



**VIA CFTC Portal**

Mr Christopher Kirkpatrick  
Commodity Futures Trading Commission  
1155 21<sup>st</sup> Street NW  
Three Lafayette Centre  
Washington DC 20581

20 December 2024

**LCH Limited Self-Certification: Minor changes to the LCH Limited's Rulebook**

Dear Mr Kirkpatrick,

Pursuant to Commodity Futures Trading Commission ("CFTC") regulation §40.6(a), LCH Limited ("LCH"), a derivatives clearing organization ("DCO") registered with the CFTC is submitting for self-certification several proposed rule changes within its Rulebook.

**Part I: Explanation and Analysis**

LCH is making minor changes to its default rules following an EMIR Annual Review process. As part of these changes, LCH will make other conforming and clarifying updates to its rules for consistency purposes. All changes have been made in redline for ease of reference.

**Part II: Description of Rule Changes**

LCH intends to make the following changes to its regulations, rules and procedures:

The **General Regulations** include some general fixes, such as adding, deleting and modifying defined terms.

The **Default Rules** include the majority of updates in respect of the **Default Fund Supplement sections**.

For example, the revisions will align the rules:

- in respect of the Default Fund Additional Margin for all Services;
- in respect of the combined loss value and tying it to uncovered stress loss for all Services;
- with the operational way in which the relevant service determines its default fund and default fund contributions of members. In this regard, please pay special attention to section 21(a) *Application of Fund and Indemnity* on p22. This clause explains how the amount of indemnity is calculated based on a specific Service's determination date (being the date as of which LCH re-calculates a specific Service's default fund and contributions). In addition, it has been clarified that each Clearing Member (other than a *Defaulter* or Sponsored Member) grants a separate limited recourse indemnity to the Clearing House. This is to clarify that a *Defaulter* is not among clearing members that will grant a separate limited recourse indemnity to the Clearing House.

To see all the changes, please refer to:

*Schedule 5 ForexClear Default Fund Supplement pp104-114.*



*Schedule 6 Rates Service Default Fund Supplement pp126-143.*

*Part A Rates Service Default Fund Supplement – SwapClear pp 145-154.*

*Part B Rates Service Default Fund Supplement – Listed Interest rates pp155-168.*

*Schedule 7 RepoClear Default Fund Supplement pp169-191.*

*Schedule 8 Equities Default Fund Supplement pp192-213.*

Some minor additions have been made in the **FCM Regulations**. These include adding definitions on FCM ForexClear Service, FCM Listed Interest Rates Service, FCM SwapClear Service, and a New Member.

A definition of Default Fund Additional Margin has been added in each set of Procedures as explained below.

The main change in the **Sponsored Clearing Procedures** is to add a paragraph on the Default Fund Additional Margin on p36.

The main change in the **FCM Procedures** is to add a paragraph on the Default Fund Additional Margin on p154.

Changes in the **Procedure 2B (RepoClear Service)**, **Procedure 2C (SwapClear Service)**, **Procedure 2D (EquityClear Service)**, **Procedure 2I (ForexClear Service)** are minor and include making sure that each set of Procedures has a definition of Default Fund Additional Margin.

The changes to the rules are included in Appendices I-X in a black line form. They will be effective no earlier than **10 January 2025**.

### **Part III: Core Principle Compliance**

LCH has reviewed the proposed rule changes against the requirements of the DCO Core Principles, specifically Core Principle L on Public Information and CFTC regulation §39.21, and finds that it will continue to comply with the requirements and standards therein. The changes have been made to provide LCH's membership with additional clarity with regards to collateral management and consistent definitions across the regulations, rules and procedures.

### **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.

**Certification**

LCH hereby certifies to the Commodity Futures Trading Commission, 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. Should you have any questions please contact me at [aleksandra.wojcik@lseg.com](mailto:aleksandra.wojcik@lseg.com).

Yours sincerely,

*Aleksandra Wojcik*

Aleksandra Wojcik

Regulatory Advisor, LCH Ltd



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## **Appendix I**

### General Regulations

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**GENERAL REGULATIONS OF  
LCH LIMITED**

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<b>"Eligible Listed Interest Rates Contracts"</b>	means those Listed Interest Rates Contracts meeting the eligibility criteria in respect of Portfolio Margined Contracts as set out in the Product Specific Contract Terms and Eligibility Criteria Manual as published on the Clearing House's website from time to time
<b>"Eligible ForexClear Compression Contracts"</b>	has the meaning set out in <a href="#">Regulation 950</a>
<b>"Eligible SwapClear Compression Contract"</b>	has the meaning set out in Regulation 56(a)
<b>"Eligible Trading Venue"</b>	<p>means:</p> <ul style="list-style-type: none"> <li data-bbox="678 683 1447 1008">(i) in respect of a SwapClear Clearing Member, a Trading Venue for which the Clearing House's records reflect that such SwapClear Clearing Member has completed the Clearing House's process for enabling the SwapClear Clearing Member to be eligible to present (or have presented on its behalf) to the Clearing House for registration a transaction executed on such Trading Venue by a third party Executing Party other than a SwapClear Dealer; and</li> <li data-bbox="678 1019 1447 1310">(ii) in respect of an FXCCM, a Trading Venue for which the Clearing House's records reflect that such FXCCM has completed the Clearing House's process for enabling the FXCCM to be eligible to present (or have presented on its behalf) to the Clearing House for registration a transaction executed on such Trading Venue by a third party Executing Party other than a ForexClear Dealer</li> </ul>

<b>“End-of-Day Full Transfer”</b>	means an end-of-day transfer of all (and not some) of the SwapClear Contracts from the Transfer Account of an Eligible Transferor of a Carrying Clearing Member to the Transfer Account of an Eligible Transferee of a Receiving Clearing Member and which may, but is not required to, include the transfer of an Associated Collateral Balance (except that no transfer of an Associated Collateral Balance is permitted for transfers between a Proprietary Account of a Carrying Clearing Member to a Proprietary Account of a Receiving Clearing Member without the prior consent of the Clearing House)
<b>“End-of-Day Partial Transfer”</b>	means an end-of-day transfer of some (but not all) of the SwapClear Contracts from the Transfer Account of an Eligible Transferor of a Carrying Clearing Member to the Transfer Account of an Eligible Transferee of a Receiving Clearing Member, where such transfer does not include the transfer of an Associated Collateral Balance
<b>"EONIA "</b>	means in relation to a RepoClear Contribution, the overnight rate as calculated by the European Central Bank and appearing on the Reuters Screen EONIA Page (or, if such a rate is not available, such EONIA-linked rate as may be determined in light of market conditions at such time by the Clearing House and notified by the Clearing House to Clearing Members)
<b>"Equities Business"</b>	means any transaction, obligation or liability arising out of any Equities Contract
<b>"Equities Clearing Member"</b>	means a Clearing Member which engages in Equities Business and includes an EquityClear Clearing Member
<b>"Equities Contract"</b>	means any cash equity contracts, EquityClear (ccCFD) Contracts and equity derivative contracts cleared by the Clearing House
<b>"Equities Contribution"</b>	an Equities Clearing Member's Contribution provided for under the Equities Default Fund Supplement and shall include any relevant Unfunded Contributions and any relevant Supplementary Contribution in respect of the Equities Clearing Member
<b>"Equities Default Fund Supplement"</b>	means the Supplement relating to Equities Business
<b>"Equities Determination Date"</b>	has the meaning assigned to <u>it</u> <del>"Determination Date"</del> in Rule <del>E1 2(b) and E7(f)</del> of the Equities Default Fund Supplement

<b>"FCM ForexClear Contract"</b>	has the meaning assigned to it in the FCM Regulations
<b><u>"FCM ForexClear Service"</u></b>	<u>has the meaning assigned to it in the FCM Regulations</u>
<b>"FCM ForexClear Transaction"</b>	has the meaning assigned to it in the FCM Regulations
<b><u>"FCM Listed Interest Rates Contract"</u></b>	<u>has the meaning assigned to it in the FCM Regulations</u>
<b><u>"FCM Listed Interest Rates Service"</u></b>	<u>has the meaning assigned to it in the FCM Regulations</u>
<b>"FCM Omnibus Clearing Product Client Account with LCH"</b>	has the meaning assigned to it in the FCM Regulations
<b>"FCM Omnibus ForexClear Client Account with LCH"</b>	has the meaning assigned to it in the FCM Regulations
<b>"FCM Omnibus SwapClear Client Account with LCH"</b>	has the meaning assigned to it in the FCM Regulations
<b>"FCM Procedures"</b>	has the meaning assigned to it in the FCM Regulations
<b>"FCM Regulations"</b>	means the Clearing House's FCM Regulations
<b>"FCM SwapClear Client Clearing Services"</b>	has the meaning assigned to it in the FCM Regulations
<b>"FCM SwapClear Contract"</b>	has the meaning assigned to it in the FCM Regulations
<b><u>"FCM SwapClear Service"</u></b>	<u>has the meaning assigned to it in the FCM Regulations</u>
<b>"FCM SwapClear Suspension Sub-Account"</b>	has the meaning assigned to it in the FCM Regulations
<b>"FCM SwapClear Transaction"</b>	has the meaning assigned to it in the FCM Regulations
<b>"FCM Transaction"</b>	has the meaning assigned to it in the FCM Regulations
<b>"Fed Funds Rate"</b>	means the Federal Funds Rate as published by the Federal Reserve Bank of New York (or, if such a rate is not available, such Fed Fund-linked rate as may be determined in light of market conditions at such time by the Clearing House and notified by the Clearing House to Clearing Members)
<b>"Final Transaction"</b>	has the meaning assigned to it in Section 1.3.3 of Section 2I of the Procedures
<b>"First Defaulter"</b>	has the meaning as described in Default Rule 22



<b>"Fixed Income Contract"</b>	means a RepoClear Contract or a RepoClear Term £GC Contract
<b>"ForexClear AET Requirement"</b>	means, in respect of an FXCCM, that all of the ForexClear Contracts in the name of such FXCCM have been closed out or transferred to another Clearing Member
<b>"ForexClear Approved Trade Source System"</b>	means a system or facility, such as an exchange, a clearing house, a swap execution facility, a designated contract market, trade or affirmation system, a ForexClear Matcher or other similar venue or system, approved by the Clearing House for submitting ForexClear Transactions to the Clearing House (and excludes, for the avoidance of doubt, the ClearLink API)
<b>"ForexClear Business"</b>	means any transaction, obligation or liability arising out of any ForexClear Contract
<b>"ForexClear Clearing Client"</b>	means, in respect of ForexClear Client Clearing Business, an Individual Segregated Account Clearing Client, Indirect Gross Account Clearing Client or Omnibus Segregated Clearing Client
<b>"ForexClear Clearing House Business"</b>	means ForexClear Contracts entered into by a ForexClear Clearing Member with the Clearing House on a proprietary basis and for its own account
<b>"ForexClear Clearing Member" <u>or</u> "(FXCCM)"</b>	means a Member <del>who</del> <u>that</u> is designated by the Clearing House as a ForexClear Clearing Member eligible to clear ForexClear Contracts <del>which</del> <u>and</u> includes, in the case of the Default Rules (including the ForexClear DMP Annex), the FCM Default Fund Agreement and any other document, rule or procedure as specified by the Clearing House from time to time, an FCM Clearing Member <u>in respect of the FCM ForexClear Service</u>
<b>"ForexClear Client Clearing Business"</b>	means the provision of ForexClear Client Clearing Services by a ForexClear Clearing Member
<b>"ForexClear Client Clearing Services"</b>	means the entering into of ForexClear Contracts by a ForexClear Clearing Member in respect of its Individual Segregated Account Clearing Clients, Indirect Gross Account Clearing Clients and/or Omnibus Segregated Clearing Clients
<b>"ForexClear Contract"</b>	means a ForexClear Non-Deliverable Contract or a ForexClear Deliverable Contract
<b>"ForexClear Contract Terms"</b>	means the ForexClear Non-Deliverable Contract Terms or the ForexClear Deliverable Contract Terms

<b>"ForexClear Contribution"</b>	means an FXCCM's Contribution provided for under the ForexClear Default Fund Supplement and shall include (i) any relevant ForexClear Unfunded Contributions in respect of the FXCCM, and (ii) any relevant Supplementary Contribution in respect of the FXCCM. For the avoidance of doubt, the ForexClear Contribution shall not include any of the ForexClear Liquidity Fund Contributions made by a ForexClear Option Clearing Member
<b>"ForexClear CTM Contract"</b>	means a ForexClear Contract that is not a ForexClear STM Contract means:
<b>"ForexClear Currency"</b>	(b) USD;  (c) JPY;  (d) EUR;  (e) GBP;  (f) CHF; or  (g) AUD
<b>"ForexClear Dealer (FXD)"</b>	means a person admitted by the Clearing House to the Register of ForexClear Dealers and who has not been removed from the Register of ForexClear Dealers
<b>"ForexClear Dealer Clearing Agreement (FDC Agreement)"</b>	means a written agreement, in the form and on the terms prescribed by the Clearing House between an FXD, an FXCCM and the Clearing House
<b><u>"ForexClear Default Fund"</u></b>	<u>means the ForexClear default fund established pursuant to the ForexClear Default Fund Supplement</u>
<b>"ForexClear Default Fund Supplement"</b>	means the Supplement relating to ForexClear Business
<b>"ForexClear Default Management Process"</b>	has the meaning assigned to it in the ForexClear DMP Annex in the Default Rules
<b>"ForexClear Default Management Process Completion Date"</b>	has the meaning assigned to it in the ForexClear DMP Annex in the Default Rules
<b>"ForexClear Default Period"</b>	has the meaning ascribed to it in Rule F12 of the ForexClear Default Fund Supplement

<b>"ForexClear Determination Date"</b>	has the meaning assigned to it in Rule F <del>12</del> of the ForexClear Default Fund Supplement
<b>"ForexClear DMG"</b>	has the meaning assigned to it in the ForexClear DMP Annex in the Default Rules
<b>"ForexClear DMP"</b>	has the meaning assigned to it in the ForexClear DMP Annex in the Default Rules
<b>"ForexClear Eligibility Criteria"</b>	means the product eligibility criteria in respect of a type of ForexClear Transaction as set out in the Product Specific Contract Terms and Eligibility Criteria Manual as published on the Clearing House's website from time to time, which shall include, the ForexClear Eligibility Criteria applicable to ForexClear Deliverable Transactions and ForexClear Non-Deliverable Transactions
<b>"ForexClear Excess Loss"</b>	means the net sum or aggregate of net sums certified to be payable by a Defaulter in respect of ForexClear Business by a Rule 19 Certificate less (a) the proportion of the Capped Amount applicable to ForexClear Business under Rule 15(c) and (b) any sums then immediately payable in respect of ForexClear Business Default Losses owed by such Defaulter by any insurer or provider of analogous services under any policy of insurance or analogous instrument written in favour of the Clearing House
<b>"ForexClear Fund Amount"</b>	means the amount as determined in accordance with Rule F2( <del>de</del> ) of the ForexClear Default Fund Supplement
<b>"ForexClear Liquidity Event"</b>	means the event or circumstance specified as such in Regulation 101(a)
<b>"ForexClear Liquidity Fund Contributions"</b>	means the AUD ForexClear Liquidity Fund Contribution, CHF ForexClear Liquidity Fund Contribution, EUR ForexClear Liquidity Fund Contribution, and GBP ForexClear Liquidity Fund Contribution
<b>"ForexClear Loss Distribution Process"</b>	has the meaning assigned to it in Rule F9 of the ForexClear Default Fund Supplement
<b>"ForexClear Matcher"</b>	means a party which has been notified in writing by the Clearing House to ForexClear Participants from time to time as being a matching provider for the ForexClear Service

<b>"ISA Port"</b>	means a port of the Contracts and Account Balance held in a Custodial Segregated Account opened by a Clearing Member with the Clearing House in respect of a Custodial Segregated Client to an Individual Segregated Account opened for such Clearing Client by a Backup Clearing Member in accordance with the Default Rules and the relevant Collateral Management Agreement
<b>"IRS FCM SwapClear Contract"</b>	has the meaning assigned to it in the FCM Regulations
<b>"IRS SwapClear Contract"</b>	means a SwapClear Contract of the type of Contracts which are identified as being IRS SwapClear Contracts in the Product Specific Contract Terms and Eligibility Criteria Manual, which includes, in the case of the Default Rules (including the Rates Service DMP Annex but excluding, for the avoidance of doubt, the Client Clearing Annex), the FCM Default Fund Agreement and any other document, rule or procedure as specified by the Clearing House from time to time, an IRS FCM SwapClear Contract
<b>"ISDA Definitions"</b>	has the meaning assigned to it in Section 1 of Part A of Schedule 2 of the Product Specific Contract Terms and Eligibility Criteria Manual
<b>"Joint Rates Service Clearing Member"</b>	means, <del>for purposes of the Portfolio Margining Service,</del> either: (i) a clearing member <del>that who</del> is both a SwapClear Clearing Member and a Listed Interest Rates Clearing Member, or (ii) a PM Eligible SCM
<b>"Key Tenors"</b>	means the Key Tenors as set out in the Inflation Swaps Operational Specifications
<b>"Key Tenors Market Data"</b>	has the meaning assigned to it in Regulation 60A(l)
<b>"LCH Group"</b>	means the group of undertakings consisting of LCH Limited, LCH Group Holdings Limited, LCH Service Company Limited, SwapAgent Limited and Banque Centrale de Compensation S.A. trading as LCH SA. (any references to a " <b>member</b> " of LCH Group Holdings Limited within these Regulations is to be construed accordingly)
<b>"LCIA Rules"</b>	means the LCIA Arbitration Rules of The London Court of International Arbitration

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

<b>"Listed Interest Rates Client Clearing Services"</b>	means the entering into of Listed Interest Rates Contracts by a Listed Interest Rates Clearing Member in respect of its Individual Segregated Account Clearing Clients, Indirect Gross Account Clearing Clients and/or Omnibus Segregated Clearing Clients
<b>"Listed Interest Rates Contract"</b>	means <del>a any listed interest rate derivative</del> contract entered into <del>cleared</del> by the Clearing House <u>with a Listed Interest Rates Clearing Member on the Listed Interest Rates Contract Terms</u> , which includes, in the case of the Default Rules (including the Rates Service DMP Annex but excluding, for the avoidance of doubt, the Client Clearing Annex), the FCM Default Fund Agreement and any other document, rule or procedure as specified by the Clearing House from time to time, and FCM <u>Listed Interest Rates Contracts</u>
<b>"Listed Interest Rates Contract Terms"</b>	means: (i) in respect of a Listed Interest Rates Contract other than a Designated Listed Interest Rates Contract, the terms set out from time to time in the relevant Rates Exchange Rules; or (ii) in respect of a Designated Listed Interest Rates Contract, the terms applicable to each Listed Interest Rates Contract as set out from time to time in the Product Specific Contract Terms and Eligibility Criteria Manual
<b>"Listed Interest Rates Contribution"</b>	means a Listed Interest Rates Clearing Member's Contribution provided for under Part B of the Rates Service Default Fund Supplement – Listed Interest Rates and shall include any relevant Unfunded Contributions and any relevant Supplementary Contribution in respect of the Listed Interest Rates Clearing Member
<b>"Listed Interest Rates Default Period"</b>	has the meaning ascribed to it in Rule L2 of Part B of the Rates Service Default Fund Supplement – Listed Interest Rates
<b>"Listed Interest Rates Determination Date"</b>	has the meaning assigned to it in Rule L2(a) of the Rates Service Default Fund Supplement – Listed Interest Rates
<b>"Listed Interest Rates Eligibility Criteria"</b>	means the Listed Interest Rates Open Offer Eligibility Criteria or the Listed Interest Rates Novation Transaction Eligibility Criteria (as applicable)
<b>"Listed Interest Rates Eligible Product"</b>	means a product traded under the rules of a Rates Exchange which such Rates Exchange has agreed from time to time with the Clearing House to be cleared by the Clearing House pursuant to these Regulations

~~"Minimum SwapClear Contribution Member"~~

~~means an SCM in respect of which the SwapClear Non-Tolerance Contribution Amount calculated under paragraph (f) of Rule S1 of Part A of the Rates Service Default Fund Supplement is equal to or less than the Minimum Non-Tolerance SwapClear Contribution for the time being~~

"Multilateral Compression"

means the exercise in which some or all of the SwapClear Contracts submitted by two or more Compression Clearing Members either on their own account or with respect to a SwapClear Clearing Client, for inclusion in a Multilateral Compression Cycle are wholly terminated and, where relevant, replaced with other SwapClear Contracts

"Multilateral Compression Cycle"

means the process of Multilateral Compression in accordance with a Compression Proposal, by way of an ACSP Compression Cycle

"Net Recovery"

means any sum received by the Clearing House from or for the account of a Defaulter after the issue by the Clearing House of a Rule 19 Certificate in respect of losses arising upon the Defaulter's Default less any amount payable to any insurer or provider of analogous services in respect of any amount due from but not previously paid by the Defaulter

"New Member"

means, ~~in respect of a on the day and the as at which any Contribution is to be calculated, any Clearing Member which either has become a Clearing Member, or has commenced clearing in respect of the relevant SwapClear Service, Listed Interest Rates Service, ForexClear Service, Equities Service or RepoClear Service, a Member that has joined, or is to join, such service on such days since the immediately preceding day prescribed for calculating similar Contributions~~

"Nominated Group Member"

has the meaning assigned to it in ~~Chapter XIV(k)~~Chapter XIV(k)

"Non-Affected ForexClear Option Clearing Member"

means a ForexClear Option Clearing Member that is not an Affected ForexClear Option Clearing Member

"Non-Clearing Participant ("NCP")"

means, in respect of a Service, a person (a) who is not a Clearing Member in such Service, (b) whom a Clearing Member has appointed as an NCP, in respect of such Service, in accordance with the Procedures, (c) who has been notified to the Clearing House in accordance with Section 1.2.2 of Section 1 of the Procedures, and (d) whose appointment as an NCP, in respect of such Service, has not been terminated in accordance with Section 1.2.3 of Section 1 of the Procedures

**"Non-Defaulting Equities Clearing Member"**

means an Equities Clearing Member which is not a Defaulter under Rule 4 of the Default Rules

**"Non-Defaulting FXCCM"**

means an FXCCM which is not a Defaulter under Rule 4 of the Default Rules

**"Non-Defaulting Joint Rates Service Clearing Member"**

means a Joint Rates Service Clearing Member which is not a Defaulter under Rule 4 of the Default Rules

**"Non-Defaulting Listed Interest Rates Clearing Member"**

means a Listed Interest Rates Clearing Member which is not a Defaulter under Rule 4 of the Default Rules

**"Non-Defaulting Rates Services Clearing Member"**

means a Rates Service Clearing Member which is not a Defaulter under Rule 4 of the Default Rules

**"Non-Defaulting RCM"**

means an RCM, including a Sponsored Member, which is not a Defaulter under Rule 4 of the Default Rules

