Capped Amount applied to the SwapClear Business of the Defaulting SCM pursuant to Rule 15(c) of the Default Rules will be allocated to the AIPs based on the proportion that (a) the risk of the relevant Auction Portfolio bears to (b) the aggregate of the risks (on an absolute basis) for all Auction Portfolios; and~~

(iii) the Non-Defaulters' SwapClear Contribution of each Non-Defaulting SCM and the total value of the SwapClear Unfunded Contributions ~~which that~~ would be callable but have not been called by the Clearing House from ~~the relevant~~ each such Non-Defaulting SCM in respect of the relevant Default in accordance with Rule ~~S8-S7~~ of the Default Rules (the "**Potential SwapClear Unfunded Contributions**") will be allocated (taking into account (to the extent applicable) the utilisation of such SwapClear Contributions pursuant to Rule 2.9(a)(v) and

2.9(b)(v) of this Annex) between each AIP relating to an OTC Auction Portfolio in respect of which the relevant Non-Defaulting SCM has Resembling Contracts based on the proportion that: (a) the risk of the Resembling Contracts of such SCM related to the relevant OTC Auction Portfolio bears to (b) the aggregate of the amounts calculated in (a) for all of the Resembling Contracts of such Non-Defaulting SCM; **provided that** where there is more than one OTC Auction Portfolio that corresponds to the same Resembling Contracts, the Non-Defaulters' SwapClear Contributions and Potential SwapClear Unfunded Contributions allocated to the AIP related to those Resembling Contracts will be further divided for the purposes of allocation into AIPs relating to the relevant OTC Auction Portfolios based on the proportion that (a) the risk of the SwapClear Contracts in each such OTC Auction Portfolio bears to (b) the aggregate of the amounts calculated in (a) for each of the OTC Auction Portfolios corresponding to the relevant Resembling Contracts; and

~~(ii)(iv) the Non-Defaulters' Listed Interest Rates Contribution of each Non-Defaulting Joint Rates Service Clearing Member and the total value of the Listed Interest Rates Unfunded Contributions that would be callable but have not been called by the Clearing House from each such Non-Defaulting Joint Rates Service Clearing Member in respect of the relevant Default in accordance with Rule S7 of the Default Rules (the "**Potential Listed Interest Rates Unfunded Contributions**") will be allocated between each AIP relating to an OTC Auction Portfolio in respect of which the relevant Non-Defaulting Joint Rates Service Clearing Member has Resembling Contracts based on the proportion that: (a) the risk of the Resembling Contracts of such Joint Rates Service Clearing Member related to the relevant OTC Auction Portfolio bears to (b) the aggregate of the amounts calculated in (a) for all of the Resembling Contracts of such Non-Defaulting Joint Rates Service Clearing Member; **provided that** where there is more than one OTC Auction Portfolio that corresponds to the same Resembling Contracts, the Non-Defaulters' Listed Interest Rates Contributions and Potential Listed Interest Rates Unfunded Contributions allocated to the AIP related to those Resembling Contracts will be further divided for the purposes of allocation into AIPs relating to the relevant OTC Auction Portfolios based on the proportion that (a) the risk of the SwapClear Contracts in each such OTC Auction Portfolio bears to (b) the aggregate of the amounts calculated in (a) for each of the OTC Auction Portfolios corresponding to the relevant Resembling Contracts. be allocated between each AIPs relating to an Auction Portfolio in respect of which the relevant SCM has Resembling Contracts based on the proportion that: (a) the risk of the Resembling Contracts of such SCM related to the relevant Auction Portfolio bears to (b) the aggregate of the amounts calculated in (a) for all of the Resembling Contracts of such SCM; **provided that** where there is more than one Auction Portfolio that corresponds to the same Resembling Contracts, the Non-Defaulter's Contributions and Potential Unfunded Contributions allocated to the AIP related to those Resembling~~

~~Contracts will be further divided for the purposes of allocation into AIPs relating to the relevant Auction Portfolios based on the proportion that (a) the risk of the SwapClear Contracts in each such Auction Portfolio bears to (b) the aggregate of the amounts calculated in (a) for each of the Auction Portfolios corresponding to the relevant Resembling Contracts.~~

- ~~(c) — Where a Portfolio for a particular SwapClear currency has been split into two or more Auction Portfolios, the Non-Defaulters' Contributions and Potential Unfunded Contributions allocated to the AIP related to the relevant Portfolio will be further divided for the purposes of allocation into AIPs relating to the relevant Auction Portfolios based on the proportion that (a) the risk of the SwapClear Contracts in each such Auction Portfolio bears to (b) the aggregate of the amounts calculated in (a) for each of the Auction Portfolios in the relevant currency.~~

2.52.6 Loss Attribution Related to OTC Auction Portfolios

- (a) Following the completion of all Auctions of all OTC Auction Portfolios of the Defaulting SCM, the Clearing House will determine whether ~~losses incurred by it as a result of such Auctions~~ the Auction Losses are such that the Non-Defaulters' SwapClear Contributions and (if and to the extent applicable) the Non-Defaulters' Listed Interest Rates Contributions of Joint Rates Service Clearing Members must be utilised. ~~must be utilised.~~ Where applicable, Auction Losses such losses will be allocated to Non-Defaulters' SwapClear Contributions and to Non-Defaulters' Listed Interest Rates Contributions of Joint Rates Service Clearing Members Contributions in accordance with the loss attribution process described in Rule 2.56(b) to 2.56(ph) of this Annex. All losses other than Auction Losses associated with the implementation of the Rates Service Default Management Process in respect of an OTC Auction Portfolio or the SwapClear Contracts contained therein will be allocated to the SwapClear Contributions of individual Non-Defaulting SCMs and to the Non-Defaulters' Listed Interest Rates Contributions of individual Joint Rates Service Clearing Members pro rata based on the proportion that the value of the relevant Contribution bears to aggregate value of all such Contributions at the time of the relevant Default.
- (b) For each OTC Auction Portfolio, losses to the Clearing House will be met using the resources as set out in Rule 15. In applying those resources, the Clearing House will allocate ~~the losses in respect of each Auction Portfolio (the "Auction Losses")~~ by reference to the resources allocated to the AIPs related to such OTC Auction Portfolios in accordance with Rule 2.45 of this Annex. Where there are no Auction Losses in respect of an OTC Auction Portfolio or the Auction Losses in respect of an OTC Auction Portfolio do not require the full amount of the resources referred to in sub-paragraphs (i) and (ii) of Rule 2.45(b) of this Annex allocated to the AIP related to the relevant OTC Auction Portfolio (the "**Initial Resources**") to be fully utilised, the relevant surplus Initial Resources will be allocated *pro rata* between those AIPs relating to OTC Auction Portfolios in respect of which there are Auction Losses requiring the utilisation of resources beyond the Initial Resources

available in the relevant AIP in accordance with Rules 15(a), 15(b) and 15(c) until such time as all Initial Resources have been fully utilised.

(c) In the case of each Auction for which there are Auction Losses in respect of which the Non-Defaulters' SwapClear Contributions must be utilised, those Non-Defaulter's' SwapClear Contributions, not including, for these purposes, any part of such Non-Defaulters' SwapClear Contributions that reflects any SwapClear Unfunded Contributions deposited with the Clearing House pursuant to the Default in respect of which the relevant Auction was held (the "**Original SwapClear Contributions**") and ~~which that~~ have been allocated to the AIP relating to the relevant OTC Auction Portfolio (the "**Relevant Original SwapClear Contributions**") will be used first in the following order:

(i) the Auction Losses will be attributed to the Relevant Original SwapClear Contributions of those Non-Defaulting SCMs who are Expected Auction Participants in respect of the relevant OTC Auction Portfolio and who did not bid in the relevant Auction. Auction Losses will be attributed to the Relevant Original SwapClear Contribution of an individual SCM pursuant to this sub-paragraph (i) based upon the proportion that: (a) the value of the Relevant Original SwapClear Contribution of such SCM bears to (b) the total value of the Relevant Original SwapClear Contributions of all Non-Defaulting SCMs who are Expected Auction Participants in respect of the relevant OTC Auction Portfolio and who did not bid in the relevant Auction;

(ii) if and to the extent that there are Auction Losses outstanding after the attribution process referred to in sub-paragraph (i) above, those Auction Losses will be attributed to the Relevant Original SwapClear Contributions of the SwapClear Short Bidders. For the purposes of this sub-paragraph (ii) and sub-paragraph (ii)(f) of Rule 2.56(f) of this Annex the term "**SwapClear Short Bidder**" means any Non-Defaulting SCM who is an Expected Auction Participant and who submitted an unsuccessful bid in the relevant Auction, save for any SCM who submitted either (a) in respect of an OTC Auction Portfolio that was of positive ("in the money") value to the Clearing House, a higher bid in an Auction than the bid accepted by the Clearing House in accordance with Rule 2.3(d) of this Annex; or (b) in respect of an OTC Auction Portfolio that was of negative ("out of the money") value to the Clearing House, a lower bid in an Auction than the bid accepted by the Clearing House in accordance with Rule 2.3(d) of this Annex (each such SCM, a "**SwapClear Out Bidder**" and each such bid, an "**Out Bid**")~~a higher bid in an Auction than the bid accepted by the Clearing House in accordance with Rule 2.3(d) of this Annex (each such SCM, a "Higher Bidder" and each such bid, a "Higher Bid").~~

Auction Losses will be attributed to an individual SwapClear Short Bidder pursuant to this sub-paragraph (ii) based upon the proportion that (a) the variance of the bid of such SwapClear Short Bidder from the winning bid (denominated in units of the relevant Auction Portfolio Currency) bears to (b) the sum of the variances of the bids of all

SwapClear Short Bidders from the winning bid (denominated in units of the relevant Auction Portfolio Currency).

Where the value of the Auction Losses attributed to an individual SwapClear Short Bidder pursuant to this sub-paragraph (ii) is greater than the value of the Relevant Original SwapClear Contribution of such SwapClear Short Bidder, the relevant excess Auction Losses will be attributed to each SwapClear Short Bidder whose Relevant Original SwapClear Contribution exceeds the value of the Auction Losses ~~which that~~ have been attributed to it pursuant to this sub-paragraph (ii) (each a "**Remaining Original SwapClear Short Bidder**") by (a) calculating the amount which is the bid of the relevant Remaining Original SwapClear Short Bidder divided by the sum of the bids of all Remaining Original SwapClear Short Bidders; and (b) multiplying such amount by the value of the relevant excess Auction Losses.

The Clearing House will repeat the loss attribution process described in this sub-paragraph (ii) until the first to occur of (a) the Auction Losses being fully met; and (b) the Relevant Original SwapClear Contributions of all SwapClear Short Bidders being fully attributed;

- (iii) if and to the extent that there are Auction Losses outstanding after the attribution process referred to in sub-paragraph (ii) above, those Auction Losses will be attributed to the Relevant Original SwapClear Contribution of the Non-Defaulting SCM who submitted the winning bid, together with, where applicable, the Relevant Original SwapClear Contribution of any Non-Defaulting SCM who submitted a bid which was an Equal Bid or a Higher Bid in relation to that winning bid. The outstanding Auction Losses will be attributed to the Relevant Original SwapClear Contribution of an individual SCM pursuant to this sub-paragraph (iii) based upon the proportion that: (a) the value of the Relevant Original SwapClear Contribution of such SCM bears to (b) the total value of the Relevant Original SwapClear Contributions of (i) the SCM who submitted the winning bid; (ii) any SCMs who submitted an Equal Bid to such winning bid; and (iii) any SCMs who were SwapClear Out Higher Bidders, in the relevant Auction; ~~and~~.
 - (iv) if, for an OTC Auction Portfolio, there remain Auction Losses outstanding after the attribution process referenced to in sub-paragraph (iii) above, and there are AIPs relating to other OTC Auction Portfolios containing ~~SwapClear~~ Contracts denominated in the same Auction Portfolio Currency and belonging to the same Auction Portfolio Category as the relevant OTC Auction Portfolio in which the Relevant Original SwapClear Contributions have not been fully utilised, the Clearing House shall attribute the remaining Auctions Losses amongst such ~~r~~Remaining Original SwapClear Contributions through the attribution process set out in sub-paragraphs (i) to (iii) above.
- (d) If and to the extent that there are Auction Losses outstanding following the attribution process referred to in Rule 2.56(c) above, those Auction Losses will be attributed to the Original SwapClear Contributions of those Non-

Defaulting SCMs (each a "**Losing Original SCM**") who have Resembling Contracts in respect of any of the OTC Auction Portfolios in relation to which Auction Losses have arisen (each a "**Losing AP Type**") and whose Original SwapClear Contributions have not yet been fully utilised. Such remaining Auction Losses will be attributed to any remaining Original SwapClear Contribution of each such Losing Original SCM pursuant to this Rule 2.56(d) based upon the proportion that: (a) the risk of all of the Resembling Contracts of such SCM in respect of all such Losing AP Types bears to (b) the aggregate of the amounts calculated in (a) for all Losing Original SCMs. The Clearing House will repeat the loss attribution process described in this Rule 2.65(d) until the first to occur of (a) the Auction Losses being fully met; and (b) the Original SwapClear Contributions of all Losing Original SCMs being fully attributed.

- (e) If and to the extent that there are Auction Losses outstanding following the attribution process referred to in 2.56(d) above, those remaining Auction Losses will be allocated to the Original SwapClear Contributions of each Non-Defaulting SCM who is not a Losing Original SCM in respect of any of the Losing AP Types based upon the proportion that (a) the value of each such Original SwapClear Contribution bears to (b) the aggregate of the amounts calculated in (a) for ~~alleach of~~ such relevant Non-Defaulting SCMs.
- (f) If and to the extent that there are Auction Losses outstanding following the attribution process referred to in Rule 2.65(e) above, those remaining Auction Losses will be allocated to the Non-Defaulters' Listed Interest Rates Contributions of Joint Rates Service Clearing Members not including, for these purposes, any part of such Non-Defaulters' Listed Interest Rates Contributions that reflects any Listed Interest Rates Unfunded Contributions deposited with the Clearing House pursuant to the Default in respect of which the relevant Auction was held (the "Original Listed Interest Rates Contributions") and that have been allocated to the AIP relating to the relevant OTC Auction Portfolio (the "Relevant Original Listed Interest Rates Contributions") will be used first in the following order: the SwapClear Unfunded Contributions which have been allocated to the AIP relating to the relevant Auction Portfolio (the "Relevant Unfunded Contributions") will be used first in the following order:
 - (i) the Auction Losses will be attributed to the Relevant Original Listed Interest Rates Contributions of those Non-Defaulting Joint Rates Service Clearing Members who are Expected Auction Participants in respect of the relevant OTC Auction Portfolio and who did not bid in the relevant Auction. Auction Losses will be attributed to the Relevant Original Listed Interest Rates Contribution of an individual Joint Rates Service Clearing Member pursuant to this sub-paragraph (i) based upon the proportion that: (a) the value of the Relevant Original Listed Interest Rates Contribution of such Joint Rates Service Clearing Member bears to (b) the total value of the Relevant Original Listed Interest Rates Contributions of all Non-Defaulting Joint Rates Service Clearing Members who are Expected Auction Participants in respect of the relevant OTC Auction Portfolio and who did not bid in the relevant

~~Auction Losses will be attributed to the Relevant Unfunded Contributions of those SCMs who are Expected Auction Participants in respect of the relevant Auction Portfolio and who did not bid in the relevant Auction. Auction Losses will be attributed to the Relevant Unfunded Contribution of an individual SCM pursuant to this sub-paragraph (i) based upon the proportion that: (a) the value of the Relevant Unfunded Contribution of such SCM bears to (b) the total value of the Relevant Unfunded Contributions of all SCMs who are Expected Auction Participants in respect of the relevant Auction Portfolio and who did not bid in the relevant Auction;~~

- ~~(ii) if and to the extent that there are Auction Losses outstanding after the attribution process referred to in sub-paragraph (i) above, those Auction Losses will be attributed to the Relevant Original Listed Interest Rates Contributions of the Listed Interest Rates Short Bidders. For the purposes of this sub-paragraph (ii) and sub-paragraph (ii) of Rule 2.6(m) of this Annex the term "**Listed Interest Rates Short Bidder**" means any Non-Defaulting Joint Rates Service Clearing Member who is an Expected Auction Participant and who submitted an unsuccessful bid in the relevant Auction, save for any Joint Rates Service Clearing Member (a "**Listed Interest Rates Out Bidder**") who submitted an Out Bid and to the extent that there are Auction Losses outstanding after the attribution process referred to in sub-paragraph (i) above, those Auction Losses will be attributed to the Relevant Unfunded Contributions of the Short Bidders in the relevant Auction. Auction Losses will be attributed to an individual Short Bidder pursuant to this sub-paragraph (ii) based upon the proportion that (a) the variance of the bid of such Short Bidder from the winning bid (denominated in units of the relevant Auction Portfolio Currency) bears to (b) the sum of the variances of the bids of all Short Bidders from the winning bid (denominated in units of the relevant Auction Portfolio Currency).~~
- ~~(ii) Where the value of the Auction Losses will be attributed to an individual Listed Interest Rates Short Bidder pursuant to this sub-paragraph (ii) based upon the proportion that (a) the variance of the bid of such Listed Interest Rates Short Bidder from the winning bid (denominated in units of the relevant Auction Portfolio Currency) bears to (b) the sum of the variances of the bids of all **Listed Interest Rates Short Bidders** from the winning bid (denominated in units of the relevant Auction Portfolio Currency) Auction Losses attributed to an individual Short Bidder pursuant to this sub-paragraph (ii) is **greater than the value** of the Relevant Unfunded Contribution of such Short Bidder, the relevant excess Auction Losses will be attributed to each Short Bidder whose Relevant Unfunded Contribution exceeds the value of the Auction Losses which have been attributed to it pursuant to this sub-paragraph (ii) (each a "**Remaining Unfunded Short Bidder**") by (a) calculating the amount which is the bid of the relevant Remaining Unfunded Short Bidder divided by the sum of the bids of~~

~~all Remaining Unfunded Short Bidders; and (b) multiplying such amount by the value of the relevant excess Auction Losses.~~

Where the value of the Auction Losses attributed to an individual Listed Interest Rates Short Bidder pursuant to this sub-paragraph (ii) is greater than the value of the Relevant Original Listed Interest Rates Contribution of such Listed Interest Rates Short Bidder, the relevant excess Auction Losses will be attributed to each Listed Interest Rates Short Bidder whose Relevant Original Listed Interest Rates Contribution exceeds the value of the Auction Losses that have been attributed to it pursuant to this sub-paragraph (ii) (each a "**Remaining Original Listed Interest Rates Short Bidder**") by (a) calculating the amount which is the bid of the relevant Remaining Original Listed Interest Rates Short Bidder divided by the sum of the bids of all Remaining Original Listed Interest Rates Short Bidders; and (b) multiplying such amount by the value of the relevant excess Auction Losses

The Clearing House will repeat the loss attribution process described in this sub-paragraph (ii) until the first to occur of (a) the Auction Losses being fully met; and (b) the Relevant Original Listed Interest Rates Unfunded Contributions of all Listed Interest Rates Short Bidders being fully attributed; ~~and~~

- (iii) ~~if and to the extent that there are Auction Losses outstanding after the attribution process referred to in sub-paragraph (ii) above, those Auction Losses will be attributed to the Relevant Original Listed Interest Rates Contribution of the Non-Defaulting Joint Rates Service Clearing Member who submitted the winning bid, together with, where applicable, the Relevant Original Listed Interest Rates Contribution of any Non-Defaulting Joint Rates Service Clearing Member who submitted a bid which was an Equal Bid or an Out Bid in relation to that winning bid. The outstanding Auction Losses will be attributed to the Relevant Original Listed Interest Rates Contribution of an individual Joint Rates Service Clearing Member pursuant to this sub-paragraph (iii) based upon the proportion that: (a) the value of the Relevant Original Listed Interest Rates Contribution of such Joint Rates Service Clearing Member bears to (b) the total value of the Relevant Original Listed Interest Rates Contributions of (i) the Joint Rates Service Clearing Member who submitted the winning bid; (ii) any Joint Rates Service Clearing Members who submitted an Equal Bid to such winning bid; and (iii) any Joint Rates Service Clearing Members who were Listed Interest Rates Out Bidders, in the relevant Auction; and~~ and to the extent that there are Auction Losses outstanding after the attribution process referred to in sub-paragraph (ii) above, those Auction Losses will be attributed to the Relevant Unfunded Contribution of the SCM who submitted the winning bid, together with, where applicable, the Relevant Unfunded Contribution of any SCM who submitted a bid which was an Equal Bid or a Higher Bid in relation to that winning bid. The outstanding Auction Losses

~~will be attributed to the Relevant Unfunded Contribution of an individual SCM pursuant to this sub-paragraph (iii) based upon the proportion that: (a) the value of the Relevant Unfunded Contribution of such SCM bears to (b) the total value of the Relevant Unfunded Contributions of (i) the SCM who submitted the winning bid; (ii) any SCMs who submitted an Equal Bid to such winning bid; and (iii) any SCMs who were Higher Bidders, in the relevant Auction; and~~

- (iv) if, for an OTC Auction Portfolio, there remain Auction Losses outstanding after the attribution process referenced to in sub-paragraph (iii) above, and there are AIPs relating to other OTC Auction Portfolios containing Contracts denominated in the same Auction Portfolio Currency and belonging to the same Auction Portfolio Category as the relevant OTC Auction Portfolio in which the Relevant Original Listed Interest Rates Contributions have not been fully utilised, the Clearing House shall attribute the remaining Auctions Losses amongst such remaining Original Listed Interest Rates Contributions through the attribution process set out in sub-paragraphs (i) to (iii) above, and there are AIPs relating to other Auction Portfolios containing SwapClear Contracts denominated in the same Auction Portfolio Currency and belonging to the same Auction Portfolio Category as the relevant Auction Portfolio in which the Relevant Unfunded Contributions have not been fully utilised, the Clearing House shall attribute the remaining Auctions Losses amongst such Remaining Unfunded Contributions through the attribution process set out in sub-paragraphs (i) to (iii) above.
- (g) If and to the extent that there are Auction Losses outstanding following the attribution process referred to in Rule 2.56(f) above, those Auction Losses will be attributed to the Original Listed Interest Rates Contributions of those Non-Defaulting Joint Rates Service Clearing Members (each a "Losing Original Joint Rates Service Clearing Member") who have Resembling Contracts in respect of any of the SwapClear Unfunded Contributions of those SCMs (each a "Losing Unfunded SCM") who have Resembling Contracts in respect of any of the Losing AP Types and whose SwapClear Unfunded Original Listed Interest Rates Contributions have not yet been fully utilised. Such remaining Auction Losses will be attributed to any the remaining SwapClear Original Listed Interest Rates Unfunded Contributions of each Losing Original Joint Rates Service Clearing Member pursuant to this Rule 2.6(g) based upon the proportion that: (a) the risk of all of the Resembling Contracts of such Joint Rates Service Clearing Member in respect of all such Losing AP Types bears to (b) the aggregate of the amounts calculated in (a) for all Joint Rates Service Clearing Members. The Clearing House will repeat the loss attribution process described in this Rulesuch SCM pursuant to this Rule 2.5(g) based upon the proportion that: (a) the risk of all of the Resembling Contracts of such SCM in respect of all such Losing AP Types bears to (b) the aggregate of the amounts calculated in (a) for all Losing Unfunded SCMs. The Clearing House will repeat the loss attribution process described in this Rule 2.56(g) until the first to occur of (a) the Auction Losses being fully met; and (b) the SwapClear Unfunded Original Listed Interest Rates Contributions of all Losing

Original Joint Rates Service Clearing Members Losing Unfunded SCMs being fully attributed.

- (h) If and to the extent that there are Auction Losses outstanding following the attribution process referred to in Rule 2.56(g) above, those remaining Auction Losses will be allocated to the Original Listed Interest Rates Contributions of each Non-Defaulting Joint Rates Service Clearing Member who is not a Losing Original Joint Rates Service Clearing Member in respect of any of the Losing AP Types, based upon the proportion that (a) the value of each such Original Listed Interest Rates Contribution bears to (b) the aggregate of the amounts calculated in (a) for all such relevant Non-Defaulting Joint Rates Service Clearing Members
- (i) If and to the extent that there are Auction Losses outstanding following the attribution process described in Rule 2.6(h) above those Auction Losses will be allocated to the Non-Defaulters' Listed Interest Rates Contribution of each Listed Interest Rates Clearing Member who is not a Joint Rates Service Clearing Member, not including, for these purposes, any part of such Non-Defaulters' Listed Interest Rates Contributions that reflects any Listed Interest Rates Unfunded Contributions deposited with the Clearing House pursuant to the relevant Default based upon the proportion that the value of the relevant Non-Defaulters' Listed Interest Rates Contribution bears to the aggregate of the values of all such Non-Defaulters' Listed Interest Rates Contributions.
- (j) If and to the extent that there are Auction Losses outstanding following the attribution process referred to in Rule 2.6(i) above, the SwapClear Unfunded Contributions that have been allocated to the AIP relating to the relevant OTC Auction Portfolio (the "**Relevant SwapClear Unfunded Contributions**") will be used first in the following order:

 - (i) the Auction Losses will be attributed to the Relevant SwapClear Unfunded Contributions of those Non-Defaulting SCMs who are Expected Auction Participants in respect of the relevant OTC Auction Portfolio and who did not bid in the relevant Auction. Auction Losses will be attributed to the Relevant SwapClear Unfunded Contribution of an individual SCM pursuant to this sub-paragraph (i) based upon the proportion that: (a) the value of the Relevant SwapClear Unfunded Contribution of such SCM bears to (b) the total value of the Relevant SwapClear Unfunded Contributions of all SCMs who are Expected Auction Participants in respect of the relevant OTC Auction Portfolio and who did not bid in the relevant Auction;
 - (ii) if and to the extent that there are Auction Losses outstanding after the attribution process referred to in sub-paragraph (i) above, those Auction Losses will be attributed to the Relevant SwapClear Unfunded Contributions of the SwapClear Short Bidders in the relevant Auction. Auction Losses will be attributed to an individual SwapClear Short Bidder pursuant to this sub-paragraph (ii) based upon the proportion that (a) the variance of the bid of such SwapClear Short Bidder from the winning bid (denominated in units of the relevant Auction Portfolio Currency) bears to (b) the sum of the variances of the bids of all

SwapClear Short Bidders from the winning bid (denominated in units of the relevant Auction Portfolio Currency).

