



VIA CFTC PORTAL

February 2, 2024

Mr. Christopher Kirkpatrick
Commodity Futures Trading Commission
1155 21st Street NW
Three Lafayette Centre
Washington, DC 20581

LCH Limited (“LCH”) self-certification: LCH rulebook amendments related to Clearing Members in Resolution

Dear Mr. Kirkpatrick,

Pursuant to Commodity Futures Trading Commission (“CFTC”) Regulation §40.6(a), LCH, a derivatives clearing organization registered with the CFTC, is submitting for self-certification amendments to its rules (“LCH Rules”) related to actions that may be taken with respect to a Clearing Member by a resolution authority pursuant to the EU Bank Recovery and Resolution Directive (“BRRD”).

Part I: Explanation and analysis

The BRRD grants a resolution authority the power to write-down and/or convert certain liabilities of an in-scope entity, after it is placed into resolution. If such an entity is a Clearing Member of LCH and is placed into default under LCH’s Default Rules, then exemptions under the BRRD apply to prevent the write down and/or conversion of certain types of its liabilities.

To clarify the position, LCH is proposing to amend the Default Rules, Procedure 2C, Procedure 2I and the FCM Procedures to provide that its calculation of certain losses and costs is determined with reference to the actual or anticipated losses and/or costs of LCH in accordance with such Default Rules and/or Procedures and shall not be reduced with reference to any action taken in respect of a Clearing Member by a resolution authority, including any write-down or conversion of liabilities of such Clearing Member.

Part II: Description of the rule changes

To facilitate the changes noted above, LCH is proposing to amend Rule 19, Rule 21, Schedule 2 (at Rules 2.5, 2.7, 2.8 and 2.9), Schedule 3 (at Rules 2.4 and 2.6), Schedule 4 (at Rule 2.5), Schedule 5 (at Rule F9), Schedule 6 (at Rule CS4), Schedule 7 (at Rules R8 and R10) and Schedule 8 (at Rule E8) of the Default Rules, Section 1.28.9 of Procedure 2C, Section 1.10.8 of Procedure 2I and Sections 2.1.18 and 2.2.26 of the FCM Procedures.

The changes to the LCH Rules are included as **Appendices I-IV** in black line form. The changes will be effective not earlier than April 1, 2024.

Part III: Core Principle Compliance

LCH has reviewed the proposed rule changes against the requirements of the Core Principles and finds it will continue to comply with all requirements and standards set forth therein. Specifically, this rule change has potential relevance to Core Principles G (Default Rules & Procedures) and L (Public Information).

The changes described in this filing meet the objectives of Core Principle G. LCH's approach to default management including its overall rules and procedures continue to be designed to allow for the efficient, fair and safe management of events during which Clearing Members may become insolvent or default on obligations to LCH. LCH carefully considered these factors and determined that this update meets LCH's obligations under Core Principle G.

The changes described in this filing also ensure that LCH meets the objectives of Core Principle L, including that, in addition to the specified requirements of CFTC Regulation §39.21, LCH makes available any information that is relevant to participation in the clearing and settlement activities of LCH. LCH considered its public information requirements and believes amending the LCH Rules to include these updates meets the requirements of Core Principle L.

As such, LCH believes these changes are consistent with the requirements of Core Principle G on Default Rules & Procedures under CFTC Regulation §39.16 and Core Principle L on Public Information under CFTC Regulation §39.21.

Part IV: Public Information

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

Part V: Opposing Views

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

Certification

LCH hereby certifies to the CFTC, pursuant to the procedures set forth in CFTC Regulation §40.6, that the attached submission complies with the Commodity Exchange Act, as amended, and the regulations promulgated thereunder.

Definitions

Words which begin with a capital letter, but are not defined, in this document shall have the meaning specified in the General Regulations of the LCH Rules, which rulebook is located at www.lch.com.

Should you have any questions, please contact me at lavannyan.mahalingam@lseg.com.



LSEG POST
TRADE

CORPORATE

LCH

Yours sincerely,

Lavannyan Mahalingam
Regulatory Advisor
LCH Limited



LSEG POST
TRADE

CORPORATE

LCH

Appendix I
Default Rules
Changed Pages

LCH The Markets'
Partner

**LCH LIMITED
DEFAULT RULES**

- (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.

For the avoidance of doubt, (i) the calculation of any amounts payable under this Rule 19 is determined with reference to the actual or anticipated losses and/or costs of the Clearing House in accordance with these Rules and shall not be reduced with reference to any action taken in respect of an Agent Member or a Sponsored Member by a resolution authority, including any write-down or conversion of liabilities of such Agent Member or Sponsored Member; and (ii) any amounts due under this Rule 19 shall not be affected by an action taken in respect of an Agent Member or a Sponsored Member by a resolution authority, including any write-down or conversion of liabilities of such Agent Member or Sponsored 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.

~~20.~~

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. For the avoidance of doubt, (i) the calculation of Excess Loss is determined with reference to the actual or anticipated losses and/or costs of the Clearing House in accordance with these Rules and shall not be reduced with reference to any action taken in respect of a Clearing Member by a resolution authority, including any write-down or conversion of liabilities of such Clearing Member; and (ii) any amounts due in respect of an Excess Loss under this Rule 21 shall not be affected by an action taken in respect of a Clearing Member by a resolution authority, including any write-down or conversion of liabilities of such Clearing Member.

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

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.

~~(b)~~(c) For the avoidance of doubt, (i) the calculation of Market Losses is determined with reference to the actual or anticipated losses and/or costs of the Clearing House in accordance with these Rules and shall not be reduced with reference to any action taken in respect of a Rates Service Clearing Member by a resolution authority, including any write-down or conversion of liabilities of such Rates Service Clearing Member; and (ii) any sum payable in respect of Market Losses under these Rules shall not be affected by an action taken in respect of a Rates Service Clearing Member by a resolution authority, including any write-down or conversion of liabilities of such Rates Service Clearing Member.

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.

~~(e)~~(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.

~~(f)~~(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.

~~(g)~~(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.

~~(j)~~ For the avoidance of doubt, (i) the calculation of Auction Losses is determined with reference to the actual or anticipated losses and/or costs of the Clearing House in accordance with these Rules and shall not be reduced with reference to any action taken in respect of a Rates Service Clearing Member by a resolution authority, including any write-down or conversion of liabilities of such Rates Service Clearing Member; and (ii) any sum payable in respect of Auction Losses under these Rules shall not be affected by an action taken in respect of a Rates Service Clearing Member by a resolution authority, including any write-down or conversion of liabilities of such Rates Service Clearing Member.

~~(h)~~—

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.
- (j) For the avoidance of doubt, (i) the calculation of Auction Losses is determined with reference to the actual or anticipated losses and/or costs of the Clearing House in accordance with these Rules and shall not be reduced with reference to any action taken in respect of a Rates Service Clearing Member by a resolution authority, including any write-down or conversion of liabilities of such Rates Service Clearing Member; and (ii) any sum payable in respect of Auction Losses under these Rules shall not be affected by an action taken in respect of a Rates Service Clearing Member by a resolution authority, including any write-down or conversion of liabilities of such Rates Service Clearing Member.

2.9 *Exchange Closed-Out Contracts*

- (a) 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.
- (b) 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.

(c) For the avoidance of doubt, (i) the calculation of Exchange Losses is determined with reference to the actual or anticipated losses and/or costs of the Clearing House in accordance with these Rules and shall not be reduced with reference to any action taken in respect of a Listed Interest Rates Clearing Member and/or Joint Rates Service Clearing Member by a resolution authority, including any write-down or conversion of liabilities of such Listed Interest Rates Clearing Member and/or Joint Rates Service Clearing Member; and (ii) any sum payable in respect of Exchange Losses under these Rules shall not be affected by an action taken in respect of a Listed Interest Rates Clearing Member and/or Joint Rates Service Clearing Member by a resolution authority, including any write-down or conversion of liabilities of such Listed Interest Rates Clearing Member and/or Joint Rates Service Clearing Member.

2.10 Gains

(d) 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.

- (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*

- (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 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.
- (b) 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.
- ~~(b)~~(c) For the avoidance of doubt, (i) the calculation of Market Losses is determined with reference to the actual or anticipated losses and/or costs of the Clearing House in accordance with these Rules and shall not be reduced with reference to any action taken in respect of a FXCCM by a resolution authority, including any write-down or conversion of liabilities of such FXCCM; and (ii) any sum payable in respect of Market Losses under these Rules shall not be affected by an action taken in respect of a FXCCM by a resolution authority, including any write-down or conversion of liabilities of such FXCCM.

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.
- (b) The AIP for the Auction Portfolio(s) in a specific Auction Portfolio Currency Pair 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:

Aligned Participants

- (i) The Auction Losses will be attributed to the remaining AIP Amounts of those Non-Defaulting FXCCMs that are both Aligned 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 that are both Aligned 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 Aligned Participant Short Bidders for the Auction Portfolio in accordance with this sub-paragraph (ii). Where the Loss Portion applicable to:
- (A) each Remaining Aligned Participant Short Bidder is less than or equal to its remaining AIP Amount, then the Clearing House will, in respect of each Remaining Aligned Participant Short Bidder, attribute Auction Losses equal to the Loss Portion applicable to the Remaining Aligned Participant Short Bidder to its remaining AIP Amount; or
- (B) one or more Remaining Aligned Participant 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 Aligned Participant Short Bidders only (so that they cease to be Remaining Aligned Participant 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 Aligned Participant Short Bidders for the Auction Portfolio are fully attributed.
- (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 that is an Aligned Participant in respect of the Auction Portfolio and submitted the winning bid in the Auction (if applicable), and the remaining AIP Amount of any Non-Defaulting FXCCM that is an Aligned Participant in respect of the Auction Portfolio and submitted a bid which was an Equal Bid or an Out Bid in relation to the winning bid (if applicable). 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 Aligned Participant that submitted the winning bid in the Auction (if applicable), (B) any Aligned Participants that submitted an Equal Bid to such winning bid in the Auction, and (C) any Aligned Participants that were Out Bidders in the Auction.

Expected Auction Participants

- (iv) If and to the extent there are Auction Losses outstanding after the attribution process in sub-paragraph (iii) above, those Auction Losses will be attributed to the remaining AIP Amounts of those Non-Defaulting FXCCMs that 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 (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 Non-Defaulting FXCCMs that are both Expected Auction Participants, in respect of the Auction Portfolio, and Non-Bidders in the Auction.

- (v) If and to the extent there are Auction Losses outstanding after the attribution process in subparagraph (iv) above, those Auction Losses will be attributed to the remaining AIP Amounts of the Remaining Expected Auction Participant Short Bidders for the Auction Portfolio in accordance with this sub-paragraph (v). Where the Loss Portion applicable to:
 - (A) each Remaining Expected Auction Participant Short Bidder is less than or equal to its remaining AIP Amount, then the Clearing House will, in respect of each Remaining Expected Auction Participant Short Bidder, attribute Auction Losses equal to the Loss Portion applicable to the Remaining Expected Auction Participant Short Bidder to its remaining AIP Amount; or
 - (B) one or more Remaining Expected Auction Participant 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 Expected Auction Participant Short Bidders only (so that they cease to be Remaining Expected Auction Participant Short Bidders for the purposes of this Rule 2.6(b)(v) and the Auction) and will repeat the loss attribution process in this Rule 2.6(b)(v) for any

outstanding Auction Losses until the Auction Losses are fully met or the remaining AIP Amounts of all Remaining Expected Auction Participant Short Bidders for the Auction Portfolio are fully attributed.

