LCH The Markets' Partner

LCH LIMITED
DEFAULT RULES

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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 https://www.lch.com/membership/ltd-membership/ltd-fees**.**

LCH 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 Equities Service, the ForexClear Service, the Rates Service and the RepoClear 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 (i) 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 and (ii) in relation to the provision of clearing services to Sponsored Members, words and expressions defined in the Clearing House's SC 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) unless otherwise stated, references to a "Clearing Member" in these general Default Rules (Rules 1 to 27 inclusive), shall not include an Agent Member.

If the Clearing Member is an Irish Money Market Fund organised as a standalone (i.e. “non-umbrella” fund), “Clearing Member” is deemed also to include the fund related to the Clearing Member.

For the purposes of the above two paragraphs, an Irish Fund is a fund established in Ireland as either:

(i) an authorised Irish Collective Asset-management Vehicle for the purposes of the Irish Collective Asset-management Vehicles Act 2015 (“the ICAV Act”);

(ii) a company formed and registered under the Irish Companies Act 2014 (“the 2014 Act”) or the prior Companies Acts (as defined in section 2 of the Irish Companies Act 2014);

(iii) an authorised unit trust for the purposes of the Unit Trusts Act 1990 (“the Unit Trusts Act “); or

(iv) an authorised common contractual fund for the purposes of the Investment Funds, Companies and Miscellaneous Provisions Act 2005 (“the 2005 Act”),

the ICAV Act, the 2014 Act, the Unit Trusts Act and the 2005 Act, together the "Irish Legislation",

which in the case of an undertaking for collective investment in transferable securities, is authorised by the Central Bank of Ireland under the European Communities (Undertakings for Collective Investment in Transferable Securities) Regulations 2011 or in the case of an alternative investment fund, is authorised by the Central Bank of Ireland under the relevant Irish legislation.

(c) a reference to a numbered Regulation in these Rules is a reference to the Regulation so numbered in the Regulations Section of the Rulebook (ii) a reference to a numbered FCM Regulation is a reference to the FCM Regulation so numbered in the FCM Regulations and (iii) a reference to a numbered SC Regulation is a reference to the SC Regulation so numbered in the SC Regulations. A reference to a numbered Rule is a reference to the Rule so numbered in these Rules;

(d) 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

(e) 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 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 any Individual Segregated Account Clearing Client, Indirect Gross Account Clearing Client, Custodial Segregated Client, Affiliated Omnibus Segregated Clearing Client and/or Identified Omnibus Segregated Clearing Client 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**".

5. The Clearing House shall not (i) apply the assets of one sub-fund of an umbrella fund towards the liabilities of another sub-fund or (ii) otherwise prejudice the application of any Irish rule of law concerning segregated liability between sub-funds of umbrella funds.

   Notwithstanding any provision of the Default Rules:

   (i) if the Clearing House shall succeed by any means whatsoever or wheresoever in having recourse to any assets of any sub-fund in the discharge of all or any part of a liability that was not incurred on behalf of that sub-fund, the Clearing House shall be liable to the umbrella fund to a sum equal to the value of the benefit thereby obtained by the Clearing House; and

   (ii) if the Clearing House shall succeed in seizing or attaching by any means, or otherwise levying execution against, any assets of a sub-fund in respect of a

liability which was not incurred on behalf of that sub-fund, the Clearing House shall hold those assets or the direct or indirect proceeds of the sale of such assets on trust for the umbrella fund and shall keep those assets or proceeds separately and identifiable as such property.

Without prejudice to the generality of Rule 3, the Clearing House may take any or all of the events under paragraphs 5(a) to (r) below to show that a Clearing Member is or is likely to become unable to meet its obligations in respect of one or more Contracts. Also, the Clearing House may from time to time by publication in a circular to Clearing Members specify criteria (including but not limited to the jurisdiction of incorporation of a Clearing Member) according to which an event under sub-paragraphs (i) to (p) below will constitute an "**Automatic Early Termination Event**":

(a) the Clearing Member fails duly to perform its obligations under or is otherwise in breach of, the Regulations, the FCM Regulations, the SC Regulations, the Procedures, or any of the terms of any agreement, understanding or arrangement with the Clearing House or the right of the Clearing Member to receive a transfer or termination, close-out and re-establishment of Contracts pursuant to a Link has been suspended under Co-operating Clearing House Rules;

(b) the Clearing Member is in breach of the terms of membership of, or is declared to be in default by, or is suspended or expelled from membership of, an Exchange, a Co-operating Clearing House or any other recognised, designated or overseas investment exchange or clearing house;

(c) the Clearing Member is in breach of any Exchange Rules, Co-operating Clearing House Rules or the rules of any recognised, designated or overseas investment exchange or clearing house;

(d) the Clearing Member is in breach of the terms of membership of, or is refused an application for or is suspended or expelled from membership of, a Regulatory Body or is in breach of the rules of a Regulatory Body to which it is subject or its authorisation by a Regulatory Body is suspended or withdrawn;

(e) a Regulatory Body takes or threatens to take action against or in respect of the Clearing Member under any statutory provision or process of law;

(f) the Clearing Member is in default in the payment of any sum whatsoever due and payable to the Clearing House;

(g) the Clearing Member is in default in making or accepting a tender (or Delivery Notice) pursuant to Regulation 28 (*Obligation to Make and Accept Tender under Cleared Exchange Contracts*) or FCM Regulation 20 (*Obligation to Make and Accept Delivery Notice Under FCM Exchange Contracts***)** or in performing an open contract subject to tender (or an FCM Exchange Contract Subject to Delivery Notice) or a delivery contract (or a Physically-Settled FCM Exchange Contract);

(h) the Clearing Member fails to pay any sum due and payable, or is otherwise in default under the terms of any agreement or threatens to suspend payment or to default under the terms of any agreement;

(i) in respect of the Clearing Member, a bankruptcy petition is presented or a bankruptcy order is made or a voluntary arrangement is approved;

(j) in respect of the Clearing Member, a receiver, manager, administrator or administrative receiver is appointed or a composition or scheme of arrangement is approved by the court;

(k) an assignment or composition is made by the Clearing Member for the benefit of creditors or any of them;

(l) a petition is presented for the winding up of the Clearing Member;

(m) an order is made for the winding up of the Clearing Member, or a resolution is passed for the winding up of the Clearing Member (save for the purpose of its amalgamation or reconstruction);

(n) in respect of the Clearing Member, a petition is presented or an order made for the appointment of an administrator;

(o) the Clearing Member, being a partnership, is dissolved, or being a registered company, is dissolved or suffers its name to be struck off the register of companies;

(p) any step analogous to those mentioned in paragraphs (i) and (o) is taken in respect of the Clearing Member in any jurisdiction;

(q) any distress, execution or other process is levied or enforced or served upon or against any property of the Clearing Member; or

(r) in respect of a Clearing Member (that is a Sponsored Member), the Clearing House has declared the default of one or more of its Agent Members and such Agent Member has, as a result, become unable to perform its obligations under Schedule 7 (*RepoClear Default Fund Supplement*).

6. The steps which may be taken by the Clearing House under Rule 3 in respect of the Defaulter or otherwise are:

(a) to register (i) an original contract, OTC Transaction or an FCM Transaction (as the case may be) in the name of the Defaulter or to decline to register an original contract, OTC Transaction or an FCM Transaction (as the case may be) in the name of the Defaulter or otherwise to exercise the Clearing House's discretion with regard to the Defaulter under (i) Regulation 16(c) (*Registration*) or (ii), in the case of an FCM Clearing Member, FCM Regulations 46(h) and 49(g) or other applicable provision in the FCM Rulebook, or (iii) in the case of a Sponsored Member, SC Regulation 12 (*Registration*) or other applicable provision of the SC Regulations;

(b) to effect a closing-out in respect of an open contract of the Defaulter (whether by the entering into of a closing-out contract or otherwise) and at the option of the Clearing House to settle such contracts or to effect the transfer or termination, close-out and cash-settlement of an open contract of the Defaulter by applying a price determined by the Clearing House in its discretion;

(c) to settle any open contract of which settlement might have been requested by the Defaulter pursuant to Regulation 23(e) (*Daily Settlement or Marking to Market*), or 25 (*Other Modes of Settlement and Revaluation*) or, in the case of an FCM Clearing Member, FCM Regulation 16 (*Official Quotations and Reference Price; Settlement and Revaluation*) or in the case of a Sponsored Member, SC Regulation 18 (*Other modes of Settlement and Revaluation*);

(d) to invoice a Contract, other than a SwapClear Contract, an FCM SwapClear Contract, a ForexClear Contract, an FCM ForexClear Contract or a Fixed Income Contract of the Defaulter back by way of compulsory settlement in accordance with Regulation 39 (*Invoicing Back*) at a price or premium determined under paragraph (d) of that Regulation, or in the case of an FCM Clearing Member, FCM Regulation 31 (*Invoicing Back*);

(e) to sell any security deposited by or for the account of the Defaulter pursuant to (i) Regulation 20 (*Margin and Collateral*) (ii) or, in the case of a Defaulter who is an FCM Clearing Member, FCM Regulation 14 (*Margin and Collateral*), or (iii) in the case of a Defaulter who is a Sponsored Member, SC Regulation 15 (*Margin and Collateral*) or any agreement made between the Defaulter and the Clearing House by public or private sale for the account of the Defaulter without being obliged to obtain the Defaulter's consent or any order of a court of law, and to appoint any person to execute any document for such purpose in the name and on behalf of the Defaulter;

(f) subject to the Procedures or the FCM Procedures (as applicable), to exercise an option of the Defaulter on its behalf notwithstanding that such exercise may take place on a day which is not a day prescribed for such exercise by any relevant Exchange Rules;

(g) (i) to transfer an open contract, position or asset of the Defaulter to the account of another Clearing Member; (ii) to transfer an open contract from the account of another Clearing Member to the account of the Defaulter for the purposes of closing out an open contract registered in an account of the Defaulter or for any other reason which the Clearing House considers appropriate in the circumstances without requiring the consent of any relevant Exchange; or (iii) to close-out and terminate such an open contract and re-establish it with another Clearing Member, being a Clearing Member entitled and willing to have such open contract registered in its name;

(h) to take such steps as may be desirable, including (i) crediting or debiting of accounts (including margin accounts); (ii) entry into new contracts; (iii) transfer of existing contracts; (iv) reversal of contracts; (v) termination, close-out and re-establishment of contracts; or (vi) any other step, to preserve as far as possible the position of any client of the Clearing Member. Where an open contract is transferred or closed-out, terminated, and re-established under Rule 6(g) above, without requiring the consent of the relevant Exchange, to transfer (whether by way of transfer or by way of termination, close-out and re-establishment of positions) to the Clearing Member to whom the open contract is transferred (or with whom the replacement open contract is re-established) such Collateral held by the Clearing House in connection with that account as the Clearing House may deem appropriate;

(i) to tender (or submit a Delivery Notice) or to receive a tender (or a Delivery Notice) in the Defaulter's name;

(j) to perform on an open contract subject to tender (or an FCM Exchange Contract Subject to Delivery Notice) or a delivery contract (or Physically-Settled FCM Exchange Contract) by either delivery of or by accepting delivery of the commodity which is the subject of such contract to or from, as the case may be, the Defaulter, its agent or a third party in any manner permitted by the terms of the Contract and the Exchange Rules (if any);

(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, the FCM Regulations or the SC 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, the FCM Regulations or the SC 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;

(t) if the Defaulter is an Affected ForexClear Option Clearing Member, to take any step under Regulation 101 (ForexClear Option Service - Liquidity Event) or Regulation 102 (ForexClear Option Service - Liquidity Fund Contributions) of the Regulations with respect to the ForexClear Option Contracts, ForexClear Swap Contracts, ForexClear Deliverable Forward Contracts and/or ForexClear Spot Contracts then registered in the name of that Defaulter, and to the extent the Clearing House decides to take any such steps under Regulation 101 (ForexClear Option Service - Liquidity Event) or Regulation 102 (ForexClear Option Service - Liquidity Fund Contributions) in the circumstances described in this paragraph (s), those steps set out in Regulation 101 (ForexClear Option Service - Liquidity Event) or Regulation 102 (ForexClear Option Service - Liquidity Fund Contributions) shall be deemed to form part of these Default Rules as if they were set out in full herein; and

(u) 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, an Indirect Gross Account or a Custodial 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, an Indirect Gross Account or a Custodial 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 Clearing House Business, the Clearing House: (A) shall act in accordance with the provisions of the 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 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 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 and Contracts registered in the name of Sponsored Members); any other sum due under the Regulations; any sum due in respect of any breach of the Regulations (except, if the Clearing House so determines at its discretion, any sum payable under a Contract as the price for the commodity which is the subject of such Contract delivered or to be delivered to the Clearing House by or on behalf of the Defaulter); and/or any amount due from the Defaulter to the Clearing House in respect of any Treasury Contract;

(ii) by or to a Defaulter in respect of FCM Contracts (and in accordance with paragraph (e) below); any other sum due under the FCM Regulations; and/or any sum due in respect of any breach of the FCM Regulations;

(iii) by or to a Defaulter that is a Sponsored Member in respect of Contracts registered in the name of such Sponsored Member (and in accordance with paragraph (i) below); any other sum due under the SC Regulations; and/or any sum due in respect of any breach of the SC Regulations;

(b) the sums so payable shall be aggregated or set off so as to produce a net sum or as many net sums as required by Rule 11;

(c) any cash Collateral forming part of the Clearing House Current Collateral Balance in respect of the relevant kind of account shall be set off against any cash Collateral (excluding cash Client Collateral) forming part of the Defaulter's Clearing Member Current Collateral Balance or SM/AM Current Collateral Balance (as applicable) in respect of the relevant kind of account, and the

resulting amount shall be aggregated with or set off against (as the case may be) any net sum payable under Rule 8(b) above, so as to produce a further net sum;

(d) where an amount is payable by the Clearing House to the Defaulter in respect of a balance on its Proprietary Account(s), and there are amounts due to the Clearing House in respect of any relevant kind of account with the Clearing House, including any FCM Omnibus Client Account with LCH (and any FCM Client Sub-Accounts therein) operated by it, the balance on the Proprietary Account(s) may be applied to meet the shortfall on any such kind of account with the Clearing House, including any FCM Omnibus Client Account with LCH (and any FCM Client Sub-Accounts therein) in any way in which the Clearing House may determine;

(e) in the case where the Defaulter is an FCM Clearing Member,

(i) with respect to an FCM Omnibus Swaps Client Account with LCH, a net sum shall be calculated in respect of each applicable FCM Client Sub-Account, and with regards to any amount due to the Clearing House from the Defaulter in respect of net sums attributable to FCM Client Sub-Accounts where there is inadequate Collateral (on a sub-account by sub-account basis) to fully set off such amount payable, the Clearing House shall have sole discretion with respect to the allocation of any available FCM Buffer or the reallocation of any Encumbered FCM Buffer in setting off any such amounts payable to the Clearing House;

(ii) with respect to an FCM Omnibus Futures Client Account with LCH, a net sum shall be calculated in respect of the FCM Omnibus Futures Client Account with LCH; and

(iii) with respect to an FCM Omnibus Foreign Futures Client Account with LCH, a net sum shall be calculated in respect of the FCM Omnibus Foreign Futures Client Account with LCH.

(f) in the event that the Clearing House elects to close out and to liquidate FCM SwapClear Contracts (including, for the avoidance of doubt, any FCM Portfolio Margined Contracts) attributable to FCM Clients of the Defaulter (in accordance with the 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 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) [INTENTIONALLY LEFT BLANK]

(i) in the case where the Defaulter is a Sponsored Member, with respect to a SM/AM Account of such Defaulter with LCH, a net sum shall be calculated in respect of each applicable SM/AM Account, and with regards to any amount due to the Clearing House from the Defaulter in respect of net sums attributable to a SM/AM Account where there is inadequate Collateral to fully set off such amount payable, the Clearing House shall have sole discretion with respect to the allocation of any available Agent Buffer standing to the relevant SM/AM Account in setting off any such amounts payable to the Clearing House.

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 FCM Regulations or the SC 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 process set out in Rule 8, shall be forthwith certified by the Clearing House for the purposes of section 163 of the Companies Act 1989. The certificate of the Clearing House under this Rule shall be conclusive as to the discharge of the Defaulter's rights and liabilities in respect of the Contracts to which it relates. The Clearing House shall, as soon as practicable after issuing a Default Notice in respect of a Clearing Member, appoint a day on which any net sums certified under this Rule to be due to the Defaulter are to be paid by the Clearing House. The day so appointed may fall before or after the effective date of termination of the Defaulter's Clearing Membership Agreement but shall not fall on a day before the process specified in Rule 8 can be completed.

10. Following a Default by an FCM Clearing Member, the Clearing House will to the extent permitted by Applicable Law (including Part 190 of the CFTC Regulations and

applicable bankruptcy law), credit Variation Settlement on a gross basis to each individual FCM Client Sub-Account.

11.

(a) Where the Defaulter has more than one account with the Clearing House, the Defaulter's accounts shall be combined for the purpose of Rules 8 and 9 as follows:

(i) no account which is an FCM Client Sub-Account of an FCM Client may be combined with any other account, including any FCM Client Sub-Account of another FCM Client, any FCM Omnibus Client Account with LCH or any Proprietary Account; **provided that** in the event that an FCM Client were to have two FCM Client Sub-Accounts with the same Defaulter, and both such accounts cleared the same Product, then such FCM Client Sub-Accounts may be combined;

(ii) no account which is an FCM Omnibus Client Account with LCH of the Defaulter may be combined with any other account, including any other FCM Omnibus Client Account with LCH or any Proprietary Account;

(iii) an account which is a Proprietary Account of the Defaulter may be combined with any other Proprietary Accounts of the Defaulter and (if the Clearing House so elects) Treasury Accounts of the Defaulter (subject to Rule 11(d) of the Default Rules); and

(iv) an account which is a Treasury Account of the Defaulter may only be combined with other Treasury Accounts and (if the Clearing House so elects) Proprietary Accounts of the Defaulter; and

(v) no account which is an SM/AM Account of a Sponsored Member may be combined with any other account.

Notwithstanding the foregoing, in no circumstances may an account which is an Individual Segregated Account of the Defaulter, an Indirect Gross Account of the Defaulter, a Custodial Segregated Account of the Defaulter or an Omnibus Segregated Account of the Defaulter be combined with any other account of the Defaulter (except as provided under Rule 15(a)(ii)).

(b) For the purposes of this Rule 11, each Individual Segregated Account of the Defaulter, each Custodial Segregated Account of the Defaulter, each Omnibus Segregated Account of the Defaulter, each Indirect Gross Sub-Account within a particular Indirect Gross Account of the Defaulter, each FCM Client Sub-Account(s) of a particular FCM Client within a particular FCM Omnibus Swaps Client Account with LCH of the Defaulter, each FCM Omnibus Foreign Futures Client Account with LCH, each SM/AM Account with LCH shall constitute a separate "**kind of account**". Where the Defaulter has more than one kind of account with the Clearing House, the process set out in Rule 8 shall be separately completed in respect of each kind of account. In the case of each kind of account of the Defaulter which is an Individual Segregated Account, an Indirect Gross Sub-Account or a Custodial Segregated Account, the sum finally payable in respect of that kind of account following completion of the process

set out in Rule 8 shall be separately certified under Rule 9. In the case of each kind of account of the Defaulter which is an Omnibus Segregated Account (other than a Non-Identified Client Omnibus Net Segregated Account or an Indirect Net Account), the sum finally payable in respect of that kind of account following completion of the process set out in Rule 8 will be allocated by the Clearing House (*pro rata* as it sees fit in its sole discretion) between the Clearing Clients in that Omnibus Segregated Account. Each sum so allocated to a Clearing Client shall be separately certified under Rule 9. In the case of each kind of account of the Defaulter which is a Non-Identified Client Omnibus Net Segregated Account or an Indirect Net Account, the sum finally payable in respect of that kind of account following completion of the process set out in Rule 8 will represent the aggregate entitlements of all Clearing Clients comprising that Client Account.

(c) In Rule 8 any reference to the relevant "**kind of account**" means:

(i) with regard to a net sum produced by reference to Contracts registered in an Individual Segregated Account of the Defaulter, that Individual Segregated Account;

(ii) with regard to a net sum produced by reference to Contracts registered in an Indirect Gross Sub-Account of the Defaulter, that Indirect Gross Sub-Account;

(iii) with regard to a net sum produced by reference to Contracts registered in a Custodial Segregated Account of the Defaulter, that Custodial Segregated Account;

(iv) with regard to a net sum produced by reference to Contracts registered in an Omnibus Segregated Account of the Defaulter, that Omnibus Segregated Account;

(v) with regard to a net sum produced by reference to FCM SwapClear Contracts registered in one or more FCM Client Sub-Accounts of the Defaulter held in the name of one particular FCM Client, that FCM Client Sub-Account, or (if there is more than one) all such FCM Client Sub-Accounts (containing FCM SwapClear Contracts and/or FCM Portfolio Margined Contracts) of such particular FCM Client combined;

(vi) with regard to a net sum produced by reference to FCM ForexClear Contracts registered in one or more FCM Client Sub-Accounts of the Defaulter held in the name of one particular FCM Client, that FCM Client Sub-Account, or (if there is more than one) all such FCM Client Sub-Accounts (containing FCM ForexClear Contracts) of such particular FCM Client combined;

(vii) [INTENTIONALLY LEFT BLANK];

(viii) 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;

(ix) with regard to a net sum produced by reference to FCM Contracts registered in an FCM Omnibus Foreign Futures Client Account with LCH of the Defaulter, that FCM Omnibus Foreign Futures Client Account with LCH, or (if there is more than one) all such FCM Omnibus Foreign Futures Client Accounts with LCH of the Defaulter combined;

(x) 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;

(xi) 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; and

(xii) with regard to a net sum produced by reference to Contracts registered in SM/AM Account with LCH of the Defaulter, that SM/AM Account..

(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 (or a related Agent Member), 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 (and, if applicable, its related Agent Members), 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 or for the account of the Defaulter (including, where the Defaulter is a Sponsored Member, available Agent Buffer transferred to the Clearing House by the Defaulter's Agent Members in respect of the Defaulting Sponsored Member's collateral account as per Regulations 16(c) and (d)), any other sum owed to the Defaulter or its Agent Member (other than (i) any Contribution of the Defaulter or (ii) any ForexClear Option Service Liquidity Fund Contributions of the Defaulter) and any Collateral transferred to the Clearing House by a Custodial Segregated Client in respect of a Custodial Segregated Account of the Defaulter (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 and/or Custodial 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, two or more FCM Omnibus Futures Client Accounts with LCH, or two or more FCM Omnibus Foreign Futures Client Accounts with LCH, as applicable), in no circumstances will Margin Cover transferred by or for the account of the Defaulter and/or by a Custodial Segregated Client 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; and (iii) in the case where the defaulter is a Sponsored Member, that Collateral transferred for Margin Cover directly be applied first before any Agent Buffer used in the context of Regulation 16;

(b) second, by (i) recourse to the Defaulter's relevant Contribution made by the Defaulter or for the account of the Defaulter by an Agent Member in respect of the type of Business to which the loss relates, followed by (ii) recourse to any other Contribution made by the Defaulter or for the account of the Defaulter by an Agent Member to the extent not utilised under (i) above. The Clearing House will exercise its rights of recourse under this stage (a) by set-off against the Clearing House's obligation to repay the relevant Contributions to the Defaulter or (B) where the Defaulter is a Sponsored Member, by recourse to the indemnities in respect of all Contributions of each Agent Member to the Defaulter's Contribution given under Rule 19 (i) and (ii) respectively by each Agent Member of the Defaulter and set-off against the Clearing House's obligation to repay contributions to the Agent Members;

(c) third, where the Defaulter is a Sponsored Member, by recourse to the indemnities in respect of all available Agent Resource Contribution given under SC Regulation 17 (*Agent Resource Contribution*) and Rule 19 by each Agent Member of the Defaulter in respect of any Agent Resource Contribution posted by such Agent in proportion to the portfolio of the defaulted Sponsored Clearing Member (which shall be satisfied by set-off against the Clearing House's

obligation to repay the relevant Agent Resource Contributions to such Agent Members);

(d) fourth, 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 calculat**ion **and the setti**ng 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(d)(i)-(ii) will be paid from the Clearing House's own account under this stage (d) in respect of such Relevant Business.

(e) fifth, 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 and relevant Agent 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 or relevant Agent 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 or relevant Agent Members other than the Defaulter in this Rule 15(e) shall include such Unfunded Contributions;

(f) sixth, by recourse to any insurance cover or analogous arrangement;

(g) seventh, by recourse to the indemnities given under Rule 21 by Clearing Members or relevant Agent Members (as applicable) other than the Defaulter (which shall be satisfied by set-off against the Clearing House's obligation to repay the relevant Contributions to of such Clearing Members or relevant Agent Members (as applicable). 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 or relevant Agent Members (as applicable) other than the Defaulter in this Rule 15(g) shall include such Unfunded Contributions;

(h) eighth, by recourse to any other indemnities, guarantees, undertakings or monies provided by Clearing Members (excluding the ForexClear Option Service Liquidity Fund Contributions); or

(i) ninth, by recourse to the relevant Supplement.

Where a Defaulter is engaged in more than one 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 and Agent Resource Contribution is held

16.

(a) Subject to Rules 16(b) and (c) below, the outstanding balance of a Clearing Member's Contribution and in the case of a Sponsored Member, the Agent Resource Contribution and Contribution of its Agent Members performing the Agent Member Services (or, as appropriate, part thereof) shall be repayable to the Clearing Member or, in the case of a Sponsored Member, each of its Agent Members and (other than Agent Resource Contribution) Agent Members performing the Back-up Agent Services (as applicable) on the earliest to occur of the following events:

(i) if the Clearing Member is not a Defaulter (or the Clearing Member is a Defaulter and has validly exercised its rights under Regulation 45(e)) or SC Regulation 45(e), the effective date of termination of the Clearing Member's status as a Clearing Member (including a Termination Date under Regulation 45 (*Netting*) or under FCM Regulation 37 (*Netting*) or under SC Regulation 27 (*Netting*);;

(ii) if the Clearing Member has become a Defaulter, the date or event appointed by the Clearing House for repayment of sums due to the Clearing Member under Rule 9;

(iii) the amount of a relevant Contribution and, if applicable, relevant Agent Resource Contributions being reduced by virtue of the recalculation of its amount in accordance with the relevant Supplement (in which case the relevant Contribution and, if applicable, relevant Agent Resource Contributions shall be repayable only to the extent of such reduction);

(iv) the Clearing House making an Insufficient Resources Determination pursuant to a Supplement; and

(v) the expiry of a period of 50 years from the date on which the Contribution was paid to the Clearing House.

(b) If a Clearing Member becomes a Defaulter, the Clearing House shall as soon as practicable after any Margin Cover has been applied pursuant to Rule 15, certify one or more net sums then payable by the Defaulter to the Clearing House in respect of each type of Business (each a "**Default Loss**"), disregarding for this purpose any of the Defaulter's Contributions or, in respect of a Sponsored Member that is a Defaulter, the Contributions of its Agent Member(s). If the Clearing House certifies any Default Loss, all of the Defaulter's Contribution or, in respect of a Sponsored Member that is a Defaulter, the Contributions of its Agent Member(s), in respect of the Relevant Business shall immediately become due and repayable, but only in an amount not exceeding that Default Loss. Insofar as the Default Loss exceeds the Defaulter's Contribution or, in respect of a Sponsored Member that is a Defaulter, the aggregate of all Contributions of its Agent Member(s) in respect of that Sponsored Clearing Member's business in respect of the Relevant Business, the Defaulter's Contributions or Agent Member's Contributions, as applicable, made in respect of other types of Business shall become due and repayable in an amount in aggregate not exceeding the total Default Loss remaining after deducting the Defaulter's Contribution or all relevant AM Contributions, as applicable, in respect of the Business to which the Default Loss relates.

(c) If an amount becomes payable by the Clearing Member under Rule 21, the Clearing Member's relevant Contribution, and in respect of a Sponsored Member, the Contributions of its Agent Members shall immediately become due and repayable, but only to the extent of such amount.

17. Interest shall accrue on the amount of a Contribution and Agent Resource Contribution (where applicable) at such rate and in such manner as provided in the relevant Supplement. Interest shall not be regarded as part of the Contribution or Agent Resource Contribution (if applicable).

18. A Clearing Member's entitlement to repayment of any of its Contributions or any part of them shall not be capable of assignment by the Clearing Member, nor shall Contributions be capable of being charged or subject to any other form of security whether purporting to rank in priority over, *pari passu* with or subsequent to, the rights of the Clearing House. Any purported charge or assignment by a Clearing Member (whether by way of security or otherwise) of its Contributions shall be void. A Clearing Member shall not otherwise encumber (or seek to encumber) its Contributions.

An Agent Member's entitlement to repayment of any of its Contributions or part of them shall not be capable of assignment by the Agent Member nor shall the Agent Member's Contributions be capable of being charged or subject to any other form of security whether purporting to rank in priority over, *pari passu* with or subsequent to, the rights of the Clearing House. Any purported charge or assignment by an Agent Member (whether by way of security or otherwise) of its Agent Member's Contributions shall be void. An Agent Member shall not otherwise encumber (or seek to encumber) Contributions.

Application of Defaulter's Contribution, Agent Resource Contribution and Certification of Aggregate Excess Losses

19.

(a) By virtue of the Agent Membership Agreement and this Rule, each Agent Member grants a separate limited recourse indemnity to the Clearing House in respect of each type of Relevant Business in which each of its Sponsored Members participates. In relation to each type of Relevant Business, the indemnity is granted in respect of each Default Loss arising in respect of the Relevant Business upon the Default of one of its Sponsored Members. The amount of an indemnity is limited to an aggregate amount not exceeding the amount of such Agent Member's contributions to the Defaulter's Contribution and its Agent Resource Contribution in respect of the Relevant Business (the "**Agent Member's Contribution**") as calculated at the Determination Date immediately before the relevant Default. The amount due by an Agent Member in respect of a Default Loss of a Sponsored Member shall, save as otherwise provided under the ForexClear DMP Annex, the SwapClear DMP Annex, the RepoClear DMP Annex, be the Agent Member's share of such loss arising upon the relevant Default calculated in relation to its relevant Sponsored Member engaged in the Relevant Business at the time of the relevant Default.

(b) Without prejudice to any other right of set-off or application of funds to which the Clearing House may be entitled, in the event of a Default and the certification by the Clearing House of a Default Loss under Rule 16(b) in respect thereof, the Clearing House shall without notice set off in or towards satisfaction of any sums payable to the Clearing House from: (i) the Defaulter any amount of any Contribution of the Defaulter and (ii) where the Defaulter is a Sponsored Member, each Agent Member of such Sponsored Member, any Agent Member's Contribution; which has become due and repayable in accordance with Rule 16(b). If the Clearing House is to have recourse, in accordance with Rule 15, to the indemnities, guarantees, undertakings or monies provided by Clearing Members other than the Defaulter (or, where the Defaulter is a Sponsored Member, the Agent Members of such Sponsored Member), as soon as practicable the Clearing House shall certify by a "**Rule 19 Certificate**":

(i) the amount of the Defaulter's Contribution applied under this Rule and the net sum (if any), or each net sum (if more than one), immediately payable by the Defaulter to the Clearing House in respect of the types of Business undertaken by the Defaulter, taking into account for this purpose the Defaulter's relevant Contributions; and

(ii) where the Defaulter is a Sponsored Member, the amount of the Agent Member's Contribution applied under this Rule and the net sum (if any), or each net sum (if more than one), immediately payable by the Defaulter to the Clearing House in respect of the types of Business undertaken by the Defaulter, taking into account for this purpose the Defaulter's relevant Agent Member's Contributions; and

(iii) the extent to which any sums so payable by the Defaulter or its Agent Members (as applicable) to the Clearing House (but that remain unpaid) may be claimed by the Clearing House under a policy of insurance or analogous instrument relating to losses arising upon a Default.

The Clearing House may issue more than one Rule 19 Certificate in relation to losses arising upon any Default.

Where a Rule 19 Certificate is to be issued the Clearing House may assume that no recoveries will be made in respect of obligations of the Defaulter beyond the value of its Contributions or the aggregate of the Contributions of its Agent Member.

20. The Clearing House may, in the exercise of the right conferred by Rule 19, set off the amount due (in accordance with Rule 16(b)) to a Defaulter in respect of the Defaulter's Contribution or to an Agent Member in respect of its Contribution or, in any case, any part in respect of each thereof against sums owing on any account whether or not it is a Client Account, and the Clearing House shall have unfettered discretion in this regard.

Application of Fund and Indemnity

21. By virtue of the Clearing Membership Agreement or the Agent Membership Agreement (as applicable) and this Rule, and subject to Rule 22:

(a) each Clearing Member other than a Sponsored Member and in the case of a Sponsored Member, each of its Agent Members (for these purposes a "**Non-Defaulting Clearing Member**") grants a separate limited recourse indemnity to the Clearing House in respect of each type of Relevant Business in which it or each of its Sponsored Members (as applicable) participates. In relation to each type of Relevant Business, the indemnity is granted in respect of each Excess Loss arising in respect of the Relevant Business upon the Default of another Clearing Member (including, in relation to an Agent Members, another Clearing Member that is not its Sponsored Member). The amount of an indemnity is limited to an aggregate amount not exceeding the amount of the Non-Defaulting Clearing Member's Contribution (as applicable) 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 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 Non-Defaulting Clearing Member's relevant Contribution or Agent Member's Contribution relative to the aggregate relevant Contributions and Agent Member's Contributions (if applicable) of all Clearing Members engaged in the Relevant Business other than the relevant Defaulter at the time of the relevant Default. 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, an Agent Member in respect of its Agent Member's Contribution (as applicable) in respect of the relevant Contribution of such Clearing Member or

Agent Member (as applicable) 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**") and, where the First Defaulter is a Sponsored Member, each Agent Member of the First Defaulter where the Contribution of or for the account of the First Defaulter has not been repaid to the First Defaulter or its Agent Members (as applicable) 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 or those of its Agent Members (as applicable) 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 or those of its Agent Members (as applicable) 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 relevant Clearing Member and, where such Clearing Member is a Sponsored Member, each of its Agent Members, 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 or, as applicable, its Agent Members (because such sums will not or may not become liquidated or for any other reason payable until a later date), the Clearing House shall: (i) maintain a Contribution from each Clearing Member (other than the Defaulter) and (ii) an Agent Member's Contribution from each Agent Member that is as cover for the performance by such Clearing Member of its obligation to indemnify the Clearing House in relation to any Aggregate Excess Loss not yet certified. In fulfilment of this requirement the Clearing House may take any step which appears to the Clearing House to be appropriate, and the steps so taken may include any (including a combination) of the following:

    (a) postponement of the date for adjustment of Clearing Members' Contributions and Agent Member's Contributions (as applicable) under Rules E5(a), F5, L4(a), S4 and/or R4 as applicable in the case;

    (b) reduction of the amounts payable to some or all Clearing Members or their Agent Members (as applicable) under Rules E5(a)(i), F5(a), L4(a)(i), S5(a) and/or R4(a) as applicable in the case; and

(c) estimation of the amount of Aggregate Excess Losses which may become certified after the relevant Determination Date as appropriate, and application of Rule 21 as if such estimated amount were already realised as an Aggregate Excess Loss.