**"Non-Defaulting SCM"**

means an SCM which is not a Defaulter under Rule 4 of the Default Rules

**"Non-Eligible Listed Interest Rates Contract"**

means those Listed Interest Rates Contracts other than Eligible Listed Interest Rates Contracts

**"Non-Identified Client Omnibus Net Segregated Account"**

means, in relation to a Relevant Client Clearing Business, an account opened within the Clearing House by the relevant Clearing Member on behalf of one or more of its Non-Identified Omnibus Segregated Clearing Clients which is designated by the Clearing House as a Non-Identified Client Omnibus Net Segregated Account but, for the avoidance of doubt, does not include any Omnibus Segregated Account comprising Determined Omnibus Net Segregated Clients

**"Non-Identified Omnibus Segregated Clearing Client"**

means, in relation to a Relevant Client Clearing Business, certain Omnibus Segregated Clearing Clients of the relevant Clearing Member or FCM whose identities are not recorded by the Onboarding department of the Clearing House and who are grouped together in an Omnibus Segregated Account which is not an Identified Client Omnibus Segregated Account, an Affiliated Client Omnibus Segregated Account or an Indirect Net Account of the Clearing Member but, for the avoidance of doubt, does not include any Determined Omnibus Net Segregated Clients

**"Non-Impacted ForexClear Option Clearing Member"**

means, with respect to a ForexClear Settlement Event, each ForexClear Option Clearing Member that is not an Impacted ForexClear Option Clearing Member in respect of such ForexClear Settlement Event

**"Non-Performance Notice"**

has the meaning assigned to it in Chapter XIV(m)



<b>"Rates Service Business"</b>	means SwapClear Business and/or Listed Interest Rates Business (as applicable)
<b>"Rates Service Clearing House Business"</b>	means SwapClear Clearing House Business and/or Listed Interest Rates Clearing House Business (as applicable)
<b>"Rates Service Contracts"</b>	means SwapClear Contracts and/or Listed Interest Rates Contracts
<b>"Rates Service Clearing Member"</b>	means a Clearing Member which is a SwapClear Clearing Member and/or a Listed Interest Rates Clearing Member
<b>"Rates Service Client Clearing Business"</b>	means SwapClear Client Clearing Business and/or Listed Interest Rates Client Clearing Business (as applicable)
<b>"Rates Service Default Fund"</b>	means the combined service default fund established pursuant to the Rates Service Default Fund Supplement – SwapClear and the Rates Service Default Fund Supplement – Listed Interest Rate
<b>"Rates Service Default Fund Supplement – Listed Interest Rates"</b>	means the Supplement relating to Listed Interest Rates Business
<b>"Rates Service Default Fund Supplement – SwapClear"</b>	means the Supplement relating to the SwapClear Business
<b>"Rates Service Default Management Disclosure Notice"</b>	means the Rates Service Default Management Disclosure Notice as specified by the Clearing House from time to time
<b>"Rates Service Default Management Process"</b>	has the meaning assigned to it in the Rates Service DMP Annex in the Default Rules
<b>"Rates Service Default Management Process Completion Date"</b>	has the meaning assigned to it in the Rates Service DMP Annex in the Default Rules
<b>"Rates Service Default Period"</b>	<del>has the meaning assigned to it in the Rates Service Default Fund Supplement in the Default Rules</del> <del>means the Listed Interest Rates Default Period and/or SwapClear Default Period (as applicable)</del>
<b>"Rates Service Determination Date"</b>	has the meaning assigned to it in the Rates Service <u>Default Fund Supplement</u> <del>DMP Annex</del> in the Default Rules
<b>"Rates Service DMG"</b>	has the meaning assigned to it in the Rates Service DMP Annex in the Default Rules
<b>"Rates Service DMP"</b>	has the meaning assigned to it in the Default Rules

<b>"Rates Service Excess Loss"</b>	means the net sum or aggregate of net sums certified to be payable by a Defaulter by a Rule 19 Certificate in respect of Rates Service Business less (a) the proportion of the Capped Amount applicable to Rates Service Business under Rule 15(c) of the Default Rules and (b) any sums then immediately payable in respect of Rates Service Business Default Losses owed by such Defaulter by any insurer or provider of analogous services under any policy of insurance or analogous instrument written in favour of the Clearing House
<b>"Rates Service Fund Amount"</b>	has the meaning assigned to it in the Rates Service Default Fund Supplement
<b>"Rates Service Fund Amount (<del>–Listed Interest Rates</del>)"</b>	means the amount as determined in accordance with Rule CS2 of the Rates Service Default Fund Supplement
<b>"Rates Service Fund Amount (<del>–SwapClear</del>)"</b>	means the amount as determined in accordance with Rule CS2 of the Rates Service Default Fund Supplement
<b>"Rates Service Voluntary Payment"</b>	has the meaning assigned to it in Rule CS5 <del>7</del> of the Rates Service Default Fund Supplement
<b>"Rates Service Voluntary Payment Notice"</b>	has the meaning assigned to it in Rule CS5 <del>7</del> of the Rates Service Default Fund Supplement
<b>"Ready Notice"</b>	has the meaning assigned to it in Section 1.3.3 of Section 2I of the Procedures

<b>"Receiving Clearing Member"</b>	means a SwapClear Clearing Member, ForexClear Clearing Member or an FCM Clearing Member that carries the Transfer Account that will receive the transfer of Transferring SwapClear Contracts or Transferring ForexClear Contracts and, where applicable, the relevant Associated Collateral Balance(s) held in respect of the Eligible Transferor from a Carrying Clearing Member pursuant to Regulation 60 or Regulation 95 and in accordance with the Procedures and (where applicable) any relevant Collateral Management Agreement. For the avoidance of doubt, (i) an entity that is a Clearing Client may also be a Receiving Clearing Member (other than a Receiving Clearing Member that is an FCM Clearing Member), (ii) a Receiving Clearing Member that is not an FCM Clearing Member may be nominated to receive a transfer of FCM SwapClear Contracts or FCM ForexClear Contracts and associated Collateral from a Carrying Clearing Member that is an FCM Clearing Member pursuant to Regulation 46(q) or Regulation 49(r) of the FCM Regulations (capitalised terms used in this sub-paragraph (ii) having the meanings set out in the FCM Regulations), and (iii) a Receiving Clearing Member may be a Carrying Clearing Member, and vice versa
<b>"Reference Currency Buyer"</b>	means (A) in relation to a ForexClear NDF Contract, the party specified as the 'Reference Currency Buyer' in the Economic Terms or (B) in relation to a ForexClear NDO Contract, the party specified as the 'Buyer' in the Economic Terms
<b>"Reference Currency Seller"</b>	means: (A) in relation to a ForexClear NDF Contract, the party specified as the 'Reference Currency Seller' in the Economic Terms or (B) in relation to a ForexClear NDO Contract, the party specified as the 'Seller' in the Economic Terms
<b>"Reference Price"</b>	means a price (howsoever called) by reference to which a Contract is settled to market, marked to market, settled or valued in accordance with the Regulations and Procedures
<b>"Register of ForexClear Dealers"</b>	means the register which lists ForexClear Dealers regarded by the Clearing House as for the time being eligible to submit contracts for registration as ForexClear Contracts by the Clearing House

**"Register of RepoClear Dealers"**

means the register which lists RepoClear Dealers regarded by the Clearing House as for the time being eligible to submit contracts for registration as RepoClear Contracts or RepoClear Term £GC Contracts by the Clearing House or to deal through one or more Automated Trading Systems specified by the Clearing House in respect of each such RepoClear Dealer pursuant to which the Clearing House becomes a party to RepoClear Contracts or RepoClear Term £GC Contracts, as the case may be, in accordance with the terms of the RepoClear Dealer Clearing Agreement and Regulation 19

**"Register of SwapClear Dealers"**

means the register which lists SwapClear Dealers regarded by the Clearing House as for the time being eligible to submit contracts for registration as SwapClear Contracts by the Clearing House

**"Registration Time"**

in respect of SwapClear Contracts, Listed Interest Rates Contracts, RepoClear Contracts, RepoClear Term £GC Contracts, EquityClear Contracts and ForexClear Contracts, shall have the meaning given in the Procedures, subject, in the case of SwapClear Contracts, to Regulation 55(m) and, in each other case, to Regulation 16(e)

**"Regulations"**

means the Clearing House's General Regulations, Default Rules and Clearing House Settlement Finality Regulations, from time to time in force

**"Regulatory Body"**

means the Bank of England, the Secretary of State, the Prudential Regulation Authority, the Financial Conduct Authority or professional body designated under Part XX of the Financial Services and Markets Act 2000 or other body given regulatory powers under that Act, the Commodity Futures Trading Commission of the United States (CFTC) or any other body or authority, in each case, that has jurisdiction to exercise in relation to the provision or use of clearing services a regulatory or supervisory function over the Clearing House and/or, in respect of a Clearing Member, the relevant Clearing Member under the laws of the United Kingdom, the United States or any other applicable jurisdiction

**"Rejection Election"**

has the meaning assigned to it in Procedure 2I

**"Rejecting Compression Clearing Member"**

has the meaning assigned to it in Regulation 56

<b>"Related Contract"</b>	means: (i) in relation to the SwapClear Service, a Related SwapClear Contract (as such term is defined in the Procedures); (ii) in relation to the RepoClear Service, a Related RepoClear Contract (as such term is defined in the Procedures); (iii) in relation to the ForexClear Service, a Related ForexClear Contract (as such term is defined in the Procedures); (iv) in relation to the EquityClear Service, a Related EquityClear Contract (as such term is defined in the Procedures); (v) in relation to the Listed Interest Rates Service, a Related Listed Interest Rates Contract (as such term is defined in the Procedures)
<b>"Relevant Auction Contract"</b>	has the meaning given to the term in the Client Clearing Annex
<b>"Relevant Business"</b>	has the meaning as described in Default Rule 15(c)
<b>"Relevant Client Clearing Business"</b>	means the Client Clearing Business conducted by a particular Clearing Member in a particular Service
<b>"Relevant Contract"</b>	has the meaning assigned to it in the Client Clearing Annex
<b>"Relevant Default"</b>	has the meaning ascribed to it in Rule S1 of Part A of the Rates Service Default Fund Supplement - SwapClear, <a href="#"><u>Rule L1 of Part B of the Rates Service Default Fund Supplement – Listed Interest Rates</u></a> , Rule F2 of the ForexClear Default Fund Supplement, <del>or</del> Rule R2 of the RepoClear Default Fund Supplement <a href="#"><u>or E1 of the Equities Default Fund Supplement</u></a> , as applicable
<b>"Relevant FX Amounts"</b>	means, in respect of a ForexClear Option Clearing Member and a day, all amounts that are due to be received by such ForexClear Option Clearing Member on such day under a ForexClear Option Contract, ForexClear Swap Contract, ForexClear Deliverable Forward Contract and/or ForexClear Spot Contract in any ForexClear Currency
<b>"Relevant FX Liability"</b>	has the meaning assigned to it in Regulation 101
<b>"re-opening contract"</b>	means a contract arising pursuant to Regulation 30(b) or 30(c)
<b>"RepoClear Additional Payments Cap"</b>	means, in respect of a RCM on any date, an amount equal to the Clearing Member Current Collateral Balance of that RCM in connection with its RepoClear Business as at the date of the Default causing losses leading to an Insufficient Resources Determination (or, where such an Insufficient Resources Determination is made following concurrent Defaults, the date of the earliest Default)

<b>"RepoClear Segregated Fund Amount"</b>	<u>has the meaning ascribed to it in</u> <del>means the amount as determined in accordance with Rule R1 R2 and R3</del> of the RepoClear Default Fund Supplement
<b>"RepoClear Service"</b>	the service provided by the Clearing House under the RepoClear Regulations
<b>"RepoClear Term £GC Contract"</b>	means a Contract entered into by the Clearing House with a RepoClear Clearing Member on the RepoClear Term £GC Contract Terms
<b>"RepoClear Term £GC Transaction"</b>	means a contract, meeting the requirements of the Regulations and Procedures for registration as a RepoClear Term £GC Contract, details of which are presented to the Clearing House for registration in the name of RepoClear Clearing Members in accordance with the Regulations, Procedures and the terms of any agreement entered into between the Clearing House and each such RepoClear Clearing Member, and any RepoClear Dealer Clearing Agreement, as applicable
<b>"RepoClear Transaction"</b>	means a contract (which includes for the avoidance of doubt, ATS Contracts), meeting the requirements of the Regulations and Procedures for registration as a RepoClear Contract, details of which are presented to the Clearing House for registration in the name of RepoClear Clearing Members in accordance with the Regulations, Procedures and the terms of any agreement entered into between the Clearing House and each such RepoClear Clearing Member, and any RepoClear Dealer Clearing Agreement, as applicable. A <b>"RepoClear Repo Transaction"</b> is such a contract for the trade of a repo; a <b>"RepoClear Bond Transaction"</b> is such a contract for the trade of bond/s
<b>"RepoClear Unfunded Contribution"</b>	has the meaning assigned to it in Rule R7 of the RepoClear Default Fund Supplement
<b>"RepoClear Unfunded Contribution Notice"</b>	has the meaning assigned to it in Rule R7 of the RepoClear Default Fund Supplement
<b>"Repo Trade"</b>	means a trading activity in which a RepoClear Participant ( <b>"the First Participant"</b> ) offers to sell (or buy) RepoClear Eligible Securities, and another RepoClear Participant ( <b>"the Second Participant"</b> ) offers to buy (or sell, as the case may be) those securities, on condition that, at the end of a specified period of time, the Second Participant sells (or buys, as the case may be) equivalent securities and the First Participant buys (or sells, as the case may be) those equivalent securities, and a trade subsequently ensues
<b>"Reporting Threshold Amount"</b>	has the meaning assigned to it in Chapter XIV(e)

**"Supplementary Contribution"**

means a supplementary Contribution of a Clearing Member, provided for under Rule E7(b), F7(c), R6(c) or CS7 (as applicable) and referable to the relevant Service provided by the Clearing House

~~"SwapClear AET Requirement"~~

~~means, in respect of an SCM, that all of the SwapClear Contracts and Portfolio Margined Contracts in the name of such SCM have been closed out or transferred to another Clearing Member~~

**"SwapClear Business"**

means any transaction, obligation or liability arising out of any SwapClear Contract (which, for the avoidance of doubt, includes for the purposes of the Rates Service DMP Annex, ~~the~~ Portfolio Margined Contracts and FCM Portfolio Margined Contracts (if any) of a Portfolio Margining Clearing Member)

**"SwapClear Clearing Client"**

means, in respect of SwapClear Client Clearing Business, an Individual Segregated Account Clearing Client, an Indirect Gross Account Clearing Client, a Custodial Segregated Client or an Omnibus Segregated Clearing Client

**"SwapClear Clearing House Business"**

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

**"SwapClear Clearing Member" or "SCM"**

means a Member ~~that who~~ is designated by the Clearing House as a SwapClear Clearing Member eligible to clear SwapClear Contracts ~~which and~~ includes, in the case of the Default Rules (including the Rates Service DMP Annex), the FCM Default Fund Agreement and any other document, rule or procedure as specified by the Clearing House from time to time, an FCM Clearing Member in respect of the FCM SwapClear Service

**"SwapClear Client Clearing Business"**

means the provision of SwapClear Client Clearing Services by a SwapClear Clearing Member

**"SwapClear Client Clearing Services"**

means the entering into of SwapClear Contracts by a SwapClear Clearing Member in respect of its Individual Segregated Account Clearing Clients, Indirect Gross Account Clearing Clients, Custodial Segregated Clients and/or Omnibus Segregated Clearing Clients

<b>"SwapClear Contract"</b>	means a Contract entered into by the Clearing House with a SwapClear Clearing Member on the SwapClear Contract Terms which includes, in the case of the Default Rules (including the Rates Service DMP Annex but excluding, for the avoidance of doubt, the Client Clearing Annex), the FCM Default Fund Agreement and any other document, rule or procedure as specified by the Clearing House from time to time, an FCM SwapClear Contract
<b>"SwapClear Contract Terms"</b>	means the terms applicable to each SwapClear Contract as set out from time to time in the Product Specific Contract Terms and Eligibility Criteria Manual
<b>"SwapClear Contribution"</b>	means an SCM's Contribution provided for under Part A of the Rates Service Default Fund Supplement – SwapClear and shall include any relevant SwapClear Unfunded Contributions and any relevant Supplementary Contribution in respect of the SCM
<b>"SwapClear CTM Contract"</b>	means a SwapClear Contract that is not a SwapClear STM Contract
<b>"SwapClear Dealer Clearing Agreement"</b>	means a written agreement, in the form and on the terms prescribed by the Clearing House between a SwapClear Dealer, a SwapClear Clearing Member and the Clearing House
<b>"SwapClear Dealer" or "SD"</b>	means a person admitted by the Clearing House to the Register of SwapClear Dealers and who has not been removed from the Register
<b>"SwapClear Default Fund Supplement"</b>	means the Supplement relating to the SwapClear Business
<b>"SwapClear Default Management Process Completion Date"</b>	has the meaning assigned to it in the SwapClear DMP Annex in the Default Rules
<b>"SwapClear Default Period"</b>	has the meaning ascribed to it in Rule S <del>2</del> <sup>1</sup> of Part A of the Rates Service Default Fund Supplement – SwapClear
<b>"SwapClear Determination Date"</b>	has the meaning ascribed to it in Rule S <del>2</del> <sup>1</sup> of Part A of the Rates Service Default Fund Supplement – SwapClear
<b>"SwapClear DMG"</b>	has the meaning assigned to it in the SwapClear DMP Annex in the Default Rules
<b>"SwapClear DMP"</b>	has the meaning assigned to it in the Default Rules



<b>"SwapClear Eligibility Criteria"</b>	means the product eligibility criteria in respect of SwapClear Transactions as set out in the Product Specific Contract Terms and Eligibility Criteria Manual as published on the Clearing House's website from time to time
<b>"SwapClear End of Day Price"</b>	has the meaning assigned to it in Chapter XIV(1)
<b>"SwapClear Excess Loss"</b>	means the net sum or aggregate of net sums certified to be payable by a Defaulter by a Rule 19 Certificate in respect of SwapClear Business less (a) the proportion of the Capped Amount applicable to SwapClear Business under Rule 15(c) of the Default Rules and (b) any sums then immediately payable in respect of SwapClear Business Default Losses owed by such Defaulter by any insurer or provider of analogous services under any policy of insurance or analogous instrument written in favour of the Clearing House
<b>"SwapClear Regulations"</b>	means those Regulations which apply to SwapClear Contracts as specified in Regulation 54
<b>"SwapClear Service"</b>	the service provided by the Clearing House under the SwapClear Regulations
<b>"SwapClear STM Contract"</b>	means a SwapClear Contract that is (i) registered at the Clearing House as a SwapClear STM Contract pursuant to Regulation 55(b), (ii) designated a SwapClear STM Contract by the Clearing House pursuant to Regulation 57A, (iii) converted into a SwapClear STM Contract by the Clearing House pursuant to Regulation 57A, or (iv) a SwapClear STM Contract through novation pursuant to Regulation 12(b), in each case the terms of which therefore include the SwapClear STM Terms.
<b>"SwapClear STM Terms"</b>	means the part of the SwapClear Contract Terms designated as the SwapClear STM Terms by the Clearing House from time to time
<b>"SwapClear Tolerance"</b>	has the meaning assigned to it in Section 1.3.3 ( <i>Trade Registration Facilitation: SwapClear Tolerance, Client Buffer and Standing Order Amount</i> ) of Procedure 2C ( <i>SwapClear Clearing Service</i> ) of the Clearing House's Procedures
<b>"SwapClear Tolerance Utilisation"</b>	means, in respect of each SCM, the value of the SwapClear Tolerance utilised by that SCM at any particular time, as determined by the Clearing House in its sole discretion

<b>"SwapClear Transaction"</b>	means a transaction, the details of which may be presented to the Clearing House via an Approved Trade Source System for registration of such transaction as two SwapClear Contracts or one SwapClear Contract and one FCM SwapClear Contract (as the case may be), regardless of whether such transaction (a) is an existing transaction, (b) was entered into in anticipation of clearing, or (c) is contingent on clearing
<b>"SwapClear Unfunded Contribution"</b>	has the meaning assigned to it in Rule S87 of Part A of the Rates Service Default Fund Supplement – SwapClear
<b>"SwapClear Unfunded Contribution Notice"</b>	has the meaning assigned to it in Rule S87 of Part A of the Rates Service Default Fund Supplement – SwapClear
<b>"TARGET2"</b>	means the Trans-European Automated Real-Time Gross Settlement Express Transfer payment system which utilises a single shared platform and which was launched on 19 November 2007
<b>"Target Settlement Day"</b>	means any day on which TARGET2 is open for the settlement of payments in euro
<b>"tender"</b>	means a notice given by or on behalf of a seller (or buyer where Exchange Rules so require) pursuant to Exchange Rules, these Regulations and the Procedures, as applicable, of an intention to make (or take) delivery of a reference asset or commodity
<b>"Term £GC Trade"</b>	<p>means a trading activity in which a RepoClear Participant ("<b>the First Participant</b>") offers to sell (or buy) an agreed value of securities comprised in a Term £GC Basket (as defined in the Procedures), to be allocated in accordance with the RepoClear Procedures applicable to RepoClear Term £GC Contracts, and another RepoClear Participant ("<b>the Second Participant</b>") offers to buy (or sell, as the case may be) the securities so allocated, on the conditions that:</p> <ol style="list-style-type: none"> <li>a) at the end of a specified period of time, the Second Participant sells (or buys, as the case may be) Equivalent Securities (as such term is used in the RepoClear Term £GC Contract Terms) and the First Participant buys (or sells, as the case may be) those Equivalent Securities; and</li> <li>b) the understanding of the parties is that their obligations during the term of the transaction will be effected through the CREST delivery by value (DBV) functionality of Euroclear UK and Ireland, as contemplated by the rules of Euroclear UK and Ireland and RepoClear Procedures applicable to RepoClear Term £GC Contracts, and a trade subsequently ensues</li> </ol>



**LSEG** POST  
TRADE

RESTRICTED - EXTERNAL

**LCH**

## **Appendix II**

Default Rules

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**DEFAULT RULES OF  
LCH LIMITED**

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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.

### **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 Defaulter or 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 determined by the Clearing House pursuant to the relevant Supplement as of ~~calculated at~~ the Determination Date immediately before the relevant Default (and, if such Non-Defaulting Clearing Member joined the, or a, Service relating to the Relevant Business after such Determination Date, plus the amount of its Contribution as determined by the Clearing House pursuant to the relevant Supplement as of the date on which it joined such Service) 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.

References to Clearing Member and Non-Defaulting Clearing Member in this Rule 21, except that in the second sentence of Rule 21(a), do not include a Co-operating Clearing House.

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.