- (vi) If and to the extent there are Auction Losses outstanding after the attribution process in sub-paragraph (v) above, those Auction Losses will be attributed to the remaining AIP Amount of the Non-Defaulting FXCCM that is an Expected Auction Participant in respect of the Auction Portfolio and submitted the winning bid in the Auction (if applicable) and the remaining AIP Amount of any Non-Defaulting FXCCM that is an Expected Auction Participant in respect of the Auction Portfolio and submitted a bid which was an Equal Bid or an Out Bid in relation to the winning bid (if applicable). The outstanding Auction Losses will be attributed to the remaining AIP Amount of each such FXCCM pursuant to this sub-paragraph (vi) *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 Expected Auction Participant that submitted the winning bid in the Auction (if applicable); (B) any Expected Auction Participants that submitted an Equal Bid to such winning bid in the Auction; and (C) any Expected Auction Participants that were Out Bidders in the Auction.

Other Participants

- (vii) If and to the extent there are Auction Losses outstanding after the attribution process in sub-paragraph (vi) above, those Auction Losses will be attributed to the remaining AIP Amounts of those Non-Defaulting FXCCMs that are both Other 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 (vii) *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 that are both Other Participants, in respect of the Auction Portfolio, and Non-Bidders in the Auction.
- (viii) If and to the extent there are Auction Losses outstanding after the attribution process in subparagraph (vii) above, those Auction Losses will be attributed to the remaining AIP Amounts of the Remaining Other Participant Short Bidders for the Auction Portfolio in accordance with this sub-paragraph (viii). Where the Loss Portion applicable to:
 - (A) each Remaining Other Participant Short Bidder is less than or equal to its remaining AIP Amount, then the Clearing House will, in respect of each Remaining Other Participant Short Bidder, attribute Auction Losses equal to the Loss Portion applicable to the Remaining Other Participant Short Bidder to its remaining AIP Amount; or

- (B) one or more Remaining Other Participant 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 Other Participant Short Bidders only (so that they cease to be Remaining Other Participant Short Bidders for the purposes of this Rule 2.6(b)(viii) and the Auction) and will repeat the loss attribution process in this Rule 2.6(b)(viii) for any outstanding Auction Losses until the Auction Losses are fully met or the remaining AIP Amounts of all Remaining Other Participant Short Bidders for the Auction Portfolio are fully attributed.
- (ix) If and to the extent there are Auction Losses outstanding after the attribution process in sub-paragraph (viii) above, those Auction Losses will be attributed to the remaining AIP Amount of the Non-Defaulting FXCCM that is an Other Participant in respect of the Auction Portfolio and submitted the winning bid in the Auction (if applicable) and the remaining AIP Amount of any Non-Defaulting FXCCM that is an Other Participant in respect of the Auction Portfolio and submitted a bid which was an Equal Bid or an Out Bid in relation to the winning bid (if applicable). The outstanding Auction Losses will be attributed to the remaining AIP Amount of each such FXCCM pursuant to this sub-paragraph (ix) *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 Other Participant that submitted the winning bid in the Auction (if applicable); (B) any Other Participants that submitted an Equal Bid to such winning bid in the Auction; and (C) any Other Participants that were Out Bidders in the Auction.
- (c) If and to the extent there are Auction Losses outstanding following the attribution process in Rule 2.6(b) of this Annex, then those Auction Losses will be attributed to the remaining ForexClear Funded Contribution of each Non-Defaulting ForexClear Clearing Member *pro rata* according to the proportion that the remaining ForexClear Funded Contribution of such Non-Defaulting ForexClear Clearing Member bears to the total of the remaining ForexClear Funded Contributions of all Non-Defaulting ForexClear 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:

Aligned Participants

- (i) The Auction Losses will be attributed to remaining AIP Amounts of those Non-Defaulting FXCCMs that are both Aligned 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 that are both Aligned 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 Aligned Participant Short Bidders for the Auction Portfolio in accordance with this sub-paragraph (ii). Where the Loss Portion applicable to:
 - (A) each Remaining Aligned Participant Short Bidder is less than or equal to its remaining AIP Amount, then the Clearing House will, in respect of each Remaining Aligned Participant Short Bidder, attribute Auction Losses equal to the Loss Portion applicable to the Remaining Aligned Short Bidder to its remaining AIP Amount; or
 - (B) one or more Remaining Aligned Participant 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 Aligned Participant Short Bidders only (so that they cease to be Remaining Aligned Participant 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 Aligned Participant Short Bidders for the Auction Portfolio are fully attributed.
- (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 FXCCM that is an Aligned Participant in respect of the Auction Portfolio and submitted the winning bid (if applicable), and the remaining AIP Amount of any Non-Defaulting FXCCM that is an Aligned Participant in respect of the Auction Portfolio and submitted a bid which was an Equal Bid or a Higher Bid in relation to the winning bid (if applicable). The outstanding Auction Losses will be attributed to the remaining AIP Amount of each such Non-Defaulting 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 Aligned Participant that submitted the winning bid in the Auction (if applicable), (B) any Aligned Participants that submitted an Equal Bid to such winning bid in the Auction, and (C) any Aligned Participants that were Out Bidders in the Auction.

Expected Auction Participants

- (iv) If and to the extent there are Auction Losses outstanding after the attribution process in sub-paragraph (iii) above, those Auction Losses

will be attributed to the remaining AIP Amounts of those Non-Defaulting FXCCMs that 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 (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 Non-Defaulting FXCCMs that are both Expected Auction Participants, in respect of the Auction Portfolio, and Non-Bidders in the Auction.

- (v) If and to the extent there are Auction Losses outstanding after the attribution process in subparagraph (iv) above, those Auction Losses will be attributed to the remaining AIP Amounts of the Remaining Expected Auction Participant Short Bidders for the Auction Portfolio in accordance with this sub-paragraph (v). Where the Loss Portion applicable to:
 - (A) each Remaining Expected Auction Participant Short Bidder is less than or equal to its remaining AIP Amount, then the Clearing House will, in respect of each Remaining Expected Auction Participant Short Bidder, attribute Auction Losses equal to the Loss Portion applicable to the Remaining Expected Auction Participant Short Bidder to its remaining AIP Amount; or
 - (B) one or more Remaining Expected Auction Participant 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 Expected Auction Participant Short Bidders only (so that they cease to be Remaining Expected Auction Participant Short Bidders for the purposes of this Rule 2.6(d)(v) and the Auction) and will repeat the loss attribution process in this Rule 2.6(d)(v) for any outstanding Auction Losses until the Auction Losses are fully met or the remaining AIP Amounts of all Remaining Expected Auction Participant Short Bidders for the Auction Portfolio are fully attributed.
- (vi) If and to the extent there are Auction Losses outstanding after the attribution process in subparagraph (v) above, those Auction Losses will be attributed to the remaining AIP Amount of the Non-Defaulting FXCCM that is an Expected Auction Participant in respect of the Auction Portfolio and submitted the winning bid in the Auction (if applicable) and the remaining AIP Amount of any Non-Defaulting FXCCM that is an Expected Auction Participant in respect of the Auction Portfolio and submitted a bid which was an Equal Bid or an Out Bid in relation to the winning bid (if applicable). The outstanding Auction Losses will be attributed to the remaining AIP Amount of each such FXCCM pursuant to this sub-paragraph (vi) *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 Expected Auction Participant that submitted the winning bid in the Auction (if applicable);

(B) any Expected Auction Participants that submitted an Equal Bid to such winning bid in the Auction; and (C) any Expected Auction Participants that were Out Bidders in the Auction.

Other Participants

- (vii) If and to the extent there are Auction Losses outstanding after the attribution process in sub-paragraph (vi) above, those Auction Losses will be attributed to the remaining AIP Amounts of those Non-Defaulting FXCCMs that are both Other 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 (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 Non-Defaulting FXCCMs that are both Other Participants, in respect of the Auction Portfolio, and Non-Bidders in the Auction.
- (viii) If and to the extent there are Auction Losses outstanding after the attribution process in subparagraph (vii) above, those Auction Losses will be attributed to the remaining AIP Amounts of the Remaining Other Participant Short Bidders for the Auction Portfolio in accordance with this sub-paragraph (viii). Where the Loss Portion applicable to:
 - (A) each Remaining Other Participant Short Bidder is less than or equal to its remaining AIP Amount, then the Clearing House will, in respect of each Remaining Other Participant Short Bidder, attribute Auction Losses equal to the Loss Portion applicable to the Remaining Other Participant Short Bidder to its remaining AIP Amount; or
 - (B) one or more Remaining Other Participant 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 Other Participant Short Bidders only (so that they cease to be Remaining Other Participant Short Bidders for the purposes of this Rule 2.6(d)(viii) and the Auction) and will repeat the loss attribution process in this Rule 2.6(d)(viii) for any outstanding Auction Losses until the Auction Losses are fully met or the remaining AIP Amounts of all Remaining Other Participant Short Bidders for the Auction Portfolio are fully attributed.
- (ix) If and to the extent there are Auction Losses outstanding after the attribution process in sub-paragraph (viii) above, those Auction Losses will be attributed to the remaining AIP Amount of the Non-Defaulting FXCCM that is an Other Participant in respect of the Auction Portfolio and submitted the winning bid in the Auction (if applicable) and the remaining AIP Amount of any Non-Defaulting FXCCM that is an Other Participant in respect of the Auction Portfolio and submitted a bid which was an Equal Bid or an Out Bid in relation to the winning bid (if

applicable). The outstanding Auction Losses will be attributed to the remaining AIP Amount of each such FXCCM pursuant to this subparagraph (vi) *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 Other Participant that submitted the winning bid in the Auction (if applicable); (B) any Other Participants that submitted an Equal Bid to such winning bid in the Auction; and (C) any Other Participants that 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 those Auction Losses will be attributed to the remaining ForexClear Unfunded Contributions of each Non-Defaulting ForexClear Clearing Member *pro rata* according to the proportion that the remaining ForexClear Unfunded Contributions of such Non-Defaulting ForexClear Clearing Member bear to the total of the remaining ForexClear Unfunded Contributions of all Non-Defaulting ForexClear Clearing Members.

(e)(f) For the avoidance of doubt, (i) the calculation of Auction Losses is determined with reference to the actual or anticipated losses and/or costs of the Clearing House in accordance with these Rules and shall not be reduced with reference to any action taken in respect of a FXCCM by a resolution authority, including any write-down or conversion of liabilities of such FXCCM; and (ii) any sum payable in respect of Auction Losses under these Rules shall not be affected by an action taken in respect of a FXCCM by a resolution authority, including any write-down or conversion of liabilities of such FXCCM.