The Clearing House shall notify relevant Clearing Members and, where such Clearing Member is a Sponsored Member, each of its Agent Members of any steps taken under this Rule.

Effect of cessation of Clearing Member status

25. Subject to Rule 26, if:

(a) a date for calculation of a Clearing Member's Contribution or an Agent Member's Contribution (as applicable) occurs: (i) after the giving of notice by or in respect of any Retiring Member, but prior to the relevant Retirement Effective Date; or (ii) after the giving of notice by or in respect of any Resigning Member for the purposes of resigning from a particular Service but before the relevant Resignation Effective Date; or

(b) a Supplementary Contribution is called by the Clearing House in relation to one or more Services: (i) after the giving of notice by or in respect of any Retiring Member, but prior to the relevant Retirement Effective Date; or (ii) after the giving of notice by or in respect of any Resigning Member for the purposes of resigning from a particular Service but prior to the relevant Resignation Effective Date,

then arrangements provided for in the remainder of this Rule 25 shall apply:

(a) If the Retiring Member or Resigning Member is not a Defaulter and, in respect of Agent Members, nor are its Sponsored Members Defaulters, the amount of such Retiring Member's Contribution or Retiring Agent Member's Contribution (as applicable) (including any Supplementary Contribution) or such Resigning Member's Contribution or Resigning Agent Member's Contribution (as applicable) (including any Supplementary Contribution) in respect of the relevant Service shall be determined by the Clearing House on the basis set out in the relevant Supplement without regard to the impending termination of such Retiring Member's Clearing Member status or Retiring Agent Member's Agent Member status, or Resigning Member's resignation or Resigning Agent Member's resignation (as the case may be) and, in each case, the provisions of the relevant Supplement as to payment following adjustment of Contributions shall apply in respect of such Contribution accordingly.

(b) If the Retiring Member, Retiring Sponsored Clearing Member or Resigning Member or Resigning Sponsored Clearing Member is a Defaulter or, with respect to a Retiring Agent Member or Resigning Agent Member, it has a Sponsored Member that is a Defaulter, the balance of such Retiring Member's Contribution, Retiring Agent Member's Contribution, Resigning Member's Contribution or Resigning Agent Member's Contribution (as applicable) in respect of the relevant Service (as the case may be) after any part of it has been applied under Rule 19 or Rule 21 shall not be subject to adjustment under the

relevant Supplement, and the provisions of the relevant Supplement as to payment following adjustment of Contributions shall not apply to such Retiring Member Retiring Agent Member, Resigning Member or Resigning Agent Member in respect of the relevant Service.

(c) Notwithstanding the foregoing, in such circumstances, when the amounts of the respective Contributions of all Clearing Members and Contributions of all Agent Members other than any Retiring Member or Retiring Agent Member, or any Resigning Member or Resigning Agent Member in respect of the relevant Service are determined in accordance with the relevant Supplement, the Clearing House shall disregard any Clearing Member or Agent Member which is a Retiring Member or Retiring Agent Member or, in relation to a relevant Service, any Resigning Member or Resigning Agent Member in respect of that relevant Service and, in particular, the Clearing House shall disregard the daily margin obligations and daily number of Contracts of such Retiring Member or Retiring Agent Member or daily margin obligations and daily number of Contracts in the relevant Services of such Resigning Member or Resigning Agent Member (as applicable); and shall treat any such Retiring Member or Retiring Agent Member as no longer being a Clearing Member or Agent Member and any such Resigning Member or Resigning Agent Member as no longer being a Clearing Member or an Agent Member in respect of the relevant Service.

26. This Rule applies at any date for calculation of a Clearing Member's Contribution or an Agent Member's Contribution (as applicable) falling after a Retiring Member has given notice of the termination of its Clearing Member status or a Resigning Member has given notice of the termination of its Clearing Member status in respect of a relevant Service, and where another Clearing Member or Agent Member (as applicable) (the "**Continuing Member**") has arranged to undertake clearing on behalf of the Retiring Member or clearing in respect of the relevant Service on behalf of the Resigning Member or provide Agent Member Services on behalf of the Sponsored Member of the Retiring Agent Member or Resigning Agent Member, as applicable. If, in the opinion of the Clearing House, the Contribution of the Continuing Member determined under the relevant Supplement does not fairly reflect the Continuing Member's share of clearing activity or Agent Member Services (as applicable), the Clearing House may determine the Contribution of the Continuing Member as if the Relevant Business carried on by the Retiring Member, Retiring Agent Member, Resigning Member or Resigning Agent Member in respect of the relevant Service were part of the Relevant Business carried on by the Continuing Member or its Sponsored Members (as applicable). The Clearing House shall give notice of any Contribution determined under this Rule to the relevant Continuing Member, and the provisions of Rule 25 shall not apply.

27. A Retiring Member or a Resigning Member shall continue to be liable under its Rule 21 indemnity in respect of Aggregate Excess Losses relating to any Default which arises prior to the Retirement Effective Date or prior to the relevant Resignation Effective Date, respectively. While a Retiring Member or Resigning Member continues to be so liable, it shall provide such Cover as the Clearing House shall require in respect of its liability in relation to any Aggregate Excess Losses not yet certified, subject to such Cover not exceeding the Retiring Member's Contribution or Retiring Agent Member's

Contribution (as applicable) at the Retirement Effective Date or the Resigning Member's Contribution or Resigning Agent Member's Contribution (as applicable) to the relevant Service at the relevant Resignation Effective Date. In fulfilment of this requirement, the Clearing House may take any step which appears to the Clearing House to be appropriate, including the postponement of the date for repayment of all or part of the Retiring Member's Contribution or Retiring Agent Member's Contribution (as applicable) or Resigning Member's Contribution or Resigning Agent Member's Contribution (as applicable) in respect of the relevant Service (as the case may be), notwithstanding that the Retirement Effective Date or the relevant Resignation Effective Date may occur before the completion of the default management process relating to the relevant Default. The Clearing House shall notify the Retiring Member, Retiring Agent Member, or the Resigning Member or Resigning Agent Member of any steps taken under this Rule.

28. If all or part of the Contributions of any Clearing Member or Agent Member have been applied in accordance with Rule 21, the Clearing House shall account to each such Clearing Member or Agent Member (whether or not it remains at the relevant time a Clearing Member of the Clearing House) in respect of any Net Recovery, *pro rata* to the respective amounts applied in accordance with Rule 21 in relation to the relevant Default and in an amount not exceeding, in relation to each such Clearing Member, the amount of its Contributions so applied.

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.

   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**", "**Custodial Segregated Account**", "**Individual Segregated Account Clearing Client**", "**Custodial Segregated Client**", "**Individual Segregated Account Balance**", "**Custodial Segregated Account Balance**", "**Indirect Gross Account**", "**Indirect Gross Account Clearing Client**", "**Indirect Net Account**", "**Indirect Net Account Clearing Client**", "**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 Clearing 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 Client Clearing Business or 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 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) or, in the case of a Custodial Segregated Account only, a Porting Window which terminates in accordance with paragraph 4.1(b)(i) of this Client Clearing Annex), during which the Clearing House will seek to transfer Relevant Contacts 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 and (where applicable) any relevant Collateral Management Agreement. 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, Indirect Gross Accounts, Custodial 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;

(b) for a Custodial Segregated Account, terminate on the occurrence of one of the following events:

(i) the Relevant Contracts and Account Balance relating to the Custodial Segregated Account are ported; or

(ii) the Clearing House notifies the relevant Custodial Segregated Client that it has determined that the Relevant Contracts and Account Balance relating to the Custodial Segregated Account will not port; and

(c) in relation to any type of Client Account other than a Custodial Segregated Account, reflect, where applicable, any subsequent extension of the relevant period of time referred to in paragraph 4.1 applied by the Clearing House in its sole discretion and notified by means of a further publication on its website; and

(d) in relation to a particular Client Account, reflect, where applicable, any 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 or Indirect Net Account (as applicable) of a Defaulter who is an Exempt Client Clearing Member, seek to determine, in accordance with its default management procedures, the identities of each of the Clearing Clients grouped together in and comprising the relevant Non-Identified Client Omnibus Net Segregated Account or Indirect Net Account (as applicable). Where the Clearing House so determines the identities of all of the relevant Clearing Clients grouped together within the Non-Identified Client Omnibus Net Segregated Account or Indirect Net Account (as applicable) to its satisfaction and in its sole and absolute discretion, each group of Clearing Clients shall cease to be designated as Non-Identified Omnibus Net Segregated Clearing Clients or Indirect Net Account Clearing Clients (as applicable) and shall instead be redesignated as Determined Omnibus Net Segregated Clearing Clients, and each such group shall be allocated to a separate Identified Client Omnibus Net Segregated Account (and the term "**Determined Omnibus Net Segregated Clearing 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 Indirect Gross Account, each relevant Custodial 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. [reserved]

6. Subject to paragraph 14 below, in circumstances where (a) an Individual Segregated Account Clearing Client, an Indirect Gross Account Clearing Client, a Custodial Segregated 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), 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 agreement from the relevant client to such arrangements (in each case, in such form as the Clearing House may require at the relevant time):

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 and 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;

6.3 in respect of a Custodial Segregated Account and an ISA Port of the Relevant Contracts and Account Balance attributable to such Custodial Segregated Account to a Backup Clearing Member, such Backup Clearing Member acknowledges and agrees that immediately after the Clearing House obtains the rights, title and interests of the relevant Custodial Segregated Client in the Client Collateral forming part of such Account Balance in accordance with the relevant Collateral Management Agreement:

(a) the Clearing House shall be deemed to have transferred such rights, title and interests to such Backup Clearing Member;

(b) the Client Collateral forming part of the Account Balance, in respect of the Custodial Segregated Account, shall become subject to the relevant Deed of Charge of such Backup Clearing Member and "Charged Property" within the meaning of such Deed of Charge;

(c) the Client Collateral forming part of the Account Balance, in respect of the Custodial Segregated Account, shall cease to do so and shall, instead, form part of the Clearing Member Current Collateral Balance, in respect of the relevant Individual Segregated Account of the Backup Clearing Member; and

(d) all such Client Collateral shall be deemed to be Collateral which the Backup Clearing Member has provided to the Clearing House in respect of the relevant Individual Segregated Account; and

6.4

(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.

6.5 [reserved]

7. [reserved]

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 agreement from the relevant clients to such arrangements (in each case, 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 and 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; and

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.

8.4 [reserved]

9. The Clearing House will seek to port Relevant Contracts and Account Balances under paragraphs 6.1 and 6.2 above, 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 above, or 8.1 and 8.2 above, the processes described in paragraphs 9.1 to 9.3 below shall apply.

9.1 In the case of (x) those Clearing Clients who are Individual Segregated Account Clearing Clients, Custodial Segregated 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 of the Defaulter in respect of each such Clearing Client, and/or (y) those Clearing Clients who are Indirect Gross Account Clearing Clients, the Clearing House shall calculate the entitlement to Collateral and amounts in respect of the close-out of Relevant Contracts of the Defaulter in respect of each Indirect Gross Sub-Account within the Indirect Gross Account opened in respect of each such Indirect Gross Account Clearing Client (each amount calculated pursuant to (x) and (y), a "**Client Clearing Entitlement**") 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 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.

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 and 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) provide the amounts of the Client Clearing Entitlements calculated by it under this paragraph 9.1 to the Defaulter for the account of the relevant Clearing Clients, except where it provides any such amount to a Clearing Client in accordance with paragraph 9.2 below.

9.2 Where the relevant Individual Segregated Account Clearing Client, Indirect Gross Account Clearing Client, Custodial Segregated 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 and 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 provide an amount to it equal to the Client Clearing Entitlement(s) due to be provided in respect of it to the Defaulter, the Clearing House shall seek to give effect to such instruction, subject to the satisfaction of the following requirements in respect of such Clearing Client, but may (at its sole discretion) provide the amount of such Client Clearing Entitlement(s) to the Defaulter for the account of the Clearing Client in accordance with paragraph 9.1 above:

(a) the Clearing House having the operational ability to transfer cash and/or financial instruments equal to the amount of the Client Clearing Entitlement(s) to the relevant Clearing Client:

(b) the delivery and/or execution by the relevant Clearing Client of appropriate documentation as specified by the Clearing House from time to time (which may, without limitation, include an indemnity (secured or otherwise)); and

(c) 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.

9.3 In the case of a Non-Identified Client Omnibus Net Segregated Account of a Defaulter and the Non-Identified Omnibus Segregated Clearing Clients grouped together in such account, 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 clients (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 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.

9.4 In the case of an Indirect Net Account of a Defaulter and the Indirect Net Account Clearing Clients grouped together in such account, the Clearing House shall calculate the aggregate entitlement to Collateral and amounts in respect of the close-out of Relevant Contracts (the "**Aggregate Indirect Net Account 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 clients (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 9.4, being determined by the Clearing House under the processes provided for by the 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 Indirect Net Account 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 Indirect Net Account Client Clearing Entitlements under this paragraph 9.4 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 DMP Annex, save that no hedging shall be undertaken in respect of any Relevant Contract relating to Rates Service 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 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.

16. Clearing Clients of a Defaulter may enforce the terms of this Client Clearing Annex subject to and in accordance with Regulation 52 (*Exclusion of Liability*) and the provisions of the Third Parties Act.

17. Notwithstanding paragraph 16 above, the Clearing House will not require the consent of the Clearing Clients to rescind or to vary this Client Clearing Annex at any time.

18. A Clearig Client of a Defaulter may not assign or transfer or purport to assign or to transfer a right to enforce a term of this Client Clearing Annex under the Third Parties Act.

SCHEDULE 2
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 Rates Service DMP which will apply to Rates Service Contracts following the Default of a Rates Service 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 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 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 (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 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, the Listed Interest Rates Service, the SwapClear Contracts and the Listed Interest Rates Contracts in the interests of the Non-Defaulting Rates Service Clearing Members. When an SCM defaults, SCMs are required to supply impartial expertise through the Rates Service DMG and to bid for the Auction Portfolios of the Defaulting SCM, as laid out in this Annex. In addition, Rates Service Clearing Members and/or their parent companies and/or subsidiaries and/or fellow subsidiaries, have direct interests in 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 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 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 other Contracts under the Exchange Rules of the relevant Exchange.

1.6 In this Annex:

"**Accepted**" means, in respect of a bid in an Auction, that the Clearing House has accepted such bid as one that it may select as the winning bid for such Auction and "**Accept**" and "**Accepts**" shall have a corresponding meaning;

"**AIP**" has the meaning given in Rule 2.6 of this Annex;

"**AIP Amount**" means:

(a) in respect of a Non-Defaulting SCM and the OTC Auction Portfolio(s) in a specific Auction Portfolio Currency and Auction Portfolio Category, the product of

(i) such Non-Defaulting SCM's AIP Ratio applicable to the Auction Portfolio Currency and Auction Portfolio Category of such OTC Auction Portfolio(s), and

(ii) the total of its (A) remaining SwapClear Funded Contribution, and (B) remaining SwapClear Unfunded Contribution;

(b) in respect of a Non-Defaulting Joint Rates Service Clearing Member and a Basis Portfolio, the product of

(i) such Non-Defaulting Joint Rates Service Clearing Member's AIP Ratio applicable to the Basis Portfolio, and

(ii) the total of its (A) remaining SwapClear Funded Contribution, and (B) remaining SwapClear Unfunded Contribution;

"**AIP Ratio**" means:

(a) in respect of a Non-Defaulting SCM and the OTC Auction Portfolio(s) in a specific Auction Portfolio Currency and Auction Portfolio Category, the ratio that

(i) the Undiversified Expected Shortfall for the SwapClear Contracts of such Non-Defaulting SCM that are registered in its name at the time of the relevant Default and are in such Auction Portfolio Currency and Auction Portfolio Category bears to,

(ii) the aggregate Undiversified Expected Shortfall for all the SwapClear Contracts that are registered in the name of such Non-Defaulting SCM at the time of the relevant Default;

(b) in respect of a Non-Defaulting Joint Rates Service Clearing Member and a Basis Portfolio in an Auction Portfolio Currency, the ratio calculated in paragraph (a) above applicable to such Non-Defaulting Joint Rates Service Clearing Member, in respect of the OTC Auction Portfolio(s) which are denominated in such Auction Portfolio Currency and belong to the IRS SwapClear Contract Category;

"**Auction**" means the process of bidding by Non-Defaulting SCMs 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 Rates Service DMG from time to time in accordance with Rule 2.4 of this Annex;

"**Auction Losses**" means, in respect of an OTC Auction Portfolio or a Basis Portfolio, all losses arising from:

(a) the auction and sale of such OTC Auction Portfolio or Basis Portfolio (as applicable); and

(b) a change in the net present value of the Rates Service Contracts within such OTC Auction Portfolio or Basis Portfolio (as applicable) during the Auction Losses Calculation Period applicable to such portfolio;

"**Auction Losses Calculation Period**" means, in respect of an OTC Auction Portfolio or a Basis Portfolio (as applicable) and the business day on which the Clearing House auctions and sells such portfolio, the period:

(a) commencing immediately after the end of day margin and settlement call of the Clearing House for the previous business day; and

(b) ending at the point at which the Clearing House sells such portfolio;

"**Auction Portfolio Category**" means, in relation to an 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;

"**Auction Portfolio Currency**" means, in relation to an OTC Auction Portfolio, the currency in which the Contracts in the OTC Auction Portfolio are denominated and in relation to a Basis Portfolio, the currency in which the Contracts in the Basis Portfolio are denominated;

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

"**Basis Portfolio**" means a Portfolio containing SwapClear Contracts, Portfolio Margined Contracts and/or Listed Interest Rates Contracts as more fully defined in Rule 2.3 of this Annex and which is not, for the avoidance of doubt, an OTC Auction Portfolio;

"**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;

"**Difference**" means, in respect of an Auction and a Remaining Short Bidder who bid in the Auction, the difference between (a) the winning bid for such Auction, and (b) the bid of such Remaining Short Bidder in the Auction;

"**Equal Bid**" means an Accepted bid in an Auction, which is equal to another Accepted bid in the same Auction;

"**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;

"**Exchange Losses**" means the losses in respect of the Exchange Closed-out Contracts of a Defaulting Listed Interest Rates Clearing Member;

"**Expected Auction Participant**" means, in respect of an OTC Auction Portfolio, any Non-Defaulting SCM who, at the time of the relevant Default, has at least one Resembling Contract registered in its name and, in respect of a Basis Portfolio, each Non-Defaulting Joint Rates Service Clearing Member;

"**FCM Rates Service Client Business**" means the provision of FCM SwapClear Clearing Services and/or FCM Listed Interest Rates Clearing Services by an FCM Clearing Member to its FCM Clients;

"**FCM Rates Service House Business**" means the FCM SwapClear Contracts and/or FCM Listed Interest Rates Contracts entered into by an FCM Clearing Member for its Proprietary Account;

"**FCM SwapClear Client Business**" means the provision of FCM SwapClear 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 Proprietary Account;

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

"**Hedging Give Up Agent**" has the meaning given in Rule 2.2(c)(i) of this Annex;

"**Hedging Listed Interest Rates Contract**" means a Listed Interest Rates Contract as described in Rule 2.2(c)(ii)(A) or Rule 2.2(d) of this Annex;

"**Hedging Rates Service Clearing Member**" has the meaning given in Rule 2.2(b)(i) of this Annex;

"**Hedging Rates Service Contract**" means a Hedging SwapClear Contract or a Hedging Listed Interest Rates Contract;

"**Hedging SwapClear Contract**" has the meaning given in Rule 2.2(b)(ii)(B) of this Annex;

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

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

"**Listed Interest Rates Only Clearing Member**" means a Listed Interest Rates Clearing Member that is not an SCM;

"**Listed Interest Funded Contribution**" means the Listed Interest Rates Contribution of a Listed Interest Rates Clearing Member, excluding any Listed Interest Rates Unfunded Contribution in respect of the Listed Interest Rates Clearing Member;

"**Listed Interest Rates Unfunded Contribution**" has the meaning assigned to "Unfunded Contribution" in Rule L5(a) of the Rates Service Default Fund Supplement;

"**Loss Portion**" means, in respect of an Auction of:

(a) an OTC Auction Portfolio, a Remaining Short Bidder who bid in such Auction, and

(i) Rule 2.7(b)(ii) of this Annex, the amount equal to the product of

(A) the outstanding Auction Losses to be attributed to Remaining Short Bidders under Rule 2.7(b)(ii) of this Annex, and

(B) the proportion that the Difference in respect of such Remaining Short Bidder and Auction bears to the total Differences in respect of all Remaining Short Bidders who bid in such Auction, and

(ii) Rule 2.7(f)(ii) of this Annex, the amount equal to the product of

(A) the outstanding Auction Losses to be attributed to Remaining Short Bidders under Rule 2.7(f)(ii) of this Annex, and

(B) the proportion that the Difference in respect of such Remaining Short Bidder and Auction bears to the total Differences in respect of all Remaining Short Bidders who bid in such Auction; and

(b) a Basis Portfolio, a Remaining Short Bidder who bid in such Auction, and

(i) Rule 2.8(b)(ii) of this Annex, the amount equal to the product of

(A) the outstanding Auction Losses to be attributed to Remaining Short Bidders under Rule 2.8(b)(ii) of this Annex, and

(B) the proportion that the Difference in respect of such Remaining Short Bidder and Auction bears to the total Differences in respect of all Remaining Short Bidders who bid in such Auction, and

(ii) Rule 2.8(f)(ii) of this Annex, the amount equal to the product of

(A) the outstanding Auction Losses to be attributed to Remaining Short Bidders under Rule 2.8(f)(ii) of this Annex, and

(B) the proportion that the Difference in respect of such Remaining Short Bidder and Auction bears to the total Differences in respect of all Remaining Short Bidders who bid in such Auction;

"**Market Losses**" mean any losses in respect of the implementation of the Rates Service DMP, including losses arising from the execution of hedging transactions and/or matches for the purpose of Risk Neutralisation, but excluding:

(a) Auction Losses; and

(b) Exchange Losses;

"**Non-Bidder**" means, in respect of an Auction, an SCM, which (a) did not bid in such Auction, or (b) bid in such Auction, but whose bid was not Accepted;

"**Non-Defaulter**" means, as the context requires, an SCM, Listed Interest Rates Clearing Member and/or a Joint Rates Service Clearing Member, in each case, that is not a Defaulter;

"**Non-Defaulters' Listed Interest Rates Contributions**" means the Listed Interest Rates Contributions made by Non-Defaulting Listed Interest Rates Clearing Members;

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

"**OTC Auction Portfolio**" means (a) a Portfolio containing only SwapClear Contracts, or (b) 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 SwapClear Contracts (but not any Hedging Listed Interest Rates Contracts) concluded by the Clearing House through Risk Neutralisation;

"**Out Bid**" means a bid in an Auction, which is Accepted and higher than the winning bid in such Auction;

"**Out Bidder**" means, in respect of an Auction, a Non-Defaulting SCM, which submitted an Out Bid in such Auction;

"**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 (or, in the case of an FCM Clearing Member that is a Defaulter, the FCM SwapClear Contracts in such currency registered in respect of its FCM SwapClear Client Business) and in both such cases includes, where relevant, any (i) Portfolio Margined Contracts, and (ii) Hedging SwapClear Contracts and/or Hedging Listed Interest Rates Contracts 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 Contracts relating to the Client Clearing Business or FCM SwapClear Client Business of a Defaulting SCM will only contain Contracts relating to Client Clearing Business or FCM SwapClear Client Business, as appropriate. 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 Hedging Listed Interest Rates Contracts concluded by the Clearing House through Risk Neutralisation;

"**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**" 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;

"**Rates Service Funded Contribution**" means the SwapClear Funded Contribution and Listed Interest Rates Funded Contribution of an SCM;

"**Rates Service Unfunded Contributions**" means the SwapClear Unfunded Contributions and Listed Interest Rates Unfunded Contributions of an SCM;

"**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;

"**Remaining Short Bidder**" means, in respect of an Auction of:

(a) an OTC Auction Portfolio and

(i) Rule 2.7(b)(ii) of this Annex, a Short Bidder in such Auction whose remaining AIP Amount, which is in the form of SwapClear Funded Contributions and forms part of the AIP relating to such OTC Auction Portfolio, is greater than zero, and

(ii) Rule 2.7(f)(ii) of this Annex, a Short Bidder in such Auction whose remaining AIP Amount, which is in the form of SwapClear Unfunded Contributions and forms part of the AIP relating to such OTC Auction Portfolio, is greater than zero; and

(b) a Basis Portfolio and

(i) Rule 2.8(b)(ii) of this Annex, a Short Bidder in such Auction whose remaining AIP Amount, which is in the form of SwapClear Funded Contributions and forms part of the AIP relating to such Basis Portfolio, is greater than zero, and

(ii) Rule 2.8(f)(ii) of this Annex, a Short Bidder in such Auction whose remaining AIP Amount, which is in the form of SwapClear Unfunded Contributions and forms part of the AIP relating to such Basis Portfolio, is greater than zero;

"**Resembling Contract**" means, in respect of the SwapClear Contracts in an OTC Auction Portfolio, a SwapClear Contract registered in the name of a Non-Defaulting SCM that (a) is denominated in the same Auction Portfolio Currency as such SwapClear Contracts, and (b) belongs to the SwapClear Contract Category which corresponds to the Auction Portfolio Category of such OTC 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 before the auction process as described in Rule 2.2 of this Annex;

"**Short Bidder**" means, in respect of an Auction of:

(a) an OTC Auction Portfolio, a Non-Defaulting SCM that (a) is an Expected Auction Participant for such OTC Auction Portfolio, and (b) submitted a bid, which is Accepted, but lower than the winning bid, in such Auction; and

(b) a Basis Portfolio, a Non-Defaulting Joint Rates Service Clearing Member that submitted a bid, which is Accepted, but lower than the winning bid, in such Auction;

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

"**SwapClear Funded Contribution**" means the SwapClear Contribution of an SCM, excluding any SwapClear Unfunded Contribution in respect of the SCM;

"**SwapClear-Only Clearing Member**" means an SCM that is not a Listed Interest Rates Clearing Member; and

"**Undiversified Expected Shortfall**" means, in respect of the SwapClear Contracts in a specific currency and SwapClear Contract Category, the largest loss which the Clearing House determines could be incurred it in respect of such SwapClear Contracts, using the SwapClear PAIRS margining algorithm based on 2,500 historical scenarios (10 years history) and a holding period of 5 days.

Terms used, and not defined, in this Annex shall have the meanings given to them in the Regulations or FCM Regulations.

2. Rates Service DMP

The Rates Service DMP in respect of: (a) **Rates Service Clearing House Business**; (b) **Relevant Auction Contracts in respect of Rates Service Client Clearing Business**; (c) **FCM** Rates Service **House Business**; and (d) FCM Rates Service Client Business shall involve the processes described in this Rule 2.

Resources will be allocated based on the order and proportions described in Rules 2.5 to 2.9 of this Annex. Allocation of resources pursuant to a process or the order in which processes are carried out may reduce the resources which are available to meet the losses in respect of any subsequent process and, 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 it: (a) constructs OTC Auction Portfolios and Basis Portfolios; (b) auctions OTC Auction Portfolios and Basis Portfolios; and (c) closes out any Listed Interest Rates Contract of a Defaulter under the Exchange Rules of any relevant Exchange.

2.1 ***Portfolio Splitting***

The Clearing House, in consultation with and with the assistance of the Rates Service DMG, shall determine the composition of each OTC Auction Portfolio and Basis Portfolio and shall have the discretion to create two or more OTC Auction Portfolios and/or two or more Basis Portfolios from a Portfolio, whether by 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 2.4 of this Annex. The overriding principle behind the portfolio splitting process is that the Clearing House will structure OTC Auction Portfolios and Basis Portfolios with the intention of ensuring a 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 (including, where relevant, compliance with the terms of any CFTC order permitting the commingling 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 Contracts that such Portfolio contains); or (b) any particular requirements as to the composition of an 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 Portfolio, except that, subject to overriding risk procedures, it is broadly anticipated that: (a) the parameters of any OTC Auction Portfolio and Basis 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.

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, where such hedging may be achieved, without limitation, by:

(a) the splitting of Portfolios pursuant to Rule 2.1 above;

(b) the Clearing House, for the purpose of hedging:

(i) executing one or more new SwapClear Transactions and/or new FCM SwapClear Transactions (as applicable) with Non-Defaulting Rates Service Clearing Members (each, a "**Hedging Rates Service Clearing Member**") on the basis of a separate agreement between the Clearing House and the Hedging Rates Service Clearing Member; and

(ii) clearing each such SwapClear Transaction and/or FCM SwapClear Transaction (as applicable) in accordance with, and subject to, the Rulebook and/or the FCM Rulebook (as applicable), such that:

(A) the Hedging Rates Service Clearing Member's side of such transaction is registered as a SwapClear Contract between the Clearing House and the Hedging Rates Service Clearing Member; and

(B) the Clearing House's side of such transaction is registered as a SwapClear Contract between the Defaulting Rates Service Clearing Member and the Clearing House (pursuant to the Clearing House's rights under Default Rule 6(a)) (any such SwapClear Contract, a "**Hedging SwapClear Contract**");

(c) the Clearing House, for the purpose of hedging:

(i) engaging one or more third parties (each, a "**Hedging Give Up Agent**") to execute one or more new Listed Interest Rates Novation Transactions, FCM Listed Interest Rates Novation Transactions and/or Rates Exchange Matches (as applicable), as instructed by the Clearing House; and

(ii) clearing each such Listed Interest Rates Novation Transaction, FCM Listed Interest Rates Novation Transactions and/or Rates Exchange Matches (as applicable) in accordance with, and subject to, the Rulebook and/or FCM Rulebook (as applicable), such that:

(A) the Hedging Give Up Agent's side of such transaction or match is registered as a Listed Interest Rates Contract and transferred to the Defaulting Rates Service Clearing Member, to become a Hedging Listed Interest Rates Contract between the Defaulting Rates Service Clearing Member and the Clearing House

(pursuant to the Clearing House's right under Default Rule 6(q); and

(B) the other side of such transaction or match is registered as a Listed Interest Rates Contract between the Clearing House and the relevant Listed Interest Rates Clearing Member; and/or

(d) the Clearing House, for the purpose of hedging, designating an existing Listed Interest Rates Contract of the Defaulting Rates Service Clearing Member as a Hedging Listed Interest Rates Contract (pursuant to the Clearing House's right under Default Rule 6(q)).

The Clearing House may transfer one or more Hedging Rates Service Contracts from one account to any other account in accordance with Default Rule 6(g) (including any Hedged Account (in the circumstances provided for in the Rulebook)).

The Clearing House may undertake Risk Neutralisation before, as part of, concurrently with and/or subsequent to the splitting of a Portfolio pursuant to Rule 2.1. Where a Hedging Rates Service Clearing Member executes a hedging SwapClear Transaction or FCM SwapClear Transaction (as applicable) with the Clearing House, it agrees to present such SwapClear Transaction or FCM SwapClear Transaction for clearing with the Clearing House in accordance with, and subject to, the Rulebook or FCM Rulebook (as applicable) and within the required timeframe under all Applicable Law (and, in any event, no later than the time that the SwapClear service closes on the day on which it executes such SwapClear Transaction or FCM SwapClear Transaction).

2.3 ***Basis Portfolio Composition***

The Clearing House may, in consultation with, and with the assistance of, the Rates Service DMG and for each relevant currency construct a Basis Portfolio, which may include Hedging Rates Service Contracts concluded by the Clearing House through Risk Neutralisation

2.4 ***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) 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 in the manner provided by Rule 15 of the Default Rules or, as the case may be, the extent of any gains to the Clearing House.

The Clearing House, in consultation with the Rates Service DMG, shall prescribe such procedures (in addition to those set out in this Annex) 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, before 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.

(d) 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 Rates Service Clearing Member is entitled to submit a bid in respect of an Auction on behalf of one or more affiliated Non-Defaulting Rates Service Clearing Members. 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 DMG, will have full discretion in deciding whether to Accept a particular bid in an Auction and in deciding which Accepted bid it will select as the winning bid.

(f) In the case of an Auction in which no bid is Accepted or received, one or more further Auctions will be held in relation to the relevant OTC Auction Portfolio or Basis Portfolio (as applicable).

(g) As soon as practicable following the submission of bids in an Auction, if:

(i) one or more bid(s) is Accepted, the Clearing House will notify:

(A) in the case of an Auction of an OTC Auction Portfolio, the Expected Auction Participants together with any other Non-Defaulting SCMs which participated in the Auction that one or more bid(s) is Accepted;

(B) in the case of an Auction of a Basis Portfolio, the Non-Defaulting Joint Rates Service Clearing Members which participated in the Auction that one or more bid(s) is Accepted;

(C) in both such cases, the SCM which submitted the winning bid that it is the winner of the Auction; and

(ii) no bid is Accepted, the Clearing House will notify all Non-Defaulting SCMs of the details of any further Auction (in respect of an OTC

Auction Portfolio) and all Non-Defaulting Joint Rates Service Clearing Members of the details of any further Auction (in respect of a Basis Portfolio).

(h) 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.