## SCHEDULE 2 RATES SERVICE DMP ANNEX

1. Scope and Interpretation
  - 1.1 The SwapClear Service and Listed Interest Rates Service share a common default fund. Accordingly, the risk profile of participating in either one of such Services may be impacted by other Clearing Members participating in the other such Service whether or not as a Portfolio Margining Clearing Member.
  - 1.2 The Clearing House has established a Rates Service DMP which will apply to Rates Service Contracts following the Default of a Rates Service Clearing Member and in respect of which, for the avoidance of doubt, the Clearing House will have no recourse to the process of invoicing-back in respect of SwapClear Contracts. The fundamental principles of the Rates Service DMP are elaborated to the fullest extent possible in this Annex. Where exhaustive detail cannot be laid out in the provisions of this Annex, the Rates Service DMP will be undertaken on the basis of the principles contained herein.
  - 1.3 Whilst this Annex sets out the default management process in respect of all Rates Service Contracts, it provides for the various types of such Contracts to be treated differently (depending on whether such Contracts are SwapClear Contracts, Portfolio Margined Contracts, FCM Portfolio Margined Contracts or Listed Interest Rates Contracts that are not Portfolio Margined Contracts or FCM Portfolio Margined Contracts). Given the scope of the Contracts it covers, the Annex sets out a default management process that applies to defaulting Clearing Members and non-defaulting Clearing Members who are SCMs (whether or not such SCMs are also Listed Interest Rates Clearing Members or Portfolio Margining Clearing Members) and to Listed Interest Rates Clearing Members (whether or not they are also SCMs or Portfolio Margining Clearing Members) and, for the purposes of this Annex, unless the context specifically requires otherwise, the terms "SCM" "Defaulting SCM" and "Non-Defaulting SCM" should all be construed to include SCMs who are Joint Rates Service Clearing Members.
  - 1.4 The Clearing House has an obligation to ensure the on-going integrity of the SwapClear Service, the Listed Interest Rates Service, the SwapClear Contracts and the Listed Interest Rates Contracts in the interests of the Non-Defaulting Rates Service Clearing Members. When an SCM defaults, SCMs are required to supply impartial expertise through the Rates Service DMG and to bid for the Auction Portfolios of the Defaulting SCM, as laid out in this Annex. In addition, Rates Service Clearing Members and/or their parent companies and/or subsidiaries and/or fellow subsidiaries, have direct interests in the ongoing integrity of the SwapClear Service and Listed Interest Rates Service, notably as contributors to the various default funds of the Clearing House. Each Rates Service Clearing Member shall take all steps and execute all documents necessary or required by the Clearing House to comply with its obligations as a Rates Service Clearing Member arising out of this Annex.
  - 1.5 The initial margining process in respect of SwapClear Contracts will be such so as to ensure that the acceptance of bids for the Auction Portfolios of a Defaulting SCM will recognise risk premiums and that equivalent premiums will be paid by the Clearing House in closing-out other Contracts under the Exchange Rules of the relevant Exchange.

1.6 In this Annex:

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

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

"**AIP Amount**" means:

- (a) in respect of a Non-Defaulting SCM and the OTC Auction Portfolio(s) in a specific Auction Portfolio Currency and Auction Portfolio Category, the product of
  - (i) such Non-Defaulting SCM's AIP Ratio applicable to the Auction Portfolio Currency and Auction Portfolio Category of such OTC Auction Portfolio(s), and
  - (ii) the total of its (A) remaining SwapClear Funded Contribution, and (B) remaining SwapClear Unfunded Contribution;
- (b) in respect of a Non-Defaulting Joint Rates Service Clearing Member and a Basis Portfolio, the product of
  - (i) such Non-Defaulting Joint Rates Service Clearing Member's AIP Ratio applicable to the Basis Portfolio, and
  - (ii) the total of its (A) remaining SwapClear Funded Contribution, and (B) remaining SwapClear Unfunded Contribution;

"**AIP Ratio**" means:

- (a) in respect of a Non-Defaulting SCM and the OTC Auction Portfolio(s) in a specific Auction Portfolio Currency and Auction Portfolio Category, the ratio that
  - (i) the Undiversified Expected Shortfall for:
    - (A) the SwapClear Contracts of such Non-Defaulting SCM that are registered in its name at the time of the relevant Default and are in such Auction Portfolio Currency and Auction Portfolio Category; and
    - (B) if such Auction Portfolio Category is the IRS SwapClear Contract Category and such Auction Portfolio Currency is USD, the Portfolio Margined Contracts or FCM Portfolio Margined Contracts of such Non-Defaulting SCM that are registered in its name at the time of the relevant Default and are in USD

bears to,



- (ii) the aggregate Undiversified Expected Shortfall for all the SwapClear Contracts, ~~and~~ Portfolio Margined Contracts and FCM Portfolio Margined Contracts that are registered in the name of such Non-Defaulting SCM at the time of the relevant Default;
- (b) in respect of a Non-Defaulting Joint Rates Service Clearing Member and a Basis Portfolio in an Auction Portfolio Currency, the ratio calculated in paragraph (a) above applicable to such Non-Defaulting Joint Rates Service Clearing Member, in respect of the OTC Auction Portfolio(s) which are denominated in such Auction Portfolio Currency and belong to the IRS SwapClear Contract Category;

"**Auction**" means the process of bidding by Non-Defaulting SCMs for an OTC Auction Portfolio or by Non-Defaulting Joint Rates Service Clearing Members for a Basis Portfolio as prescribed by the Clearing House following consultation with the Rates Service DMG from time to time in accordance with Rule 2.4 of this Annex;

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

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

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

- (a) commencing immediately after the Daily Calculation Period for the previous business day; and
- (b) ending at the point at which the Clearing House sells such portfolio;

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

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

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

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

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

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

"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 and such business day.

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

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

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

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

"Exchange Closed-out Contracts" means those Listed Interest Rates Contracts (other than Portfolio Margined Contracts and FCM Portfolio Margined Contracts) of a Defaulting Listed Interest Rates Clearing Member that are closed-out under the Exchange Rules of the Exchange to which they relate;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- (a) an OTC Auction Portfolio, a Remaining Short Bidder who bid in such Auction, and
  - (i) Rule 2.7(b)(ii) of this Annex, the amount equal to the product of
    - (A) the outstanding Auction Losses to be attributed to Remaining Short Bidders under Rule 2.7(b)(ii) of this Annex, and
    - (B) the proportion that the Difference in respect of such Remaining Short Bidder and Auction bears to the total Differences in respect of all Remaining Short Bidders who bid in such Auction, and
  - (ii) Rule 2.7(f)(ii) of this Annex, the amount equal to the product of
    - (A) the outstanding Auction Losses to be attributed to Remaining Short Bidders under Rule 2.7(f)(ii) of this Annex, and

- (B) the proportion that the Difference in respect of such Remaining Short Bidder and Auction bears to the total Differences in respect of all Remaining Short Bidders who bid in such Auction; and
- (b) a Basis Portfolio, a Remaining Short Bidder who bid in such Auction, and
  - (i) Rule 2.8(b)(ii) of this Annex, the amount equal to the product of
    - (A) the outstanding Auction Losses to be attributed to Remaining Short Bidders under Rule 2.8(b)(ii) of this Annex, and
    - (B) the proportion that the Difference in respect of such Remaining Short Bidder and Auction bears to the total Differences in respect of all Remaining Short Bidders who bid in such Auction, and
  - (ii) Rule 2.8(f)(ii) of this Annex, the amount equal to the product of
    - (A) the outstanding Auction Losses to be attributed to Remaining Short Bidders under Rule 2.8(f)(ii) of this Annex, and
    - (B) the proportion that the Difference in respect of such Remaining Short Bidder and Auction bears to the total Differences in respect of all Remaining Short Bidders who bid in such Auction;

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

- (a) Auction Losses; and
- (b) Exchange Losses;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- (a) an OTC Auction Portfolio and
  - (i) Rule 2.7(b)(ii) of this Annex, a Short Bidder in such Auction whose remaining AIP Amount, which is in the form of SwapClear Funded Contributions and forms part of the AIP relating to such OTC Auction Portfolio, is greater than zero, and
  - (ii) Rule 2.7(f)(ii) of this Annex, a Short Bidder in such Auction whose remaining AIP Amount, which is in the form of SwapClear Unfunded Contributions and forms part of the AIP relating to such OTC Auction Portfolio, is greater than zero; and
- (b) a Basis Portfolio and
  - (i) Rule 2.8(b)(ii) of this Annex, a Short Bidder in such Auction whose remaining AIP Amount, which is in the form of SwapClear Funded Contributions and forms part of the AIP relating to such Basis Portfolio, is greater than zero, and
  - (ii) Rule 2.8(f)(ii) of this Annex, a Short Bidder in such Auction whose remaining AIP Amount, which is in the form of SwapClear Unfunded Contributions and forms part of the AIP relating to such Basis Portfolio, is greater than zero;

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

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

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

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

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

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

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

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

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

## 2. Rates Service DMP

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

Resources will be allocated based on the order and proportions described in Rules 2.5 to 2.9 of this Annex. Allocation of resources pursuant to a process or the order in which processes are carried out may reduce the resources which are available to meet the losses in respect of any subsequent process and, consequently, impact the allocation of losses amongst non-defaulting Clearing Members. For the avoidance of doubt, the Clearing House may in its sole and absolute discretion determine the order in which it: (a) constructs OTC Auction Portfolios and Basis Portfolios; (b) auctions OTC Auction Portfolios and Basis Portfolios; and (c) closes out any Listed Interest Rates Contract and/or Portfolio Margined Contract of a Defaulter under the Exchange Rules of any relevant Exchange.

### 2.1 *Portfolio Splitting*

The Clearing House, in consultation with and with the assistance of the Rates Service DMG, shall determine the composition of each OTC Auction Portfolio and Basis Portfolio and shall have the discretion to create two or more OTC Auction Portfolios and/or two or more Basis Portfolios from a Portfolio, whether by dividing such Portfolio or separating certain Contracts from such Portfolio and/or to liquidate the Portfolio Margined Contracts and/or FCM Portfolio Margined Contracts in a Portfolio under the Exchange Rules of the Exchange to which they relate, with the aim of facilitating the efficiency of, and reducing the risk associated with, the auction process provided for in Rule 2.4 of this Annex. The overriding principle behind the portfolio splitting process is that the Clearing House will structure OTC Auction Portfolios and Basis Portfolios with the intention of ensuring a Rates Service DMP which best protects the resources of the Clearing House, subject to compliance with applicable provisions of the CEA and the CFTC Regulations regarding segregation of client assets (including, where relevant, compliance with the terms of any CFTC order permitting the commingling of client assets). Therefore, nothing in this Rule 2.1 shall be deemed to

imply: (a) that the Clearing House is under any obligation either to split a particular Portfolio of a Defaulting SCM (regardless of the number of Contracts that such Portfolio contains) or to liquidate the Portfolio Margined Contracts and/or FCM Portfolio Margined Contracts in a Portfolio under the Exchange Rules of the Exchange to which they relate; or (b) any particular requirements as to the composition of an individual OTC Auction Portfolio, including in terms of: (i) combining or separating SwapClear Contracts belonging to different SwapClear Contract Categories; (ii) combining or separating Inflation SwapClear Contracts having different underlying indices; and/or (iii) creating one or more OTC Auction Portfolios from a Portfolio, except that, subject to overriding risk procedures, it is broadly anticipated that: (a) the parameters of any OTC Auction Portfolio and Basis Portfolio shall not be materially different to those set out in the Clearing House's fire drill; and (b) an OTC Auction Portfolio containing Inflation SwapClear Contracts will often also contain SwapClear Contracts which are not Inflation SwapClear Contracts for the purposes of interest rate Risk Neutralisation only.

## 2.2 *Risk Neutralisation*

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

- (a) the splitting of Portfolios pursuant to Rule 2.1 above;
- (b) the Clearing House, for the purpose of hedging:
  - (i) executing one or more new SwapClear Transactions and/or new FCM SwapClear Transactions (as applicable) with Non-Defaulting Rates Service Clearing Members (each, a "**Hedging Rates Service Clearing Member**") on the basis of a separate agreement between the Clearing House and the Hedging Rates Service Clearing Member; and
  - (ii) clearing each such SwapClear Transaction and/or FCM SwapClear Transaction (as applicable) in accordance with, and subject to, the Rulebook and/or the FCM Rulebook (as applicable), such that:
    - (A) the Hedging Rates Service Clearing Member's side of such transaction is registered as a SwapClear Contract between the Clearing House and the Hedging Rates Service Clearing Member; and
    - (B) the Clearing House's side of such transaction is registered as a SwapClear Contract between the Defaulting Rates Service Clearing Member and the Clearing House (pursuant to the Clearing House's rights under Default Rule 6(a)) (any such SwapClear Contract, a "**Hedging SwapClear Contract**");
- (c) the Clearing House, for the purpose of hedging:



- (i) engaging one or more third parties (each, a "**Hedging Give Up Agent**") to execute one or more new Listed Interest Rates Novation Transactions, FCM Listed Interest Rates Novation Transactions and/or Rates Exchange Matches (as applicable), as instructed by the Clearing House; and
- (ii) clearing each such Listed Interest Rates Novation Transaction, FCM Listed Interest Rates Novation Transactions and/or Rates Exchange Matches (as applicable) in accordance with, and subject to, the Rulebook and/or FCM Rulebook (as applicable), such that:
  - (A) the Hedging Give Up Agent's side of such transaction or match is registered as a Listed Interest Rates Contract and transferred to the Defaulting Rates Service Clearing Member, to become a Hedging Listed Interest Rates Contract between the Defaulting Rates Service Clearing Member and the Clearing House (pursuant to the Clearing House's right under Default Rule 6(q); and
  - (B) the other side of such transaction or match is registered as a Listed Interest Rates Contract between the Clearing House and the relevant Listed Interest Rates Clearing Member; and/or
- (d) the Clearing House, for the purpose of hedging, designating an existing Listed Interest Rates Contract of the Defaulting Rates Service Clearing Member as a Hedging Listed Interest Rates Contract (pursuant to the Clearing House's right under Default Rule 6(q)).

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

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

### 2.3 ***Basis Portfolio Composition***

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

## 2.4 *Auction*

- (a) Following the completion of Risk Neutralisation, the Clearing House shall auction each OTC Auction Portfolio to Non-Defaulting SCMs and each Basis Portfolio to Non-Defaulting Joint Rates Service Clearing Members, in both such cases in order to:
  - (i) seek to re-establish with those Non-Defaulting SCMs and Non-Defaulting Joint Rates Service Clearing Members (as applicable) the positions the Clearing House had with the Defaulting SCM under the relevant Rates Service Contracts; and
  - (ii) seek to determine the net value of those Rates Service Contracts for the purposes of determining the extent of any losses to the Clearing House which are to be reduced or borne in the manner provided by Rule 15 of the Default Rules or, as the case may be, the extent of any gains to the Clearing House.

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

- (b) The Clearing House shall notify each Non-Defaulting SCM of all details that may be reasonably required in relation to an OTC Auction Portfolio and each Non-Defaulting Joint Rates Service Clearing Member of all details that may be reasonably required in relation to a Basis Portfolio, before the relevant Auction.
- (c) The auction process may take place over a number of days and Auctions of different OTC Auction Portfolios and different Basis Portfolios may take place at different times.
- (d) The relevant Non-Defaulting SCMs (in respect of each OTC Auction Portfolio) and Non-Defaulting Joint Rates Service Clearing Members (in respect of each Basis Portfolio) will submit bids to the Clearing House representatives on the Rates Service DMG, who will ensure that the identities of the bidders are not revealed to the Rates Service Clearing Member representatives on the Rates Service DMG. For the avoidance of doubt, a Non-Defaulting Rates Service Clearing Member is entitled to submit a bid in respect of an Auction on behalf of one or more affiliated Non-Defaulting Rates Service Clearing Members. The Rates Service DMG will oversee the bidding process in a manner which it considers best protects the resources of the Clearing House and ensures an orderly process.
- (e) The Clearing House, in consultation with the Rates Service DMG, will have full discretion in deciding whether to Accept a particular bid in an Auction and in deciding which Accepted bid it will select as the winning bid.
- (f) In the case of an Auction in which no bid is Accepted or received, one or more further Auctions will be held in relation to the relevant OTC Auction Portfolio or Basis Portfolio (as applicable).

- (g) As soon as practicable following the submission of bids in an Auction, if:
  - (i) one or more bid(s) is Accepted, the Clearing House will notify:
    - (A) in the case of an Auction of an OTC Auction Portfolio, the Expected Auction Participants together with any other Non-Defaulting SCMs which participated in the Auction that one or more bid(s) is Accepted;
    - (B) in the case of an Auction of a Basis Portfolio, the Non-Defaulting Joint Rates Service Clearing Members which participated in the Auction that one or more bid(s) is Accepted;
    - (C) in both such cases, the SCM which submitted the winning bid that it is the winner of the Auction; and
  - (ii) no bid is Accepted, the Clearing House will notify all Non-Defaulting SCMs of the details of any further Auction (in respect of an OTC Auction Portfolio) and all Non-Defaulting Joint Rates Service Clearing Members of the details of any further Auction (in respect of a Basis Portfolio).
- (h) Each Non-Defaulting SCM agrees to use all reasonable efforts to make a bid in an Auction for an OTC Auction Portfolio in respect of which it is an Expected Auction Participant and each Non-Defaulting Joint Rates Service Clearing Member agrees to use all reasonable efforts to make a bid in an Auction for a Basis Portfolio.

## 2.5 **Market Losses**

- (a) Market Losses will be met using the available resources as set out in Rule 15 of the Default Rules. Where the Clearing House determines that there are insufficient resources under Rules 15(a) to 15(d) of the Default Rules (inclusive) to meet such losses, they will be attributed to Non-Defaulters' remaining SwapClear Contributions and remaining Listed Interest Rates Contributions in the following order and proportions:
  - (i) Market Losses will be attributed to the remaining SwapClear Funded Contribution of each Non-Defaulter *pro rata* according to the proportion that the remaining SwapClear Funded Contribution of such Non-Defaulter bears to the total of all such remaining SwapClear Funded Contributions.
  - (ii) If and to the extent there are Market Losses outstanding after the attribution process in Rule 2.5(a)(i) of this Annex, those Market Losses will be attributed to the remaining Listed Interest Rates Funded Contribution of each Non-Defaulting Joint Rates Service Clearing Member (other than, for the avoidance of doubt, a Non-Defaulting Joint Rates Service Clearing Member that is a PM Eligible SCM) *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 (other than, for the avoidance of doubt, a Non-Defaulting Joint Rates Service Clearing Member that is a PM Eligible SCM) *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) — Where the Clearing House, in consultation with and with the assistance of the Rates Service DMG, determines to liquidate the Portfolio Margined Contracts in a Portfolio under the Exchange Rules of the Exchange to which they relate, any losses in respect of such liquidation 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 2.5(a) of this Annex.~~

~~(e)~~(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.

~~(d)~~(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

**SCHEDULE 5**  
**FOREXCLEAR DEFAULT FUND SUPPLEMENT**

F1. ~~In accordance with and subject to Rule F2, the amount of each ForexClear~~ **Default Fund Amount**~~Clearing Member's~~

(a) ~~In this~~ **ForexClear Contributions shall be determined by the Clearing House as soon as practicable after each Default Fund Supplement:**

**“Aggregate Monthly DFAM”** means, in respect of a ~~—~~ForexClear Determination Date, ~~as appropriate on the basis~~**aggregate of information available as at close** the Monthly DFAM of ~~business on~~**each DFAM Member determined by the Clearing House in respect of** such ForexClear Determination Date and notified to such FXCCM as soon as practicable after such determination in accordance with the Procedures;

**“Base Amount”** means, in respect of a ForexClear Determination Date, the greater of the:

(i) First Amount minus the Aggregate Monthly DFAM in respect of such ForexClear Determination Date; and

(ii) Second Amount in respect of such ForexClear Determination Date, plus 10 per cent. of such Second Amount;

~~i~~**Increased as necessary by the Clearing House pursuant to Rule F1(d) to ensure that the ForexClear Fund Amount equals the ForexClear Fund Floor;<sup>2</sup>**

**“Combined Loss Value”** means, in respect of a business day and a scenario, the sum of the largest and second largest uncovered stress loss determined by the Clearing House in respect of such day, such scenario and ForexClear Contracts;

**“DFAM Member”** means, in respect of a ForexClear Determination Date, a FXCCM that is required to provide Monthly DFAM in respect of such a ForexClear Determination Date;

**“First Amount”** means, in respect of a ForexClear Determination Date, the largest of the Largest Combined Loss Values determined by the Clearing House pursuant to Rule F1(c) for each of the 30 business days preceding such ForexClear Determination Date, plus 10 per cent. **of the largest of such Largest Combined Loss Values;**

**“ForexClear Default Period”** shall have the meaning specified in Rule F1(e);

**“ForexClear Determination Date”** shall have the meaning specified in Rule F1(d);

**“ForexClear Fund Amount”** means the amount of the ForexClear default fund determined from time to time pursuant to Rule F1(d);

**“ForexClear Fund Floor”** means USD \$70 million;

“ForexClear Tolerance Amount” means, in respect of a ForexClear Determination Date, the amount that the Clearing House determines is required in relation to ForexClear Tolerance;

“ForexClear Tolerance” means the aggregate amount of temporary initial margin forbearance provided by the Clearing House to FXCCMs, during such period as determined by the Clearing House, to enable registration of ForexClear Contracts;

“Largest Combined Loss Value” means, in respect of a business day, the largest of the Combined Loss Values determined by the Clearing House in respect of such day;

“Largest Member Combined Loss Value” means, in respect of a FXCCM and a ForexClear Determination Date, the largest of the Member Combined Loss Values determined by the Clearing House in respect of each of the 30 business days preceding such ForexClear Determination Date;

“Member Combined Loss Value” means, in respect of a FXCCM, a scenario and a business day, the uncovered stress loss determined by the Clearing House in respect of such day, such scenario and such FXCCM’s ForexClear Contracts, where the Clearing House may, in determining such uncovered stress loss, take into account the number of alternative FXCCMs that clear ForexClear Contracts with respect to that FXCCM’s ForexClear Clearing Clients or FCM Clients;

“Member Ratio” means, in respect of a FXCCM and a ForexClear Determination Date, the Largest Member Combined Loss Value determined by the Clearing House for such FXCCM divided by the Total Member Combined Loss Value in respect of such ForexClear Determination Date;

“Monthly DFAM” means, in respect of a ForexClear Determination Date and a DFAM Member, the monthly default fund additional margin amount that is determined by the Clearing House pursuant to the Procedures in respect of such ForexClear Determination Date and payable by such DFAM Member to the Clearing House;

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Non-Tolerance Amount” means the ForexClear Fund Amount minus the ForexClear Tolerance Amount;

“Non-Tolerance F2. Each FXCCM’s ForexClear Contribution” means, in respect of a FXCCM and a ForexClear Determination Date, the amount determined by the Clearing House for such FXCCM and in respect of such FXCCM Clear Determination Date pursuant to Rule F2(c);

“(other than any ForexClear Unfunded Notional Non-Tolerance Contribution or any Supplementary Contribution)” means, in respect of a FXCCM and a ForexClear Determination Date, the amount determined by the Clearing House for such FXCCM and in respect of such ForexClear Determination Date pursuant to Rule F2(b);

“Opted-in FXCCM” means a FXCCM in respect of which the Clearing House’s records reflect that such FXCCM has opted-in to use the ForexClear Tolerance;

“Second Amount” means, in respect of a ForexClear Determination Date, the largest of the Largest Combined Loss Values determined by the Clearing House pursuant to Rule F1(c) for each of the 30 business days preceding such ForexClear Determination Date, but calculated as if each DFAM Member was not a FXCCM on each of those 30 business days (such that, for the purpose of calculating the Combined Loss Values, Largest Combined Loss Values and Second Amount, the uncovered stress loss of any such FXCCM will be disregarded);

“Shortfall” means the amount (if any) by which the Non-Tolerance Amount exceeds the aggregate Notional Non-Tolerance Contributions;

“Shortfall Ratio” means, in respect of a FXCCM, such FXCCM’s Notional Non-Tolerance Contribution divided by the aggregate Notional Non-Tolerance Contributions;

“Shortfall Contribution” means, in respect of a FXCCM and a Shortfall, the amount equal to such Shortfall multiplied by the Shortfall Ratio for such FXCCM;

“Tolerance Contribution” means, in respect of a FXCCM and a ForexClear Determination Date, the amount specified in respect of such FXCCM and ForexClear Determination Date pursuant to Rule F2(d);

“Total ForexClear Contributions” means, in respect of a day, the total ForexClear Contributions held by the Clearing House on such day; and

“Total Member Combined Loss Value” means, in respect of a ForexClear Determination Date, the aggregate of the Largest Member Combined Loss Values determined by the Clearing House for each FXCCM in respect of such ForexClear Clear Determination Date.