Where the value of the Auction Losses attributed to an individual SwapClear Short Bidder pursuant to this sub-paragraph (ii) is greater than the value of the Relevant SwapClear Unfunded Contribution of such SwapClear Short Bidder, the relevant excess Auction Losses will be attributed to each SwapClear Short Bidder whose Relevant SwapClear Unfunded Contribution exceeds the value of the Auction Losses that have been attributed to it pursuant to this sub-paragraph (ii) (each a "Remaining Unfunded SwapClear Short Bidder") by (a) calculating the amount which is the bid of the relevant Remaining Unfunded SwapClear Short Bidder divided by the sum of the bids of all Remaining Unfunded SwapClear Short Bidders; and (b) multiplying such amount by the value of the relevant excess Auction Losses.

The Clearing House will repeat the loss attribution process described in this sub-paragraph (ii) until the first to occur of (a) the Auction Losses being fully met; and (b) the Relevant SwapClear Unfunded Contributions of all SwapClear Short Bidders being fully attributed;

- (iii) if and to the extent that there are Auction Losses outstanding after the attribution process referred to in sub-paragraph (ii) above, those Auction Losses will be attributed to the Relevant SwapClear Unfunded Contribution of the Non-Defaulting SCM who submitted the winning bid, together with, where applicable, the Relevant SwapClear Unfunded Contribution of any Non-Defaulting SCM who submitted a bid which was an Equal Bid or an Out Bid in relation to that winning bid. The outstanding Auction Losses will be attributed to the Relevant SwapClear Unfunded Contribution of an individual SCM pursuant to this sub-paragraph (iii) based upon the proportion that: (a) the value of the Relevant SwapClear Unfunded Contribution of such SCM bears to (b) the total value of the Relevant SwapClear Unfunded Contributions of (i) the SCM who submitted the winning bid; (ii) any SCMs who submitted an Equal Bid to such winning bid; and (iii) any SCMs who were SwapClear Out Bidders, in the relevant Auction; and
- (iv) if, for an OTC Auction Portfolio, there remain Auction Losses outstanding after the attribution process referenced to in sub-paragraph (iii) above, and there are AIPs relating to other OTC Auction Portfolios containing SwapClear Contracts denominated in the same Auction Portfolio Currency and belonging to the same Auction Portfolio Category as the relevant OTC Auction Portfolio in which the Relevant SwapClear Unfunded Contributions have not been fully utilised, the Clearing House shall attribute the remaining Auctions Losses amongst such Remaining SwapClear Unfunded Contributions through the attribution process set out in sub-paragraphs (i) to (iii) above.
- (k) If and to the extent that there are Auction Losses outstanding following the attribution process referred to in Rule 2.6(j) above, those Auction Losses will be attributed to the SwapClear Unfunded Contributions of those Non-

Defaulting SCMs (each a "Losing Unfunded SCM") who have Resembling Contracts in respect of any of the Losing AP Types and whose SwapClear Unfunded Contributions have not yet been fully utilised. Such remaining Auction Losses will be attributed to any remaining SwapClear Unfunded Contribution of each such Losing Unfunded SCM pursuant to this Rule 2.6(k) based upon the proportion that: (a) the risk of all of the Resembling Contracts of such SCM in respect of all such Losing AP Types bears to (b) the aggregate of the amounts calculated in (a) for all Losing Unfunded SCMs. The Clearing House will repeat the loss attribution process described in this Rule 2.6(k) until the first to occur of (a) the Auction Losses being fully met; and (b) the SwapClear Unfunded Contributions of all Losing Unfunded SCMs being fully attributed.

(l) If and to the extent that there are Auction Losses outstanding following the attribution process referred to in Rule 2.6(k) above, those remaining Auction Losses will be allocated to the SwapClear Unfunded Contributions of each Non-Defaulting SCM who is not a Losing Unfunded SCM in respect of any of the Losing AP Types based upon the proportion that (a) the value of each such SwapClear Unfunded Contribution bears to (b) the aggregate of the amounts calculated in (a) for each of such SCMs.

(m) If and to the extent that there are Auction Losses outstanding following the attribution process referred to in Rule 2.6(l) above, the Listed Interest Rates Unfunded Contributions of Joint Rates Service Clearing Members that have been allocated to the AIP relating to the relevant OTC Auction Portfolio (the "Relevant Listed Interest Rates Unfunded Contributions") will be used first in the following order:

(i) the Auction Losses will be attributed to the Relevant Listed Interest Rates Unfunded Contributions of those Non-Defaulting Joint Rates Service Clearing Members who are Expected Auction Participants in respect of the relevant OTC Auction Portfolio and who did not bid in the relevant Auction. Auction Losses will be attributed to the Relevant Listed Interest Rates Unfunded Contribution of an individual Joint Rates Service Clearing Member pursuant to this sub-paragraph (i) based upon the proportion that: (a) the value of the Relevant Listed Interest Rates Unfunded Contribution of such Joint Rates Service Clearing Member bears to (b) the total value of the Relevant Listed Interest Rates Unfunded Contributions of all Joint Rates Service Clearing Members who are Expected Auction Participants in respect of the relevant OTC Auction Portfolio and who did not bid in the relevant Auction;

(ii) if and to the extent that there are Auction Losses outstanding after the attribution process referred to in sub-paragraph (i) above, those Auction Losses will be attributed to the Relevant Listed Interest Rates Unfunded Contributions of the Listed Interest Rates Short Bidders in the relevant Auction. Auction Losses will be attributed to an individual Listed Interest Rates Short Bidder pursuant to this sub-paragraph (ii) based upon the proportion that (a) the variance of the bid of such Listed Interest Rates Short Bidder from the winning bid

(denominated in units of the relevant Auction Portfolio Currency) bears to (b) the sum of the variances of the bids of all Listed Interest Rates Short Bidders from the winning bid (denominated in units of the relevant Auction Portfolio Currency).

Where the value of the Auction Losses attributed to an individual Listed Interest Rates Short Bidder pursuant to this sub-paragraph (ii) is greater than the value of the Relevant Listed Interest Rates Unfunded Contribution of such Listed Interest Rates Short Bidder, the relevant excess Auction Losses will be attributed to each Listed Interest Rates Short Bidder whose Relevant Listed Interest Rates Unfunded Contribution exceeds the value of the Auction Losses that have been attributed to it pursuant to this sub-paragraph (ii) (each a "Remaining Unfunded Listed Interest Rates Short Bidder") by (a) calculating the amount which is the bid of the relevant Remaining Unfunded Listed Interest Rates Short Bidder divided by the sum of the bids of all Remaining Unfunded Listed Interest Rates Short Bidders; and (b) multiplying such amount by the value of the relevant excess Auction Losses.

The Clearing House will repeat the loss attribution process described in this sub-paragraph (ii) until the first to occur of (a) the Auction Losses being fully met; and (b) the Relevant Listed Interest Rates Unfunded Contributions of all Listed Interest Rates Short Bidders being fully attributed;

- (iii) if and to the extent that there are Auction Losses outstanding after the attribution process referred to in sub-paragraph (ii) above, those Auction Losses will be attributed to the Relevant Listed Interest Rates Unfunded Contribution of the Non-Defaulting Joint Rates Service Clearing Member who submitted the winning bid, together with, where applicable, the Relevant Listed Interest Rates Unfunded Contribution of any Non-Defaulting Joint Rates Service Clearing Member who submitted a bid which was an Equal Bid or an Out Bid in relation to that winning bid. The outstanding Auction Losses will be attributed to the Relevant Listed Interest Rates Unfunded Contribution of an individual Joint Rates Service Clearing Member pursuant to this sub-paragraph (iii) based upon the proportion that: (a) the value of the Relevant Listed Interest Rates Unfunded Contribution of such Joint Rates Service Clearing Member bears to (b) the total value of the Relevant Listed Interest Rates Unfunded Contribution of (i) the Joint Rates Service Clearing Member who submitted the winning bid; (ii) any Joint Rates Service Clearing Members who submitted an Equal Bid to such winning bid; and (iii) any Joint Rates Service Clearing Members who were Listed Interest Rates Out Bidders, in the relevant Auction; and
- (iv) if, for an OTC Auction Portfolio, there remain Auction Losses outstanding after the attribution process referenced to in sub-paragraph (iii) above, and there are AIPs relating to other OTC Auction Portfolios containing SwapClear Contracts denominated in the same Auction

Portfolio Currency and belonging to the same Auction Portfolio Category as the relevant OTC Auction Portfolio in which the Relevant Listed Interest Rates Unfunded Contributions have not been fully utilised, the Clearing House shall attribute the remaining Auction Losses amongst such Relevant Listed Interest Rates Unfunded Contributions through the attribution process set out in sub-paragraphs (i) to (iii) above.

- (n) If and to the extent that there are Auction Losses outstanding following the attribution process referred to in Rule 2.6(m) above, those Auction Losses will be attributed to the Listed Interest Rates Unfunded Contributions of those Non-Defaulting Joint Rates Service Clearing Members (each a "Losing Unfunded Joint Rates Service Clearing Member") who have Resembling Contracts in respect of any of the Losing AP Types and whose Listed Interest Rates Unfunded Contributions have not yet been fully utilised. Such remaining Auction Losses will be attributed to any remaining Listed Interest Rates Unfunded Contribution of each such Losing Unfunded Joint Rates Service Clearing Member pursuant to this Rule 2.6(n) based upon the proportion that: (a) the risk of all of the Resembling Contracts of such Joint Rates Service Clearing Member in respect of all such AP Types bears to (b) the aggregate of the amounts calculated in (a) for all Losing Unfunded Joint Rates Service Clearing Members. The Clearing House will repeat the loss attribution process described in this Rule 2.6(n) until the first to occur of (a) the Auction Losses being fully met; and (b) the Listed Interest Rates Unfunded Contributions of all Losing Unfunded Joint Rates Service Clearing Members being fully attributed.
- (o) If and to the extent that there are Auction Losses outstanding following the attribution process referred to in Rule 2.6(n) above, those remaining Auction Losses will be allocated to the Listed Interest Rates Unfunded Contributions of each Non-Defaulting Joint Rates Service Clearing Member who is not a Losing Unfunded Joint Rates Service Clearing Member in respect of any of the Losing AP Types based upon the proportion that (a) the value of each such Listed Interest Rates Unfunded Contribution bears to (b) the aggregate of the amounts calculated in (a) for each of such Joint Rates Service Clearing Members.
- (p) If and to the extent that there are Auction Losses outstanding following the attribution process described in Rule 2.6(o) above those Auction Losses will be allocated to the Listed Interest Rates Unfunded Contributions of each Non-Defaulting Listed Interest Rates Clearing Member who is not a Joint Rates Service Clearing Member and the total value of the Listed Interest Rates Unfunded Contributions that would be callable but have not been called by the Clearing House from the relevant Listed Interest Rates Clearing Members in respect of the relevant Default in accordance with Rule L5 of Part B to the Rates Service Default Fund Supplement based upon the proportion that the value of the relevant Listed Interest Rates Unfunded Contribution bears to the aggregate of the values of all such Listed Interest Rates Unfunded Contributions.

~~(h) those remaining Auction Losses will be allocated to the SwapClear Unfunded Contributions of each SCM who is not a Losing Unfunded SCM in respect of any of the Losing AP Types based upon the proportion that (a) the value of each such SwapClear Unfunded Contribution bears to (b) the aggregate of the amounts calculated in (a) for each of such SCMs.~~

2.7 For the purposes of Rules 2.54 and 2.56 above, all references to the risk associated with (i) the ~~SwapClear~~ Contracts in an OTC Auction Portfolio or (ii) the Resembling Contracts of a Non-Defaulting SCM, shall be references to such risk as determined by the Clearing House in its sole discretion on the basis of Worst Case Loss.

2.8 *Loss Attribution Related to Exchange Closed-out Contracts*

(a) Losses to the Clearing House in respect of the Exchange Closed-out Contracts of a Defaulting Listed Interest Rates Clearing Member who is not a Joint Rates Service Clearing Member, will be met using resources in the following order:

(i) first, by applying the Margin Cover for the Listed Interest Rates Contracts of the Defaulting Clearing Member available pursuant to Rule 15(a) of the Default Rules;

(ii) second, by recourse to the Listed Interest Rates Contribution made by the Defaulting Clearing Member available pursuant to Rule 15(b) of the Default Rules (and, for the avoidance of doubt, for purposes of this sub-paragraph (ii), the reference to "Business" in Rule 15(b) of the Default Rules shall be understood to refer to the Defaulting Clearing Member's Listed Interest Rates Business);

(iii) third, by a payment of the Capped Amount available in respect of the Rates Service Business of the Defaulting Listed Interest Rates Clearing Member pursuant to Rule 15(c) of the Default Rules;

(iv) fourth, by recourse to the Non-Defaulters' Listed Interest Rates Contribution of each Listed Interest Rates Clearing Member, not including, for these purposes, any part of such Non-Defaulters' Listed Interest Rates Contributions that reflects any Listed Interest Rates Unfunded Contributions deposited with the Clearing House pursuant to the relevant Default, allocated to the Non-Defaulters' Listed Interest Rates Contributions of individual Listed Interest Rates Clearing Members based upon the proportion that the value of the relevant Non-Defaulters' Listed Interest Rates Contribution bears to the aggregate of the values of all such Non-Defaulters' Listed Interest Rates Contributions;

(v) fifth, by recourse to the Non-Defaulters' SwapClear Contributions of each SwapClear Clearing Member, not including, for these purposes, any part of such Non-Defaulters' SwapClear Contributions that reflects any SwapClear Unfunded Contributions deposited with the Clearing House pursuant to the relevant Default, allocated to the Non-Defaulters' SwapClear Contributions of individual SwapClear Clearing

Members based upon the proportion that the value of the relevant Non-Defaulters' SwapClear Contribution bears to the aggregate of the values of all such Non-Defaulters' SwapClear Contributions;

- (vi) sixth, by recourse to the Listed Interest Rates Unfunded Contributions of each Non-Defaulting Listed Interest Rates Clearing Member and the total value of the Listed Interest Rates Unfunded Contributions that would be callable but have not been called by the Clearing House from the relevant Listed Interest Rates Clearing Members in respect of the relevant Default in accordance with Rule L5 of Part B to the Rates Service Default Fund Supplement, allocated to the Listed Interest Rates Unfunded Contributions of individual Non-Defaulting Listed Interest Rates Clearing Members based upon the proportion that the value of the relevant Listed Interest Rates Unfunded Contribution bears to the aggregate of the values of all such Listed Interest Rates Unfunded Contributions; and
- (vii) seventh, by recourse to the SwapClear Unfunded Contributions of each Non-Defaulting SCM and the total value of the SwapClear Unfunded Contributions that would be callable but have not been called by the Clearing House from the relevant Non-Defaulting SCMs in respect of the relevant Default in accordance with Rule S7 of Part A to the Rates Service Default Fund Supplement, allocated to the SwapClear Unfunded Contributions of individual Non-Defaulting SCMs based upon the proportion that the value of the relevant SwapClear Unfunded Contribution bears to the aggregate of the values of all such SwapClear Unfunded Contributions.
- (b) Losses to the Clearing House in respect of the Exchange Closed-out Contracts of a Defaulting Listed Interest Rates Clearing Member who is a Joint Rates Service Clearing Member, will be met using resources in the following order:

 - (i) first, by applying the Margin Cover for the Listed Interest Rates Contracts and the SwapClear Contracts of the Defaulting Clearing Member available pursuant to Rule 15(a) of the Default Rules;
 - (ii) second, by recourse to the Listed Interest Rates Contribution and the SwapClear Contribution made by the Defaulting Clearing Member available pursuant to Rule 15(b) of the Default Rules (and, for the avoidance of doubt, for purposes of this sub-paragraph (ii), the reference to “Business” in Rule 15(b) of the Default Rules shall be understood to refer to the Defaulting Clearing Member’s Listed Interest Rates Business and its SwapClear Business);
 - (iii) third, by a payment of the Capped Amount available in respect of the Rates Service Business of the Defaulting Listed Interest Rates Clearing Member pursuant to Rule 15(c) of the Default Rules;
 - (iv) fourth, by recourse to the Non-Defaulters' Listed Interest Rates Contribution of each Joint Rates Service Clearing Member, not including, for these purposes, any part of such Non-Defaulters' Listed

Interest Rates Contributions that reflects any Listed Interest Rates Unfunded Contributions deposited with the Clearing House pursuant to the relevant Default;

- (v) fifth, by recourse to the Non-Defaulters' Listed Interest Rates Contribution of each Listed Interest Rates Clearing Member who is not a Joint Rates Service Clearing Member, not including, for these purposes, any part of such Non-Defaulters' Listed Interest Rates Contributions that reflects any Listed Interest Rates Unfunded Contributions deposited with the Clearing House pursuant to the relevant Default;
- (vi) sixth, by recourse to the Non-Defaulters' SwapClear Contributions of each SwapClear Clearing Member, not including, for these purposes, any part of such Non-Defaulters' SwapClear Contributions that reflects any SwapClear Unfunded Contributions deposited with the Clearing House pursuant to the relevant Default, allocated to the Non-Defaulters' SwapClear Contributions of individual SwapClear Clearing Members based upon the proportion that the value of the relevant Non-Defaulters' SwapClear Contribution bears to the aggregate of the values of all such Non-Defaulters' SwapClear Contributions;
- (vii) seventh, by recourse to the Listed Interest Rates Unfunded Contributions of each Non-Defaulting Joint Rates Service Clearing Member and the total value of the Listed Interest Rates Unfunded Contributions that would be callable but have not been called by the Clearing House from the Non-Defaulting Joint Rates Service Clearing Members in respect of the relevant Default in accordance with Rule L5 of Part B to the Rates Service Default Fund Supplement;
- (viii) eighth, by recourse to the Listed Interest Rates Unfunded Contributions of each Listed Interest Rates Clearing Member who is not a Joint Rates Service Clearing Member and the total value of the Listed Interest Rates Unfunded Contributions that would be callable but have not been called by the Clearing House from the relevant Listed Interest Rates Clearing Members in respect of the relevant Default in accordance with Rule L5 of Part B to the Rates Service Default Fund Supplement; and
- (ix) ninth, by recourse to the SwapClear Unfunded Contributions of each Non-Defaulting SCM and the total value of the SwapClear Unfunded Contributions that would be callable but have not been called by the Clearing House from the relevant Non-Defaulting SCMs in respect of the relevant Default in accordance with Rule S7 of Part A to the Rates Service Default Fund Supplement, allocated to the SwapClear Unfunded Contributions of individual Non-Defaulting SCMs based upon the proportion that the value of the relevant SwapClear Unfunded Contribution bears to the aggregate of the values of all such SwapClear Unfunded Contributions.

2.9 Loss Attribution related to Basis Portfolios

- (a) Those losses incurred by the Clearing House as a result of the Auction of a Basis Portfolio of a Defaulting Joint Rates Service Clearing Member that relate to the close-out of the Portfolio Margined Contracts of the Defaulting Joint Rates Service Clearing Member included in the relevant Basis Portfolio will be met using resources in the following order:
- (i) first, by applying the Margin Cover for the SwapClear Contracts and the Listed Rates Contracts of the Defaulting Joint Rates Service Clearing Member available pursuant to Rule 15(a) of the Default Rules, provided that in no circumstances will any such Margin Cover transferred by the Defaulting Joint Rates Service Clearing Member in respect of obligations arising on a Client Account be applied by the Clearing House in respect of any loss attributable to the Auction of a Listed Rates Portfolio containing Listed Rates Contracts attributable to the House Clearing Business of the Defaulting Joint Rates Service Clearing Member;
 - (ii) second, by recourse to the SwapClear Contribution and the Listed Interest Rates Contribution made by the Defaulting Joint Rates Service Clearing Member available pursuant to Rule 15(b) of the Default Rules;
 - (iii) third, by a payment of the Capped Amount available in respect of the Rates Service Business of the Defaulting Joint Rates Service Clearing Member pursuant to Rule 15(c) of the Default Rules, to the extent that such Capped Amount is not required to be utilised in respect of losses incurred by the Clearing House relating to Exchange Closed-out Contracts in accordance with Rule 2.8 of this Annex;
 - (iv) fourth, by recourse to the Non-Defaulters' SwapClear Contribution of each Non-Defaulting Joint Rates Service Clearing Member, not including, for these purposes, any part of such Non-Defaulters' SwapClear Contributions that reflects any SwapClear Unfunded Contributions deposited with the Clearing House pursuant to the relevant Default and allocated in the following order:
 - (A) between the Non-Defaulters' SwapClear Contributions of individual Non-Defaulting Joint Rates Service Clearing Members based on the proportion that: (a) the risk of the Listed Interest Rates Contracts of the relevant Joint Rates Service Clearing Member bears to (b) the aggregate of the amounts calculated in (a) for all of the Non Defaulting Joint Rates Service Clearing Members;
 - (B) where the value of the losses attributed to an individual Non-Defaulting Joint Rates Service Clearing Member pursuant to sub-paragraph (A) above is greater than the value of the SwapClear Contribution of such Non-Defaulting Joint Rates Service Clearing Member, the relevant excess losses will be attributed to each Non-Defaulting Joint Rates Service Clearing Member to whom losses have been attributed pursuant to sub-paragraph (A) above and whose SwapClear Contribution

exceeds the value of such attributed losses (each a "Participating Non-Defaulting Joint Rates Service Clearing Member") based on the proportion that: (a) the risk of the Listed Interest Rates Contracts of the relevant Joint Rates Service Clearing Member bears to (b) the aggregate of the amounts calculated in (a) for all of the Participating Non Defaulting Joint Rates Service Clearing Members.

The Clearing House will repeat the loss attribution process described in this sub-paragraph (B) until the first to occur of (a) the losses being fully met; and (b) the SwapClear Contributions of all Participating Non Defaulting Joint Rates Service Clearing Members being fully attributed; and

- (C) if and to the extent that there are losses outstanding after the attribution process referred to in sub-paragraph (B) above, the relevant excess losses will be attributed to each Remaining Non-Defaulting Joint Rates Service Clearing Member's SwapClear Contributions pro rata based on the proportion that the value of the relevant SwapClear Contribution bears to aggregate value of the SwapClear Contributions of all Remaining Non-Defaulting Joint Rates Service Clearing Members;
- (v) fifth, by recourse to the Non-Defaulters' SwapClear Contribution of each SwapClear-Only Clearing Member, not including, for these purposes, any part of such Non-Defaulters' SwapClear Contributions that reflects any SwapClear Unfunded Contributions deposited with the Clearing House pursuant to the relevant Default and allocated between the Non-Defaulters' SwapClear Contributions of individual SwapClear-Only Clearing Members based on the proportion that the value of the relevant Non-Defaulters' SwapClear Contribution bears to the aggregate of the values of all such Non-Defaulters' SwapClear Contributions;
- (vi) sixth, by recourse to the Non-Defaulters' Listed Interest Rates Contributions of each Non-Defaulting Joint Rates Service Clearing Member, not including, for these purposes, any part of such Non-Defaulters' Unfunded Listed Interest Rates Contributions that reflects any Listed Interest Rates Contributions deposited with the Clearing House pursuant to the relevant Default and allocated between the Non-Defaulters' Listed Interest Rates Contributions of individual Non-Defaulting Joint Rates Service Clearing Members based on the proportion that the value of the relevant Non-Defaulters' Listed Interest Rates Contribution bears to the aggregate of the values of all such Non-Defaulters' Listed Interest Rates Contributions;
- (vii) seventh, by recourse to the Non-Defaulters' Listed Interest Rates Contribution of each Listed Interest Rates Clearing Member who is not a Joint Rates Service Clearing Member, not including, for these purposes, any part of such Non-Defaulters' Listed Interest Rates

Contributions that reflects any Listed Interest Rates Unfunded Contributions deposited with the Clearing House pursuant to the relevant Default;

(viii) eighth, by recourse to the SwapClear Unfunded Contributions of each Non-Defaulting Joint Rates Service Clearing Member and the total value of the SwapClear Unfunded Contributions that would be callable but have not been called by the Clearing House from the relevant Joint Rates Service Clearing Members in respect of the relevant Default in accordance with Rule S7 of Part A to the Rates Service Default Fund Supplement and allocated in the following order:

(A) between the called and callable SwapClear Unfunded Contributions of individual Non-Defaulting Joint Rates Service Clearing Members based on the proportion that: (a) the risk of the Listed Interest Rates Contracts of the relevant Non-Defaulting Joint Rates Service Clearing Member bears to (b) the aggregate of the amounts calculated in (a) for all of the Non Defaulting Joint Rates Service Clearing Members;

(B) where the value of the losses attributed to an individual Non-Defaulting Joint Rates Service Clearing Member pursuant to sub-paragraph (A) above is greater than the value of the called and callable SwapClear Unfunded Contributions of such Non-Defaulting Joint Rates Service Clearing Member, the relevant excess losses will be attributed to each Participating Non-Defaulting Joint Rates Service Clearing Member based on the proportion that: (a) the risk of the Listed Interest Rates Contracts of the relevant Joint Rates Service Clearing Member bears to (b) the aggregate of the amounts calculated in (a) for all of the Participating Non Defaulting Joint Rates Service Clearing Members.