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.

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.

~~(e)~~(f) For the avoidance of doubt, (i) the calculation of Auction Losses is determined with reference to the actual or anticipated losses and/or costs of the Clearing House in accordance with these Rules and shall not be reduced with reference to any action taken in respect of an RCM by a resolution authority, including any write-down or conversion of liabilities of such RCM; and (ii) any sum payable in respect of Auction Losses under these Rules shall not be affected by an action taken in respect of an RCM by a resolution authority, including any write-down or conversion of liabilities of such RCM.

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.

- (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.

For the avoidance of doubt, (i) the calculation of any amounts payable under the ForexClear Loss Distribution Process is determined with reference to the actual or anticipated losses and/or costs of the Clearing House in accordance with these Rules and shall not be reduced with reference to any action taken in respect of a FXCCM by a resolution authority, including any write-down or conversion of liabilities of such FXCCM; and (ii) any amounts payable under the ForexClear Loss Distribution Process under these Rules shall not be affected by an action taken in respect of a FXCCM by a resolution authority, including any write-down or conversion of liabilities of such FXCCM.

- (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:

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

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

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.

For the avoidance of doubt, (i) the calculation of any amounts payable under Rates Services Loss Distribution Process is determined with reference to the actual or anticipated losses and/or costs of the Clearing House in accordance with these Rules and shall not be reduced with reference to any action taken in respect of a Rates Service Clearing Member by a resolution authority, including any write-down or conversion of liabilities of such Rates Service Clearing Member; and (ii) any amounts payable under the Rates Services Loss Distribution Process under these Rules shall not be affected by an action taken in respect of a Rates Service Clearing Member by a resolution authority, including any write-down or conversion of liabilities of such Rates Service Clearing Member.

- (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:

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

where:

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

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

"**ECL**" means the Exchange Closed-out Loss;

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

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

"**Loss Distribution 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

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.

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.

For the avoidance of doubt, (i) the calculation of any amounts payable under the RepoClear Loss Distribution Process is determined with reference to the actual or anticipated losses and/or costs of the Clearing House in accordance with these Rules and shall not be reduced with reference to any action taken in respect of an RCM by a resolution authority, including any write-down or conversion of liabilities of such RCM; and (ii) any amounts payable under the RepoClear Loss Distribution Process under these Rules shall not be affected by an action taken in respect of an RCM by a resolution authority, including any write-down or conversion of liabilities of such RCM.

(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 source 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 occurred.

"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.

2.53.2 *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.

(a) ***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.

(b) ***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.

(c) ***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 (c) 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 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 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) For the avoidance of doubt, (i) the calculation of any amounts payable under paragraph (e) is determined with reference to the actual or anticipated losses and/or costs of the Clearing House in accordance with these Rules and shall not be reduced with reference to any action taken in respect of an RCM by a resolution authority, including any write-down or conversion of liabilities of such RCM; and (ii) any amounts due under paragraph (e) shall not be affected by an action taken in respect of an RCM by a resolution authority, including any write-down or conversion of liabilities of such RCM.
- (h)(i) 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.

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**". For the avoidance of doubt, (i) the calculation of any amounts payable under the Loss Distribution Process is determined with reference to the actual or anticipated losses and/or costs of the Clearing House in accordance with these Rules and shall not be reduced with reference to any action taken in respect of a Member by a resolution authority, including any write-down or conversion of liabilities of such Member; and (ii) any amounts payable under the Loss Distribution Process under these Rules shall not be affected by an action taken in respect of a Member by a resolution authority, including any write-down or conversion of liabilities of such Member.

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.



LSEG POST
TRADE

CORPORATE

LCH

Appendix II
Procedures 2C
Changed Pages



LCH LIMITED

PROCEDURES SECTION 2C

SWAPCLEAR CLEARING SERVICE

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

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

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

The appointment of an LCH Approved Outsourcing Agent does not relieve a SwapClear Clearing Member of its obligations in relation to a Rates Service DMP (including its obligation to participate in an Auction) and an LCH Approved Outsourcing Agent's participation in the Rates Service DMP on behalf of an SCM, in the event of a default, shall not extend beyond the provision of operational and other ancillary support to that SCM.

1.28.8 *Rates Service DMG*

The necessary involvement of SCMs and the Rates Service DMG in the Rates Service DMP entails the assessment and dissemination of information that could give rise to conflicts of interest. To ensure that such potential conflicts are demonstrably contained, Schedule 1 establishes binding obligations of confidentiality, anonymity and the extent of dissemination of information on SCMs (and their executives or directors who participate from time to time in the Rates Service DMG) and on the Clearing House.

Each SCM who makes available a representative to serve on the Rates Service DMG agrees, and shall procure that, to the extent applicable, its representatives agree to be bound by and to ensure that it and any of its executives or directors serving on the Rates Service DMG complies with Schedule 1 covering confidentiality, non-disclosure and other terms.

1.28.9 *Default Management Accounts*

(a) For the purposes of this Section 1.28.9, the following definitions will apply:

“Affected Non-Porting Client Account” means, in respect of an Initial DMA or a Final DMA (as applicable) and the Rates Service Contracts that (at any time) comprise such Initial DMA or Final DMA (as applicable), each Non-Porting Client Account from which any such Rates Service Contract originated.

“**Auction**” has the meaning assigned to it in the Rates Service DMP Annex.

“**Auction Date**” means, in respect of an Auction Portfolio, the business day on which such Auction Portfolio is sold.

“**Auction Result**” means, in respect of an Auction Portfolio, the amount equal to:

- (i) the gains or losses of the Clearing House arising from the sale of such Auction Portfolio, where a gain is a positive amount and a loss is a negative amount;
- (ii) plus the Auction Portfolio NPV Gain for such Auction Portfolio (if any);
- (iii) minus the Auction Portfolio NPV Loss for such Auction Portfolio (if any).

“**Auction Portfolio**” means a Basis Portfolio or an OTC Auction Portfolio, as applicable.

“**Auction Portfolio Calculation Period**” means, in respect of an Auction Portfolio and its Auction Date, the period commencing immediately after the Daily Calculation Period for the business day preceding such Auction Date and ending at the point at which such Auction Portfolio is sold.

“**Auction Portfolio NPV Change**” means, in respect of an Auction Portfolio and its Auction Portfolio Calculation Period, the amount (if any) by which the aggregate net present value of the Rates Service Contracts within such Auction Portfolio has changed during such Auction Portfolio Calculation Period, and

- (i) where such change is in favour of the Defaulter, is the “**Auction Portfolio NPV Gain**”; and
- (ii) where such change is in favour of the Clearing House, is the “**Auction Portfolio NPV Loss**”.

“**Basis Portfolio**” has the meaning assigned to it in the Rates Service DMP Annex.

“**Daily Amount**” means, in respect of a DMA and a Daily Calculation Period, the Daily Gain or Daily Loss for such DMA and Daily Calculation Period.

“**Daily Calculation Period**” means, in respect of a business day, the period, in respect of which the Clearing House determines the end of day margin and settlement payments for Rates Service Contracts for such business day.

“**Daily Gain**” means, in respect of a DMA and a Daily Calculation Period, the amount (if any) by which the Daily NPV Gain exceeds the Daily Hedge Costs (in each case) for such DMA and Daily Calculation Period.

“**Daily Hedge Costs**” means, in respect of a DMA and a Daily Calculation Period, all costs incurred by the Clearing House in connection with hedging the exposure of one or more Rates Service Contracts within such DMA in accordance with the Risk Neutralisation process under Rule 2.2 of the Rates Service DMP Annex.

“**Daily Loss**” means, in respect of a DMA and a Daily Calculation Period, either: (i) where the DMA experiences a Daily NPV Loss in respect of such Daily Calculation Period, the aggregate of such Daily NPV Loss and the Daily Hedge Costs for such DMA and Daily Calculation Period; or (ii) where the DMA experiences a Daily NPV Gain in respect of such Daily Calculation Period, the amount by which the Daily Hedge Costs for such DMA and Daily Calculation Period exceed such Daily NPV Gain.

“**Daily NPV Change**” means, in respect of a DMA and a Daily Calculation Period, the amount (if any) by which the aggregate net present value of the Remaining Contracts within such DMA has changed during such Daily Calculation Period, and:

- (i) where such change is in favour of the Defaulter, is the “**Daily NPV Gain**”; and
- (ii) where such change is in favour of the Clearing House, is the “**Daily NPV Loss**”.

“**DMA**” means an Initial DMA or a Merged DMA, as applicable.

“**DMA Creation Date**” means, in respect of an Initial DMA, the business day on which such Initial DMA is established by the Clearing House.

“**DMA Merger Date**” means, in respect of a Merged DMA, the business day on which two or more DMAs are combined to form such Merged DMA.

“**Final DMA**” means, in respect of an Auction Portfolio that is auctioned and sold, the most recently established DMA from which such Auction Portfolio was formed.

“**Initial DMA**” means a default management account established by the Clearing House, acting in its sole discretion, to which one or more Sets of Non-Porting Contracts are transferred (by book-entry) on the DMA Creation Date for such default management account.

“**Latest DMA**” means, in respect of a Daily Calculation Period, a DMA that exists at the end of such Daily Calculation Period, but which has not

itself been combined with another DMA to form a separate Merged DMA.

“**Merged DMA**” means a default management account established by the Clearing House, acting in its sole discretion, which results from the combination of two or more DMAs.

“**Non-Porting Client Account**” means, in respect of a Defaulter, the Individual Segregated Account, Custodial Segregated Account, Omnibus Gross Segregated Sub-Account, Indirect Net Account, Indirect Gross Sub-Account, Non-Identified Client Omnibus Net Segregated Account, Affiliated Client Omnibus Net Segregated Account, Identified Client Omnibus Net Segregated Account or FCM Client Sub-Account (as applicable) of such Defaulter, to which the Rates Service Contracts that the Clearing House has determined will not be ported in accordance with the Client Clearing Annex or the FCM Rulebook are, or were, registered at the point of the Default of the Defaulter.

“**OTC Auction Portfolio**” has the meaning assigned to it in the Rates Service DMP Annex.

“**Pre-Default TMR**” means, in respect of an Affected Non-Porting Client Account of a Defaulter, the TMR for such Affected Non-Porting Client Account as at the end of day margin and settlement call for the business day before the day of Default of such Defaulter.

“**Pre-Default TMR Ratio**” means

- (i) in respect of an Initial DMA and an Affected Non-Porting Client Account referable to it, the ratio that the Pre-Default TMR of such Affected Non-Porting Client Account bears to the aggregate Pre-Default TMR of all Affected Non-Porting Client Accounts referable to such Initial DMA; or
- (ii) in respect of a Final DMA and an Affected Non-Porting Client Account referable to it, the ratio that the Pre-Default TMR of such Affected Non-Porting Client Account bears to the aggregate Pre-Default TMR of all Affected Non-Porting Client Accounts referable to such Final DMA.

“**Pre-Merger TMR**” means, in respect of a DMA that was combined with one or more other DMA(s) to form a Merged DMA, the TMR for such DMA as at the end of day margin and settlement call for the business day before the DMA Merger Date of such Merged DMA.