2.5 ***Market Losses***

(a) Market Losses will be met using the available resources as set out in Rule 15 of the Default Rules. Where the Clearing House determines that there are insufficient resources under Rules 15(a) to 15(d) of the Default Rules (inclusive) to meet such losses, they will be attributed to Non-Defaulters' remaining SwapClear Contributions and remaining Listed Interest Rates Contributions in the following order and proportions:

(i) Market Losses will be attributed to the remaining SwapClear Funded Contribution of each Non-Defaulter *pro rata* according to the proportion that the remaining SwapClear Funded Contribution of such Non-Defaulter bears to the total of all such remaining SwapClear Funded Contributions.

(ii) If and to the extent there are Market Losses outstanding after the attribution process in Rule 2.5(a)(i) of this Annex, those Market Losses will be attributed to the remaining Listed Interest Rates Funded Contribution of each Non-Defaulting Joint Rates Service Clearing Member *pro rata* according to the proportion that the remaining Listed Interest Rates Funded Contribution of such Non-Defaulting Joint Rates Service Clearing Member bears to the total of the remaining Listed Interest Rates Funded Contributions of all Non-Defaulting Joint Rates Service Clearing Members.

(iii) If and to the extent there are Market Losses outstanding after the attribution process in Rule 2.5(a)(ii) of this Annex, those Market Losses will be attributed to the remaining Listed Interest Rates Funded Contribution of each Non-Defaulting Listed Interest Rates-Only Clearing Member *pro rata* according to the proportion that the remaining Listed Interest Rates Funded Contribution of such Non-Defaulting Listed Interest Rates-Only Clearing Member bears to the total of the remaining Listed Interest Rates Funded Contributions of all Non-Defaulting Listed Interest Rates-Only Clearing Members.

(iv) If and to the extent there are Market Losses outstanding after the attribution process in Rule 2.5(a)(iii) of this Annex, those Market Losses will be attributed to the remaining SwapClear Unfunded Contributions of each Non-Defaulter *pro rata* according to the proportion that the remaining SwapClear Unfunded Contributions of such Non-Defaulter

bear to the total of all such remaining SwapClear Unfunded Contributions.

(v) If and to the extent there are Market Losses outstanding after the attribution process in Rule 2.5(a)(iv) of this Annex, those Market Losses will be attributed to the remaining Listed Interest Rates Unfunded Contributions of each Non-Defaulting Joint Rates Service Clearing Member *pro rata* according to the proportion that the remaining Listed Interest Rates Unfunded Contributions of such Non-Defaulting Joint Rates Service Clearing Member bear to the total of the remaining Listed Interest Rates Unfunded Contributions of all Non-Defaulting Joint Rates Service Clearing Members.

(vi) If and to the extent there are Market Losses outstanding after the attribution process in Rule 2.5(a)(v) of this Annex, those Market Losses will be attributed to the remaining Listed Interest Rates Unfunded Contributions of each Non-Defaulting Listed Interest Rates-Only Clearing Member *pro rata* according to the proportion that the remaining Listed Interest Rates Unfunded Contributions of such Non-Defaulting Listed Interest Rates-Only Clearing Member bear to the total of the remaining Listed Interest Rates Unfunded Contributions of all Non-Defaulting Listed Interest Rates-Only Clearing Members.

(b) The Clearing House will attribute Market Losses (if any) pursuant to Rule 2.5(a) of this Annex on each business day during the implementation of the Rates Service DMP at the same time as its end of day margin and settlement call.

2.6 ***Auction Incentive Pools***

(a) The Clearing House will calculate an auction incentive pool (each, an "**AIP**") for:

(i) the OTC Auction Portfolio(s) in a specific Auction Portfolio Currency and Auction Portfolio Category; and

(ii) each Basis Portfolio.

(b) The AIP for the OTC Auction Portfolio(s) in a specific Auction Portfolio Currency and Auction Portfolio Category will be the sum of the AIP Amounts for such OTC Auction Portfolio(s).

(c) The AIP for a Basis Portfolio will be the sum of the AIP Amounts for such Basis Portfolio.

(d) For the avoidance of doubt, an AIP and the AIP Amounts which comprise such AIP will change as the remaining SwapClear Funded Contributions and remaining SwapClear Unfunded Contributions change throughout the implementation of the Rates Service DMP.

2.7 ***Auction Losses – OTC Auction Portfolios***

(a) Auction Losses, in respect of an OTC Auction Portfolio, will be met using the available resources as set out in Rule 15 of the Default Rules. Where the Clearing House determines there are insufficient resources under Rules 15(a) to 15(d) of the Default Rules (inclusive) to meet such losses, they will be attributed to Non-Defaulters' remaining SwapClear Contributions and remaining Listed Interest Rates Contributions in accordance with the loss attribution process described in Rule 2.7(b) to 2.7(i) of this Annex.

(b) In the case of an Auction of an OTC Auction Portfolio, for which the Clearing House determines there are insufficient resources under Rule 15(a) to 15(d) of the Default Rules (inclusive) to meet the Auction Losses for such Auction, such losses will be met first by the Non-Defaulters' remaining SwapClear Funded Contributions that are included in the AIP relating to the OTC Auction Portfolio in the following order and proportions:

(i) the Auction Losses will be attributed to the remaining AIP Amounts of those Non-Defaulting SCMs which are both Expected Auction Participants, in respect of the OTC Auction Portfolio, and Non-Bidders in the Auction. Auction Losses will be attributed to the remaining AIP Amount of each such Non-Defaulting SCM pursuant to this subparagraph (i) *pro rata* according to the proportion that such SCM's remaining AIP Amount bears to the total of the remaining AIP Amounts of all Non-Defaulting SCMs which are both Expected Auction Participants, in respect of the OTC Auction Portfolio, and Non-Bidders in the Auction;

(ii) if and to the extent there are Auction Losses outstanding after the attribution process in sub-paragraph (i) above, those Auction Losses will be attributed to the remaining AIP Amounts of the Remaining Short Bidders for the OTC Auction Portfolio in accordance with this subparagraph (ii). Where:

(A) the Loss Portion applicable to each Remaining Short Bidder is less than or equal to its remaining AIP Amount, then the Clearing House will, in respect of each Remaining Short Bidder, attribute Auction Losses equal to the Loss Portion applicable to the Remaining Short Bidder to its remaining AIP Amount; or

(B) the Loss Portion applicable to one or more Remaining Short Bidders is greater than its remaining AIP Amount, then the Clearing House will attribute Auction Losses to all of the remaining AIP Amounts of such Remaining Short Bidders only (so that they cease to be Remaining Short Bidders for the purposes of this Rule 2.7(b)(ii) and the Auction) and will repeat the loss attribution process in this Rule 2.7(b)(ii) for any outstanding Auction Losses until the Auction Losses are fully met or the remaining AIP Amounts of all Remaining Short Bidders for the OTC Auction Portfolio are fully attributed; and

(iii) if and to the extent there are Auction Losses outstanding after the attribution process in sub-paragraph (ii) above, those Auction Losses will be attributed to the remaining AIP Amount of the Non-Defaulting SCM who submitted the winning bid in the Auction, together with (where applicable) the remaining AIP Amount 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 remaining AIP Amount of each such SCM pursuant to this sub-paragraph (iii) *pro rata* according to the proportion that such SCM's remaining AIP Amount bears to the total of the remaining AIP Amounts of: (A) the SCM which submitted the winning bid in the Auction; (B) any SCMs which submitted an Equal Bid to such winning bid in the Auction; and (C) any SCMs which were Out Bidders in the Auction.

(c) If and to the extent there are Auction Losses outstanding following the attribution process in Rule 2.7(b) of this Annex, those Auction Losses will be attributed to the remaining SwapClear Funded Contribution of each Non-Defaulting SCM *pro rata* according to the proportion that the remaining SwapClear Funded Contribution of such Non-Defaulting SCM bears to the total of the remaining SwapClear Funded Contributions of all Non-Defaulting SCMs.

(d) If and to the extent there are Auction Losses outstanding following the attribution process in Rule 2.7(c) of this Annex, those Auction Losses will be attributed to the remaining Listed Interest Rates Funded Contribution of each Non-Defaulting Joint Rates Service Clearing Member *pro rata* according to the proportion that the remaining Listed Interest Rates Funded Contribution of such Non-Defaulting Joint Rates Service Clearing Member bears to the total remaining Listed Interest Rates Funded Contributions of all Non-Defaulting Joint Rates Service Clearing Members.

(e) If and to the extent there are Auction Losses outstanding following the attribution process in Rule 2.7(d) of this Annex, those Auction Losses will be attributed to the remaining Listed Interest Rates Funded Contribution of each Non-Defaulting Listed Interest Rates-Only Clearing Member *pro rata* according to the proportion that the remaining Listed Interest Rates Funded Contribution of such Non-Defaulting Listed Interest Rates-Only Clearing Member bears to the total remaining Listed Interest Rates Funded Contributions of all Non-Defaulting Listed Interest Rates-Only Clearing Members.

(f) If and to the extent there are Auction Losses outstanding following the attribution process in Rule 2.7(e) of this Annex, the remaining SwapClear Unfunded Contributions that are included in the AIP relating to the OTC Auction Portfolio will be used in the following order:

(i) the Auction Losses will be attributed to the remaining AIP Amounts of those Non-Defaulting SCMs which are both Expected Auction Participants, in respect of the OTC Auction Portfolio, and Non-Bidders in the Auction. Auction Losses will be attributed to the remaining AIP Amount of each such Non-Defaulting SCM pursuant to this sub-paragraph (i) *pro rata* according to the proportion that such SCM's

remaining AIP Amount bears to the total of the remaining AIP Amounts of all SCMs which are both Expected Auction Participants, in respect of the OTC Auction Portfolio, and Non-Bidders in the Auction;

(ii) if and to the extent there are Auction Losses outstanding after the attribution process referred to in sub-paragraph (i) above, those Auction Losses will be attributed to the remaining AIP Amounts of the Remaining Short Bidders for the OTC Auction Portfolio in accordance with this sub-paragraph (ii). Where:

(A) the Loss Portion applicable to each Remaining Short Bidder is less than or equal to its remaining AIP Amount, then the Clearing House will, in respect of each Remaining Short Bidder, attribute Auction Losses equal to the Loss Portion applicable to the Remaining Short Bidder to its remaining AIP Amount; or

(B) the Loss Portion applicable to one or more Remaining Short Bidders is greater than its remaining AIP Amount, then the Clearing House will attribute Auction Losses to all of the remaining AIP Amounts of such Remaining Short Bidders only (so that they cease to be Remaining Short Bidders for the purposes of this Rule 2.7(f)(ii) and the Auction) and will repeat the loss attribution process in this Rule 2.7(f)(ii) for any outstanding Auction Losses until the Auction Losses are fully met or the remaining AIP Amounts of all Remaining Short Bidders for the OTC Auction Portfolio are fully attributed; and

(iii) If and to the extent there are Auction Losses outstanding after the attribution process referred to in sub-paragraph (ii) above, those Auction Losses will be attributed to the remaining AIP Amounts of the Non-Defaulting SCM who submitted the winning bid, together with (where applicable) the remaining AIP Amount 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 remaining AIP Amount of each such Non-Defaulting SCM pursuant to this subparagraph (iii) *pro rata* according to the proportion that such SCM's remaining AIP Amount bears to the total of the remaining AIP Amounts of: (A) the SCM which submitted the winning bid in the Auction; (B) any SCMs which submitted an Equal Bid to such winning bid in the Auction; and (C) any SCMs which were Out Bidders in the Auction.

(g) If and to the extent there are Auction Losses outstanding following the attribution process referred to in Rule 2.7(f) of this Annex, those Auction Losses will be attributed to the remaining SwapClear Unfunded Contributions of each Non-Defaulting SCM *pro rata* according to the proportion that the remaining SwapClear Unfunded Contributions of such Non-Defaulting SCM bear to the total of the remaining SwapClear Unfunded Contributions of all Non-Defaulting SCMs.

(h) If and to the extent there are Auction Losses outstanding following the attribution process referred to in Rule 2.7(g) of this Annex, those Auction Losses will be attributed to the remaining Listed Interest Rates Unfunded Contributions of each Non-Defaulting Joint Rates Service Clearing Member *pro rata* according to the proportion that the remaining Listed Interest Rates Unfunded Contributions of such Non-Defaulting Joint Rates Service Clearing Member bear to the total remaining Listed Interest Rates Unfunded Contributions of all 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 2.7(h) of this Annex, those Auction Losses will be attributed to the remaining Listed Interest Rates Unfunded Contributions of each Non-Defaulting Listed Interest Rates-Only Clearing Member *pro rata* according to proportion that remaining Listed Interest Rates Unfunded Contributions of such Non-Defaulting Listed Interest Rates-Only Clearing Member bear to the total remaining Listed Interest Rates Unfunded Contributions of all Non-Defaulting Listed Interest Rates-Only Clearing Members.

2.8 ***Auction Losses - Basis Portfolios***

(a) Auction Losses, in respect of a Basis Portfolio, will be met using the available resources as set out in Rule 15 of the Default Rules. Where the Clearing House determines there are insufficient resources under Rules 15(a) to 15(d) of the Default Rules (inclusive) to meet such losses, they will be attributed to Non-Defaulters' remaining SwapClear Contributions and remaining Listed Interest Rates Contributions in accordance with the loss attribution process described in Rule 2.8(b) to 2.8(i) of this Annex.

(b) In the case of an Auction of a Basis Portfolio, for which the Clearing House determines there are insufficient resources under Rule 15(a) to 15(d) of the Default Rules (inclusive) to meet the Auction Losses for such Auction, such losses will be met first by the Non-Defaulting Joint Rates Service Clearing Members' remaining SwapClear Funded Contributions that are included in the AIP relating to the Basis Portfolio in the following order and proportions:

(i) the Auction Losses will be attributed to the remaining AIP Amounts of those Non-Defaulting Joint Rates Service Clearing Members which are Non-Bidders in the Auction. Auction Losses will be attributed to the remaining AIP Amount of each such Non-Defaulting Joint Rates Service Clearing Member pursuant to this sub-paragraph (i) *pro rata* according to the proportion that such Non-Defaulting Joint Rates Service Clearing Member's remaining AIP Amount bears to the total of the remaining AIP Amounts of all Non-Defaulting Joint Rates Service Clearing Members which are Non-Bidders in the Auction;

(ii) if and to the extent there are Auction Losses outstanding after the attribution process in sub-paragraph 2.7(b)(i) above, those Auction Losses will be attributed to the remaining AIP Amounts of the Remaining Short Bidders for the Basis Portfolio in accordance with this sub-paragraph (ii). Where:

(A) the Loss Portion applicable to each Remaining Short Bidder is less than or equal to its remaining AIP Amount, then the Clearing House will, in respect of each Remaining Short Bidder, attribute Auction Losses equal to the Loss Portion applicable to the Remaining Short Bidder to its remaining AIP Amount; or

(B) the Loss Portion applicable to one or more Remaining Short Bidders is greater than its remaining AIP Amount, then the Clearing House will attribute Auction Losses to all of the remaining AIP Amounts of such Remaining Short Bidders only (so that they cease to be Remaining Short Bidders for the purposes of this Rule 2.8(b)(ii) and the Auction) and will repeat the loss attribution process in this Rule 2.8(b)(ii) for any outstanding Auction Losses until the Auction Losses are fully met or the remaining AIP Amounts of all Remaining Short Bidders for the Basis Portfolio are fully attributed; and

(iii) if and to the extent there are Auction Losses outstanding after the attribution process in sub-paragraph 2.7(b)(ii) above, those Auction Losses will be attributed to the remaining AIP Amount of the Non-Defaulting Joint Rates Service Clearing Member who submitted the winning bid in the Auction, together with (where applicable) the remaining AIP Amount 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 remaining AIP Amount of each such Non-Defaulting Joint Rates Service Clearing Member pursuant to this subparagraph (iii) *pro rata* according to the proportion that such Non-Defaulting Joint Rates Service Clearing Member's remaining AIP Amount bears to the total of the remaining AIP Amounts of: (A) the Joint Rates Service Clearing Member which submitted the winning bid in the Auction; (B) any Joint Rates Service Clearing Members which submitted an Equal Bid to such winning bid in the Auction; and (C) any Joint Rates Service Clearing Member which were Out Bidders in the Auction.

(c) If and to the extent there are Auction Losses outstanding following the attribution process in Rule 2.8(b) of this Annex, those Auction Losses will be attributed to the remaining SwapClear Funded Contribution of each Non-Defaulting SCM *pro rata* according to the proportion that the remaining SwapClear Funded Contribution of such Non-Defaulting SCM bears to the total of the remaining SwapClear Funded Contributions of all Non-Defaulting SCMs.

(d) If and to the extent there are Auction Losses outstanding following the attribution process in Rule 2.8(c) of this Annex, those Auction Losses will be attributed to the remaining Listed Interest Rates Funded Contribution of each Non-Defaulting Joint Rates Service Clearing Members *pro rata* according to the proportion that the remaining Listed Interest Rates Funded Contribution of such Non-Defaulting Joint Rates Service Clearing Member bears to the total remaining Listed Interest Rates Funded Contributions of all Non-Defaulting Joint Rates Service Clearing Members.

(e) If and to the extent there are Auction Losses outstanding following the attribution process in Rule 2.8(d) of this Annex, those Auction Losses will be attributed to the remaining Listed Interest Rates Funded Contribution of each Non-Defaulting Listed Interest Rates-Only Clearing Member *pro rata* according to the proportion that the remaining Listed Interest Rates Funded Contribution of such Non-Defaulting Listed Interest Rates-Only Clearing Member bears to the total remaining Listed Interest Rates Funded Contributions of all Non-Defaulting Listed Interest Rates-Only Clearing Members.

(f) If and to the extent there are Auction Losses outstanding following the attribution process in Rule 2.8(e) of this Annex, the remaining SwapClear Unfunded Contributions that are included in the AIP relating to the Basis Portfolio will be used in the following order:

(i) the Auction Losses will be attributed to the remaining AIP Amounts of those Non-Defaulting Joint Rates Service Clearing Members which are Non-Bidders in the Auction. Auction Losses will be attributed to the remaining AIP Amount of each such Non-Defaulting Joint Rates Service Clearing Member pursuant to this sub-paragraph (i) *pro rata* according to the proportion that such Non-Defaulting Joint Rates Service Clearing Member's remaining AIP Amount bears to the total of the remaining AIP Amounts of all Non-Defaulting Joint Rates Service Clearing Members which are Non-Bidders in the Auction;

(ii) if and to the extent there are Auction Losses outstanding after the attribution process referred to in sub-paragraph (i) above, those Auction Losses will be attributed to the remaining AIP Amounts of the Remaining Short Bidders for the Basis Portfolio in accordance with this sub-paragraph (ii). Where:

(A) the Loss Portion applicable to each Remaining Short Bidder is less than or equal to its remaining AIP Amount, then the Clearing House will, in respect of each Remaining Short Bidder, attribute Auction Losses equal to the Loss Portion applicable to the Remaining Short Bidder to its remaining AIP Amount; or

(B) the Loss Portion applicable to one or more Remaining Short Bidders is greater than its remaining AIP Amount, then the Clearing House will attribute Auction Losses to all of the remaining AIP Amounts of such Remaining Short Bidders only (so that they cease to be Remaining Short Bidders for the purposes of this Rule 2.8(f)(ii) and the Auction) and will repeat the loss attribution process in this Rule 2.8(f)(ii) for any outstanding Auction Losses until the Auction Losses are fully met or the remaining AIP Amounts of all Remaining Short Bidders for the Basis Portfolio are fully attributed; and

(iii) if and to the extent there are Auction Losses outstanding after the attribution process referred to in sub-paragraph (ii) above, those Auction Losses will be attributed to the remaining AIP Amounts of the Non-

Defaulting Joint Rates Service Clearing Members who submitted the winning bid, together with (where applicable) the remaining AIP Amount 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 remaining AIP Amount of each such Non-Defaulting Joint Rates Service Clearing Member pursuant to this sub-paragraph (iii) *pro rata* according to the proportion that such Non-Defaulting Joint Rates Service Clearing Member's remaining AIP Amount bears to the total of the remaining AIP Amounts of: (A) the Joint Rates Service Clearing Member which submitted the winning bid in the Auction; (B) any Joint Rates Service Clearing Members which submitted an Equal Bid to such winning bid in the Auction; and (C) any Joint Rates Service Clearing Members which were Out Bidders in the Auction.

(g) If and to the extent there are Auction Losses outstanding following the attribution process referred to in Rule 2.8(f) of this Annex, those Auction Losses will be attributed to the remaining SwapClear Unfunded Contributions of each Non-Defaulting SCM *pro rata* according to the proportion that the remaining SwapClear Unfunded Contributions of such Non-Defaulting SCM bear to the total of the remaining SwapClear Unfunded Contributions of all Non-Defaulting SCMs.

(h) If and to the extent there are Auction Losses outstanding following the attribution process referred to in Rule 2.8(g) of this Annex, those Auction Losses will be attributed to the remaining Listed Interest Rates Unfunded Contributions of each Non-Defaulting Joint Rates Service Clearing Member *pro rata* according to the proportion that the remaining Listed Interest Rates Unfunded Contributions of such Non-Defaulting Joint Rates Service Clearing Member bear to the total remaining Listed Interest Rates Unfunded Contributions of all 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 2.8(h) of this Annex, those Auction Losses will be attributed to the remaining Listed Interest Rates Unfunded Contributions of each Non-Defaulting Listed Interest Rates-Only Clearing Member *pro rata* according to proportion that remaining Listed Interest Rates Unfunded Contributions of such Non-Defaulting Listed Interest Rates-Only Clearing Member bear to the total remaining Listed Interest Rates Unfunded Contributions of all Non-Defaulting Listed Interest Rates-Only Clearing Members.

2.9 ***Exchange Closed-Out Contracts***

(j) Exchange Losses relating to a Defaulting Listed Interest Rates-Only Clearing Member will be met using the available resources as set out in Rule 15 of the Default Rules. Where the Clearing House determines there are insufficient resources under Rules 15(a) to 15(d) of the Default Rules (inclusive) to meet such losses, they will be met in the following order and proportions:

(i) first, by recourse to the Listed Interest Rates Funded Contribution of each Non-Defaulting Listed Interest Rates Clearing Member attributed *pro rata* according to the proportion that the Listed Interest Rates Funded Contribution of such Non-Defaulting Listed Interest Rates Clearing Member bears to the total of the Listed Interest Rates Funded Contributions of all Non-Defaulting Listed Interest Rates Clearing Members;

(ii) second, by recourse to the SwapClear Funded Contributions of each Non-Defaulting SCM attributed *pro rata* according to the proportion that the SwapClear Funded Contribution of such Non-Defaulting SCM bears to the total of the SwapClear Funded Contributions of all Non-Defaulting SCMs;

(iii) third, by recourse to the Listed Interest Rates Unfunded Contributions of each Non-Defaulting Listed Interest Rates Clearing Member attributed *pro rata* according to the proportion that the Listed Interest Rates Unfunded Contribution of such Non-Defaulting Listed Interest Rates Clearing Member bears to the total of the Listed Interest Rates Unfunded Contributions of all Non-Defaulting Listed Interest Rates Clearing Members; and

(iv) fourth, by recourse to the SwapClear Unfunded Contributions of each Non-Defaulting SCM attributed *pro rata* according to the proportion that the SwapClear Unfunded Contributions of such Non-Defaulting SCM bear to the total of the SwapClear Unfunded Contributions of all Non-Defaulting SCMs.

(k) Exchange Losses relating to a Defaulting Joint Rates Service Clearing will be met using the available resources as set out in Rule 15 of the Default Rules. Where the Clearing House determines there are insufficient resources under Rules 15(a) to 15(d) of the Default Rules (inclusive) to meet such losses, they will be met in the following order and proportions:

(i) first, recourse to the remaining Listed Interest Rates Funded Contributions of each Non-Defaulting Joint Rates Service Clearing Member attributed *pro rata* according to the proportion that the remaining Listed Interest Rates Funded Contribution of such Non-Defaulting Joint Rates Service Clearing Member bears to the total of the remaining Listed Interest Rates Funded Contributions of all Non-Defaulting Joint Rates Service Clearing Members;

(ii) second, by recourse to the remaining Listed Interest Rates Funded Contribution of each Non-Defaulting Listed Interest -Only Clearing Member attributed *pro rata* according to the proportion that the remaining Listed Interest Rates Funded Contribution of such Non-Defaulting Listed Interest Rates-Only Clearing Member bears to the total of the remaining Listed Interest Rates Funded Contributions of all Non-Defaulting Listed Interest Rates-Only Clearing Members;

(iii) third, by recourse to the remaining SwapClear Funded Contributions of each Non-Defaulting SCM attributed *pro rata* according to the proportion that the remaining SwapClear Funded Contribution of such Non-Defaulting SCM bears to the total of the remaining SwapClear Funded Contributions of all Non-Defaulting SCMs;

(iv) fourth, by recourse to the remaining Listed Interest Rates Unfunded Contributions of each Non-Defaulting Joint Rates Service Clearing attributed *pro rata* according to the proportion that the remaining Listed Interest Rates Unfunded Contributions of such Non-Defaulting Joint Rates Service Clearing Member bears to the total of the remaining Listed Interest Rates Unfunded Contributions of all Non-Defaulting Joint Rates Service Clearing Members;

(v) fifth, by recourse to the remaining Listed Interest Rates Unfunded Contributions of each Non-Defaulting on Listed Interest Rates-Only Clearing Member attributed *pro rata* according to the proportion that the remaining' Listed Interest Rates Unfunded Contribution of such Non-Defaulting Listed Interest Rates-Only Clearing Member bears to the total of the remaining Listed Interest Rates Unfunded Contributions of all Non-Defaulting Listed Interest Rates-Only Clearing Members; and

(vi) sixth, by recourse to the remaining SwapClear Unfunded Contributions of each Non-Defaulting SCM attributed *pro rata* according to the proportion that the remaining SwapClear Unfunded Contribution of such Non-Defaulting SCM bears to the total of the remaining SwapClear Unfunded Contributions of all Non-Defaulting SCMs.

2.10 ***Gains***

(l) If, at any point during the Rates Service DMP, but before the implementation of the Rates Service Loss Distribution Process, the Clearing House determines that gains have accrued in respect of any OTC Auction Portfolio(s) and/or Basis Portfolio(s), it will reimburse each Non-Defaulter (to the extent that Market Losses, Exchange Losses or Auction Losses have been attributed to it pursuant to this Annex) by the amount of such gains in the following order and proportions:

(A) The Clearing House will reimburse each Non-Defaulter for such gains *pro rata* according to the proportion that the Market Losses and Exchange Losses attributed to such Non-Defaulter's Rates Service Unfunded Contributions bear to the total Market Losses and Exchange Losses attributed to all Non-Defaulters' Rates Service Unfunded Contributions, up to a maximum of the Market Losses and Exchange Losses attributed to such Non-Defaulter's Rates Service Unfunded Contributions.

(B) If and to the extent there are gains remaining to be reimbursed following the process described in Rule 2.10(a)(i) of this Annex, the Clearing House will reimburse each Non-Defaulter for such gains *pro rata* according to the proportion that the Auction Losses attributed to such

Non-Defaulter's SwapClear Unfunded Contributions bear to the total Auction Losses attributed to all Non-Defaulters' SwapClear Unfunded Contributions, up to a maximum of the Auction Losses attributed to such Non-Defaulter's SwapClear Unfunded Contributions.

(C) If and to the extent there are gains remaining to be reimbursed following the process described in Rule 2.10(a)(ii) of this Annex, the Clearing House will reimburse each Non-Defaulter for such gains *pro rata* according to the proportion that the Market Losses and Exchange Losses atributed to such Non-Defaulter's Rates Service Funded Contribution bear to the total Market Losses and Exchange Losses attributed to all Non-Defaulters' Rates Service Funded Contributions, up to a maximum of the Market Losses and Exchange Losses attributed to such Non-Defaulter's Rates Service Funded Contribution.

(D) If and to the extent there are gains remaining to be reimbursed following the process described in Rule 2.10(a)(iii) of this Annex, the Clearing House will reimburse each Non-Defaulter for such gains *pro rata* according to the proportion that the Auction Losses attributed to such Non-Defaulter's SwapClear Funded Contribution bear to the total Auction Losses attributed to all Non-Defaulters' SwapClear Funded Contributions, up to a maximum of the Auction Losses attributed to such Non-Defaulter's SwapClear Funded Contribution.

(b) The Clearing House's calculation of the amount by which a gain that is reimbursed to a Non-Defaulter pursuant to Rule 2.10(a)(i), (ii), (iii) and/or (iv) of this Annex increases such Non-Defaulter's SwapClear Contributions and/or Listed Interest Rates Contributions is determinative and final and, after such reimbursement and increase, the totality of such Non-Defaulter's Rates Service Contributions will be subject to subsequent attribution of losses (if any) pursuant to this Annex.

(c) Rule CS8 of the Rates Service Default Fund Supplement will not apply to the gains reimbursed to this Rule 2.10.

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

3.1 The Rates Service DMP for any Rates Service Contract in respect of Rates Service 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 Contract in respect of Rates Service 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 DMP for any FCM Rates Service Contract forming part of a Defaulter's FCM Rates Service 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 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 Rates Service DMP. 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 and any amounts paid or received in respect of settlement in relation to the 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 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 individual Non-Defaulting SCMs as a result of the operation of the Rates Service DMP against sums owed by 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 of this Annex has not yet occurred.

5. Information Regarding the Rates Service DMP

5.1 Whenever the 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 DMG, provide such ongoing information to SCMs as the Clearing House deems reasonably appropriate in respect of the progress of the Rates Service DMP.

5.2 Nothing in this Rule 5 shall require the Clearing House to disclose information in respect of the Rates Service 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 2.6 to 2.9 (inclusive) 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 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 DMP, in consultation with the Rates Service 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 percent of all SCMs and 50 percent of all Listed Interest Rates 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 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 DMG in timely fashion.

8.3 The timetable for implementation of the stages of the Rates Service 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 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 DMG, deems it appropriate to do so in the circumstances of the Default.

9. Role and Constitution of Rates Service DMG

9.1 The Rates Service DMG shall meet at regular intervals in order to:

(a) review the market risk of SCMs and Clearing Clients to ensure risk profiles and margin coverage are compatible with default management principles;

(b) review market liquidity and associated margin add-ons to ensure risk concentrations and positions are adequately covered;

(c) provide advice on valuation and margin techniques and models;

(d) review market developments and changes in trading instruments and practices;

(e) review new product proposals and existing product extensions, particularly focusing on pricing and margin computation and surrounding liquidity and market issues;

(f) review the Rates Service DMP, including the terms of reference thereof, together with any Guidance issued in respect thereof, to ensure that appropriate systems, reports and resources are available to manage an SCM default, and consider appropriate supplements or amendments to the Rates Service DMP and/or Guidance in order to improve the procedures in place;

(g) review hedging strategies, auction processes, including portfolio splitting and loss allocation, and timescales for hedge and auction processes; and

(h) consider any other business relevant to the Rates Service DMP which any member of the Rates Service DMG from time to time sees fit to raise at such meetings.

The members of the Rates Service DMG shall also meet within one hour, or as soon as reasonably practicable, 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 DMP as contemplated under the Rulebook. 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 any relevant Clearing Clients; (iii) execution of hedging strategy, the management of short term risk and likely market movement resulting from the given Default, including resulting from execution of hedging strategy; (iv)determination of Clearing Client portability (as applicable); and (v) the splitting of Portfolios and the disposal of OTC Auction Portfolios in accordance with the 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 DMG.

9.2 The Rates Service 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 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 Head of Business Risk of the Rates Service (or his or her nominee), who shall act as chairman;

(b) representatives of at least five SCMs, being senior executives with appropriate skills and expertise to cover all products cleared in the Rates Service;

(c) at least one director (staff member of director grade) of the Clearing House's or Rates Service's Risk Management department; and

such other individuals as the Rates Service DMG considers appropriate from time to time in relation to individual meetings.

In the event the Rates Service DMG is unable to convene with the full set of individuals set forth above due to extreme or improbable circumstances, upon approval from the Chief Executive Officer of the Clearing House or their delegate, the Rates Service DMG may be constituted with a subset of the above described individuals

9.3 For the purpose of Rates Service DMG meetings convened to deal with a specific Defaulting SCM, the Clearing House may, after consultation with the Rates Service DMG, invite the Defaulting SCM to nominate one or more representatives to join the Rates Service DMG to assist it in carrying out its functions in the Rates Service DMP for that Defaulting SCM, and 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 DMG.

9.4 In establishing the Rates Service 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 and 4 of this Annex) it will, as far as practicable, review the membership of the Rates Service DMG on a regular basis and may rotate membership of the Rates Service DMG 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 DMG. The Clearing House shall agree with the SCM the identity of such representative and shall have the right to request a substitute where it believes the SCM's nominated representative does not have the requisite skills or expertise.

9.5 Each SCM who makes available a representative to serve on the Rates Service 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 DMG including attending meetings, and considering and advising the Clearing House upon aspects of the Rates Service DMP. The SCM shall ensure that the

representative's other work commitments do not affect their availability for this purpose;

(b) to ensure that such representative meets the applicable requirements set forth in the terms of reference for the Rates Service DMG;

(c) to take all steps to respect the confidential capacity in which such representative receives information through the Rates Service DMG and to establish adequate procedures to prevent the disclosure or use for any commercial purpose outside the scope of the Rates Service DMP of any such confidential information by the SCM or its representative. Such procedures shall normally include, without limitation, the establishment of information barriers within the SCM;

(d) to be bound by and to ensure that it and any of its executives or directors serving on the Rates Service DMG complies with the requirements contained in the Procedures or the FCM Procedures (as the case may be); and

(e) in the event the representative is unable to fulfil the requirements set forth in this Rule 9.5 and the terms of reference for the Rates Service DMG, including where there is a change of circumstance of the representative such that there is an impact to the representative's ability to fulfil his or her role on the Rates Service DMG, the SCM shall immediately notify the Clearing House.

9.6 Each SCM shall accept that:

(a) representatives of SCMs serving on the Rates Service DMG are doing so in order to assist the Clearing House in ensuring the on-going integrity of the Rates Service in the interests of Non-Defaulting SCMs; and

(b) representatives of SCMs serving on the Rates Service 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 Default Management Process, **provided**, **however**, **that** nothing in this Rule 9.6(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.