The Clearing House will repeat the loss attribution process described in this sub-paragraph (B) until the first to occur of (a) the losses being fully met; and (b) the called and callable SwapClear Unfunded Contributions of all Participating Non Defaulting Joint Rates Service Clearing Members being fully attributed; and

(C) if and to the extent that there are losses outstanding after the attribution process referred to in sub-paragraph (B) above, the relevant excess losses will be attributed to each Remaining Non-Defaulting Joint Rates Service Clearing Member's called and callable SwapClear Unfunded Contributions pro rata based on the proportion that the value of the relevant called and callable SwapClear Unfunded Contribution bears to aggregate value of the called and callable SwapClear Unfunded Contributions of all Remaining Non-Defaulting Joint Rates Service Clearing Members;

- (ix) ninth, by recourse to the SwapClear Unfunded Contributions of each SwapClear-Only Clearing Member other than the Defaulter and the total value of the SwapClear Unfunded Contributions that would be callable but have not been called by the Clearing House from the relevant SwapClear-Only Clearing Members in respect of the relevant Default in accordance with Rule S7 of Part A to the Rates Service Default Fund Supplement, allocated, for these purposes, between the called and callable SwapClear Unfunded Contributions of individual SwapClear-Only Clearing Members based on the proportion that the value of the relevant SwapClear Unfunded Contribution bears to the aggregate of the values of all such SwapClear Unfunded Contributions;
 - (x) tenth, by recourse to the Listed Interest Rates Unfunded Contributions of each Non-Defaulting Joint Rates Service Clearing Member and the total value of the Listed Interest Rates Unfunded Contributions that would be callable but have not been called by the Clearing House from the relevant Non-Defaulting Joint Rates Service Clearing Members in respect of the relevant Default in accordance with Rule L5 of Part B to the Rates Service Default Fund Supplement, allocated, for these purposes, between the called and callable Listed Interest Rates Unfunded Contributions of individual Joint Rates Service Clearing Members based on the proportion that the value of the relevant Listed Interest Rates Unfunded Contribution bears to the aggregate of the values of all such Listed Interest Rates Unfunded Contributions; and
 - (xi) eleventh, by recourse to the Listed Interest Rates Unfunded Contributions of each Listed Interest Rates Clearing Member who is not a Joint Rates Service Clearing Member and the total value of the Listed Interest Rates Unfunded Contributions that would be callable but have not been called by the Clearing House from the relevant Listed Interest Rates Clearing Members in respect of the relevant Default in accordance with Rule L5 of Part B to the Rates Service Default Fund Supplement.
- (b) Those losses incurred by the Clearing House as a result of the Auction of a Basis Portfolio of a Defaulting Joint Rates Service Clearing Member that relate to the close-out of the hedging contracts of the Defaulting Joint Rates Service Clearing Member included in the relevant Basis Portfolio will be met using resources in the following order:
- (i) first, by applying the Margin Cover for the SwapClear Contracts and for the Listed Interest Rates Contracts of the Defaulting Joint Rates Service Clearing Member available pursuant to Rule 15(a) of the Default Rules, provided that in no circumstances will any such Margin Cover transferred by the Defaulting Joint Rates Service Clearing Member in respect of obligations arising on a Client Account be applied by the Clearing House in respect of any loss attributable to the Auction of a Listed Rates Portfolio containing Listed Rates Contracts attributable to the House Clearing Business of the Defaulting Joint Rates Service Clearing Member;

- (ii) second, by recourse to the SwapClear Contribution and the Listed Interest Rates Contribution made by the Defaulting Joint Rates Service Clearing Member available pursuant to Rule 15(b) of the Default Rules;
- (iii) third, by a payment of the Capped Amount available in respect of the Rates Service Business of the Defaulting Joint Rates Service Clearing Member pursuant to Rule 15(c) of the Default Rules, to the extent that such Capped Amount is not required to be utilised in respect of losses incurred by the Clearing House relating to Exchange Closed-out Contracts in accordance with Rule 2.8 of this Annex;
- (iv) fourth, by recourse to the Non-Defaulters' SwapClear Contribution of each Non-Defaulting Joint Rates Service Clearing Member, not including, for these purposes, any part of such Non-Defaulters' SwapClear Contributions that reflects any SwapClear Unfunded Contributions deposited with the Clearing House pursuant to the relevant Default and allocated between the Non-Defaulters' SwapClear Contributions of individual SCMs based on the proportion that the value of the relevant Non-Defaulters' SwapClear Contribution bears to the aggregate of the values of all such Non-Defaulters' SwapClear Contributions;
- (v) fifth, by recourse to the Non-Defaulters' Listed Interest Rates Contributions of each Non-Defaulting Joint Rates Service Clearing Member, not including, for these purposes, any part of such Non-Defaulters' Listed Interest Rates Contributions that reflects any Listed Interest Rates Contributions deposited with the Clearing House pursuant to the relevant Default and allocated between the Non-Defaulters' Listed Interest Rates Contributions of individual Non-Defaulting Joint Rates Service Clearing Members based on the proportion that the value of the relevant Non-Defaulters' Listed Interest Rates Contribution bears to the aggregate of the values of all such Non-Defaulters' Listed Interest Rates Contributions;
- (vi) sixth by recourse to the Non-Defaulters' Listed Interest Rates Contributions of each SwapClear-Only Clearing Member, not including, for these purposes, any part of such Non-Defaulters' Listed Interest Rates Contributions that reflects any Listed Interest Rates Contributions deposited with the Clearing House pursuant to the relevant Default and allocated between the Non-Defaulters' Listed Interest Rates Contributions of individual SwapClear-Only Clearing Members based on the proportion that the value of the relevant Non-Defaulters' Listed Interest Rates Contribution bears to the aggregate of the values of all such Non-Defaulters' Listed Interest Rates Contributions;
- (vii) seventh, by recourse to the Non-Defaulters' Listed Interest Rates Contribution of each Listed Interest Rates Clearing Member who is not a Joint Rates Service Clearing Member, not including, for these purposes, any part of such Non-Defaulters' Listed Interest Rates Contributions that reflects any Listed Interest Rates Unfunded

Contributions deposited with the Clearing House pursuant to the relevant Default;

- (viii) eighth, by recourse to the SwapClear Unfunded Contributions of each Non-Defaulting SCM and the total value of the SwapClear Unfunded Contributions that would be callable but have not been called by the Clearing House from the relevant SwapClear Clearing Members in respect of the relevant Default in accordance with Rule S7 of Part A to the Rates Service Default Fund Supplement, allocated, for these purposes, between the called and callable SwapClear Unfunded Contributions of individual Non-Defaulting SCMs based on the proportion that the value of the relevant SwapClear Unfunded Contribution bears to the aggregate of the values of all such SwapClear Unfunded Contributions;
- (ix) ninth, by recourse to the Listed Interest Rates Unfunded Contributions of each Non-Defaulting Joint Rates Service Clearing Member and the total value of the Listed Interest Rates Unfunded Contributions that would be callable but have not been called by the Clearing House from the relevant Joint Rates Service Clearing Members in respect of the relevant Default in accordance with Rule L5 of Part B to the Rates Service Default Fund Supplement, allocated, for these purposes, between the called and callable Listed Interest Rates Unfunded Contributions of individual Non-Defaulting Joint Rates Service Clearing Members based on the proportion that the value of the relevant Listed Interest Rates Unfunded Contribution bears to the aggregate of the values of all such Listed Interest Rates Unfunded Contributions;
- (x) tenth, by recourse to the Listed Interest Rates Unfunded Contributions of each SwapClear-Only Service Clearing Member and the total value of the Listed Interest Rates Unfunded Contributions that would be callable but have not been called by the Clearing House from the relevant SwapClear-Only Clearing Members in respect of the relevant Default in accordance with Rule L5 of Part B to the Rates Service Default Fund Supplement, allocated, for these purposes, between the called and callable Listed Interest Rates Unfunded Contributions of individual SwapClear-Only Clearing Members based on the proportion that the value of the relevant Listed Interest Rates Unfunded Contribution bears to the aggregate of the values of all such Listed Interest Rates Unfunded Contributions; and
- (xi) eleventh, by recourse to the Listed Interest Rates Unfunded Contributions of each Listed Interest Rates Clearing Member who is not a Joint Rates Service Clearing Member and the total value of the Listed Interest Rates Unfunded Contributions that would be callable but have not been called by the Clearing House from the relevant Listed Interest Rates Clearing Members in respect of the relevant Default in accordance with Rule L5 of Part B to the Rates Service Supplement.

2.6 For the purposes of this paragraph 2.9, all references to the risk associated with the Listed Interest Rates Contracts of a Non-Defaulting SCM denominated in a particular currency, shall be references to such risk as determined by the Clearing House in its sole discretion on the basis of Worst Case Loss.

3. **Default Management in respect of ~~SwapClear~~ Rates Service Client Clearing Business and FCM SwapClear Client Business**

3.1 The ~~SwapClear~~ Rates Service DMP in respect of any contract which is a Rates Service ~~SwapClear~~ Contract in respect of Rates Service ~~SwapClear~~ Client Clearing Business shall involve the stages described in the Client Clearing Annex (which such stages, for the avoidance of doubt, will result in a Rates Service ~~SwapClear~~ Contract in respect of Rates Service ~~SwapClear~~ Client Clearing Business being dealt with in accordance with Rule 2 above in the event that it cannot be ported by the Clearing House).

3.2 The Rates Service ~~SwapClear~~ DMP in respect of any contract which is an FCM SwapClear Contract in respect of FCM SwapClear Client Business shall be conducted in accordance with FCM Regulation 13(e) (*Transfer*). The provisions of Default Rule 10 shall also apply.

4. **Transfer of Cash Flows and Registration of Positions**

4.1 Following the disposal of an OTC Auction Portfolio or a Basis Portfolio by way of Auction (and notwithstanding that other OTC Auction Portfolios and/or Basis Portfolios of the Defaulting SCM may not yet have been auctioned) the Clearing House, will, with the co-operation of the Non-Defaulting SCMs, transfer to the Non-Defaulting SCM whose bid won ~~that the relevant~~ OTC Auction Portfolio or Basis Portfolio (as the case may be) the rights and obligations, from the Defaulting SCM, arising out of the positions which that Non-Defaulting SCM has successfully bid for under the ~~SwapClear~~ Rates Service Default Management Process. Such transfer may take place by way of registration of new positions with the Clearing House in the name of the relevant Non-Defaulting SCM, or novation of rights and obligations to the relevant Non-Defaulting SCM. All such registrations shall be made in a way that recognises the Collateral paid or received in respect of variation margin in relation to the ~~SwapClear~~ Rates Service Contracts of the Defaulting SCM representing such new positions.

4.2 In order to effect the transfer of positions, the Clearing House shall prescribe such procedures and timetable as it considers reasonably appropriate in the circumstances. SCMs will be required to exercise best endeavours to comply with such requirements as may be established by the Clearing House, after consultation with the ~~SwapClear~~ Rates Service DMG, to effect the transfer of positions, including but not limited to the payment of any sums due as a result of the winning bid and the provision of Collateral in an amount required by the Clearing House in respect of initial margin and variation margin obligations in respect of positions which are to be registered in their names. The Clearing House agrees that in such procedures it shall make provision for set-off by the Clearing House of amounts owed by the Clearing House to ~~the SCM~~ individual Non-Defaulting SCMs as a result of the operation of the ~~SwapClear~~ Rates Service DMP against sums owed by ~~the SCM~~ those individual SCMs to the Clearing House in respect thereof.

4.3 Where, as a result of an Auction, the Clearing House is required to make a payment to a [Non-Defaulting](#) SCM in respect of a winning bid, the Clearing House shall not be permitted to register any position, whether as a new position or as a novation of existing rights and obligations, to any such SCM if the Clearing House does not simultaneously credit that SCM with the requisite amount. If any position is so registered without such payment, such registration shall be deemed void *ab initio* and unenforceable against the relevant SCM. For the avoidance of doubt, the Clearing House will utilise the resources available to it pursuant to Rule 15 of the Default Rules for the purposes of making such a payment notwithstanding that other [OTC](#) Auction Portfolios [and/or Basis Portfolios](#) of the Defaulting SCM may not yet have been auctioned and that the loss attribution process provided for by Rule 2.56 of this Annex has not yet occurred.

5. **Information Regarding the [SwapClear Rates Service](#) DMP**

5.1 Whenever the [SwapClear Rates Service](#) DMP is implemented by the Clearing House in respect of a Defaulting SCM, the Clearing House will, with the assistance of the [Rates Service SwapClear](#)-DMG, provide such ongoing information to SCMs as the Clearing House deems reasonably appropriate in respect of the progress of the [Rates Service SwapClear](#)-DMP.

5.2 Nothing in this Rule 5 shall require the Clearing House to disclose information in respect of the [Rates Service SwapClear](#)-DMP which, in the reasonable opinion of the Clearing House, may be subject to obligations of confidentiality, may constitute market sensitive data or is, in the Clearing House's reasonable opinion, inappropriate for disclosure to SCMs.

6. **Bankruptcy Code and Related Issues**

Notwithstanding any other provision of this Annex in the event of a Default by an FCM Clearing Member, the completion of any and all actions, including but not limited to any transfers or transactions, permitted or required to be taken by the Clearing House hereunder shall be subject in all respects to the provisions of the Bankruptcy Code, Part 190 and Part 22 of the CFTC Regulations, the Dodd-Frank Wall Street Reform and Consumer Protection Act 2010, and the receipt of any approvals required under the Bankruptcy Code or such regulations.

7. **CEA Issues**

Notwithstanding any other provision of this Annex in the event of a Default by an FCM Clearing Member, the operation of this Annex shall in all respects be subject to applicable provisions of the CEA and CFTC Regulations (including Part 22 thereof) regarding the handling, custody, liquidation, transfer and disposition of client positions and assets, including but not limited to those provisions requiring segregation of client assets and prohibiting application of the assets of non-defaulting clients to amounts owed by defaulting clients.

8. Miscellaneous

- 8.1 Subject to Rules 2.45 ~~and to~~ 2.59 of this Annex, the resources available to the Clearing House and their order of use are defined in Rule 15 of the Default Rules as modified and/or supplemented by the [Rates Service SwapClear](#) Default Fund Supplements.
- 8.2 The Clearing House may from time to time supplement the details of any of the stages set out in Rule 2 of this Annex or any other aspects of the [Rates Service SwapClear](#) DMP, in consultation with the [Rates Service SwapClear](#) DMG, either by way of further Guidance or immediately on notice to SCMs on a case-by-case basis where the Clearing House deems it appropriate to do so in the circumstances of the Default, **provided that** the Clearing House may not take any such action that effects a material change to the terms of this Annex without the written consent of 50 per-cent- of all [SCMs and 50 percent of all Listed Interest Rates](#) ~~SwapClear~~ Clearing Members unless such change is invoked unilaterally against all SCMs [and Listed Interest Rates Clearing Members](#) and is necessary to manage the Clearing House's risk or otherwise to meet the Clearing House's continuing regulatory obligations including those applicable to it as a Recognised Clearing House and a Derivatives Clearing Organization. The Clearing House agrees that, in the ordinary course, it shall discuss any such Guidance with the [Rates Service SwapClear](#) DMG prior to bringing the Guidance into effect except that it shall not be required to do so where (i) the Guidance is not material to the rights and obligations of the SCMs [and the Listed Interest Rates Clearing Members](#); or (ii) the Clearing House deems it inappropriate to do so in the circumstances of the Default and it is not possible to convene the [Rates Service SwapClear](#) DMG in timely fashion.
- 8.3 The timetable for implementation of the stages of the [Rates Service SwapClear](#) Default Management Process following issue of a Default Notice by the Clearing House shall be either (i) as prescribed by the Clearing House from time to time in consultation with the [Rates Service SwapClear](#) DMG and set out in the Guidance; or (ii) imposed by the Clearing House without prior notice to the SCMs on a case-by-case basis where the Clearing House, in consultation with the [Rates Service SwapClear](#) DMG, deems it appropriate to do so in the circumstances of the Default.

9. Role and Constitution of [Rates Service SwapClear](#) DMG

- 9.1 The [Rates Service SwapClear](#) DMG shall meet at regular intervals in order to:
- (a) keep under review the [Rates Service SwapClear](#) DMP, together with any Guidance issued in respect thereof;
 - (b) keep under review the terms of reference of the [Rates Service SwapClear](#) DMG to ensure they remain appropriate;
 - (c) consider appropriate supplements or amendments to the [Rates Service SwapClear](#) DMP and/or Guidance in order to improve the procedures in place; and
 - (d) consider any other business relevant to the [Rates Service SwapClear](#) DMP which any member of the [Rates Service SwapClear](#) DMG from time to time sees fit to raise at such meetings.

- 9.2 The members of the [Rates Service SwapClear](#)-DMG shall also meet within one hour, or as soon as reasonably practical, following notification by the Clearing House that a Default Notice has been served upon an SCM, and at sufficiently frequent intervals thereafter for so long as may be necessary to assist the Clearing House in the implementation of the [Rates Service SwapClear](#)-DMP as contemplated under this Agreement. Such implementation shall include, without limitation, the provision of general default management advice with regard to: (i) the ongoing obligations of the Clearing House to its non-defaulting members; (ii) the neutralisation and closing-out of the individual obligations of the Defaulting SCM; and (iii) the splitting of Portfolios and the disposal of [OTC](#) Auction Portfolios in accordance with the [SwapClear Rates Service](#) DMP. Where it is not possible or practicable for the SCM to provide its nominated representative within an appropriate timeframe, it shall provide an alternate of suitable experience and expertise to participate on the [Rates Service SwapClear](#)-DMG.
- 9.3 The [Rates Service SwapClear](#)-DMG shall be made up of the following individuals who, unless stated otherwise, shall be appointed by the Clearing House which shall ensure that the composition is such as to provide effective review of the [Rates Service SwapClear](#)-DMP and suitable expertise and representation of market-making capacity in the event of a Default:
- (a) in the event of the issuance of a Default Notice, the chief executive or deputy chief executive of the Clearing House, who shall act as chairman;
 - (b) representatives of at least five SCMs, being senior executives with appropriate skills and expertise;
 - (c) at least one director (staff member of director grade) of the Clearing House's Risk Management department; and
 - (d) such other individuals as the [Rates Service SwapClear](#)-DMG considers appropriate from time to time in relation to individual meetings.
- 9.4 For the purpose of [Rates Service SwapClear](#)-DMG meetings convened to deal with a specific Defaulting SCM, the Clearing House may, after consultation with the [Rates Service SwapClear](#)-DMG, invite the Defaulting SCM to nominate one or more representatives to join the [Rates Service SwapClear](#)-DMG to assist it in carrying out its functions in the [Rates Service SwapClear](#)-DMP for that Defaulting SCM, and also to request representatives from any other SCMs. In the event of receiving such request, the SCM shall be obliged to provide its nominated representative, or an alternate with appropriate skills, experience and expertise, as if the SCM were a member of the [Rates Service SwapClear](#)-DMG.
- 9.5 In establishing the [Rates Service SwapClear](#)-DMG, the Clearing House agrees that in the normal course of events (not including the Clearing House's declaration of a Default and the invocation of the processes as outlined in Rules 2, ~~3~~ and 4 of this Annex) it will, as far as practicable, and in accordance with the terms of reference of the [Rates Service SwapClear](#)-DMG, rotate the membership of the [Rates Service SwapClear](#)-DMG on a regular basis and amongst all SCMs. The SCM agrees that, when requested to do so by the Clearing House, it will make available a representative to participate in the [Rates Service SwapClear](#)-DMG. The Clearing House shall agree

with the SCM the identity of such representative and shall be able to request a substitute where it believes the SCM's nominated representative does not have the requisite skills or expertise.

9.6 Each SCM who makes available a representative to serve on the [Rates Service SwapClear](#)-DMG agrees, and shall procure that, to the extent applicable, its representative agrees:

- (a) to ensure that such representative will be fully available, at any time and for such periods of time as the Clearing House may require during the course of a Default, to perform their function as a member of the [Rates Service SwapClear](#)-DMG including attending meetings, considering and advising the Clearing House upon aspects of the [Rates Service SwapClear](#)-DMP. The SCM shall ensure that a representative's other work commitments do not affect their availability for this purpose;
- (b) to take all steps to respect the confidential capacity in which such a representative receives information through the [Rates Service SwapClear](#) DMG and to establish adequate procedures to prevent the disclosure or use for any commercial purpose outside the scope of the [Rates Service SwapClear](#) DMP of any such confidential information by the SCM or its representative. Such procedures shall normally include, without limitation, the establishment of Chinese walls within the SCM; and
- (c) to be bound by and to ensure that it and any of its executives or directors serving on the [Rates Service SwapClear](#)-DMG complies with the requirements contained in the Procedures or the FCM Procedures (as the case may be).

9.7 Each SCM shall accept that:

- (a) representatives of SCMs serving on the [Rates Service SwapClear](#)-DMG are doing so in order to assist the Clearing House in ensuring the on-going integrity of the SwapClear service in the interests of Non-Defaulting SCMs; and
- (b) representatives of SCMs serving on the [Rates Service SwapClear](#)-DMG and their employers shall have no liability for any disinterested advice or actions, mandated or otherwise, that are undertaken as part of the [Rates Service SwapClear](#)-Default Management Process, **provided, however, that** nothing in this Rule 9.7(b) shall exclude the liability of such representatives and employers for any personal injury or death caused by their negligence or for any fraud or wilful default on the part of such representatives and employers.

9.8 The Clearing House agrees that, in exercising its rights and obligations in consulting with the [Rates Service SwapClear](#)-DMG pursuant to this Agreement, it will use all reasonable commercial endeavours to agree a common position with the [Rates Service SwapClear](#)-DMG, **provided that** nothing in this Rule shall prevent the Clearing House acting in a way which it reasonably determines necessary to manage its risk or otherwise meet its continuing regulatory obligations including those applicable to it as a Recognised Clearing House and a Derivatives Clearing Organization.

SCHEDULE 6
RATES SERVICESWAPCLEAR DEFAULT FUND SUPPLEMENT

CS1. Rates Service Fund Amount

- (a) The Rates Service Default Fund is denominated in GBP, and all amounts referable to it shall be denominated, calculated, called and payable in GBP.
- (b) On each business day, the Clearing House will determine a "**Combined Loss Value**" in respect of each of the 60 preceding business days. The Combined Loss Value for a particular business day will be the sum of: (1) the largest and the second largest daily stress-testing losses incurred during the preceding 60 business days in relation to the SwapClear Contracts and Eligible Listed Interest Rates Contracts of a Rates Service Clearing Member (the "**Combined Loss Value – Limb (1)**"); plus (2) the largest and the second largest daily stress-testing losses incurred during the preceding 60 business days in relation to the Non-Eligible Listed Interest Rates Contracts of a Rates Service Clearing Member (the "**Combined Loss Value – Limb (2)**"), in respect of a given scenario.
- (c) The "**Rates Service Fund Amount**" shall be determined by the Clearing House at the close of business on the first business day of each calendar month, and otherwise in accordance with paragraph (d) below (each a "**Rates Service Determination Date**") and shall be the sum of: (1) the largest of the 60 Combined Loss Values determined under Rule CS1(b); plus (2) an amount equal to 10 per cent of the value referred to in (1); plus (3) the SwapClear Tolerance Amount. The Rates Service Fund Amount shall not be less than £1 billion pounds (the "**Rates Service Fund Floor**") and shall not be more than £5 billion pounds.
- (d) The Clearing House may recalculate the Rates Service Fund Amount on any business day if the largest of the 60 Combined Loss Values determined under paragraph (b) above on that day differs by more than 25 per cent. from the Combined Loss Value on which the previous Rates Service Contribution determination was based and, on such business day, the Clearing House shall be entitled to require those Clearing Members whose portfolios have caused the increase in the Combined Loss Value to pay an additional amount in respect of their Contributions.

CS2. Rates Service Fund Amount – Allocation

On each Rates Service Determination Date the Clearing House shall calculate:

- (a) The "**SwapClear Tolerance Amount**" which shall be the value of that portion of the Rates Service Fund Amount which relates to those default fund resources which the Clearing House determines as being required in relation to SwapClear Tolerance.
- (b) The "**Non-Tolerance Amount**" which shall be the sum of: (1) the Combined Loss Value – Limb (1); plus (2) an amount equal to 10 per cent of the Combined Loss Value – Limb (1).

(c) The "SwapClear Combined Loss Value" in respect of each of the 60 preceding business days. The SwapClear Combined Loss Value in respect of a particular day will be the sum of the largest and the second largest stress-testing loss incurred on that day in relation to SwapClear Business (which includes, for the avoidance of doubt, Portfolio Margined Contracts) (for a given scenario).

(d) The "Listed Rate Combined Loss Value" in respect of each of the 60 preceding business days. The Listed Interest Rates Combined Loss Value in respect of a particular day will be the sum of the STLIEOMs for the Listed Interest Rates Clearing Members which have the largest and the second largest STLIEOM on that day. For this purpose, the "STLIEOM" means, in respect of each Listed Interest Rates Clearing Member and in respect of any day, the stress-tested loss in excess of initial margin (determined for a given scenario determined by the Clearing House) which could be incurred by the Clearing House in respect of the Eligible Listed Interest Rates Contracts (excluding, for the avoidance of doubt, any Portfolio Margined Contracts) of a Listed Interest Rates Clearing Member if that Listed Interest Rates Clearing Member became a Defaulter on that day.

(e) The "Total Combined Loss Value" which shall be the sum of the SwapClear Combined Loss Value and the Listed Rate Combined Loss Value.

(f) The "Rates Service Fund Amount - SwapClear" which shall be calculated as follows :

$$\frac{(\text{SwapClear Combined Loss Value} \times \text{Non - Tolerance Amount})}{\text{Total Combined Loss Value}} + \text{SwapClear Tolerance Amount}$$

(g) the "Rates Service Fund Amount - Listed Interest Rate" which shall be calculated as follows :

$$\frac{(\text{Listed Interest Rates Combined Loss Value} \times \text{Non - Tolerance Amount})}{\text{Total Combined Loss Value}} + (1.1 \times \text{Combined Loss Value} - \text{Limb (2)})$$

(h) the "SwapClear Tolerance" which shall be the aggregate amount of temporary initial margin forbearance provided by the Clearing House to SwapClear Clearing Members to enable registration of SwapClear Contracts.