“**Pre-Merger TMR Ratio**” means, in respect of a DMA that was combined with one or more other DMA(s) to form a Merged DMA, the ratio that such DMA’s Pre-Merger TMR bears to the aggregate Pre-Merger TMR of all DMAs that were combined to form such Merged DMA.

“**Prior Merged DMA**” means, in respect of a Merged DMA, an existing Merged DMA that has been combined with one or more other DMA(s) to form such Merged DMA.

“**Remaining Contracts**” means, in respect of a DMA and a Daily Calculation Period, all of the Rates Service Contracts within such DMA during such Daily Calculation Period, excluding those Rates Service Contracts that the Clearing House has auctioned and sold at any point within such Daily Calculation Period.

“**Set of Non-Porting Contracts**” means, in respect of a Non-Porting Client Account, the Rates Service Contracts that are transferred by the Clearing House from such Non-Porting Client Account to an Initial DMA.

“**TMR**” means (i) in respect of an Affected Non-Porting Client Account, the total margin requirement as determined by the Clearing House for such Affected Non-Porting Client Account, or (ii) in respect of a DMA, the total margin requirement as determined by the Clearing House for such DMA, in each case excluding: (x) variation margin; (y) Stress Loss Margin as defined in Section 1.9.7 above; and (z) counterparty risk multiplier margin as described in Section 1.9.2 above.

(b) *Initial DMAs*

- (i) After a Default, the Clearing House may, in its sole discretion:
 - (A) determine that the Rates Service Contracts registered to a Non-Porting Client Account will not port in accordance with the Client Clearing Annex or the FCM Rulebook (as applicable); and
 - (B) transfer the resulting Set of Non-Porting Contracts in respect of such Non-Porting Client Account to an Initial DMA on the business day on which the Clearing House makes such determination.
- (ii) The Clearing House may in its sole discretion create more than one Initial DMA for the purposes of subparagraph (i)(B) above on the same business day.
- (iii) No Contracts other than Rates Service Contracts will be transferred into an Initial DMA.
- (iv) Any outstanding and owing, but unsettled, variation margin or settlement amounts in respect of Rates Service Contracts as at the end of the Daily Calculation Period for the business day prior to the transfer of such Rates Service Contracts in accordance with subparagraph (i) above shall be discharged by the Clearing House debiting or crediting (as applicable) the Non-Porting

Client Account from which such Rates Service Contracts were transferred.

(c) *Merged DMAs*

- (i) On any business day following the creation of two or more Initial DMAs pursuant to paragraph (b) above, the Clearing House may create a Merged DMA by combining:
 - (A) multiple Initial DMAs;
 - (B) one or more Initial DMAs and one or more Prior Merged DMAs; or
 - (C) multiple Prior Merged DMAs.
- (ii) The Clearing House may in its sole discretion create more than one Merged DMA on the same business day.

(d) *Auctions*

- (i) The Clearing House shall conduct Auctions in respect of Auction Portfolios referable to DMAs in accordance with the provisions of the Rates Service DMP Annex.
- (ii) More than one Auction Portfolio may be referable to a single DMA, in which case:
 - (A) the Clearing House will conduct one or more Auctions of each Auction Portfolio referable to such DMA; and
 - (B) on and from the date of the first Auction in respect of the DMA, the Clearing House may no longer combine such DMA into a Merged DMA.
- (iii) Following the sale of an Auction Portfolio, the Rates Service Contracts within such Auction Portfolio shall no longer form part of the DMA from which the Auction Portfolio was created.

(e) *Attribution of Daily Amounts*

- (i) The Clearing House shall, following each Daily Calculation Period, determine the Daily Amount for each Latest DMA in respect of such Daily Calculation Period.
- (ii) The Clearing House shall attribute the Daily Amount of a Latest DMA that is:
 - (A) an Initial DMA, to each Affected Non-Porting Client Account referable to such Initial DMA, pro rata according to the Pre-Default TMR Ratio of each such Affected Non-Porting Client Account; and

- (B) a Merged DMA, to each DMA that was combined to form such Merged DMA, pro rata according to the Pre-Merger TMR Ratio of each such DMA (where the amount attributed to each such DMA is an “**Interim Amount**”).
- (iii) If the Clearing House attributes an Interim Amount to a DMA under subparagraph (ii)(B) above, then it will further attribute such Interim Amount as follows:
 - (A) Where the DMA to which the Interim Amount was attributed is an Initial DMA, the Clearing House will further attribute such amount to each Affected Non-Porting Client Account referable to such Initial DMA, pro rata according to the Pre-Default TMR Ratio of each such Affected Non-Porting Client Account; and
 - (B) Where the DMA to which the Interim Amount was attributed is a Merged DMA, the Clearing House will further attribute such amount to each DMA that was combined to form such Merged DMA, pro rata according to the Pre-Merger TMR Ratio of each such DMA.
- (iv) If the Clearing House attributes an amount to a DMA under subparagraph (iii)(B) above, then it will further attribute such amount according to the method specified in subparagraph (iii) (treating such amount as an Interim Amount for the purposes of subparagraph (iii)) until all amounts are attributed to Non-Porting Client Accounts.

(f) *Attribution of Auction Results*

The Clearing House shall attribute the Auction Result, in respect of the sale of an Auction Portfolio, to each Affected Non-Porting Client Account referable to the Final DMA from which such Auction Portfolio was formed, pro rata according to the Pre-Default TMR Ratio of each such Affected Non-Porting Client Account.

(g) *Collateral*

The Clearing House shall hold the relevant Collateral in respect of each Non-Porting Client Account in its applicable Client Account until the process described in this Section 1.28.9 has been completed.

(i) Calculations

For the avoidance of doubt, (i) the calculation of Daily Amounts and Auction Results (and their constituent elements) is determined with reference to the actual or anticipated losses and/or costs of the Clearing House in accordance with this Section 1.28.9 and the Default Rules, and shall not be reduced with reference to any action taken in respect

of a Rates Service Clearing Member by a resolution authority, including any write-down or conversion of liabilities of such Rates Service Clearing Member; and (ii) any amounts allocated in respect of a Daily Amount or Auction Result under this Section 1.28.9 shall not be affected by an action taken in respect of a Rates Service Clearing Member by a resolution authority, including any write-down or conversion of liabilities of such Rates Service Clearing Member.

1.28.10 *Rates Service Default Management Disclosure Notice*

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

1.28.11 *Contact Information*

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

1.29 **Provision of Tax Forms; Withholding Taxes; Sales Tax**

1.29.1 *Tax Forms*

The Clearing House and each SwapClear Clearing Member shall provide to the other party (i) any form or document specified in the given SwapClear Contract and (ii) any form, document, statement or certification (including, in the case of the Clearing House, an Internal Revenue Service Form W-8BEN) reasonably requested in writing, in each case to permit the Clearing House or SwapClear Clearing Member, as applicable, to make any payment under the Clearing House's rules or any SwapClear Contract without withholding for any tax, levy or charge. The foregoing requirement shall not apply in the event the Clearing House or SwapClear Clearing Member is not permitted to deliver such form, document, statement or certification under Applicable Law (including any double-tax treaty).

1.29.2 *Withholding Taxes*

In the event a SwapClear Clearing Member is required under Applicable Law to withhold an amount in respect of any tax, levy or charge from any payment made to the Clearing House, (i) such payment shall be increased such that the Clearing House receives an amount equal to that it would have received had such withholding not been required under Applicable Law and (ii) the SwapClear Clearing Member shall provide the Clearing House the relevant tax certificates (or similar form) confirming the payment of such withholding amount.



LSEG POST
TRADE

CORPORATE

LCH

Appendix III
Procedures 21
Changed Pages



LCH LIMITED

PROCEDURES SECTION 2I

FOREXCLEAR CLEARING SERVICE

The appointment of an LCH Approved Outsourcing Agent does not absolve an FXCCM of its obligations under the ForexClear DMP (including its obligation to participate in an Auction) and an LCH Approved Outsourcing Agent's participation in the ForexClear DMP on behalf of an FXCCM, in the event of a default, shall not extend beyond the provision of operational and other ancillary support to that FXCCM.

- 1.10.7 *ForexClear DMG*: The necessary involvement of FXCCMs and the ForexClear DMG in the ForexClear DMP entails the assessment and dissemination of information that could give rise to conflicts of interest. To ensure that such potential conflicts are demonstrably contained, Schedule 1 (*Confidentiality, non-disclosure and participation in the ForexClear Default Management Group*) establishes binding obligations of confidentiality, anonymity and the extent of dissemination of information on FXCCMs (and their executives or directors who participate from time to time in the ForexClear DMG) and on the Clearing House.

Each FXCCM who makes available a representative to serve on the ForexClear DMG agrees, and shall procure that, to the extent applicable, its representatives agree to be bound by and to ensure that it and any of its executives or directors serving on the ForexClear DMG complies with Schedule 1 (*Confidentiality, non-disclosure and participation in the ForexClear Default Management Group*) covering confidentiality, non-disclosure and other terms.

1.10.8 *Default Management Accounts*

- (a) For the purposes of this Section 1.10.8, the following definitions will apply:

“**Affected Non-Porting Client Account**” means, in respect of an Initial DMA or a Final DMA (as applicable) and the ForexClear Contracts that (at any time) comprise such Initial DMA or Final DMA (as applicable), each Non-Porting Client Account from which any such ForexClear Contract originated.

“**Auction**” has the meaning assigned to it in the ForexClear DMP Annex.

“**Auction Date**” means, in respect of an Auction Portfolio, the business day on which such Auction Portfolio is sold.

“**Auction Result**” means, in respect of an Auction Portfolio, the amount equal to:

- (i) the gains or losses of the Clearing House arising from the sale of such Auction Portfolio, where a gain is a positive amount and a loss is a negative amount;
- (ii) plus the Auction Portfolio NPV Gain for such Auction Portfolio (if any);

- (iii) minus the Auction Portfolio NPV Loss for such Auction Portfolio (if any).

“**Auction Portfolio**” means a ForexClear Auction Portfolio.

“**Auction Portfolio Calculation Period**” means, in respect of an Auction Portfolio and its Auction Date, the period commencing immediately after the Daily Calculation Period for the business day preceding such Auction Date and ending at the point at which such Auction Portfolio is sold.

“**Auction Portfolio NPV Change**” means, in respect of an Auction Portfolio and its Auction Portfolio Calculation Period, the amount (if any) by which the aggregate net present value of the ForexClear Contracts within such Auction Portfolio has changed during such Auction Portfolio Calculation Period, and

- (i) where such change is in favour of the Defaulter, is the “**Auction Portfolio NPV Gain**”; and
- (ii) where such change is in favour of the Clearing House, is the “**Auction Portfolio NPV Loss**”.

“**Daily Amount**” means, in respect of a DMA and a Daily Calculation Period, the Daily Gain or Daily Loss for such DMA and Daily Calculation Period.

“**Daily Calculation Period**” means, in respect of a business day, the period, in respect of which the Clearing House determines the end of day margin and settlement payments for ForexClear Contracts for such business day.