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- (a)(b) The ForexClear Default Fund is denominated in USD and all amounts referable to it shall be determined by the Clearing House in accordance with the following provisions: denominated, calculated, called, and payable in USD.
- (c) On each business day, the Clearing House determinations will determine one or more Combined Loss Values and a Largest Combined Loss Value in respect of each of the 30 preceding business days.
- (d) The ForexClear Fund Amount shall be made-determined by the Clearing House on the date that an FXCCM joins the ForexClear Service, ~~on~~as of the first business day of each calendar month and at the time on such day determined by the Clearing House, and otherwise in accordance with ~~paragraph Schedule 54(f)~~Rule F1(f) below (each, a “ForexClear Determination Date”) and shall, in respect of a ForexClear Determination Date, equal the:-



(i) Base Amount plus;

(ii) The ForexClear Tolerance Amount,

-provided that the -ForexClear Fund Amount shall not be less than the ForexClear Fund Floor and, in order to achieve such ForexClear Fund Floor, the Clearing House shall increase the Base Amount portion of the ForexClear Fund Amount only (and not the ForexClear Tolerance Amount).

(a)(e) Notwithstanding the foregoing, following at the Default of a FXCCM, any such determinations and any such ForexClear Determination Date which might otherwise have occurred under this Rule F2-F1 shall be suspended for the duration of the period (the "ForexClear Default Period") commencing on the date of such Default and terminating on the later last to occur of the following times:

(i) the time, as determined by the Clearing House, on the day falling 30 calendar days after the ForexClear Default Management Process Completion Date in relation to such Default (or, if such day is not a business day, the next succeeding business day); and

(ii) where, prior to the end of the period referred to in (i) above (or such period as has already been extended pursuant to this paragraph (ii)), the subsequent Default of one or more subsequent Defaults FXCCM(s) (each, a "Relevant Default") occurs occur, the time, as determined by the Clearing House, on the day falling 30 calendar days after the ForexClear Default Management Process Completion Date in relation to at the Relevant Default which falls latest in time (or, if such day is not a business day, the next succeeding business day);

(f) Subject to a suspension pursuant to Rule F1(e), the Clearing House may recalculate the ForexClear Fund Amount on any business day if the Clearing House determines (in its sole discretion) that this is necessary from a risk perspective and, in such case, shall be entitled to adjust the Contributions of FXCCMs in accordance with the ForexClear Default Fund Supplement.

~~(b) On each business day, the Clearing House will determine one or more "Combined Loss Values" and a "Largest Combined Loss Value" in respect of each of the 30 preceding business days, where:~~

~~(i) "Combined Loss Value" means, in respect of a business day and a scenario, the sum of the largest and second largest stress testing loss determined by the Clearing House in respect of such day, such scenario and ForexClear Business; and~~

~~(ii) "Largest Combined Loss Value" means, in respect of a business day, the largest of the Combined Loss Values determined by the Clearing House in respect of such day.~~

~~(c) the "ForexClear Fund Amount" shall equal the sum of (i) the "ForexClear Sub-Fund Amount" and (ii) the "ForexClear Tolerance Amount". The~~

~~ForexClear Sub-Fund Amount shall be calculated in United States dollars ("USD") and, for a given ForexClear Determination Date, shall be the largest of the Largest Combined Loss Values determined by the Clearing House under paragraph (b) above for the preceding 30 business days, plus 10 per cent. The ForexClear Sub-Fund Amount shall not be less than USD 70 million (the "**ForexClear Fund Floor**"). The "**ForexClear Tolerance Amount**" for a given ForexClear Determination Date shall equal the aggregate amount of ForexClear Tolerance provided by the Clearing House, during a time period determined by it, to all participating FXCCMs to facilitate the registration of ForexClear Contracts, provided that the ForexClear Tolerance Amount shall not exceed USD 500 million;~~

- ~~(d) (i) an FXCCM's "**ForexClear Margin Weight**" shall be calculated by dividing (A) the Uncovered Stress Loss Metric associated with such FXCCM's ForexClear Contracts by (B) the total Uncovered Stress Loss Metric applied to all Non-Defaulting FXCCMs with respect to their ForexClear Contracts, in each case, only for such ForexClear Contracts that are open and outstanding at any point during the reference period set forth in paragraph (b) above;~~
- ~~(ii) an FXCCM's "**Uncovered Stress Loss Metric**," as determined for the purposes of sub-paragraph (i) above, is a risk metric used by the Clearing House in the calculation of the FXCCM's ForexClear Contribution and shall be determined by the Clearing House (and notified to each FXCCM) from time to time by, inter alia, deducting the amount of eligible margin held by the Clearing House with respect to the relevant ForexClear Contracts from the stress loss associated with such ForexClear Contracts, provided that the Clearing House may, in determining the Uncovered Stress Loss Metric of an FXCCM, take into account, inter alia, the number of alternative FXCCMs that clear ForexClear Contracts with respect to that FXCCM's ForexClear Clearing Clients or FCM Clients; for the avoidance of doubt, the largest and second largest stress testing losses for purposes of determining a Combined Loss Value in accordance with paragraph (b) above are not the applicable Uncovered Stress Loss Metrics of the relevant FXCCMs for the purposes of this sub-paragraph (ii); and~~
- ~~(iii) the provisions of this sub-paragraph (d) shall not apply to New Members and, for the avoidance of doubt, New Members shall not constitute Non-Defaulting FXCCMs for the purposes of limb (B) of sub-paragraph (i);~~
- ~~(e) each FXCCM's ForexClear Contribution comprises its "**ForexClear Sub-Fund Contribution**" and its ForexClear Tolerance, as applicable. The FXCCM's ForexClear Sub-Fund Contribution shall be calculated by multiplying the ForexClear Sub-Fund Amount by the FXCCM's ForexClear Margin Weight, and shall be no less than the Minimum ForexClear Contribution; and~~
- ~~(f) subject to a suspension pursuant to paragraph (a) above, the Clearing House may recalculate the ForexClear Fund Amount on any business day if the largest of the Largest Combined Loss Values determined by the Clearing House under paragraph (b) above for the 30 business days preceding such business day~~

~~differs by more than 25 per cent. from the figure on which the previous ForexClear Contribution determination was based.~~

**F23. ForexClear Contributions**

The Clearing House shall determine each FXCCM's ForexClear Contribution (other than any ForexClear Unfunded Contribution or any Supplementary Contribution) in accordance with the following provisions:

- (a) determinations will be made by the Clearing House as of each ForexClear Determination Date and notified to the relevant FXCCM as soon as practicable after such determination in accordance with the Procedures. Notwithstanding the foregoing, following the Default of a FXCCM, any determinations as of a ForexClear Determination Date and any such ForexClear Determination Date which might otherwise have occurred under this Rule F2 shall be suspended for the duration of the ForexClear Default Period;
- (b) a FXCCM's Notional Non-Tolerance Contribution, in respect of a ForexClear Determination Date, shall equal the greater of:
  - (i) the FXCCM's Member Ratio multiplied by the Non-Tolerance Amount;  
and
  - (ii) USD \$5,000,000;
- (c) a FXCCM's Non-Tolerance Contribution, in respect of a ForexClear Determination Date, shall equal, if:
  - (i) no Shortfall exists, the amount of its Notional Non-Tolerance Contribution;
  - (ii) a Shortfall exists, the amount of its Notional Non-Tolerance Contribution plus its Shortfall Contribution;
- (d) a FXCCM's Tolerance Contribution, in respect of a ForexClear Determination Date, equals ~~USD \$10,000,000 if the FXCCM is an Opted-in FXCCM and zero otherwise;~~
- (e) a FXCCM's ForexClear Contribution, in respect of a ForexClear Determination Date, equals its Non-Tolerance Contribution plus its Tolerance Contribution;  
and
- (f) subject to a suspension pursuant to Rule F2(a), the Clearing House may recalculate the ForexClear Contribution of each FXCCM on any business day if the Clearing House determines (in its sole discretion) that this is necessary from a risk perspective and, in such case, such recalculation shall be in accordance with the ForexClear Default Fund Supplement.

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

- (a) references to "~~ForexClear Clearing Members~~" or "FXCCMs" do not include references to Defaulting FXCCMs (apart from any Defaulting FXCCM in

respect of which the Clearing House permits the application of Rule F2) or persons which were formerly FXCCMs but are not FXCCMs at the ForexClear Determination Date at as of which the relevant determination is made;

~~(b)~~ contributions shall may be rounded upwards by the Clearing House, if not already such a multiple, to the next integral multiple of one thousand US dollars.;

~~(e)(b)~~ provided notwithstanding that the FXCCM is not a Defaulter, the amount of its ForexClear Contribution shall be calculated in accordance with and subject to Rule F2. The provisions of Rule F1, Rule F2, this Rule F3 and Rule F5 do not apply to a Defaulting FXCCM, unless the Clearing House so permits in any particular case; and ForexClear Contributions paid by all FXCCMs may thereby exceed the ForexClear Fund Amount;

(c) the ForexClear Contribution of a New Member in respect of the ForexClear Service is determined by the Clearing House pursuant to Rule F4 and references to "FXCCMs" for the purposes of Rule F2(b) to (e) (including the defined terms used in such provisions) do not include a New Member in respect of the ForexClear Service or the FCM ForexClear Service;

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

F4. Without prejudice to any other requirements which the Clearing House may impose, the amount of the ForexClear Contribution of a New Member shall be the sum in respect of (a) the Minimum the ForexClear Contribution, Service or the FCM ForexClear Service shall equal: ~~(b)~~

(a) USD \$5,000,000; plus

(b) USD \$10,000,000 if the New Member is an Opted-in FXCCM; plus

(c) any supplementary sum determined by the Clearing House in its discretion and notified to the New Member ~~and (c) as applicable, its ForexClear Tolerance.~~ The Clearing House shall determine the amount of such supplementary sum by reference to the actual or expected level of clearing activity of the New Member in respect of the ForexClear Service or the FCM ForexClear Service.

The ForexClear Contribution of such New Member shall be determined by the Clearing House as of the date it joins the ForexClear Service or the FCM ForexClear Service and it shall be liable to pay its ForexClear Contribution pursuant to this Rule F4 at the time specified by the Clearing House (and not pursuant to Rule F5).

F5. Upon determination of the amount of a ForexClear Contribution in accordance with Rule ~~F4~~:

- (a) if the amount of the ForexClear Contribution of an FXCCM immediately before the time ~~at~~ as of which the Clearing House determines the FXCCM's ForexClear Contribution under Rule F2 on the relevant ForexClear Determination Date exceeds the amount of the FXCCM's ForexClear Contribution as so determined, the excess shall be paid by the Clearing House to such FXCCM in USD in accordance with the Procedures;
- (b) if the amount of the ForexClear Contribution of an FXCCM immediately before the time ~~at~~ as of which the Clearing House determines the FXCCM's ForexClear Contribution under Rule F2 on the relevant ForexClear Determination Date is the same as the amount of the FXCCM's ForexClear Contribution as so determined, no sum shall then be payable by or to such FXCCM in respect of its Contribution; and
- (c) if the amount of the ForexClear Contribution of an FXCCM immediately before the time ~~as of~~ at which the Clearing House determines the FXCCM's ForexClear Contribution under Rule F2 on the relevant ForexClear Determination Date is less than the amount of the FXCCM's ForexClear Contribution as so determined, the shortfall shall be paid by such FXCCM to the Clearing House in USD in accordance with the Procedures.

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

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

the rate of interest payable by a FXCCM is negative, interest shall be payable by FXCCMs to the Clearing House.

F7.

- (a) After a Default, unless and until the Clearing House has repaid a Defaulter's ForexClear Contribution (or the remaining part thereof, as applicable), the Total ForexClear ~~Fund Amount Contributions~~ shall be ~~treated as having been~~ reduced by the amount of the Defaulter's ForexClear Contribution (if any), regardless of whether the Clearing House has applied part or all of that ForexClear Contribution under the Default Rules.
- (b) Where, after a Default, the Clearing House has applied part or all of the ForexClear Contributions of the Non-Defaulting FXCCMs under Rule 21 of the Default Rules, the Total ForexClear ~~Fund Amount Contributions~~ shall be reduced ~~forthwith~~ by the deduction of (i) the amount of the Defaulter's ForexClear Contribution (if any) in accordance with paragraph (a) of this Rule F7;<sup>5</sup> and (ii) the aggregate amount of the ForexClear Contributions or parts of ForexClear Contributions of the Non-Defaulting FXCCMs so applied, and the amount of the ForexClear Contribution that each Non-Defaulting FXCCM must maintain with the Clearing House shall be reduced by the amount of its ForexClear Contribution which has been so applied, in each case, until the next ForexClear Determination Date and subject to (where applicable) the requirement under paragraph (c) of this Rule F7 and Rule F8.
- (c) Following the completion of a ForexClear Default Management Process, the Clearing House will deliver a notice to the FXCCMs confirming that the relevant ForexClear Default Management Process Completion Date has occurred. If, following the issuance of such notice, the Clearing House determines (in its sole discretion) that the value of the ForexClear Default Fund Amount determined in accordance with paragraph (b) of this Rule F7 is less than the ForexClear Fund Floor, the Clearing House may notify each Non-Defaulting FXCCM that it is required to make a Supplementary Contribution to restore the value of the ForexClear Default Fund to an amount equal to the ForexClear Fund Floor;

The amount of a Non-Defaulting FXCCM's Supplementary Contribution will be based on:

- (i) the proportion that the value amount of its ForexClear Contribution as at determined by the Clearing House pursuant to the ForexClear Default Fund Supplement as of the last ForexClear Determination Date prior to (or, if such Non-Defaulting FXCCM joined the ForexClear Service or FCM ForexClear Service after such ForexClear Determination Date, the amount of its ForexClear Contribution as determined by the Clearing House pursuant to the ForexClear Default Fund Supplement as of the date when the relevant Default occurred bears to the value of on which it joined the ForexClear Service or FCM ForexClear Service) bear(s) to;
- (ii) The aggregate of the ForexClear Contributions of all Non-Defaulting FXCCMs as at such determined by the Clearing House pursuant to the

ForexClear Default Fund Supplement as of the last ForexClear Determination Date (and, if any Non-Defaulting FXCCM joined the ForexClear Service or FCM ForexClear Service after such ForexClear Determination Date, plus the amount of its ForexClear Contribution as determined by the Clearing House pursuant to the ForexClear Default Fund Supplement as of the date, so as to reinstate on which it joined the ForexClear Fund Amount to a value which is no less than the Service or FCM ForexClear Fund Floor Service).

Supplementary Contributions required hereunder shall be paid within two business days after notification and in accordance with the Procedures.

- F8. Where, after a Default, the Clearing House determines that (i) by reason of a reduction in accordance with Rule F7, the ~~value of the Total~~ ForexClear ~~Fund Amount~~ ~~has Contributions~~ been reduced by at least 25 per cent.; or (ii) by the time of the ForexClear Default Management Process Completion Date in relation to the relevant Default, the ~~value of the Total~~ ForexClear ~~Fund Amount~~ ~~Contributions~~ will be reduced by at least 25 per cent., the Clearing House may, by notice in writing (the "**ForexClear Unfunded Contribution Notice**"), require each Non-Defaulting FXCCM to deposit and maintain an amount (each, a "**ForexClear Unfunded Contribution**") in accordance with the following provisions:
- (a) ForexClear Unfunded Contributions will only be payable in circumstances where the relevant ForexClear Unfunded Contribution Notice is delivered by the Clearing House to FXCCMs prior to the ForexClear Default Management Process Completion Date in relation to the relevant Default;
  - (b) the ~~value amount~~ of the ForexClear Unfunded Contribution payable by each individual FXCCM shall be the product of (i) the percentage by which the ~~value of the Total~~ ForexClear ~~Fund Amount~~ ~~Contributions~~ ~~have has~~ been, or will be, reduced, and (ii) the ~~value amount~~ of the ForexClear Contribution of such FXCCM as determined by the Clearing House ~~at pursuant to the ForexClear Default Fund Supplement as of~~ the last ForexClear Determination Date prior to the date when the relevant Default occurred; ~~(or, in respect of an FXCCM that joined the ForexClear Service or FCM ForexClear Service after such ForexClear Determination Date, the amount of its ForexClear Contribution determined by the Clearing House pursuant to the ForexClear Default Fund Supplement as of the date on which it joined the ForexClear Service or FCM ForexClear Service);~~
  - (c) the Clearing House may, by the delivery of one or more further ForexClear Unfunded Contribution Notices, require each Non-Defaulting FXCCM to pay one or more further ForexClear Unfunded Contributions in respect of the same Default, provided that the total value of the ForexClear Unfunded Contributions payable by an individual FXCCM in respect of a particular Default (determined in accordance with paragraph (b) above) may not exceed the value of the ForexClear Contribution of such FXCCM as ~~at of~~ the last ForexClear Determination Date prior to the date when the relevant Default occurred; ~~and~~ ~~(or, in respect of an FXCCM that joined the ForexClear Service or FCM ForexClear Service after such ForexClear Determination Date, the amount of its ForexClear Contribution determined by the Clearing House pursuant to the~~

ForexClear Default Fund Supplement as of the date on which it joined the ForexClear Service or FCM ForexClear Service);

~~(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, and including, the date of ~~delivery of the first ForexClear Unfunded Contribution Notice in respect of the First Default~~); and

(d)

(e) 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 or FCM 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.



**SCHEDULE 6**  
**RATES SERVICE DEFAULT FUND SUPPLEMENT**

**CS1. Rates Service Fund Amount**

(a) In this Rates Service Default Fund Supplement:

“Aggregate Monthly DFAM” means, in respect of a Rates Service Determination Date, the aggregate of the Monthly DFAM of each ~~DFAM Rates Service Clearing~~ Member determined by the Clearing House in respect of such Rates Service Determination Date;

“Monthly DFAM” means, in respect of a Rates Service Determination Date and a DFAM Member, the monthly default fund additional margin amount that is determined by the Clearing House pursuant to the Procedures in respect of such Rates Service Determination Date and payable by such DFAM Member to the Clearing House;

“DFAM Member” means, in respect of a Rates Service Determination Date, a Rates Service Clearing Member that is required to provide Monthly DFAM in respect of such Rates Service Determination Date;

“Combined Loss Value” means, in respect of a business day and a scenario, the sum of the largest and second largest uncovered stress loss determined by the Clearing House in respect of such day, such scenario and SwapClear Contracts and Listed Interest Rates Contracts;

“Largest Combined Loss Value” means, in respect of a business day, the largest of the Combined Loss Values determined by the Clearing House in respect of such day;

“Second Amount” means, in respect of a Rates Service Determination Date, the largest of the Largest Combined Loss Values determined by the Clearing House pursuant to Rule CS1(c) for each of the 60 business days preceding such Rates Service Determination Date, but calculated as if each DFAM Member was not a Rates Service Clearing Member on each of those 60 business days (such that, for the purpose of calculating the Combined Loss Values, Largest Combined Loss Values and Second Amount, the uncovered stress loss of any such Rates Service Clearing Member will be disregarded);

“Rates Service Default Period” shall have the meaning specified in Rule CS1(e);

“Rates Service Determination Date” shall have the meaning specified in Rule CS1(d);

“First Amount” means, in respect of a Rates Service Determination Date, the largest of the Largest Combined Loss Values determined by the Clearing House pursuant to Rule CS1(c) for each of the 60 business days preceding such Rates Service Determination Date, plus 10 per cent. of the largest of such Largest Combined Loss Values;

“Rates Service Fund Amount” means the amount of the Rates Service default fund determined from time to time pursuant to Rule CS1(d);

“Rates Service Fund Cap” means £6 billion pounds;

“Rates Service Fund Floor” means £1 billion pounds;

“SwapClear Tolerance Amount” means, in respect of a Rates Service Determination Date, the amount that the Clearing House determines is required in relation to SwapClear Tolerance;

“SwapClear Tolerance” means the aggregate amount of temporary initial margin forbearance provided by the Clearing House to SCMs, during such period as determined by the Clearing House, to enable registration of SwapClear Contracts;

“Base Amount” means, in respect of a Rates Service Determination Date, the greater of the:

- (i) First Amount minus the Aggregate Monthly DFAM in respect of such Rates Service Determination Date; and
- (ii) Second Amount in respect of such Rates Service Determination Date plus 10 per cent. of such Second Amount,

increased or decreased as necessary by the Clearing House pursuant to Rule CS1(d) to ensure that the Rates Service Fund Amount equals the Rates Service Fund Floor or the Rates Service Fund Cap, respectively; and

“SwapClear AET Requirement” means, in respect of an SCM, that all of the SwapClear Contracts, Portfolio Margined Contracts and FCM Portfolio Margined Contracts in the name of such SCM have been closed out or transferred to another Clearing Member.

[Note: These definitions will be re-ordered into alphabetical order before they are made effective.]

(b) The Rates Service Default Fund is denominated in GBP, and all amounts referable to it shall be denominated, calculated, called and payable in GBP.