9.7 SCMs are required to attend at least four (4) of the six (6) Rates Service DMG bimonthly meetings and both fire-drill exercises, where required. In the event an SCM does not comply with the foregoing attendance requirements, the Clearing House reserves the right to replace any member of the Rates Service DMG.

9.8 The Clearing House agrees that, in exercising its rights and obligations in consulting with the Rates Service DMG pursuant to this Agreement, it will use all reasonable commercial endeavours to agree a common position with the Rates Service 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 3
FOREXCLEAR DMP ANNEX

1. Scope and interpretation

1.1 The Clearing House has established a ForexClear DMP which will apply to ForexClear Contracts following the Default of a ForexClear 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. The fundamental principles of the ForexClear 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 ForexClear DMP will be undertaken on the basis of the principles contained herein.

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

1.3 The initial margining process in respect of ForexClear Contracts will be such so as to ensure that the acceptance of bids for the Auction Portfolio of a Defaulting FXCCM will recognise risk premiums.

1.4 In this Annex:

"**Accepted**" means, in respect of a bid in an Auction, that the Clearing House has accepted such bid as one that it may select as the winning bid for such Auction and "**Accept**" and "**Accepts**" shall have a corresponding meaning;

"**AIP**" has the meaning given in Rule 2.5 of this Annex;

"**AIP Amount**" means, in respect of a Non-Defaulting FXCCM and the Auction Portfolio(s) in a specific Auction Portfolio Currency Pair and Auction Portfolio Category, the product of (a) such Non-Defaulting FXCCM's AIP Ratio applicable to the Auction Portfolio Currency Pair and Auction Portfolio Category of such Auction Portfolio(s), and (b) the total of its (i) remaining ForexClear Funded Contribution, and (ii) remaining ForexClear Unfunded Contributions;

"**AIP Ratio**" means, in respect of a Non-Defaulting FXCCM and the Auction Portfolio(s) in a specific Auction Portfolio Currency Pair and Auction Portfolio Category, the ratio that (a) the Undiversified Initial Margin Amount for the ForexClear Contracts of such Non-Defaulting FXCCM that are registered in its name at the time of the relevant Default and are in such Auction Portfolio Currency Pair and Auction Portfolio Category bears to, (b) the aggregate Undiversified Initial Margin Amount for all the ForexClear Contracts that are registered in the name of such Non-Defaulting FXCCM at the time of the relevant Default;

"**Auction**" means the process of bidding by Non-Defaulting FXCCMs for an Auction Portfolio as prescribed by the Clearing House following consultation with the ForexClear DMG from time to time in accordance with Rule 2.3 of this Annex;

"**Auction Losses**" means, in respect of an Auction Portfolio, all losses arising from:

(a) the auction and sale of such Auction Portfolio; and

(b) a change in the net present value of the ForexClear Contracts within such Auction Portfolio during the Auction Losses Calculation Period;

"**Auction Losses Calculation Period**" means, in respect of an Auction Portfolio and the business day on which the Clearing House auctions and sells such portfolio, the period:

(d) commencing immediately after the end of day margin and settlement call of the Clearing House for the previous business day; and

(e) ending at the point at which the Clearing House sells such portfolio;

"**Auction Portfolio**" means: (a) a Portfolio; or (b) a group of ForexClear Contracts resulting from the splitting of a Portfolio pursuant to Rule 2.1 of this Annex, including in both such cases any connected Hedging ForexClear Contracts concluded by the Clearing House through Risk Neutralisation;

"**Auction Portfolio Category**" means, in relation to an Auction Portfolio, the ForexClear Contract Category to which the ForexClear Contracts in the Auction Portfolio belong.

"**Auction Portfolio Currency Pair**" means in relation to an Auction Portfolio, the Currency Pair in which the ForexClear Contracts in the Auction Portfolio are denominated;

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

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

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

"**Currency Pair**" has the meaning set out at Part A of the Schedule to the ForexClear Regulations;

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

"**Difference**" means, in respect of an Auction and a Remaining Short Bidder who bid in the Auction, the difference between (a) the winning bid for such Auction, and (b) the bid of such Remaining Short Bidder in the Auction;

"**Equal Bid**" means an Accepted bid in an Auction, which is equal to another Accepted bid in the same Auction;

"**Expected Auction Participant**" means, in respect of an Auction Portfolio, any Non-Defaulting FXCCM who, at the time of the relevant Default, has at least one Resembling Contract registered in its name;

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

"**FCM ForexClear House Business**" means the FCM ForexClear Contracts entered into by an FCM Clearing Member for its Proprietary Account;

"**ForexClear Contract Category**" means a category of ForexClear Contracts, being either the ForexClear Non-Deliverable Contract Category or the ForexClear Deliverable Contract Category;

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

"**ForexClear Deliverable Clearing Member**" means an FXCCM who is designated by the Clearing House as a ForexClear Clearing Member eligible to have registered in its name ForexClear Deliverable Contracts;

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

"**ForexClear Deliverable-Only Clearing Member**" means a ForexClear Clearing Member who is not also a ForexClear Non-Deliverable Clearing Member;

"**ForexClear DMG**" means the advisory default management group established by the Clearing House pursuant to the terms of this Annex;

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

"**ForexClear Funded Contribution**" means the ForexClear Contribution of a ForexClear Clearing Member, excluding any ForexClear Unfunded Contribution in respect of the ForexClear Clearing Member;

"**ForexClear Non-Deliverable Clearing Member**" means an FXCCM who is designated by the Clearing House as a ForexClear Clearing Member eligible to have registered in its name ForexClear Non-Deliverable Contracts;

"**ForexClear Non-Deliverable Contract Category**" means the category of ForexClear Contracts which comprises ForexClear Non-Deliverable Contracts registered with the Clearing House;

"**ForexClear Non-Deliverable-Only Clearing Member**" means a ForexClear Non-Deliverable Clearing Member who is not also a ForexClear Deliverable Clearing Member;

"**ForexClear Unfunded Contribution**" has the meaning assigned to "Unfunded Contribution" in Rule F8 of the ForexClear Default Fund Supplement;

"**Guidance**" means guidance, in the form of one or more written notices, issued from time to time by or on behalf of the Clearing House to FXCCMs, supplementing the detail or conduct of any aspect of the ForexClear DMP;

"**Hedging ForexClear Contract**" has the meaning given in Rule 2.2(b)(ii)(B) of this Annex;

"**Hedging ForexClear Service Clearing Member**" has the meaning given in Rule 2.2(b)(i) of this Annex;

"**Loss Portion**" means, in respect of an Auction of an Auction Portfolio, a Remaining Short Bidder who bid in such Auction, and

(a) Rule 2.6(b)(ii) of this Annex, the amount equal to the product of:

(i) the outstanding Auction Losses to be attributed to Remaining Short Bidders under Rule 2.6(b)(ii) of this Annex, and

(ii) the proportion that the Difference in respect of such Remaining Short Bidder and Auction bears to the total Differences in respect of all Remaining Short Bidders who bid in such Auction, and

(b) Rule 2.6(d)(ii) of this Annex, the amount equal to the product of:

(iii) the outstanding Auction Losses to be attributed to Remaining Short Bidders under Rule 2.6(d)(ii) of this Annex, and

(iv) the proportion that the Difference in respect of such Remaining Short Bidder and Auction bears to the total Differences in respect of all Remaining Short Bidders who bid in such Auction;

"**Market Losses**" means any losses in respect of the implementation of the ForexClear DMP, including losses arising from the execution of hedging ForexClear Transactions for the purpose of Risk Neutralisation, but excluding Auction Losses;

"**Non-Bidder**" means, in respect of an Auction, an FXCCM, which (a) did not bid in such Auction, or (b) bid in such Auction, but whose bid was not Accepted;

"**Non-Defaulter**" means an FXCCM that is not a Defaulter;

"**Non-Defaulters' Contributions**" means the ForexClear Contributions made by Non-Defaulting FXCCMs to the ForexClear Default Fund;

"**Out Bid**" means a bid in an Auction, which is Accepted and higher than the winning bid in such Auction;

"**Out Bidder**" means, in respect of an Auction, a Non-Defaulting FXCCM, which submitted an Out Bid in such Auction;

"**Portfolio**" means, in respect of each Currency Pair, the ForexClear Contracts in such Currency Pair registered in the name of a Defaulting FXCCM in respect of House Clearing Business or the ForexClear Contracts in such Currency Pair registered in the name of a Defaulting FXCCM in respect of Client Clearing Business (or, in the case of an FCM Clearing Member that is a Defaulter, the FCM ForexClear Contracts in such Currency Pair registered in respect of its FCM ForexClear Client Business) and, in both such cases includes, where relevant, any Hedging ForexClear Contracts connected to the relevant ForexClear Contracts concluded by the Clearing House through Risk Neutralisation. For the avoidance of doubt, a Portfolio containing ForexClear Contracts relating to the Client Clearing Business or FCM ForexClear Client Business of a Defaulting FXCCM will only contain ForexClear Contracts relating to Client Clearing Business or FCM ForexClear Client Business, as appropriate. The Clearing House shall not be entitled to combine client and house positions in a single Portfolio;

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

"**Remaining Short Bidder**" means, in respect of an Auction of an Auction Portfolio and

(c) Rule 2.6(b)(ii) of this Annex, a Short Bidder in such Auction whose remaining AIP Amount, which is in the form of ForexClear Funded Contributions and forms part of the AIP relating to such Auction Portfolio, is greater than zero, and

(d) Rule 2.6(d)(ii) of this Annex, a Short Bidder in such Auction whose remaining AIP Amount, which is in the form of ForexClear Unfunded Contributions and forms part of the AIP relating to such Auction Portfolio, is greater than zero;

"**Resembling Contract**" means, in respect of the ForexClear Contracts in an Auction Portfolio, a ForexClear Contract registered in the name of a Non-Defaulting FXCCM that (a) is denominated in the same currencies as the Auction Portfolio Currency Pair and (b) belongs to the ForexClear Contract Category which corresponds to the Auction Portfolio Category of such Auction Portfolio;

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

"**Short Bidder**" means, in respect of an Auction of an Auction Portfolio, a Non-Defaulting FXCCM that (a) is an Expected Auction Participant for such Auction Portfolio, and (b) submitted a bid, which is Accepted, but lower than the winning bid, in such Auction; and

"**Undiversified Initial Margin Amount**" means, in respect of the ForexClear Contracts in a specific Currency Pair and ForexClear Contract Category, the required initial margin amount for such ForexClear Contracts, as determined by the Clearing House.

1.5 Terms used, and not defined, in this Annex shall have the meanings given to them in the Regulations or FCM Regulations.

2. ForexClear DMP

The ForexClear DMP in respect of: (a) ForexClear Clearing House Business; (b) Relevant Auction Contracts in respect of ForexClear Client Clearing Business; (c) FCM ForexClear House Business; and (d) FCM ForexClear Client Business, shall involve the stages described in this Rule 2.

Resources will be allocated based on the order and proportions described in Rules 2.4 to 2.6 of this Annex. Allocation of resources pursuant to a process or the order in which processes are carried out may reduce the resources which are available to meet the losses in respect of any subsequent process and, consequently, impact the allocation of losses amongst Non-Defaulters. For the avoidance of doubt, the Clearing House may in its sole and absolute discretion determine the order in which it constructs Auction Portfolios and auctions Auction Portfolios.

2.1 ***Portfolio Splitting***

The Clearing House, in consultation with and with the assistance of the ForexClear DMG, shall determine the composition of each Auction Portfolio and shall have the discretion to divide a Portfolio into two or more individual Auction Portfolios 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 Auction Portfolios with the intention of ensuring a ForexClear 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 FXCCM (regardless of the number of ForexClear Contracts that such Portfolio contains); or (b) any particular requirements as to the composition of an individual Auction Portfolio (including in terms of combining or separating ForexClear Contracts belonging to different ForexClear Contract Categories), except that, subject to overriding risk procedures it is broadly anticipated that the parameters of any Auction Portfolio shall not be materially different to those set out in the Clearing House's fire drill.

2.2 ***Risk Neutralisation***

The Clearing House will, in consultation with and with the assistance of the ForexClear DMG, reduce the market risk and/or settlement risk associated with a Defaulting FXCCM's obligations to the Clearing House so far as is reasonably practicable by hedging the Clearing House's exposure in open ForexClear Contracts to which the Defaulting FXCCM is party, where such hedging may be achieved, without limitation, by:

(a) the splitting of Portfolios pursuant to Rule 2.1; and/or

(b) the Clearing House, for the purpose of hedging:

(i) executing one or more new ForexClear Transactions and/or new FCM ForexClear Transactions (as applicable) with Non-Defaulting FXCCMs (each, a "**Hedging ForexClear Service Clearing Member**") on the basis of a separate agreement between the Clearing House and the relevant Hedging ForexClear Service Clearing Member; and

(ii) clearing each such ForexClear Transaction and/or FCM ForexClear Transaction (as applicable) in accordance with, and subject to, the Rulebook and/or FCM Rulebook (as applicable), such that:

(A) the Hedging ForexClear Service Clearing Member's side of such transaction is registered as a ForexClear Contract between the Clearing House and the Hedging ForexClear Service Clearing Member; and

(B) the Clearing House's side of such transaction is registered as a ForexClear Contract between the Defaulting ForexClear Service Clearing Member and the Clearing House (pursuant to the Clearing House's rights under Default Rule 6(a)) (any such ForexClear Contract, a "**Hedging ForexClear Contract**").

The Clearing House may transfer one or more Hedging ForexClear Service Contracts from one account to any other account in accordance with Default Rule 6(g) (including any Hedged Account (in the circumstances provided for in the Rulebook)).

The Clearing House may undertake Risk Neutralisation before, as part of, concurrently with and/or subsequent to the splitting of a Portfolio pursuant to Rule 2.1. Where a Hedging ForexClear Service Clearing Member executes a hedging ForexClear Transaction or FCM ForexClear Transaction (as applicable) with the Clearing House, it agrees to present such ForexClear Transaction or FCM ForexClear Transaction for clearing with the Clearing House in accordance with, and subject to, the Rulebook or FCM Rulebook (as applicable) and within the required timeframe under all Applicable Law (and, in any event, no later than the time that the ForexClear service closes on the day on which it executes such ForexClear Transaction or FCM ForexClear Transaction).

2.3 ***Auction***

(a) Following the completion of Risk Neutralisation, the Clearing House shall auction each Auction Portfolio to Non-Defaulting FXCCMs in order to:

(i) seek to re-establish with those Non-Defaulting FXCCMs the positions the Clearing House had with the Defaulting FXCCM under the relevant ForexClear Contracts; and

(ii) seek to determine the net value of those ForexClear 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 of the Default Rules or, as the case may be, the extent of any gains to the Clearing House.

The Clearing House, in consultation with the ForexClear DMG, shall prescribe such procedures (in addition to those set out in this Annex) 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 FXCCM of all details that may be reasonably required in relation to an Auction Portfolio before the relevant Auction.

(c) The auction process may take place over a number of days and Auctions of different Auction Portfolios may take place at different times.

(d) The relevant Non-Defaulting FXCCMs will submit bids to the Clearing House representatives on the ForexClear DMG, who will ensure that the identities of the bidders are not revealed to the FXCCM representatives on the ForexClear DMG. For the avoidance of doubt, a Non-Defaulting FXCCM is entitled to submit a bid on behalf of one or more affiliated Non-Defaulting FXCCMs. The ForexClear 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 ForexClear DMG, will have full discretion in deciding whether to Accept a particular bid in an Auction and in deciding which Accepted bid it will select as the winning bid.

(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 Auction Portfolio.

(g) As soon as practicable following the submission of bids in an Auction, if:

(i) one or more bid(s) is Accepted, the Clearing House will notify the Expected Auction Participants together with any other Non-Defaulting FXCCMs which participated in the Auction that one or more bid(s) is Accepted, and shall notify the FXCCM who submitted the winning bid that it is the winner of the Auction; and

(ii) no bid is Accepted, the Clearing House will notify all Non-Defaulting FXCCMs of the details of any further Auction.

(h) Each Non-Defaulting FXCCM agrees to use all reasonable efforts to make a bid in an Auction for an Auction Portfolio in respect of which it is an Expected Auction Participant.

2.4 ***Market Losses***

(e) Market Losses will be met using the available resources as set out in Rule 15 of the Default Rules. Where the Clearing House determines that there are insufficient resources under Rules 15(a) to 15(d) of the Default Rules (inclusive) to meet such losses, they will be attributed to Non-Defaulters' remaining ForexClear Contributions in the following order and proportions:

(i) Market Losses will be attributed to the remaining ForexClear Funded Contribution of each Non-Defaulter *pro rata* according to the proportion that the remaining ForexClear Funded Contribution of such Non Defaulter bears to the total of all such remaining ForexClear Funded Contributions; and

(ii) if and to the extent there are Market Losses outstanding after the attribution process in Rule 2.4(a)(i) of this Annex, those Market Losses will be attributed to the remaining ForexClear Unfunded Contributions of each Non-Defaulter *pro rata* according to the proportion that the remaining ForexClear Unfunded Contributions of such Non-Defaulter bear to the total of all such remaining ForexClear Unfunded Contributions.

(f) The Clearing House will attribute Market Losses (if any) pursuant to Rule 2.4(a) of this Annex on each business day during the implementation of the ForexClear DMP at the same time as its end of day margin and settlement call.

2.5 ***Auction Incentive Pools***

(a) The Clearing House will calculate an auction incentive pool (each, an "**AIP**") for the Auction Portfolio(s) in a specific Auction Portfolio Currency Pair and Auction Portfolio Category.

(b) The AIP for the Auction Portfolio(s) in a specific Auction Portfolio Currency Pair and Auction Portfolio Category will be the sum of the AIP Amounts for such Auction Portfolio(s).

(c) For the avoidance of doubt, an AIP and the AIP Amounts which comprise such AIP will change as the remaining ForexClear Funded Contributions and remaining ForexClear Unfunded Contributions change throughout the implementation of the ForexClear DMP.

2.6 ***Auction Losses – Auction Portfolios***

(a) Auction Losses, in respect of an Auction Portfolio, will be met using available resources as set out in Rule 15 of the Default Rules. Where the Clearing House determines there are insufficient resources under Rules 15(a) to (d) of the Default Rules (inclusive) to meet such losses, they will be attributed to Non-Defaulters' remaining ForexClear Contributions in accordance with the loss attribution process described in Rules 2.6(b) to 2.6(e) in this Annex.

(b) In the case of an Auction of an Auction Portfolio, for which the Clearing House determines there are insufficient resources under Rule 15(a) to 15(d) of the Default Rules (inclusive) to meet the Auction Losses for such Auction, such losses will be met first by the Non-Defaulters' remaining ForexClear Funded Contributions that are included in the AIP relating to the Auction Portfolio in the following order and proportions:

(i) the Auction Losses will be attributed to the remaining AIP Amounts of those Non-Defaulting FXCCMs which are both Expected Auction

Participants, in respect of the Auction Portfolio, and Non-Bidders in the Auction. Auction Losses will be attributed to the remaining AIP Amount of each such Non-Defaulting FXCCM pursuant to this sub-paragraph (i) *pro rata* according to the proportion that such FXCCM's remaining AIP Amount bears to the total of the remaining AIP Amounts of all Non-Defaulting FXCCMs which are both Expected Auction Participants, in respect of the Auction Portfolio, and Non-Bidders in the Auction;

(ii) if and to the extent there are Auction Losses outstanding after the attribution process in subparagraph (i) above, those Auction Losses will be attributed to the remaining AIP Amounts of the Remaining Short Bidders for the Auction Portfolio in accordance with this sub-paragraph (ii). Where:

(A) the Loss Portion applicable to each Remaining Short Bidder is less than or equal to its remaining AIP Amount, then the Clearing House will, in respect of each Remaining Short Bidder, attribute Auction Losses equal to the Loss Portion applicable to the Remaining Short Bidder to its remaining AIP Amount; or

(B) the Loss Portion applicable to one or more Remaining Short Bidders is greater than its remaining AIP Amount, then the Clearing House will attribute Auction Losses to all of the remaining AIP Amounts of such Remaining Short Bidders only (so that they cease to be Remaining Short Bidders for the purposes of this Rule 2.6(b)(ii) and the Auction) and will repeat the loss attribution process in this Rule 2.6(b)(ii) for any outstanding Auction Losses until the Auction Losses are fully met or the remaining AIP Amounts of all Remaining Short Bidders for the Auction Portfolio are fully attributed; and

(iii) if and to the extent there are Auction Losses outstanding after the attribution process in sub-paragraph (ii) above, those Auction Losses will be attributed to the remaining AIP Amount of the Non-Defaulting FXCCM who submitted the winning bid in the Auction, together with (where applicable) the remaining AIP Amount of any Non-Defaulting FXCCM 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 remaining AIP Amount of each such FXCCM pursuant to this sub-paragraph (iii) *pro rata* according to the proportion that such FXCCM's remaining AIP Amount bears to the total of the remaining AIP Amounts of: (A) the FXCCM which submitted the winning bid in the Auction; (B) any FXCCMs which submitted an Equal Bid to such winning bid in the Auction; and (C) any FXCCMs which were Out Bidders in the Auction.

(c) If and to the extent that there are Auction Losses outstanding following the attribution process in Rule 2.6(b) of this Annex, then:

(i) where the Auction Portfolio Category of the Auction Portfolio is the ForexClear Non-Deliverable Contract Category, those Auction Losses will be attributed:

(A) first, to the remaining ForexClear Funded Contribution of each Non-Defaulting ForexClear Non-Deliverable Clearing Member *pro rata* according to the proportion that the remaining ForexClear Funded Contribution of such Non-Defaulting ForexClear Non-Deliverable Clearing Member bears to the total of the remaining ForexClear Funded Contributions of all Non-Defaulting ForexClear Non-Deliverable Clearing Members; and

(B) then, to the remaining ForexClear Funded Contribution of each Non-Defaulting ForexClear Deliverable-Only Clearing Member *pro rata* according to the proportion that the remaining ForexClear Funded Contribution of such Non-Defaulting ForexClear Deliverable-Only Clearing Member bears to the total of the remaining ForexClear Funded Contributions of all Non-Defaulting ForexClear Deliverable-Only Clearing Members; or

(ii) where the Auction Portfolio Category of the Auction Portfolio is the ForexClear Deliverable Contract Category, those Auction Losses will be attributed:

(A) first, to the remaining ForexClear Funded Contribution of each Non-Defaulting ForexClear Deliverable Clearing Member *pro rata* according to the proportion that the remaining ForexClear Funded Contribution of such Non-Defaulting ForexClear Deliverable Clearing Member bears to the total of the remaining ForexClear Funded Contributions of all Non-Defaulting ForexClear Deliverable Clearing Members; and

(B) then, to the remaining ForexClear Funded Contribution of each Non-Defaulting ForexClear Non-Deliverable-Only Clearing Member *pro rata* according to the proportion that the remaining ForexClear Funded Contribution of such Non-Defaulting ForexClear Non-Deliverable-Only Clearing Member bears to the total of the remaining ForexClear Funded Contributions of all Non-Defaulting ForexClear Non-Deliverable-Only Clearing Members.

(d) If and to the extent there are Auction Losses outstanding following the attribution process in Rule 2.6(c) of this Annex, the remaining ForexClear Unfunded Contributions that are included in the AIP relating to the Auction Portfolio will be used in the following order:

(i) the Auction Losses will be attributed to remaining AIP Amounts of those Non-Defaulting FXCCMs which are both Expected Auction Participants, in respect of the Auction Portfolio, and Non-Bidders in the relevant Auction. Auction Losses will be attributed to the remaining AIP Amount of each such Non-Defaulting FXCCM pursuant to this sub-

paragraph (iv) *pro rata* according to the proportion that such FXCCM's remaining AIP Amount bears to the total of the remaining AIP Amounts of all FXCCMs which are both Expected Auction Participants, in respect of the Auction Portfolio, and Non-Bidders in the Auction;

(ii) if and to the extent there are Auction Losses outstanding after the attribution process referred to in sub-paragraph (iv) above, those Auction Losses will be attributed to the remaining AIP Amounts of the Remaining Short Bidders for the Auction Portfolio in accordance with this sub-paragraph (ii). Where:

(A) the Loss Portion applicable to each Remaining Short Bidder is less than or equal to its remaining AIP Amount, then the Clearing House will, in respect of each Remaining Short Bidder, attribute Auction Losses equal to the Loss Portion applicable to the Remaining Short Bidder to its remaining AIP Amount; or

(B) the Loss Portion applicable to one or more Remaining Short Bidders is greater than its remaining AIP Amount, then the Clearing House will attribute Auction Losses to all of the remaining AIP Amounts of such Remaining Short Bidders only (so that they cease to be Remaining Short Bidders for the purposes of this Rule 2.6(d)(ii) and the Auction) and will repeat the loss attribution process in this Rule 2.6(d)(ii) for any outstanding Auction Losses until the Auction Losses are fully met or the remaining AIP Amounts of all Remaining Short Bidders for the Auction Portfolio are fully attributed; and

(iii) if and to the extent there are Auction Losses outstanding after the attribution process referred to in sub-paragraph (iv) above, those Auction Losses will be attributed to the remaining AIP Amounts of the Non-Defaulting FXCCM and who submitted the winning bid, together with (where applicable) the remaining AIP Amount of any Non-Defaulting FXCCM an Out 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 remaining AIP Amount of each such Non-Defaulting FXCCM pursuant to this sub-paragraph (b) *pro rata* according to the proportion that such FXCCM's remaining AIP Amount bears to the total of the remaining AIP Amounts of: (A) the FXCCM which submitted the winning bid in the Auction; (B) any FXCCMs which submitted an Equal Bid to such winning bid in the Auction; and (C) any FXCCMs which were Out Bidders in the Auction.

(e) If and to the extent there are Auction Losses outstanding following the attribution process referred to in Rule 2.6(d) of this Annex, then:

(i) where the Auction Portfolio Category of the Auction Portfolio is the ForexClear Non-Deliverable Contract Category, those Auction Losses will be attributed:

(A) first, to the remaining ForexClear Unfunded Contributions of each Non-Defaulting ForexClear Non-Deliverable Clearing Member *pro rata* according to the proportion that the remaining ForexClear Unfunded Contributions of such Non-Defaulting ForexClear Non-Deliverable Clearing Member bear to the total of the remaining ForexClear Unfunded Contributions of all Non-Defaulting ForexClear Non-Deliverable Clearing Members; and

(B) then, to the remaining ForexClear Unfunded Contributions of each Non-Defaulting ForexClear Deliverable-Only Clearing Member *pro rata* according to the proportion that the remaining ForexClear Unfunded Contributions of such Non-Defaulting ForexClear Deliverable-Only Clearing Member bear to the total of the remaining ForexClear Unfunded Contributions of all Non-Defaulting ForexClear Deliverable-Only Clearing Members; or

(ii) Where the Auction Portfolio Category of the Auction Portfolio is the ForexClear Deliverable Contract Category, those Auction Losses will be attributed:

(A) first, to the remaining ForexClear Unfunded Contributions of each Non-Defaulting ForexClear Deliverable Clearing Member *pro rata* according to the proportion that the remaining ForexClear Unfunded Contributions of such Non-Defaulting ForexClear Deliverable Clearing Member bear to the total of the remaining ForexClear Unfunded Contributions of all Non-Defaulting ForexClear Deliverable Clearing Members; and

(B) then, to the remaining ForexClear Unfunded Contributions of each Non-Defaulting ForexClear Non-Deliverable-Only Clearing Member *pro rata* according to the proportion that the remaining ForexClear Unfunded Contributions of such Non-Defaulting ForexClear Non-Deliverable-Only Clearing Member bear to the total of the remaining ForexClear Unfunded Contributions of all Non-Defaulting ForexClear Non-Deliverable-Only Clearing Member.

2.7 ***Gains***

(a) If, at any point during the ForexClear DMP, but before the implementation of the ForexClear Loss Distribution Process, the Clearing House determines that gains have accrued in respect of any Auction Portfolio(s), it will reimburse each Non-Defaulter (to the extent that Market Losses or Auction Losses have been attributed to it pursuant to this Annex) by the amount of such gains in the following order and proportions:

(i) The Clearing House will reimburse each Non-Defaulter for such gains *pro rata* according to the proportion that the Market Losses attributed to such Non-Defaulter's ForexClear Unfunded Contributions bear to the total Market Losses attributed to all Non-Defaulters' ForexClear

Unfunded Contributions, up to a maximum of the Market Losses attributed to such Non-Defaulter's ForexClear Unfunded Contributions.

(ii) If and to the extent there are gains remaining to be reimbursed following the process described in Rule 2.7(a)(i) of this Annex, the Clearing House will reimburse each Non-Defaulter for such gains *pro rata* according to the proportion that the Auction Losses attributed to such Non-Defaulter's ForexClear Unfunded Contributions bear to the total Auction Losses attributed to all Non-Defaulters' ForexClear Unfunded Contributions, up to a maximum of the Auction Losses attributed to such Non-Defaulter's ForexClear Unfunded Contributions.

(iii) If and to the extent there are gains remaining to be reimbursed following the process described in Rule 2.7(a)(ii) of this Annex, the Clearing House will reimburse each Non-Defaulter for such gains *pro rata* according to the proportion that the Market Losses attributed to such Non-Defaulter's ForexClear Funded Contribution bear to the total Market Losses attributed to all Non-Defaulter's ForexClear Funded Contributions, up to a maximum of the Market Losses attributed to such Non-Defaulter's ForexClear Funded Contribution.

(iv) If and to the extent there are gains remaining to be reimbursed following the process described in Rule 2.7(a)(iii) of this Annex, the Clearing House will reimburse each Non-Defaulter for such gains *pro rata* according to the proportion that the Auction Loses attributed to such Non-Defaulter's ForexClear Funded Contribution bear to the total Auction Losses attributed to all Non-Defaulter's ForexClear Funded Contributions, up to a maximum of the Auction Losses attributed to such Non-Defaulter's ForexClear Funded Contribution.

(b) The Clearing House's calculation of the amount by which a gain that is reimbursed to a Non-Defaulter pursuant to Rule 2.7(a)(i), (ii), (iii) and/or (iv) of this Annex increases such Non-Defaulter's ForexClear Contributions is determinative and final and, after such reimbursement and increase, the totality of such Non-Defaulter's ForexClear Contributions will be subject to subsequent attribution of losses (if any) pursuant to this Annex.

(c) Rule F12 of the ForexClear Default Fund Supplement will not apply to the gains reimbursed pursuant to this Rule 2.7.

3. Default Management in respect of ForexClear Client Clearing Business and FCM ForexClearClient Business Client Business

3.1 The ForexClear DMP for any ForexClear Contract in respect of ForexClear Client Clearing Business shall be conducted in accordance with the Client Clearing Annex (which such stages, for the avoidance of doubt, will result in a ForexClear Client Contract in respect of ForexClear 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 ForexClear DMP for any FCM ForexClear Contract forming part of a Defaulter's FCM ForexClear 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 / Registration of Positions

4.1 Following the disposal of an Auction Portfolio by way of Auction (and notwithstanding that other Auction Portfolios of the Defaulting FXCCM may not yet have been auctioned) the Clearing House, will, with the co-operation of the Non-Defaulting FXCCMs, transfer to the Non-Defaulting FXCCM whose bid won the relevant Auction Portfolio the rights and obligations, from the Defaulting FXCCM, arising out of the positions which that Non-Defaulting FXCCM has successfully bid for under the ForexClear DMP. Such transfer may take place by way of registration of new positions with the Clearing House in the name of the relevant Non-Defaulting FXCCM, or novation of rights and obligations to the relevant Non-Defaulting FXCCM. All such registrations shall be made in a way that recognises the Collateral paid or received in respect of variation margin and any amounts paid or received in respect of settlement in relation to the ForexClear Contracts of the Defaulting FXCCM 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. FXCCMs will be required to exercise best endeavours to comply with such requirements as may be established by the Clearing House, after consultation with the ForexClear 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 individual Non-Defaulting FXCCMs as a result of the operation of the ForexClear DMP against sums owed by those individual Non-Defaulting FXCCMs 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 FXCCM 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 FXCCM if the Clearing House does not simultaneously credit that FXCCM 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 FXCCM. 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 Auction Portfolios of the Defaulting FXCCM may not yet have been auctioned and that the loss attribution process provided for by Rule 2.6 has not yet occurred.

5. Information regarding the ForexClear DMP

5.1 Whenever the ForexClear DMP is implemented by the Clearing House in respect of a Defaulting FXCCM, the Clearing House will, with the assistance of the ForexClear

DMG, provide such ongoing information to FXCCMs as the Clearing House deems reasonably appropriate in respect of the progress of the ForexClear DMP.

5.2 Nothing in this Rule 5 shall require the Clearing House to disclose information in respect of the ForexClear 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 FXCCMs.

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 2.4 to 2.6 (inclusive) 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 ForexClear Default Fund Supplement.

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 ForexClear DMP, in consultation with the ForexClear DMG, either by way of further Guidance; or immediately on notice to FXCCMs 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 percent. of all ForexClear Clearing Members unless such change is invoked unilaterally against all FXCCMs 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 ForexClear 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 FXCCMs 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 ForexClear DMG in timely fashion.

8.3 The timetable for implementation of the stages of the ForexClear 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 ForexClear DMG and set out in Guidance; or (ii) imposed by the Clearing House without prior notice to the FXCCMs on a case-by-case basis where the Clearing House, in consultation with the ForexClear DMG, deems it appropriate to do so in the circumstances of the Default.

9. Role and Constitution of ForexClear DMG

9.1 The ForexClear DMG shall meet at regular intervals in order to:

(a) review the market risk of FXCCMs and Clearing Clients to ensure risk profiles and margin coverage are compatible with default management principles;

(b) review market liquidity and associated margin add-ons to ensure risk concentrations and positions are adequately covered;

(c) provide advice on valuation and margin techniques and models;

(d) review market developments and changes in trading instruments and practices;

(e) review new product proposals and existing product extensions, particularly focusing on pricing and margin computation and surrounding liquidity and market issues;

(f) review hedging strategies, auction processes, including portfolio splitting and loss allocation, and timescales for hedge and auction processes; and

(g) consider any other business relevant to the ForexClear DMP which any member of the ForexClear DMG from time to time sees fit to raise at such meetings.