CS3. Contributions to the Rates Service Fund

A Rates Service Clearing Member's Contributions to the Rates Service Default Fund shall be calculated in accordance with Part A of this Rates Service Fund Supplement (in respect of SwapClear Contributions) and Part B of this Rates Service Fund Supplement (in respect of Listed Interest Rates Contributions) (as applicable).

CS4. Rates Service Loss Distribution Process

Where, after a Default, the Clearing House determines that the Rates Service Excess Loss resulting from the Default will exceed the amounts to be applied to it under

Rules 15(a) to 15(g) of the Default Rules, the Clearing House may implement the process (the "Rates Service Loss Distribution Process") described in this Rule CS4.

(a) For the purposes of this Rule CS4 and for Rule CS5 the following definitions will apply:

"Actual Base Currency Gains, Losses and Realised Cash Flows by Cash Payment" means, in respect of each Cash Payment and any business day, the sum of the Pre Haircut Base Currency Gains, Losses and Realised Cash Flows by Cash Payment and any Cash Gainer Base Currency Adjustment to Cash Payment or Cash Loser Base Currency Adjustment to Cash Payment.

"Auction Portfolio" has the meaning assigned to it in the Rates Service DMP Annex.

"Available Resources" means, in respect of any Loss Distribution Period, the amounts available to the Clearing House for application in meeting any loss suffered or incurred by the Clearing House in accordance with Rules 15(a) to 15(g) of the Default Rules as at the relevant Last Call Prior to Default.

"Cash Gain" means, in respect of any Cash Gainer and any Loss Distribution Day, the amount of positive Cumulative Pre Haircut Base Currency Gains Losses and Realised Cash Flows in respect of such Cash Gainer in respect of such Loss Distribution Day.

"Cash Gainer" means, in respect of any Loss Distribution Day, each Margin Account in respect of which the value of the Cumulative Pre Haircut Base Currency Gains Losses and Realised Cash Flows on such Loss Distribution Day is greater than zero.

"Cash Gainer Base Currency Adjustment to Cash Payment" has the meaning set out in paragraph (b)(i) of this Rule CS4.

"Cash Gainer Payment Currency Adjustment to Cash Payment" has the meaning set out in paragraph (b)(i) of this Rule CS4.

"Cash Loser" means, in respect of any Loss Distribution Day, each Margin Account in respect of which the value of the Cumulative Pre Haircut Base Currency Gains Losses and Realised Cash Flows on such Loss Distribution Day is equal to or less than zero.

"Cash Loser Base Currency Adjustment to Cash Payment" has the meaning set out in paragraph (b)(ii) of this Rule CS4.

"Cash Loser Payment Currency Adjustment to Cash Payment" has the meaning set out in paragraph (b)(ii) of this Rule CS4.

"Cash Payment" means, in respect of any business day, the aggregated amount which would be paid by the Clearing House to a Non-Defaulting Rates Service Clearing Member (expressed as a positive number) or by such Rates Service Clearing Member to the Clearing House (expressed as a negative

number) in respect of a Cash Payment Type in a Cash Payment Currency on such business day.

"Cash Payment Currency" means each of the 17 currencies in which payments made between the Clearing House and an SCM may be denominated.

"Cash Payment Type" means each of (i) the Price Alignment Interest, coupon payments, consideration (fee) payments and cash Collateral in respect of a Clearing Member's variation margin obligations payable in respect of a Margin Account to the SwapClear Business of a Non-Defaulting Rates Service Clearing Member; and (ii) consideration (fee) payments and daily settlement amounts payable in respect of a Margin Account relating to the Listed Interest Rates Business of a Non-Defaulting Rates Service Clearing Member.

"Cumulative Actual Base Currency Gains, Losses and Realised Cash Flows" means in respect of each Margin Account of each Non-Defaulting Rates Service Clearing Member and any business day, the sum of the Cumulative Actual Base Currency Gains, Losses and Realised Cash Flows by Cash Payments payable on such Margin Account.

"Cumulative Actual Base Currency Gains, Losses and Realised Cash Flows by Cash Payment" means, in respect of each Cash Payment and any business day, the aggregate amount, if any, paid by the Clearing House to a Non-Defaulting Rates Service Clearing Member (expressed as a positive number) or by such Rates Service Clearing Member to the Clearing House (expressed as a negative number) in respect of Actual Base Currency Gains, Losses and Realised Cash Flows by Cash Payment from but excluding the relevant Last Call Prior to Default to and including such business day.

"Cumulative LCH Transfer Cost" means, on any business day during any Loss Distribution Period, the sum of any LCH Transfer Cost for each day from but excluding the relevant Last Call Prior to Default to and including such business day.

"Cumulative Pre Haircut Base Currency Gains Losses and Realised Cash Flows" means, in respect of each Margin Account of each Non-Defaulting Rates Service Clearing Member and any business day, the sum of the Cumulative Pre Haircut Base Currency Gains Losses and Realised Cash Flows by Cash Payments payable on such Margin Account.

"Cumulative Pre Haircut Base Currency Gains Losses and Realised Cash Flows by Cash Payment" means, in respect of each Cash Payment and any business day, the sum of the Pre Haircut Base Currency Gains, Losses and Realised Cash Flows by Cash Payment for such Cash Payment for each day from but excluding the relevant Last Call Prior to Default to and including such business day.

"Distribution Haircut" or "DH" means, on each Loss Distribution Day, the fraction determined by the Clearing House in accordance with the following formula:

$$DH(t) = LUL(t) / TCG(t)$$

where:

"LUL" means the LCH Uncovered Loss; and

"TCG" means the Total Cash Gains.

"Exchange Closed-out Loss" means the loss (converted, where applicable, into pounds sterling at the Rate of Exchange) to the Clearing House associated with the Exchange Closed-out Contracts of a Defaulting Listed Interest Rates Clearing Member.

"Last Call Prior to Default" means the most recent business day on which transfers of Collateral required to be made by Rates Service Clearing Members to the Clearing House were made in full.

"LCH Transfer Cost" means the cost (converted, where applicable, into pounds sterling at the Rate of Exchange) to the Clearing House of transferring the rights and obligations arising out of the Auction Portfolios of a Defaulting SCM to those SCMs who have successfully bid for such Auction Portfolios in Auctions.

"LCH Uncovered Loss" means, in respect of the Clearing House on any business day in any Loss Distribution Period, the amount calculated in accordance with the following formula:

$$LCH \text{ Uncovered Loss}(t) = \text{Max} (0, (TCPH (t) + CLC(t) + ECL(t) - TAR))$$

where:

"TCPH" means the Total Cumulative Pre Haircut Base Currency Gains losses and Realised Cash Flows;

"CLC" means the Cumulative LCH Transfer Cost;

"ECL" means the Exchange Closed-out Loss;

"TAR" means the Total Available Resources; and

the LCH Uncovered Loss as at the Last Call Prior to Default shall be zero.

"Loss Distribution Cap Amount" means, in respect of each Non-Defaulting Rates Service Clearing Member and any Loss Distribution Period, an amount equal to the higher of (i) £100,000,000; (ii) the product of (a) 100 per cent. and (b) the Rates Service Contribution of such Non-Defaulting Rates Service Clearing Member as at the last Rates Service Determination Date prior to the date when the Default occurred at the beginning of that Loss Distribution

Period; and (iii) any adjusted cap as may be agreed pursuant to paragraph (d) of this Rule CS4.

"Loss Distribution Day" means any business day in a Loss Distribution Period on which the Clearing House, in consultation with the Rates Service DMG, prior to calling for Collateral in respect of margin on such business day, determines that the LCH Uncovered Loss for that business day is greater than zero. On each business day, the Clearing House will determine a "Combined Loss Value" in respect of each of the 60 preceding business days. The Combined Loss Value in respect of a particular day will be the sum of the largest and the second largest stress testing loss incurred on that day in relation to SwapClear Business (for a given scenario).

~~S2. Each SCM's SwapClear Contribution (other than any SwapClear Unfunded Contribution or any Supplementary Contribution) shall be determined by the Clearing House in accordance with the following provisions:~~

~~(a) determinations will be made by the Clearing House at the close of business on the first business day of each month, and otherwise in accordance with paragraph (p) below (each a "**SwapClear Determination Date**"). In addition, the amount payable in respect of the SwapClear Contribution of an SCM which is a New Member will be determined on the date that the relevant New Member joins the SwapClear Service. Notwithstanding the foregoing, following a Default, any determinations on a SwapClear Determination Date and any such SwapClear Determination Date which might otherwise have occurred under this Rule S2 shall be suspended for the duration of the period (the "**SwapClear Default Period**") commencing on the date of such Default and terminating on the last to occur of the following dates:~~

~~(i) the date which is the close of business on the day falling 30 calendar days after the SwapClear Default Management Process Completion Date in relation to such Default (or, if such day is not a business day, the next succeeding business day); and~~

~~(ii) where, prior to the end of the period referred to in sub-paragraph (i) above (or such period as has already been extended pursuant to this sub-paragraph (ii)) one or more subsequent Defaults (each a "**Relevant Default**") occur, the date which is the close of business on the day falling 30 calendar days after the SwapClear Default Management Process Completion Date in relation to a Relevant Default which falls latest in time (or, if such day is not a business day, the next succeeding business day);~~

~~(b) the "**SwapClear Segregated Fund Amount**" shall be denominated in pounds sterling, and, for a given SwapClear Determination Date, shall be the largest of the 60 Combined Loss Values determined under Rule S1 plus 10 per cent. The SwapClear Segregated Fund Amount shall not be less than £1 billion pounds (the "**SwapClear Fund Floor**") and shall not be more than £5 billion pounds (the "**SwapClear Fund Cap**");~~

- ~~(e) — the "**SwapClear Tolerance Amount**" shall be the value of that portion of the SwapClear Segregated Fund Amount which relates to those SwapClear default fund resources which have been determined by the Clearing House as being required in relation to SwapClear Tolerance;~~
- ~~(d) — the "**SwapClear Tolerance Weight**" of an SCM (other than an SCM which is a New Member) shall be calculated by dividing (x) the average SwapClear Tolerance Utilisation of the relevant SCM during the 20 business day period preceding the relevant SwapClear Determination Date in respect of all SwapClear Contracts to which such SCM is a party, which average shall be calculated by adding together the peak SwapClear Tolerance Utilisation of such SCM for each relevant business day and then dividing such sum by 20, provided that for SCMs where the peak SwapClear Tolerance Utilisation does not yet exist or is otherwise unavailable in respect of a business day the Clearing House shall estimate the relevant peak SwapClear Tolerance Utilisation by reference to the actual or expected level of clearing activity of the relevant SCM in relation to SwapClear Contracts; by (y) the total of such average SwapClear Tolerance Utilisations of all Non-Defaulting SCMs other than SCMs which are New Members;~~
- ~~(e) — the value of the "**SwapClear Tolerance Contribution Amount**" of: (x) an SCM (other than an SCM which is a New Member) shall be calculated by multiplying the SwapClear Tolerance Amount by the SCM's SwapClear Tolerance Weight, provided that (i) where that calculation results in a value which is less than or equal to £3 million pounds, or in the case of a New Member, the value of the relevant SCM's SwapClear Tolerance Contribution Amount shall be £3 million pounds; and (ii) where that calculation results in a value which is greater than or equal to £30 million pounds, the value of the relevant SCM's SwapClear Tolerance Contribution Amount shall be £30 million pounds; and (y) a New Member shall be £3 million pounds PROVIDED FURTHER that where, as a result of the adjustments in individual SCM SwapClear Tolerance Contribution Amounts as described in this paragraph, the aggregate of the SwapClear Tolerance Contribution Amounts is greater or less than the SwapClear Tolerance Amount the Clearing House will adjust SCMs individual SwapClear Tolerance Contribution Amounts such that the aggregate of the SwapClear Tolerance Contributions equals the SwapClear Tolerance Amount;~~
- ~~(f) — the "**SwapClear Non-Tolerance Amount**" shall be the value of that portion of the SwapClear Segregated Fund Amount which relates to SwapClear default fund resources other than those which have been determined by the Clearing House as being required in relation to SwapClear Tolerance;~~
- ~~(g) — the "**SwapClear Non-Tolerance Weight**" of an SCM (other than an SCM which is a New Member) shall be calculated by dividing (i) the average daily requirement for initial margin (as calculated under the Procedures or other arrangements applicable) which has applied to the SCM during the 20 business day period preceding the relevant SwapClear Determination Date in respect of all SwapClear Contracts to which such SCM is a party by (ii) the total of such average daily requirements applied to all Non-Defaulting SCMs other than SCMs which are New Members;~~

- ~~(h) the "SwapClear Non-Tolerance Contribution Amount" of an SCM other than an SCM which is a New Member shall be calculated by multiplying that SCM's SwapClear Non-Tolerance Weight by the SwapClear Non-Tolerance Amount;~~
- ~~(i) the "SwapClear Contribution" of: (x) an SCM (other than an SCM which is a New Member) shall be the sum of (i) that SCM's SwapClear Non-Tolerance Contribution Amount adjusted, where applicable, in accordance with paragraph (j) or (o) below; and (ii) that SCM's Tolerance Contribution Amount; and (y) an SCM which is a New Member shall be calculated in accordance with S4;~~
- ~~(j) if an SCM's SwapClear Non-Tolerance Contribution Amount (calculated in accordance with paragraph (h) above) is below the Minimum Non-Tolerance SwapClear Contribution for the time being, the SCM's SwapClear Non-Tolerance Contribution Amount shall be adjusted so as to equal the Minimum Non-Tolerance SwapClear Contribution; **provided that** where, as a result of the adjustments in individual SCM SwapClear Non-Tolerance Contribution Amounts as described in this paragraph, the aggregate of the SwapClear Non-Tolerance Contribution Amounts is greater than the SwapClear Non-Tolerance Amount, the Clearing House will adjust individual SwapClear Non-Tolerance Contribution Amounts such that the aggregate of the SwapClear Non-Tolerance Contributions equals the SwapClear Non-Tolerance Amount;~~
- ~~(k) the "SwapClear Actual Total" shall be calculated by adding together (i) the amount which is the product of the Minimum Non-Tolerance SwapClear Contribution and the number of Minimum SwapClear Contribution Members; and (ii) the aggregate SwapClear Non-Tolerance Contribution Amounts (calculated in accordance with paragraph (h) above) of those SCMs which are not Minimum SwapClear Contribution Members; (iii) the aggregate SwapClear Tolerance Contribution Amounts of all SCMs other than SCMs which are New Members; and (iv) the aggregate SwapClear Contributions of all SCMs which are New Members;~~
- ~~(l) where the SwapClear Actual Total is greater than the SwapClear Fund Cap, the "SwapClear Excess" shall be the arithmetical difference between the SwapClear Actual Total and the SwapClear Fund Cap;~~
- ~~(m) where the SwapClear Actual Total is less than the SwapClear Fund Floor, the "SwapClear Shortfall" shall be the arithmetical difference between the SwapClear Fund Floor and the SwapClear Actual Total;~~
- ~~(n) for each SCM other than a Minimum SwapClear Contribution Member or a New Member: (i) the SCM's "SwapClear Discount" (if any) shall be such SCM's *pro rata* share of the SwapClear Excess calculated as the proportion of such SCM's SwapClear Non-Tolerance Contribution Amount relative to the aggregate SwapClear Non-Tolerance Contribution Amounts of all SCMs other than Minimum SwapClear Contribution Members and New Members; and (ii) the SCM's "SwapClear Increase" (if any) shall be such SCM's *pro rata* share of the SwapClear Shortfall calculated as the proportion of such SCM's SwapClear Non-Tolerance Contribution Amount relative to the aggregate~~

~~SwapClear Non-Tolerance Contribution Amounts of all SCMs other than Minimum SwapClear Contribution Members and New Members;~~

- ~~(o) for each SCM other than a Minimum SwapClear Contribution Member or a New Member, the SCM's SwapClear Non-Tolerance Contribution Amount shall be adjusted by (i) the subtraction of any SwapClear Discount applicable to the SCM; or (ii) plus the addition of any SwapClear Increase applicable to the SCM; **provided that** if the application of any SwapClear Discount would result in a SwapClear Non-Tolerance Contribution Amount of an SCM that is less than the Minimum Non-Tolerance SwapClear Contribution, such SCM shall pay the Minimum Non-Tolerance SwapClear Contribution in respect of the SwapClear Non-Tolerance Contribution Amount applicable to it, notwithstanding that the arithmetical sum of SwapClear Contributions paid by all SCMs may thereby exceed the SwapClear Fund Cap; and~~
- ~~(p) the Clearing House may recalculate the SwapClear Segregated Fund Amount and the SwapClear Contributions due from each SCM on any business day if the largest of the 60 Combined Loss Values determined under Rule S1 on that day differs by more than 25 per cent. from the Combined Loss Value on which the previous SwapClear Contribution determination was based and, on such business day, the Clearing House shall be entitled to require those SCMs whose portfolios have caused the increase in the Combined Loss Value to pay an additional amount in respect of their SwapClear Contributions.~~

~~S3. For the purposes of the calculations under Rule S2:~~

- ~~(a) references to "SwapClear Clearing Members" or to "SCMs" do not include references to Defaulting SCMs (apart from any Defaulting SCM in respect of which the Clearing House permits the application of Rule S2) or persons which were formerly SCMs but are not SCMs at the SwapClear Determination Date at which the relevant determination is made;~~
- ~~(b) contributions shall be rounded upwards, if not already such a multiple, to the next integral multiple of one thousand pounds, notwithstanding that the arithmetical sum of SwapClear Contributions paid by all SCMs may thereby exceed the SwapClear Fund Cap;~~
- ~~(c) no account shall be taken, in calculating initial margin or SwapClear Non-Tolerance Weight under Rule S2 of any offsets applied in calculating initial margin obligations imposed on an SCM in respect of SwapClear Contracts, which may otherwise be permissible under the Procedures or other arrangements applicable;~~
- ~~(d) **provided that** the SCM is not a Defaulter, the amount of its SwapClear Contribution shall be calculated in accordance with and subject to Rule S2. The provisions of Rule S2 and this Rule do not apply to a Defaulting SCM, unless the Clearing House so permits in any particular case; and~~
- ~~(e) notwithstanding Rule 25 of the Default Rules, if an SCM notifies the Clearing House on the SwapClear Default Management Process Completion Date that it wishes to resign from the SwapClear Service, such SCM, assuming all other~~

~~requirements for termination of membership have been satisfied by the next following SwapClear Determination Date, shall cease to be an SCM for the purpose of Rule S2 on and from the date upon which its SwapClear Contribution is repaid to it by the Clearing House and such payment will be made by the Clearing House following the subsequent SwapClear Determination Date in accordance with the Procedures.~~

~~S4. Without prejudice to any other requirements which the Clearing House may impose, the amount of the SwapClear Contribution of a New Member shall be the sum of (a) the Minimum Non Tolerance SwapClear Contribution; (b) the SwapClear Tolerance Contribution Amount; and (c) any supplementary sum determined by the Clearing House in its discretion and notified to the New Member. The Clearing House shall determine the amount of such supplementary sum by reference to the actual or expected level of clearing activity of the New Member.~~

~~S5. Upon determination of the amount of a SwapClear Contribution in accordance with Rule S2:~~

~~(a) if the amount of the SwapClear Contribution of an SCM immediately before close of business on the relevant SwapClear Determination Date exceeds the amount of the SCM's SwapClear Contribution as determined under Rule S2 as at close of business on that day, the excess shall be paid by the Clearing House to such SCM in accordance with the Procedures;~~

~~(b) if the amount of the SwapClear Contribution of an SCM immediately before close of business on the relevant SwapClear Determination Date is the same as the amount of the SCM's SwapClear Contribution as so determined, no sum shall then be payable by or to such SCM in respect of its Contribution; and~~

~~(c) if the amount of the SwapClear Contribution of an SCM immediately before close of business on the relevant SwapClear Determination Date is less than the amount of the SCM's SwapClear Contribution as so determined, the shortfall shall be paid by such SCM to the Clearing House in accordance with the Procedures.~~

~~The provisions of this Rule do not apply to a Defaulting SCM, unless the Clearing House so permits in any particular case.~~

~~S6. On any day interest shall accrue on the amount of each SwapClear Contribution held by the Clearing House, to the extent that it has not been applied under Rules 19 or 21 of the Default Rules, in such manner as provided by the Procedures and at a SONIA-linked rate determined, in light of market conditions at such time, by the Clearing House from time to time and notified by the Clearing House to SwapClear Clearing Members. Interest shall be payable in arrear and shall be paid on the date or dates specified by the Procedures. In these Default Rules any interest which has accrued under this Rule shall not be regarded as part of the SwapClear Contribution. For the avoidance of doubt, if the rate of interest payable on SwapClear Contributions is negative, interest shall be payable by SwapClear Clearing Members to the Clearing House.~~

~~S7.~~

- ~~(a) — After a Default, unless and until the Clearing House has repaid a Defaulter's SwapClear Contribution (or the remaining part thereof, as applicable), the SwapClear Segregated Fund Amount shall be treated as having been reduced by the amount of the Defaulter's SwapClear Contribution (if any), regardless of whether the Clearing House has applied part or all of that SwapClear Contribution under Rule 28 of the Default Rules.~~
- ~~(b) — Where, after a Default, the Clearing House has applied part or all of the SwapClear Contributions of the Non-Defaulting SCMs under Rule 21 of the Default Rules, the SwapClear Segregated Fund Amount shall be reduced forthwith by the deduction of (i) the amount of the Defaulter's SwapClear Contribution (if any) in accordance with paragraph (a) of this Rule S7; and (ii) the aggregate amount of the SwapClear Contributions or parts of SwapClear Contributions of the Non-Defaulting SCMs so applied, and the amount of the SwapClear Contribution that each Non-Defaulting SCM must maintain with the Clearing House shall be reduced by the amount of its SwapClear Contribution which has been so applied, subject to (where applicable) the requirement under paragraph (c) of this Rule S7.~~
- ~~(c) — Following the completion of a SwapClear Default Management Process, the Clearing House will deliver a notice to the SCMs confirming that the relevant SwapClear Default Management Process Completion Date has occurred. If, following the issuance of such notice, the value of the SwapClear Segregated Fund Amount determined in accordance with paragraph (b) of this Rule S7 is less than the SwapClear Fund Floor, the Clearing House may notify each Non-Defaulting SCM that it is required to make a Supplementary Contribution, based on the proportion that the value of its SwapClear Contribution as at the last SwapClear Determination Date prior to the date when the relevant Default occurred bears to the value of the aggregate SwapClear Contributions of all Non-Defaulting SCMs as at such date, so as to reinstate the SwapClear Segregated Fund Amount to a value which is no less than the SwapClear Fund Floor. Supplementary Contributions required hereunder shall be paid within two business days after notification and in accordance with the Procedures.~~

~~S8. — Where, after a Default, the Clearing House determines that (i) by reason of a reduction in accordance with Rule S7, the value of the SwapClear Segregated Fund Amount has been reduced by at least 25 per cent.; or (ii) by the time of the SwapClear Default Management Process Completion Date in relation to the relevant Default the value of the SwapClear Segregated Fund Amount will be reduced by at least 25 per cent., the Clearing House may, by notice in writing (the "**SwapClear Unfunded Contribution Notice**"), require each Non-Defaulting SCM to deposit and maintain an amount (each a "**SwapClear Unfunded Contribution**") in accordance with the following provisions:~~

- ~~(a) — SwapClear Unfunded Contributions will only be payable in circumstances where the relevant SwapClear Unfunded Contribution Notice is delivered by the Clearing House to SCMs prior to the SwapClear Default Management Process Completion Date in relation to the relevant Default;~~
- ~~(b) — the value of the SwapClear Unfunded Contribution payable by each individual SCM shall be the product of (i) the percentage by which the value of the~~

~~SwapClear Segregated Fund Amount has been reduced and (ii) the value of the SwapClear Contribution of such SCM as at the last SwapClear Determination Date prior to the date when the relevant Default occurred;~~

- ~~(c) the Clearing House may, by the delivery of one or more further SwapClear Unfunded Contribution Notices, require each Non-Defaulting SCM to pay one or more further SwapClear Unfunded Contributions in respect of the same Default, **provided that** the total value of the SwapClear Unfunded Contributions payable by an individual SCM in respect of a particular Default (determined in accordance with paragraph (b) above) may not exceed the value of the SwapClear Contribution of such SCM as at the last SwapClear Determination Date prior to the date when the relevant Default occurred; and~~
- ~~(d) following a Default in respect of which SwapClear Unfunded Contributions were paid (the "**First Default**"), the Clearing House may require the payment of further SwapClear Unfunded Contributions in respect of subsequent Defaults, (which, for the avoidance of doubt, can never be a First Default); **provided that** SwapClear Unfunded Contributions will not be payable in respect of any more than three Defaults in any six month period (commencing on the date of delivery of the first SwapClear Unfunded Contribution Notice in respect of the First Default).~~

~~SCMs will be required to deposit the full amount of their SwapClear Unfunded Contributions (without exercising any rights of set off or counterclaim) with the Clearing House on the business day following the receipt of a SwapClear Unfunded Contribution Notice.~~

~~For the avoidance of doubt, references to "SCMs" for the purposes of this Rule include any SCM (other than a Defaulting SCM) who is: (i) a Retiring Member but whose status as a Clearing Member has not yet been terminated; and (ii) a Resigning Member whose resignation from the SwapClear Service is not yet effective.~~

~~S9. **SwapClear Loss Distribution Process**~~

~~Where, after a Default, the Clearing House determines that the SwapClear Excess Loss resulting from the Default will exceed the amounts to be applied to it under Rules 15(a) to 15(g) of the Default Rules, the Clearing House may implement the process (the "**SwapClear Loss Distribution Process**") described in this Rule S9.~~

- ~~(a) For the purposes of this Rule S9 and for Rule S11, the following definitions will apply:~~