(a)(c) On each business day, the Clearing House will determine a “one or more “Combined Loss Values and a Largest Combined Loss Value”” in respect of each of the 60 preceding business days. ~~The Combined Loss Value for a particular business day will be the sum of: (1) the largest and the second largest daily stress testing losses incurred during the preceding 60 business days in relation to the SwapClear Contracts and Eligible Listed Interest Rates Contracts of a Rates Service Clearing Member (the “Combined Loss Value Limb (1)”; plus (2) the largest and the second largest daily stress testing losses incurred during the preceding 60 business days in relation to the Non Eligible Listed~~

~~Interest Rates Contracts of a Rates Service Clearing Member (the "Combined Loss Value - Limb (2)"), in respect of a given scenario:~~

(d) ~~The "Rates Service Fund Amount" shall be determined by the Clearing House ~~on~~as of the first business day of each calendar month, and ~~at~~ the time on such day determined by the Clearing House, and otherwise in accordance with Rule CS1(f) ~~paragraph (df)~~ below (each, a "Rates Service Determination Date") and shall ~~be the sum of: (1) the largest of the 60 Combined Loss Values determined under Rule CS1(b); plus (2) an amount in respect of a Rates Service Determination Date, equal~~ the: ~~to 10 per cent of the value referred to in (1);~~~~

(i) Base Amount ~~plus (3);~~

(ii) ~~the~~ SwapClear Tolerance Amount.

provided that ~~the~~ Rates Service Fund Amount shall not be less than £1 billion pounds (the "Rates Service Fund Floor") and shall not be more than £6 billion pounds ~~the Rates Service Fund Cap, and, in order to achieve such Rates Service Fund Floor or Rates Service Fund Cap, the Clearing House shall increase or decrease, respectively, the Base Amount portion of the Rates Service Fund Amount only (and not the SwapClear Tolerance Amount).~~

(e) Notwithstanding the foregoing, following at ~~the~~ Default of a Rates Service Clearing Member, any determinations on a Rates Service Determination Date and any such Rates Service Determination Date which might otherwise have occurred under this Rule CS1 shall be suspended for the duration of the period (the "Rates Service Default Period") commencing on the date of such Default and terminating on the later of to occur of the following times:

(i) the time, as determined by the Clearing House, on the day falling 30 calendar days after the Rates Service Default Management Process Completion Date in relation to such Default (or, if such day is not a business day, the next succeeding business day); and

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

(f) Subject to a suspension pursuant to Rule CS1(e), ~~the~~ Clearing House may recalculate the Rates Service Fund Amount on any business day if the Clearing House determines (in its sole discretion) ~~largest of the 60 Combined Loss Values determined under paragraph (b) above on that day differs by more than 25 per cent~~ this is necessary: ~~from the Combined Loss Value on which the previous Rates Service Contribution determination was based~~ a risk perspective and, ~~on~~ in such ~~business day, the Clearing House~~ case, shall be entitled to require

~~those adjust the Contributions of Rates Service Clearing Members whose portfolios have caused the increase in the Combined Loss Value to pay an additional amount in respect of their Contributions in accordance with the Rates Service Default Fund Supplement.~~

## CS2. Rates Service Fund Amount Allocation

~~(a) On each~~ In this Rule CS2:

“Listed Interest Rates Floor” means, in respect of a Rates Service Determination Date, the ~~Clearing House shall calculate:~~ greater of £10 million and the Minimum Amount for such

~~The “SwapClear Tolerance Amount” which shall be the value of that portion of the Rates Service Fund Amount which relates to those default fund resources which the Clearing House determines as being required in relation to SwapClear Tolerance Determination Date;~~

“Minimum Amount” means, in respect of a Rates Service Determination Date, £2 million multiplied by the number of Listed Interest Rates Service Clearing Members (excluding (A) New Members in respect of the Listed Interest Rates Service or the FCM Listed Interest Rates Service, and (B) Resigning Members in respect of the Listed Interest Rates Service or the FCM Listed Interest Rates Service or Retiring Members) as at such Rates Service Determination Date;

~~(g) The “Non-Tolerance Amount” which shall be the sum of: (1) the Combined Loss Value Limb (1); plus (2) an amount equal to 10 per cent of the Combined Loss Value Limb (1).~~

~~The “SwapClear Combined Loss Value” in respect of~~ means, in respect of a business day and a scenario, the sum of the largest and second largest uncovered stress loss determined by the Clearing House in respect of (A) such day, (B) such scenario, and (C) SwapClear Contracts, Portfolio Margined Contracts and FCM Portfolio Margined Contracts;

“Listed Interest Rates Combined Loss Value” means, in respect of a business day and a scenario, the sum of the largest and second largest uncovered stress loss determined by the Clearing House in respect of (A) such day, (B) such scenario, and (C) Listed Interest Rates Contracts (excluding Portfolio Margined Contracts and FCM Portfolio Margined Contracts);

“Largest SwapClear Combined Loss Value” means, in respect of a Rates Service Determination Date, the largest of the SwapClear Combined Loss Values determined by the Clearing House for each of the 60 ~~preceding~~ business days ~~preceding~~ such Rates Service Determination Date;

“Largest Listed Interest Rates ~~The SwapClear Combined Loss Value~~” means, in respect of a ~~particular day will be the sum of~~ Rates Service Determination Date, the largest ~~and~~ of the Listed Interest Rates Combined Loss Values determined by the ~~second largest stress testing loss incurred on that day in relation to SwapClear Business (which includes~~ Clearing House for each of

~~the avoidance of doubt, Portfolio Margined Contracts) (for a given scenario); 60 business days preceding such Rates Service Determination Date;~~

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

~~"The "Total Combined Loss Value" which shall be the sum of the means, in respect of a Rates Service Determination Date, the Largest SwapClear Combined Loss Value and the Listed Rate plus the Largest Listed Interest Rates Combined Loss Value in respect of such Rates Service Determination Date;~~

~~"Split Ratio" means, in respect of a Rates Service Determination Date, the Largest Listed Interest Rates Combined Loss Value divided by the Total Combined Loss Value in respect of such Rates Service Determination Date;:-~~

~~The "Rates Service Fund Amount – SwapClear" (which shall be calculated as follows :~~

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

~~The "Rates Service Fund Amount – Listed Interest Rates)" means, in respect of a Rates Service Determination Date, the which shall be the greater of: Base Amount determined by the Clearing House as of such~~

~~the "Weighted Rates Service Fund Amount", which shall be Determination Date multiplied by the Split Ratio, subject to a minimum amount calculated as follows:~~

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

~~+ (1.1 x Combined Loss Value – Limb (2)); and~~

~~equal to the Default Fund Listed Interest Rates Floor; and (as defined in Rule L2).~~

~~The "Rates Service Fund Amount (SwapClear Tolerance)" means, in respect of a Rates Service Determination Date, which shall be the aggregate amount of temporary initial margin forbearance provided Base Amount determined by the Clearing House to SwapClear Clearing Members to enable registration as of SwapClear Contracts. such Rates Service Determination Date;~~

- (i) ~~In the event that~~ minus the Rates Service Fund Amount ~~–(Listed Interest Rates); and equals~~
  - (ii) ~~plus~~ the Default Fund Floor, ~~then the Rates Service Fund Amount–~~ SwapClear Tolerance Amount.
- (b) The Clearing House shall be reduced by determine, in respect of a Rates Service Determination Date:
- (i) one or more SwapClear Combined Loss Value(s) and one or more Listed Interest Rates Combined Loss Value(s) in respect of each of the 60 business days preceding such Rates Service Determination Date;
  - (ii) the amount by which Largest SwapClear Combined Loss Value, Largest Listed Interest Rates Combined Loss Value and Total Combined Loss Value; and
  - (~~+~~)(iii) the Default Fund Floor is greater than the Weighted Rates Service Fund Amount (SwapClear) and the Rates Service Fund Amount (Listed Interest Rates).

### CS3. Contributions to the Rates Service Fund

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

- (g) 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

respect of its initial margin obligations pursuant to the Regulations and Procedures.

#### CS7. **Supplementary Contributions to the Rates Service Default Fund**

Following the completion of a Rates Service DMP, the Clearing House will deliver a notice to all Non-Defaulting Rates Service Clearing Members that the relevant Rates Service Default Management Completion Date has occurred. If, following the issuance of such notice, the Clearing House determines (in its sole discretion) that the value of the Rates Service Default Fund is less than the Rates Service Fund Floor, the Clearing House may notify each Non-Defaulting Rates Service Clearing Member that it is required to make a Supplementary Contribution to restore the value of the Rates Service Default Fund to an amount equal to the Rates Service Fund Floor.

The amount of ~~each~~ Non-Defaulting Rates Service Clearing Member's Supplementary Contribution will be based on:

- (i) ~~the proportion of the value that the amount of its SwapClear Contribution (if applicable) and Listed Interest Rates Contribution (if applicable), in each case, as determined by the Clearing House pursuant to the Rates Service Default Fund Supplement as of the last Rates Service Determination Date (and, if such Non-Defaulting Rates Service Clearing Member's Member joined the SwapClear Service, FCM SwapClear Service, Listed Interest Rates Service and/or FCM Listed Interest Rates Service after such Rates Service Determination Date, plus the amount of its SwapClear Contribution and/or Listed Interest Rates Contribution (as applicable), in each case as at the last Rates Service Determination Date, as determined by the Clearing House pursuant to the Rates Service Default Fund Supplement as of the date on which it joined the SwapClear Service, FCM SwapClear Service, Listed Interest Rates Service and/or FCM Listed Interest Rates Service) bear(s) to; the value of~~
- (ii) ~~the aggregate of the SwapClear Contributions and/or aggregate Listed Interest Rates Contributions (as applicable) determined by the Clearing House pursuant to the Rates Service Default Fund Supplement as of the last Rates Service Determination Date (and, if any Non-Defaulting Rates Service Clearing Member joined the SwapClear Service, FCM SwapClear Service, Listed Interest Rates Service and/or FCM Listed Interest Rates Service after such Rates Service Determination Date, plus the amount of its SwapClear Contribution and/or Listed Interest Rates Contribution (as applicable), in each case, as determined by the Clearing House pursuant to the Rates Service Default Fund Supplement as of the date on which it joined the SwapClear Service, FCM SwapClear Service, Listed Interest Rates Service and/or FCM Listed Interest Rates Service) as of such date.~~

Supplementary Contributions required hereunder shall be paid within two business days after notification and in accordance with the Procedures.

#### CS8. **Application of any Recoveries**

Following the completion of a Rates Service DMP and subject to Rule 2.10(c) of the Rates Service DMP Annex, the Clearing House shall reimburse the Members (irrespective of

whether they remain Members at the time of the recovery) on a *pro rata* basis by reference to the resources which have been applied pursuant to each of the following Default Rules and in the following order: any net amount paid by a Member pursuant to Rules CS4, 15(h), 15(g), 15(e), and:

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

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

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



## PART A

### RATES SERVICE DEFAULT FUND SUPPLEMENT – SWAPCLEAR

S1. In this Part A to the ~~SwapClear Contributions to the~~ Rates Service ~~Default~~ Fund Supplement:

“Member Combined Loss Value” means, in respect of a SCM, a scenario and a business day, the uncovered stress loss determined by the Clearing House in respect of such day, such scenario and such SCM’s SwapClear Contracts, Portfolio Margined Contracts and FCM Portfolio Margined Contracts, where the Clearing House may, in determining such uncovered stress loss, take into account the number of alternative SCMs that clear SwapClear Contracts with respect to that SCM’s SwapClear Clearing Clients or FCM Clients;

“Largest Member Combined Loss Value” means, in respect of a SCM and a SwapClear Determination Date, the largest of the Member Combined Loss Values determined by the Clearing House in respect of each of the 20 business days preceding such SwapClear Determination Date;

“Total Member Combined Loss Value” means, in respect of a SwapClear Determination Date, the aggregate of the Largest Member Combined Loss Values determined by the Clearing House for each SCM in respect of such SwapClear Determination Date;

“Member Ratio” means, in respect of a SCM and a SwapClear Determination Date, the Largest Member Combined Loss Value determined by the Clearing House for such SCM divided by the Total Member Combined Loss Value in respect of such SwapClear Determination Date;

“Non-Tolerance Amount” means the Rates Service Fund Amount (SwapClear) minus the SwapClear Tolerance Amount;

“Notional Non-Tolerance Contribution” means, in respect of a SCM and a SwapClear Determination Date, the amount determined by the Clearing House for such SCM and in respect of such SwapClear Determination Date pursuant to Rule S2(b);

“Non-Tolerance Contribution” means, in respect of a SCM and a SwapClear Determination Date, the amount determined by the Clearing House for such SCM and in respect of such SwapClear Determination Date pursuant to Rule S2(c);

“Tolerance Contribution” means, in respect of a SCM and a SwapClear Determination Date, the amount determined by the Clearing House for such SCM and in respect of such SwapClear Determination Date pursuant to Rule S2(d);

“Tolerance Weight” means, in respect of an SCM and a SwapClear Determination Date:

- (i) the average SwapClear Tolerance Utilisation of the SCM during the 20 business days preceding such SwapClear Determination Date, which average shall equal (A) the aggregate of the peak SwapClear Tolerance

Utilisation of such SCM for each such business day, divided by (B) 20, provided that if any such peak SwapClear Tolerance Utilisation does not yet exist or is otherwise unavailable in respect of a business day for a SCM, the Clearing House shall estimate the relevant peak SwapClear Tolerance Utilisation by reference to the actual or expected level of clearing activity of such SCM in relation to SwapClear Contracts, divided by;

(ii) the aggregate of the average SwapClear Tolerance Utilisations for all Non-Defaulting SCMs in respect of such SwapClear Determination Date;

“Excess” means the amount (if any) by which the aggregate Notional Non-Tolerance Contributions exceed the Non-Tolerance Amount;

“Excess Ratio” means, in respect of a Weighted SCM, such Weighted SCM’s Notional Non-Tolerance Contribution divided by the aggregate Notional Non-Tolerance Contributions of all Weighted SCMs;

“Excess Deduction” means, in respect of a Weighted SCM and an Excess, the amount equal to such Excess multiplied by the Excess Ratio of such Weighted SCM;

“Weighted SCM” means a SCM for which its Notional Non-Tolerance Contribution is greater than £10 million;

"Shortfall" means the amount (if any) by which the Non-Tolerance Amount exceeds the aggregate Notional Non-Tolerance Contributions;

"Shortfall Ratio" means, in respect of a SCM, such SCM’s Notional Non-Tolerance Contribution divided by the aggregate Notional Non-Tolerance Contributions;

"Shortfall Contribution" means, in respect of a SCM and a Shortfall, the amount equal to such Shortfall multiplied by the Shortfall Ratio for such SCM;

"Total SwapClear Contributions" means, in respect of a day, the total SwapClear Contributions held by the Clearing House on such day;

"SwapClear Determination Date" shall have the meaning specified in Rule S2(a); and

"SwapClear Default Period" shall have the meaning specified in Rule S2(a).

[Note: These definitions will be re-ordered into alphabetical order before they are made effective.]

## S2. SwapClear Contributions to the Rates Service Default Fund

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

(a) determinations will be made by the Clearing House ~~on~~ as of the first business day of each month, and ~~at~~ the time on such day determined by the Clearing House, and otherwise in accordance with ~~paragraph (a) Rule S2(f)~~ below (each, a "**SwapClear Determination Date**") ~~on the basis of information available as at on the immediately preceding business day~~ and notified to ~~such~~ the relevant Member as soon as practicable after such determination in accordance with the Procedures. ~~In addition, the amount payable in respect of the SwapClear Contribution of an SCM which is a New Member will be determined on the date that the relevant New Member joins the SwapClear Service.~~ Notwithstanding the foregoing, following ~~the~~ a Default of a Rates Service Clearing Member, any determinations ~~on~~ as of a SwapClear Determination Date and any such SwapClear Determination Date which might otherwise have occurred under this Rule S42 shall be suspended for the duration of the period (the "**SwapClear Default Period**") commencing on the date of such Default and terminating on the later ~~to occur of the following times of~~ of:

(i) the time, as determined by the Clearing House, on the day falling 30 calendar days after the Rates Service Default Management Process Completion Date in relation to such Default (or, if such day is not a business day, the next succeeding business day); and

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

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

(b) ~~the value of the "SwapClear Tolerance Contribution Amount" of:~~ (x) ~~an SCM (other than an SCM which is a New Member) shall be~~ a SCM's Notional Non-Tolerance Contribution, in respect of a SwapClear Determination Date, shall equal the greater of:

- (i) the SCM's Member Ratio multiplied by the Non-Tolerance Amount; and
- (ii) £10 million;
- (c) ~~aA~~ SCM's Non-Tolerance Contribution, in respect of a SwapClear Determination Date, shall equal, if:
  - (i) no Shortfall or Excess exists, the amount of its Notional Non-Tolerance Contribution;
  - (ii) a Shortfall exists, the amount of its Notional Non-Tolerance Contribution plus its Shortfall Contribution; or
  - (iii) an Excess exists, the amount of its Notional Non-Tolerance Contribution minus its Excess Deduction (if any), except that if this would result in any Weighted SCM's Non-Tolerance Contribution being less than £10 million, then:
    - (A) such Weighted SCM's Non-Tolerance Contribution shall be £10 million; and
    - (B) if, after treating each SCM's Non-Tolerance Contribution calculated pursuant to Rule S2(c)(iii) as its Notional Non-Tolerance Contribution, an Excess still exists, the Clearing House shall apply Rule S2(c)(iii) again (where each SCM's Non-Tolerance Contribution calculated pursuant to Rule S2(c)(iii) will be treated as its Notional Non-Tolerance Contribution for the purpose of such re-application) to reduce the Non-Tolerance Contribution of each remaining Weighted SCM and shall (if necessary) repeat such process until there is no Excess, where the final calculated Non-Tolerance Contribution shall be the SCM's Non-Tolerance Contribution;
- (d) ~~aA~~ SCM's Tolerance Contribution, in respect of a SwapClear Determination Date, equals ~~calculated by multiplying~~ the SwapClear Tolerance Amount ~~multiplied~~ by ~~the SCM's SwapClear~~ its Tolerance Weight, provided that ~~(i)~~ where ~~that calculation results in a value which~~ this is:
  - (i) less than ~~or equal to~~ £4 million pounds, ~~or in the case of a New Member, the value of the relevant~~ SCM's ~~SwapClear~~ Tolerance Contribution ~~Amount~~ shall be £4 million pounds; and ~~(ii) where that calculation results in a value which is~~
  - (ii) greater than ~~or equal to~~ £30 million pounds, the ~~value of the relevant~~ SCM's ~~SwapClear~~ Tolerance Contribution ~~Amount~~ shall be £30 million pounds, ~~and (y) a New Member shall be £4 million pounds PROVIDED FURTHER~~

provided further that where, as a result of the adjustments in ~~individual SCM SwapClear~~ Tolerance Contributions ~~Amounts~~ as described in this ~~paragraph~~ Rule S2(d), the aggregate of the ~~SwapClear~~ Tolerance Contributions

~~Amounts~~ is greater or less than the SwapClear Tolerance Amount, the Clearing House will adjust SCMs' ~~individual SwapClear~~ Tolerance Contribution Amounts such that the aggregate of the ~~SwapClear~~ Tolerance Contributions equals the SwapClear Tolerance Amount;

- ~~(b) the "SwapClear Non-Tolerance Amount" shall be the value of that portion of the Rates Service Fund Amount SwapClear after deducting the SwapClear Tolerance Amount;~~
- ~~(c) the value of the "SwapClear Non-Tolerance Contribution Amount" for a given SCM (other than an SCM that is a New Member) shall be calculated by multiplying the SwapClear Non-Tolerance Amount by the aA SCM's SwapClear Contribution Non-Tolerance Weight; in~~
- ~~(d) the "SwapClear Non-Tolerance Weight" of an SCM shall be calculated by dividing (i) the Uncovered Stress Loss associated with such SCM's SwapClear Contracts and Portfolio Margined Contracts by (ii) the total Uncovered Stress Loss applied to all Non-Defaulting SCMs with respect to their SwapClear Contracts and Portfolio Margined Contracts, in each case where the SwapClear Contracts and Portfolio Margined Contracts are (A) entered into on the SCM's own behalf or with respect to a Clearing Client or an FCM Client and (B) open and outstanding during the 20 business day period preceding the relevant of a SwapClear Determination Date. An SCM's "Uncovered Stress Loss," as determined in accordance with the foregoing, shall be determined by the Clearing House (and notified to each SCM) from time to time by, *inter alia*, deducting the amount of eligible margin held by the Clearing House with respect to the relevant SwapClear Contracts and Portfolio Margined Contracts from the stress loss associated with such SwapClear Contracts and Portfolio Margined Contracts, **provided** that the Clearing House may, in determining the Uncovered Stress Loss of an SCM, take into account, *inter alia*, the number of alternative Clearing Members that clear SwapClear Contracts and/or Listed Interest Rates Contracts with respect to that SCM's Clearing Clients or FCM Clients. The provisions of this sub-paragraph (f) shall not apply to New Members and, for the avoidance of doubt, New Members shall not constitute Non-Defaulting SCMs for the purposes of limb (ii) of this sub-paragraph;~~
- ~~(e) the "SwapClear equals its Non-Tolerance Contribution" of: (x) an SCM (other than an SCM that is a New Member) shall be the sum of (i) that SCM's SwapClear Non-Tolerance plus its Tolerance Contribution Amount adjusted, where applicable, in accordance with paragraph (h) or (m) below, and (ii) that SCM's Tolerance Contribution Amount; and (y) an SCM that is a New Member shall be calculated in accordance with S3; and~~
- ~~(f) sSubject to a suspension pursuant to Rule S2(a), the Clearing House may recalculate the SwapClear Contribution of each SCM on any business day if the Clearing House determines (in its sole discretion) that this is necessary from a risk perspective and, in such case, such recalculation shall be in accordance with the Rates Service Default Fund Supplement.~~
- ~~(e) if an SCM's SwapClear Non-Tolerance Contribution Amount (calculated in accordance with paragraph (e) above) is below the Minimum Non-Tolerance~~

~~SwapClear Contribution for the time being, the SCM's SwapClear Non-Tolerance Contribution Amount shall be adjusted so as to equal the Minimum Non-Tolerance SwapClear Contribution; **provided that** where, as a result of the adjustments in individual SCM SwapClear Non-Tolerance Contribution Amounts as described in this paragraph, the aggregate of the SwapClear Non-Tolerance Contribution Amounts is greater than the SwapClear Non-Tolerance Amount, the Clearing House will adjust individual SwapClear Non-Tolerance Contribution Amounts such that the aggregate of the SwapClear Non-Tolerance Contributions equals the SwapClear Non-Tolerance Amount;~~

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

~~be entitled to require those SCMs whose portfolios have caused the increase in the Combined Loss Value to pay an additional amount in respect of their SwapClear Contributions.~~

~~S32.~~ For the purposes of ~~the calculations under~~ Rule ~~ES12~~:

- (a) references ~~to "SwapClear Clearing Members" or~~ to "SCMs" do not include references to Defaulting SCMs (apart from any Defaulting SCM in respect of which the Clearing House permits the application of Rule ~~ES12~~) or persons which were formerly SCMs but are not SCMs at the SwapClear Determination Date ~~as of~~<sup>at</sup> which the relevant determination is made;
- (b) contributions ~~shall~~<sup>may</sup> be rounded upwards ~~by the Clearing House~~, if not already such a multiple, to the next integral multiple of one thousand pounds, notwithstanding that the arithmetical sum of SwapClear Contributions paid by all SCMs may thereby exceed the ~~Rates Service Fund Amount (SwapClear) Fund Cap~~; ~~and~~
- ~~(c)~~ ~~no account shall be taken, in calculating initial margin or SwapClear Non-Tolerance Weight under Rule S1 the SwapClear Contribution of this part A of any offsets applied in calculating initial margin obligations imposed on an SCM of a New Member in respect of the SwapClear Contracts, which may otherwise be permissible under the Procedures or other arrangements applicable;~~
- ~~(d)~~<sup>(c)</sup> ~~provided that the SCMService is not a Defaulter, the amount of its SwapClear Contribution shall be calculated in accordance with and subject to Rule S1 of this Part A. The provisions of Rule S1 of this Part A and this Rule do not apply to a Defaulting SCM, unless determined by the Clearing House so permits in any particular case; pursuant to Rule S4 and references to "SCMs" for the purposes of Rule S2(b) to (e) (including the defined terms used in such provisions) do not include a New Member in respect of the SwapClear Service or the FCM SwapClear Service; and~~
- ~~(e)~~<sup>(d)</sup> if (i) an SCM (other than an FCM Clearing Member) notifies the Clearing House on the Rates Service Default Management Process Completion Date or the business day occurring immediately after such date that it wishes to resign from the SwapClear Service, (ii) the SwapClear AET Requirement in respect of such proposed resignation has been satisfied by the SwapClear Determination Date occurring immediately after such Rates Service Default Management Process Completion Date, (iii) the SCM is not a Defaulter, and (iv) no Default ~~of a Rates Service Clearing Member~~ has occurred from and including the SwapClear Determination Date referred to in Rule ~~S23~~<sup>(ed)</sup>(ii) to and including the fourth business day occurring after such SwapClear Determination Date ("**SwapClear Contribution Payment Date**"), then the SCM shall cease to be an SCM on and from such SwapClear Contribution Payment Date and the Clearing House shall repay the SwapClear Contribution that it holds for such SCM (to the extent it has not been applied under these Default Rules) in accordance with the Procedures and the SCM shall not be obliged to make any payment to the Clearing House under Rule ~~S54~~<sup>(c)</sup>. If an SCM notifies the Clearing House in accordance with Rule ~~S23~~<sup>(ed)</sup>(i), but the requirements under Rules ~~S32~~<sup>(ed)</sup>(ii),

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

~~S43.~~ Without prejudice to any other requirements which the Clearing House may impose, the amount of the SwapClear Contribution of a New Member ~~shall in respect of the sum of (a) the Minimum Non Tolerance SwapClear Contribution; (b) the Service or FCM SwapClear Tolerance Contribution Amount; and (c) Service shall equal £14 million and~~ any supplementary sum determined by the Clearing House in its discretion and notified to ~~such~~ the New Member. - The Clearing House shall determine the amount of such supplementary sum by reference to the actual or expected level of clearing activity of the New Member in respect of the SwapClear Service or FCM SwapClear Service. The SwapClear Contribution of such New Member shall be determined by the Clearing House as of the date it joins the SwapClear Service or FCM SwapClear Service and it shall be liable to pay its SwapClear Contribution pursuant to this Rule S4 at the time specified by the Clearing House (and not pursuant to Rule S5).