“**Daily Gain**” means, in respect of a DMA and a Daily Calculation Period, the amount (if any) by which the Daily NPV Gain exceeds the Daily Hedge Costs (in each case) for such DMA and Daily Calculation Period.

“**Daily Hedge Costs**” means, in respect of a DMA and a Daily Calculation Period, all costs incurred by the Clearing House in connection with hedging the exposure of one or more ForexClear Contracts within such DMA in accordance with the Risk Neutralisation process under Rule 2.2 of the ForexClear DMP Annex.

“**Daily Loss**” means, in respect of a DMA and a Daily Calculation Period, either: (i) where the DMA experiences a Daily NPV Loss in respect of such Daily Calculation Period, the aggregate of such Daily NPV Loss and the Daily Hedge Costs for such DMA and Daily Calculation Period; or (ii) where the DMA experiences a Daily NPV Gain in respect of such Daily Calculation Period, the amount by which the Daily Hedge Costs for such DMA and Daily Calculation Period exceed such Daily NPV Gain.

“**Daily NPV Change**” means, in respect of a DMA and a Daily Calculation Period, the amount (if any) by which the aggregate net present value of the Remaining Contracts within such DMA has changed during such Daily Calculation Period, and:

- (i) where such change is in favour of the Defaulter, is the “**Daily NPV Gain**”; and
- (ii) where such change is in favour of the Clearing House, is the “**Daily NPV Loss**”.

“**DMA**” means an Initial DMA or a Merged DMA, as applicable.

“**DMA Creation Date**” means, in respect of an Initial DMA, the business day on which such Initial DMA is established by the Clearing House.

“**DMA Merger Date**” means, in respect of a Merged DMA, the business day on which two or more DMAs are combined to form such Merged DMA.

“**Final DMA**” means, in respect of an Auction Portfolio that is auctioned and sold, the most recently established DMA from which such Auction Portfolio was formed.

“**ForexClear Auction Portfolio**” means an “Auction Portfolio” as defined in the ForexClear DMP Annex.

“**Initial DMA**” means a default management account established by the Clearing House, acting in its sole discretion, to which one or more Sets of Non-Porting Contracts are transferred (by book-entry) on the DMA Creation Date for such default management account.

“**Latest DMA**” means, in respect of a Daily Calculation Period, a DMA that exists at the end of such Daily Calculation Period, but which has not itself been combined with another DMA to form a separate Merged DMA.

“**Merged DMA**” means a default management account established by the Clearing House, acting in its sole discretion, which results from the combination of two or more DMAs.

“**Non-Porting Client Account**” means, in respect of a Defaulter, the Individual Segregated Account, Indirect Gross Account, or Omnibus Segregated Account or FCM Client Sub-Account (as applicable) of such Defaulter, to which the ForexClear Contracts that the Clearing House has determined will not be ported in accordance with the Client Clearing Annex or the FCM Rulebook are, or were, registered at the point of the Default of the Defaulter.

“**Pre-Default TMR**” means, in respect of an Affected Non-Porting Client Account of a Defaulter, the TMR for such Affected Non-Porting

Client Account as at the end of day margin and settlement call for the business day before the day of Default of such Defaulter.

“Pre-Default TMR Ratio” means

- (i) in respect of an Initial DMA and an Affected Non-Porting Client Account referable to it, the ratio that the Pre-Default TMR of such Affected Non-Porting Client Account bears to the aggregate Pre-Default TMR of all Affected Non-Porting Client Accounts referable to such Initial DMA; or
- (ii) in respect of a Final DMA and an Affected Non-Porting Client Account referable to it, the ratio that the Pre-Default TMR of such Affected Non-Porting Client Account bears to the aggregate Pre-Default TMR of all Affected Non-Porting Client Accounts referable to such Final DMA.

“Pre-Merger TMR” means, in respect of a DMA that was combined with one or more other DMA(s) to form a Merged DMA, the TMR for such DMA as at the end of day margin and settlement call for the business day before the DMA Merger Date of such Merged DMA.

“Pre-Merger TMR Ratio” means, in respect of a DMA that was combined with one or more other DMA(s) to form a Merged DMA, the ratio that such DMA’s Pre-Merger TMR bears to the aggregate Pre-Merger TMR of all DMAs that were combined to form such Merged DMA.

“Prior Merged DMA” means, in respect of a Merged DMA, an existing Merged DMA that has been combined with one or more other DMA(s) to form such Merged DMA.

“Remaining Contracts” means, in respect of a DMA and a Daily Calculation Period, all of the ForexClear Contracts within such DMA during such Daily Calculation Period, excluding those ForexClear Contracts that the Clearing House has auctioned and sold at any point within such Daily Calculation Period.

“Set of Non-Porting Contracts” means, in respect of a Non-Porting Client Account, the ForexClear Contracts that are transferred by the Clearing House from such Non-Porting Client Account to an Initial DMA.

“TMR” means (i) in respect of an Affected Non-Porting Client Account, the total margin requirement as determined by the Clearing House for such Affected Non-Porting Client Account, or (ii) in respect of a DMA, the total margin requirement as determined by the Clearing House for such DMA, in each case, excluding variation margin.

(b) *Initial DMAs*

- (i) After a Default, the Clearing House may, in its sole discretion:

- (A) determine that the ForexClear Contracts registered to a Non-Porting Client Account will not port in accordance with the Client Clearing Annex or the FCM Rulebook (as applicable); and
 - (B) transfer the resulting Set of Non-Porting Contracts in respect of such Non-Porting Client Account to an Initial DMA on the business day on which the Clearing House makes such determination.
 - (ii) The Clearing House may in its sole discretion create more than one Initial DMA for the purposes of subparagraph (i)(B) above on the same business day.
 - (iii) No Contracts other than ForexClear Contracts will be transferred into an Initial DMA.
 - (iv) Any outstanding and owing, but unsettled, variation margin or settlement amounts in respect of ForexClear Contracts as at the end of the Daily Calculation Period for the business day prior to the transfer of such ForexClear Contracts in accordance with subparagraph (i) above shall be discharged by the Clearing House debiting or crediting (as applicable) the Non-Porting Client Account from which such ForexClear Contracts were transferred.
- (c) *Merged DMAs*
- (i) On any business day following the creation of two or more Initial DMAs pursuant to paragraph (b) above, the Clearing House may create a Merged DMA by combining:
 - (A) multiple Initial DMAs;
 - (B) one or more Initial DMAs and one or more Prior Merged DMAs; or
 - (C) multiple Prior Merged DMAs.
 - (ii) The Clearing House may in its sole discretion create more than one Merged DMA on the same business day.
- (d) *Auctions*
- (i) The Clearing House shall conduct Auctions in respect of Auction Portfolios referable to DMAs in accordance with the provisions of the ForexClear DMP Annex.
 - (ii) More than one Auction Portfolio may be referable to a single DMA, in which case:

- (A) the Clearing House will conduct one or more Auctions of each Auction Portfolio referable to such DMA; and
 - (B) on and from the date of the first Auction in respect of the DMA, the Clearing House may no longer combine such DMA into a Merged DMA.
 - (iii) Following the sale of an Auction Portfolio, the ForexClear Contacts within such Auction Portfolio shall no longer form part of the DMA from which the Auction Portfolio was created.
- (e) *Attribution of Daily Amounts*
- (i) The Clearing House shall, following each Daily Calculation Period, determine the Daily Amount for each Latest DMA in respect of such Daily Calculation Period.
 - (ii) The Clearing House shall attribute the Daily Amount of a Latest DMA that is:
 - (A) an Initial DMA, to each Affected Non-Porting Client Account referable to such Initial DMA, pro rata according to the Pre-Default TMR Ratio of each such Affected Non-Porting Client Account; and
 - (B) a Merged DMA, to each DMA that was combined to form such Merged DMA, pro rata according to the Pre-Merger TMR Ratio of each such DMA (where the amount attributed to each such DMA is an “**Interim Amount**”).
 - (iii) If the Clearing House attributes an Interim Amount to a DMA under subparagraph (ii)(B) above, then it will further attribute such Interim Amount as follows:
 - (A) Where the DMA to which the Interim Amount was attributed is an Initial DMA, the Clearing House will further attribute such amount to each Affected Non-Porting Client Account referable to such Initial DMA, pro rata according to the Pre-Default TMR Ratio of each such Affected Non-Porting Client Account; and
 - (B) Where the DMA to which the Interim Amount was attributed is a Merged DMA, the Clearing House will further attribute such amount to each DMA that was combined to form such Merged DMA, pro rata according to the Pre-Merger TMR Ratio of each such DMA.
 - (iv) If the Clearing House attributes an amount to a DMA under subparagraph (iii)(B) above, then it will further attribute such amount according to the method specified in subparagraph (iii)

(treating such amount as an Interim Amount for the purposes of subparagraph (iii)) until all amounts are attributed to Non-Porting Client Accounts.

(f) *Attribution of Auction Results*

The Clearing House shall attribute the Auction Result, in respect of the sale of an Auction Portfolio, to each Affected Non-Porting Client Account referable to the Final DMA from which such Auction Portfolio was formed, pro rata according to the Pre-Default TMR Ratio of each such Affected Non-Porting Client Account.

(g) *Collateral*

The Clearing House shall hold the relevant Collateral in respect of each Non-Porting Client Account in its applicable Client Account until the process described in this Section 1.10.8 has been completed.

(h) *Calculations*

For the avoidance of doubt, (i) the calculation of Daily Amounts and Auction Results (and their constituent elements) is determined with reference to the actual or anticipated losses and/or costs of the Clearing House in accordance with this Section 1.10.8 and the Default Rules, and shall not be reduced with reference to any action taken in respect of a FXCCM by a resolution authority, including any write-down or conversion of liabilities of such FXCCM; and (ii) any amounts allocated in respect of a Daily Amount or Auction Result under this Section 1.10.8 shall not be affected by an action taken in respect of a FXCCM by a resolution authority, including any write-down or conversion of liabilities of such FXCCM.

1.11 Provision of Tax Forms

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



LSEG POST
TRADE

CORPORATE

LCH

Appendix IV
FCM Procedures
Changed Pages



FCM PROCEDURES OF THE CLEARING HOUSE

LCH LIMITED

ensure that it and any of its executives or directors serving on the Rates Service DMG complies with Schedule 2 covering confidentiality, non-disclosure and other terms.

(f) *Default Management Accounts*

(A) For the purposes of this paragraph (f), the following definitions will apply:

“Affected Non-Porting FCM Client Sub-Account” means, in respect of an Initial DMA or a Final DMA (as applicable) and the FCM Rates Contracts that (at any time) comprise such Initial DMA or Final DMA (as applicable), each Non-Porting FCM Client Sub-Account from which any such FCM Rates Contract originated.

“Auction” has the meaning assigned to it in the Rates Service DMP Annex.

“Auction Date” means, in respect of an Auction Portfolio, the business day on which such Auction Portfolio is sold.