9.2 The members of the ForexClear DMG shall also meet within one hour, or as soon as reasonably practicable, following notification by the Clearing House that a Default Notice has been served upon an FXCCM, and at sufficiently frequent intervals thereafter for so long as may be necessary to assist the Clearing House in the implementation of the ForexClear DMP as contemplated under this Rulebook. Such implementation shall include, without limitation, the provision of general default management advice with regard to: (1) the ongoing obligations of the Clearing House to its non-defaulting members; (2) the neutralisation and closing-out of the individual obligations of the Defaulting FXCCM and any relevant Clearing Clients; (3) execution of hedging strategy, the management of short term risk and likely market movement resulting from the given Default, including resulting from execution of hedging strategy; (4) determination of Clearing Client portability (as applicable); and (5) the splitting of Portfolios and the disposal of Auction Portfolios in accordance with the ForexClear DMP. Where it is not possible or practicable for the FXCCM to provide its nominated representative within an appropriate timeframe, it shall provide an alternate of suitable experience and expertise to participate on the ForexClear DMG.

9.3 The ForexClear 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 ForexClear 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 Head of Risk of the ForexClear Service (or his or her nominee), who shall act as chairman;

(b) at least six representatives of at least four FXCCMs, being senior executives with appropriate skills and expertise to cover all products cleared in the ForexClear Service;

(c) at least one director (staff member of director grade) of the Clearing House's or ForexClear Service's Risk Management department; and

such other individuals as the ForexClear DMG considers appropriate from time to time in relation to individual meetings.

In the event the ForexClear DMG is unable to convene with the full set of individuals set forth above due to extreme or improbable circumstances, upon approval from the Chief Executive Officer of the Clearing House, or his or her nominee, the ForexClear DMG may be constituted with a subset of the above described individuals.

9.4 For the purpose of ForexClear DMG meetings convened to deal with a specific Defaulting FXCCM, the Clearing House may, after consultation with the ForexClear DMG, invite the Defaulting FXCCM to nominate one or more representatives to join the ForexClear DMG to assist it in carrying out its functions in the ForexClear Default Management Process for that Defaulting FXCCM, and request representatives from any other FXCCMs. In the event of receiving such request, the FXCCM shall be obliged to provide its nominated representative, or an alternate with appropriate skills, experience and expertise, as if the FXCCM were a member of the ForexClear DMG.

9.5 In establishing the ForexClear 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, review the membership of the ForexClear DMG on a regular basis and may rotate membership of the ForexClear DMG amongst all FXCCMs. The FXCCM agrees that, when requested to do so by the Clearing House, it will make available a representative to participate in the ForexClear DMG. The Clearing House shall agree with the FXCCM the identity of such representative and shall have the right to request a substitute where it believes the FXCCM's nominated representative does not have the requisite skills or expertise.

9.6 Each FXCCM who makes available a representative to serve on the ForexClear 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 ForexClear DMG including attending meetings, and considering and advising the Clearing House upon aspects of the ForexClear DMP. The FXCCM shall ensure that the

representative's other work commitments do not affect their availability for this purpose;

(b) to ensure that such representative meets the applicable requirements set forth in the terms of reference for the ForexClear DMG

(c) to take all steps to respect the confidential capacity in which such a representative receives information through the ForexClear DMG and to establish adequate procedures to prevent the disclosure or use for any commercial purpose outside the scope of the ForexClear DMP of any such confidential information by the FXCCM or its representative. Such procedures shall normally include, without limitation, the establishment of information barriers within the FXCCM;

(d) to be bound by and to ensure that it and any of its executives or directors serving on the ForexClear DMG complies with the requirements contained in the Procedures or the FCM Procedures (as the case may be); and

(e) in the event the representative is unable to fulfil the requirements set forth in this Rule 9.6 and the terms of reference for the ForexClear DMG, including where there is a change of circumstance of the representative such that there is an impact to the representative's ability to fulfil his or her role on the ForexClear, the FXCCM shall immediately notify the Clearing House.

9.7 Each FXCCM shall accept that:

(a) representatives of FXCCMs serving on the ForexClear DMG are doing so in order to assist the Clearing House in ensuring the on-going integrity of the ForexClear Service in the interests of Non-Defaulting FXCCMs; and

(b) representatives of FXCCMs serving on the ForexClear DMG and their employers shall have no liability for any disinterested advice or actions, mandated or otherwise, that are undertaken as part of the ForexClear 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 representative's and employers.

9.8 FXCCMs are required to attend at least three (3) of the four (4) ForexClear DMG quarterly meetings and the annual fire-drill exercise held each calendar year. In the event an FXCCM does not comply with the foregoing attendance requirements, the Clearing House reserves the right to replace any member of the ForexClear DMG.

9.9 The Clearing House agrees that, in exercising its rights and obligations in consulting with the ForexClear DMG pursuant to this Agreement, it will use all reasonable commercial endeavours to agree a common position with the ForexClear 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 4
REPOCLEAR DMP ANNEX

1. Scope and Interpretation

1.1 The Clearing House has established a RepoClear DMP which will apply to Fixed Income Contracts following the issuing of a Default Notice relating to a RCM and in respect of which, for the avoidance of doubt, the Clearing House will have no recourse to the process of invoicing-back. The fundamental principles of the RepoClear 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 RepoClear DMP will be undertaken on the basis of the principles contained herein.

1.2 The Clearing House has an obligation to ensure the on-going integrity of the RepoClear service and the Fixed Income Contracts in the interests of the Non-Defaulting RCMs. When a RCM defaults, Non-Defaulting RCMs are required to supply impartial expertise through the Fixed Income DMG and may be invited to bid for the Auction Portfolios of a Defaulting RCM, as laid out in this Annex. In addition, most RCMs or their parent companies or subsidiaries or fellow subsidiaries, have direct interests in that integrity, notably as contributors to the various default funds of the Clearing House. Each RCM shall take all steps and execute all documents necessary or required by the Clearing House to comply with its obligations as a RCM arising out of this RepoClear DMP Annex.

1.3 In this Annex:

"**Auction**" means the process of bidding by RCMs for an Auction Portfolio prescribed by the Clearing House following consultation with the Fixed Income DMG from time to time in accordance with Rule 2.3 of this Annex;

"**Auction Currency**" means in relation to an Auction, the currency of an Auction Portfolio which is the subject of that Auction as determined in accordance with Rule 2.3(b) of this Annex;

"**Auction Losses**" has the meaning given in Rule 2.5(b) of this Annex;

"**Auction Portfolio**" means (i) a Portfolio; or (ii) a group of Fixed Income Contracts resulting from the splitting of a Portfolio pursuant Rule 2.1 of this Annex including any connected hedging trades concluded by the Clearing House through Risk Mitigation;

"**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 2.3(f) of this Annex;

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

"**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 RCMs, supplementing the detail or conduct of any aspect of the RepoClear DMP;

"**Initial Resources**" has the meaning given to it in Rule 2.5(b) of this Annex;

"Liquidity Management" means the process of managing liquidity risk associated with a Defaulting RCM's obligations to the Clearing House and the obligations of the Clearing House following the Default of a RCM by entering into trades for the purposes of generating liquidity (and such trades may be carried out by entering into ATS Contracts), in accordance with Rule 2.2 of this Annex;

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

"**Market Participant**" means, in respect of a specific RepoClear market, a Non-Defaulting RCM who at the time the Clearing House declares a Default has been authorised by the Clearing House in respect of that RepoClear market;

"**Non-Defaulters' Contributions**" means the RepoClear Contributions made by Non-Defaulting RCMs to the RepoClear Default Fund;

"**Original Contributions**" has the meaning given to it in Rule 2.3(c) of this Annex;

"**Portfolios**" means, in respect of each RepoClear market, the Fixed Income Contracts in such market registered in the name of a Defaulting RCM in respect of House Clearing Business and the Fixed Income Contracts in such market registered in the name of a Defaulting RCM in respect of Client Clearing Business and, in both such cases includes, where relevant, any hedging trades connected to the relevant Fixed Income Contracts concluded by the Clearing House through Risk Mitigation. For the avoidance of doubt, a Portfolio containing Fixed Income Contracts relating to the Client Clearing Business of a Defaulting RCM will only contain RepoClear Contracts relating to Client Clearing Business. The Clearing House shall not be entitled to combine client and house positions in a single Portfolio. In the case of a Defaulting RCM that is a Sponsored Member, "Portfolios" means, in respect of each RepoClear market, the Fixed Income Contracts in such market registered in the name of such Defaulting RCM that is a Sponsored Member that are attributed to a single Agent Member of such Defaulting RCM. The Clearing House shall not be entitled to combine those Fixed Income Contracts of a Defaulting RCM that is a Sponsored Member that are attributed to different Agent Members;

"**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;

"Risk Mitigation" means the process of reducing the market risk associated with a Defaulting RCM's obligations to the Clearing House by hedging the Clearing House's exposure in open Fixed Income Contracts prior to the auction process (and such hedging may be carried out by entering into ATS Contracts), in accordance with Rule 2.2 of this Annex;

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

"**RepoClear DMP or RepoClear 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.

1.4 Terms used in this Annex which are not defined herein shall have the meanings given to them in the General Regulations and/or the SC Regulations, as applicable.

2. RepoClear Clearing House Business

The RepoClear Default Management Process in respect of RepoClear Clearing House Business shall involve the stages described in this Rule 2.

2.1 ***Portfolio Combination and Splitting***

The Clearing House, in consultation with and the assistance of the Fixed Income DMG, shall determine the composition of each Auction Portfolio and shall have the discretion to divide a Portfolio into two or more individual Auction Portfolios or to combine two or more Portfolios into a single Auction 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 is that the Clearing House will structure Auction Portfolios with the intention of ensuring a RepoClear DMP which best protects the resources of the Clearing House. Therefore, nothing in this Rule 2.1 shall be deemed to imply that the Clearing House is under any obligation to split a particular Portfolio of a Defaulting RCM (regardless of the number of Fixed Income Contracts that such Portfolio contains).

2.2 ***Risk Mitigation and Liquidity Management***

The Clearing House may, in consultation with and with the assistance of the Fixed Income DMG,

(a) engage in Risk Mitigation; or

(b) engage in Liquidity Management.

In determining whether or not to engage in any Risk Mitigation or Liquidity Management, the Clearing House shall take into account the associated costs of such Risk Mitigation or Liquidity Management and the possibility that such Risk Mitigation or Liquidity Management could result in the Clearing House's resources being put at risk. All such Risk Mitigation or Liquidity Management shall be undertaken by the Clearing House with RCM, (i) on the basis of separate agreements between the Clearing House and each such RCM and/or (ii) by entering into ATS Contracts. For the avoidance of doubt Risk Mitigation and Liquidity Management may happen prior to, concurrently with and/or subsequently to the splitting of a Portfolio pursuant to Rule 2.1 above. Any costs incurred from Risk Mitigation or Liquidity Management shall be considered costs of the relevant Auction and may therefore give rise to Auction Losses.

2.3 ***Auction***

(a) The Clearing House shall, in its discretion, but after consultation with the Fixed Income DMG, identify up to 15 Non-Defaulting RCMs who will be invited to bid in each Auction (the "**Invited Bidders**"**)** and shall invite such Invited Bidders to submit bids for such Auction Portfolio.

(b) The Clearing House, in consultation with the Fixed Income DMG, shall prescribe such procedures (in addition to those set out herein) for the conduct of the auction process, including selection of Invited Bidders, as it considers reasonably appropriate from time to time. The Clearing House and the Fixed Income DMG shall determine the Auction Currency in respect of the relevant Auction.

(c) The Clearing House shall notify each Invited Bidder of all details that may be reasonably required in relation to an Auction Portfolio prior to the relevant Auction.

(d) The auction process may take place over a number of days and Auctions of different Auction Portfolios may take place at different times.

(e) Invited Bidders who decide to participate in an Auction will submit bids to the Clearing House representatives on the Fixed Income DMG, who will ensure that the identities of the bidders are not revealed to the RCM representatives on the Fixed Income DMG. Bids may be submitted for the entire Auction Portfolio or for a percentage of the Auction Portfolio. Bids shall be submitted as a price at which the relevant Invited Bidder is willing to take on a specified percentage of the Auction Portfolio, and all bids will be ranked in accordance with the price per percentage represented by that bid. The Fixed Income 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 Clearing House shall be entitled to round up or round down nominal amounts received by successful Invited Bidders in order to ensure that successful bids comply with the Clearing House's requirements on minimum transaction sizes and this may impact the price paid by successful Invited Bidders.

(f) The Clearing House in consultation with the Fixed Income DMG will have full discretion in deciding whether or not to accept one or more bids in an Auction for part or all of the Auction Portfolio and, in so deciding, will take into account the range of bids received relative to the amount of Collateral held in respect of initial margin, variation margin and additional margin and the Default Fund Contribution of the Defaulting RCM, and in the case of Sponsored Members those Contributions and the relevant Agent Resource Contributions made by their Agent Member, and, subject to their availability, the Clearing House resources as set out in Rule 15 of the Default Rules. If the Clearing House does accept one or more bids, the price paid by the relevant winning bidders will be the same. Therefore, if the Clearing House decides to accept more than one bid, the price payable by all such winning bidders will be the price of the lowest bid which is accepted by the Clearing House. In the event that more than one Invited Bidder submits a bid of the same value (each an "**Equal Bid**"), the Clearing House may, subject to its discretion to reject one or more such Equal Bids, split the relevant Auction Portfolio between the relevant Invited Bidders who submitted Equal Bids on an individual trade-by-trade basis. The Clearing

House, in consultation with the Fixed Income DMG, may choose to accept a bid in respect of a smaller proportion of an Auction Portfolio than that which an Invited Bidder specified in its bid.

(g) In the case of an Auction in which no bid is accepted or received (as the case may be), or in which the bids accepted by the Clearing House are for less than the whole Auction Portfolio, subject to paragraph (i) below, one or more further Auctions may, at the discretion of the Clearing House, be held in relation to the relevant Auction Portfolio or that part of the Auction Portfolio which remains.

As soon as practicable following an Auction:

(i) in the event that one or more bids were accepted, the Clearing House will notify all the Invited Bidders who participated in the Auction that one or more bids were accepted and shall notify the Invited Bidders who submitted the accepted bids that their bids were accepted; and

(ii) in the event that no bid was accepted, or the accepted bids were for less than the whole Auction Portfolio, the Clearing House will notify such RCMs as determined by the Clearing House in consultation with the Fixed Income DMG of the details of any further Auction.

(h) All Invited Bidders agree to use all reasonable efforts to make a bid (subject, in the case of a Sponsored Member, to such Sponsored Member having received the consent of its relevant Agent Member(s)) in an Auction for an Auction Portfolio in respect of which such RCM is a Market Participant.

(i) The Clearing House may directly sell assets or Auction Portfolios outside of Auctions if an Auction fails or, in the opinion of the Clearing House in consultation with the Fixed Income DMG, is likely to fail or if the Clearing House determines (in consultation with the Fixed Income DMG) that it will not be possible to complete any relevant Auction in a timely and efficient manner and without putting the resources available to the Clearing House pursuant to Rule 15 at risk.

2.4 ***Auction Resources and Reserve Price***

(a) Before commencing the auction process, the Clearing House will calculate a base price ("**Base Price**") for each individual Auction Portfolio based on an initial allocation of the resources potentially available to it from the Defaulting RCM or, where the Defaulting RCM is a Sponsored Member, resources available from the Sponsored Member and its Agent Member(s) to satisfy any loss incurred in the Auction of each such Auction Portfolio pursuant to paragraphs (a) to (c) of Rule 15 and, consequently, taking into account market prices, a reserve price ("**Reserve Price**") for such Auction. Notwithstanding such initial allocation, any resources utilised by the Clearing House will be allocated in accordance with Rule 2.5 below.

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

(i) the resources of the Defaulting RCM and, where the Defaulting RCM is a Sponsored Member, resources available from the Sponsored Member and its Agent Member(s) (in the form of: (i) the Margin Cover of the Defaulting RCM pursuant to Rule 15(a) of the Default Rules (ii) the Contributions made by or for the account of the Defaulting RCM to the RepoClear Default Fund available pursuant to Rule 15(b) of the Default Rules and (iii) where the Defaulting RCM is a Sponsored Member, the related Agent Resource Contribution made by the relevant Agent Member and made available pursuant to Rule 15(c) of the Default Rules, in each case at the time of the auction process) will be allocated to the Auction Portfolios 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

(ii) the portion of the Capped Amount applied to the RepoClear Business of the Defaulting RCM pursuant to Rule 15(d) of the Default Rules will be allocated to the Auction Portfolios 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.

2.5 ***Loss Attribution***

(a) Following the completion of all Auctions of all Auction Portfolios of the Defaulting RCM, the Clearing House will determine whether losses incurred by it following such Auctions are such that the Non-Defaulters' Contributions must be utilised. Where applicable, such losses will be allocated to Non-Defaulters' Contributions in accordance with the loss attribution process described in Rules 2.5(b) to 2.5(d) of this Annex.

(b) For each Auction Portfolio, losses to the Clearing House will be met using the resources 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 such Auction Portfolios in accordance with Rule 2.3(i) of this Annex. Where there are no Auction Losses in respect of an Auction Portfolio or the Auction Losses in respect of an Auction Portfolio do not require the full amount of the resources referred to in Rule 2.4(b) of this Annex allocated to the relevant Auction Portfolio (the "**Initial Resources**") to be fully utilised, the relevant surplus Initial Resources will be allocated *pro rata* between those Auction Portfolios in respect of which there are Auction Losses requiring the utilisation of resources beyond the Initial Resources available in the relevant Auction Portfolio in accordance with Rules 15(a), 15(b), 15(c) and 15(d) until such time as all Initial Resources have been fully utilised.

(c) In the case of each Auction for which there are Auction Losses, those Auction Losses will be allocated to the Non-Defaulter's Contributions (the "**Original Contributions**").

If, for an Auction Portfolio, there remain Auction Losses outstanding after the attribution process referred to above in this Rule **Error! Reference source not found.** of this Annex, and there are Auction Losses relating to other Auction

Portfolios in which the Original Contributions have not been fully utilised, the Clearing House shall attribute the remaining Auction Losses amongst such Original Contributions through the attribution process set out above.

(d) If and to the extent that there are Auction Losses outstanding following the attribution process referred to in Rule 2.5(c) above, those Auction Losses will be allocated to the RepoClear Unfunded Contributions based upon the proportion that (a) the value of each such RepoClear Unfunded Contribution bears to (b) the aggregate of the amounts calculated in (a) for each of such RCMs until the first to occur of (i) the Auction Losses being fully met; and (ii) the RepoClear Unfunded Contributions being fully attributed.

(e) If and to the extent that there are Auction Losses outstanding following the attribution process referred to in Rule 2.5(d) above, any Loss Distribution Charges payable by Non-Defaulting RCMs pursuant to Rule R9(b) of the Default Rules shall be applied to reduce such Auction Losses.

3. Transfer of Cash Flows and Registration of Positions

3.1 Following the disposal of all or part of an Auction Portfolio by way of Auction (and notwithstanding that other Auction Portfolios of the Defaulting RCM may not yet have been auctioned) the Clearing House, will, with the co-operation of the RCMs, transfer to the RCMs whose bids were accepted in respect of that Auction Portfolio the positions for which that RCM has successfully bid under the RepoClear Default Management Process. Such transfer may take place by way (i) of registration of new positions with the Clearing House in the name of the relevant RCM, or (ii) novation of rights and obligations to the relevant RCM, in each case a **"RepoClear DMP Contract"**.

3.2 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. RCMs will be required to exercise best endeavours to comply with such requirements as may be established by the Clearing House, after consultation with the Fixed Income 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 their initial margin, variation margin and additional 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 RCM (including, in the case of a Sponsored Member, its related Agent Member(s)) as a result of the operation of the RepoClear DMP against sums owed by the RCM (including, in the case of a Sponsored Member, its related Agent Member(s)) to the Clearing House in respect thereof.

3.3 Where, as a result of an Auction, the Clearing House is required to make a payment to a RCM in respect of a winning bid, the Clearing House shall not be permitted to register any RepoClear DMP Contract, whether as a new position or as a novation of existing rights and obligations, to any such RCM if the Clearing House does not simultaneously credit that RCM with the requisite amount. If any RepoClear DMP Contract is so registered without such payment, such registration shall be deemed void *ab initio* and unenforceable against the relevant RCM. 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 Auction Portfolios of the Defaulting RCM may not yet have been auctioned and that the loss attribution process provided for by Rule 2.5 of this Annex has not yet occurred.

4. Default Management in respect of RepoClear Client Clearing Business

The RepoClear DMP in respect of any contract which is a Fixed Income Contract in respect of RepoClear Client Clearing Business shall be conducted in accordance with the Client Clearing Annex (which such stages, for the avoidance of doubt, will result in a Fixed Income Contract in respect of RepoClear Client Clearing Business being dealt with in accordance with Rules 2 and 3 above in the event that it cannot be ported by the Clearing House).

5. Information regarding the RepoClear DMP

Whenever the RepoClear DMP is implemented by the Clearing House in respect of a Defaulting RCM, the Clearing House will, with the assistance of the Fixed Income DMG, provide such ongoing information to RCMs (including the Agent Members of Sponsored Members) as the Clearing House deems reasonably appropriate in respect of the progress of the RepoClear DMP.

Nothing in this Rule 5 shall require the Clearing House to disclose information in respect of the RepoClear 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 RCMs (including the Agent Members of Sponsored Members).

6. Miscellaneous

6.1 Subject to Rules 2.3(i) and 2.5 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 RepoClear Default Fund Supplement.

6.2 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 RepoClear DMP, in consultation with the Fixed Income DMG, either by way of further Guidance or immediately on notice to RCMs (including the Agent Members of Sponsored Members) 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 RCMs (including the Agent Members of Sponsored Members) unless such change is invoked unilaterally against all RCMs (including the Agent Members of Sponsored 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. The Clearing House agrees that, in the ordinary course, it shall discuss any such Guidance with the Fixed Income 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 RCMs (including the Agent Members of Sponsored 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 Fixed Income DMG in timely fashion.

6.3 The timetable for implementation of the stages of the RepoClear Default Management Process following issue of a Default Notice by the Clearing House shall be either (1) as prescribed by the Clearing House from time to time in consultation with the Fixed Income DMG and set out in Guidance; or (2) imposed by the Clearing House without prior notice to the RCMs (including the Agent Members of Sponsored Members) on a case-by-case basis where the Clearing House, in consultation with the Fixed Income DMG, deems it appropriate to do so in the circumstances of the Default.

7. Role and Constitution of Fixed Income DMG

7.1 The Fixed Income DMG shall meet at regular intervals in order to:

(a) keep under review the RepoClear DMP, together with any Guidance issued in respect thereof;

(b) keep under review the terms of reference of the Fixed Income DMG to ensure they remain appropriate;

(c) consider appropriate supplements or amendments to the RepoClear DMP and/or Guidance in order to improve the procedures in place; and

(d) consider any other business relevant to the RepoClear DMP which any member of the Fixed Income DMG from time to time sees fit to raise at such meetings.

7.2 The members of the Fixed Income 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 RCM, and at sufficiently frequent intervals thereafter for so long as may be necessary to assist the Clearing House in the implementation of the RepoClear DMP as contemplated under this Agreement. Such implementation shall include, without limitation, the provision of general default management advice with regard to: (1) the ongoing obligations of the Clearing House to its non-defaulting members; (2) the hedging and closing-out of the individual obligations of the Defaulting RCM; and (3) the splitting of Portfolios and the disposal of Auction Portfolios in accordance with the RepoClear DMP. Where it is not possible or practicable for the RCM to provide its nominated representative within an appropriate timeframe, it shall provide an alternate of suitable experience and expertise to participate on the Fixed Income DMG.

7.3 The Fixed Income 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 RepoClear DMP and suitable expertise and representation of market-making capacity in the event of a Default:

(a) the Head of Fixed Income at the Clearing House (or his or her deputy), who shall act as chairman;

(b) representatives of at least four RCMs, being senior executives with appropriate skills and expertise, at least two of which shall be from organisations with membership of both LCH Ltd and LCH S.A.;

(c) the head of the Fixed Income Risk group at the Clearing House (or his or her deputy);

(d) a member of the Liquidity Management group at the Clearing House or other employee of the Clearing House authorised to represent the Liquidity Management group;

(e) in the event of the issuance of a Default Notice, a representative of the Defaulting RCM may be invited to join the Fixed Income DMG to assist its work; and

(f) such other individuals as the Fixed Income DMG considers appropriate from time to time in relation to individual meetings.

Where the Clearing House has appointed any representative of any RCM to be a member of the Fixed Income DMG, such RCM shall be obliged to make an appropriate representative of that RCM available for that purpose. It is expected that representation on the Fixed Income DMG will be preceded by participation in a DMP fire drill.

In the event the Fixed Income DMG is unable to convene with the full set of individuals set forth above due to extreme or improbable circumstances, upon approval from the Chief Executive Officer of the Clearing House, or their nominee or delegate, the Fixed Income DMG may be constituted with a subset of the above described individuals.

7.4 For the purpose of Fixed Income DMG meetings convened to deal with a specific Defaulting RCM, the Clearing House may, after consultation with the Fixed Income DMG, invite the Defaulting RCM to nominate one or more representatives to join the Fixed Income DMG to assist it in carrying out its functions in the RepoClear DMP for that Defaulting RCM, and also request representatives from any other RCMs. In the event of receiving such request, the RCM shall be obliged to provide its nominated representative, or an alternate with appropriate skills, experience and expertise, as if the RCM were a member of the Fixed Income DMG.

7.5 In establishing the Fixed Income 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 and 3 of the Default Rules) it will, as far as practicable, and in accordance with the terms of reference of the Fixed Income DMG and in the case of a Sponsored Member, such representative shall be its relevant Agent Member(s) rotate the membership of the Fixed Income DMG on a regular basis and amongst all RCMs. The RCM agrees that, when requested to do so by the Clearing House, it will make available a representative to participate in the Fixed Income DMG. The Clearing House shall agree with the RCM the identity of such representative and shall be able to request a substitute where it believes the RCM's nominated representative does not have the requisite skills or expertise.

7.6 Each RCM who makes available a representative to serve on the Fixed Income 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 his function as a member of the Fixed Income DMG including attending meetings, considering and advising the Clearing House upon aspects of the RepoClear DMP. The RCM shall ensure that a

representative's other work commitments do not affect his availability for this purpose;

(b) to take all steps to respect the confidential capacity in which such a representative receives information through the Fixed Income DMG and to establish adequate procedures to prevent the disclosure or use for any commercial purpose outside the scope of the RepoClear DMP of any such confidential information by the RCM or its representative. Such procedures shall normally include, without limitation, the establishment of Chinese walls within the RCM; and

(c) to be bound by and to ensure that it and any of its executives or directors serving on the Fixed Income DMG complies with the requirements contained in the Procedures.

7.7 Each RCM shall accept that:

(a) representatives of RCMs serving on the Fixed Income DMG are doing so in order to assist the Clearing House in ensuring the on-going integrity of the RepoClear service in the interests of Non-Defaulting RCMs; and

(b) representatives of RCMs serving on the Fixed Income DMG and their employers shall have no liability for any disinterested advice or actions, mandated or otherwise, that are undertaken as part of the RepoClear Default Management Process, **provided**, **however**, **that** nothing in this Rule 7.7(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.

7.8 The Clearing House agrees that, in exercising its rights and obligations in consulting with the Fixed Income DMG pursuant to this Agreement, it will use all reasonable commercial endeavours to agree a common position with the Fixed Income 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.

7.9 The Clearing House may run RepoClear DMP "**fire-drills**" from time to time. RCMs will be required to actively participate in a DMP fire-drill when requested to do so by the Clearing House. Those required to participate in a fire-drill will be limited to the top 90 per cent. of RCMs based on total initial margin requirements over the previous three months. The fire-drill list of potential participant RCMs will be refreshed on a semi-annual basis by the Clearing House.

SCHEDULE 5
FOREXCLEAR DEFAULT FUND SUPPLEMENT

F1. I**n accordanc**e with and subject to Rule F2, the amount of each ForexClear Clearing Member's ForexClear Contributions shall be determined by the Clearing House as soon as practicable after each ForexClear Determination Date as appropriate on the basis of information available as at close of business on such ForexClear Determination Date and notified to such FXCCM as soon as practicable after such determination in accordance with the Procedures.

F2. Each FXCCM's ForexClear Contribution (other than any ForexClear 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 on the date that an FXCCM joins the ForexClear Service, and at the close of business on the first business day of each month, and otherwise in accordance with paragraph (f) below (each, a "**ForexClear Determination Date**") **provided**, **however**, **that** following a Default, any such determinations and any such ForexClear Determination Date which might otherwise have occurred under this Rule F2 shall be suspended for the duration of the period (the "**ForexClear 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 ForexClear 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 (i) above (or such period as has already been extended pursuant to this 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 ForexClear 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) On each business day, the Clearing House will determine a "**Combined Loss Value**" in respect of each of the 30 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 ForexClear Business (for a given scenario);

(c) the "**ForexClear Fund Amount**" shall equal the sum of (i) the "**ForexClear Non-Deliverable Sub-Fund Amount**" (ii) the "**ForexClear Deliverable Sub-Fund Amount**" and (iii) the "**ForexClear Tolerance Amount**". The ForexClear Non-Deliverable Sub-Fund Amount and ForexClear Deliverable Sub-Fund Amount shall be calculated in United States dollars ("**USD**") and, for a given ForexClear Determination Date, shall be (i) in relation to the ForexClear Non-Deliverable Sub-Fund Amount, the largest of the 30 Combined Loss Values in respect of ForexClear Non-Deliverable Contracts, and (ii) in relation

to the ForexClear Deliverable Sub-Fund Amount, the largest of the 30 Combined Loss Values in respect of ForexClear Contracts other than ForexClear Non-Deliverable Contracts, each as determined under paragraph (b) above plus 10 per cent. Each of the ForexClear Non-Deliverable Sub-Fund Amount and ForexClear Deliverable Sub-Fund Amount shall not be less than USD 70 million (the "**ForexClear Fund Floor**"). The "**ForexClear Tolerance Amount**" for a given ForexClear Determination Date shall equal the aggregate amount of ForexClear Tolerance provided by the Clearing House to all participating FXCCMs to facilitate the registration of ForexClear Contracts, provided that the ForexClear Tolerance Amount shall not exceed USD 500 million;

(d) the "**ForexClear Margin Weight**" means the "**ForexClear Non-Deliverable Margin Weight**" or the "**ForexClear Deliverable Margin Weight**", as applicable.

(i) an FXCCM's "**ForexClear Non-Deliverable Margin Weight**" shall be calculated by dividing (A) the Uncovered Stress Loss Metric associated with such FXCCM's ForexClear Non-Deliverable Contracts by (B) the total Uncovered Stress Loss Metric applied to all Non-Defaulting FXCCMs with respect to their ForexClear Non-Deliverable Contracts, in each case where the ForexClear Non-Deliverable Contracts are (I) entered into on the FXCCM's own behalf or with respect to a ForexClear Clearing Client or an FCM Client and (II) open and outstanding during the reference period set forth in paragraph (b) above;

(ii) an FXCCM's "**ForexClear Deliverable Margin Weight**" shall be calculated by dividing (A) the Uncovered Stress Loss Metric associated with all of such FXCCM's ForexClear Contracts other than ForexClear Non-Deliverable Contracts by (B) the total Uncovered Stress Loss Metric applied to all Non-Defaulting FXCCMs with respect to their ForexClear Contracts that are not ForexClear Non-Deliverable Contracts, in each case where the ForexClear Contracts are (I) entered into on the FXCCM's own behalf or with respect to a ForexClear Clearing Client or an FCM Client and (II) open and outstanding during the reference period set forth in paragraph (b) above;

(iii) an FXCCM's "**Uncovered Stress Loss Metric**," as determined in accordance with sub-paragraphs (i) and/or (ii) above, is a risk metric used by the Clearing House in the calculation of the FXCCM's ForexClear Contribution and shall be determined by the Clearing House (and notified to each FXCCM) from time to time by, inter alia, deducting the amount of eligible margin held by the Clearing House with respect to the relevant ForexClear Contracts from the stress loss associated with such ForexClear Contracts; **provided** that the Clearing House may, in determining the Uncovered Stress Loss Metric of an FXCCM, take into account, inter alia, the number of alternative FXCCMs that clear ForexClear Contracts with respect to that FXCCM's ForexClear Clearing Clients or FCM Clients; for the avoidance of doubt, the largest and second largest stress-testing losses for purposes of determining a Combined Loss Value in accordance with paragraph (b) above are not

the applicable Uncovered Stress Loss Metrics of the relevant FXCCMs for the purposes of this sub-paragraph (iii);

(iv) the provisions of this sub-paragraph (d) shall not apply to New Members and, for the avoidance of doubt, New Members shall not constitute Non-Defaulting FXCCMs for the purposes of limb (B) of sub-paragraphs (i) and (ii);

(e) each FXCCM's ForexClear Contribution comprises the "**ForexClear Non-Deliverable Contribution,**" the "**ForexClear Deliverable Contribution**" and its ForexClear Tolerance, as applicable. The FXCCM's ForexClear Non-Deliverable Contribution shall be calculated by multiplying the ForexClear Non-Deliverable Sub-Fund Amount by the FXCCM's ForexClear Non-Deliverable Margin Weight, and shall be no less than the Minimum ForexClear Contribution. The FXCCM's ForexClear Deliverable Contribution shall be calculated by multiplying the ForexClear Deliverable Sub-Fund Amount by the FXCCM's ForexClear Deliverable Margin Weight, and shall be no less than the Minimum ForexClear Contribution; and

(f) subject to a suspension pursuant to paragraph (a) above, the Clearing House may recalculate the ForexClear Fund Amount on any business day if the Combined Loss Value differs by more than 25 per cent. from the figure on which the previous ForexClear Contribution determination was based.

