

 LCH.Clearent SA Instruction	N°	Title
	IV.5-2	LIQUIDATION AND TRANSFER PROCESS IN CASE OF AN EVENT OF DEFAULT OF A CLEARING MEMBER

Pursuant to Article 4.5.2.6 and 4.5.2.8 of the Clearing Rule Book

SCOPE

This Instruction applies in its entirety to the Positions of a defaulting Clearing Member registered in the Cash and Derivatives Clearing System.

This Instruction also applies to the Positions of a Defaulting Clearing Member relating to Transactions on Fixed Income Securities and Triparty Repos, except Chapter 2 which does not apply to the House Positions of a Defaulting Clearing Member relating to Transactions on Fixed Income Securities or Triparty Repos, which are governed by the Fixed Income Default Management Process Instruction.

Chapter 1 Common Provisions

Article 1 General

The following provisions shall apply upon the occurrence of an Event of Default of a Clearing Member.

Upon the occurrence of an Event of Default of a Clearing Member, LCH.Clearent SA may, at its discretion, initiate a procedure either to liquidate and/or to transfer the Open Positions registered in the name of the Defaulting Clearing Member in the conditions set out below.

For the purposes of this Instruction:

"Gross Omnibus Segregated Account Structure": means an Omnibus Segregated Account including several Margin Accounts and one Collateral Account.

"Net Omnibus Segregated Account Structure": means an Omnibus Segregated Account including one Margin Account and one Collateral Account.

Article 2 Decision

LCH.Clearent SA may decide to proceed with the transfer or liquidation of the Open Positions registered in the name of the Defaulting Clearing Member in accordance with its Clearing Rules, which means that once LCH.Clearent SA has decided to proceed with such transfer or liquidation, the approval of the Defaulting Clearing Member (or of any third party, authority or court, unless otherwise mentioned below) is not required.

Prior to proceeding with such liquidation, LCH.Clearent SA may, at its sole discretion and for risk mitigation purposes, decide to hedge any part of such Open Positions.

Article 3 Management of transfer and/or liquidation

In case of an Event of Default of a Clearing Member, LCH.Clearnet SA shall manage any hedging, transfer and/or the liquidation in the best possible manner, taking into account the need to act promptly in the manner LCH.Clearnet SA thinks best to contain its exposure and to mitigate resulting effects over market participants.

Article 4 Notification

The implementation of any transfer or liquidation of Open Positions shall be notified by LCH.Clearnet SA in writing to the Defaulting Clearing Member within a reasonable timeframe and once the process for such transfer or liquidation is completed.

Article 5 Liability

LCH.Clearnet SA shall not have any liability whatsoever to any Clearing Member or to any other person (including, without limitation, any Client or (Associated) Trading Member) in respect of any damage, loss, cost or expense of whatsoever nature suffered or incurred by a Clearing Member (Associated) Trading Member, Client or any other person, as the case may be, as a result of the occurrence and management of an Event of Default.

In particular, LCH.Clearnet SA shall not have any liability for having been unable to proceed with a transfer of Open Positions or for the conditions under which Open Positions are liquidated.

Chapter 2 Liquidation

Article 6 Purpose

The purpose of the liquidation is to reduce the risks incurred by LCH.Clearnet SA in relation to the Open Positions registered in the name of the Defaulting Clearing Member through a third party which shall perform the obligations of the Defaulting Clearing Member as regards the Open Positions that are to be liquidated.

Article 7 Scope of liquidation

LCH.Clearnet SA may opt for the liquidation of the following Open Positions:

- House Open Positions registered in the name of the Defaulting Clearing Member, including all Positions registered in a temporary Position Account, and
- all Client Open Positions registered in the name of the Defaulting Clearing Member that have not been transferred for any reason whatsoever.

Article 8 Methods for liquidation

LCH.Clearnet SA may proceed with the liquidation of the Open Positions referred to above either via a broker and/or via a direct offer counterpart at its discretion.

- Via a broker: the broker shall execute on the relevant markets orders which are opposite to the Open Positions registered in the name of the Defaulting Clearing Member and that are to be liquidated. The broker shall act in its own name and for the account of LCH.Clearnet SA.
- Via a direct offer counterpart: a Clearing Member shall be substituted in the obligations vis-à-vis LCH.Clearnet SA relating to the Open Positions registered in the name of the Defaulting Clearing Member and that are to be liquidated.

When liquidating the Open Positions of the Defaulting Clearing Member, LCH.Clearnet SA acts for its own account and shall not incur any liability either for having decided to proceed with the liquidation of Open Positions or for the terms and conditions of the liquidation.