“Auction Result” means, in respect of an Auction Portfolio, the amount equal to:

- (i) the gains or losses of the Clearing House arising from the sale of such Auction Portfolio, where a gain is a positive amount and a loss is a negative amount;
- (ii) plus the Auction Portfolio NPV Gain for such Auction Portfolio (if any);
- (iii) minus the Auction Portfolio NPV Loss for such Auction Portfolio (if any).

“Auction Portfolio” means a Basis Portfolio or an OTC Auction Portfolio, as applicable.

“Auction Portfolio Calculation Period” means, in respect of an Auction Portfolio and its Auction Date, the period commencing immediately after the Daily Calculation Period for the business day preceding such Auction Date and ending at the point at which such Auction Portfolio is sold.

“Auction Portfolio NPV Change” means, in respect of an Auction Portfolio and its Auction Portfolio Calculation Period, the amount (if any) by which the aggregate net present value of the FCM Rates Contracts within such Auction Portfolio has changed during such Auction Portfolio Calculation Period, and

- (i) where such change is in favour of the Defaulter, is the **“Auction Portfolio NPV Gain”**; and

- (ii) where such change is in favour of the Clearing House, is the “**Auction Portfolio NPV Loss**”.

“**Basis Portfolio**” has the meaning assigned to it in the Rates Service DMP Annex.

“**Daily Amount**” means, in respect of a DMA and a Daily Calculation Period, the Daily Gain or Daily Loss for such DMA and Daily Calculation Period.

“**Daily Calculation Period**” means, in respect of a business day, the period in respect of which the Clearing House determines the end of day margin and settlement payments for FCM Rates Contracts for such business day.

“**Daily Gain**” means, in respect of a DMA and a Daily Calculation Period, the amount (if any) by which the Daily NPV Gain exceeds the Daily Hedge Costs (in each case) for such DMA and Daily Calculation Period.

“**Daily Hedge Costs**” means, in respect of a DMA and a Daily Calculation Period, all costs incurred by the Clearing House in connection with hedging the exposure of one or more FCM Rates Contracts within such DMA in accordance with the Risk Neutralisation process under Rule 2.2 of the Rates Service DMP Annex.

“**Daily Loss**” means, in respect of a DMA and a Daily Calculation Period, either: (i) where the DMA experiences a Daily NPV Loss in respect of such Daily Calculation Period, the aggregate of such Daily NPV Loss and the Daily Hedge Costs for such DMA and Daily Calculation Period; or (ii) where the DMA experiences a Daily NPV Gain in respect of such Daily Calculation Period, the amount by which the Daily Hedge Costs for such DMA and Daily Calculation Period exceed such Daily NPV Gain.

“**Daily NPV Change**” means, in respect of a DMA and a Daily Calculation Period, the amount (if any) by which the aggregate net present value of the Remaining Contracts within such DMA has changed during such Daily Calculation Period, and:

- (i) where such change is in favour of the Defaulter, is the “**Daily NPV Gain**”; and
- (ii) where such change is in favour of the Clearing House, is the “**Daily NPV Loss**”.

“**DMA**” means an Initial DMA or a Merged DMA, as applicable.

“**DMA Creation Date**” means, in respect of an Initial DMA, the business day on which such Initial DMA is established by the Clearing House.

“**DMA Merger Date**” means, in respect of a Merged DMA, the business day on which two or more DMAs are combined to form such Merged DMA.

“**Final DMA**” means, in respect of an Auction Portfolio that is auctioned and sold, the most recently established DMA from which such Auction Portfolio was formed.

“**Initial DMA**” means a default management account established by the Clearing House, acting in its sole discretion, to which one or more Sets of Non-Porting Contracts are transferred (by book-entry) on the DMA Creation Date for such default management account.

“**Latest DMA**” means, in respect of a Daily Calculation Period, a DMA that exists at the end of such Daily Calculation Period, but which has not itself been combined with another DMA to form a separate Merged DMA.

“**Merged DMA**” means a default management account established by the Clearing House, acting in its sole discretion, which results from the combination of two or more DMAs.

“**Non-Porting FCM Client Sub-Account**” means, in respect of a Defaulter, the FCM Client Sub-Account of such Defaulter, to which the FCM Rates Contracts that the Clearing House has determined will not be ported in accordance with the FCM Rulebook are, or were, registered at the point of the Default of the Defaulter.

“**OTC Auction Portfolio**” has the meaning assigned to it in the Rates Service DMP Annex.

“**Pre-Default TMR**” means, in respect of an Affected Non-Porting FCM Client Sub-Account of a Defaulter, the TMR for such Affected Non-Porting FCM Client Sub-Account as at the end of day margin and settlement call for the business day before the day of Default of such Defaulter.

“**Pre-Default TMR Ratio**” means

- (i) in respect of an Initial DMA and an Affected Non-Porting FCM Client Sub-Account referable to it, the ratio that the Pre-Default TMR of such Affected Non-Porting FCM Client Sub-Account bears to the aggregate Pre-Default TMR of all Affected Non-Porting FCM Client Sub-Accounts referable to such Initial DMA; or

- (ii) in respect of a Final DMA and an Affected Non-Porting FCM Client Sub-Account referable to it, the ratio that the Pre-Default TMR of such Affected Non-Porting FCM Client Sub-Account bears to the aggregate Pre-Default TMR of all Affected Non-Porting FCM Client Sub-Accounts referable to such Final DMA.

“Pre-Merger TMR” means, in respect of a DMA that was combined with one or more other DMA(s) to form a Merged DMA, the TMR for such DMA as at the end of day margin and settlement call for the business day before the DMA Merger Date of such Merged DMA.

“Pre-Merger TMR Ratio” means, in respect of a DMA that was combined with one or more other DMA(s) to form a Merged DMA, the ratio that such DMA’s Pre-Merger TMR bears to the aggregate Pre-Merger TMR of all DMAs that were combined to form such Merged DMA.

“Prior Merged DMA” means, in respect of a Merged DMA, an existing Merged DMA that has been combined with one or more other DMA(s) to form such Merged DMA.

“Remaining Contracts” means, in respect of a DMA and a Daily Calculation Period, all of the FCM Rates Contracts within such DMA during such Daily Calculation Period, excluding those FCM Rates Contracts that the Clearing House has auctioned and sold at any point within such Daily Calculation Period.

“Set of Non-Porting Contracts” means, in respect of a Non-Porting FCM Client Sub-Account, the FCM Rates Contracts that are transferred by the Clearing House from such Non-Porting FCM Client Sub-Account to an Initial DMA.

“TMR” means (i) in respect of an Affected Non-Porting FCM Client Sub-Account, the total margin requirement as determined by the Clearing House for such Affected Non-Porting FCM Client Sub-Account, or (ii) in respect of a DMA, the total margin requirement as determined by the Clearing House for such DMA, in each case excluding: (x) variation margin; (y) Stress Loss Margin as defined in Section 2.1.9 above; and (z) counterparty risk multiplier margin.

(B) *Initial DMAs*

(A) After a Default, the Clearing House may, in its sole discretion:

- (1) determine that the FCM Rates Contracts registered to a Non-Porting FCM Client Sub-

Account will not port in accordance with the FCM Rulebook; and

- (2) transfer the resulting Set of Non-Porting Contracts in respect of such Non-Porting FCM Client Sub-Account to an Initial DMA on the business day on which the Clearing House makes such determination.
- (B) The Clearing House may in its sole discretion create more than one Initial DMA for the purposes of subparagraph (A)(2) above on the same business day.
- (C) No Contracts other than FCM Rates Contracts will be transferred into an Initial DMA.
- (D) Any outstanding and owing, but unsettled, variation margin or settlement amounts in respect of FCM Rates Contracts as at the end of the Daily Calculation Period for the business day prior to the transfer of such FCM Rates Contracts in accordance with subparagraph (A) above shall be discharged by the Clearing House debiting or crediting (as applicable) the Non-Porting FCM Client Sub-Account from which such FCM Rates Contracts were transferred.

(C) *Merged DMAs*

- (A) On any business day following the creation of two or more Initial DMAs pursuant to paragraph (B) above, the Clearing House may create a Merged DMA by combining:
 - (1) multiple Initial DMAs;
 - (2) one or more Initial DMAs and one or more Prior Merged DMAs; or
 - (3) multiple Prior Merged DMAs.
- (B) The Clearing House may in its sole discretion create more than one Merged DMA on the same business day.

(D) *Auctions*

- (A) The Clearing House shall conduct Auctions in respect of Auction Portfolios referable to DMAs in accordance with the provisions of the Rates Service DMP Annex.
- (B) More than one Auction Portfolio may be referable to a single DMA, in which case:

- (1) the Clearing House will conduct one or more Auctions of each Auction Portfolio referable to such DMA; and
 - (2) on and from the date of the first Auction in respect of the DMA, the Clearing House may no longer combine such DMA into a Merged DMA.
- (C) Following the sale of an Auction Portfolio, the Rates Service Contacts within such Auction Portfolio shall no longer form part of the DMA from which the Auction Portfolio was created.
- (E) *Attribution of Daily Amounts*
- (A) The Clearing House shall, following each Daily Calculation Period, determine the Daily Amount for each Latest DMA in respect of such Daily Calculation Period.
 - (B) The Clearing House shall attribute the Daily Amount of a Latest DMA that is:
 - (1) an Initial DMA, to each Affected Non-Porting FCM Client Sub-Account referable to such Initial DMA, pro rata according to the Pre-Default TMR Ratio of each such Affected Non-Porting FCM Client Sub-Account; and
 - (2) a Merged DMA, to each DMA that was combined to form such Merged DMA, pro rata according to the Pre-Merger TMR Ratio of each such DMA (where the amount attributed to each such DMA is an “**Interim Amount**”).
 - (C) If the Clearing House attributes an Interim Amount to a DMA under subparagraph (B)(2) above, then it will further attribute such Interim Amount as follows:
 - (1) Where the DMA to which the Interim Amount was attributed is an Initial DMA, the Clearing House will further attribute such amount to each Affected Non-Porting FCM Client Sub-Account referable to such Initial DMA, pro rata according to the Pre-Default TMR Ratio of each such Affected Non-Porting FCM Client Sub-Account; and
 - (2) Where the DMA to which the Interim Amount was attributed is a Merged DMA, the Clearing House will further attribute such amount to each

DMA that was combined to form such Merged DMA, pro rata according to the Pre-Merger TMR Ratio of each such DMA.

- (D) If the Clearing House attributes an amount to a DMA under subparagraph (C)(2) above, then it will further attribute such amount according to the method specified in subparagraph (C) (treating such amount as an Interim Amount for the purposes of subparagraph (C)) until all amounts are attributed to Non-Porting FCM Client Sub-Accounts.

(F) *Attribution of Auction Results*

The Clearing House shall attribute the Auction Result, in respect of the sale of an Auction Portfolio, to each Affected Non-Porting FCM Client Sub-Account referable to the Final DMA from which such Auction Portfolio was formed, pro rata according to the Pre-Default TMR Ratio of each such Affected Non-Porting FCM Client Sub-Account.