F3. For the purposes of the calculations under Rule F2:

(a) references to "ForexClear Clearing Members" or "FXCCMs" do not include references to Defaulting FXCCMs (apart from any Defaulting FXCCM in respect of which the Clearing House permits the application of Rule F2) or persons which were formerly FXCCMs but are not FXCCMs at the ForexClear 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 US dollars;

(c) no account shall be taken, in calculating initial margin or ForexClear Margin Weight under Rule F2 of any offsets applied in calculating initial margin obligations imposed on an FXCCM in respect of ForexClear Contracts, which may otherwise be permissible under the Procedures or other arrangements applicable;

(d) provided that the FXCCM is not a Defaulter, the amount of its ForexClear Contribution shall be calculated in accordance with and subject to Rule F2. The provisions of Rule F1, Rule F2, this Rule F3 and Rule F5 do not apply to a Defaulting FXCCM, unless the Clearing House so permits in any particular case; and

(i) if (i) an FXCCM (other than an FCM Clearing Member) notifies the Clearing House on the ForexClear Default Management Process Completion Date or the business day occurring immediately after such date that it wishes to resign from the ForexClear Service, (ii) the

ForexClear AET Requirement in respect of such proposed resignation has been satisfied by the ForexClear Determination Date occurring immediately after such ForexClear Default Management Process Completion Date, (iii) the FXCCM is not a Defaulter, and (iv) no Default has occurred from and including the ForexClear Determination Date referred to in Rule F3(e)(ii) to and including the fourth business day occurring after such ForexClear Determination Date ("**ForexClear Contribution Payment Date**"), then the FXCCM shall cease to be an FXCCM on and from such ForexClear Contribution Payment Date and the Clearing House shall repay the ForexClear Contribution that it holds for such FXCCM (to the extent it has not been applied under these Default Rules) in accordance with the Procedures and the FXCCM shall not be obliged to make any payment to the Clearing House under Rule F5(c). If an FXCCM notifies the Clearing House in accordance with Rule F3(e)(i), but the requirements under Rules F3(e)(ii), (iii) and/or (iv) are not satisfied, then such FXCCM will cease to be a Resigning Member in respect of the ForexClear Service.

F4. Without prejudice to any other requirements which the Clearing House may impose, the amount of the ForexClear Contribution of a New Member shall be the sum of (a) the Minimum ForexClear Contribution, (b) any supplementary sum determined by the Clearing House in its discretion and notified to the New Member and (c) as applicable, its ForexClear Tolerance. 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.

F5. Upon determination of the amount of a ForexClear Contribution in accordance with Rule F2:

(a) if the amount of the ForexClear Contribution of an FXCCM immediately before close of business on the relevant ForexClear Determination Date exceeds the amount of the FXCCM's ForexClear Contribution determined under Rule F2 as at close of business on that day, the excess shall be paid by the Clearing House to such FXCCM in USD in accordance with the Procedures;

(b) if the amount of the ForexClear Contribution of an FXCCM immediately before close of business on the relevant ForexClear Determination Date is the same as the amount of the FXCCM's ForexClear Contribution as so determined under Rule F2 as at close of business on that day, no sum shall then be payable by or to such FXCCM in respect of its Contribution; and

(c) if the amount of the ForexClear Contribution of an FXCCM immediately before close of business on the relevant ForexClear Determination Date is less than the amount of the FXCCM's ForexClear Contribution as so determined under Rule F2 as at close of business on that day, the shortfall shall be paid by such FXCCM to the Clearing House in USD in accordance with the Procedures.

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

F6. On any day, interest shall accrue on the amount of each ForexClear Contribution held by the Clearing House, to the extent that it has not been applied under Rule 19 or Rule 21 of the Default Rules, at such rate as determined by the Clearing House from time to time in light of market conditions and notified by the Clearing House to FXCCMs and in such manner as provided by the Procedures, provided that the rate of interest for any particular day shall be based on a short-term interest rate of the ForexClear Contribution currency, as applicable, plus or minus a spread. Interest shall be payable in arrears 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 being part of the ForexClear Contribution.

F7.

(a) After a Default, unless and until the Clearing House has repaid a Defaulter's ForexClear Contribution (or the remaining part thereof, as applicable), the ForexClear Fund Amount shall be treated as having been reduced by the amount of the Defaulter's ForexClear Contribution (if any), regardless of whether the Clearing House has applied part or all of that ForexClear Contribution under the Default Rules.

(b) Where, after a Default, the Clearing House has applied part or all of the ForexClear Contributions of the Non-Defaulting FXCCMs under Rule 21 of the Default Rules, the ForexClear Fund Amount shall be reduced forthwith by the deduction of (i) the amount of the Defaulter's ForexClear Contribution (if any) in accordance with paragraph (a) of this Rule F7; and (ii) the aggregate amount of the ForexClear Contributions or parts of ForexClear Contributions of the Non-Defaulting FXCCMs so applied, and the amount of the ForexClear Contribution that each Non-Defaulting FXCCM must maintain with the Clearing House shall be reduced by the amount of its ForexClear Contribution which has been so applied, in each case, until the next ForexClear Determination Date and subject to (where applicable) the requirement under paragraph (c) of this Rule F7 and Rule F8.

(c) Following the completion of a ForexClear Default Management Process, the Clearing House will deliver a notice to the FXCCMs confirming that the relevant ForexClear Default Management Process Completion Date has occurred. If, following the issuance of such notice, the value of the ForexClear Fund Amount determined in accordance with paragraph (b) of this Rule F7 is less than the ForexClear Fund Floor, the Clearing House may notify each Non-Defaulting FXCCM that it is required to make a Supplementary Contribution, based on the proportion that the value of its ForexClear Contribution as at the last ForexClear Determination Date prior to the date when the relevant Default occurred bears to the value of the aggregate ForexClear Contributions of all Non-Defaulting FXCCMs as at such date, so as to reinstate the ForexClear Fund Amount to a value which is no less than the ForexClear Fund Floor. Supplementary Contributions required hereunder shall be paid within two business days after notification and in accordance with the Procedures.

F8. Where, after a Default, the Clearing House determines that (i) by reason of a reduction in accordance with Rule F7, the value of the ForexClear Fund Amount has been reduced by at least 25 per cent.; or (ii) by the time of the ForexClear Default Management

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

(a) ForexClear Unfunded Contributions will only be payable in circumstances where the relevant ForexClear Unfunded Contribution Notice is delivered by the Clearing House to FXCCMs prior to the ForexClear Default Management Process Completion Date in relation to the relevant Default;

(b) the value of the ForexClear Unfunded Contribution payable by each individual FXCCM shall be the product of (i) the percentage by which the value of the ForexClear Fund Amount has been reduced and (ii) the value of the ForexClear Contribution of such FXCCM as determined by the Clearing House at the last ForexClear Determination Date prior to the date when the relevant Default occurred;

(c) the Clearing House may, by the delivery of one or more further ForexClear Unfunded Contribution Notices, require each Non-Defaulting FXCCM to pay one or more further ForexClear Unfunded Contributions in respect of the same Default, provided that the total value of the ForexClear Unfunded Contributions payable by an individual FXCCM in respect of a particular Default (determined in accordance with paragraph (b) above) may not exceed the value of the ForexClear Contribution of such FXCCM as at the last ForexClear Determination Date prior to the date when the relevant Default occurred; and

(d) following a Default in respect of which ForexClear Unfunded Contributions were paid (the "**First Default**"), the Clearing House may require the payment of further ForexClear Unfunded Contributions in respect of subsequent Defaults (which, for the avoidance of doubt, can never be a First Default), provided that ForexClear 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 ForexClear Unfunded Contribution Notice in respect of the First Default).

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

For the avoidance of doubt, references to "FXCCMs" for the purposes of this Rule F8 include any FXCCM (other than a Defaulting FXCCM) 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 ForexClear Service is not yet effective.

F9. ForexClear Loss Distribution Process

Where, after a Default, the Clearing House determines that the ForexClear 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 "**ForexClear Loss Distribution Process**") described in this Rule F9.

(a) For the purposes of this Rule F9 and Rule F11, 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 ForexClear 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(h) 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 Payment Currency Adjustment to Cash Payment**" has the meaning set out in paragraph (b)(i) of this Rule F9.

"**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 F9.

"**Cash Loser Payment Currency Adjustment to Cash Payment**" has the meaning set out in paragraph (b)(ii) of this Rule F9.

"**Cash Payment**" means, in respect of any business day, the aggregated amount which would be paid by the Clearing House to a Non-Defaulting FXCCM (expressed as a positive number) or by such FXCCM 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 currencies in which payments made between the Clearing House and an FXCCM may be denominated.

"**Cash Payment Type**" means each of the Price Alignment Interest (as defined in the ForexClear Procedures), Price Alignment Amount, consideration (fee) payments, Variation Settlement and cash Collateral in respect of the variation margin obligations payable in respect of a Margin Account of a Non-Defaulting FXCCM, and any payment under Section 4.1 (or, in the case of ForexClear Non-Deliverable STM Contracts, Section 10.1) of the ForexClear STM Terms.

"**Cumulative Actual Base Currency Gains, Losses and Realised Cash Flows**" means in respect of each Margin Account of each Non-Defaulting FXCCM 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 FXCCM (expressed as a positive number) or by such FXCCM 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 FXCCM 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.

"**FXCCM Adjustment Amount**" means in respect of the Margin Account(s) of any Non-Defaulting FXCCM 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 FXCCM less the sum of the Cumulative Actual Base Currency Gains, Losses and Realised Cash Flows in respect of such Margin Account(s) of such Clearing Member, in each case in respect of the Loss Distribution Period in which such Loss Distribution Day falls.

"**Last Call Prior to Default**" means the most recent business day prior to the day of the relevant Default on which transfers of Collateral and/or other payments required to be made by Non-Defaulting FXCCMs to the Clearing House were made in full.

"**LCH Transfer Cost**" means the cost (converted, where applicable, into USD 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 FXCCM to those FXCCMs 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 Cut-Off Date**" means, with respect to a Loss Distribution Period, the day falling ten (10) business days from the date of commencement of the ForexClear Loss Distribution Process or such earlier or later business day as determined pursuant to paragraph (d) of this Rule F9.

"**Loss Distribution Day**" means any business day in a Loss Distribution Period on which the Clearing House, in consultation with the ForexClear DMG, prior to calling for Collateral in respect of margin or other payment in respect of settlement 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 an FXCCM to (but excluding) the earlier of: (i) the business day on which (a) the rights and obligations arising out of the

Auction Portfolios of the Defaulting FXCCM are transferred to those FXCCMs which have successfully bid for such Auction Portfolios in Auctions, or, if any Default occurs with respect to any other FXCCM prior to the end of a Loss Distribution Period, the rights and obligations arising out of the Auction Portfolios of any subsequent Defaulting FXCCM are transferred to those FXCCMs who have successfully bid for such Auction Portfolios in Auctions and (b) all payments required to be made by such FXCCMs and/or the Clearing House in respect of such Auction(s) have been made in full; or (ii) any business day on which the Clearing House determines that a Loss Distribution Trigger Event has occurred; PROVIDED THAT, in each case, the Loss Distribution Period shall not extend beyond the Loss Distribution Cut-Off Date.

"**Loss Distribution Trigger Amount**" means, in respect of any Loss Distribution Period and any Non-Defaulting FXCCM, an amount equal to either (i) twice the ForexClear Contribution of such Non-Defaulting FXCCM as at the last ForexClear Determination Date prior to the date when the Default occurred at the beginning of that Loss Distribution Period or $200 million, whichever is the greater; or (ii) an amount as approved by the Requisite Non-Defaulting FXCCMs following a Revised Loss Distribution Proposal as described in paragraph (d) of this Rule F9.

"**Loss Distribution Trigger Event**" means, with respect to a Non-Defaulting FXCCM, the aggregate Cash Gainer Payment Currency Adjustments applied to Cash Payments during the Loss Distribution Period (as amended from time to time) exceeded that FXCCM's Loss Distribution Trigger Amount (as amended from time to time) on the immediately preceding Loss Distribution Day.

"**Margin Account**" means each Proprietary Account, Individual Segregated Account, Indirect Gross Sub-Account, Omnibus Segregated Account and FCM Client Sub-Account related to the ForexClear Service of an FXCCM.

"**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 USD at the Rate of Exchange) which would be paid by the Clearing House to a Non-Defaulting FXCCM (expressed as a positive number) or by such FXCCM 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.

"Requisite Non-Defaulting FXCCMs" means on any business day in a Loss Distribution Period, Non-Defaulting FXCCMs whose ForexClear Contributions represented 75% or more of the total size of the ForexClear Fund Amount (less

the Contribution of any Defaulter(s)) as at the last ForexClear Determination Date prior to the date when the Default occurred.

"**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 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 FXCCM which is deemed to be a Cash Gainer, the relevant FXCCM 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 FXCCM 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:

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

"**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 FXCCM 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

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

"**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 FXCCM.

(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(h) of the Default Rules.

(d) Adjustment to Loss Distribution Trigger Amount and Loss Distribution Cut-Off Date

(i) On each business day following the commencement of the ForexClear Loss Distribution Process (except where the Clearing House is unable to make a determination due to a systems failure or similar event beyond the Clearing House's control), the Clearing House shall determine if a Loss Distribution Trigger Event has occurred or is likely to occur and, if so, shall notify all FXCCMs accordingly.

(A) If, at any time during a Loss Distribution Period, the Clearing House determines that (A) the ForexClear Loss Distribution Process is likely to extend beyond the Loss Distribution Cut-Off Date or (B) a Loss Distribution Trigger Event is likely to occur, the Clearing House may propose to the Non-Defaulting FXCCMs (I) an extension of up to 10 business days, from the date of such proposal, to the Loss Distribution Cut-Off Date and (II) an increase in each Non-Defaulting FXCCM's Loss Distribution Trigger Amount of (X) up to twice the ForexClear Contribution of such Non-Defaulting FXCCM as at the last ForexClear Determination Date prior to the date when the Default occurred or (Y) $200 million, whichever is the greater (any proposal pursuant to (I) or (II) above, a "**Revised Loss Distribution Proposal**"). For the avoidance of doubt, the Clearing House shall propose adjustments to both the Loss Distribution Cut-Off Date and Non-Defaulting FXCCMs' Loss Distribution Trigger Amount in a Revised Loss Distribution Proposal, regardless of whether the trigger for such Revised Loss Distribution Proposal is (A) or (B) above.

(i) Subject to (iv) below, the Clearing House shall be required to make a Revised Loss Distribution Proposal where either (y) it makes the determination pursuant to (A) above on the Loss Distribution Cut-Off Date or (z) : a Loss Distribution Trigger Event has occurred, in each case during a Loss Distribution Period.

(ii) If (x) more than 50% of the Non-Defaulting FXCCMs participate in a vote concerning the Revised Loss Distribution Proposal and (y) the Requisite Non-Defaulting FXCCMs vote in favour of the Revised Loss Distribution Proposal, the Loss Distribution Cut-Off Date shall be extended and the Loss Distribution Trigger Amount shall be increased for each Non-Defaulting FXCCM in accordance with the Revised Loss Distribution Proposal and shall be applicable for the remainder of the relevant Loss Distribution Period or until further adjusted pursuant to this paragraph. If more than 50% of Non-Defaulting FXCCMs do not participate in such vote and/or if the Requisite Non-Defaulting FXCCMs do not vote in favour of the Revised Loss Distribution Proposal, the Loss Distribution Period shall not be extended and the Loss Distribution Trigger Amount shall not be increased in accordance with the Revised Loss Distribution Proposal. The Loss Distribution Cut-Off Date and Loss Distribution Trigger Amount may only be adjusted up to five times in respect of the Loss Distribution Period in accordance with the processes set forth in this paragraph.

(iii) The Clearing House shall publish the terms of the voting process for the purposes of this paragraph (d) on or before the business day on which such vote is to be held.

(g) ***No Rebate***

The payment to the Clearing House by any FXCCM 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.

F10. Where, after the Default of one or more FXCCMs, the Clearing House determines in its sole discretion that, notwithstanding the availability of any resources remaining under Rules 15(a) to 15(h) of the Default Rules and the availability of the ForexClear Loss Distribution Process in accordance with the terms of Rule F9, it is clear that the Clearing House does not have sufficient resources to meet its obligations and liabilities arising in respect of those ForexClear Contracts to which it is party with Non-Defaulting FXCCMs, the Clearing House will by notice in writing (a "**ForexClear Voluntary Payment Notice**"): (i) inform all Non-Defaulting FXCCMs that it has insufficient resources and that it is likely to invoke Rule F11; and (ii) invite each Non-Defaulting FXCCM to make a payment of funds (a "**ForexClear Voluntary Payment**"), in accordance with Rule (15h) of the Default Rules, to make up for the relevant shortfall.

ForexClear Voluntary Payments will be made on the following terms:

(a) no FXCCM shall be obliged to make a ForexClear Voluntary Payment;

(b) any ForexClear Voluntary Payment will be made by an FXCCM by the close of business on the business day after receipt of the relevant ForexClear Voluntary Payment Notice;

(c) no ForexClear Voluntary Payment may be withdrawn once made; and

(d) the Clearing House shall have full discretion whether or not to accept a particular ForexClear Voluntary Payment.

Any failure by the Clearing House to deliver a ForexClear Voluntary Payment Notice pursuant to this Rule F10 will not invalidate any action taken by the Clearing House pursuant to Rule F11 nor give rise to any liability whatsoever on the part of the Clearing House.

Any ForexClear Voluntary Payments remaining unused at the time of the expiry of the relevant ForexClear Default Period will be accounted for rateably by the Clearing House as if they were amounts paid in respect of the ForexClear Contributions by those FXCCMs from whom ForexClear Voluntary Payments were accepted.

F11. Where, following the process for inviting ForexClear Voluntary Payments in accordance with Rule F10, 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 ForexClear Contracts to which it is party with Non-Defaulting FXCCMs, the following provisions shall have effect:

(a) All outstanding ForexClear Contracts shall be closed out as of the clearing day following the date the Insufficient Resources Determination was made and any further obligations to make any payments under or in respect of such ForexClear 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 ForexClear 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 or Variation Settlement requirement for the position to be closed out.

(b) On the basis of the close out values established for each outstanding ForexClear Contract, an account shall be taken (as at the time of close out) of what is due in respect of each FXCCM, from that FXCCM to the Clearing House and from the Clearing House to that FXCCM, as well as all other amounts owing under or in respect of ForexClear Contracts and any other amounts that may be due in respect of the ForexClear 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 FXCCM 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 in respect of ForexClear 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 ForexClear Default Period to which the Insufficient Resources Determination relates (and in respect of which paragraph 1(g) of Rule F9 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 ForexClear Contributions.

To the extent that the aggregate of all of the amounts owed to the Clearing House by FXCCMs plus all of those other resources applicable to the

ForexClear Business under Rules 15(a) to 15(h) of the Default Rules that have not been applied towards a ForexClear Excess Loss is less than the aggregate of the amounts owed to FXCCMs by the Clearing House, each amount owed to FXCCMs by the Clearing House shall be reduced *pro rata* the shortfall.

(c) The Clearing House shall determine any amounts due to each FXCCM in respect of the repayment of cash Collateral provided in respect of initial margin obligations and outstanding ForexClear Contributions to be repaid. The claim of each such FXCCM 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) above 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 FXCCM, 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 an FXCCM owes an amount to the Clearing House, that FXCCM shall pay that amount to the Clearing House immediately. Where the result of such calculations is that an FXCCM is owed an amount by the Clearing House, the Clearing House shall pay that amount to the FXCCM immediately, subject to (f) below.

(e) The payment of such amount to an FXCCM, pursuant to (d) above subject to any re-calculations performed pursuant to (f), shall constitute the full and final payment in respect of the ForexClear Service and such FXCCM shall not be permitted to make any further claims on the Clearing House in respect of amounts relating to the ForexClear 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 ForexClear Service.

(f) The Clearing House may make the payments due under(c) above in one or more instalments to the FXCCMs in proportion to the value of their claims on the Clearing House under (b) above if some but not all of the amounts due under (c) above or Rules 15(a) to 15(h)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 FXCCMs in accordance with this Rule F11.

(g) This Rule F11 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 transferred to the Clearing House by a FXCCM in respect of its initial margin obligations pursuant to the Regulations and Procedures.

F12 Application of any Recoveries

Following the completion of a ForexClear DMP and subject to Rule 2.7(c) of the ForexClear DMP Annex, the Clearing House shall reimburse the Members (irrespective of whether they remain Members at the time of the recovery) on a *pro rata* basis by reference to the resources which have been applied pursuant to each of the following Default Rules and in the following order: any net amount paid by a Member pursuant to Rules F9, 15(h), 15(g), 15(e) and:

(ii) any amounts received from the Defaulting FXCCM as a result of the Clearing House being a creditor of the Defaulting FXCCM in respect of the ForexClear Business of such Defaulting FXCCM 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 FXCCM or otherwise; or

(iii) any other amounts howsoever obtained or recovered in the course of the Clearing House's operation of the ForexClear DMP or which are otherwise referable to the Defaulting FXCCM,

in each case net of any related expenses incurred by the Clearing House or other sums owing to the Clearing House by the Defaulting FXCCM in connection with the ForexClear Service. For the avoidance of doubt, nothing in this Rule F12 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 FXCCM's Default, any amounts recovered shall be applied *pari passu* as between the relevant default funds.

The FXCCMs will be reimbursed before applying any recoveries back to the Clearing House. Any recoveries made by the Clearing House in excess of the resources applied or paid by FXCCMs pursuant to Rules F9, 15(h), 15(g) and/or 15(e) shall be retained by the Clearing House.

SCHEDULE 6
RATES SERVICE 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 £6 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 :

$$\left(\frac{SwapClear\ Combined\ Loss\ Value}{Total\ Combined\ Loss\ Value}\ x\ Non-Tolerance\ Amount)\right) + SwapClear\ Tolerance\ Amount$$

(g) The "**Rates Service Fund Amount - Listed Interest Rates**" which shall be the greater of:

(i) the "**Weighted Rates Service Fund Amount**", which shall be the amount calculated as follows:

$$\left(\frac{Listed\ Interest\ Rates\ Combined\ Loss\ Value}{Total\ Combined\ Loss\ Value}\ x\ Non-Tolerance\ Amount)\right)$$

$$+\ (1.1\ x\ Combined\ Loss\ Value - Limb\ (2))$$

(h) or the Default Fund Floor (as defined in Rule L2).

(i) 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.

(j) In the event that the Rates Service Fund Amount - Listed Interest Rates equals the Default Fund Floor, then the Rates Service Fund Amount - SwapClear shall be reduced by the amount by which the Default Fund Floor is greater than the Weighted Rates Service Fund Amount.

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(h) 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(h) 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 Amount, Price Alignment Interest, coupon payments, consideration (fee) payments and cash Collateral in respect of the variation margin obligations payable in respect of a Margin Account relating to the SwapClear Business of a Non-Defaulting Rates Service Clearing Member; and (ii) consideration (fee) payments, payments under Section 4.1 of the SwapClear STM Terms, daily settlement amounts and Variation Settlement 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 prior to the day of the relevant Default on which transfers of Collateral and/or other payments required to be made by Non-Defaulting 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 Uncovered Loss(t) = 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 Cut-Off Date**" means, with respect to a Loss Distribution Period the day falling ten (10) business days from the date of commencement of the Rates Service Loss Distribution Process or such earlier or later business day as determined 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 or other payment in respect of settlement 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, the earlier of: (i) (A) in the case of a Defaulting Rates Service Clearing Member who is an SCM, 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; or (B) in the case of a Defaulter who is a Listed Interest Rates Clearing Member but not an SCM, the business day on which the Clearing House has taken such action as it considers to be required to extinguish or transfer the rights and obligations of such a Defaulter; and (ii) any business day on which the Clearing House determines that a Loss Distribution Trigger Event has occurred, PROVIDED THAT, in each case, the Loss Distribution Period shall not extend beyond the Loss Distribution Cut-Off Date.

"**Loss Distribution Trigger Amount**" means, in respect of any Loss Distribution Period and any Non-Defaulting Rates Service Clearing Member, an amount equal to either (i) twice 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 or £200 million, whichever is the greater; or (ii) an amount as approved by the Requisite Non-Defaulting Rates Service Clearing Members following a Revised Loss Distribution Proposal as described in paragraph (d) of this Rule CS4.

"**Loss Distribution Trigger Event**" means, with respect to a Non-Defaulting Rates Service Clearing Member, the aggregate Cash Gainer Payment Currency Adjustments applied to Cash Payments during the Loss Distribution Period (as amended from time to time) exceeded that Rates Service Clearing Member's Loss Distribution Trigger Amount (as amended from time to time) on the immediately preceding Loss Distribution Day.

"**Margin Account**" means: (i) for a Rates Service Clearing Member, each Proprietary Account, Individual Segregated Account, Indirect Gross Sub-Account, Custodial 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 Rates Clearing Member, the Proprietary Account and each FCM Client Omnibus Account with LCH (provided that, in respect of an FCM Omnibus Client Swaps Account with LCH, this term refers to each FCM Client Sub-Account contained therein).

"**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 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) 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.

"**Rates Service Adjustment Amount**" means in respect of the Margin Account(s) of any Non-Defaulting Rates Service Clearing Member 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 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.

"**Requisite Non-Defaulting Rates Service Clearing Members**" means on any business day in a Loss Distribution Period, Non-Defaulting Rates Service Clearing Members whose Rates Service Contributions represented 75% or more of the total size of the Rates Service Fund Amount (less the Contribution of any Defaulter(s)) as of the last Rates Service Determination Date prior to the date when the Default occurred.

"**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 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 which is deemed to be a Cash Gainer, the relevant Rates Service Clearing Member 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 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:

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

"**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 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:

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

"**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.

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

If an exchange of notional 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 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 notional 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(h) of the Default Rules.

(d) ***Adjustment to Loss Distribution Trigger Amount and Loss Distribution Cut-Off Date***

(i) On each business day following the commencement of the Rates Service Loss Distribution Process (except where the Clearing House is unable to make a determination due to a systems failure or similar event beyond the Clearing House's control), the Clearing House shall determine if a Loss Distribution Trigger Event has occurred or is likely to occur and, if so, shall notify all Rates Service Clearing Members accordingly.

(ii) If, at any time during a Loss Distribution Period, the Clearing House determines that (A) the Rates Service Loss Distribution Process is likely to extend beyond the Loss Distribution Cut-Off Date or (B) a Loss Distribution Trigger Event is likely to occur, the Clearing House may: propose to the Non-Defaulting Rates Service Clearing Members (I) an extension of up to 10 business days, from the date of such proposal, to the Loss Distribution Cut-Off Date and (II) an increase in each Non-Defaulting Rates Service Clearing Member's Loss Distribution Trigger Amount of (X) up to twice 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 or (Y) £200 million, whichever is the greater (any proposal pursuant to (I) or (II) above, a "**Revised Loss**

Distribution Proposal"). For the avoidance of doubt, the Clearing House shall propose adjustments to both the Loss Distribution Cut-Off Date and Non-Defaulting Rates Service Clearing Members' Loss Distribution Trigger Amount in a Revised Loss Distribution Proposal, regardless of whether the trigger for such Revised Loss Distribution Proposal is (A) or (B) above.

(iii) Subject to (iv) below, the Clearing House shall be required to make a Revised Loss Distribution Proposal where either (y) it makes the determination pursuant to (A) above on the Loss Distribution Cut-Off Date or (z) a Loss Distribution Trigger Event has occurred, in each case during a Loss Distribution Period.

(iv) If (x) more than 50% of the Non-Defaulting Rates Service Clearing Members participate in a vote concerning the Revised Loss Distribution Proposal and (y) the Requisite Non-Defaulting Rates Service Clearing Members vote in favour of the Revised Loss Distribution Proposal, the Loss Distribution Cut-Off Date shall be extended and the Loss Distribution Trigger Amount shall be increased for each Non-Defaulting Rates Service Clearing Member in accordance with the Revised Loss Distribution Proposal and shall be applicable for the remainder of the relevant Loss Distribution Period or until further adjusted pursuant to this paragraph. If more than 50% of Non-Defaulting Rates Service Clearing Members do not participate in such vote and/or if the Requisite Non-Defaulting Rates Service Clearing Members do not vote in favour of the Revised Loss Distribution Proposal, the Loss Distribution Period shall not be extended and the Loss Distribution Trigger Amount shall not be increased in accordance with the Revised Loss Distribution Proposal. The Loss Distribution Cut-Off Date and Loss Distribution Trigger Amount may only be adjusted up to five times in respect of the Loss Distribution Period in accordance with the processes set forth in this paragraph.

(v) The Clearing House shall publish the terms of the voting process for the purposes of this paragraph (d) on or before the business day on which such vote is to be held.

(e) ***No Rebate***

The payment to the Clearing House by any Rates Service Clearing Member 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.

CS5. Voluntary Payments

Where, after the Default of one or more Rates Service Clearing Members, the Clearing House determines in is sole discretion that, notwithstanding the availability of any resources remaining under Rules 15(a) to 15(h) of the Default Rules and the availability of the Rates Service Loss Distribution Process in accordance with the terms of Rule CS4, 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 Contracts to which it is party with Non-Defaulting Rates Service Clearing Members, the Clearing House will by notice in writing (a "**Rates Service Voluntary Payment Notice**"): (i) inform all Non-Defaulting Rates Service Clearing Members that it has insufficient resources and that it is likely to invoke Rule CS5; and (ii) invite each Non-Defaulting Rates Service Clearing Member to make a payment of funds (a "**Rates Service Voluntary Payment**"), in accordance with Rule 15(h) of the Default Rules, to make up for the relevant shortfall.

Rates Service Voluntary Payments will be made on the following terms:

(a) no Rates Service Clearing Member shall be obliged to make a Rates Service Voluntary Payment;

(b) any Rates Service Voluntary Payment will be made by a Rates Service Clearing Member by the close of business on the business day after receipt of the relevant Rates Service Voluntary Payment Notice;

(c) no 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 Rates Service Voluntary Payment.

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

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

CS6. Rates Service Closure

Where, following the process for inviting Rates Service Voluntary Payments in accordance with Rule CS5, 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 Contracts to which it is party with Non-Defaulting Rates Service Clearing Members, the provisions of this Rule shall have effect.

(f) All outstanding Rates Service Contracts shall be closed out as of the business day following the date of the Insufficient Resources Determination and any further obligations to make any payments under or in respect of such Rates Service Contracts shall cease. The closing prices used shall be 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 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,

Variation Settlement or daily settlement obligation for the position to be closed out.

(g) On the basis of the close out values established for each outstanding Rates Service 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, from that Rates Service Clearing Member to the Clearing House and from the Clearing House to that Member, as well as all other amounts owing under or in respect of such Rates Service Contracts and any other amounts that may be due in respect of the 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 shall be set off against the sums due from the Clearing House and only the balance of the account shall be payable. Amounts due in respect of 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 Currency Adjustment to Cash Payments made in the Rates Service Default Period to which the Insufficient Resources Determination relates (and in respect of which Rule CS4(e) shall be specifically disapplied), but shall exclude (i) the repayment of any cash Collateral provided to the Clearing House by a Rates Service Clearing Member in respect of initial margin, (ii) the repayment of any cash Collateral provided to the Clearing House by a Custodial Segregated Client, or (iii) any outstanding Rates Service Contributions.

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

(h) The Clearing House shall determine any amounts due to each Rates Service Clearing Member in respect of the repayment of cash Collateral provided in respect of initial margin obligations and outstanding 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.

(i) 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.

(j) 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.

(k) The Clearing House may make the payments due under paragraph (d) above in one or more instalments to the Rates Service Clearing Members in proportion to the value of their claims on the Clearing House under paragraph (b) above if some but not all of the amounts due under (d) above or Rules 15(a) to 15(h) 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 in accordance with this Rule.

(l) This Rule 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*).

(m) Nothing in the foregoing shall override the obligation of the Clearing House to return non-cash Collateral provided by a Rates Service Clearing Member 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 DMP, 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.

CS8. Application of any Recoveries

Following the completion of a Rates Service DMP and subject to Rule 2.10(c) of the Rates Service DMP Annex, the Clearing House shall reimburse the Members (irrespective of whether they remain Members at the time of the recovery) on a *pro rata* basis by reference to

the resources which have been applied pursuant to each of the following Default Rules and in the following order: any net amount paid by a Member pursuant to Rules CS4, 15(h), 15(g), 15(e), and:

(i) any amounts received from the Defaulting Rates Service Clearing Member as a result of the Clearing House being a creditor of the Defaulting Rates Service Clearing Member in respect of the Rates Service Business of such Defaulting Rates Service Clearing Member 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 or otherwise; or

(ii) any other amounts howsoever obtained or recovered in the course of the Clearing House's operation of the Rates Service Default Management Process or which are otherwise referable to the Defaulting Rates Service Clearing Member,

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 in connection with the Rates Service Business of such Defaulting Rates Service Clearing Member. For the avoidance of doubt, (i) nothing in this Rule CS8 shall oblige the Clearing House to pursue any litigation or other action in order to recover the amounts contemplated in Rule CS8(i) and (ii) and, if another default fund of the Clearing House has also been applied as a result of the Rates Service Clearing Member’s Default, any amounts recovered shall be applied *pari passu* as between the relevant default funds; and (ii) the amounts in Rule CS8(i) and (ii) exclude any Client Collateral and any proceeds of the sale, disposition or other realisation of such Client Collateral by the Clearing House.

The Rates Service Clearing Members will be reimbursed before applying any recoveries back to the Clearing House. Any recoveries made by the Clearing House in excess of the resources applied or paid by Rates Service Clearing Members pursuant to Rules CS4, 15(h), 15(g) and/or 15(e) shall be retained by the Clearing House.