~~**"Actual Base Currency Gains, Losses and Realised Cash Flows by Cash Payment"** means, in respect of each Cash Payment and any business day, the sum of the Pre Haircut Base Currency Gains, Losses and Realised Cash Flows by Cash Payment and any Cash Gainer Base Currency Adjustment to Cash Payment or Cash Loser Base Currency Adjustment to Cash Payment.~~

~~**"Auction Portfolio"** has the meaning assigned to it in the SwapClear DMP Annex.~~

~~"Available Resources" means, in respect of any Loss Distribution Period, the amounts available to the Clearing House for application in meeting any loss suffered or incurred by the Clearing House in accordance with Rules 15(a) to 15(g) of the Default Rules as at the relevant Last Call Prior to Default.~~

~~"Cash Gain" means, in respect of any Cash Gainer and any Loss Distribution Day, the amount of positive Cumulative Pre Haircut Base Currency Gains Losses and Realised Cash Flows in respect of such Cash Gainer in respect of such Loss Distribution Day.~~

~~"Cash Gainer" means, in respect of any Loss Distribution Day, each Margin Account in respect of which the value of the Cumulative Pre Haircut Base Currency Gains Losses and Realised Cash Flows on such Loss Distribution Day is greater than zero.~~

~~"Cash Gainer Base Currency Adjustment to Cash Payment" has the meaning set out in paragraph (b)(i) of this Rule S9.~~

~~"Cash Gainer Payment Currency Adjustment to Cash Payment" has the meaning set out in paragraph (b)(i) of this Rule S9.~~

~~"Cash Loser" means, in respect of any Loss Distribution Day, each Margin Account in respect of which the value of the Cumulative Pre Haircut Base Currency Gains Losses and Realised Cash Flows on such Loss Distribution Day is equal to or less than zero.~~

~~"Cash Loser Base Currency Adjustment to Cash Payment" has the meaning set out in paragraph (b)(iii) of this Rule S9.~~

~~"Cash Loser Payment Currency Adjustment to Cash Payment" has the meaning set out in paragraph (b)(ii) of this Rule S9.~~

~~"Cash Payment" means, in respect of any business day, the aggregated amount which would be paid by the Clearing House to a Non-Defaulting SCM (expressed as a positive number) or by such SCM to the Clearing House (expressed as a negative number) in respect of a Cash Payment Type in a Cash Payment Currency on such business day.~~

~~"Cash Payment Currency" means each of the 17 currencies in which payments made between the Clearing House and an SCM may be denominated.~~

~~"Cash Payment Type" means each of the Price Alignment Amount, Price Alignment Interest, coupon payments, consideration (fee) payments, payments under 4.1 of the SwapClear STM Terms and cash Collateral in respect of a Clearing Member's variation margin obligations payable in respect of a Margin Account of a Non-Defaulting SCM.~~

~~"Cumulative Actual Base Currency Gains, Losses and Realised Cash Flows" means in respect of each Margin Account of each Non-Defaulting SCM and any business day, the sum of the Cumulative Actual Base Currency~~

~~Gains, Losses and Realised Cash Flows by Cash Payments payable on such Margin Account.~~

~~"Cumulative Actual Base Currency Gains, Losses and Realised Cash Flows by Cash Payment" means, in respect of each Cash Payment and any business day, the aggregate amount, if any, paid by the Clearing House to a Non-Defaulting SCM (expressed as a positive number) or by such SCM to the Clearing House (expressed as a negative number) in respect of Actual Base Currency Gains, Losses and Realised Cash Flows by Cash Payment from but excluding the relevant Last Call Prior to Default to and including such business day.~~

~~"Cumulative LCH Transfer Cost" means, on any business day during any Loss Distribution Period, the sum of any LCH Transfer Cost for each day from but excluding the relevant Last Call Prior to Default to and including such business day.~~

~~"Cumulative Pre Haircut Base Currency Gains Losses and Realised Cash Flows" means, in respect of each Margin Account of each Non-Defaulting SCM and any business day, the sum of the Cumulative Pre Haircut Base Currency Gains Losses and Realised Cash Flows by Cash Payments payable on such Margin Account.~~

~~"Cumulative Pre Haircut Base Currency Gains Losses and Realised Cash Flows by Cash Payment" means, in respect of each Cash Payment and any business day, the sum of the Pre Haircut Base Currency Gains, Losses and Realised Cash Flows by Cash Payment for such Cash Payment for each day from but excluding the relevant Last Call Prior to Default to and including such business day.~~

~~"Distribution Haircut" or "DH" means, on each Loss Distribution Day, the fraction determined by the Clearing House in accordance with the following formula:~~

$$\text{DH}(t) = \text{LUL}(t) / \text{TCG}(t)$$

~~where:~~

~~"LUL" means the LCH Uncovered Loss; and~~

~~"TCG" means the Total Cash Gains.~~

~~"Last Call Prior to Default" means the most recent business day on which transfers of Collateral required to be made by SCMs to the Clearing House were made in full.~~

~~"LCH Transfer Cost" means the cost (converted, where applicable, into pounds sterling at a rate of exchange determined by the Clearing House in its sole discretion) to the Clearing House of transferring the rights and obligations arising out of the Auction Portfolios of a Defaulting SCM to those SCMs who have successfully bid for such Auction Portfolios in Auctions.~~

~~"LCH Uncovered Loss" means, in respect of the Clearing House on any business day in any Loss Distribution Period, the amount calculated in accordance with the following formula:~~

$$\text{LCH Uncovered Loss}(t) = \text{Max}(0, (\text{TCPH}(t) + \text{CLC}(t) - \text{TAR}))$$

~~where:~~

~~"TCPH" means the Total Cumulative Pre Haircut Base Currency Gains losses and Realised Cash Flows;~~

~~"CLC" means the Cumulative LCH Transfer Cost;~~

~~"TAR" means the Total Available Resources; and~~

~~the LCH Uncovered Loss as at the Last Call Prior to Default shall be zero.~~

~~"Loss Distribution Cap Amount" means, in respect of each Non-Defaulting SCM and any Loss Distribution Period, an amount equal to the higher of (i) £100,000,000; (ii) the product of (a) 100 per cent. and (b) the SwapClear Contribution of such Non-Defaulting SCM as at the last SwapClear Determination Date prior to the date when the Default occurred at the beginning of that Loss Distribution Period; and (iii) any adjusted cap as may be agreed pursuant to paragraph (d) of this Rule S9.~~

~~"Loss Distribution Day" means any business day in a Loss Distribution Period on which the Clearing House, in consultation with the SwapClear DMG, prior to calling for Collateral in respect of margin on such business day, determines that the LCH Uncovered Loss for that business day is greater than zero.~~

"Loss Distribution Period" means the period from, but excluding, the day on which a Default occurs with respect to a Rates Service Clearing Member to but excluding, (1) in the case of a Defaulting Rates Service Clearing Member who is an SCM, the earlier of: (i) the business day on which (a) the rights and obligations arising out of the Auction Portfolios of the Defaulting SCM are transferred to those SCMs which have successfully bid for such Auction Portfolios in Auctions, or, if any Default occurs with respect to any other SCM prior to the end of a Loss Distribution Period, the rights and obligations arising out of the Auction Portfolios of any subsequent Defaulting SCM are transferred to those SCMs who have successfully bid for such Auction Portfolios in Auctions and (b) all payments required to be made by such SCMs and/or the Clearing House in respect of such Auction(s) have been made in full; and (ii) any Loss Distribution Day in respect of which the Clearing House determines that the Rates Service Adjustment Amount for any Rates Service Clearing Member would be equal to or greater than the Loss Distribution Cap Amount for such Loss Distribution Day; and (2) in the case of a Defaulter who is a Listed Interest Rates Clearing Member but not an SCM, any Loss Distribution Day in respect of which the Clearing House determines that the Rates Service Adjustment Amount for any Rates Service Clearing Member would be equal to or greater than the Loss Distribution Cap Amount for such

~~Loss Distribution Day means the period from, but excluding, the day on which a Default occurs with respect to an SCM to but excluding the earlier of: (i) the business day on which (a) the rights and obligations arising out of the Default Rules. Auction Portfolios of the Defaulting SCM are transferred to those SCMs which have successfully bid for such Auction Portfolios in Auctions; or, if any Default occurs with respect to any other SCM prior to the end of a Loss Distribution Period, the rights and obligations arising out of the Auction Portfolios of any subsequent Defaulting SCM are transferred to those SCMs who have successfully bid for such Auction Portfolios in Auctions and (b) all payments required to be made by such SCMs and/or the Clearing House in respect of such Auction(s) have been made in full; or (ii) any Loss Distribution Day in respect of which the Clearing House determines that the SCM Adjustment Amount for any SCM would be equal to or greater than the Loss Distribution Cap Amount for such Loss Distribution Day.~~

"Margin Account" ~~means: (i) for a Rates Service Clearing Member, each Proprietary Account, Individual Segregated Account, Non-Identified Client Omnibus Net Segregated Account, Affiliated Client Omnibus Net Segregated Account, Identified Client Omnibus Net Segregated Account and Omnibus Gross Segregated Sub-Account; and (ii) for each FCM Clearing Member, the Proprietary Account and each FCM Client Sub-Account contained within such FCM Clearing Member's FCM Omnibus SwapClear Client Account with LCH).~~ means each Proprietary Account, Individual Segregated Account, Non-Identified Client Omnibus Net Segregated Account, Affiliated Client Omnibus Net Segregated Account, Identified Client Omnibus Net Segregated Account, Omnibus Gross Segregated Sub Account and each FCM Client Sub Account related to the SwapClear Service of an SCM.

"Omnibus Gross Segregated Sub-Account" means the sub-account allocated to each individual Omnibus Gross Segregated Clearing Client or each set of Combined Omnibus Gross Segregated Clearing Clients within an Omnibus Gross Segregated Account for the purposes of recording SwapClear Contracts referable to each such individual client or group of clients.

"Payment Currency Adjustment to Cash Payment" means one or more Cash Gainer Payment Currency Adjustment to Cash Payment(s) and/or one or more Cash Loser Payment Currency Adjustment to Cash Payment(s).

"Pre Haircut Base Currency Gains, Losses and Realised Cash Flows by Cash Payment" means, in respect of each Cash Payment and any business day, the amount (converted, where applicable, into pounds sterling at the Rate of Exchange) which would be paid by the Clearing House to a Non-Defaulting ~~SCM~~ Rates Service Clearing Member (expressed as a positive number) or by such Rates Service Clearing Member ~~SCM~~ to the Clearing House (expressed as a negative number) on such business day in the absence of the application of the Distribution Haircut.

"Rate of Exchange" means, for any day, the applicable rate of exchange for converting one currency into another as determined by the Clearing House by reference to Reuters.;

"~~SCM~~ Rates Service Adjustment Amount" means in respect of the Margin Account(s) of any Non-Defaulting Rates Service Clearing Member SCM and any Loss Distribution Day, an amount equal to the sum of the Cumulative Pre Haircut Base Currency Gains Losses and Realised Cash Flows in respect of such Margin Account(s) of such Rates Service Clearing Member SCM less the sum of the Cumulative Actual Base Currency Gains, Losses and Realised Cash Flows in respect of such Margin Account(s) of such Rates Service Clearing Member, in each case in respect of the Loss Distribution Period in which such Loss Distribution Day falls.

"**t**" means, in respect of any determination made in relation to a business day, such business day.

"**t-1**" means, in respect of any determination made in relation to a business day, the business day immediately prior to such business day.

"Total Available Resources" means, on any business day during a Loss Distribution Period the sum of (i) the Available Resources and (ii) any Unfunded Contributions deposited with the Clearing House since the relevant Last Call Prior to Default.

"Total Cash Gains" means, in respect of any business day, the sum of the Cash Gain in respect of all Cash Gainers on such business day.

"Total Cumulative Pre Haircut Base Currency Gains losses and Realised Cash Flows" means, in respect of any business day the sum of all Total Cumulative Pre Haircut Base Currency Gains Losses and Realised Cash Flows by Cash Payments.

"Total Cumulative Pre Haircut Base Currency Gains Losses and Realised Cash Flows by Cash Payment" means, in respect of any business day, the sum of the Total Pre Haircut Base Currency Gains Losses and Realised Cash Flows by Cash Payment for each business day from but excluding the relevant Last Call Prior to Default to and including such business day.

"Total Pre Haircut Base Currency Gains Losses and Realised Cash Flows by Cash Payment" means, in respect of any business day, the sum of the Pre Haircut Base Currency Gains Losses and Realised Cash Flows by Cash Payment in respect of all Margin Accounts of all Non-Defaulting Rates Service Clearing Members SCMs on such business day.

"Underlying Cash Payment" means, in respect of a Cash Gainer Base Currency Adjustment to Cash Payment or a Cash Loser Base Currency Adjustment to Cash Payment, the Cash Payment in respect of which such Cash Gainer Base Currency Adjustment to Cash Payment or Cash Loser Base Currency Adjustment to Cash Payment is calculated.

(b) *Adjustment of Underlying Cash Payments*

(i) *Cash Gainer*

On each Loss Distribution Day for each Margin Account of each Non-Defaulting [Rates Service Clearing Member SCM](#) which is deemed to be a Cash Gainer, the relevant [Rates Service Clearing Member SCM](#) shall be required to pay the Clearing House an amount equal to each positive amount determined as follows or, as applicable, the Clearing House shall be required to pay the relevant [Rates Service Clearing Member SCM](#) the absolute value of each negative amount determined as follows (in each case, such amount the "**Cash Gainer Payment Currency Adjustment to Cash Payment**"):

the Cash Gainer Payment Currency Adjustment to Cash Payment is the value of the amount determined in accordance with the formula below (the "**Cash Gainer Base Currency Adjustment to Cash Payment**") converted at the Rate of Exchange into the Cash Payment Currency in which the relevant Underlying Cash Payment is denominated,

where:

$$\text{Cash Gainer Base Currency Adjustment to Cash Payment (t) = PHG(t) - (CHG(t) * Max (0, 1 - DH(t)) - CAG(t - 1))$$

"**PHG**" means the Pre Haircut Base Currency Gains Losses and Realised Cash Flows by Cash Payment;

"**CHG**" means the Cumulative Pre Haircut Base Currency Gains Losses and Realised Cash Flows by Cash Payment;

"**DH**" means the Distribution Haircut; and

"**CAG**" means the Cumulative Actual Base Currency Gains, Losses and Realised Cash Flows by Cash Payment and where "CAG" as at the Last Call Prior to Default shall be zero.

(ii) *Cash Loser*

On each Loss Distribution Day for each Margin Account of each Non-Defaulting [Rates Service Clearing Member SCM](#) which is deemed to be a Cash Loser, the Clearing House shall be required to pay the absolute value of each amount (the "**Cash Loser Payment Currency Adjustment to Cash Payment**") determined as follows:

the Cash Loser Payment Currency Adjustment to Cash Payment is the value of the amount determined in accordance with the formula below (the "**Cash Loser Base Currency Adjustment to Cash Payment**") converted at the Rate of Exchange into the Cash Payment Currency in which the relevant Underlying Cash Payment is denominated,

where:

$$\begin{aligned} &\text{Cash Loser Base Currency Adjustment to Cash Payment}(t) \\ &= \text{PHG}(t) - (\text{CHG}(t) - \text{CAG}(t - 1)) \end{aligned}$$

"**PHG**" Pre Haircut Base Currency Gains Losses and Realised Cash Flows by Cash Payment;

"**CHG**" means the Cumulative Pre Haircut Base Currency Gains Losses and Realised Cash Flows by Cash Payment; and

"**CAG**" means the Cumulative Actual Base Currency Gains, Losses and Realised Cash Flows by Cash Payment and where "CAG" as at the Last Call Prior to Default shall be zero.

(iii) *Application of Payment Currency Adjustment to Cash Payment*

On each Loss Distribution Day, the Clearing House shall apply the payment or receipt of any Payment Currency Adjustment to Cash Payment as an offset against any payments denominated in the same Cash Payment Currency as the relevant Payment Currency Adjustment to Cash Payment due from or receivable by the relevant [Rates Service Clearing Member](#)SCM.

(iv) *Adjustment for exchange of Notional Amounts on maturity*

~~If an~~ exchange of ~~n~~Notional ~~a~~Amounts is applicable to any SwapClear Contract on any business day during a Loss Distribution Period, the Clearing House may, following consultation with its risk committee or the [SwapClear Rates Service](#) DMG, as appropriate, make such adjustments as are necessary to the calculation of a Payment Currency Adjustment to Cash Payment to reflect the payment flows arising from such exchange of ~~n~~Notional ~~A~~amounts, keeping in mind the principle that the calculation of a Payment Currency Adjustment to Cash Payment is designed to capture all profits and/or losses on positions during the relevant Loss Distribution Period.

(c) *Application of Cash Gainer Payment Currency Adjustment to Cash Payment*

The Clearing House shall apply all payments it receives in respect of Cash Gainer Payment Currency Adjustment to Cash Payments solely for the purposes of meeting any loss incurred by the Clearing House following, and in relation to, each Default, as contemplated in accordance with Rules 15(a) to 15(g) of the Default Rules.

(d) *Adjustment to Loss Distribution Cap Amount*

If, during a Loss Distribution Period, the Clearing House considers that the Cash Gainer Payment Currency Adjustment to Cash Payments applied to a particular Margin Account of ~~an~~SCM [Rates Service Clearing Member](#) are, or are about to be equal to or greater than the Loss Distribution Cap Amount, the

Clearing House may propose an adjustment to such Loss Distribution Cap Amount. If agreed by all Non-Defaulting Rates Service Clearing Members~~SCMs~~, the Loss Distribution Cap Amount as adjusted pursuant to this paragraph (d) shall be applicable for the remainder of the relevant Loss Distribution Period.

(e) ***No Rebate***

The payment to the Clearing House by any Rates Service Clearing Member~~SCM~~ of any Cash Gainer Payment Currency Adjustment to Cash Payment shall be final and shall not give rise to any obligation of the Clearing House to repay any such amount or to pay any interest thereon.

(f) ***Application of any Recoveries***

If the ~~SwapClear~~ Rates Service Loss Distribution Process has been invoked by the Clearing House in accordance with this Rule ~~CS4S9~~, the Clearing House shall reimburse the Rates Service Clearing Members~~SCMs~~ (irrespective of whether they remain Rates Service Clearing Members~~SCMs~~ at the time of the recovery) and the Clearing House on a *pro rata* basis by reference to the resources which have been applied pursuant to Rules 15(a) to 15(g) of the Default Rules and including the net amount of any one or more paid by the relevant Rates Service Clearing Members~~SCMs~~:

- (i) any amounts received from the Defaulting Rates Service Clearing Member~~SCM~~ as a result of the Clearing House being a creditor of the Defaulting Rates Service Clearing Member~~SCM~~ in respect of the ~~SwapClear~~ Rates Service Business of such Defaulting Rates Service Clearing Member~~SCM~~ in the context of the occurrence of any of the events under Rules 5(i) to 5(p) of the Default Rules in respect of the Defaulting Rates Service Clearing Member~~SCM~~ or otherwise, other than in respect of sums due to the Clearing House for its own account; or
- (ii) any other amounts howsoever obtained or recovered in the course of the Clearing House's operation of the ~~SwapClear~~ Rates Service Default Management Process or which are otherwise referable to the Defaulting Rates Service Clearing Member~~SCM~~,

in each case net of any related expenses incurred by the Clearing House or other sums owing to the Clearing House by the Defaulting Rates Service Clearing Member~~SCM~~ in connection with the ~~SwapClear~~ Rates Service Business of such Defaulting Rates Service Clearing Member. For the avoidance of doubt, nothing in this paragraph (f) shall oblige the Clearing House to pursue any litigation or other action in order to recover the amounts contemplated above and if another default fund of the Clearing House has also been applied as a result of the Rates Service Clearing Member's~~SCM's~~ Default, any amounts recovered shall be applied *pari passu* as between the relevant default funds.

CSS405. **Voluntary Payments**

Where, after the Default of one or more Rates Service Clearing MembersSCMs, the Clearing House determines that, notwithstanding the availability of any resources remaining under Rules 15(a) to 15(g) of the Default Rules and the availability of the SwapClear-Rates Service Loss Distribution Process in accordance with the terms of Rule CS4-S9, it is clear that the Clearing House does not have sufficient resources to meet its obligations and liabilities arising in respect of those SwapClear-Rates Service Contracts to which it is party with Non-Defaulting Rates Service Clearing MembersSCMs, the Clearing House will by notice in writing (a "SwapClear-Rates Service Voluntary Payment Notice"): (i) inform all Non-Defaulting Rates Service Clearing Members SCMs that it has insufficient resources and that it is likely to invoke Rule CS5S11; and (ii) invite each Non-Defaulting Rates Service Clearing Member SCM to make a payment of funds (a "SwapClear-Rates Service Voluntary Payment"), in accordance with Rule 15(g) of the Default Rules, to make up for the relevant shortfall.

2. SwapClear-Rates Service Voluntary Payments will be made on the following terms:

- (a) no Rates Service Clearing Member SCM shall be obliged to make a SwapClear-Rates Service Voluntary Payment;
- (b) any SwapClear-Rates Service Voluntary Payment will be made by an Rates Service Clearing Member SCM by the close of business on the business day after receipt of the relevant SwapClear-Rates Service Voluntary Payment Notice;
- (c) no SwapClear-Rates Service Voluntary Payment may be withdrawn once made; and
- (d) the Clearing House shall have full discretion as to whether or not to accept a particular SwapClear-Rates Service Voluntary Payment.

Any failure by the Clearing House to deliver a SwapClear-Rates Service Voluntary Payment Notice pursuant to this Rule S10-CS5 will not invalidate any action taken by the Clearing House pursuant to Rule S11-CS5 nor give rise to any liability whatsoever on the part of the Clearing House.

Any SwapClear-Rates Service Voluntary Payments remaining unused at the time of the expiry of the relevant SwapClear-Rates Service Default Period will be accounted for rateably by the Clearing House as if they were amounts paid in respect of the SwapClear-Rates Service Contributions of those Rates Service Clearing Members SCMs from which SwapClear-Rates Service Voluntary Payments were accepted.

CS6. Rates Service Closure

~~S11.~~ Where, following the process for inviting ~~SwapClear-Rates Service~~ Voluntary Payments in accordance with Rule ~~S10CS5~~, the Clearing House makes a determination (an "**Insufficient Resources Determination**") that it is clear that the Clearing House does not have sufficient resources to meet its obligations and liabilities arising in respect of those ~~Rates Service SwapClear~~ Contracts to which it is party with Non-Defaulting ~~SCMs~~ Clearing Members, and the ~~following~~ provisions of ~~this Rule~~ shall have effect.:-

- (a) All outstanding ~~Rates Service SwapClear~~ Contracts shall be closed out as of the ~~clearing-business~~ day following the date of the Insufficient Resources Determination ~~was made~~ and any further obligations to make any payments under or in respect of such ~~Rates Service SwapClear~~ Contracts shall cease. The closing prices used shall be ~~mid~~ prices calculated by the Clearing House in accordance with the methodology used by it to carry out end of day margin runs in respect of the outstanding ~~Rates Service SwapClear~~ Contracts. Where such data is not available to the Clearing House, the closing price shall be the last price used by the Clearing House to calculate the variation margin ~~requirement-obligation~~ for the position to be closed out.
- (b) On the basis of the close out values established for each outstanding ~~Rates Service SwapClear~~ Contract, an account shall be taken (as at the time of close out) of what is due in respect of each ~~Rates Service Clearing Member~~ SCM, from that ~~Rates Service Clearing Member~~ SCM to the Clearing House and from the Clearing House to that ~~SCM~~ Member, as well as all other amounts owing under or in respect of ~~SwapClear~~ such ~~Rates Service~~ Contracts and any other amounts that may be due in respect of the ~~SwapClear-Rates Service~~ (including for these purposes, a proportionate share of any amounts owed generally to or from the Clearing House), and the sums due from the ~~Rates Service Clearing Member~~ SCM shall be set off against the sums due from the Clearing House and only the balance of the account shall be payable. ~~For the avoidance of doubt, amounts~~ Amounts due in respect of ~~SwapClear~~ such ~~Rates Service~~ Contracts shall include, but shall not be limited to, returns of cash Collateral provided in respect of variation margin associated therewith and the repayment of any Net Cash Gainer ~~Payment~~ Currency Adjustment to Cash Payments made in the ~~Rates Service SwapClear~~ Default Period to which the Insufficient Resources Determination relates (and in respect of which Rule ~~CS4S9(e)~~) shall be specifically disapplied); but shall exclude the repayment of any cash Collateral provided to the Clearing House in respect of initial margin or any outstanding ~~Rates Service SwapClear~~ Contributions.

To the extent that the aggregate of all of the amounts owed to the Clearing House by ~~Rates Service Clearing Members~~ SCMs plus all of those other resources applicable to the ~~Rates Service SwapClear~~ Business under Rules 15(a) to ~~15~~(g) of the Default Rules that have not been applied towards a ~~SwapClear~~ Excess Loss is less than the aggregate of the amounts owed to ~~Rates Service Clearing Members~~ SCMs by the Clearing House, each amount owed to ~~SCMs~~ Members by the Clearing House shall be reduced *pro rata* the shortfall.