~~S54.~~ Upon determination of the amount of a SwapClear Contribution in accordance with Rule ~~S21 of this Part A:~~

- (a) if the amount of the SwapClear Contribution of an SCM immediately before the time ~~at as of~~ which the Clearing House determines the SCM's SwapClear Contribution under Rule ~~S4~~ on the relevant SwapClear Determination Date exceeds the amount of the SCM's SwapClear Contribution as so determined, the excess shall be paid by the Clearing House to such SCM in accordance with the Procedures;
- (b) if the amount of the SwapClear Contribution of an SCM immediately before the time ~~as of at~~ which the Clearing House determines the SCM's SwapClear Contribution under Rule ~~S21~~ on the relevant SwapClear Determination Date is the same as the amount of the SCM's SwapClear Contribution as so determined, no sum shall then be payable by or to such SCM in respect of its Contribution; and
- (c) if the amount of the SwapClear Contribution of an SCM immediately before the time ~~as of at~~ which the Clearing House determines the SCM's SwapClear Contribution under Rule ~~S21~~ on the relevant SwapClear Determination Date is less than the amount of the SCM's SwapClear Contribution as so determined, the shortfall shall be paid by such SCM to the Clearing House in accordance with the Procedures.

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

~~S65.~~ On ~~each any~~ day interest shall accrue on the amount of each SwapClear Contribution held by the Clearing House, to the extent that it has not been applied under Rules 19 or 21 of the Default Rules, in such manner as provided by the Procedures and at a SONIA-linked rate determined, in light of market conditions at such time, by the Clearing House from time to time and notified by the Clearing House to SwapClear Clearing Members. Interest shall be payable in ~~arrear arrears~~ and shall be paid on the date or dates specified by the Procedures. ~~In these Default Rules a~~ Any interest which has accrued under this Rule shall not be ~~regarded as~~ part of ~~the a~~ SwapClear Contribution. For the avoidance



of doubt, if the rate of interest payable on SwapClear Contributions is negative, interest shall be payable by SwapClear Clearing Members to the Clearing House.

S76.

- (a) After a Default, unless and until the Clearing House has repaid a Defaulter's SwapClear Contribution (or the remaining part thereof, as applicable), the ~~Rates Service Fund Amount—Total~~ SwapClear Contributions shall be ~~treated as having been~~ reduced by the amount of the Defaulter's SwapClear Contribution (if any), regardless of whether the Clearing House has applied part or all of that SwapClear Contribution under the Default Rules.
- (b) Where, after a Default, the Clearing House has applied part or all of the SwapClear Contributions of the Non-Defaulting SCMs under Rule 21 of the Default Rules, the ~~Rates Service Fund Amount—Total~~ SwapClear Contributions shall be reduced ~~forthwith~~ by the deduction of (i) the amount of the Defaulter's SwapClear Contribution (if any) in accordance with paragraph (a) of this Rule S76; and (ii) the aggregate amount of the SwapClear Contributions or parts of SwapClear Contributions of the Non-Defaulting SCMs so applied, and the amount of the SwapClear Contribution that each Non-Defaulting SCM must maintain with the Clearing House shall be reduced by the amount of its SwapClear Contribution which has been so applied, in each case, until the next SwapClear Determination Date and subject to (where applicable) the requirement under Rule S87 and Rule CS7.

~~(c) — [reserved].~~

S87. Where, after a Default, the Clearing House determines that (i) by reason of a reduction in accordance with Rule S76, the ~~value of the Rates Service Fund Amount—Total~~ SwapClear ~~has~~Contributions have been reduced by at least 25 per cent.; or (ii) by the time of the Rates Service Default Management Process Completion Date in relation to the relevant Default ~~the Total~~~~the value of the Rates Service Fund Amount—~~ SwapClear Contributions will be reduced by at least 25 per cent., the Clearing House may, by notice in writing (~~each, at~~ **"SwapClear Unfunded Contribution Notice"**), require each Non-Defaulting SCM to deposit and maintain an amount (each a **"SwapClear Unfunded Contribution"**) in accordance with the following provisions:

- (a) SwapClear Unfunded Contributions will only be payable in circumstances where the relevant SwapClear Unfunded Contribution Notice is delivered by the Clearing House to SCMs prior to the Rates Service Default Management Process Completion Date in relation to the relevant Default;
- (b) the value amount of the SwapClear Unfunded Contribution payable by each individual SCM shall be the product of (i) the percentage by which the ~~value of the Rates Service Fund Amount—Total~~ SwapClear ~~has~~Contributions have been, or will be, reduced, and (ii) the value amount of the SwapClear Contribution of such SCM as ~~at~~determined by the Clearing House pursuant to the Rates Service Default Fund Supplement as of the last SwapClear Determination Date prior to the date when the relevant Default occurred (or, in respect of an SCM that joined the SwapClear Service or FCM SwapClear Service after such SwapClear Determination Date, the amount of its SwapClear Contribution determined by

the Clearing House pursuant to the Rates Service Default Fund Supplement as of the date on which it joined the SwapClear Service or FCM SwapClear Service);

- (c) the Clearing House may, by the delivery of one or more further SwapClear Unfunded Contribution Notices, require each Non-Defaulting SCM to pay one or more further SwapClear Unfunded Contributions in respect of the same Default, **provided that** the total value of the SwapClear Unfunded Contributions payable by an individual SCM in respect of a particular Default (determined in accordance with paragraph (b) above) may not exceed the value of the SwapClear Contribution of such SCM as at the last SwapClear Determination Date prior to the date when the relevant Default occurred; ~~and~~ (or, in respect of a SCM that joined the SwapClear Service or FCM SwapClear Service after such SwapClear Determination Date, the amount of its SwapClear Contribution determined by the Clearing House pursuant to the SwapClear Default Fund Supplement as of the date on which it joined the SwapClear Service or FCM SwapClear Service);
- (d) following a Default in respect of which SwapClear Unfunded Contributions were paid (the "**First Default**"), the Clearing House may require the payment of further SwapClear Unfunded Contributions in respect of subsequent Defaults, (which, for the avoidance of doubt, can never be a First Default), **provided that** SwapClear Unfunded Contributions will not be payable in respect of any more than three Defaults in any six month period (commencing on, and including, the date of ~~delivery of the first SwapClear Unfunded Contribution Notice in respect of~~ the First Default); and
- (e) SCMs will be required to deposit the full amount of their SwapClear Unfunded Contributions (without exercising any rights of set-off or counterclaim) with the Clearing House on the business day following the receipt of a SwapClear Unfunded Contribution Notice.

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

## PART B

### RATES SERVICE DEFAULT FUND SUPPLEMENT – LISTED INTEREST RATES

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

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

"Member Combined Loss Value" means, in respect of a Listed Interest Rates Clearing Member, a scenario and a business day, the uncovered stress loss determined by the Clearing House in respect of such day, such scenario and such Listed Interest Rates Clearing Member's Listed Interest Rates Contracts (excluding Portfolio Margined Contracts and FCM Portfolio Margined Contracts), where the Clearing House may, in determining such uncovered stress loss, take into account the number of alternative Listed Interest Rates Clearing Members that clear Listed Interest Rates Contracts with respect to that Listed Interest Rates Clearing Member's Listed Interest Rates Clearing Clients or FCM Clients;

"Largest Member Combined Loss Value" means, in respect of a Listed Interest Rates Clearing Member and a Listed Interest Rates Determination Date, the largest of the Member Combined Loss Values determined by the Clearing House in respect of each of the 20 business days preceding such Listed Interest Rates Determination Date;

"Initial Amount" means, in respect of a Listed Interest Rates Clearing Member and a Listed Interest Rates Determination Date, the greater of:

(i) the Largest Member Combined Loss Value; and

(ii) £2 million;

"Total Member Initial Amounts" means, in respect of a Listed Interest Rates Determination Date, the aggregate of the Initial Amounts determined by the Clearing House for each Listed Interest Rates Clearing Member in respect of such Listed Interest Rates Determination Date;

"Member Ratio" means, in respect of a Listed Interest Rates Clearing Member and a Listed Interest Rates Determination Date, the Initial Amount for such Listed Interest Rates Clearing Member divided by the Total Member Initial Amounts in respect of such Listed Interest Rates Determination Date;

"Notional Contribution" means, in respect of a Listed Interest Rates Clearing Member and a Listed Interest Rates Determination Date, the amount determined by the Clearing House for such Listed Interest Rates Clearing Member and in respect of such Listed Interest Rates Determination Date pursuant to Rule L2(b);

"Listed Interest Rates Contribution" means, in respect of a Listed Interest Rates Clearing Member and a Listed Interest Rates Determination Date, the amount

determined by the Clearing House for such Listed Interest Rates Clearing Member and in respect of such Listed Interest Rates Determination Date pursuant to Rule L2(c);

“Excess” means the amount (if any) by which the aggregate Notional Contributions exceed the Rates Service Fund Amount (Listed Interest Rates);

“Excess Ratio” means, in respect of a Weighted Listed Interest Rates Clearing Member, such Weighted Listed Interest Rates Clearing Member’s Notional Contribution divided by the aggregate Notional Contributions of all Weighted Listed Interest Rates Clearing Members;

“Excess Deduction” means, in respect of a Weighted Listed Interest Rates Clearing Member and an Excess, the amount equal to such Excess multiplied by the Excess Ratio of such Weighted Listed Interest Rates Clearing Member;

"Weighted Listed Interest Rates Clearing Member" means a Listed Interest Rates Clearing Member for which its Notional Contribution is greater than £2 million;

“Shortfall” means the amount (if any) by which the Rates Service Fund Amount (Listed Interest Rates) exceeds the aggregate Notional Contributions;

“Shortfall Ratio” means, in respect of a Listed Interest Rates Clearing Member, such Listed Interest Rates Clearing Member’s Notional Contribution divided by the aggregate Notional Contributions;

“Shortfall Contribution” means, in respect of a Listed Interest Rates Clearing Member and a Shortfall, the amount equal to such Shortfall multiplied by the Shortfall Ratio for such Listed Interest Rates Clearing Member;

“Total Listed Interest Rates Contributions” means, in respect of a day, the total Listed Interest Rates Clearing Member Contributions held by the Clearing House on such day;

"Listed Interest Rates Determination Date" shall have the meaning specified in Rule L2(a);

"Listed Interest Rates Default Period" shall have the meaning specified in Rule L2(a); and

~~“Default Fund Floor” equals the greater of (i) GBP 10,000,000 and (ii) the Minimum Contribution multiplied by the number of Members~~

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

~~“Excess” means the amount (if any) by which the aggregate Notional Contributions exceeds the Rates Service Fund Amount— Listed Interest Rates~~

~~“Excess Deduction” means, in respect of a Weighted Member and an Excess, the amount equal to such Excess multiplied by the Excess Ratio for such Weighted Member~~

~~“Excess Ratio” means, in respect of a Weighted Member, such Weighted Member’s Notional Contribution divided by the aggregate Notional Contributions of all Weighted Members~~

~~“Excess Loss” means the Listed Interest Rates Excess Loss~~

~~“Listed Interest Rates AET Requirement” means, in respect of a Listed Interest Rates Clearing Member, that all of the Listed Interest Rates Contracts (including other than Portfolio Margined Contracts and FCM Portfolio Margined Contracts) in the name of such Listed Interest Rates Clearing Member have been closed out or transferred to another Clearing Member~~

~~“Member” means a Listed Interest Rates Clearing Member and a Clearing Member approved to clear a Specified Market Member.~~

[Note: These definitions will be re-ordered into alphabetical order before they are made effective.]

~~“Minimum Contribution” means GBP 2,000,000~~

~~“Non-Defaulting Clearing Member” means a Member that is not a Defaulter under Rule 4 of the Default Rules~~

~~“Notional Contribution” means the amount calculated pursuant to Rule L2(b) and (c)~~

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

~~“Shortfall” means the amount (if any) by which the Rates Service Fund Amount—Listed Interest Rates exceeds the aggregate Notional Contributions~~

~~“Shortfall Contribution” means, in respect of a Member and a Shortfall, the amount equal to such Shortfall multiplied by the Shortfall Ratio for such Member~~

~~“Shortfall Ratio” means, in respect of a Member, such Member’s Notional Contribution divided by the aggregate Notional Contributions~~

~~“Specified Market” means any Rates Exchange and any other market from time to time specified by the Clearing House~~

~~“Weighted Member” means a Member for which its Notional Contribution is not the Minimum Contribution~~

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

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

L2. **Listed Interest Rates Contributions to the Rates Service Default Fund**

The Clearing House shall determine each Listed Interest Rates Clearing Member's Listed Interest Rates Contribution (other than any Listed Interest Rates Unfunded Contribution or any Supplementary Contribution) in accordance with the following provisions:

- (a) ~~The amount of each Member's Contribution shall be determined by the Clearing House and determinations will be made by the Clearing House as of~~ the first business day of each month and ~~at~~ the time on such day determined by the Clearing House, and otherwise in accordance with ~~paragraph~~ Rule L2-(d) below (each, a "**Listed Interest Rates Determination Date**") ~~on the basis of information available on the immediately preceding business day~~ and notified to ~~such~~ the relevant Member as soon as practicable after such determination in accordance with the Procedures. ~~In addition, the amount payable in respect of the Contribution of a Member that is a New Member will be determined as at the date that it joins the Service.~~ Notwithstanding the foregoing, following a Default of a Rates Service Clearing Member, any determinations ~~on~~ as of a Listed Interest Rates Determination Date and any such Listed Interest Rates Clearing Member Determination Date which might otherwise have occurred under this Rule L2~~(a)~~ shall be suspended for the duration of the period (the "**Listed Interest Rates Default Period**") commencing on the date of such Default and terminating on the later ~~to occur of the following times:~~
- (i) the time, as determined by the Clearing House, on the day falling 30 calendar days after the Listed Interest Rates Service ~~Default Management Process Completion Date~~ in relation to such Default (or, if such day is not a business day, the next succeeding business day); and
- (ii) where, prior to the end of the period referred to in sub-paragraph (i) above (or such period as has already been extended pursuant to this sub-paragraph (ii)) the subsequent Default of one or more subsequent Defaults Rates Service Clearing Member(s) (each a "**Relevant Default**") occurs, the time, as determined by the Clearing House, on the day falling 30 calendar days after the Listed Interest Rates Service ~~Default Management Process Completion Date~~ in relation to at the Relevant Default which falls latest in time (or, if such day is not a business day, the next succeeding business day);
- (b) A Listed Interest Rates Clearing Member's Notional Contribution, in respect of a Listed Interest Rates Determination Date, shall equal the greater of: ~~Member's~~
- (i) the Listed Interest Rates Clearing Member's Member Ratio multiplied by the Rates Service Fund Amount (Listed Interest Rates); and
- (ii) £2 million;
- (c) A Listed Interest Rates Clearing Member's Listed Interest Rates Contribution, in respect of a Listed Interest Rates Determination Date, shall equal, if:
- (i) no Shortfall or Excess exists, the amount of its Notional Contribution;

- (ii) a Shortfall exists, the amount of its Notional Contribution plus its Shortfall Contribution; or
- (iii) an Excess exists, the amount of its Notional Contribution minus its Excess Deduction (if any), except that if this would result in any Weighted Listed Interest Rates Clearing Member's Contribution being less than £2 million, then:

  - (A) such Weighted Listed Interest Rates Clearing Member's Listed Interest Rates ~~Notional~~ Contribution shall be £2 million; and
  - (B) if, after treating each Listed Interest Rates Clearing Member's Contribution calculated pursuant to Rule L2(c)(iii) as its Notional Contribution, an Excess still exists, the Clearing House shall apply Rule L2(c)(iii) again (where each Listed Interest Rates Clearing Member's Contribution calculated pursuant to Rule L2(c)(iii) will be treated as its Notional Contribution for the purpose of such re-application) to reduce the Listed Interest Rates Contribution of each remaining Weighted Listed Interest Rates Clearing Member and shall (if necessary) repeat such process until there is no Excess, where the final calculated Listed Interest Rates Contribution shall be the Listed Interest Rates Clearing Member's Contribution;
- (d) Subject to a suspension pursuant to Rule L2(a), the Clearing House may recalculate the Listed Interest Rates Contribution of each Listed Interest Rates Clearing Member on any business day if Clearing House determines (in its sole discretion) that this is necessary from a risk perspective and, in such case, such recalculation shall be in accordance with the Rates Service Default Fund Supplement.

L3. For the purposes of Rule L2:

- (a) references to “Listed Interest Rates Clearing Members” do not include references to Defaulters (apart from any Defaulter in respect of which the Clearing House permits the application of this Rule) or persons which were formerly Listed Interest Rates Clearing Members but are not Listed Interest Rates Clearing Members on the date on which the relevant calculation is made;
- (b) contributions may be rounded upwards by the Clearing House, if not already such a multiple, to the next integral multiple of one thousand pounds, notwithstanding that the arithmetical sum of Listed Interest Rates Contributions paid by all Listed Interest Rates Clearing Members may thereby exceed the Rates Service Fund Amount (Listed Interest Rates);
- (c) the Listed Interest Rates Contribution of a New Member in respect of the Listed Interest Rates Service is determined by the Clearing House pursuant to Rule L4 and references to “Listed Interest Rates Clearing Members” for the purposes of Rule L2(b) to (c) (including the defined terms used in such provisions) do not include a New Member in respect of the Listed Interest Rates Service or FCM Listed Interest Rates Service; and

(d) if (i) a Listed Interest Rates Clearing Member (other than an FCM Clearing Member) notifies the Clearing House on the Rates Service Default Management Process Completion Date or the business day occurring immediately after such date that it wishes to resign from the Listed Interest Rates Service, (ii) the Listed Interest Rates AET Requirement in respect of such proposed resignation has been satisfied by the Listed Interest Rates Determination Date occurring immediately after such Rates Service Default Management Process Completion Date, (iii) the Listed Interest Rates Clearing Member is not a Defaulter, and (iv) no Default of a Rates Service Clearing Member has occurred from and including the Listed Interest Rates Determination Date referred to in Rule L3(d)(ii) to and including the fourth business day occurring after such Determination Date (“Listed Interest Rates Contribution Payment Date”), then the Listed Interest Rates Clearing Member shall cease to be a Listed Interest Rates Clearing Member on and from such Listed Interest Rates Contribution Payment Date and the Clearing House shall repay the Listed Interest Rates Contribution that it holds for such Listed Interest Rates Clearing Member (to the extent it has not been applied under these Default Rules) in accordance with the Procedures and the Listed Interest Rates Clearing Member shall not be obliged to make any payment to the Clearing House under Rule L5(c). If a Member notifies the Clearing House in accordance with Rule L3(d)(i), but the requirements under Rules L3(d)(ii), (iii) and/or (iv) are not satisfied, then such Listed Interest Rates Clearing Member will cease to be a Resigning Member in respect of the Listed Interest Rates Service.

L4. Without prejudice to any other requirements which the Clearing House may impose, the amount of the Listed Interest Rates Contribution of a New Member in respect of the Listed Interest Rates Service or FCM Listed Interest Rates Service shall equal £2 million and any supplementary sum determined by the Clearing House in its discretion and notified to the New Member. The Clearing House shall determine the amount of such supplementary sum by reference to the actual or expected level of clearing activity of the New Member in respect of the Listed Interest Rates Service or FCM Listed Interest Rates Service. The Listed Interest Rates Contribution of such New Member shall be determined by the Clearing House as of the date it joins the Listed Interest Rates Service or FCM Listed Interest Rates Service and it shall be liable to pay its Listed Interest Rates Contribution pursuant to this Rule L4 at the time specified by the Clearing House (and not pursuant to Rule L5).