PART A

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 £4 million pounds, or in the case of a New Member, the value of the relevant SCM's SwapClear Tolerance Contribution Amount shall be £4 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 £4 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 value of the "**SwapClear Non-Tolerance Contribution Amount**" for a given SCM (other than an SCM that is a New Member) shall be calculated by multiplying the SwapClear Non-Tolerance Amount by the SCM's SwapClear Non-Tolerance Weight;

(f) the "**SwapClear Non-Tolerance Weight**" of an SCM shall be calculated by dividing (i) the Uncovered Stress Loss associated with such SCM's SwapClear Contracts by (ii) the total Uncovered Stress Loss applied to all Non-Defaulting SCMs with respect to their SwapClear Contracts, in each case where the SwapClear Contracts are (A) entered into on the SCM's own behalf or with respect to a SwapClear Clearing Client or an FCM Client and (B) open and outstanding during the 20 business day period preceding the relevant SwapClear Determination Date. An SCM's "**Uncovered Stress Loss**," as determined in accordance with the foregoing, shall be determined by the Clearing House (and notified to each SCM) from time to time by, *inter alia*, deducting the amount of eligible margin held by the Clearing House with respect to the relevant SwapClear Contracts from the stress loss associated with such SwapClear Contracts, **provided** that the Clearing House may, in determining the Uncovered Stress Loss of an SCM, take into account, *inter alia*, the number of alternative SwapClear Clearing Members that clear SwapClear Contracts with respect to that SCM's SwapClear Clearing Clients or FCM Clients. The provisions of this sub-paragraph (f) shall not apply to New Members and, for the avoidance of doubt, New Members shall not constitute Non-Defaulting SCMs for the purposes of limb (ii) of this sub-paragraph;

(g) the "**SwapClear Contribution**" of: (x) an SCM (other than an SCM that 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 that is a New Member shall be calculated in accordance with S3;

(h) if an SCM's SwapClear Non-Tolerance Contribution Amount (calculated in accordance with paragraph (e) 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 (as defined in the General Regulations) and the number of Minimum SwapClear Contribution Members; and (ii) the aggregate SwapClear Non-Tolerance Contribution Amounts (calculated in accordance with paragraph (e) 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) if (i) an SCM (other than an FCM Clearing Member) notifies the Clearing House on the Rates Service Default Management Process Completion Date or the business day occurring immediately after such date that it wishes to resign from the SwapClear Service, (ii) the SwapClear AET Requirement in respect of such proposed resignation has been satisfied by the SwapClear Determination Date occurring immediately after such Rates Service Default Management Process Completion Date, (iii) the SCM is not a Defaulter, and (iv) no Default has occurred from and including the SwapClear Determination Date referred to in Rule S2(e)(ii) to and including the fourth business day occurring after such SwapClear Determination Date ("**SwapClear Contribution Payment Date**"), then the SCM shall cease to be an SCM on and from such SwapClear Contribution Payment Date and the Clearing House shall repay the SwapClear Contribution that it holds for such SCM (to the extent it has not been applied under these Default Rules) in accordance with the Procedures and the SCM shall not be obliged to make any payment to the Clearing House under Rule S4(c). If an SCM notifies the Clearing House in accordance with Rule S2(e)(i), but the

requirements under Rules S2(e)(ii), (iii) and/or (iv) are not satisfied, then such SCM will cease to be a Resigning Member in respect of the SwapClear Service.

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 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 S6; 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, in each case, until the next SwapClear Determination Date and subject to (where applicable) the requirement under Rule S7 and Rule CS7.

(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 B

RATES SERVICE DEFAULT FUND SUPPLEMENT – LISTED INTEREST RATES

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

the "**Default Fund Excess**" means the amount by which the Total Fund mount exceeds the greater of the Weighted Rates Service Fund Amount or the Default Fund Floor

the "**Default Fund Floor**" means the sum of the Minimum Contributions

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

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

the "**Listed Interest Rates AET Requirement**" means, in respect of a Member, that all of the Contracts (other than Portfolio Margined Contracts) in the name of such Member have been closed out or transferred to another Clearing Membera "**Member**" means a Listed Interest Rates Clearing Member and a Clearing Member approved to clear a Specified Market

a "**Minimum Contribution**" means either (i) GBP 500,000 for a Listed Rates Clearing Member that is not a Joint Rates Service Clearing Member; or (ii) GBP 7,500,000 for a Joint Rates Service Clearing Member

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 the Rates Exchanges and any other markets from time to time specified by the Clearing House

"**Total Fund Amount**" means the sum of all Members' Contributions

"**Weighted Contributions Amount**" means the sum of all Weighted Contributions

"**Weighted Contribution Reallocation Percentage**" means for each Weighted Contribution Member, the proportion of such Member's Weighted Contribution to the Weighed Contributions Amount

a "**Weighted Member**" means a Member that is required to pay a Weighted Contribution pursuant to Rule L2 (c) below

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,

(c) The Member's Contribution shall be the greater of:

(i) the amount arrived at by multiplying the Weighted Rates Service Fund Amount by the Member's Weight Factor (the "**Weighted Contribution**"); and

(ii) the Member's Minimum Contribution,

provided that, if a Default Fund Excess would arise pursuant to the foregoing, then the Clearing House shall recalculate each Weighted Member's Contributions by reducing each Weighted Member's Contribution by an amount equal to each Weighted Member's Weighted Contribution Reallocation Percentage multiplied by the Default Fund Excess, provided further that, if pursuant to the foregoing any Weighted Member's Contribution would be less than their Minimum Contribution, then such Weighted Member's Contribution shall be increased to the Minimum Contribution. Where such increase gives rise to a Default Fund Excess, then the Clearing House shall iteratively carry out the process described in this paragraph, with the each Weighted Contribution and the Total Fund Amount revised accordingly until the Total Fund Amount is equal to either the Default Fund Floor or the Weighted Rates Service Fund Amount (as applicable).

For the purposes of these calculations:

(i) "**Reference Period**" means the period of three calendar months immediately before the Determination Date;

(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) Contributions shall be rounded upwards, if not already such a multiple, to the next integral multiple of one thousand pounds; and

(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 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 and subject to (where applicable) the requirements under Rule L5 and Rule CS7. 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 the Default Rules.

(b) [reserved].

(c) if (i) a Member (other than an FCM Clearing Member) notifies the Clearing House on the Rates Service Default Management Process Completion Date or the business day occurring immediately after such date that it wishes to resign from the Listed Interest Rates Service, (ii) the Listed Interest Rates AET Requirement in respect of such proposed resignation has been satisfied by the Determination Date occurring immediately after such Rates Service Default Management Process Completion Date, (iii) the Member is not a Defaulter, and (iv) no Default has occurred from and including the Determination Date referred to in Rule L6(c) to and including the fourth business day occurring after such Determination Date ("**Listed Interest Rates Contribution Payment Date**"), then the Member shall cease to be a Listed Interest Rates Clearing Member on and from such Listed Interest Rates Contribution Payment Date and the Clearing House shall repay the Contribution that it holds for such Member (to the extent it has not been applied under these Default Rules) in accordance with the Procedures and the Member shall not be obliged to make any payment to the Clearing House under Rule L4(a)(iii). If a Member notifies the Clearing House in accordance with Rule L6(c)(i), but the requirements under Rules L6(c)(ii), (iii) and/or (iv) are not satisfied, then such Member will cease to be a Resigning Member in respect of the Listed Interest Rates Service.

SCHEDULE 7
REPOCLEAR DEFAULT FUND SUPPLEMENT

R1 Each RCM's RepoClear Contribution (other than any RepoClear Unfunded Contribution or any Supplementary Contribution) shall be determined by the Clearing House in accordance with Rule R2.

R2 In calculating the RepoClear Segregated Fund Amount and each RCM's RepoClear Contribution on a RepoClear Determination Date, all amounts required to be calculated in order to determine the RepoClear Segregated Fund Amount and RepoClear Contribution shall also be calculated as of the same RepoClear Determination Date.

(a) On each RepoClear Determination Date, the Clearing House will calculate the RepoClear Segregated Fund Amount.

For these purposes:

"**Aggregate Monthly DFAM**" means the sum of the Monthly DFAMs for the RepoClear Cover Two Members;

"**Combined Loss Value**" is, for any calculation day, the sum of the STLIEOMs for the RCMs which have the largest and second largest STLIEOMs on any day in the Lookback Period applicable to such calculation day (such RCMs being the **First Loss RCM** and the **Second Loss RCM** respectively);

"**Lookback Period**" means, in relation to any day, the period of 1 calendar month from such day or 20 Business Days, whichever is the longer;

"**Monthly DFAM**" shall, for each of the RepoClear Cover Two Members, be the higher of zero and the amount by which its STLIEOM exceeds an amount equal to 45 percent of the RepoClear Initial Segregated Fund Amount;

"**Monthly DFAM RCM**" means a RCM whose Monthly DFAM is greater than zero;

"**RepoClear Cover Two Members**" shall be the First Loss RCM and the Second Loss RCM;

"**RepoClear Fund Cap**" equals GBP 2.5 billion;

"**RepoClear Fund Floor**" equals GBP 500 million;

'**RepoClear Initial Segregated Fund Amount**' is an amount denominated in Pounds Sterling equal to the Combined Loss Value calculated for the relevant RepoClear Determination Date, plus 10 percent;

"**RepoClear Segregated Fund Amount**" is an amount denominated in Pounds Sterling which shall be not less than the higher of (a) the RepoClear Initial Segregated Fund Amount minus the Aggregate Monthly DFAM; (b) the Second Largest Combined Loss Value plus 10 percent; and (c) RepoClear Fund Floor, subject to a maximum equal to the RepoClear Fund Cap;

"**Second Largest Combined Loss Value**" is an amount calculated as the Combined Loss Value pursuant to this Rule, but excluding for the purposes of this calculation the Monthly DFAM RCMs, subject that the calculation of such amount may be made using a different stress scenario to the Combined Loss Value;

"**STLIEOM**" means, in respect of each RCM and any day, the stress-tested loss in excess of the amount of Collateral provided in respect of initial margin (determined for a given scenario by the Clearing House) which could be incurred by the Clearing House in respect of that RCM's RepoClear Business if that RCM became a Defaulting RCM of that day;

(b) Following a Default, any such determinations and any such RepoClear Determination Date which might otherwise have occurred under this Rule 2 shall be suspended for the duration of the period (the "**RepoClear Default Period**") commencing on the date of such Default and terminating on the later of the following dates:

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

In respect of each RepoClear Determination Date, a RCM's RepoClear Contribution shall be equal to its Preliminary RepoClear Contribution, unless such amount is below the Minimum RepoClear Contribution, in which case a RCM's RepoClear Contribution shall be the Minimum RepoClear Contribution.

For these purposes:

"**Minimum RepoClear Contribution**" shall be GBP 2,000,000 at Clearing Member Level;

"**Preliminary RepoClear Contribution**" is the amount calculated by multiplying the RepoClear Segregated Fund Amount by the RCM's RepoClear Margin Weight;

"**RepoClear Margin Weight**" is the percentage calculated by dividing the average daily initial margin obligation (as calculated under the Procedures or other arrangements applicable) which has applied to the RCM during the Lookback Period preceding the relevant RepoClear Determination Date in respect of all Fixed Income

Contracts to which such RCM is a party by the total of such average daily obligations applied to all Non-Defaulting RCMs.

Notwithstanding Rule 2(c), in respect of a RCM who is not a Minimum RepoClear Contribution Member, a RCM's RepoClear Contribution may be adjusted by the deduction of a RepoClear Discount if the RepoClear Actual Total is greater than the RepoClear Fund Cap or by the addition of a RepoClear Increase if the RepoClear Actual Total is less than the RepoClear Fund Floor.

If, in respect of any RCM, the application of any RepoClear Discount would otherwise result in that RCM's RepoClear Contribution being less than the Minimum RepoClear Contribution, such RCM's RepoClear Contribution shall be deemed to be the Minimum RepoClear Contribution.

For these purposes:

"**Minimum RepoClear Contribution Member**" is a RCM whose Preliminary RepoClear Contribution is, in respect of any RepoClear Determination Date, equal to the Minimum RepoClear Contribution;

"**RepoClear Actual Total**" shall be the amount calculated by adding together (i) the amount which is the product of the Minimum RepoClear Contribution and the number of Minimum RepoClear Contribution Members; and (ii) the aggregate Preliminary RepoClear Contributions of those RCMs which are not Minimum RepoClear Contribution Members;

"**RepoClear Determination Date**" means the first business day of each calendar month.

"**RepoClear Discount**" is, for any RCM who is not a Minimum RepoClear Contribution Member, such RCM's *pro rata* share of the RepoClear Excess calculated as the proportion of such RCM's Preliminary RepoClear Contribution relative to the aggregate Preliminary RepoClear Contributions of all RCMs other than Minimum RepoClear Contribution Members;

"**RepoClear Excess**" shall be the arithmetical difference between the RepoClear Actual Total and the RepoClear Fund Cap where the RepoClear Actual Total is greater than the RepoClear Fund Cap;

"**RepoClear Increase**" is, for any RCM who is not a Minimum RepoClear Contribution Member, such RCM's *pro rata* share of the RepoClear Shortfall calculated as the proportion of such RCM's Preliminary RepoClear Contribution relative to the aggregate Preliminary RepoClear Contributions of all RCMs other than Minimum RepoClear Contribution Members;

"**RepoClear Shortfall**" shall be the arithmetical difference between the RepoClear Actual Total and the RepoClear Fund Floor where the RepoClear Actual Total is less than the RepoClear Fund Floor;

Other than during a RepoClear Default Period, the Clearing House may, at its discretion, recalculate the RepoClear Segregated Fund Amount and each RCM's RepoClear Contribution on any business day if the largest Combined Loss Values in the Lookback Period for that day as determined in accordance with this Rule 2 differs by more than 25 percent from the Combined Loss Value calculated at the immediately preceding RepoClear Determination Date. (f) On each day, the Clearing House shall calculate each RCM's STLIEOM. If on any day, any RCM (which may include RepoClear Cover Two Members) has a STLIEOM which is equal to or greater than 45 percent of the RepoClear Segregated Fund Amount (as determined at the immediately preceding RepoClear Determination Date) or if a RCM's internal credit score falls below the minimum determined by the Clearing House, the Clearing House may require such RCM to transfer to the Clearing House an amount of additional Collateral (the "Stress Test Margin") sufficient to reduce the STLIEOM for that RCM to less than 45 percent of the RepoClear Segregated Fund Amount. Where, in respect any subsequent day until the next RepoClear Determination Date, the STLIEOM of any such RCM is less than 45 percent (excluding for these purposes the Stress Test Margin), such Collateral reflecting the Stress Test Margin shall be returned on the next following business day.

R3 The Clearing House shall not otherwise recalculate the RepoClear Segregated Default Fund or any other RCM's RepoClear Contribution even if the addition of the New Member's RepoClear Contribution means that the RepoClear Actual Total is in excess of the RepoClear Fund Cap.

R4 Upon determination of the amount of a RepoClear Contribution in accordance with Rule R2:

1.1 if the amount of the RepoClear Contribution of an RCM immediately before close of business on the relevant RepoClear Determination Date exceeds the amount of the RCM's RepoClear Contribution as determined under Rule R2 as at close of business on that day, the excess shall be paid by the Clearing House to such RCM or where such RCM is a Sponsored Member, to its relevant Agent Members in accordance with the Procedures;

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

1.3 if the amount of the RepoClear Contribution of an RCM immediately before close of business on the relevant RepoClear Determination Date is less than the amount of the RCM's RepoClear Contribution as so determined, the shortfall shall be paid by such RCM or where such RCM is a Sponsored Member by its relevant Agent Members to the Clearing House in accordance with the Procedures.

RepoClear Contributions shall at all times be denominated in GBP.

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

In respect of any RepoClear Determination Date, a Monthly DFAM RCM shall pay its Monthly DFAM at the same time as any amount in respect its RepoClear Contribution would become payable in accordance with these Rules and the Procedures, such amount to be repaid by the Clearing House to the Monthly DFAM RCM on the fourth business day after the next following RepoClear Determination Date.

R5 On any day interest shall accrue on the amount of each RepoClear Contribution held by the Clearing House, to the extent that it has not been applied under Rules 19 or 21 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 and published on the website of the Clearing House. Interest shall be payable in arrears 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 RepoClear Contribution.

R6

(a) After a Default, unless and until the Clearing House has repaid a Defaulter's RepoClear Contribution (or the remaining part thereof, as applicable), the RepoClear Segregated Fund Amount shall be treated as having been reduced by the amount of the Defaulter's RepoClear Contribution (if any), regardless of whether the Clearing House has applied part or all of that RepoClear Contribution under the Default Rules.

(b) Where, after a Default, the Clearing House has applied part or all of the RepoClear Contributions of the Non-Defaulting RCMs under Rule 21 of the Default Rules, the RepoClear Segregated Fund Amount shall be reduced forthwith by the deduction of (i) the amount of the Defaulter's RepoClear Contribution (if any) in accordance with paragraph (a) of this Rule R6; and (ii) the aggregate amount of the RepoClear Contributions or parts of RepoClear Contributions of the Non-Defaulting RCMs so applied, and the amount of the RepoClear Contribution that each Non-Defaulting RCM must maintain with the Clearing House shall be reduced by the amount of its RepoClear Contribution which has been so applied, in each case, until the next RepoClear Determination Date and subject to (where applicable) the requirement under paragraph (c) and (d) of this Rule R6 and Rule R7.

(c) Following the completion of a RepoClear Default Management Process, the Clearing House will deliver a notice to the RCMs confirming that the relevant RepoClear Default Management Process Completion Date has occurred, notwithstanding that the Default Period may not have elapsed. If, following the issuance of such notice, the value of the RepoClear Segregated Fund Amount determined in accordance with paragraph (b) of this Rule R6 is less than the RepoClear Fund Floor, the Clearing House may notify each Non-Defaulting RCM which is not an Agent Member that it is required to make a Supplementary Contribution, based on the proportion that the value of its RepoClear

Contribution as at the last RepoClear Determination Date prior to the date when the relevant Default occurred bears to the value of the aggregate RepoClear Contributions of all Non-Defaulting RCMs as at such date; and

1.4 each Non-Defaulting RCM which is an Agent Member that it is required to make a Supplementary Contribution, based on the proportion that the value of such Agent Member's RepoClear Contribution as at the last RepoClear Determination Date prior to the date when the relevant Default occurred bears to the value of the aggregate RepoClear Contributions of all Non-Defaulting RCMs as at such date,

so as to reinstate the RepoClear Segregated Fund Amount to a value which is no less than the RepoClear Fund Floor. Supplementary Contributions required hereunder shall be paid within the time period specified by the Clearing House and in accordance with the Procedures.

R7 Where, after a Default, the Clearing House determines that (i) by reason of a reduction in accordance with Rule R6, the value of the RepoClear Segregated Fund Amount, excluding contributions of Defaulting RCMs, has been reduced by at least 25 per cent.; or (ii) by the time of the RepoClear Default Management Process Completion Date in relation to the relevant Default the value of the RepoClear Segregated Fund Amount, excluding contributions of Defaulting RCMs, will be reduced by at least 25 per cent., the Clearing House may, by notice in writing (the "**RepoClear Unfunded Contribution Notice**"), require each Non-Defaulting RCM or in the case of a Sponsored Member, its Agent Members for it to deposit and maintain an amount (each a "**RepoClear Unfunded Contribution**") in accordance with the following provisions:

2.1 RepoClear Unfunded Contributions will only be payable in circumstances where the relevant RepoClear Unfunded Contribution Notice is delivered by the Clearing House to RCMs or in the case of a Sponsored Members, its Agent Members for and on its account prior to the RepoClear Default Management Process Completion Date in relation to the relevant Default;

2.2 the value of the RepoClear Unfunded Contribution payable by each individual RCM or in the case of a Sponsored Member, its Agent Members for and on its account shall be the product of (i) the percentage by which the value of the RepoClear Segregated Fund Amount has been reduced and (ii) the value of the RepoClear Contribution of such RCM as at the last RepoClear Determination Date prior to the date when the relevant Default occurred;

2.3 following the payment of a RepoClear Unfunded Contribution in accordance with paragraphs 2.1 and 2.2 above, the Clearing House may, by the delivery of one or more further RepoClear Unfunded Contribution Notices, require each Non-Defaulting RCM or in the case of a Sponsored Member, its Agent Members for and on its account to pay one or more further RepoClear Unfunded Contributions in respect of the same Default, **provided that** the total value of the RepoClear Unfunded Contributions payable by an individual RCM or in the case of a Sponsored Member, its Agent Members for and on its account in respect of a particular Default (determined in accordance with paragraph 2.2 above) may not exceed the value of the RepoClear Contribution of such RCM as at the last RepoClear Determination Date prior to the date when the relevant Default occurred; and

2.4 following a Default in respect of which RepoClear Unfunded Contributions were paid (the "**First Default**"), the Clearing House may require the payment of further RepoClear Unfunded Contributions in respect of subsequent Defaults, (which, for the avoidance of doubt, can never be a First Default), **provided that** RepoClear 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 RepoClear Unfunded Contribution Notice in respect of the First Default).

RCMs or, in the case of Sponsored Members, their Agent Members for them and on their accounts will be required to deposit the full amount of their RepoClear Unfunded Contributions (without exercising any rights of set-off or counterclaim) with the Clearing House on the business day following the receipt of a RepoClear Unfunded Contribution Notice.

For the avoidance of doubt, references to (a) "RCMs" for the purposes of this Rule R7 include any RCM (other than a Defaulting RCM) 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 RepoClear Service is not yet effective and (b) "Agent Member" for the purposes of this Rule R8 include any Agent Member (other than a Defaulting RCM) who is: (i) a Retiring Agent Member but whose status as an Agent Member has not yet been terminated; and (ii) a Resigning Agent Member whose resignation from the RepoClear Service is not yet effective.

R8 RepoClear Loss Distribution Process

Where, after a Default, the Clearing House determines that the RepoClear 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 "**RepoClear Loss Distribution Process**") described in this Rule R8.

(a) For the purposes of this Rule R8, the following definitions will apply:

"**Available Resources**" means, in respect of any Loss Distribution Period or Service Closure Period, the aggregated amount which is available to be paid by the Clearing House for application in meeting any loss suffered or incurred by the Clearing House in accordance with Rules 15(a) to 15(h) of the Default Rules as at and including the relevant Last Call Prior to Default.

"**Cash Payment**" means, in respect of any business day, the aggregated amount which would be paid by the Clearing House to a Non-Defaulting RCM or, in the case of a Sponsored Member, to its relevant Agent Members (expressed as a positive number) or by such RCM or in the case of a Sponsored Member, by its relevant Agent Members to the Clearing House (expressed as a negative number) in a Cash Payment Currency on such business day.

"**Cash Payment Currency**" means, in respect of each RCM, the Currency in which or, in the case of a Sponsored Member, its relevant Agent Members it paid its RepoClear Contribution.

"**Cumulative LCH Transfer Cost**" means, as determined on any business day during any Loss Distribution Period or Service Closure 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.

"**Final Determination Date**" means a business day subsequent to an Insufficient Resources Determination Date when a Service Closure Payment is to be determined.

"**Insufficient Resources Determination Date**" means the day on which an Insufficient Resources Determination (as defined in Rule 10**Error! Reference s ource not found.**) is made by the Clearing House.

"**Last Call Prior to Default**" means the most recent business day prior to the day of the relevant Default on which transfers of Collateral and/or other payments required to be made by Non-Defaulting RCMs or, in the case of Sponsored Members, by their relevant Agent Members to the Clearing House were made in full subject to any tolerances that the Clearing House may apply.

"**LCH Transfer Cost**" means any cost (converted, where applicable, into EUR at a Rate of Exchange determined by the Clearing House in its sole discretion) to the Clearing House arising out of transferring the rights and obligations arising out of the Fixed Income Contracts of a Defaulting RCM to any other RCM or third parties.

"**LCH Final Uncovered Loss**" means the aggregate of LCH Uncovered Losses arising on each day in a Service Closure Period.

"**LCH Uncovered Loss**" means, in respect of the Clearing House, as determined on any business day in any Loss Distribution Period or Service Closure Period, the amount greater than zero calculated in accordance with the following formula:

$$(TRCMCP + CLC) - (TAR + TLD)$$

where:

"**TRCMCP**" means the TRCM Cash Payment;

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

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

"**TLD**" means Total Loss Distribution; and

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

"**Loss Distribution Cut-Off Date**" means with respect to a Loss Distribution Period the day falling ten (10) business days from the date of commencement of the RepoClear Loss Distribution Process or such earlier business day (as determined by the Clearing House) or later business day (as determined by the ballot process pursuant to paragraph (c) of this Rule R8).

"**Loss Distribution Day**" means any business day in a Loss Distribution Period on which the Clearing House, 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 earlier of: (i) the day on which a Default occurs with respect to an RCM to the business day on which all Loss Distribution Charges in respect of such Default have been paid in full and (ii) any business day on which the Clearing House determines that a Loss Distribution Trigger Event has occurred, PROVIDED THAT the Loss Distribution Period shall not extend beyond the Loss Distribution Cut-Off Date.

"**Loss Distribution Trigger Amount**" means, in respect of any Loss Distribution Period and any Non-Defaulting RCMs, an amount equal to twice the RepoClear Contribution of such Non-Defaulting RCM as at the last RepoClear Determination Date prior to the date when the Default occurred at the beginning of that Loss Distribution Period; or (ii) an amount as approved by the Requisite Non-Defaulting RCMs following a Revised Loss Distribution Proposal as described in paragraph (c) of this Rule R8.

"**Loss Distribution Trigger Event**" means, with respect to a Non-Defaulting RCM, the aggregate Cash Payments during the Loss Distribution Period (as amended from time to time) exceeded that RCM's Loss Distribution Trigger Amount (as amended from time to time) on the immediately preceding Loss Distribution Day.

"**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.

"**RCM Cash Payment**" means, in respect of any Cash Payment (converted, where applicable into EUR at a Rate of Exchange determined by the Clearing House in its sole discretion) and any business day (a) the amount of any such Cash Payment which would be paid by the Clearing House to a Non-Defaulting RCM in respect of the Fixed Income Contracts of a Defaulting RCM on such business day (expressed as a positive number) excluding any cash payments made by the Clearing House to such Non-Defaulting RCM or, in the case of a Sponsored Member, its relevant Agent Members in respect of (i) delivery versus payment transfers and (ii) all transfers of cash Collateral other than in respect of variation margin; and (b) the amount of any Cash Payments made by the relevant Non-Defaulting RCM or, in the case of a Sponsored Member, its relevant Agent Members to the Clearing House in respect of the Fixed Income Contracts of a Defaulting RCM on such business day (expressed as a negative number) excluding any cash payments made by the relevant Non-Defaulting RCM to the Clearing House in respect of (i) delivery versus payment transfers and (ii) all transfers of cash Collateral other than in respect of variation margin.

"**Requisite Non-Defaulting RCMs**" means on any business day in a Loss Distribution Period, Non-Defaulting RCMs whose RepoClear Contributions represented 75% or more of the total size of the RepoClear Segregated Fund

Amount (less the RepoClear Contributions of any Defaulter(s)) as at the last RepoClear Determination Date prior to the date on which the Default occured.

"**Service Closure Period**" means the period from and including an Insufficient Resources Determination Date to, but including, a Final Determination Date.

"**Total Available Resources**" means, during a Loss Distribution Period or Service Closure Period the sum of (i) the Available Resources and (ii) any Unfunded Contributions.

"**Total Loss Distribution**" means, as determined on the day an LCH Uncovered Loss is being determined, the sum of any Loss Distribution Charges paid by Non-Defaulting RCMs or, in the case of a Sponsored Member, its relevant Agent Members from but the excluding relevant Last Call Prior to Default to and excluding such day.

"**TRCM Cash Payment**" means the total of all cumulative RCM Cash Payments for each business day from but excluding the relevant Last Call Prior to Default up to and including the business day upon which LCH Uncovered Losses are being determined.

(b) Loss Distribution Charges

On each Loss Distribution Day,

(i) each Non-Defaulting RCM, or

(ii) in the case of a Sponsored Member that is a Non-Defaulting RCM, its relevant Agent Members,

shall be required to pay to the Clearing House a "**Loss Distribution Charge**" which is equal to the product of:

(i) in the case of (i) above (x) the LCH Uncovered Loss in respect of that Loss Distribution Day and (y) the proportion which that Non-Defaulting RCM's RepoClear Contribution bears to the aggregate of the RepoClear Contributions of all Non-Defaulting RCMs; and

(ii) in the case of (ii) above (x) the LCH Uncovered Loss in respect of that Loss Distribution Day and (y) the proportion which that Agent Member's RepoClear Contribution bears to the aggregate of the RepoClear Contributions of all Non-Defaulting RCMs,

provided that, the aggregate of all such Loss Distribution Charges shall not be greater than the Loss Distribution Cap Amount in respect of that Non-Defaulting RCM.

Any Loss Distribution Charge shall be paid by the RCM or, in the case of a Sponsored Member, its relevant Agent Members to the Clearing House in accordance with the Procedures. If all losses have been allocated within the Loss Distribution Cap Amount, the Clearing House will determine the RepoClear Default Management Process Completion Date.

(i) ***Adjustment to Loss Distribution Trigger Amount and Loss Distribution Cut-Off Date***

(i) On each business day following the commencement of the RepoClear Loss Distribution Process (except where the Clearing House is unable to make a determination due to a systems failure or similar event beyond the Clearing House's control), the Clearing House shall determine if a Loss Distribution Trigger Event has occurred or is likely to occur and, if so, shall notify all RCMs accordingly.

(ii) If, at any time during a Loss Distribution Period, the Clearing House determines that (A) the RepoClear Loss Distribution Process is likely to extend beyond the Loss Distribution Cut-Off Date or (B) a Loss Distribution Trigger Event is likely to occur, the Clearing House may propose to the Non-Defaulting RCMs (I) an extension of up to 10 business days, from the date of such proposal, to the Loss Distribution Cut-Off Date and (II) an increase in each Non-Defaulting RCM's Loss Distribution Trigger Amount of up to twice the RepoClear Contribution of such Non-Defaulting RCM as at the last RepoClear Determination Date prior to the date when the Default occurred (any proposal pursuant to (I) or (II) above, a "**Revised Loss Distribution Proposal**"). For the avoidance of doubt, the Clearing House shall propose adjustments to both the Loss Distribution Cut-Off Date and Non-Defaulting RCMs' Loss Distribution Trigger Amount in a Revised Loss Distribution Proposal, regardless of whether the trigger for such Revised Loss Distribution Proposal is (A) or (B) above.

(iii) Subject to (iv) below, the Clearing House shall be required to make a Revised Loss Distribution Proposal where either (y) it makes the determination pursuant to (A) above on the Loss Distribution Cut-Off Date or (z) a Loss Distribution Trigger Event has occurred, in each case during a Loss Distribution Period.

(iv) If (x) more than 50% of the Non-Defaulting RCMs participate in a vote concerning the Revised Loss Distribution Proposal and (y) the Requisite Non-Defaulting RCMs vote in favour of the Revised Loss Distribution Proposal, the Loss Distribution Cut-Off Date shall be extended and the Loss Distribution Trigger Amount shall be increased for each Non-Defaulting RCM in accordance with the Revised Loss Distribution Proposal and shall be applicable for the remainder of the relevant Loss Distribution Period or until further adjusted pursuant to this paragraph. If more than 50% of Non-Defaulting RCMs do not participate in such vote and/or if the Requisite Non-Defaulting RCMs do not vote in favour of the Revised Loss Distribution Proposal, the Loss Distribution Period shall not be extended and the Loss Distribution Trigger Amount shall not be increased in accordance with the Revised Loss Distribution Proposal. The Loss Distribution Cut-Off Date and Loss Distribution Trigger Amount may only be adjusted up to five times in respect of the Loss Distribution Period in accordance with the processes set forth in this paragraph.

(v) The Clearing House shall publish the terms of the voting process for the purposes of this paragraph (c) on or before the business day on which such vote is to be held.

(c) ***Application of Loss Distribution Charges to Cash Payment***

The Clearing House shall apply all payments it receives in respect of Loss Distribution Charges 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(h) of the Default Rules.

(d) ***No Rebate***

The payment to the Clearing House by any RCM or, in the case of a Sponsored Member, its relevant Agent Members of any Loss Distribution Charge 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.

(e) ***Application of any Recoveries***

If the RepoClear Loss Distribution Process has been invoked by the Clearing House in accordance with this Rule R8, the Clearing House shall reimburse the RCMs or, in the case of a Sponsored Member, its relevant Agent Members (irrespective of whether they remain RCMs 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(h) of the Default Rules (including any RepoClear Unfunded Contributions) and including the net amount of any one or more paid by the relevant RCMs:

(i) any amounts received from the Defaulting RCM as a result of the Clearing House being a creditor of the Defaulting RCM in respect of the RepoClear Business of such Defaulting RCM 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 RCM 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 RepoClear Default Management Process or which are otherwise referable to the Defaulting RCM,

in each case net of any related expenses incurred by the Clearing House or other sums owing to the Clearing House by the Defaulting RCM in connection with the RepoClear client clearing service. For the avoidance of doubt, nothing in this paragraph (e) 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 RCM's Default, any amounts recovered shall be applied *pari passu* as between the relevant default funds.

R9 Voluntary Payments

a) Where, after the Default of one or more RCMs, or Sponsored Members, the Clearing House determines in is sole discretion that, notwithstanding the availability of any resources remaining under Rules 15(a) to 15(h) of the Default Rules and the availability of the RepoClear Service Loss Distribution Process in accordance with the terms of Rule R8, it is clear that the Clearing House does not have sufficient resources to meet its obligations and liabilities arising in respect of those Fixed Income Contracts to which it is party with Non-Defaulting RCMs, the Clearing House may by notice in writing (a "**RepoClear Service Voluntary Payment Notice**"): (i) inform all Non-Defaulting RCMs that it has insufficient resources and that it is likely to invoke Rule R11; and (ii) invite each Non-Defaulting RCM to make a payment of funds (a "**RepoClear Service Voluntary Payment**"), in accordance with Rule 15(h)15(h) of the Default Rules, to make up for the relevant shortfall, with respect to Sponsored Members, their Agent Members under previous applications of the Loss Distribution Process shall be included in determining whether the Loss Distribution Cap Amount for such current application of the RepoClear Loss Distribution Process has been reached.

(b) RepoClear Service Voluntary Payments will be made on the following terms:

(i) no RepoClear Service Clearing Member shall be obliged to make a RepoClear Service Voluntary Payment;

(ii) any RepoClear Service Voluntary Payment will be made by a RCM by the close of business on the business day after receipt of the relevant RepoClear Service Voluntary Payment Notice;

(iii) no RepoClear Service Voluntary Payment may be withdrawn once made and

(iv) the Clearing House shall have full discretion as to whether or not to accept a particular RepoClear Service Voluntary Payment.

(c) Any failure by the Clearing House to deliver a RepoClear Service Voluntary Payment Notice pursuant to this Rule R9 will not invalidate any action taken by the Clearing House pursuant to Rule R9 nor give rise to any liability whatsoever on the part of the Clearing House.

(d) Any RepoClear Service Voluntary Payments remaining unused at the time of the expiry of the relevant RepoClear Default Period will be accounted for by the Clearing House as if they were amounts paid in respect of the RepoClear Service Contributions of those RCMs from which RepoClear Service Voluntary Payments were accepted.