- (c) The Clearing House shall determine any amounts due to each ~~Rates Service Clearing Member~~ SCM in respect of the repayment of cash Collateral

provided in respect of initial margin obligations and outstanding SwapClear Contributions to be repaid. The claim of each such Rates Service Clearing Member in respect to the foregoing shall be limited to a pro rata share of the assets available to the Clearing House to satisfy those amounts.~~The claim of each such SCM in respect to the foregoing shall be reduced in proportion to an amount by which (i) the value of the assets available to the Clearing House to meet the return obligations referred to in (b) bears to (ii) the value of what would be due from the Clearing House to each Clearing Member in aggregate in respect of the return of cash Collateral received from each such Clearing Member in respect of its initial margin obligations and outstanding Contributions.~~

- (d) For each Rates Service Clearing Member, the amount due to it or due from it as determined pursuant to (b) above shall be aggregated with its claim determined pursuant to (c) above and only the net sum shall be payable. Where the result of such calculations is that a Rates Service Clearing Member owes an amount to the Clearing House, that Rates Service Clearing Member shall pay that amount to the Clearing House immediately. Where the result of such calculations is that a Rates Service Clearing Member is owed an amount by the Clearing House, the Clearing House shall pay that amount to the Rates Service Clearing Member immediately, subject to (f) below.~~For each SCM, the amount due to it or due from it as determined pursuant to paragraph (b) shall be aggregated with its claim determined pursuant to paragraph (c) above and only the net sum shall be payable. Where the result of such calculations is that an SCM owes an amount to the Clearing House, that SCM shall pay that amount to the Clearing House immediately. Where the result of such calculations is that an SCM is owed an amount by the Clearing House, the Clearing House shall pay that amount to the SCM immediately, subject to paragraph (f) below.~~
- (e) The payment of such amount to a Rates Service Clearing Member pursuant to (d) above, subject to any re-calculations performed pursuant to (f) below, shall constitute the full and final payment in respect of the Rates Service and such Rates Service Clearing Member shall not be permitted to make any further claims on the Clearing House in respect of amounts relating to the Service nor shall it be permitted to notify the Clearing House of a Termination Date pursuant to Regulation 45 (*Netting*) for a failure to pay any amounts in relation to the Rates Service.~~The payment of such amount to an SCM, pursuant to paragraph (d) above subject to any re-calculations performed pursuant to paragraph (f) below, shall constitute the full and final payment in respect of the SwapClear Service and such SCM shall not be permitted to make any further claims on the Clearing House in respect of amounts relating to the SwapClear Service nor shall it be permitted to notify the Clearing House of a Termination Date pursuant to Regulation 45 (*Netting*) for a failure to pay any amounts in relation to the SwapClear Service.~~
- (f) The Clearing House may make the payments due under paragraph (d) above in one or more instalments to the Rates Service Clearing Members ~~SCMs~~ in proportion to the value of their claims on the Clearing House under paragraph ~~(bc)~~ (d) above if some but not all of the amounts due under paragraph (d) above or

Rules 15(a) to 15(g) of the Default Rules have not yet been received. The Clearing House shall take reasonable steps to recover such amounts and may deduct therefrom reasonable administration costs for such recovery. To the extent that the Clearing House determines that any such amounts will not in fact be recoverable, it shall re-determine the amounts due to Rates Service Clearing Members~~SCMs~~ in accordance with this Rule ~~S11~~.

- (g) This Rule ~~S11~~ shall not be applied in the event that a Termination Date has been specified in relation to the Clearing House in accordance with Regulation 45 (*Netting*).
- (h) Nothing in the foregoing shall override the obligation of the Clearing House to return non-cash Collateral provided by a Rates Service Clearing Member ~~SCM~~ in respect of its initial margin obligations pursuant to the Regulations and Procedures.

CS7. Supplementary Contributions to the Rates Service Default Fund

Following the completion of a Rates Service Default Management Process, the Clearing House will deliver a notice to all Non-Defaulting Rates Service Clearing Members that the relevant Rates Service Default Management Completion Date has occurred. If, following the issuance of such notice, the Clearing House determines (in its sole discretion) that the value of the Rates Service Default Fund is less than the Rates Service Fund Floor, the Clearing House may notify each Non-Defaulting Rates Service Clearing Member that it is required to make a Supplementary Contribution to restore the value of the Rates Service Default Fund to an amount equal to the Rates Service Fund Floor. The amount of each Non-Defaulting Rates Service Clearing Member's Supplementary Contribution will be based on the proportion of the value that such Non-Defaulting Rates Service Clearing Member's SwapClear Contribution and/or Listed Interest Rates Contribution (as applicable), in each case as at the last Rates Service Determination Date, bear(s) to the value of the aggregate SwapClear Contributions and/or aggregate Listed Interest Rates Contributions (as applicable) as of such date. Supplementary Contributions required hereunder shall be paid within two business days after notification and in accordance with the Procedures.

PART B
RATES SERVICE DEFAULT FUND SUPPLEMENT - SWAPCLEAR

S1. SwapClear Contributions to the Rates Service Fund

Each SCM's SwapClear Contribution (other than any SwapClear Unfunded Contribution or any Supplementary Contribution) shall be determined by the Clearing House in accordance with the following provisions:

(a) determinations will be made by the Clearing House at the close of business on the first business day of each month, and otherwise in accordance with paragraph (n) below (each a "SwapClear Determination Date") on the basis of information available as at close of business on the immediately preceding business day and notified to such Member as soon as practicable after such determination in accordance with the Procedures. In addition, the amount payable in respect of the SwapClear Contribution of an SCM which is a New Member will be determined on the date that the relevant New Member joins the SwapClear Service. Notwithstanding the foregoing, following a Default, any determinations on a SwapClear Determination Date and any such SwapClear Determination Date which might otherwise have occurred under this Rule S1 shall be suspended for the duration of the period (the "SwapClear Default Period") commencing on the date of such Default and terminating on the later to occur of the following dates:

(i) the date which is the close of business on the day falling 30 calendar days after the Rates Service Default Management Process Completion Date in relation to such Default (or, if such day is not a business day, the next succeeding business day); and

(ii) where, prior to the end of the period referred to in sub-paragraph (i) above (or such period as has already been extended pursuant to this sub-paragraph (ii)) one or more subsequent Defaults (each a "**Relevant Default**") occur, the date which is the close of business on the day falling 30 calendar days after the Rates Service Default Management Process Completion Date in relation to a Relevant Default which falls latest in time (or, if such day is not a business day, the next succeeding business day).

(b) the "**SwapClear Tolerance Weight**" of an SCM (other than an SCM which is a New Member) shall be calculated by dividing (x) the average SwapClear Tolerance Utilisation of the relevant SCM during the 20 business day period preceding the relevant SwapClear Determination Date in respect of all SwapClear Contracts to which such SCM is a party, which average shall be calculated by adding together the peak SwapClear Tolerance Utilisation of such SCM for each relevant business day and then dividing such sum by 20, provided that for SCMs where the peak SwapClear Tolerance Utilisation does not yet exist or is otherwise unavailable in respect of a business day the Clearing House shall estimate the relevant peak SwapClear Tolerance Utilisation by reference to the actual or expected level of clearing activity of the relevant SCM in relation to SwapClear Contracts; by (y) the total of such

average SwapClear Tolerance Utilisations of all Non-Defaulting SCMs other than SCMs which are New Members;

- (c) the value of the "**SwapClear Tolerance Contribution Amount**" of: (x) an SCM (other than an SCM which is a New Member) shall be calculated by multiplying the SwapClear Tolerance Amount by the SCM's SwapClear Tolerance Weight, provided that (i) where that calculation results in a value which is less than or equal to £3 million pounds, or in the case of a New Member, the value of the relevant SCM's SwapClear Tolerance Contribution Amount shall be £3 million pounds; and (ii) where that calculation results in a value which is greater than or equal to £30 million pounds, the value of the relevant SCM's SwapClear Tolerance Contribution Amount shall be £30 million pounds; and (y) a New Member shall be £3 million pounds PROVIDED FURTHER that where, as a result of the adjustments in individual SCM SwapClear Tolerance Contribution Amounts as described in this paragraph, the aggregate of the SwapClear Tolerance Contribution Amounts is greater or less than the SwapClear Tolerance Amount the Clearing House will adjust SCMs individual SwapClear Tolerance Contribution Amounts such that the aggregate of the SwapClear Tolerance Contributions equals the SwapClear Tolerance Amount;
- (d) the "**SwapClear Non-Tolerance Amount**" shall be the value of that portion of the Rates Service Fund Amount – SwapClear after deducting the SwapClear Tolerance Amount;
- (e) the "**SwapClear Non-Tolerance Weight**" of an SCM (other than an SCM which is a New Member) shall be calculated by dividing (i) the average daily requirement for initial margin (as calculated under the Procedures or other arrangements applicable) which has applied to the SCM during the 20 business day period preceding the relevant SwapClear Determination Date in respect of all SwapClear Contracts to which such SCM is a party by (ii) the total of such average daily requirements applied to all Non-Defaulting SCMs other than SCMs which are New Members;
- (f) the "**SwapClear Non-Tolerance Contribution Amount**" of an SCM other than an SCM which is a New Member shall be calculated by multiplying that SCM's SwapClear Non-Tolerance Weight by the SwapClear Non-Tolerance Amount;
- (g) the "**SwapClear Contribution**" of: (x) an SCM (other than an SCM which is a New Member) shall be the sum of (i) that SCM's SwapClear Non-Tolerance Contribution Amount adjusted, where applicable, in accordance with paragraph (h) or (m) below; and (ii) that SCM's Tolerance Contribution Amount; and (y) an SCM which is a New Member shall be calculated in accordance with S4;
- (h) if an SCM's SwapClear Non-Tolerance Contribution Amount (calculated in accordance with paragraph (f) above) is below the Minimum Non-Tolerance SwapClear Contribution for the time being, the SCM's SwapClear Non-Tolerance Contribution Amount shall be adjusted so as to equal the Minimum Non-Tolerance SwapClear Contribution; **provided that** where, as a result of

the adjustments in individual SCM SwapClear Non-Tolerance Contribution Amounts as described in this paragraph, the aggregate of the SwapClear Non-Tolerance Contribution Amounts is greater than the SwapClear Non-Tolerance Amount, the Clearing House will adjust individual SwapClear Non-Tolerance Contribution Amounts such that the aggregate of the SwapClear Non-Tolerance Contributions equals the SwapClear Non-Tolerance Amount;

- (i) the "SwapClear Actual Total" shall be calculated by adding together (i) the amount which is the product of the Minimum Non-Tolerance SwapClear Contribution and the number of Minimum SwapClear Contribution Members; and (ii) the aggregate SwapClear Non-Tolerance Contribution Amounts (calculated in accordance with paragraph (f) above) of those SCMs which are not Minimum SwapClear Contribution Members; (iii) the aggregate SwapClear Tolerance Contribution Amounts of all SCMs other than SCMs which are New Members; and (iv) the aggregate SwapClear Contributions of all SCMs which are New Members;
- (j) where the SwapClear Actual Total is greater than the Rates Service Fund Amount - SwapClear, the "SwapClear Excess" shall be the arithmetical difference between the SwapClear Actual Total and the Rates Service Fund Amount - SwapClear;
- (k) [reserved];
- (l) for each SCM other than a Minimum SwapClear Contribution Member or a New Member, the SCM's "SwapClear Discount" (if any) shall be such SCM's *pro rata* share of the SwapClear Excess calculated as the proportion of such SCM's SwapClear Non-Tolerance Contribution Amount relative to the aggregate SwapClear Non-Tolerance Contribution Amounts of all SCMs other than Minimum SwapClear Contribution Members and New Members;
- (m) for each SCM other than a Minimum SwapClear Contribution Member or a New Member, the SCM's SwapClear Non-Tolerance Contribution Amount shall be adjusted by the subtraction of any SwapClear Discount applicable to the SCM; **provided that** if the application of any SwapClear Discount would result in a SwapClear Non-Tolerance Contribution Amount of an SCM that is less than the Minimum Non-Tolerance SwapClear Contribution, such SCM shall pay the Minimum Non-Tolerance SwapClear Contribution in respect of the SwapClear Non-Tolerance Contribution Amount applicable to it, notwithstanding that the arithmetical sum of SwapClear Contributions paid by all SCMs may thereby exceed the Rates Service Fund Amount - SwapClear; and
- (n) the Clearing House may recalculate the SwapClear Contributions due from each SCM on any business day if the largest of the 60 Combined Loss Values determined under Rule CS1 on that day differs by more than 25 per cent. from the Combined Loss Value on which the previous SwapClear Contribution determination was based and, on such business day, the Clearing House shall be entitled to require those SCMs whose portfolios have caused the increase in the Combined Loss Value to pay an additional amount in respect of their SwapClear Contributions.

S2. For the purposes of the calculations under Rule CS1:

- (a) references to "SwapClear Clearing Members" or to "SCMs" do not include references to Defaulting SCMs (apart from any Defaulting SCM in respect of which the Clearing House permits the application of Rule CS1) or persons which were formerly SCMs but are not SCMs at the SwapClear Determination Date at which the relevant determination is made;
- (b) contributions shall be rounded upwards, if not already such a multiple, to the next integral multiple of one thousand pounds, notwithstanding that the arithmetical sum of SwapClear Contributions paid by all SCMs may thereby exceed the SwapClear Fund Cap;
- (c) no account shall be taken, in calculating initial margin or SwapClear Non-Tolerance Weight under Rule S1 of this part A of any offsets applied in calculating initial margin obligations imposed on an SCM in respect of SwapClear Contracts, which may otherwise be permissible under the Procedures or other arrangements applicable;
- (d) **provided that** the SCM is not a Defaulter, the amount of its SwapClear Contribution shall be calculated in accordance with and subject to Rule S1 of this part A. The provisions of Rule S1 of this Part A and this Rule do not apply to a Defaulting SCM, unless the Clearing House so permits in any particular case; and
- (e) notwithstanding Rule 25 of the Default Rules, if an SCM notifies the Clearing House on the Rates Service Default Management Process Completion Date that it wishes to resign from the SwapClear Service, such SCM, assuming all other requirements for termination of membership have been satisfied by the next following SwapClear Determination Date, shall cease to be an SCM for the purpose of Rule CS1 on and from the date upon which its SwapClear Contribution is repaid to it by the Clearing House and such payment will be made by the Clearing House following the subsequent SwapClear Determination Date in accordance with the Procedures.

S3. Without prejudice to any other requirements which the Clearing House may impose, the amount of the SwapClear Contribution of a New Member shall be the sum of (a) the Minimum Non-Tolerance SwapClear Contribution; (b) the SwapClear Tolerance Contribution Amount; and (c) any supplementary sum determined by the Clearing House in its discretion and notified to the New Member. The Clearing House shall determine the amount of such supplementary sum by reference to the actual or expected level of clearing activity of the New Member.

S4. Upon determination of the amount of a SwapClear Contribution in accordance with Rule S1 of this part A:

- (a) if the amount of the SwapClear Contribution of an SCM immediately before close of business on the relevant SwapClear Determination Date exceeds the amount of the SCM's SwapClear Contribution as determined under Rule S1 as at close of business on that day, the excess shall be paid by the Clearing House to such SCM in accordance with the Procedures;

- (b) if the amount of the SwapClear Contribution of an SCM immediately before close of business on the relevant SwapClear Determination Date is the same as the amount of the SCM's SwapClear Contribution as so determined, no sum shall then be payable by or to such SCM in respect of its Contribution; and
- (c) if the amount of the SwapClear Contribution of an SCM immediately before close of business on the relevant SwapClear Determination Date is less than the amount of the SCM's SwapClear Contribution as so determined, the shortfall shall be paid by such SCM to the Clearing House in accordance with the Procedures.

The provisions of this Rule do not apply to a Defaulting SCM, unless the Clearing House so permits in any particular case.

S5. On any day interest shall accrue on the amount of each SwapClear Contribution held by the Clearing House, to the extent that it has not been applied under Rules 19 or 21 of the Default Rules, in such manner as provided by the Procedures and at a SONIA-linked rate determined, in light of market conditions at such time, by the Clearing House from time to time and notified by the Clearing House to SwapClear Clearing Members. Interest shall be payable in arrear and shall be paid on the date or dates specified by the Procedures. In these Default Rules any interest which has accrued under this Rule shall not be regarded as part of the SwapClear Contribution. For the avoidance of doubt, if the rate of interest payable on SwapClear Contributions is negative, interest shall be payable by SwapClear Clearing Members to the Clearing House.

S6.

- (a) After a Default, unless and until the Clearing House has repaid a Defaulter's SwapClear Contribution (or the remaining part thereof, as applicable), the Rates Service Fund Amount - SwapClear shall be treated as having been reduced by the amount of the Defaulter's SwapClear Contribution (if any), regardless of whether the Clearing House has applied part or all of that SwapClear Contribution under Rule 28 of the Default Rules.
- (b) Where, after a Default, the Clearing House has applied part or all of the SwapClear Contributions of the Non-Defaulting SCMs under Rule 21 of the Default Rules, the Rates Service Fund Amount - SwapClear shall be reduced forthwith by the deduction of (i) the amount of the Defaulter's SwapClear Contribution (if any) in accordance with paragraph (a) of this Rule S7; and (ii) the aggregate amount of the SwapClear Contributions or parts of SwapClear Contributions of the Non-Defaulting SCMs so applied, and the amount of the SwapClear Contribution that each Non-Defaulting SCM must maintain with the Clearing House shall be reduced by the amount of its SwapClear Contribution which has been so applied, subject to (where applicable) the requirement under paragraph (c) of this Rule S6.
- (c) [reserved].

S7. Where, after a Default, the Clearing House determines that (i) by reason of a reduction in accordance with Rule S6, the value of the Rates Service Fund Amount -

SwapClear has been reduced by at least 25 per cent.; or (ii) by the time of the Rates Service Default Management Process Completion Date in relation to the relevant Default the value of the Rates Service Fund Amount - SwapClear will be reduced by at least 25 per cent., the Clearing House may, by notice in writing (the "**SwapClear Unfunded Contribution Notice**"), require each Non-Defaulting SCM to deposit and maintain an amount (each a "**SwapClear Unfunded Contribution**") in accordance with the following provisions:

- (a) SwapClear Unfunded Contributions will only be payable in circumstances where the relevant SwapClear Unfunded Contribution Notice is delivered by the Clearing House to SCMs prior to the Rates Service Default Management Process Completion Date in relation to the relevant Default;
- (b) the value of the SwapClear Unfunded Contribution payable by each individual SCM shall be the product of (i) the percentage by which the value of the Rates Service Fund Amount - SwapClear has been reduced and (ii) the value of the SwapClear Contribution of such SCM as at the last SwapClear Determination Date prior to the date when the relevant Default occurred;
- (c) the Clearing House may, by the delivery of one or more further SwapClear Unfunded Contribution Notices, require each Non-Defaulting SCM to pay one or more further SwapClear Unfunded Contributions in respect of the same Default, **provided that** the total value of the SwapClear Unfunded Contributions payable by an individual SCM in respect of a particular Default (determined in accordance with paragraph (b) above) may not exceed the value of the SwapClear Contribution of such SCM as at the last SwapClear Determination Date prior to the date when the relevant Default occurred; and
- (d) following a Default in respect of which SwapClear Unfunded Contributions were paid (the "**First Default**"), the Clearing House may require the payment of further SwapClear Unfunded Contributions in respect of subsequent Defaults, (which, for the avoidance of doubt, can never be a First Default), **provided that** SwapClear Unfunded Contributions will not be payable in respect of any more than three Defaults in any six month period (commencing on the date of delivery of the first SwapClear Unfunded Contribution Notice in respect of the First Default).

SCMs will be required to deposit the full amount of their SwapClear Unfunded Contributions (without exercising any rights of set-off or counterclaim) with the Clearing House on the business day following the receipt of a SwapClear Unfunded Contribution Notice.

For the avoidance of doubt, references to "SCMs" for the purposes of this Rule include any SCM (other than a Defaulting SCM) who is: (i) a Retiring Member but whose status as a Clearing Member has not yet been terminated; and (ii) a Resigning Member whose resignation from the SwapClear Service is not yet effective.

PART C
RATES SERVICE DEFAULT FUND SUPPLEMENT- LISTED INTEREST RATE

L1. In this Part B to the Rates Service Default Fund Supplement, subject to any contrary indication or where the context otherwise requires, references to:

the "**Business**" means the Listed Interest Rates Business of a Member

a "**Contract**" means a Listed Interest Rates Contract, a contract cleared pursuant to a Service and such other listed interest rate derivative contract as the Clearing House may from time to time specify by notice to the Members

a "**Contribution**" means a Listed Interest Rates Contribution

a "**Determination Date**" means a Listed Interest Rates Determination Date

the "**Excess Loss**" means the Listed Interest Rates Excess Loss

a "**Member**" means a Listed Interest Rates Clearing Member and a Clearing Member approved to clear a Specified Market

a "**Minimum Contribution**" means GBP 500,000

a "**Non-Defaulting Clearing Member**" means a Member that is not a Defaulter under Rule 4 of the Default Rules

"**Service**" means the listed interest rate derivatives and listed interest rate derivatives-related services provided by the Clearing House pursuant to its rules governing the clearing of the Specified Markets and includes the Listed Interest Rates Service

"**Specified Markets**" means NLX and any other markets from time to time specified by the Clearing House

and calculations of "**End of Day Margin Weight**", "**Peak Intra-Day Margin Weight**" and "**Weight Factor**" are carried out in accordance with this Part B of the Rates Service Default Supplement only.

Capitalised terms not otherwise defined in this Part B of the Rates Service Default Fund Supplement shall have the meanings assigned to them in the General Regulations or the Default Rules, as applicable.

L2. Listed Interest Rates Contributions to the Rates Service Fund

(a) The amount of each Member's Contribution shall be determined by the Clearing House at the close of business on the first business day of each month, and otherwise in accordance with paragraph (d) below (each a "**Listed Interest Rates Determination Date**") on the basis of information available as at close of business on the immediately preceding business day and notified to such Member as soon as practicable after such determination in accordance with the Procedures. However, determinations of Contributions under the methodology of this Rule are suspended for the duration of the period (the

"Listed Interest Rates Default Period") commencing on the date of such Default and terminating on the later to occur of the following dates:

- (i) the date which is the close of business on the day falling 30 calendar days after the Rates Service Default Management Process Completion Date in relation to such Default (or, if such day is not a business day, the next succeeding business day); and
 - (ii) where, prior to the end of the period referred to in sub-paragraph (i) above (or such period as has already been extended pursuant to this sub-paragraph (ii)) one or more subsequent Defaults (each a "Relevant Default") occur, the date which is the close of business on the day falling 30 calendar days after the Rates Service Default Management Process Completion Date in relation to a Relevant Default which falls latest in time (or, if such day is not a business day, the next succeeding business day).
- (b) A Member's Contribution shall be determined with reference to business conducted by it on the Specified Markets in Contracts as follows:
- (i) the Member's "**End of Day Margin Weight**" shall be calculated by dividing the average daily initial margin obligation at the end of each day (as calculated under the Procedures or other arrangements applicable) which has applied to the Member during the Reference Period in respect of all Contracts by the total of such average daily obligations applied to all Members other than Defaulters;
 - (ii) the Member's "**Peak Intra-Day Margin Weight**" shall be calculated by dividing the average maximum intra-day initial margin obligation arising at any point during each day during the Reference Period (as calculated under the Procedures or other arrangements applicable) which has applied to the Member in respect of all Contracts by the total of such average maximum intra-day obligations applied to all Members other than Defaulters;
 - (iii) the Member's "**Weight Factor**" shall be calculated by adding one-half of its End of Day Margin Weight to one-half of its Peak Intra-Day Margin Weight,

and the Member's Contribution shall be the amount arrived at by multiplying the Rates Service Fund Amount - Listed Interest Rates by the Member's Weight Factor, provided that if the amount calculated for a particular Member pursuant to the foregoing would, when aggregated with the Contributions of all other Members, produce an amount that exceeds the Rates Service Fund Amount - Listed Interest Rates, then such excess amount, as calculated by the Clearing House, shall be iteratively notionally allocated to such Member *pro rata* to its Contribution as originally calculated and such proportionate excess shall be deducted from the amount originally calculated and the Member's Contribution shall be adjusted accordingly.

For the purposes of these calculations:

- (i) (i) "Reference Period" means the period of three calendar months immediately before the Determination Date;
- (ii) (ii) references to "Members" do not include references to Defaulters (apart from any Defaulter in respect of which the Clearing House permits the application of this Rule) or persons which were formerly Members but are not Members on the date on which the relevant calculation is made;
- (iii) (iii) Contributions shall be rounded upwards, if not already such a multiple, to the next integral multiple of one thousand pounds; and
- (iv) (iv) no account shall be taken, in calculating initial margin or Margin Weight under this paragraph (b) of any offsets applied in calculating the initial margin obligations imposed on Members in respect of Contracts, which may otherwise be permissible under the Procedures or other arrangements applicable.
- (c) Without prejudice to any other requirements which the Clearing House may impose, the amount of the Contribution of a New Member shall be the sum of:
 - (i) the Minimum Contribution; and
 - (ii) any supplementary sum determined by the Clearing House in its discretion and notified to the New Member. The Clearing House shall determine the amount of such supplementary sum by reference to the actual or expected level of clearing activity of the New Member.
- (d) Except to the extent that the cap specified in paragraph (c) of Rule L5 would be exceeded, the Clearing House may recalculate the Contributions due from certain Members on any business day other than one falling between the date of a Default and the later of the two dates set out in paragraph (a) of this Rule L2, in the following circumstances:
 - (i) if the Combined Loss Value determined under paragraph (b) of Rule CS1 on that day deviates by more than 25 per cent. upwards or downwards from the Combined Loss Value on which the previous Contribution determination was based, on such business day, the Clearing House shall be entitled to make an adjustment upwards or downwards to the Rates Service Fund Amount - Listed Interest Rates commensurate with the deviation;
 - (ii) where the Risk Committee considers (for any reason) that a recalculation is warranted between Determination Dates.

L3. Interest on Listed Interest Rates Contributions

On each day interest shall accrue on the amount of each Contribution held by the Clearing House, to the extent that it has not been applied under Rule 26 or Rule 28 of the Default Rules, at such rate and in such manner as provided by the Procedures, provided that the rate of interest for any particular day shall be based on a market-recognised benchmark rate plus or minus a spread. Such rate and such spread shall be

determined, in light of market conditions at such time, by the Clearing House from time to time and notified by the Clearing House to Members. Interest on Contributions shall be payable in arrears and shall be paid on the date or dates specified by the Procedures. Any interest which has accrued under this Rule shall not be regarded as part of a Contribution.