(G) *CFTC Regulations*

The Clearing House shall hold the relevant Collateral in respect of Non-Porting FCM Client Sub-Accounts (segregated as belonging to each such applicable Non-Porting FCM Client Sub-Account in accordance with the CFTC Regulations and Part 22 thereof) in its applicable FCM Omnibus SwapClear Client Account with LCH until the process described in this paragraph (f) has been completed. For the avoidance of doubt, the Clearing House may only take such actions pursuant to this paragraph as permitted by the FCM Rulebook, the CEA and the CFTC Regulations or as directed by an applicable Regulatory Body.

(H) *Calculations*

For the avoidance of doubt, (i) the calculation of Daily Amounts and Auction Results (and their constituent elements) is determined with reference to the actual or anticipated losses and/or costs of the Clearing House in accordance with this Section 2.1.17(f) and the Default Rules, and shall not be reduced with reference to any action taken in respect of a FCM Rates Service Clearing Member by a resolution authority, including any write-down or conversion of liabilities of such FCM Rates Service Clearing Member; and (ii) any amounts allocated in respect of a Daily Amount or Auction Result under this Section 2.1.17(f) shall not be affected by an action taken in respect of a FCM Rates Service Clearing Member by a resolution authority, including any write-down or conversion of liabilities of such FCM Rates Service Clearing Member.

(g) *FCM Rates Service Default Management Disclosure Notice*

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

(h) *Contact Information*

Each FCM Rates Clearing Member is required to provide the Clearing House with contact details for those persons that the Clearing House should contact in the event of a Clearing Member Default. FCM Rates Clearing Members are required to ensure that contact details remain up to date and to notify the Clearing House of any changes in such details.

2.1.18 *Payment of Stamp Tax*

Each FCM Clearing Member shall pay any stamp tax or duty levied or imposed upon it or in respect of its execution or performance of the FCM Clearing Membership Agreement, the FCM Default Fund Agreement, the FCM Regulations and the FCM Procedures (including any registration of an FCM SwapClear Contract) by a jurisdiction in which it is incorporated, organized, managed and controlled, or considered to have its seat, or in which a branch or office through which it is acting is located or by any other jurisdiction and shall indemnify the Clearing House against any stamp tax or duty levied or imposed upon the Clearing House or in respect of the Clearing House's execution or performance of the FCM Clearing Membership Agreement, the FCM Regulations and the FCM Procedures (including any registration of an FCM SwapClear Contract) by any such jurisdiction.

2.1.19 *Section 696, Corporation Tax Act 2009*

The FCM Clearing Member agrees that should a situation arise where HM Revenue and Customs (“**HMRC**”) raises an enquiry, or makes an information request, to the Clearing House regarding an FCM Transaction or FCM Contract that the FCM Clearing Member is submitting (or has submitted) to the Clearing House, and that enquiry or information request is in respect of the application of s696 - s697 Corporation Tax Act 2009, the FCM Clearing Member will use its reasonable efforts to provide such information and support as the Clearing House may reasonably require in order to respond to and effectively deal with the queries raised by HMRC.

2.1.20 *Tax Forms*

The Clearing House and each FCM Clearing Member shall provide to the other party (i) any form or document specified in the given FCM Contract and

The Clearing House shall notify FX FCMs of any change to the LDR for the ForexClear Service via member circular.

2.2.26 *Default Management*

(a) *Portfolio Splitting*

As part of the ForexClear DMP (contained in the ForexClear DMP Annex to the Default Rules), the Clearing House may divide an Auction Portfolio into two or more individual Auction Portfolios. In circumstances where such portfolio splitting is adopted, the Clearing House will, in consultation with the ForexClear DMG (as defined in the ForexClear DMP Annex to the Default Rules), seek to create:

- (A) one or more individual Auction Portfolios which have comparatively greater levels of risk associated with them, thereby isolating such Auction Portfolios from those which are more risk neutral; and
- (B) one or more individual Auction Portfolios which are more risk neutral.

(b) *Acceptance of Bids*

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

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

Where the Clearing House receives more than one bid from the same ForexClear Clearing Member and in respect of the same Auction the Clearing House is entitled to accept the last bid received by it in respect of that Auction. Where the Clearing House does not receive a bid that was made by a ForexClear Clearing Member for operational, technological or other similar reasons and as a result of which a bid does not reach the Clearing House, the Clearing House will be unable to accept a bid and shall not be liable for any failure to accept such bid.

(c) *Affiliate Bidding*

ForexClear Clearing Members are entitled to bid for an Auction Portfolio on behalf of an affiliated ForexClear Clearing Member or an affiliated FCM Clearing Member. Where a ForexClear Clearing Member makes a bid and that ForexClear Clearing Member has an affiliated ForexClear Clearing Member or FCM Clearing Member that does not make a bid, the Clearing House shall not (unless instructed otherwise in accordance with the paragraph below) assume that the bidding ForexClear Clearing Member has made the relevant bid on behalf of a non-bidding, affiliated ForexClear Clearing Member or FCM Clearing Member.

A ForexClear Clearing Member may notify the Clearing House, in advance of an Auction, that it wishes to bid on behalf of an affiliated ForexClear Clearing Member. Where it wishes to do so, the ForexClear Clearing Member should contact the Clearing House's Membership Department (membership@lch.com; +44 (0)207 426 7949).

(d) *Outsourcing*

Pursuant to Section 1 (*Membership*) of these FCM Procedures, an FX FCM may appoint a third party to fulfill one or both of the Clearing House's FCM clearing membership criteria to: (i) participate in a ForexClear “fire drill” run by the Clearing House; and (ii) participate in the ForexClear DMP operated by the Clearing House. Where an FX FCM chooses to outsource one or both of these functions it must appoint and maintain at least three LCH Approved Outsourcing Agents.

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

- (A) a ForexClear Clearing Member
- (B) an FX FCM;
- (C) an FCM Client; or
- (D) any other entity that the Clearing House deems appropriate in its sole discretion.

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

- (A) details of the third party entity that the FX FCM wishes to appoint as an LCH Approved Outsourcing Agent. Such information should include details of the applicant's regulatory status;

- (B) evidence of the existence of a legally binding agreement between the FX FCM Clearing Member and the third party; and
- (C) such other information that the Clearing House reasonably considers necessary for the purposes of determining whether an entity should be approved as an LCH Approved Outsourcing Agent.

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

Where an FX FCM successfully appoints an LCH Approved Outsourcing Agent, that FX FCM may be subject to increased Transfer Requirements to cater for the additional time required to invoke an outsourcing process in the event of a default

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

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

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

The appointment of an LCH Approved Outsourcing Agent does not absolve an FX FCM of its obligations under the ForexClear DMP (including its obligation to participate in an Auction) and an LCH Approved Outsourcing Agent's participation in the ForexClear DMP on behalf of an FX FCM, in the event of a default, shall not extend beyond the provision of operational and other ancillary support to that FX FCM.

(e) *ForexClear DMG*

The necessary involvement of FX FCMs and the ForexClear DMG (which, as defined in the Default Rules, refers to the advisory Default Management Group established by the Clearing House pursuant to the terms of the ForexClear DMP Annex to the Default Rules) in the ForexClear DMP entails the assessment and dissemination of information that could give rise to conflicts of interest. To ensure that such potential conflicts are demonstrably contained, Schedule 2.2D establishes binding obligations of confidentiality, anonymity and the extent of dissemination of information on FX FCMs (and their executives or directors who participate from time to time in the ForexClear DMG) and on the Clearing House.

Each FX FCM who makes available a representative to serve on the ForexClear DMG agrees, and shall procure that, to the extent applicable, its representatives agree to be bound by and to ensure that it and any of its executives or directors serving on the ForexClear DMG complies with Schedule 2.2D covering confidentiality, non-disclosure and other terms.

(f) *Default Management Accounts*

(A) For the purposes of this paragraph (f), the following definitions will apply:

“**Affected Non-Porting FCM Client Sub-Account**” means, in respect of an Initial DMA or a Final DMA (as applicable) and the FCM ForexClear Contracts that (at any time) comprise such Initial DMA or a Final DMA (as applicable), each Non-Porting FCM Client Sub-Account from which any such FCM ForexClear Contract originated.

“**Auction**” has the meaning assigned to it in the ForexClear DMP Annex.

“**Auction Date**” means, in respect of an Auction Portfolio, the business day on which such Auction Portfolio is sold.

“**Auction Result**” means, in respect of an Auction Portfolio, the amount equal to:

- (i) the gains or losses of the Clearing House arising from the sale of such Auction Portfolio, where a gain is a positive amount and a loss is a negative amount;
- (ii) plus the Auction Portfolio NPV Gain for such Auction Portfolio (if any);
- (iii) minus the Auction Portfolio NPV Loss for such Auction Portfolio (if any).

“**Auction Portfolio**” means a ForexClear Auction Portfolio.

“**Auction Portfolio Calculation Period**” means, in respect of an Auction Portfolio and its Auction Date, the period commencing immediately after the end of day margin and settlement call of the Clearing House for the business day preceding such Auction Date and ending at the point at which such Auction Portfolio is sold.

“**Auction Portfolio NPV Change**” means, in respect of an Auction Portfolio and its Auction Portfolio Calculation Period, the amount (if any) by which the aggregate net present value of the FCM ForexClear Contracts within such Auction Portfolio has changed during such Auction Portfolio Calculation Period, and

- (i) where such change is in favour of the Defaulter, is the “**Auction Portfolio NPV Gain**”; and
- (ii) where such change is in favour of the Clearing House, is the “**Auction Portfolio NPV Loss**”.

“**Daily Amount**” means, in respect of a DMA and a Daily Calculation Period, the Daily Gain or Daily Loss for such DMA and Daily Calculation Period.

“**Daily Calculation Period**” means, in respect of a business day, the period, in respect of which the Clearing House determines the end of day margin and settlement payments for FCM ForexClear Contracts for such business day.

“**Daily Gain**” means, in respect of a DMA and a Daily Calculation Period, the amount (if any) by which the Daily NPV Gain exceeds the Daily Hedge Costs (in each case) for such DMA and Daily Calculation Period.

“**Daily Hedge Costs**” means, in respect of a DMA and a Daily Calculation Period, all costs incurred by the Clearing House in connection with hedging the exposure of one or more FCM ForexClear Contracts within such DMA in accordance with the Risk Neutralisation process under Rule 2.2 of the ForexClear DMP Annex.

“**Daily Loss**” means, in respect of a DMA and a Daily Calculation Period, either: (i) where the DMA experiences a Daily NPV Loss in respect of such Daily Calculation Period, the aggregate of such Daily NPV Loss and the Daily Hedge Costs for such DMA and Daily Calculation Period; or (ii) where the DMA experiences a Daily NPV Gain in respect of such Daily Calculation Period, the amount by which the Daily

Hedge Costs for such DMA and Daily Calculation Period exceed such Daily NPV Gain.

“**Daily NPV Change**” means, in respect of a DMA and a Daily Calculation Period, the amount (if any) by which the aggregate net present value of the Remaining Contracts within such DMA has changed during such Daily Calculation Period, and:

- (i) where such change is in favour of the Defaulter, is the “**Daily NPV Gain**”; and
- (ii) where such change is in favour of the Clearing House, is the “**Daily NPV Loss**”.