R10 Service Closure

Where, following process of inviting RepoClear Service Voluntary Payments in accordance with Rule R9 and the conclusion of the Loss Distribution Process (including any repeat of the RepoClear Loss Distribution Process following a ballot pursuant to Rule R9), the Clearing House makes a determination (an "**Insufficient Resources Determination**") that the Clearing House does not have sufficient resources to meet its

contractual obligations arising in respect of those Fixed Income Contracts to which it is party with Non-Defaulting RCMs were this Rule 10 not to apply, the following provisions shall have effect:

(a) No new trades may be registered in the RepoClear Service;

(b) All outstanding Fixed Income Contracts shall be closed out. The manner of close out is at the discretion of the Clearing House, following advice from the RepoClear DMG. The Clearing House may elect to close out all Fixed Income Contracts using cash settlement and/or accelerated settlement as outlined below, provided that the Clearing House will seek to apply accelerated settlement unless (a) the Clearing House is advised by the DMG (on a non-binding basis) that cash settlement is preferable, or (b) the Clearing House determines, acting reasonably, that accelerated settlement is not possible, or (c) the Clearing House is directed by its board of directors to cash settle.

(i) If cash settlement is chosen as a method for closing out an In-flight Fixed Income Contract, a cash amount will be transferred from the relevant RCM cash borrower to the RCM cash lender. The relevant In-flight Fixed Income Contract will not pass back from the relevant RCM cash lender to the RCM cash borrower.

(ii) If cash settlement is chosen as a method for closing out a Forward Starting Fixed Income Contract, a cash amount will be transferred from one RCM to the other.

(iii) For both (i) and (ii) above, the price of the close out (which determines the cash to be exchanged) and the date of the close out is at the discretion of the Clearing House after considering the advice of the RepoClear DMG.

(iv) If accelerated settlement is chosen as a method for closing out an In-flight Fixed Income Contract, the date of the closing leg for all such contracts will be brought forward to a date chosen by the Clearing House after considering the advice from the RepoClear DMG. Accelerated settlement cannot be used for Forward Starting Fixed Income Contracts and all such contracts will be cash settled on the same date as explained in (iii) above.

(v) For the purposes of this Rule R9(b) an "**In-flight Fixed Income Contract**" means a Fixed Income Contract whereby the first leg has already been settled, and a "**Forward Starting Fixed Income Contract**" means a Fixed Income Contract whereby the first leg will settle at some point in the future.

(c) For the avoidance of doubt, in the event the Clearing House makes an Insufficient Resources Determination, both cash settlement and accelerated settlement can be used in conjunction with each other to avoid cases of repeated failed bond delivery obligations. The two forms of settlement are not mutually exclusive.

(d) In the event of a close out of Fixed Income Contracts, an account shall be taken (as at the time of close out) of what is due in respect of each RCM, from that RCM to the Clearing House and from the Clearing House to that RCM in respect of Fixed Income Contracts and any other amounts that may be due in respect of the RepoClear Service (including for these purposes, a proportionate share of any amounts owed generally to or from the Clearing House and, with respect to a Sponsored Member, amounts owing to or from its Agent Members), and the sums due from the RCM shall be set off against the sums due from the Clearing House and, subject to paragraph (e), below, only the balance of the account shall be payable. For the avoidance of doubt, amounts in respect of Fixed Income Contracts shall include, but not be limited to, returns of Collateral provided in respect of variation margin (but shall exclude the return of any Collateral provided in respect of initial or additional margin) and amounts due in respect of the RepoClear Service shall include, but not be limited to, any Loss Distribution Charges payable by that RCM pursuant to Rule R8.

(e) To the extent that (x) the aggregate of all of the net amounts owed to the Clearing House by RCMs pursuant to paragraph (d), above, plus all of those other resources applicable to the RepoClear Client Clearing Service under Rules 15(a) to 15(h) of the Default Rules (excluding for these purposes assets representing Collateral in respect of initial or additional margin) that have not been applied towards a RepoClear Excess Loss (the "**RepoClear Final Resources**") are less than (y) the LCH Final Uncovered Losses, the amount by which (y) exceeds (x) shall be the "**LCH Closure Shortfall**":

(i) the LCH Closure Shortfall shall be allocated between the Non-Defaulting RCMs based upon the proportion of each such RCMs RepoClear Contribution on the last RepoClear Determination Date which occurred prior to the default ("**Service Closure Payment**");

(ii) the Service Closure Payment owed by an RCM in sub-paragraph (i) above shall be set off against the sums owed by the Clearing House in paragraph (d) above to that RCM and only the balance (subject to sub-paragraph (iii) below) shall be payable in cash by either the RCM or the Clearing House, as applicable (the "**Final Net Payment**"); and

(iii) the Clearing House shall determine any amounts due to each RCM in respect of repayments of any cash Collateral transferred to the Clearing House in respect of the RCM's initial and additional margin obligations. The Clearing House and the RCMs hereby agree that cash Collateral held by the Clearing House in respect of the RCM's initial and additional margin obligations shall operationally net in the PPS against the cash payment of the Final Net Payment in accordance with the processes of the PPS.

(f) Where an RCM owes an amount to the Clearing House under (d) or if there is an LCH Closure Shortfall under sub-paragraph (e)(iii), that RCM shall pay that amount to the Clearing House immediately. Where an RCM is owed an amount by the Clearing House under paragraph (d) or if there is an LCH Closure Shortfall under paragraph (e)(ii) and/or (e)(iii), the Clearing House shall pay that amount to the RCM immediately, subject to paragraph (g) below.

(g) The Clearing House may make the payments due under paragraph (f) above in one or more instalments to the RCMs in proportion to the value of their claims on the Clearing House under paragraphs (d) or (e) above if some but not all of the amounts due under paragraph (f) above or Rules 15(a) to 15(h) of the Default Rules have not yet been received. No interest will be payable by the Clearing House on any instalments. The Clearing House may 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 RCMs in accordance with this Rule R10. To the extent that the Clearing House ultimately recovers amounts in excess of the LCH Closure Shortfall it shall return such amounts to the relevant RCMs (other than a Defaulting RCM) and to the extent that such amounts have been received as Service Closure Payments, it shall return such amounts to the RCMs (other than a Defaulting RCM) in proportion to their Service Closure Payment.

(h) This Rule R10 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*).

(i) Nothing in the foregoing shall override the obligation of the Clearing House to return non-cash Collateral provided by a RCM in respect of its initial margin obligations pursuant to the Regulations and Procedures.

R11 Application of any Recoveries

(i) The Clearing House shall reimburse the Members (irrespective of whether they remain Members at the time of the recovery) on a *pro rata* basis by reference to the resources which have been applied pursuant to each of the following Default Rules and in the following order: any net amount paid by a Member pursuant to Rules R8, 15(h) and 15(e) any amounts received from the Defaulting RCM as a result of the Clearing House being a creditor of the Defaulting RCM in respect of the RepoClear Business of such Defaulting RCM 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 RCM or otherwise; or

(ii) any other amounts howsoever obtained or recovered in the course of the Clearing House's operation of the RepoClear Default Management Process or which are otherwise referable to the Defaulting RCM,

in each case net of any related expenses incurred by the Clearing House or other sums owing to the Clearing House by the Defaulting RCM in connection with the RepoClear client clearing service.

For the avoidance of doubt, nothing in this Rule R11 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 RCM's Default, any amounts recovered shall be applied *pari passu* as between the relevant default funds.

The RCMs will be reimbursed before applying any recoveries back to the Clearing House. Any recoveries made by the Clearing House in excess of the resources applied or paid by RCMs pursuant to Rules R8, 15(g) and 15(e) shall be retained by the Clearing House.

SCHEDULE 8
EQUITIES DEFAULT FUND SUPPLEMENT

E1. In this Supplement, subject to any contrary indication or where the context otherwise requires, references to:

"**Aggregate DFAM**" means, in respect of a Determination Date, the sum of the DFAM of each DFAM Member calculated on such Determination Date;

"**Business**" means the Equities Business of a Member;

"**Combined Loss Value**" means, in respect of a day within a Lookback Period and a specific stress-tested scenario as determined by the Clearing House, the sum of the STLIEOMs for the Members which have the largest and the second largest STLIEOM, in respect of the Equities Business and such stress-tested scenario, on such day;

"**Contract**" means an EquityClear Contract, an Equities Contract, a contract cleared pursuant to a Service and such other cash equity or equity derivative contract as the Clearing House may from time to time specify by notice to the Members;

"**Contribution**" means an Equities Contribution;

"**Default Fund**" means the fund established by this Equities Default Fund Supplement;

"**Determination Date**" means an Equities Determination Date;

"**DFAM**" means, in respect of a Determination Date and a DFAM Member, the amount (if any) by which the Relevant STLIEOM of such DFAM Member for the Component Business exceeds 45% of the Equities Initial Fund Amount calculated on such Determination Date;

"**DFAM Member**" means, in respect of a Determination Date, a Member whose STLIEOM is a component of the Equities Combined Loss Value calculated on such Determination Date (a "**Relevant STLIEOM**");

"**Equities Combined Loss Value**" means, in respect of a Determination Date, the largest Combined Loss Value within the Lookback Period for such Determination Date;

"**Equities Initial Fund Amount**" means, in respect of a Determination Date, the Equities Combined Loss Value for such Determination Date, plus 10 per cent.;

"**Equities AET Requirement**" means, in respect of a Member (other than a Co-operating Clearing House), that all of the Contracts in the name of such Member have been closed out or transferred to another Clearing Member;

"**Excess Loss**" means the Equities Excess Loss;

"**Fund Amount**" means the Equities Fund Amount;

"**Fund Cap**" means the amount as determined by the Risk Committee of the Clearing House from time to time (and as notified to Members in writing);

"**Fund Floor**" means three times the Minimum Contribution, or such other amount as determined by the Risk Committee of the Clearing House from time to time (and as notified to Members in writing);

"**Lookback Period**" means, in respect of a Determination Date, the period of three calendar months immediately preceding such Determination Date;

"**Member**" means an Equities Clearing Member and a Clearing Member approved to clear a Specified Market and except where stated otherwise, includes a Co-operating Clearing House;

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

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

"**Positive DFAM Member**" means, in respect of a Determination Date, a DFAM Member whose DFAM for such Determination Date is greater than zero;

"**Relevant STLIEOM**" has the meaning specified in the definition of DFAM Member in this Rule E1;

"**Second Equities Combined Loss Value**" means, in respect of a Determination Date, the Equities Combined Loss Value for such Determination Date calculated as if each Positive DFAM Member was not a Member on each day during the Lookback Period for the Determination Date (so that, for the purposes of calculating the Second Equities Combined Loss Value, all of the STLIEOMs of any such Member will be disregarded during the Lookback Period);

"**Service**" means equities and equities-related services provided by the Clearing House pursuant to its rules governing the clearing of the Specified Markets and includes the Equities Service;

"**Specified Markets**" means an EquityClear ATP and any other market from time to time specified by the Clearing House;

"**STLIEOM**" means, in respect of a Member and a day, the stress-tested loss in excess of the initial margin of such Member for the Equities Business (determined for a given stress-tested scenario by the Clearing House), which could be incurred by the Clearing House in respect of that Member's Equities Business if that Member became a Defaulter on that day. References in this definition to Member include a Co-operating Clearing House and the STLIEOM of a Co-operating Clearing House is included in the calculations of the Fund Amount under Rule E2;

and calculations of "**Combined Loss Value**", "**End of Day Margin Weight**", "**Peak Intra-Day Margin Weight**", "**STLIEOM**" and "**Weight Factor**" are carried out in accordance with this Supplement only.

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

E2. **Fund Amount**

(a) The Fund Amount is denominated in pounds sterling ("**GBP**") and all amounts referable to it shall be denominated, calculated, called and payable in GBP.

(b) The Fund Amount shall be determined by the Clearing House on the first business day of each calendar month (each, a "**Determination Date**") in accordance with this Rule.

(i) The Clearing House will determine, on a given Determination Date, the Combined Loss Values for each day within the Lookback Period relating to such Determination Date.

(ii) The Fund Amount is, for a given Determination Date, the greater of:

(A) the Equities Initial Fund Amount minus the Aggregate DFAM, in respect of such Determination Date; and

(B) the Second Equities Combined Loss Amount, in respect of such Determination Date, plus 10 per cent,

subject to the following provisions of this Rule.

(c) On any Determination Date, if the Fund Amount as determined under paragraph (b)(ii) above would be lower than the Fund Floor, the Fund Amount will be deemed to be equivalent to the Fund Floor.

(d) On any Determination Date, if the Fund Amount as determined under paragraph (b)(ii) above would exceed the Fund Cap, the Fund Amount will be deemed to be an amount equivalent to the Fund Cap.

(e) In the case of a Default in relation to which the Clearing House does not apply Contributions under Rule 19 or Rule 21 of the Default Rules, determinations of the Fund Amount under the methodology of this Rule are suspended from the date of the occurrence of a Default until the completion of the management of such Default. Where other such Defaults have commenced during the period of suspension, the suspension will end at the completion of the management of the last of such Defaults.

In the case of any Default in relation to which the Clearing House applies Contributions under Rule 19 or Rule 21 of the Default Rules, determinations of the Fund Amount under the methodology of this Rule are suspended from the date of the occurrence of a Default until the expiry of the Cooling Off Period under Rule E7. Where other such Defaults have commenced during the period of suspension, the suspension will end at the expiry of the Cooling Off Period following the Default Management Completion Notice in respect of the last of those Defaults.

E3. Contributions to the Default Fund

2.1 The amount of each Member's Contribution shall be determined by the Clearing House on each 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 after the occurrence of a Default in accordance with paragraph (b)(v) of Rule E2.

2.2 A Member's Contribution shall be determined with reference to business conducted by it on the Specified Markets in Contracts as follows:

(a) 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;

(b) 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;

(c) 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 Fund Amount by the Member's Weight Factor, provided that (x) if the amount calculated for a particular Member pursuant to the foregoing would, when aggregated with the Contributions of all other Members, produce a Fund Amount that is in excess of that permitted under paragraph (b)(iv) of Rule E2, 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; and provided further that (y) in no case shall a Member's Contribution be less than the Minimum Contribution (notwithstanding that the Fund Amount may, taking into account all Contributions as adjusted in accordance with the provisos to this paragraph, exceed the level specified in paragraph (b)(iv) of Rule E2).

For the purposes of these calculations:

(d) "**Reference Period**" means the period of three calendar months immediately preceding the Determination Date;

(e) 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;

(f) Contributions shall be rounded upwards, if not already such a multiple, to the next integral multiple of one thousand pounds; and

(g) no account shall be taken, in calculating initial margin or Margin Weight under this paragraph 2.2 of any offsets applied in calculating the initial margin obligation imposed on Members in respect of Contracts, which may otherwise be permissible under the Procedures or other arrangements applicable.

2.3 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:

(a) the Minimum Contribution; and

(b) 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.

2.4 Except to the extent that the cap specified in paragraph (b)(iv) of Rule E2 would be exceeded, the Clearing House may recalculate the Contributions due from certain Members on any business day other than one falling between the application of a Contribution and the end of the Cooling Off Period, as set out at Rule E7 where the Risk Committee considers (for any reason) that a recalculation is warranted between Determination Dates.

2.5 A Co-operating Clearing House is not required to contribute to the Default Fund and references in this Rule E3 to a Member do not include a Co-operating Clearing House.

E4. **Interest on 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 19 or Rule 21 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. References in this Rule E4 to a Member do not include a Co-operating Clearing House.

E5. **Payment of Contributions**

3.1 Upon determination of the amount of a Contribution on a Determination Date:

(a) 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;

(b) 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

(c) 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.

3.2 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.

3.3 References in this Rule E5 to a Member do not include a Co-operating Clearing House.

E6. **Unfunded Contributions**

4.1 On any business day after the occurrence of a Default, if the Clearing House determines that by reason of reduction in accordance with Rule E7, (i) the Fund Amount (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 Fund Amount 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.

4.2 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.

4.3 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.

4.4 Following the payment of an Unfunded Contribution in accordance with paragraphs 5.1, 5.2 and 5.3 of Rule E6, 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.

4.5 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).

4.6 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: (i) include any Member (other than a Defaulter) who is a Retiring Member but whose status as a Member has not yet been terminated; (ii) include any Member (other than a Defaulter) who is a Resigning Member whose resignation from the Service is not yet effective; and (iii) do not include a Co-operating Clearing House.

E7. **Cooling Off and Replenishment of Fund**

5.1 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 Fund Amount shall be reduced forthwith by the aggregate amount of the Contributions or parts of Contributions so applied, and 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 and subject to (where applicable) the requirements under Rule E6 and Rule E7(b) and (d). Unless and until the Clearing House has repaid a Defaulter's Contribution, the Fund Amount 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.

5.2 If following the issuance of a notice to the effect that it has completed the management of a Default (a "**Default Management Completion Notice**") the aggregate amount of Fund Amount determined in accordance with paragraph (a) of this Rule E7 is less than the Fund Floor, the Clearing House may notify each Non-Defaulting Clearing Member that it is required to make a Supplementary Contribution until the next Determination Date, based on the proportion that the value of its Contribution as at the last Determination Date prior to the date when the relevant Default occurred bears to the value of the aggregate Contributions of all Non-Defaulting Clearing Members as at such date, so as to maintain the Fund Amount at no less than the Fund Floor. Supplementary Contributions required hereunder shall be paid within two business days after notification and in accordance with the Procedures.

5.3 For a further period (a "**Cooling Off Period**") of 30 calendar days from (and including) any day on which the Clearing House has issued a Default Management Completion Notice after an application pursuant to Rule 19 or Rule 21 of the Default Rules, calculation of the Fund Amount and the Contributions of Members in accordance with Rule E3 shall be suspended.

5.4 Each Member's Contribution during a Cooling Off Period shall be no less than the Minimum Contribution.

5.5 if (i) a Member notifies the Clearing House on the Default Management Process Completion Date or the business day occurring immediately after such date that it

wishes to resign from the EquityClear Service, (ii) the Equities AET Requirement in respect of such proposed resignation has been satisfied by the Determination Date occurring immediately after such Default Management Process Completion Date, (iii) the Member is not a Defaulter, and (iv) no Default has occurred from and including the Determination Date referred to in Rule E7(e)(ii) to and including the fourth business day occurring after such Determination Date ("**Equities Contribution Payment Date**"), then the Member shall cease to be an EquityClear Clearing Member from such Equities Contribution Payment Date and the Clearing House shall repay the Equities Contribution that it holds for such Member (to the extent it has not been applied under these Default Rules) in accordance with the Procedures and the Member shall not be obliged to make any payment to the Clearing House under Rule E5(a)(iii). If a Member notifies the Clearing House in accordance with Rule E7(e)(i), but the requirements under Rules E7(e)(ii), (iii) and/or (iv) are not satisfied, then such Member will cease to be a Resigning Member in respect of the applicable Service(s).

5.6 The first business day after a Cooling Off Period shall exceptionally be a Determination Date; and the Fund Amount determined on such exceptional Determination Date shall remain in effect until the first business day of the next calendar month.

5.7 There may not be more than three exceptional Determination Dates of the type described in (f) above in any period of six months.

5.8 References in this Rule E7 to a Member do not include a Co-operating Clearing House.

E8. **Loss Allocation**

6.1 At any time after a Default, the Clearing House may determine that the Excess Loss resulting from the Default will exceed the resources available to be applied to it under Rules 15(a) to 15(h) of the Default Rules. If the Clearing House makes such a determination then the Clearing House may implement the process (the "**Loss Distribution Process**") described in this Rule E8 in order to mitigate the LCH Uncovered Loss. For these purposes, the difference between the Excess Loss as determined by the Clearing House on that day and such resources remaining available on that day shall be the "**LCH Uncovered Loss**".

6.2 Definitions and interpretation

In this Rule E8, references to a Member do not include a Co-operating Clearing House and the following definitions apply:

"**Loss Distribution Cut-Off Date**" means with respect to a Loss Distribution Period the day falling ten (10) business days from the date of the commencement of the Loss Distribution Process or such earlier or later Business Day as determined pursuant to Paragraph (d) of this Rule E8.

"**Loss Distribution Day**" means any business day in a Loss Distribution Period on which the Clearing House, 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 earlier of: (i) the day on which a Default occurs with respect to a Member to the business day on which all Loss Distribution Charges in respect of such Default have been paid in full and (ii) any business day on which the Clearing House determines that a Loss Distribution Trigger has occurred, PROVIDED THAT the Loss Distribution Period shall not extend beyond the Loss Distribution Cut-Off Date.

"**Loss Distribution Trigger Amount**" means, in respect of any Loss Distribution Period and any Non-Defaulting Clearing Member, an amount equal to twice the Contribution of such Non-Defaulting Clearing Member as at the last Determination Date prior to the date when the Default occurred at the beginning of that Loss Distribution Period; or (ii) an amount as approved by the Requisite Non-Defaulting EquityClear Clearing Members following a Revised Loss Distribution Proposal as described in paragraph (d) of this Rule E8.

"**Loss Distribution Trigger Event**" means, with respect to a Non-Defaulting Clearing Member, the aggregate Cash Payments during the Loss Distribution Period (as amended from time to time) exceeded that Member's Loss Distribution Trigger Amount (as amended from time to time) on the immediately preceding Loss Distribution Day.

"Requisite Non-Defaulting EquityClear Clearing Members" means on any Business Day in a Loss Distribution Period, Non-Defaulting Clearing Members whose Contributions represented 75% or more of the total size of the Fund Amount (less the Contributions of any Defaulter(s)) as at the last Determination Date prior to the date when the Default occurred.

6.3 *Loss Distribution Charges*

(a) On each Loss Distribution Day, each Non-Defaulting Clearing Member shall pay to the Clearing House a "**Loss Distribution Charge**" which is equal to the product of (x) the LCH Uncovered Loss in respect of that Loss Distribution Day and (y) the proportion which that Member's Contribution bears to the aggregate of the Contributions of all Non-Defaulting Clearing Members provided that such Loss Distribution Charge shall also include any liquidity amounts. For the purposes of this Rule E8, "**liquidity amounts**" means the gross amount paid or payable for borrowed or purchased assets solely to enable the physical settlement of Contracts.

(i) Any Loss Distribution Charge shall be paid by the Member to the Clearing House in accordance with the Procedures.

(f) *Adjustment to Loss Distribution Trigger Amount and Loss Distribution Cut-Off Date*

(i) On each business day following the commencement of the Loss Distribution Process (except where the Clearing House is unable to make a determination due to a systems failure or similar event beyond the Clearing House's control), the Clearing House shall determine if a

Loss Distribution Trigger Event has occurred or is likely to occur and, if so, shall notify all Members accordingly.

(ii) If, at any time during a Loss Distribution Period, the Clearing House determines that (A) the Loss Distribution Process is likely to extend beyond the Loss Distribution Cut-Off Date or (B) a Loss Distribution Trigger Event is likely to occur, the Clearing House may propose to the Non-Defaulting Clearing Members (I) an extension of up to 10 business days, from the date of such proposal, to the Loss Distribution Cut-Off Date and (II) an increase in each Non-Defaulting Clearing Member's Loss Distribution Trigger Amount of up to twice the Contribution of such Non-Defaulting Clearing Member as at the last Determination Date prior to the date when the Default occurred (any proposal pursuant to (I) and (II) above, a "**Revised Loss Distribution Proposal**"). For the avoidance of doubt, the Clearing House shall propose adjustments to both the Loss Distribution Cut-Off Date and Non-Defaulting Clearing Members' Loss Distribution Trigger Amount in a Revised Loss Distribution Proposal, regardless of whether the trigger for such Revised Loss Distribution Proposal is (A) or (B) above.

(iii) Subject to (iv) below, the Clearing House shall be required to make a Revised Loss Distribution Proposal where either (y) it makes the determination pursuant to (A) above on the Loss Distribution Cut-Off Date or (z) a Loss Distribution Trigger Event has occurred, in each case during a Loss Distribution Period.

(iv) If (x) more than 50% of the Non-Defaulting Clearing Members participate in a vote concerning the Revised Loss Distribution Proposal and (y) the Requisite Non-Defaulting Clearing Members vote in favour of the Revised Loss Distribution Proposal, the Loss Distribution Cut-Off Date shall be extended and the Loss Distribution Trigger Amount shall be increased for each Non-Defaulting Clearing Member in accordance with the Revised Loss Distribution Proposal and shall be applicable for the remainder of the relevant Loss Distribution Period or until further adjusted pursuant to this paragraph. If more than 50% of Non-Defaulting Clearing Members do not participate in such vote and/or if the Requisite Non-Defaulting Clearing Members do not vote in favour of the Revised Loss Distribution Proposal, the Loss Distribution Period shall not be extended and the Loss Distribution Trigger Amount shall not be increased in accordance with the Revised Loss Distribution Proposal. The Loss Distribution Cut-Off Date and Loss Distribution Trigger Amount may only be adjusted up to five times in respect of the Loss Distribution Period in accordance with the processes set forth in this paragraph.

(v) The Clearing House shall publish the terms of the voting process for the purposes of this paragraph (d) on the Business Day that the vote is initiated.

6.4 *Application of Loss Distribution Charges*

Apart from liquidity amounts used to effect physical settlement in accordance with paragraph 6.3(a) of Rule E8, the Clearing House shall apply all other payments it receives in respect of Loss Distribution Charges solely for the purposes of meeting any loss incurred by the Clearing House in relation to the Defaulter's Contracts.

6.5 *No Rebate*

(a) Subject to paragraph 6.5(b) of Rule E8, Rule E9 and paragraph 8.3 of Rule E10, the payment to the Clearing House by any Member of any Loss Distribution Charge 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.

(b) Following the issuance of a Default Management Completion Notice, surplus amounts of Loss Distribution Charges comprising liquidity amounts for physical settlement shall, in the case of a Retiring Member or a Resigning Member, be returned to such Member, and, in the case of other Members, be set off against a Member's Contribution (provided any surplus liquidity amounts in excess of the Contribution shall be returned to such Member), in both cases, *pro rata* by reference to the proportion which the Loss Distribution Charge paid by the relevant Member bears to the aggregate of Loss Distribution Charges paid by all Non-Defaulting Clearing Members.

6.6 *Auction*

If on a Loss Distribution Day, the LCH Uncovered Loss exceeds the aggregate amount of Loss Distribution Charges, the Clearing House shall, during the Loss Distribution Period, invite all Non-Defaulting Clearing Members ("**Invited Bidders**") to participate in an auction to acquire certain positions that the Clearing House has not yet closed out ("**Auction Portfolio**").

(a) The Clearing House shall prescribe procedures for the completion of such auction process as it considers reasonably appropriate from time to time.

(b) The Clearing House shall notify each Invited Bidder of all details that may be reasonably required in relation to the Auction Portfolio prior to commencing the auction. The auction may take place over a number of days and auctions of different Auction Portfolios may take place at different times.

(c) Invited Bidders who decide to participate in an auction will submit bids to the Clearing House. Bids may be submitted for the entire Auction Portfolio or for a portion of the Auction Portfolio. Bids shall be submitted as a price at which the relevant Invited Bidder is willing to take on a specified percentage of the Auction Portfolio, and all bids will be ranked in accordance with the price per percentage represented by that bid. The Clearing House 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 Clearing House shall be entitled to round up or round down nominal amounts.

(d) The Clearing House will have full discretion in deciding whether or not to accept one or more bids in an auction for part or all of the Auction Portfolio and,

in so deciding, will take into account the range of bids received relative to the amount of Collateral held in respect of initial margin, variation margin and additional margin and the Default Fund Contribution of the Defaulting Member and, subject to their availability, the Clearing House resources as set out in Rule 15 of the Default Rules. If the Clearing House does accept one or more bids, the price paid by the relevant winning bidders will be the same. Therefore, if the Clearing House decides to accept more than one bid, the price payable by all such winning bidders will be the price of the lowest bid which is accepted by the Clearing House. In the event that more than one Invited Bidder submits a bid of the same value (each an "**Equal Bid**"), the Clearing House may, subject to its discretion to reject one or more such Equal Bids, split the relevant Auction Portfolio between the relevant Invited Bidders who submitted Equal Bids on an individual trade-by-trade basis. The Clearing House may choose to accept a bid in respect of a smaller proportion of an Auction Portfolio than that which an Invited Bidder specified in its bid.

(e) In the case of an auction in which no bid is accepted or received (as the case may be), or in which the bids accepted by the Clearing House are for less than the whole Auction Portfolio one or more further auctions may, at the discretion of the Clearing House, be held in relation to the relevant Auction Portfolio or that part of the Auction Portfolio which remains.

(f) In the event that the auction is unsuccessful the Clearing House may determine a price at which it will cash settle the outstanding position, at a price determined at the discretion of the Clearing House. Following such action the Clearing House will delete such transactions at the relevant ASP, which the Buying and Selling Members will be required to match delete, in line with the provisions outlined in Section 2D.

6.7 *Cash Settlement*

If the Requisite Non-Defaulting EquityClear Members do not vote in favour of an increase in the Loss Distribution Cap in accordance with Rule E8(d) the Clearing House may cash settle the outstanding transactions of the Defaulting Clearing Member, at a price determined at the discretion of the Clearing House. Following such action the Clearing House will delete such transactions at the relevant ASP, which the Buying and Selling Members will be required to match delete, in line with the provisions outlined in Section 2D.

E9. Application of Recoveries

The Clearing House shall reimburse the Members (irrespective of whether they remain Members at the time of the recovery) on a *pro rata* basis by reference to the resources which have been applied pursuant to each of the following Default Rules and in the following order: any net amount paid by a Member pursuant to Rules E8, 15(h), 15(g), and 15(e),

7.1 and:

(a) any amounts received from the Defaulter as a result of the Clearing House being a creditor of the Defaulter in respect of the Business of such Defaulter in the

context of the occurrence of any of the events under Rules 5(i) to (p) of the Default Rules in respect of the Defaulter or otherwise; or

(b) any other amounts howsoever obtained or recovered in the course of the management of the Default or which are otherwise referable to the Default or the Defaulter,

in each case net of any related expenses incurred by the Clearing House or other sums owing to the Clearing House by the Defaulter in connection with the Service.

For the avoidance of doubt, nothing in this Rule E9 shall oblige the Clearing House to pursue any litigation or take 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 Member's Default, any amounts recovered shall be applied *pari passu* as between the relevant default funds.

The Members will be reimbursed before applying any recoveries back to the Clearing House. Any recoveries made by the Clearing House in excess of the resources applied or paid by the Members pursuant to Rules E8, 15(h), 15(g) and 15(e) shall be retained by the Clearing House.

References in this Rule E9 to a Member do not include a Co-operating Clearing House.

E10. **Service Closure**

8.1 Where, after the Default of one or more Members, the Clearing House determines that, notwithstanding the availability of any resources remaining under Rules 15(a) to 15(h) of the Default Rules and the availability of the Loss Distribution Process under Rule E8, the Clearing House does not have sufficient resources to meet its obligations and liabilities arising in respect of Contracts to which it is party with Non-Defaulting Clearing Members, the Clearing House shall make a further determination (an "**Insufficient Resources Determination**") that the Clearing House does not have sufficient available resources under Rules 15(a) to 15(h) of the Default Rules and via the Loss Distribution Process under Rule E8 to meet its obligations and liabilities arising in respect of those Contracts to which it is party with Non-Defaulting Clearing Members, and the provisions of this Rule shall have effect.

8.2 All outstanding Contracts shall be closed out as of the business day following the date of the Insufficient Resources Determination and any further obligations to make any payments under or in respect of such Contracts shall cease. The closing prices used shall be 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 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 obligation for the position to be closed out.

8.3 On the basis of the close out values established for each outstanding Contract, an account shall be taken (as at the time of close out) of what is due, in respect of each Member, from that Member to the Clearing House and from the Clearing House to that Member, as well as all other amounts owing under or in respect of such Contracts and any other amounts that may be due in respect of the 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 Member shall be set off against the sums due from the Clearing House and only the balance of the account shall be payable. Amounts due in respect of such Contracts shall include, but shall not be limited to, returns of cash Collateral provided in respect of variation margin associated therewith and returns of Loss Distribution Charges, but shall exclude the repayment of any cash Collateral provided to the Clearing House in respect of initial margin or any Contributions.

To the extent that the aggregate of all of the amounts owed to the Clearing House by Members (including Co-operating Clearing Houses) plus all of those other resources applicable to the Service under Rules 15(a) to 15(h) of the Default Rules that have not been applied towards an Excess Loss is less than the aggregate of the amounts owed to Members (including Co-operating Clearing Houses) by the Clearing House, each amount owed to Members by the Clearing House shall be reduced *pro rata* the shortfall. For the avoidance of doubt, no amount owed by the Clearing House to a Co-operating Clearing House is to be reduced pursuant to this paragraph 8.3.

8.4 The Clearing House shall determine any amounts due to each Member in respect of the repayment of cash Collateral provided in respect of initial margin obligations and outstanding Contributions to be repaid. The claim of each such Member in respect of the foregoing shall be limited to a *pro rata* share of the assets available to the Clearing House to satisfy those amounts.

8.5 For each Member, the amount due to it or due from it as determined pursuant to (c) above shall be aggregated with its claim determined pursuant to (d) above and only the net sum shall be payable. Where the result of such calculations is that a Member owes an amount to the Clearing House, that Member shall pay that amount to the Clearing House immediately. Where the result of such calculations is that a Member is owed an amount by the Clearing House, the Clearing House shall pay that amount to the Member immediately, subject to (g) below.

8.6 The payment of such amount to a Member pursuant to (e) above, subject to any re-calculations performed pursuant to (g) below, shall constitute the full and final payment in respect of the Service and such 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 Service.

8.7 The Clearing House may make the payments due under (e) above in one or more instalments to the Members in proportion to the value of their claims on the Clearing House under (c) above if some but not all of the amounts due under (e) above or Rules 15(a) to (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 Members in accordance with this Rule.

8.8 This Rule 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*).

8.9 Nothing in the foregoing shall override the obligation of the Clearing House to return non-cash Collateral provided by a Member in respect of its initial margin obligations pursuant to the Regulations and Procedures.

8.10 Except for references to Non Defaulting Clearing Members in paragraph (a) above, and except where otherwise stated, references in this Rule E10 to a Member do not include a Co-operating Clearing House.

SCHEDULE 9
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