L4. Payment of Listed Interest Rates Contributions

- (a) Upon determination of the amount of a Contribution on a Determination Date:
- (i) if the amount of the Contribution of a Member at close of business on the business day immediately before the Determination Date exceeds the amount of the Member's Contribution as determined on the Determination Date, the excess shall be paid by the Clearing House to the Member in accordance with the Procedures;
 - (ii) if the amount of the Contribution of a Member at close of business on the business day immediately before the Determination Date is the same as the amount of the Member's Contribution as determined on the Determination Date, no sum shall then be payable by or to the Member in respect of its Contribution; and
 - (iii) if the amount of the Contribution of a Member at close of business on the business day immediately before the Determination Date is less than the amount of the Member's Contribution as determined on the Determination Date, the shortfall shall be paid by the Member to the Clearing House in accordance with the Procedures.
- (b) The provisions of this Rule do not apply to a Member which is a Defaulter, unless the Clearing House so requires in any particular case.

L5. Unfunded Contributions

- (a) On any business day after the occurrence of a Default, if the Clearing House determines that by reason of reduction in accordance with Rule L6 of this Part B, (i) the Rates Service Fund Amount - Listed Interest Rates (minus any Contribution of the Defaulter) has been reduced by at least 25 per cent., or (ii) by the time of issue of a Default Management Completion Notice in relation to that Default the Rates Service Fund Amount - Listed Interest Rates will have been so reduced, the Clearing House may, by notice in writing (each an "**Unfunded Contribution Notice**"), require each Non-Defaulting Clearing Member to deposit and maintain an amount (each an "**Unfunded Contribution**") in accordance with this Rule.
- (b) Unfunded Contributions will only be payable in circumstances where the relevant Unfunded Contribution Notice is delivered by the Clearing House to Members before a Default Management Completion Notice in relation to the relevant Default.
- (c) The amount of an Unfunded Contribution payable by a Member in respect of a Default shall be payable *pro rata* by reference to the proportion which that

Member's Contribution bears to the aggregate of Contributions of all Non-Defaulting Clearing Members, and shall not exceed the value of the Contribution of that Member as calculated on the last Determination Date prior to the date when the relevant Default occurred.

- (d) Following the payment of an Unfunded Contribution in accordance with paragraphs (a), (b) and (c) of Rule L6 of this Part B, the Clearing House may, by the delivery of one or more further Unfunded Contribution Notices, require each Non-Defaulting Clearing Member to pay one or more further Unfunded Contributions in respect of the same Default, provided that the total value of the Unfunded Contributions payable by any Member in respect of a particular Default may not exceed the value of the Contribution of such Member as calculated on the last Determination Date prior to the date when the relevant Default occurred.
- (e) Following a Default in respect of which Unfunded Contributions were paid (the "First Default"), the Clearing House may require the payment of further Unfunded Contributions in respect of subsequent Defaults, (which, for the avoidance of doubt, can never be a First Default), provided that Unfunded Contributions will not be payable in respect of any more than three Defaults in any six month period (commencing on the date of delivery of the first Unfunded Contribution Notice in respect of the First Default).
- (f) Members shall deposit the full amount of each Unfunded Contribution (without exercising any rights of set-off or counterclaim) with the Clearing House on the business day following the receipt of an Unfunded Contribution Notice.

For the avoidance of doubt, references to "Members" for the purposes of this Rule include any Member (other than a Defaulter) who is: (i) a Retiring Member but whose status as a Member has not yet been terminated; and (ii) a Resigning Member whose resignation from the Service is not yet effective.

L6.

- (a) This Rule applies where, after a Default, the Clearing House has applied part or all of a Contribution under Rule 19 or Rule 21 of the Default Rules. Upon such application the Rates Service Fund Amount - Listed Interest Rates shall be reduced forthwith by the aggregate amount of the Contributions or parts of Contributions so applied, and (subject to the following provisions of this Rule) the amount of the Contribution that each Member must maintain with the Clearing House shall be reduced by the amount of its Contribution which has been applied pursuant to Rule 21 of the Default Rules, in each case until the next Determination Date. Unless and until the Clearing House has repaid a Defaulter's Contribution, the Rates Service Fund Amount - Listed Interest Rates shall be treated as having been reduced by the amount of the Defaulter's Contribution (if any) regardless of whether the Clearing House has applied part or all of that Contribution under Rule 19 of the Default Rules.
- (b) [reserved].

(c) Notwithstanding Rule 25 of the Default Rules, if a Member which is not a Defaulter notifies the Clearing House within two business days after the issue of a Default Management Completion Notice that it wishes to resign from the Service: assuming all other requirements for termination of its membership have been satisfied by the next following Listed Interest Rates Determination Date, such Member shall cease to be treated as a Member for the purpose of Rule L2 of this Part B on the next Determination Date, and its Contribution shall (unless utilised in the interim in accordance with Rule 21 of the Default Rules) be repaid by the Clearing House following that Determination Date in accordance with the Procedures. A Member which has notified its wish to resign remains liable under Rule L2 of this Part B until the effective date of its resignation.

~~(h)~~

**Appendix III
Procedures Section 2C (SwapClear)**



LCH.CLEARNET LIMITED

PROCEDURES SECTION 2C

SWAPCLEAR CLEARING SERVICE

of that Clearing Member becoming aware of the situation. Having investigated the circumstances, the Clearing House has an obligation to notify the HM Revenue & Customs of the event and the Clearing House may, in its absolute discretion suspend any SwapClear Dealer submitting such a contract for registration for the Register of SwapClear Dealers. The Clearing House may also, in its absolute discretion take such action in respect of the SwapClear Clearing Member as it deems fit in accordance with the Regulations. The SwapClear Clearing Member shall indemnify the Clearing House against any Corporation Tax or any other tax levied or imposed upon the Clearing House in respect of any such contract, and any other costs and expenses incurred by the Clearing House in connection therewith.

If in doubt, Clearing Members should consult their professional advisers as to the potential application of sections 696 and 697 CTA 2009 to their transaction.

1.27 **Default Management**

1.27.1 *Portfolio Splitting*

As part of the ~~SwapClear Rates Service~~ DMP, the Clearing House may divide an Auction Portfolio into two or more individual Auction Portfolios. In circumstances where such portfolio splitting is adopted, the Clearing House will, in consultation with the ~~Rates Service SwapClear~~ DMG, seek to create:

- (a) one or more individual sub-portfolios which have comparatively greater levels of risk associated with them, thereby isolating such sub-portfolios from those which are more risk neutral; and
- (b) one or more individual sub-portfolios which are more risk neutral.

1.27.2 *Acceptance of Bids*

In deciding whether to accept a bid, the Clearing House will generally accept the best bid in respect of any individual Auction. However, the Clearing House is entitled to reject a bid in the event that it considers, in its reasonable discretion that accepting the bid may:

- (a) cause the Clearing House to breach Applicable Law by virtue of its being a Recognised Clearing House or a Derivatives Clearing Organization;
- (b) cause the Clearing House or its membership any reputational harm;
- (c) cause legal action or proceedings to be taken against the Clearing House; or
- (d) endanger the Clearing House, any of its clearing members or the financial markets in which the Clearing House operates.

Where the Clearing House receives more than one bid from the same SwapClear Clearing Member and in respect of the same Auction the Clearing House is entitled to accept the last bid received by it in respect of that Auction. Where the Clearing House does not receive a bid that was made by a

Excess SwapClear Contribution amounts due to SwapClear Clearing Members following the adjustment to the SwapClear Contribution will be repaid to SwapClear Clearing Members' PPS accounts on the SwapClear Reset Day immediately following the adjustment to the SwapClear Contribution.

Interest on SwapClear Contributions will be paid to SwapClear Clearing Members' PPS accounts on the first working day after the SwapClear Reset Day following the end of the relevant "interest accrual period". Interest is calculated in respect of each "interest accrual period", which commences on (and includes) a SwapClear Reset Day and ends on (and includes) the calendar day immediately before the next SwapClear Reset Day. Notwithstanding the preceding paragraphs, if the rate of interest payable on SwapClear Contributions is negative, interest shall be payable by SwapClear Clearing Members to the Clearing House.

1.27.6 *Quantifying SwapClear Contributions*

For the purposes of calculating the SwapClear Margin Weight under Rule S2(c) of the [Rates Service SwapClear](#)-Default Fund Supplement, the average daily requirement for initial margin applied to an SCM shall be determined by reference to the SwapClear Contracts comprising the SwapClear House Business of that SCM only. Nothing in the foregoing sentence shall prevent the Clearing House from introducing changes to the methodology used for calculating the SwapClear Margin Weight and, in particular, the average daily requirement for initial margin applied to an SCM for the purposes of such calculation may be determined by reference to the SwapClear Contracts comprising both the SwapClear House Business and the SwapClear Client Clearing Business of that SCM.

1.27.7 *Outsourcing*

Pursuant to Section 1 (*Clearing Member and Dealer Status*) of the Procedures, an SCM may appoint a third party to fulfil one or both of the Clearing House's Membership requirements to: (i) participate in a SwapClear "fire drill" run by the Clearing House; and (ii) participate in the [Rates Service SwapClear](#)-DMP operated by the Clearing House. Where an SCM chooses to outsource one or both of these functions it must appoint and maintain at least three LCH Approved Outsourcing Agents.

The following entities are eligible for appointment as an LCH Approved Outsourcing Agent:

- (a) a SwapClear Clearing Member;
- (b) an FCM Clearing Member;
- (c) an FCM Client or SwapClear Clearing Client;
- (d) any other entity that the Clearing House deems appropriate in its sole discretion.

Where an SCM wishes to appoint a third party to carry out any obligation on its behalf, it should contact the Clearing House's Membership Department with the:

- (a) details of the third party entity that the SCM wishes to appoint as an LCH Approved Outsourcing Agent. Such information should include details of the applicant's regulatory status;
- (b) evidence of the existence of a legally binding agreement between the SCM Clearing Member and the third party; and
- (c) such other information that the Clearing House reasonably considers necessary for the purposes of determining whether an entity should be approved as an LCH Approved Outsourcing Agent.

Following the receipt of all of the information above, the Clearing House shall determine in its sole discretion, whether to approve the third party as an LCH Approved Outsourcing Agent. In making its determination, the Clearing House shall consider the third party's ability to demonstrate that it has the necessary operational infrastructure and appropriate asset class expertise.

Where an SCM successfully appoints an LCH Approved Outsourcing Agent, that SCMs may be subject to increased Collateral requirements to cater for the additional time required to invoke an outsourcing process in the event of a default.

SCMs should note that LCH Approved Outsourcing Agents may be subject to a more rigorous driving test and fire-drill than SCMs (i.e. required to demonstrate an ability to price and bid a greater number of trades at tighter pricing tolerances and within more onerous timeframes). In addition, the Clearing House may require an SCM that has appointed an LCH Approved Outsourcing Agent, to participate in an ad-hoc fire-drill or driving test with such notice as the Clearing House deems appropriate in its sole discretion.

The Clearing House reserves the right to revoke an entity's status as an LCH Approved Outsourcing Agent, in its sole discretion and without notice. In the event of such a revocation, the relevant SCM shall be required to assume those responsibilities that were previously outsourced. Such revocation may occur where the Clearing House considers that there is an insufficient number of third party entities that are providing outsourced default management services (usually a minimum of five providers at any one time).

Other than in exceptional circumstances and in the Clearing House's sole discretion, an LCH Approved Outsourcing Agent may not act on behalf of more than three clearing members.

The appointment of an LCH Approved Outsourcing Agent does not relieve a SwapClear Clearing Member of its obligations in relation to a [Rates Service SwapClear](#)-DMP (including its obligation to participate in an Auction) and an LCH Approved Outsourcing Agent's participation in the [Rates Service SwapClear](#)-DMP on behalf of an SCM, in the event of a default, shall not

extend beyond the provision of operational and other ancillary support to that SCM.

1.27.8 [Rates Service ~~SwapClear~~ DMG](#)

The necessary involvement of SCMs and the [Rates Service ~~SwapClear~~ DMG](#) in the [Rates Service ~~SwapClear~~ DMP](#) entails the assessment and dissemination of information that could give rise to conflicts of interest. To ensure that such potential conflicts are demonstrably contained, Schedule 5 establishes binding obligations of confidentiality, anonymity and the extent of dissemination of information on SCMs (and their executives or directors who participate from time to time in the [Rates Service ~~SwapClear~~ DMG](#)) and on the Clearing House.

Each SCM who makes available a representative to serve on the [Rates Service ~~SwapClear~~ DMG](#) agrees, and shall procure that, to the extent applicable, its representatives agree to be bound by and to ensure that it and any of its executives or directors serving on the [Rates Service ~~SwapClear~~ DMG](#) complies with Schedule 5 covering confidentiality, non-disclosure and other terms.

[1.27.9 Procedures for Liquidation of Rates Service Contracts of Clearing Clients](#)

[Upon the default of a Rates Service Clearing Member, the Clearing House has the power and authority, pursuant to the Rulebook, to liquidate the Rates Service Contracts of Clearing Clients which, pursuant to the Rulebook, would be conducted in accordance with the Rates Service DMP Annex. This section sets forth certain supplementary procedures \(in addition to the Default Rules and other applicable provisions of the Rulebook\) that will apply under such circumstances.](#)

[In certain circumstances the Clearing House may deem, in its sole discretion, that the Rates Service Contracts entered into by the defaulting Rates Service Clearing Member in respect of one or more Clearing Clients should be liquidated. Such determination may result from factors including: \(i\) the Clearing House determining that the Rates Service Contracts entered into by the defaulting Rates Service Clearing Member in respect of the Clearing Client pose too great a risk to the Clearing House and should therefore be liquidated, \(ii\) the Clearing House becoming aware of the Clearing Client becoming insolvent or otherwise failing in its obligations to the defaulting Rates Service Clearing Member, \(iii\) the relevant Clearing Client requesting that it be liquidated, or \(iv\) a request or instruction from a Regulatory Body, whether orally or in writing. In the event of such liquidation the Clearing House shall transfer \(either physically or by book-entry\) the Rates Service Contracts to be liquidated into an account at the Clearing House established for purposes of liquidating the Rates Service Contracts entered into by the defaulting Rates Service Clearing Member in respect of its Clearing Clients \(such account, a “**Hedged Account**”\). The Clearing House shall establish a separate Hedged Account for each currency of Rates Service Contracts that are non-transferable and will be subject to liquidation and will include in each such Hedged Account the Rates Service Contracts in the applicable currency](#)

that are to be liquidated, regardless of the Clearing Clients for which such Rates Service Contracts are held. The provisions of this section shall apply equally to any such Hedged Account. Additionally, no Contracts other than Rates Service Contracts will be transferred into a Hedged Account established for liquidating Rates Service Contracts.

A Clearing Client whose Rates Service Contracts are transferred into a Hedged Account is referred as a “**Non-Porting Client**”. The Clearing House shall hold the relevant Collateral in the relevant Client Account, in each case until the liquidation of the entire Hedged Account and all Rates Service Contracts and other positions therein, as described below. At the time that the Rates Service Contracts of a Non-Porting Client are transferred into a Hedged Account, any outstanding and accrued but unpaid Variation Margin in respect of such Rates Service Contracts shall be discharged as of the time such Rates Service Contracts are transferred into the Hedged Account, by (i) in the event that Variation Margin is accrued but unpaid in favor of the Clearing House, debiting the relevant Client Account, or (ii) in the event that Variation Margin is accrued but unpaid in favor of the FCM Client, crediting the relevant Client Account.

- (i) Administration of a Hedged Account. The Clearing House may enter into hedge transactions and liquidate and/or auction the Rates Service Contracts and hedges for the account of the Hedged Account, and may take related actions with respect to a Hedged Account (and the positions held therein), in its sole discretion as permitted by the Rulebook and applicable law, or as directed by an applicable Regulatory Body.
- (ii) Allocation of Gains and Losses in a Hedged Account to Non-Porting Clients. The Clearing House will allocate losses and gains (including further variation margin changes, hedging costs including the gains and losses associated with hedging transactions, and liquidation/auction costs and losses) to Non-Porting Clients in a Hedged Account in accordance with the following provisions:
 - (A) At the time a Clearing Client becomes a Non-Porting Client, such Non-Porting Client is assigned a separate risk factor in respect of its set of SwapClear Contracts (if any) and its set of NLX Contracts (if any) (each, an “**Account Class Risk Factor**”). The value of each Account Class Risk Factor is calculated as the proportion that the Required Margin in respect of each set of contracts bears to the aggregate Required Margin of all contracts that are transferred into the Hedged Account at the time such Clearing Client became a Non-Porting Client (i.e., at the time of transfer into the Hedged Account).
 - (B) On the first day that Clearing Clients become Non-Porting Clients, gains and losses in the Hedged Account on such day shall be allocated on a pro rata basis among such Non-Porting Clients based on their individual Account Class Risk Factors. The allocation of gains and losses on subsequent days shall be

made in the same manner until the occurrence of a day (if applicable) in which additional Non-Porting Clients are included in the Hedged Account. Additional Non-Porting Clients that are included in the Hedged Account on a subsequent day, until further additional Non-Porting Clients are included in the Hedged Account on a further subsequent day, are referred to as “New Non-Porting Clients”.

(C) On a day when one or more New Non-Porting Clients are included in the Hedged Account, the Clearing House shall calculate a combined risk factor (the “Existing Non-Porting Clients Combined Account Class Risk Factor”) in respect of the SwapClear Contracts and NLX Contracts, respectively, of the Non-Porting Clients that were previously included in the Hedged Account and are not New Non-Porting Clients (such existing Non-Porting Clients, “Existing Non-Porting Clients”). The Existing Non-Porting Clients Combined Account Class Risk Factors shall be based on the amount of Required Margin associated with the Hedged Account with respect to (x) all SwapClear Contract positions (including all SwapClear Contracts, hedges or other positions) and (y) all NLX Contract positions (including all NLX Contracts, hedges or other positions), respectively, held in the Hedged Account at the beginning of the day on which New Non-Porting Clients are included in the Hedged Account (i.e., at a time prior to the transfer of New Non-Porting Clients’ SwapClear Contracts and NLX Contracts into the Hedged Account). For the avoidance of doubt, the Existing Non-Porting Clients Combined Account Class Risk Factor is calculated without respect to the Required Margin applicable to the transferred SwapClear Contracts and NLX Contracts of the New Non-Porting Clients.

(D) On any day on which New Non-Porting Clients are included in the Hedged Account, gains and losses in the Hedged Account that are incurred on that day will be allocated among the Existing Non-Porting Clients (as a group) and the New Non-Porting Clients (individually) on a pro rata basis based on the Existing Non-Porting Clients Combined Account Class Risk Factors (with respect to the Existing Non-Porting Clients as a group) and the individual Account Class Risk Factors of each New Non-Porting Client (with respect to each such New Non-Porting Client individually). The gains and losses allocated in such manner to the Existing Non-Porting Clients as a group shall be further allocated to each individual Existing Non-Porting Client on a pro rata basis based on the Account Class Risk Factor of each such Existing Non-Porting Client. The allocation of gains and losses on subsequent days shall occur in the same manner as set forth in this paragraph (D) until the occurrence of a day (if applicable) in which additional Non-Porting Clients are included in the Hedged Account and thus

become the New Non-Porting Clients. In such a case, (A) the Existing Non-Porting Clients shall continue to be treated as Existing Non-Porting Clients, (B) the Non-Porting Clients previously constituting the New Non-Porting Clients shall then constitute Existing Non-Porting Clients (in accordance with the definition of New Non-Porting Clients in paragraph (B) above), (C) the additional Non-Porting Clients included in the Hedged Account constitute the New Non-Porting Clients (in accordance with the definition of New Non-Porting Clients in paragraph (B) above), and (D) the Clearing House shall recalculate the Existing Non-Porting Clients Combined Account Class Risk Factor and the allocation of gains and losses shall be in accordance with paragraph (C) above and this paragraph (D).

(E) Upon the liquidation of the Hedged Account and all Rates Service Contracts and other positions therein, by auction or otherwise, any gains or losses associated with such auction/liquidation shall be allocated among all Non-Porting Clients on a pro rata basis based on the “unit value” of each Rates Service Contract of each Non-Porting Client transferred into the Hedged Account, as adjusted by a “auction value adjustment”. For purposes of this clause (E), (1) “unit value” means, in respect of SwapClear Contracts, the value applied to each SwapClear Contract, based on the net present value and outstanding notional value associated with each such SwapClear Contract, and, in respect of NLX Contracts, the net present value and outstanding notional value associated with such NLX Contracts (being the Contract price times the number of Contracts), and (2) “auction value adjustment” means a ratio applied to an Rates Service Contract based on the aggregate auction/liquidation costs incurred in auctioning/liquidating the Hedged Account and the aggregate notional value of all Rates Service Contracts in the Hedged Account, each of clauses (1) and (2) as determined by the Clearing House. The allocations described in this clause (v) are without reference to any Account Class Risk Factor or Existing Non-Porting Clients Combined Account Class Risk Factor.

Settlement of Non-Porting Clients Following Liquidation of Hedged Account. Following the liquidation of a Hedged Account, the Clearing House shall allocate the appropriate gains and losses (as determined in accordance with the above provisions) to each Non-Porting Client's relevant Client Account

1.27.10 Rates Service Default Management Disclosure Notice

Each SCM must ensure that each Clearing Client is provided with, or is directed to a copy of, the Rates Service Default Management Disclosure Notice and further must provide confirmation to the Clearing House, in the form and manner reasonably required by the Clearing House, that it has discharged this obligation in respect of each of its Clearing Clients.

1.27.91.27.11 *Contact Information*

Each SCM is required to provide the Clearing House with contact details for those persons that the Clearing House should contact in the event of an SCM Default. SCMs are required to ensure that contact details remain up to date and to notify the Clearing House of any changes in such details.

1.28 Provision of Tax Forms

The Clearing House and each SwapClear Clearing Member shall provide to each SwapClear Clearing Member or the Clearing House, as relevant, (i) any forms or documents specified in the SwapClear Contract between the Clearing House and the SwapClear Clearing Member and (ii) any other form, document, statement or certification reasonably requested in writing by the SwapClear Clearing Member or the Clearing House in order to allow the SwapClear Clearing Member or the Clearing House to make a payment under the Clearing House rules or any SwapClear Contract without deduction or withholding for or on account of any tax or with such deduction or withholding at a reduced rate unless the Clearing House or the SwapClear Clearing Member can no longer deliver such form, document, statement or certification solely as a result of a change in law (including double tax treaty) or interpretation thereof after the date of the SwapClear Contract between the Clearing House and the SwapClear Clearing Member. In the case of the Clearing House, the forms required pursuant to item (ii) above include an Internal Revenue Service Form W-8BEN. Additionally, the Clearing House will take such further actions as necessary to ensure that payments made to it can be made without deduction or withholding for or on account of any Tax.

1.29 Approved Compression Services Providers

Applicants for Approved Compression Services Provider status should contact swapclearclientservices@lchclearnet.com. Approved Compression Services Providers will be required to meet the requirements of the Clearing House from time to time, including the provision of relevant information, execution of documents, and proof of operational capabilities. A list of Approved Compression Services Providers currently approved by the Clearing House is available on the Clearing House's website. Where the Clearing House approves additional Approved Compression Services Providers, it will notify Clearing Members via member circular.

Notwithstanding the designation by the Clearing House of any applicant as an Approved Compression Services Provider, the Clearing House makes no warranty (and will accept no liability) as to the effectiveness, efficiency, performance or any other aspect of the services provided by any Approved Compression Services Provider. Such matters form part of the relationship between the Clearing Members and that Approved Compression Services Provider.

1.30 Provision of Market Data

1.30.1 Provision of Market Data

2. PORTFOLIO MARGINING SERVICE

2.1 Introduction

The Portfolio Margining Service is an optional service which provides Joint Rates Service Clearing Members portfolio-margining functionality in respect of pairs of accounts which are held in the SwapClear and Listed Interest Rates Services by transferring Eligible Listed Interest Rates Contracts between accounts in each Service.

A Joint Rates Service Clearing Member must opt-in to the Portfolio Margining Service in accordance with the procedure set out in paragraph 2.2 below and meet the PM Eligibility Criteria (as defined below) in order to benefit from the portfolio-margining functionality provided by the service. However it should be noted that, regardless of whether or not a Joint Rates Service Clearing Member opts in, the SwapClear Service and Listed Interest Rates Service share a common default fund. Accordingly, the risk profile of participating in either one of such Services may be impacted by other Clearing Members participating in the other such Service whether or not as a Portfolio Margining Clearing Member. In particular, the resources of a Clearing Member that is a member of the SwapClear Service and the Listed Interest Rates Service will be made available to cover the Clearing House's losses in a different manner to those of a Clearing Member that is only a member of one of those Services, regardless of whether that Clearing Member opts-in to the Portfolio Margining Service. SwapClear Clearing Members should therefore familiarise themselves with the provisions of the Rulebook (including, but not limited to, the Default Rules).

2.2 Opt-In Procedure

2.2.1 Portfolio Margining Clearing Member Status

A Joint Rates Service Clearing Member wishing to opt-in to the Portfolio Margining Service in respect of a pair of its accounts - one in the SwapClear Service (the "**SwapClear Nominated Account**") and the other account in a Listed Interest Rates Service (the "**Listed Interest Rates Nominated Account**") and together the "**Nominated Accounts**") - must submit a written request to the Clearing House, using the appropriate form which can be obtained from the Clearing House's Membership team (a "**Portfolio Margining Request**"). For the avoidance of doubt, the Joint Rates Service Clearing Member must submit a further Portfolio Margining Request when it wishes the Portfolio Margining Service to apply in respect of additional Nominated Accounts.

2.2.2 Assessment of the Portfolio Margining Request

Upon receipt of a Portfolio Margining Request, the Clearing House will assess whether (i) the eligibility criteria set out at paragraph 2.3 below (the "**PM Eligibility Criteria**") are met and (ii) the Nominated Accounts meet the eligibility criteria set out in paragraph 2.4 below (hereinafter Nominated Accounts which meet such eligibility criteria will be referred to as either a "**SwapClear Eligible Account**" or a "**Listed Interest Rates Eligible Account**", as applicable, and, together, the "**Eligible Accounts**").