“**DMA**” means an Initial DMA or a Merged DMA, as applicable.

“**DMA Creation Date**” means, in respect of an Initial DMA, the business day on which such Initial DMA is established by the Clearing House.

“**DMA Merger Date**” means, in respect of a Merged DMA, the business day on which two or more DMAs are combined to form such Merged DMA.

“**Final DMA**” means, in respect of an Auction Portfolio that is auctioned and sold, the most recently established DMA from which such Auction Portfolio was formed.

“**ForexClear Auction Portfolio**” means an “Auction Portfolio” as defined in the ForexClear DMP Annex.

“**Initial DMA**” means a default management account established by the Clearing House, acting in its sole discretion, to which one or more Sets of Non-Porting Contracts are transferred (by book-entry) on the DMA Creation Date for such default management account.

“**Latest DMA**” means, in respect of a Daily Calculation Period, a DMA that exists at the end of such Daily Calculation Period, but which has not itself been combined with another DMA to form a separate Merged DMA.

“**Merged DMA**” means a default management account established by the Clearing House, acting in its sole discretion, which results from the combination of two or more DMAs.

“**Non-Porting FCM Client Sub-Account**” means, in respect of a Defaulter, the FCM Client Sub-Account of such Defaulter, to which the FCM ForexClear Contracts that the Clearing House has determined will not be ported in accordance with the

FCM Rulebook are, or were, registered at the point of the Default of the Defaulter.

“Pre-Default TMR” means, in respect of an Affected Non-Porting FCM Client Sub-Account of a Defaulter, the TMR for such Affected Non-Porting FCM Client Sub-Account as at the end of day margin and settlement call for the business day before the day of Default of such Defaulter.

“Pre-Default TMR Ratio” means

- (i) in respect of an Initial DMA and an Affected Non-Porting FCM Client Sub-Account referable to it, the ratio that the Pre-Default TMR of such Affected Non-Porting FCM Client Sub-Account bears to the aggregate Pre-Default TMR of all Affected Non-Porting FCM Client Sub-Accounts referable to such Initial DMA; or
- (ii) in respect of a Final DMA and an Affected Non-Porting FCM Client Sub-Account referable to it, the ratio that the Pre-Default TMR of such Affected Non-Porting FCM Client Sub-Account bears to the aggregate Pre-Default TMR of all Affected Non-Porting FCM Client Sub-Accounts referable to such Final DMA.

“Pre-Merger TMR” means, in respect of a DMA that was combined with one or more other DMA(s) to form a Merged DMA, the TMR for such DMA as at the end of day margin and settlement call for the business day before the DMA Merger Date of such Merged DMA.

“Pre-Merger TMR Ratio” means, in respect of a DMA that was combined with one or more other DMA(s) to form a Merged DMA, the ratio that such DMA’s Pre-Merger TMR bears to the aggregate Pre-Merger TMR of all DMAs that were combined to form such Merged DMA.

“Prior Merged DMA” means, in respect of a Merged DMA, an existing Merged DMA that has been combined with one or more other DMA(s) to form such Merged DMA.

“Remaining Contracts” means, in respect of a DMA and a Daily Calculation Period, all of the FCM ForexClear Contracts within such DMA during such Daily Calculation Period, excluding those FCM ForexClear Contracts that the Clearing House has auctioned and sold at any point within such Daily Calculation Period.

“Set of Non-Porting Contracts” means, in respect of a Non-Porting FCM Client Sub-Account, the FCM ForexClear

Contracts that are transferred by the Clearing House from such Non-Porting FCM Client Sub-Account to an Initial DMA.

“**TMR**” means (i) in respect of an Affected Non-Porting FCM Client Sub-Account, the total margin requirement as determined by the Clearing House for such Affected Non-Porting FCM Client Sub-Account, or (ii) in respect of a DMA, the total margin requirement as determined by the Clearing House for such DMA, in each case, excluding variation margin.

(B) *Initial DMAs*

(A) After a Default, the Clearing House may, in its sole discretion:

- (1) determine that the FCM ForexClear Contracts registered to a Non-Porting FCM Client Sub-Account will not port in accordance with the FCM Rulebook; and
- (2) transfer the resulting Set of Non-Porting Contracts in respect of such Non-Porting FCM Client Sub-Account to an Initial DMA on the business day on which the Clearing House makes such determination.

(B) The Clearing House may in its sole discretion create more than one Initial DMA for the purposes of subparagraph (A)(2) above on the same business day.

(C) No Contracts other than FCM ForexClear Contracts will be transferred into an Initial DMA.

(D) Any outstanding and owing, but unsettled, variation margin or settlement amounts in respect of FCM ForexClear Contracts as at the end of the Daily Calculation Period for the business day prior to the transfer of such FCM ForexClear Contracts in accordance with subparagraph (A) above shall be discharged by the Clearing House debiting or crediting (as applicable) the Non-Porting FCM Client Sub-Account from which such FCM ForexClear Contracts were transferred.

(C) *Merged DMAs*

(A) On any business day following the creation of two or more Initial DMAs pursuant to paragraph (B) above, the Clearing House may create a Merged DMA by combining:

- (1) multiple Initial DMAs;

- (2) one or more Initial DMAs and one or more Prior Merged DMAs; or
 - (3) multiple Prior Merged DMAs.
- (B) The Clearing House may in its sole discretion create more than one Merged DMA on the same business day.
- (D) *Auctions*
 - (A) The Clearing House shall conduct Auctions in respect of Auction Portfolios referable to DMAs in accordance with the provisions of the ForexClear DMP Annex.
 - (B) More than one Auction Portfolio may be referable to a single DMA, in which case:
 - (1) the Clearing House will conduct one or more Auctions of each Auction Portfolio referable to such DMA; and
 - (2) on and from the date of the first Auction in respect of the DMA, the Clearing House may no longer combine such DMA into a Merged DMA.
 - (C) Following the sale of an Auction Portfolio, the ForexClear Contacts within such Auction Portfolio shall no longer form part of the DMA from which the Auction Portfolio was created.
- (E) *Attribution of Daily Amounts*
 - (A) The Clearing House shall, following each Daily Calculation Period, determine the Daily Amount for each Latest DMA in respect of such Daily Calculation Period.
 - (B) The Clearing House shall attribute the Daily Amount of a Latest DMA that is:
 - (1) an Initial DMA, to each Affected Non-Porting FCM Client Sub-Account referable to such Initial DMA, pro rata according to the Pre-Default TMR Ratio of each such Affected Non-Porting FCM Client Sub-Account; and
 - (2) Merged DMA, to each DMA that was combined to form such Merged DMA, pro rata according to the Pre-Merger TMR Ratio of each such DMA (where the amount attributed to each such DMA is an “**Interim Amount**”).

- (C) If the Clearing House attributes an Interim Amount to a DMA under subparagraph (B)(2) above, then it will further attribute such Interim Amount as follows:
- (1) Where the DMA to which the Interim Amount was attributed is an Initial DMA, the Clearing House will further attribute such amount to each Affected Non-Porting FCM Client Sub-Account referable to such Initial DMA, pro rata according to the Pre-Default TMR Ratio of each such Affected Non-Porting FCM Client Sub-Account; and
 - (2) Where the DMA to which the Interim Amount was attributed is a Merged DMA, the Clearing House will further attribute such amount to each DMA that was combined to form such Merged DMA, pro rata according to the Pre-Merger TMR Ratio of each such DMA.
- (D) If the Clearing House attributes an amount to a DMA under subparagraph (C)(2) above, then it will further attribute such amount according to the method specified in subparagraph (C) (treating such amount as an Interim Amount for the purposes of subparagraph (C)) until all amounts are attributed to Non-Porting FCM Client Sub-Accounts.

(F) *Attribution of Auction Results*

The Clearing House shall attribute the Auction Result, in respect of the sale of an Auction Portfolio, to each Affected Non-Porting FCM Client Sub-Account referable to the Final DMA from which such Auction Portfolio was formed, pro rata according to the Pre-Default TMR Ratio of each such Affected Non-Porting FCM Client Sub-Account.

(G) *CFTC Regulations*

The Clearing House shall hold the relevant Collateral in respect of Non-Porting FCM Client Sub-Accounts (segregated as belonging to each such applicable Non-Porting FCM Client Sub-Account in accordance with the CFTC Regulations and Part 22 thereof) in its applicable FCM Omnibus ForexClear Client Account with LCH until the process described in this paragraph (f) has been completed. For the avoidance of doubt, the Clearing House may only take such actions pursuant to this paragraph as permitted by the FCM Rulebook, the CEA and the CFTC Regulations or as directed by an applicable Regulatory Body.

(H) Calculations

For the avoidance of doubt, (i) the calculation of Daily Amounts and Auction Results (and their constituent elements) is determined with reference to the actual or anticipated losses and/or costs of the Clearing House in accordance with this Section 2.2.26(f) and the Default Rules, and shall not be reduced with reference to any action taken in respect of a FX FCM by a resolution authority, including any write-down or conversion of liabilities of such FX FCM; and (ii) any amounts allocated in respect of a Daily Amount or Auction Result under this Section 2.2.26(f) shall not be affected by an action taken in respect of a FX FCM by a resolution authority, including any write-down or conversion of liabilities of such FX FCM.

2.2.27 Payment of Stamp Tax

Each FCM Clearing Member shall pay any stamp tax or duty levied or imposed upon it or in respect of its execution or performance of the FCM Clearing Membership Agreement, the FCM Default Fund Agreement, the FCM Regulations and the FCM Procedures (including any registration of an FCM ForexClear Contract) by a jurisdiction in which it is incorporated, organized, managed and controlled, or considered to have its seat, or in which a branch or office through which it is acting is located or by any other jurisdiction and shall indemnify the Clearing House against any stamp tax or duty levied or imposed upon the Clearing House or in respect of the Clearing House's execution or performance of the FCM Clearing Membership Agreement, the FCM Regulations and the FCM Procedures (including any registration of an FCM ForexClear Contract) by any such jurisdiction.

2.2.28 Section 696, Corporation Tax Act 2009

The FCM Clearing Member agrees that should a situation arise where HM Revenue and Customs (“HMRC”) raises an enquiry, or makes an information request, to the Clearing House regarding an FCM Transaction or FCM Contract that the FCM Clearing Member is submitting (or has submitted) to the Clearing House, and that enquiry or information request is in respect of the application of s696 - s697 Corporation Tax Act 2009, the FCM Clearing Member will use its reasonable efforts to provide such information and support as the Clearing House may reasonably require in order to respond to and effectively deal with the queries raised by HMRC.

2.2.29 Provision of Tax Forms

The Clearing House and each FXCCM shall provide to each FXCCM or the Clearing House, as relevant, (i) any forms or documents specified in the FCM ForexClear Contract between the Clearing House and the FXCCM and (ii) any other form, document, statement or certification reasonably requested in writing by the FXCCM or the Clearing House in order to allow the FXCCM or the Clearing House to make a payment under the Clearing House rules or any FCM ForexClear Contract without deduction or withholding for or on