L5. Upon determination of the amount of a Listed Interest Rates Contribution on a Listed Interest Rates Determination Date:

(a) if the amount of the Listed Interest Rates Contribution of a Listed Interest Rates Clearing Member immediately before the time as of which the Clearing House determines the Listed Interest Rates Clearing Member’s Contribution under Rule L2 on the Listed Interest Rates Determination Date exceeds the amount of the Listed Interest Rates Clearing Member’s Listed Interest Rates Contribution as so determined, the excess shall be paid by the Clearing House to the Listed Interest Rates Clearing Member in accordance with the Procedures;

(b) if the amount of the Listed Interest Rates Contribution of a Listed Interest Rates Clearing Member immediately before the time as of which the Clearing House determines the Listed Interest Rates Clearing Member’s Listed Interest Rates



Contribution under Rule L2 on the Listed Interest Rates Determination Date is the same as the amount of the Listed Interest Rates Member's Listed Interest Rates Contribution as so determined, no sum shall then be payable by or to the Member in respect of its Listed Interest Rates Contribution; and

- (c) if the amount of the Listed Interest Rates Contribution of a Listed Interest Rates Member immediately before the time as of which the Clearing House determines the Listed Interest Rates Member's Listed Interest Rates Contribution under Rule L2 on the Listed Interest Rates Determination Date is less than the amount of the Listed Interest Rates Member's Listed Interest Rates Contribution as so determined, the shortfall shall be paid by the Listed Interest Rates Member to the Clearing House in accordance with the Procedures.

The provisions of this Rule do not apply to a Listed Interest Rates Member which is a Defaulter, unless the Clearing House so requires in a particular case.

- L6. On each day interest shall accrue on the amount of each Listed Interest Rates Contribution held by the Clearing House, to the extent that it has not been applied under Rule 19 or Rule 21 of the Default Rules, at such rate and in such manner as provided by the Procedures, provided that the rate of interest for any particular day shall be based on a market-recognised benchmark rate plus or minus a spread. Such rate and such spread shall be determined, in light of market conditions at such time, by the Clearing House from time to time and notified by the Clearing House to Listed Interest Rates Members. Interest shall be payable in arrears and shall be paid on the date or dates specified by the Procedures. Any interest which has accrued under this Rule shall not be part of a Listed Interest Rates Contribution. For the avoidance of doubt, if the rate of interest payable on Listed Interest Rates Contributions is negative, interest shall be payable by Listed Interest Rates Clearing Members to the Clearing House.

L7.

- (a) After a Default, unless and until the Clearing House has repaid a Defaulter's Listed Interest Rates Contribution (or the remaining part thereof, as applicable), the Total Listed Interest Rates Contributions shall be reduced by the amount of the Defaulter's Listed Interest Rates Contribution (if any), regardless of whether the Clearing House has applied part or all of that Listed Interest Rates Contribution under the Default Rules.
- (b) Where, after a Default, the Clearing House has applied part or all of the Listed Interest Rates Contributions of the Non-Defaulting Listed Interest Rates Clearing Members under Rule 21 of the Default Rules, the Total Listed Interest Rates Contributions shall be reduced by the deduction of (i) the amount of the Defaulter's Listed Interest Rates Contribution (if any) in accordance with paragraph (a) of this Rule L7, and (ii) the aggregate amount of the Listed Interest Rates Contributions or parts of Listed Interest Rates Contributions of the Non-Defaulting Listed Interest Rates Clearing Members so applied, and the amount of the Listed Interest Rates Contribution that each Non-Defaulting Listed Interest Rates Clearing Member must maintain with the Clearing House shall be reduced by the amount of its Listed Interest Rates Contribution which has been so applied, in each case, until the next Listed Interest Rates Determination

Date and subject to (where applicable) the requirement under Rule S8 and Rule CS7.

L8. Where, after a Default, the Clearing House determines that (i) by reason of reduction in accordance with Rule L7 (i) the Total Listed Interest Rates Contributions have been reduced by at least 25 per cent., or (ii) by the time of the Rates Service Default Management Completion Notice in relation to the relevant Default, the Total Listed Interest Rates Contributions will have been so reduced, the Clearing House may, by notice in writing (each, a "**Listed Interest Rates Unfunded Contribution Notice**"), require each Non-Defaulting Listed Interest Rates Clearing Member to deposit and maintain an amount (each, a "**Listed Interest Rates Unfunded Contribution**") in accordance with this Rule:

(a) Listed Interest Rates Unfunded Contributions will only be payable in circumstances where the relevant Listed Interest Rates Unfunded Contribution Notice is delivered by the Clearing House to Listed Interest Rates Members before a Rates Service Default Management Completion Notice in relation to the relevant Default;

(b) the amount of the Listed Interest Rates Unfunded Contribution payable by each individual Listed Interest Rates Clearing Member shall be the product of (i) the percentage by which the Total Listed Interest Rates Contributions have been, or will be, reduced, and (ii) the amount of the Listed Interest Rates Contribution of such Listed Interest Rates Clearing Member calculated pursuant to the Rates Service Default Fund Supplement as of the last Listed Interest Rates Determination Date prior to the date when the relevant Default occurred (or, in respect of a Listed Interest Rates Clearing Member that joined the Listed Interest Rates Service or FCM Listed Interest Rates Service after such Listed Interest Rates Determination Date, the amount of its Listed Interest Rates Contribution determined by the Clearing House pursuant to the Rates Service Default Fund Supplement as of the date on which it joined the Listed Interest Rates Service or FCM Listed Interest Rates Service);

(c) the Clearing House may, by the delivery of one or more further Listed Interest Rates Unfunded Contribution Notices, require each Non-Defaulting Listed Interest Rates Clearing Member to pay one or more further Listed Interest Rates Unfunded Contributions in respect of the same Default, provided that the total value of the Listed Interest Rates Unfunded Contributions payable by an individual Listed Interest Rates Clearing Member in respect of a particular Default (determined in accordance with paragraph (b) above) may not exceed the value of the Listed Interest Rates Contribution of such Listed Interest Rates Clearing Member as at the last Listed Interest Rates Determination Date prior to the date when the relevant Default occurred (or, in respect of a Listed Interest Rates Clearing Member that joined the Listed Interest Rates Service or FCM Listed Interest Rates Service after such Listed Interest Rates Determination Date, the amount of its Listed Interest Rates Contribution determined by the Clearing House pursuant to the Rates Service Default Fund Supplement as of the date on which it joined the Listed Interest Rates Service or FCM Listed Interest Rates Service);

- (d) following a Default in respect of which Listed Interest Rates Unfunded Contributions were paid (the "First Default"), the Clearing House may require the payment of further Listed Interest Rates Unfunded Contributions in respect of subsequent Defaults, (which, for the avoidance of doubt, can never be a First Default), provided that Listed Interest Rates Unfunded Contributions will not be payable in respect of any more than three Defaults in any six month period (commencing on the date of the First Default); and
- (e) Listed Interest Rates Clearing Members will be required to deposit the full amount of their Listed Interest Rates Unfunded Contributions (without exercising any rights of set-off or counterclaim) with the Clearing House on the business day following the receipt of a Listed Interest Rates Unfunded Contribution Notice.

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

- ~~(A) — determined with reference to business conducted by it on the Specified Markets in Contracts as follows (other than Portfolio Margined Contracts):~~
- ~~(iii) — the Member's "End of Day Margin Weight" shall be calculated by dividing the average daily initial margin obligation at the end of each day (as calculated under the Procedures or other arrangements applicable) which has applied to the Member during the Reference Period in respect of all Contracts (other than Portfolio Margined Contracts) by the total of such average daily obligations applied to all Members other than Defaulters;~~
- ~~(iv) — the Member's "Peak Intra-Day Margin Weight" shall be calculated by dividing the average maximum intra-day initial margin obligation arising at any point during each day during the Reference Period (as calculated under the Procedures or other arrangements applicable) which has applied to the Member in respect of all Contracts (other than Portfolio Margined Contracts) by the total of such average maximum intra-day obligations applied to all Members other than Defaulters;~~
- ~~(v) — the Member's "Weight Factor" shall be calculated by adding one half of its End of Day Margin Weight to one half of its Peak Intra-Day Margin Weight,~~
- ~~(b) — A Member's Notional Contribution shall be the greater of the:~~
- ~~(i) — Weighted Rates Service Fund Amount multiplied by the Member's Weight Factor; and~~
- ~~(ii) — Minimum Contribution.~~

- ~~(e) — A Member's Minimum Contribution shall be as follows: If:~~
- ~~(i) — no Shortfall or Excess exists, then the Member's Contribution shall equal its Notional Contribution;~~
  - ~~(ii) — a Shortfall exists, then the Member's Contribution shall equal its Notional Contribution plus its Shortfall Contribution; or~~
  - ~~(iii) — an Excess exists, then the Member's Contribution shall equal its Notional Contribution less its Excess Deduction (if any), except that if this would result in any Weighted Member's Contribution being less than the Minimum Contribution, then:
    - ~~(A) — such Weighted Member's Contribution shall be the Minimum Contribution, at which point will cease to be a Weighted Member; and~~
    - ~~(B) — if, after treating each Member's Contribution calculated pursuant to Rule L2(d)(iii) above as its Notional Contribution, an Excess still exists, the Clearing House shall apply Rule L2(d)(iii) again (where each Member's Contribution calculated pursuant to Rule L2(d)(iii) above will be treated as its Notional Contribution for the purpose of such re-application) to reduce the Contribution of each remaining Weighted Member and shall (if necessary) repeat such process until there is no Excess, where the final calculated Contributions shall be the Members' Contributions.~~~~

~~For the purposes of the calculations under Rule L2:~~

- ~~(i) — "**Reference Period**" means the period of three calendar months immediately before the Determination Date;~~
- ~~(ii) — references to "**Members**" do not include references to Defaulters (apart from any Defaulter in respect of which the Clearing House permits the application of this Rule) or persons which were formerly Members but are not Members on the date on which the relevant calculation is made;~~
- ~~(iii) — Contributions shall be rounded upwards, if not already such a multiple, to the next integral multiple of one thousand pounds;~~
- ~~(iv) — no account shall be taken, in calculating initial margin or Margin Weight under Rule L2(b) of any offsets applied in calculating the initial margin obligations imposed on Members in respect of Contracts, which may otherwise be permissible under the Procedures or other arrangements applicable; and~~
- ~~(v) — the Contribution of a New Member is calculated pursuant to Rule L2(f), not Rule L2(b) to (d), and references to "**Members**" for the purposes of Rule L2(b) to (d) and the definitions used within such paragraphs do not include a New Member.~~

- ~~(e) Without prejudice to any other requirements which the Clearing House may impose, the amount of the Contribution of a New Member shall be the sum of:
  - ~~(i) the Minimum Contribution; and~~
  - ~~(ii) any supplementary sum determined by the Clearing House in its discretion and notified to the New Member. The Clearing House shall determine the amount of such supplementary sum by reference to the actual or expected level of clearing activity of the New Member.~~~~
- ~~(d) Except to the extent that the cap specified in paragraph (e) of Rule L5 would be exceeded, the Clearing House may recalculate the Contributions due from certain Members on any business day other than one falling between the date of a Default and the later of the two dates set out in paragraph (a) of this Rule L2, in the following circumstances:
  - ~~(i) if the Combined Loss Value determined under paragraph (b) of Rule CS1 on that day deviates by more than 25 per cent. upwards or downwards from the Combined Loss Value on which the previous Contribution determination was based, on such business day, the Clearing House shall be entitled to make an adjustment upwards or downwards to the Rates Service Fund Amount Listed Interest Rates commensurate with the deviation;~~
  - ~~(ii) where the Risk Committee considers (for any reason) that a recalculation is warranted between Determination Dates.~~~~

### ~~L3. Interest on Listed Interest Rates Contributions~~

~~On each day interest shall accrue on the amount of each Contribution held by the Clearing House, to the extent that it has not been applied under Rule 26 or Rule 28 of the Default Rules, at such rate and in such manner as provided by the Procedures, provided that the rate of interest for any particular day shall be based on a market-recognised benchmark rate plus or minus a spread. Such rate and such spread shall be determined, in light of market conditions at such time, by the Clearing House from time to time and notified by the Clearing House to Members. Interest on Contributions shall be payable in arrears and shall be paid on the date or dates specified by the Procedures. Any interest which has accrued under this Rule shall not be regarded as part of a Contribution.~~

### ~~L4. Payment of Listed Interest Rates Contributions~~

- ~~(a) Upon determination of the amount of a Contribution on a Determination Date:
  - ~~(i) if the amount of the Contribution of a Member immediately before the time at which the Clearing House determines the Member's Contribution under Rule L2 on the Determination Date exceeds the amount of the Member's Contribution as so determined, the excess shall be paid by the Clearing House to the Member in accordance with the Procedures;~~~~

- ~~(ii) — if the amount of the Contribution of a Member immediately before the time at which the Clearing House determines the Member's Contribution under Rule L2 on the Determination Date is the same as the amount of the Member's Contribution as so determined, no sum shall then be payable by or to the Member in respect of its Contribution; and~~
  - ~~(iii) — if the amount of the Contribution of a Member immediately before the time at which the Clearing House determines the Member's Contribution under Rule L2 on the Determination Date is less than the amount of the Member's Contribution as so determined, the shortfall shall be paid by the Member to the Clearing House in accordance with the Procedures.~~
- ~~(b) — The provisions of this Rule do not apply to a Member which is a Defaulter, unless the Clearing House so requires in any particular case.~~

#### ~~L5. — Unfunded Contributions~~

- ~~(a) — On any business day after the occurrence of a Default, if the Clearing House determines that by reason of reduction in accordance with Rule L6 of this Part B, (i) the Rates Service Fund Amount — Listed Interest Rates (minus any Contribution of the Defaulter) has been reduced by at least 25 per cent., or (ii) by the time of issue of a Default Management Completion Notice in relation to that Default the Rates Service Fund Amount — Listed Interest Rates will have been so reduced, the Clearing House may, by notice in writing (each an "Unfunded Contribution Notice"), require each Non-Defaulting Clearing Member to deposit and maintain an amount (each an "Unfunded Contribution") in accordance with this Rule.~~
- ~~(b) — Unfunded Contributions will only be payable in circumstances where the relevant Unfunded Contribution Notice is delivered by the Clearing House to Members before a Default Management Completion Notice in relation to the relevant Default.~~
- ~~(c) — The amount of an Unfunded Contribution payable by a Member in respect of a Default shall be payable *pro rata* by reference to the proportion which that Member's Contribution bears to the aggregate of Contributions of all Non-Defaulting Clearing Members, and shall not exceed the value of the Contribution of that Member as calculated on the last Determination Date prior to the date when the relevant Default occurred.~~
- ~~(d) — Following the payment of an Unfunded Contribution in accordance with paragraphs (a), (b) and (c) of Rule L6 of this Part B, the Clearing House may, by the delivery of one or more further Unfunded Contribution Notices, require each Non-Defaulting Clearing Member to pay one or more further Unfunded Contributions in respect of the same Default, provided that the total value of the Unfunded Contributions payable by any Member in respect of a particular Default may not exceed the value of the Contribution of such Member as calculated on the last Determination Date prior to the date when the relevant Default occurred.~~

- ~~(e) — Following a Default in respect of which Unfunded Contributions were paid (the "First Default"), the Clearing House may require the payment of further Unfunded Contributions in respect of subsequent Defaults, (which, for the avoidance of doubt, can never be a First Default), provided that Unfunded Contributions will not be payable in respect of any more than three Defaults in any six month period (commencing on the date of delivery of the first Unfunded Contribution Notice in respect of the First Default).~~
- ~~(f) — Members shall deposit the full amount of each Unfunded Contribution (without exercising any rights of set off or counterclaim) with the Clearing House on the business day following the receipt of an Unfunded Contribution Notice.~~

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

~~L6:~~

- ~~(a) — This Rule applies where, after a Default, the Clearing House has applied part or all of a Contribution under Rule 19 or Rule 21 of the Default Rules. Upon such application the Rates Service Fund Amount — Listed Interest Rates shall be reduced forthwith by the aggregate amount of the Contributions or parts of Contributions so applied, and the amount of the Contribution that each Member must maintain with the Clearing House shall be reduced by the amount of its Contribution which has been applied pursuant to Rule 21 of the Default Rules, in each case until the next Determination Date and subject to (where applicable) the requirements under Rule L5 and Rule CS7. Unless and until the Clearing House has repaid a Defaulter's Contribution, the Rates Service Fund Amount — Listed Interest Rates shall be treated as having been reduced by the amount of the Defaulter's Contribution (if any) regardless of whether the Clearing House has applied part or all of that Contribution under the Default Rules.~~
- ~~(b) — [reserved].~~
- ~~(c) — if (i) a Member (other than an FCM Clearing Member) notifies the Clearing House on the Rates Service Default Management Process Completion Date or the business day occurring immediately after such date that it wishes to resign from the Listed Interest Rates Service, (ii) the Listed Interest Rates AET Requirement in respect of such proposed resignation has been satisfied by the Determination Date occurring immediately after such Rates Service Default Management Process Completion Date, (iii) the Member is not a Defaulter, and (iv) no Default has occurred from and including the Determination Date referred to in Rule L6(c) to and including the fourth business day occurring after such Determination Date ("Listed Interest Rates Contribution Payment Date"), then the Member shall cease to be a Listed Interest Rates Clearing Member on and from such Listed Interest Rates Contribution Payment Date and the Clearing House shall repay the Contribution that it holds for such Member (to the extent it has not been applied under these Default Rules) in accordance with the Procedures and the Member shall not be obliged to make any payment to the Clearing House under Rule L4(a)(iii). If a Member notifies the Clearing~~

~~House in accordance with Rule L6(c)(i), but the requirements under Rules L6(c)(ii), (iii) and/or (iv) are not satisfied, then such Member will cease to be a Resigning Member in respect of the Listed Interest Rates Service.~~



**SCHEDULE 7**  
**REPOCLEAR DEFAULT FUND SUPPLEMENT**

R1

(a) In this RepoClear Default Fund Supplement:

“Aggregate Monthly DFAM” means, in respect of a RepoClear Determination Date, the sum of the Monthly DFAM of each DFAM Member determined by the Clearing House in respect of each such RepoClear Determination Date;

“Base Amount” means, in respect of a RepoClear Determination Date, the greater of the:

(i) First Amount minus the Aggregate Monthly DFAM in respect of such RepoClear Determination Date; and

(ii) Second Amount in respect of such RepoClear Determination Date, plus 10 per cent. of such Second Amount,

increased or decreased as necessary by the Clearing House pursuant to Rule R1(d) to ensure that the RepoClear Segregated Fund Amount equals the RepoClear Fund Floor or the RepoClear Fund Cap, respectively;

“Combined Loss Value” means, in respect of a business day and a scenario, the sum of the largest and second largest uncovered stress loss determined by the Clearing House in respect of such day and such scenario;

“DFAM Member” means, in respect of a RepoClear Determination Date, a RepoClear Clearing Member that is required to provide Monthly DFAM in respect of such RepoClear Determination Date;

“Excess” means the amount (if any) by which the aggregate Notional Contributions exceed the RepoClear Segregated Fund Amount;

“Excess Ratio” means, in respect of a Weighted RepoClear Clearing Member, such Weighted RepoClear Clearing Member’s Notional Contribution divided by the aggregate Notional Contributions of all Weighted RepoClear Clearing Members;

“Excess Deduction” means, in respect of a Weighted RepoClear Clearing Member and an Excess, the amount equal to such Excess multiplied by the Excess Ratio of such Weighted RepoClear Clearing Member;

“First Amount” means, in respect of a RepoClear Determination Date, the largest of the Largest Combined Loss Values determined by the Clearing House pursuant to Rule R1(c) for each of the business days within the Lookback Period immediately preceding such Determination Date, plus 10 per cent. of the largest of such Largest Combined Loss Values;

“Largest Combined Loss Value” means, in respect of a business day, the largest of the Combined Loss Values determined by the Clearing House in respect of such day;

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

“Minimum RepoClear Contribution” shall be GBP 2,000,000 at Clearing Member level;

“Monthly DFAM” means, in respect of a RepoClear Determination Date and a DFAM Member, the monthly default fund additional margin amount that is determined by the Clearing House pursuant to the Procedures in respect of such RepoClear Determination Date and payable by such DFAM Member to the Clearing House;

“Non-Defaulting Clearing Member” means an RCM that is not a Defaulter under Rule 4 of the Default Rules;

“Notional Contribution” means, in respect of an RCM and a RepoClear Determination Date, the amount determined by the Clearing House for such an RCM and in respect of such RepoClear Determination Date pursuant to Rule R2(b);

“RepoClear Actual Total” means, in respect of a day, the total RepoClear Contributions held by the Clearing House on such day;

“RepoClear AET Requirement” means, in respect of an RCM, that all of the RepoClear Contracts in the name of such RCM have been closed out or transferred to another Clearing Member;

“RepoClear Default Management Process Completion Date” means the date when the RepoClear default management process in relation to a Default has been completed as determined by the Clearing House and notified to all RCMs;

“RepoClear Default Period” shall have the meaning specified in Rule R1(e);

“RepoClear Determination Date” shall have the meaning specified in Rule R1(d);

“RepoClear Fund Cap” equals GBP 2.5 billion;

“RepoClear Fund Floor” equals GBP 500 million;

“RepoClear Segregated Fund Amount” means the amount of the RepoClear default fund determined from time to time pursuant to Rule R1(d);

“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;

“**Second Amount**” means, in respect of a RepoClear Determination Date, the largest of the Largest Combined Loss Values determined by the Clearing House pursuant to **Rule R1(c)**; for each of the business days within the Lookback Period immediately preceding such RepoClear Determination Date, but calculated as if each DFAM Member was not an RCM on each of the business days during such Lookback Period (such that, for the purposes of calculating the Combined Loss Values, Largest Combined Loss Values and Second Amount, the uncovered stress loss of any such RCM will be disregarded);

“**Shortfall**” means the amount (if any) by which the RepoClear Segregated Fund Amount exceeds the aggregate Notional Contributions;

“**Shortfall Ratio**” means, in respect of an RCM, such an RCM’s Notional Contribution divided by the aggregate Notional Contributions;

“**Shortfall Contribution**” means, in respect of an RCM and a Shortfall, the amount equal to such Shortfall multiplied by the Shortfall Ratio for such RCM; and

“**Weighted RCM**” means an RCM for which its Notional Contribution is more than the Minimum RepoClear Contribution.