The Joint Rates Service Clearing Member will provide such information to the Clearing House as the Clearing House may, in its absolute discretion, request, including such information as is required to enable the Clearing House to make the necessary assessments in respect of a Portfolio Margining Request.

2.2.3 Activation of the Portfolio Margining Service in respect of the Nominated Accounts

Following a determination by the Clearing House that the (i) relevant PM Eligibility Criteria are met and (ii) the Nominated Accounts constitute Eligible Accounts, the Clearing House shall:

- (i) notify the Joint Rates Service Clearing Member that it is a Portfolio Margining Clearing Member; and
- (ii) activate the Portfolio Margining Arrangements in respect of the Nominated Accounts.

The Clearing House will endeavour to activate the Portfolio Margining Arrangements within 5 business days following the determination by the Clearing House that (i) the relevant PM Eligibility Criteria are met and (ii) the Nominated Accounts constitute Eligible Accounts, but owes no duty or obligation to the Portfolio Margining Clearing Member to do so.

Furthermore, notwithstanding the foregoing, the Clearing House may, in its sole discretion, refuse to provide the Portfolio Margining Service (i) to a Joint Rates Service Clearing Member (whether opted-in or not) or (ii) in respect of the Nominated Accounts, where it considers it appropriate to do so.

2.2.4 Opt-Out Procedure

In the event that a Portfolio Margining Clearing Member wishes to terminate the Portfolio Margining Service in respect of certain Nominated Accounts, it may do so by giving written notice to the Clearing House. The Portfolio Margining Clearing Member shall identify clearly the Nominated Accounts to which the termination is intended to apply.

The termination shall become effective on the date on which the Clearing House confirms to the relevant Portfolio Margining Clearing Member that the Portfolio Margining Service has been terminated in respect of the relevant Nominated Accounts. In this regard, the Clearing House will endeavour to terminate the Portfolio Margining Arrangements within 5 business days following receipt of written notice from the Portfolio Margining Clearing Member, but owes no duty or obligation to the relevant SwapClear Clearing Member to do so.

In order to prevent abuse of the Portfolio Margining Service, following the termination of the Portfolio Margining Service in respect of certain Nominated Accounts, a Portfolio Margining Clearing Member will not be entitled to submit a Portfolio Margining Request in respect of the same Nominated

Accounts for a period of 30 calendar days following termination of the Portfolio Margining Service in respect of such Nominated Accounts.

2.3 PM Eligibility Criteria

2.3.1 Joint Rates Service Clearing Member

The SwapClear Clearing Member must also be a Listed Interest Rates Clearing Member (i.e., a Joint Rates Service Clearing Member).

2.3.2 Client Consent

Where the Nominated Accounts are Client Accounts, the Joint Rates Service Clearing Member must confirm to the Clearing House (in the form of a written representation) that the relevant Clearing Client(s) have provided their consent to the operation of the Portfolio Margining Arrangements in respect of the relevant Client Accounts.

2.3.3 Recent Termination

Portfolio Margining Arrangements in respect of the Nominated Accounts have not, in the last 30 calendar days, been terminated in accordance with paragraph 2.2.5 above.

2.4 Eligible Accounts

2.4.1 Proprietary and Client Accounts

In order to be eligible for the Portfolio Margining Service, each of the Nominated Accounts must be either:

- (i) Proprietary Accounts which each reference the same legal entity; or
- (ii) Client Accounts which reference the same legal entity as the underlying Clearing Client(s) and meet the criteria set out in paragraph 2.4.2 below.

It is not possible to apply the Portfolio Margining Arrangements across a Proprietary Account and a Client Account.

2.4.2 Additional Eligibility Criteria in respect of Client Accounts

The Nominated Accounts must fall into one of the following pairings:

- (i) Individual Segregated Accounts held on behalf of the same Individual Segregated Clearing Client; or
- (ii) the relevant sub-accounts of Omnibus Gross Segregated Accounts each of which is held on behalf of the same Omnibus Gross Segregated Clearing Client; or

- (iii) an Individual Segregated Account held on behalf of an Individual Segregated Clearing Client and the relevant sub-account of an Omnibus Gross Segregated Account which is held on behalf of that Individual Segregated Clearing Client.

2.5 Portfolio Margining Arrangements

2.5.1 Portfolio Margining Calculation Tool

The Clearing House has developed a risk management tool which identifies portfolio-margining opportunities as between SwapClear Contracts held in accounts in a SwapClear Eligible Account and Eligible Listed Interest Rates Contracts held in the paired Listed Interest Rates Eligible Account (the "**Portfolio Margining Calculation Tool**"). Portfolio Margining Clearing Members will receive certain information in relation to the operation of the Portfolio Margining Service, as described in more detail in paragraph 2.6 below.

A list of Eligible Listed Interest Rates Contracts is set out in the Product Specific Contract Terms and Eligibility Criteria Manual as published on the Clearing House's website from time to time.

2.5.2 Portfolio Margining Process

2.5.2.1 At a predetermined time following the close of the NLX Clearing Service on each business day, the Clearing House will run the Portfolio Margining Calculation Tool. The Portfolio Margining Calculation Tool will identify, in respect of each pair of Eligible Accounts, any off-setting positions between SwapClear Contracts and Eligible Listed Interest Rates Contracts including any eligible Listed Interest Rate Contracts that are Portfolio Margined Contracts (the "**Identified Off-Setting Listed Interest Rates Contracts**").

2.5.2.2 The Portfolio Margining Calculation Tool is a risk management tool which is not designed to provide Portfolio Margining Clearing Members with optimal margining treatment or reduce margin calls. Accordingly, the Clearing House makes no representations or assurances as to the impact of the Portfolio Margining Calculation Tool on the Portfolio Margining Clearing Member's margin calls. The Clearing House accepts no liability in respect of the operation of the Portfolio Margining Service of the Portfolio Margining Calculation Tool. The provision and operation of the Portfolio Margining Calculation Tool is subject to Regulation 52.

2.5.3 Transfer of Identified Off-Setting Listed Interest Rates Contracts

Once identified in accordance with paragraph 2.5.2.1 above:

- (i) any Identified Off-Setting Listed Interest Rates Contracts which are not Portfolio Margined Contracts will be transferred from the relevant Listed Interest Rates Eligible Account to the paired SwapClear Eligible

Account, at which point they will become Portfolio Margined Contracts;

- (ii) any Portfolio Margined Contracts that are not identified as Identified Off-Setting Listed Interest Rates Contracts as part of the relevant cycle, will be transferred from the relevant SwapClear Eligible Account to the paired Listed Interest Rates Nominated Account, at which point they will cease to be Portfolio Margined Contracts; and
- (iii) the Clearing House's records will evidence the time of the transfers referred to in (i) and (ii) above.

2.5.4 Treatment of Portfolio Margined Contracts in the SwapClear Eligible Account

2.5.4.1 General

Portfolio Margined Contracts will be continue to be treated as Listed Interest Rate Contracts. For the avoidance of doubt, the payment of variation margin in respect of Portfolio Margined Contracts shall continue to represent a daily settlement amount as opposed to a collateralisation amount.

2.5.4.2 Compression

For the avoidance of doubt, Portfolio Margined Contracts are not eligible for compression runs.

2.5.4.3 Transfer

Portfolio Margined Contracts and associated off-setting SwapClear Contracts are not eligible for transfer. A Joint Rates Service Clearing Members that wishes to transfer a Portfolio Margined Contract and associated off-setting SwapClear Contract must reverse the Portfolio Margining Process for such Contracts prior to, and as a precondition to, the transfer of such Contracts.

2.6 Portfolio Margining Reports

The Clearing House will provide each Portfolio Margining Clearing Member with details of the transfers referred to in paragraph 2.5.3(i) and (ii) above once each business day.

SCHEDULE 5
CONFIDENTIALITY, NON-DISCLOSURE AND PARTICIPATION IN THE
DEFAULT MANAGEMENT GROUP

1. Definitions

- 1.1 "**Confidential Material**" means data (including but not limited to portfolio data) and documents, which are not in the public domain and which are disclosed to the SCM, its associated companies and advisers, or to which the SCM, its associated companies and advisers obtains or otherwise has access as a result of participation in the [SwapClear Rates Service](#) DMP, (which, for the avoidance of doubt, does not include any information, data or documents provided to the Clearing House by the SCM).
- 1.2 "**DMG Member**" means an individual appointed by a Nominating SCM.
- 1.3 "**Nominating SCM**" means a SwapClear Member who, through their obligations under the [Rates Service SwapClear](#) DMP, makes available a representative to serve on the DMG.
- 1.4 "**Permitted Purpose**" means proper fulfilment by the SCM of its duties under the [Rates Service SwapClear](#) DMP and includes, after the completion of the Auction, the use by the SCM, its associated companies and advisers (to be determined by it at its discretion) of any data or documents related to portfolios successfully won through the Auction for the purposes of its own ongoing portfolio management and to enable it to comply with ongoing legal or regulatory requirements.
- 1.5 References denoting the masculine (including "his" and "he") shall be construed as the feminine if the DMG Member is female.
- 1.6 All other terms have the meaning ascribed to them in the Default Rules (including the [Rates Service SwapClear](#) DMP Annex).

Confidentiality and Non-Disclosure: General Obligations of the SCM

2. Confidentiality

- 2.1 The SCM agrees that, in consideration of being given Confidential Material, it will keep all such Confidential Material in the strictest confidence, adhere to the provisions of this Agreement in respect thereof and, subject to Section 2.3, will not disclose it to any person without the prior written permission of the Managing Director, Risk of the Clearing House or a Director of Risk Management of the Clearing House, providing always that the SCM shall be relieved of such an obligation of confidentiality in respect of any Confidential Material if:
- 2.1.1 it comes into the public domain other than through a breach by the SCM of this Agreement; or
- 2.1.2 the SCM is expressly obliged to do so by order of a court of competent jurisdiction upon the application of a third party, or as a result of any request to disclose such part or parts of the Confidential Material in connection with any inquiry or other request by a regulatory authority or self-regulatory authority asserting jurisdiction over the SCM.

thereof in its possession or control or that of its employees or representatives, including all other papers, programs and records incorporating any of that Confidential Material, or shall destroy such information and shall certify to the Clearing House in writing that it has done so **provided that** the SCM is permitted to retain copies of any Confidential Material which it requires as part of its portfolio management or otherwise for legal or regulatory reasons.

6. **No Representations or Warranties; No Conflict of Interest**

6.1 Subject to references made in paragraph 7, the Confidential Material is disclosed by the Clearing House without any representation or warranty whatsoever as to its accuracy or completeness or otherwise.

6.2 The Clearing House acknowledges and agrees that, subject to compliance with the terms of this Schedule by the SCM and any of its employees or representatives to whom Confidential Material is provided in accordance with this Schedule, the SCM's participation in the [Rates Service SwapClear](#)-DMP shall not prevent the SCM from carrying out any transaction, or otherwise providing investment services in respect of, investments that the SCM may subsequently learn are the subject of Confidential Material and, furthermore, the Clearing House agrees that it shall not be able to assert that the SCM has a conflict of interest in doing so nor shall the Clearing House have a claim or action in respect of the foregoing against the SCM or any of its directors, employees or other representatives.

7. **Liability**

7.1 Subject to Regulation 52 (*Exclusion of Liability*), the parties agree and acknowledge that neither the Clearing House nor any of its employees or representatives shall have any liability whatsoever to the SCM or any of employees or representatives, for any loss or damage of whatsoever kind howsoever arising directly or indirectly out of or in connection with the disclosed Confidential Material or its use.

7.2 The Clearing House accepts liability for any personal injury or death caused by the negligence of the Clearing House and any fraud or wilful default on the part of the Clearing House, for any actions that it may take on the basis of advice given to it by the DMG, and for the accuracy of the information (confidential material as defined in the Schedule to this Agreement) that it distributes to the SCM in connection with the [Rates Service SwapClear](#)-DMP.

7.3 Under no circumstances shall the Clearing House have any liability to the SCM for (a) any consequential loss or other indirect loss of whatsoever kind or (b) loss of anticipated profit (whether direct or indirect).

8. **Remedies**

Without affecting any other rights or remedies that the Clearing House may have, the SCM acknowledges that the Clearing House may be irreparably harmed by any breach of the terms of this Agreement and that damages alone may not necessarily be an adequate remedy. Accordingly, the Clearing House will be entitled to the remedies of injunction, specific performance and other equitable relief, or any combination of

11. Warranty and Representation

11.1 The SCM represents and warrants that it will procure that:

11.1.1 the Nominating SCM and the DMG Member's employer (if different) are aware of the obligations of confidentiality arising out of this Agreement; and

11.1.2 nothing in this Agreement will cause the DMG Member to breach any duty or obligation (whether arising pursuant to contract or otherwise) which he owes to the Nominating SCM or to his employer, if different, or any other contract counterparty of the DMG Member.

12. Confidentiality and Non-Disclosure: General Obligations of the Clearing House

The Clearing House will treat all Confidential Material in the terms envisaged in this Schedule, confining use to the [Rates Service SwapClear](#) DMP, restricting its availability on a "strictly need to know basis", and exercising every duty of care required of it as a Recognised Clearing House and as a Derivatives Clearing Organization.

13. Third Party Rights

A person who is not a party to this Annex shall have no rights under the Contracts (Rights of Third Parties) Act 1999 to enforce any of its terms.

**Appendix IV
Procedures Section 2J (NLX Clearing Service)**



LCH.CLEARNET LIMITED

PROCEDURES SECTION 2J

NLX CLEARING SERVICE

method of funds transfer, or type of Collateral to be provided, will be agreed between the Clearing House and the Clearing Member. Only when the Clearing House has received the Collateral or has received confirmation from the transferring bank that the cash Collateral has been, or is, in the process of being transferred will it accept the pending trade.

The Clearing House will carry out the process of accepting pending trades on an hourly basis throughout the day, or more frequently where possible. The acceptance process will apply to both sides of a trade at the same time.

It is the responsibility of each Clearing Member to ensure that any trades likely to require acceptance are input as early as possible in the day; and that either sufficient surplus Collateral is maintained with the Clearing House (to meet debit variation margin obligations arising from pending trades) or arrangements are in place to meet additional calls for Collateral. Trades not accepted by the Clearing House will not be registered. In order to achieve registration the trade must be re-submitted (in accordance with NLX Rules) the next business day, when the same process will apply.

1.4.6 *Novation*

Novation replaces each exchange contract executed between Clearing Members with two separate contracts, one between the Clearing Member-seller and the Clearing House and the other between the Clearing Member-buyer and the Clearing House. Novation is described in Regulation 12 (*Novation*).

1.4.7 *Notification*

All registered contracts are listed on the Clearing Member Statement available via the Member Reporting website. [NLX Service Clearing Members participating in the Portfolio Margining Service will also be notified via the Member Reporting website of transfers of Identified Off-Setting Listed Interest Rates Contracts as described more fully in Section 2C \(SwapClear\) of the Procedures.](#)

1.4.8 *Proprietary Accounts and Client Accounts*

1.4.1 *Proprietary Accounts*

An NLX Service Clearing Member may request that the Clearing House opens one or more Proprietary Accounts in respect of its House Clearing Business.

Each Proprietary Account will map to two sub-accounts

- (i) a position account; and
- (ii) a collateral account.

1.4.2 *Client Accounts*

An NLX Clearing Client may appoint a Backup Clearing Member for the purposes of the porting of the NLX Contracts entered into by a NLX Service Clearing Member on its behalf, in accordance with the Client Clearing Annex.

Where, following the Default of a NLX Service Clearing Member, the Clearing House is notified of the existence of such a Backup Clearing Member in respect of a NLX Clearing Client, the Clearing House is entitled, in accordance with the Client Clearing Annex, to immediately and without notice to any person, send details of the Relevant Contracts and Account Balances to that appointed Backup Clearing Member. The Clearing House shall not require consent from any person in advance of sending these details.

Note: The appointment by an NLX Clearing Client of a Backup Clearing Member and the notification of a Backup Clearing Member to the Clearing House does not mean that NLX Contracts will always be transferred to that Backup Clearing Member. Porting of NLX Contracts, following a NLX Service Clearing Member's Default is always subject to the Clearing House's receipt of consent from the relevant Backup Clearing Member.

1.10.3 Rates Service Default Management Disclosure Notice

Each NLX Service Clearing Member must ensure that each Clearing Client is provided with, or is directed to a copy of, the Rates Service Default Management Disclosure Notice and further must provide confirmation to the Clearing House, in the form and manner reasonably required by the Clearing House, that it has discharged this obligation in respect of each of its Clearing Clients.

1.11 Indirect Clearing

1.11.1 In circumstances where an early termination date (howsoever described) occurs in respect of all of the transactions between a NLX Service Clearing Member and a NLX Clearing Client acting on behalf of Indirect Clearing Clients comprising an Indirect Omnibus Segregated Account in respect of which such NLX Service Clearing Member (i) is a party to Related NLX Contracts and (ii) at the time of such early termination date, is not a Defaulter, that NLX Service Clearing Member may instruct the Clearing House to take one of the following steps:

- (a) in circumstances where (i) the NLX Service Clearing Member notifies a single Backup Client in respect of all of the relevant Indirect Clients and (ii) within such time as the Clearing House may determine of the receipt of the relevant instructions from the NLX Service Clearing Member, the Clearing House has received confirmation in writing from the Backup Client of its agreement to act as Backup Client in relation to the arrangement described in this paragraph (a) (in such form as the Clearing House may require at the relevant time), transfer to the appointed Backup Client all of the open Related NLX Contracts and the balance of the Collateral recorded by the Clearing House as being credited to the relevant Indirect Omnibus Segregated Account (a "**Client to Client Porting**"); or

2. PORTFOLIO MARGINING SERVICE

The Portfolio Margining Service is an optional service which provides Joint Rates Service Clearing Members portfolio-margining functionality in respect of pairs of accounts which are held in the SwapClear and Listed Interest Rates Services by transferring Eligible Listed Interest Rates Contracts between such accounts.

The Portfolio Margining Service is only available to NLX Service Clearing Members who are also SwapClear Clearing Members and the details regarding the Portfolio Margining Service (including the relevant eligibility criteria and operational arrangements) are therefore described at Section 2C (*SwapClear*) of the Procedures, Section 2.

A NLX Service Clearing Member must (i) opt-in to the Portfolio Margining Service in accordance with the procedure set out in Section 2C (*SwapClear*) of the Procedures, Section 2.2 and (ii) meet the PM Eligibility Criteria (as defined in Section 2C (*SwapClear*) of the Procedures, Section 2.2.3), in order to benefit from the portfolio-margining functionality provided by the service. However, it should be noted that regardless of whether or not an NLX Service Clearing Member opts in, the SwapClear Service and Listed Interest Rates Service share a common default fund. Accordingly, the risk profile of participating in either one of such Services may be impacted by other Clearing Members participating in the other such Service whether or not as a Portfolio Margining Clearing Member. In particular, the resources of a Clearing Member that is a member of the SwapClear Service and the Listed Interest Rates Service will be made available to cover the Clearing House's losses in a different manner to those of a Clearing Member that is only a member of one of those Services, regardless of whether that Clearing Member opts-in to the Portfolio Margining Service. NLX Service Clearing Members should therefore familiarise themselves with the provisions of the Rulebook (including, but not limited to, the Default Rules).

Portfolio Margined Contracts and associated off-setting SwapClear Contracts are not eligible for transfer. A Joint Rates Service Clearing Members that wishes to transfer a Portfolio Margined Contract and associated off-setting SwapClear Contract must reverse the Portfolio Margining Process for such Contracts prior to, and as a precondition to, the transfer of such Contracts.

For information in relation to the Portfolio Margining Service (including but not limited to, the impact of the Portfolio Margining Arrangements on (i) NLX Listed Interest Rates Derivatives Contracts for margining purposes and (ii) NLX Clearing Clients), please refer to Section 2C (*SwapClear*) of the Procedures.

Appendix V
Product Specific Contract Terms

**PRODUCT SPECIFIC CONTRACT TERMS AND ELIGIBILITY CRITERIA
MANUAL**

SCHEDULE 7
LISTED INTEREST RATES SERVICE

PART A
PORTFOLIO MARGINING SERVICE

The Clearing House has designated the following Listed Interest Rates Contracts as Eligible Listed Interest Rates Contracts for purposes of the Portfolio Margining Service as further described in Section 2 (“Portfolio Margining Service”) of the SwapClear Procedures.

<u>Venue</u>	<u>Contract</u>
<u>NLX</u>	<u>Three-Month EURIBOR Interest Rate Futures*</u>
<u>NLX</u>	<u>Three-Month Sterling Interest Rate Futures*</u>

* The NLX Contract Terms for these Contracts are set out in the NLX Rules, available at: <http://www.nasdaqomx.com/transactions/markets/nlx/products>.

Appendix VI
Possible Default Waterfall Scenarios

Scenario #1: Default in OTC Rates Class Only

Financial resources would be applied as follows by LCH in the event of a default by a clearing member that is a member of the OTC Rates Class only:

<u>Rank</u>	<u>Description</u>
1	Defaulting clearing member's initial margin in respect of OTC Rates Class
2	Defaulting clearing member's Rates Service Default Fund contribution in respect of OTC Rates Class*
3	LCH contribution
4	Non-defaulting clearing member funded contributions to Rates Service Default Fund in respect of OTC Rates Class
5	Non-defaulting clearing member funded contributions to Rates Service Default Fund in respect of Listed Rates Portfolio Margining sub Class of Listed Rates Class
6	Non-defaulting clearing member funded contributions to Rates Service Default Fund in respect of Listed Rates-only sub class of Listed Rates Class
7	Non-defaulting clearing member unfunded contributions to Rates Service Default Fund in respect of OTC Rates Class
8	Non-defaulting clearing member unfunded contributions to Rates Service Default Fund in respect of Listed Rates PM Subclass of Listed Rates Class
9	Non-defaulting clearing member unfunded contributions to Rates Service Default Fund in respect of Listed Rates Non-PM Subclass of Listed Rates Class
10	Loss distribution (Variation Margin Gain Haircutting "VMGH")
11	Voluntary payment by non-defaulting clearing members
12	Service closure

* Contributions held by LCH in respect of a different clearing service default fund may also be used at this stage.

Scenario #2: Default in Listed Rates Class Only

Financial resources would be applied as follows by LCH in the event of a default by a clearing member that is a member of the Listed Rates Class only:

<u>Rank</u>	<u>Description</u>
1	Defaulting clearing member's initial margin in respect of Listed Rates Class
2	Defaulting clearing member's Rates Service Default Fund contribution in respect of Listed Rates Class *
3	LCH contribution
4	Non-defaulting clearing member funded contributions to Rates Service Default Fund in respect of Listed Rates Class
5	Non-defaulting clearing member funded contributions to Rates Service Default Fund in respect of OTC Rates Class
6	Non-defaulting clearing member unfunded contributions to Rates Service Default Fund in respect of Listed Rates Class
7	Non-defaulting clearing member unfunded contributions to Rates Service Default Fund in respect of OTC Rates Class
10	Loss distribution (VMGH)
11	Voluntary payment by non-defaulting clearing members
12	Service closure

* Contributions held by LCH in respect of a different clearing service default fund may also be used at this stage.

Scenario #3: Default in Listed Rates Class and OTC Rates Class

Financial resources would be applied as follows by LCH in the event of a default by a clearing member that is a member of both the OTC Rates Class and the Listed Rates Class:

Rank	<u>Losses in Listed Rates Class</u>	<u>Losses in OTC Rates Class</u>
1	Defaulting clearing member's initial margin in respect of Listed Rates Class*	Defaulting clearing member's initial margin in respect of OTC Rates Class*
2	Defaulting clearing member's Rates Service Default Fund contribution in respect of Listed Rates Class**	Defaulting clearing member's Rates Service Default Fund contribution in respect of OTC Rates Class**
3	LCH contribution***	
4	Non-defaulting clearing member funded contributions to Rates Service Default Fund in respect of Listed Rates Portfolio Margining sub Class of Listed Rates Class	Non-defaulting clearing member funded contributions to Rates Service Default Fund in respect of OTC Rates Class
5	Non-defaulting clearing member funded contributions to Rates Service Default Fund in respect of Listed Rates-only sub Class of Listed Rates Class	Non-defaulting clearing member funded contributions to Rates Service Default Fund in respect of Listed Rates Portfolio Margining sub Class of Listed Rates Class
6	Non-defaulting clearing member funded contributions to Rates Service Default Fund in respect of OTC Rates Class	Non-defaulting clearing member funded contributions to Rates Service Default Fund in respect of Listed Rates Non-PM Subclass of Listed Rates Class
7	Non-defaulting clearing member unfunded contributions to Rates Service Default Fund in respect of Listed Rates Portfolio Margining sub Class of Listed Rates Class	Non-defaulting clearing member unfunded contributions to Rates Service Default Fund in respect of OTC Rates Class
8	Non-defaulting clearing member unfunded contributions to Rates Service Default Fund in respect of Listed Rates Non-Portfolio Margining sub Class of Listed Rates Class	Non-defaulting clearing member unfunded contributions to Rates Service Default Fund in respect of Listed Rates Portfolio Margining sub Class of Listed Rates Class
9	Non-defaulting clearing member unfunded contributions to Rates Service Default Fund in respect of OTC Rates Class	Non-defaulting clearing member unfunded contributions to Rates Service Default Fund in respect of Listed Rates Non-Portfolio Margining sub Class of Listed Rates Class
10	Loss distribution (VMGH)	
11	Voluntary payment by non-defaulting clearing members	
12	Service closure	

* Excess margin in one margin class will be used to cover losses in the other margin class prior to application of default fund contribution amounts.

** Any unused Rates Service Default Fund contribution in respect of one margin class will be used to cover losses in the other margin class prior to application of LCH Contribution amounts. Contributions held by LCH in respect of a different clearing service default fund may also be used at this stage.

*** The LCH contribution amount will be applied across margin classes and allocated in the chronological order in which they are incurred.