Any Collateral or proceeds from liquidation of Collateral (having applied such portion of Collateral or Collateral proceeds as is necessary to cover any losses resulting from liquidation of relevant Client Open Positions where applicable) of:

- (i) all or part of a Gross Omnibus Account Structure is/are remitted to the Client concerned, if such Client is a Known Client and is the sole holder of all Open Positions linked to the relevant Margin Account, pro rata to the Initial Margin attributable to such Margin Account within the relevant Client Account Structure, and to the Defaulting Clearing Member's judicial administrator or liquidator if any of the preceding conditions is not satisfied,
- (ii) a Net Omnibus Segregated Account Structure, is/are remitted to the Client, if such Client is the sole holder of such Client Account Structure and is a Known Client, and to the Defaulting Clearing Member's judicial administrator or liquidator if any of the preceding conditions is not satisfied ,. and
- (iii) an Individual Segregated Account, is remitted to the relevant Known Client.

Article 9 Liquidation costs

The hedging and liquidation costs are all costs incurred by LCH.Clearnet SA in relation to the hedging and/or liquidation of the Open Positions registered in the name of the Defaulting Clearing Member Hedging and liquidation costs which can be directly allocated to a Margin Account shall be attributed to such Margin Account, or shall otherwise be attributed to each relevant Margin Account pro rata to the Initial Margin of such Margin Account within the relevant Account Structure.

Chapter 3 Transfer

Article 10 Purpose

Transfer means that the Client Open Positions registered in the name of the Defaulting Clearing Member are transferred to a new Clearing Member. The Clients and (Associated) Trading Members for the account of whom the Transactions corresponding to the Client Open Positions to be transferred have been concluded will therefore have such Transactions cleared by a new Clearing Member.

Article 11 Conditions to transfer

LCH.Clearnet SA shall transfer to an alternate Clearing Member the Client Open Positions of Known Clients in the conditions set out below, provided it has been provided with all necessary information and documents.

The Client Open Positions registered in a Net Omnibus Segregated Account Structure shall be transferred as a whole together with any associated Collateral, or proceeds from liquidation thereof, to one single alternate Clearing Member, provided that LCH.Clearnet SA has received, within a timeline to be set out in a Notice, a formal request to proceed with such transfer to the same alternate Clearing Member from all the Clients and (Associated) Trading Members within the Net Omnibus Segregated Account Structure, if they are all Known Clients, and provided such alternate Clearing Member has accepted such transfer.

The Client Open Positions registered in a Gross Omnibus Segregated Account Structure shall be transferred:

- (i) as a whole together with any associated Collateral, or proceeds from liquidation thereof, to one single alternate Clearing Member, if LCH.Clearnet SA has received, within a timeline to be set out in a Notice, a formal request to proceed with such transfer to the same alternate Clearing Member from all the Clients and (Associated) Trading Members within the Gross Omnibus Segregated Account Structure, if they are all Known Clients, and provided such alternate Clearing Member has accepted such transfer ;
- (ii) separately, per Client Margin Account, to different alternate Clearing Members (one per Known Client or one for a group of Known Clients if LCH.Clearnet SA has received, within a timeline to be set out in a Notice, a formal request to proceed with such transfer to such alternate Clearing Member from such

Clients or (Associated) Trading Members, if they are all Known Clients, and provided the relevant alternate Clearing Member has accepted such transfer. In such a case, the Collateral or the proceeds from liquidation thereof associated with each Client Margin Account to be so transferred shall be determined pro rata to the Initial Margin of each Client Margin Account within the Gross Omnibus Segregated Account Structure.

The Client Open Positions registered in the Individual Segregated Account shall be transferred individually to one single alternate Clearing Member, provided that LCH.Clearnet SA has received, within a timeline to be set out in a Notice, a formal request to proceed with such transfer from the Known Client, provided the alternate Clearing Member has accepted such transfer.

Article 12 Relations between the new Clearing Member and the Clients and (Associated) Trading Members

Upon transfer, the relevant Known Client(s) shall be contractually linked to the new Clearing Member.

The relevant Known Client(s) and the new Clearing Member shall be required to comply with their obligations vis-à-vis each other as such obligations result from the Clearing Rules.

Article 13 Transfer costs

The transfer costs are all costs incurred by LCH.Clearnet SA in relation to the transfer of the Open Positions registered in the name of the Defaulting Clearing Member.

All transfer costs shall be borne by the Defaulting Clearing Member and set-off against the House Collateral posted by the Defaulting Clearing Member.