- (b) The RepoClear Segregated Fund Amount is denominated in pounds sterling (“**GBP**”) and all amounts referable to it shall be denominated, calculated, called and payable in GBP.
- (c) On each business day, the Clearing House will determine one or more Combined Loss Values and a Largest Combined Loss Value in respect of each of the business days within the Lookback Period immediately preceding such business day.
- (d) The RepoClear Segregated Fund Amount shall be determined by the Clearing House as of the first business day of each calendar month and the time on such day determined by the Clearing House, and otherwise in accordance with Rule R1(f) (each, a “**RepoClear Determination Date**”) and shall, in respect of a RepoClear Determination Date, equal the Base Amount, provided that the RepoClear Segregated Fund Amount shall not be less than the RepoClear Fund Floor and shall not be more than the RepoClear Fund Cap, and, in order to achieve such RepoClear Fund Floor and or RepoClear Fund Cap, the Clearing House shall increase or decrease, respectively, the Base Amount.
- (e) Notwithstanding the foregoing, following the Default of an RCM, any such determinations and any such RepoClear Determination Date which might otherwise have occurred under this Rule R2 shall be suspended for the duration of the period (the “**RepoClear Default Period**”) commencing on the date of such Default and terminating on the later of:
  - (i) the time, as determined by the Clearing House, on the day falling 30 calendar days after the RepoClear Default Management Process Completion Date in relation to such Default (or, if such day is not a business day, the next succeeding business day); and

- (ii) where, prior to the end of the period referred to in sub-paragraph (i) above (or such period as has already been extended pursuant to this sub-paragraph (ii)) the subsequent Default of one or more RCM(s)- (each a "**Relevant Default**") occurs, the time, as determined by the Clearing House, on the day falling 30 calendar days after the RepoClear Default Management Process Completion Date in relation to a Relevant Default which latest in time (or, if such day is not a business day, the next succeeding business day);
- (f) Subject to a suspension pursuant to Rule R2(e), the Clearing House may recalculate the RepoClear Fund Amount on any business day if the Clearing House determines (in its sole discretion) that this is necessary from a risk perspective and, in such case, shall be entitled to adjust the Contributions of RCMs in accordance with the RepoClear Default Fund Supplement.

## **R2 RepoClear Contributions**

The Clearing House shall determine each RCM's RepoClear Contribution (other than any RepoClear Unfunded Contribution or any Supplementary Contribution) in accordance with the following provisions:

- (a) determinations will be made by the Clearing House as of each RepoClear Determination Date and notified to the relevant RCM as soon as practicable after such determination in accordance with the Procedures. Notwithstanding the foregoing, following the Default of an RCM, any determinations as of a RepoClear Determination Date and any such RepoClear Determination Date which might otherwise have occurred under this Rule R2 shall be suspended for the duration of the RepoClear Default Period.
- (b) An RCM's Notional Contribution, in respect of a RepoClear Determination Date, shall be determined with reference to business conducted by it in Fixed Income Contracts as follows:

  - (i) The RCM's "**End of Day Margin Weight**" shall be calculated by dividing the average daily initial margin obligation at the end of each business day (as calculated under the Procedures or other arrangements applicable) which has applied to the RCM during the Lookback Period immediately preceding such RepoClear Determination Date in respect of its Fixed Income Contracts by the total of such average daily obligations to all RCMs (other than Defaulters);
  - (ii) the RCM's "**Peak Intra-Day Margin Weight**" shall be calculated by dividing the average maximum intra-day initial margin obligation arising at any point during each business day during the Lookback Period immediately preceding such RepoClear Determination Date (as calculated under the Procedures or other arrangements applicable) which has applied to the RCM in respect of its Fixed Income Contracts by the total of such average maximum intra-day obligations applied to all RCMs (other than Defaulters);

(iii) the RCM’s “Weight Factor” shall be calculated by adding one-half of its End of Day Margin Weight to one-half of its Peak Intra-Day Margin Weight.

and the RCM’s Notional Contribution shall be equal to the greater of:

(i) the RepoClear Segregated Fund Amount multiplied by the RCM’s Weight Factor; and

(ii) GBP 2,000,000.

(c) An RCM’s RepoClear Contribution, in respect of a RepoClear Determination Date, shall equal, if:

(i) no Shortfall or Excess exists, the amount of its Notional Contribution;

(ii) a Shortfall exists, the amount of its Notional Contribution plus its Shortfall Contribution; or

(iii) an Excess exists, the amount of its Notional Contribution minus its Excess Deduction (if any), except that if this would result in any Weighted RCM’s RepoClear Contribution being less than GBP 2,000,000, then:

(A) such Weighted RCM’s RepoClear Contribution shall be GBP 2,000,000; and

(B) if, after treating each RCM’s RepoClear Contribution calculated pursuant to Rule R2(c)(iii) as its Notional Contribution, an Excess still exists, the Clearing House shall apply Rule R2(c)(iii) again (where each RCM’s Contribution calculated pursuant to R2(c)(iii) will be treated as its Notional Contribution for the purpose of such re-application) to reduce the RepoClear Contribution of each remaining Weighted RCM and shall (if necessary) repeat such process until there is no Excess, where the final calculated RepoClear Contribution shall be the RCM’s RepoClear Contribution;

(d) Subject to a suspension pursuant to Rule R2(a), the Clearing House may recalculate the RepoClear Contribution of each RCM on any business day if the Clearing House determines (in its sole discretion) that this is necessary from a risk perspective and, in such case, such recalculation shall be in accordance with the RepoClear Default Fund Supplement

R3 For the purposes of the calculations under Rule R2:

(a) references to “RCMs” do not include references to Defaulters (apart from any Defaulter in respect of which the Clearing House permits the application of this Rule) or persons which were formerly RCMs but are not RCMs at the RepoClear Determination Date as of which the relevant determination is made;

- (b) RepoClear Contributions may be rounded upwards by the Clearing House, if not already such a multiple, to the next integral multiple of one thousand GBP pounds, notwithstanding that the arithmetical sum of RepoClear Contributions paid by all RCMs may thereby exceed the RepoClear Fund Amount;
- (c) nNo account shall be taken, in calculating initial margin or Margin Weight under Rule R2 of any offsets applied in calculating the initial margin obligation imposed on RCMs in respect of Fixed Income Contracts, which may otherwise be permissible under the Procedures or other arrangements applicable;
- (d) iIf (i) an RCM notifies the Clearing House on the RepoClear Default Management Process Completion Date or the business day occurring immediately after such date that it wishes to resign from the Service, (ii) the RepoClear AET Requirement in respect of such proposed resignation has been satisfied by the RepoClear Determination Date occurring immediately after such RepoClear Default Management Process Completion Date, (iii) -the RCM is not a Defaulter, and (iv) no Default of an RCM has occurred from and including the RepoClear Determination Date referred to in Rule R3(d)(ii) to and including the fourth business day occurring after such RepoClear Determination Date (“**RepoClear Contribution Payment Date**”), then the RCM shall cease to be an RCM from such RepoClear Contribution Payment Date and the Clearing House shall repay the RepoClear Contribution that it holds for such RCM (to the extent it has not been applied under these Default Rules) in accordance with the Procedures and the RCM shall not be obliged to make any payment to the Clearing House under Rule R6(c). If an RCM notifies the Clearing House in accordance with Rule R3(d)(i), but the requirements under Rules R3(d)(ii), (iii) and/or (iv) are not satisfied, then such RCM will cease to be a Resigning Member in respect of the RepoClear Service.

R4 Without prejudice to any other requirements which the Clearing House may impose, the Each RCM’s RepoClear Contribution (other than any RepoClear Unfunded Contribution or any Supplementary Contribution) shall be determined by the Clearing House in accordance with Rule R2.

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

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

For these purposes:

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

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

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

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

~~“**Monthly DFAM RCM**” means a RCM whose Monthly DFAM is greater than zero;~~

~~“**RepoClear Cover Two Members**” shall be the First Loss RCM and the Second Loss RCM;~~

~~“**RepoClear Fund Cap**” equals GBP 2.5 billion;~~

~~“**RepoClear Fund Floor**” equals GBP 500 million;~~

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

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

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

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

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

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

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

~~In respect of each RepoClear Determination Date, a RCM's RepoClear Contribution shall be equal to its Preliminary RepoClear Contribution, unless such amount is below~~

- ~~(a) the Minimum RepoClear Contribution; and~~
- ~~(b) any supplementary sum determined by the Clearing House in its discretion and notified to the New Member. The Clearing House shall determine the amount of such supplementary sum by reference to the actual or expected level of clearing activity of the New Member in respect of the RepoClear Service.~~

~~The in which case a RCM's RepoClear Contribution of such New Member shall be determined the Minimum RepoClear Contribution, by the Clearing House as of the date it joins the RepoClear Service, and it shall be liable to pay its RepoClear Contribution pursuant to this Rule at the time specified by the Clearing House (and not pursuant to Rule- R6R5).~~

~~For these purposes:~~

~~"Minimum RepoClear Contribution" means GBP 2,000,000 at Clearing Member Level, except in the case of Dormant Sponsored Members, in which case it shall be GBP 250,000;~~

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

~~"RepoClear Margin Weight" is the percentage calculated by dividing the average daily initial margin obligation (as calculated under the Procedures or other arrangements applicable) which has applied to the RCM during the Lookback Period preceding the relevant RepoClear Determination Date in respect of all Fixed Income Contracts to which such RCM is a party by the total of such average daily obligations applied to all Non-Defaulting RCMs.~~

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

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

~~For these purposes:~~

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



~~"RepoClear Actual Total" shall be the amount calculated by adding together (i) the amount which is the product of the Minimum RepoClear Contribution and the number of Minimum RepoClear Contribution Members; and (ii) the aggregate Preliminary RepoClear Contributions of those RCMs which are not Minimum RepoClear Contribution Members;~~

~~"RepoClear Determination Date" means the first business day of each calendar month.~~

~~"RepoClear Discount" is, for any RCM who is not a Minimum RepoClear Contribution Member, such RCM's *pro rata* share of the RepoClear Excess calculated as the proportion of such RCM's Preliminary RepoClear Contribution relative to the aggregate Preliminary RepoClear Contributions of all RCMs other than Minimum RepoClear Contribution Members;~~

~~"RepoClear Excess" shall be the arithmetical difference between the RepoClear Actual Total and the RepoClear Fund Cap where the RepoClear Actual Total is greater than the RepoClear Fund Cap;~~

~~"RepoClear Increase" is, for any RCM who is not a Minimum RepoClear Contribution Member, such RCM's *pro rata* share of the RepoClear Shortfall calculated as the proportion of such RCM's Preliminary RepoClear Contribution relative to the aggregate Preliminary RepoClear Contributions of all RCMs other than Minimum RepoClear Contribution Members;~~

~~"RepoClear Shortfall" shall be the arithmetical difference between the RepoClear Actual Total and the RepoClear Fund Floor where the RepoClear Actual Total is less than the RepoClear Fund Floor;~~

~~Other than during a RepoClear Default Period, the Clearing House may, at its discretion, recalculate the RepoClear Segregated Fund Amount and each RCM's RepoClear Contribution on any business day if the largest Combined Loss Values in the Lookback Period for that day as determined in accordance with this Rule 2 differs by more than 25 percent from the Combined Loss Value calculated at the immediately preceding RepoClear Determination Date. (f) On each day, the Clearing House shall calculate each RCM's STLIEOM. If on any day, any RCM (which may include RepoClear Cover Two Members) has a STLIEOM which is equal to or greater than 45 percent of the RepoClear Segregated Fund Amount (as determined at the immediately preceding RepoClear Determination Date) or if a RCM's internal credit score falls below the minimum determined by the Clearing House, the Clearing House may require such RCM to transfer to the Clearing House an amount of additional Collateral (the "Stress Test Margin") sufficient to reduce the STLIEOM for that RCM to less than 45 percent of the RepoClear Segregated Fund Amount. Where, in respect any subsequent day until the next RepoClear Determination Date, the STLIEOM of any such RCM is less than~~

~~45 percent (excluding for these purposes the Stress Test Margin), such Collateral reflecting the Stress Test Margin shall be returned on the next following business day.~~

~~R35~~ 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.

~~R64~~ **Payment of RepoClear Contributions**

Upon determination of the amount of a RepoClear Contribution in accordance with Rule ~~R2~~:

~~(a)~~ — if the amount of the RepoClear Contribution of an RCM immediately before the time as of which the Clearing House determines the RCM's RepoClear Contribution under Rule R2 ~~close of business~~ on the relevant RepoClear Determination Date exceeds the ~~amount~~ amount of the RCM's RepoClear Contribution as ~~so 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;

~~(a)~~ \_\_\_\_\_

~~(b)~~ — if the amount of the RepoClear Contribution of an RCM immediately before ~~close~~ the time as of business ~~which the Clearing House determines the RCM's RepoClear Contribution under Rule R2~~ on the relevant RepoClear Determination Date is the same as the ~~amou~~ 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

~~(b)~~ \_\_\_\_\_

~~(c)~~ if the amount of the RepoClear Contribution of an RCM immediately before ~~close~~ the time as of business ~~which the Clearing House determines the RCM's RepoClear Contribution under Rule R2~~ on the relevant RepoClear Determination Date is less than the ~~amou~~ amount of the RCM's RepoClear Contribution as so determined, the shortfall shall be paid by such RCM or where such RCM is a Sponsored Member by its relevant Agent Members to the Clearing House in accordance with the Procedures.

~~RepoClear Contributions shall at all times be denominated in GBP.~~

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

In respect of any RepoClear Determination Date, a Monthly DFAM RCM shall pay its Monthly DFAM at the same time as any amount in respect its RepoClear Contribution would become payable in accordance with these Rules and the Procedures, such amount to be repaid by the Clearing House to the Monthly DFAM RCM on the fourth business day after the next following RepoClear Determination Date.

## R7 Interest on RepoClear Contributions

- 5 On any day interest shall accrue on the amount of each RepoClear Contribution held by the Clearing House, to the extent that it has not been applied under Rules 19 or 21 of the Default Rules, at such rate as determined by the Clearing House from time to time in light of market conditions and notified by the Clearing House to RCMs, and in such manner as provided by the Procedures, **provided that** the rate of interest for any particular day shall be based on a market recognised benchmark rate plus or minus a spread and published on the website of the Clearing House. Interest shall be payable in arrears and shall be paid on the date or dates specified by the Procedures. In these Default Rules any interest which has accrued under this Rule shall not be regarded as part of the RepoClear Contribution. For the avoidance of doubt, if the rate of interest payable by an RCM is negative, interest shall be payable by RCMs to the Clearing House.

## R8 Reduction of the Total RepoClear Contributions and Supplementary Contributions

- (a) After a Default, unless and until the Clearing House has repaid a Defaulter's RepoClear Contribution (or the remaining part thereof, as applicable), the RepoClear Segregated Fund Amount shall be treated as having been reduced by the amount of the Defaulter's RepoClear Contribution (if any), regardless of whether the Clearing House has applied part or all of that RepoClear Contribution under the Default Rules.
- (b) Where, after a Default, the Clearing House has applied part or all of the RepoClear Contributions of the Non-Defaulting RCMs under Rule 21 of the Default Rules, the RepoClear Segregated Fund Amount shall be reduced forthwith by the deduction of (i) the amount of the Defaulter's RepoClear Contribution (if any) in accordance with paragraph (a) of this Rule ~~R86~~; and (ii) the aggregate amount of the RepoClear Contributions or parts of RepoClear Contributions of the Non-Defaulting RCMs so applied, and the amount of the RepoClear Contribution that each Non-Defaulting RCM must maintain with the Clearing House shall be reduced by the amount of its RepoClear Contribution which has been so applied, in each case, until the next RepoClear Determination Date and subject to (where applicable) the requirement under paragraph (c) and (d) of this Rule ~~R86~~ and Rule ~~R97~~.
- (c) Following the completion of a RepoClear Default Management Process, the Clearing House will deliver a notice to the RCMs confirming that the relevant RepoClear Default Management Process Completion Date has occurred, notwithstanding that the Default Period may not have elapsed. If, following the issuance of such notice, the value of the RepoClear Segregated Fund Amount determined in accordance with paragraph (b) of this Rule ~~R86~~ is less than the RepoClear Fund Floor, the Clearing House may notify:
- (i) each Non-Defaulting RCM which is not an Agent Member that it is required to make a Supplementary Contribution, based on the proportion that the value of its RepoClear Contribution as at the last RepoClear Determination Date prior to the date when the relevant Default occurred

bears to the value of the aggregate RepoClear Contributions of all Non-Defaulting RCMs as at such date; and

(i)

- (ii) each Non-Defaulting RCM which is an Agent Member that it is required to make a Supplementary Contribution, based on the proportion that the value of such Agent Member's RepoClear Contribution as at the last RepoClear Determination Date prior to the date when the relevant Default occurred bears to the value of the aggregate RepoClear Contributions of all Non-Defaulting RCMs as at such date,

so as to reinstate the RepoClear Segregated Fund Amount to a value which is no less than the RepoClear Fund Floor. Supplementary Contributions required hereunder shall be paid within the time period specified by the Clearing House and in accordance with the Procedures.

### **R97** **RepoClear Unfunded Contributions**

Where, after a Default, the Clearing House determines that (i) by reason of a reduction in accordance with Rule R86, the value of the RepoClear Segregated Fund Amount, excluding contributions of Defaulting RCMs, has been reduced by at least 25 per cent.; or (ii) by the time of the RepoClear Default Management Process Completion Date in relation to the relevant Default the value of the RepoClear Segregated Fund Amount, excluding contributions of Defaulting RCMs, will be reduced by at least 25 per cent., the Clearing House may, by notice in writing (the "**RepoClear Unfunded Contribution Notice**"), require each Non-Defaulting RCM or in the case of a Sponsored Member, its Agent Members for it to deposit and maintain an amount (each a "**RepoClear Unfunded Contribution**") in accordance with the following provisions:

(a)—RepoClear Unfunded Contributions will only be payable in circumstances where the relevant RepoClear Unfunded Contribution Notice is delivered by the Clearing House to RCMs or in the case of a Sponsored Members, its Agent Members for and on its account prior to the RepoClear Default Management Process Completion Date in relation to the relevant Default;

(a)

(b)—the value of the RepoClear Unfunded Contribution payable by each individual RCM or in the case of a Sponsored Member, its Agent Members for and on its account shall be the product of (i) the percentage by which the value of the RepoClear Segregated Fund Amount has been reduced and (ii) the value of the RepoClear Contribution of such RCM as at the last RepoClear Determination Date prior to the date when the relevant Default occurred;

(b)

(c)—following the payment of a RepoClear Unfunded Contribution in accordance with paragraphs 2.1(a) and 2.2(b) above, the Clearing House may, by the delivery of one or more further RepoClear Unfunded Contribution Notices, require each Non-Defaulting RCM or in the case of a Sponsored Member, its

Agent Members for and on its account to pay one or more further RepoClear Unfunded Contributions in respect of the same Default, **provided that** the total value of the RepoClear Unfunded Contributions payable by an individual RCM or in the case of a Sponsored Member, its Agent Members for and on its account in respect of a particular Default (determined in accordance with paragraph [\(b\)2-2](#) above) may not exceed the value of the RepoClear Contribution of such RCM as at the last RepoClear Determination Date prior to the date when the relevant Default occurred; and

[\(c\)](#)

~~(d)~~—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).

[\(d\)](#)

(e) 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 [R97](#) 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.

### [R108](#) **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 [R108](#).

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 [R108](#), 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 [R1240](#)) 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 [R108](#)).

"**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 [R810](#).

"**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.

### 3.2 *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 ~~R8-10~~ 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.

## **R119 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 [R810](#), 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) 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.

~~(b)~~(c) Any failure by the Clearing House to deliver a RepoClear Service Voluntary Payment Notice pursuant to this Rule ~~R11R9~~ will not invalidate any action taken by the Clearing House pursuant to Rule ~~R911~~ nor give rise to any liability whatsoever on the part of the Clearing House.

~~(e)~~(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.

## R120 Service Closure

Where, following process of inviting RepoClear Service Voluntary Payments in accordance with Rule ~~R911~~ and the conclusion of the Loss Distribution Process (including any repeat of the RepoClear Loss Distribution Process following a ballot pursuant to Rule ~~R119~~), 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 ~~110~~ 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 [R911](#)(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 R810](#).
  - (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 R129. 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.

- (i) This Rule R102 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*).
- (j) Nothing in the foregoing shall override the obligation of the Clearing House to return non-cash Collateral provided by an RCM in respect of its initial margin obligations pursuant to the Regulations and Procedures.

### **R134 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 R810, 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 R134 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 R810, 15(g) and 15(e) shall be retained by the Clearing House.

**SCHEDULE 8**  
**EQUITIES DEFAULT FUND SUPPLEMENT**

E1. **Equities Default Fund Amount**

- (a) In this Equities Default Fund Supplement, ~~subject to any contrary indication or where the context otherwise requires,~~ references to:

"**Aggregate Monthly DFAM**" means, in respect of an Equities Determination Date, the sum of the Monthly DFAM of each DFAM Member ~~calculated and determined by the Clearing House in respect of~~ such Equities Determination Date;

"**Base Amount~~business~~**" means, ~~the in respect of an Equities Business of a Determination Date Member,~~ the greater of the:

- (i) First Amount minus the Aggregate Monthly DFAM in respect of such Equities Determination Date; and
- (ii) Second Amount in respect of such Equities Determination Date, plus 10 per cent. of the Second Amount,

increased or decreased as necessary by the Clearing House pursuant to Rule E1(d) to ensure that the Equities Fund Amount equals the Fund Floor or the Fund Cap, respectively;

"**Combined Loss Value**" means, in respect of a business day ~~within a Lookback Period and a specific stress-tested and~~ a scenario ~~as determined by the Clearing House,~~ the sum of the STLIEOMs for the Members which largest and second largest uncovered stress loss determined by the Clearing House, in respect of such day, the Equities Business and such scenario;

"**Equities Determination Date**" shall ~~have the largest and the second largest STLIEOM, in respect of the Equities Business and such stress-tested scenario, on such day~~ meaning specified in Rule E1(d);

"**Contract~~Equities Default Management Process Completion Date~~**" means ~~an Equity Clear Contract, an Equities Contract, a contract cleared pursuant to the date when the Equities default management process in relation to a Service and such other cash equity or equity derivative contract~~ Default has been completed as determined by the Clearing House ~~may and notified to all Equities Clearing Members;~~

"**Equities Default Period**" shall have the meaning specified in Rule E1(e);

"**Equities Fund Amount**" means the amount of the Equities default fund determined from time to time ~~specify by notice pursuant to the Members~~ Rule E1(d);

"**Contribution**" means an Equities Contribution;



~~"Default Fund" means the fund established by this Equities Default Fund Supplement;~~

~~"Determination Date" means an Equities Determination Date;~~

~~"Monthly DFAM" means, in respect of an Equities Determination Date and a DFAM a DFAM Member, the monthly default fund additional margin amount (if any) by which that is determined by the Clearing House pursuant to the Relevant STLIEOM of such DFAM Member for the Component Business exceeds 45% of the Equities Initial Fund Amount calculated on such Determination Date;~~

~~"DFAM Member" means, Procedures in respect of a such Equities Determination Date, a and payable by such DFAM Member whose STLIEOM is a component of the Equities Combined Loss Value calculated on such Determination Date (a "Relevant STLIEOM") Clearing House;~~

~~"Equities DFAM Member" means, in respect of an Equities Determination Date, an Equities Clearing Member that is required to provide Monthly DFAM in respect of such Equities Determination Date;~~

~~"Largest Combined Loss Value" means, in respect of a business day, the largest of the Combined Loss Values determined by the Clearing House in respect of such day;~~

~~"First Amount" means, in respect of an Equities Determination Date, the largest of the Largest Combined Loss Values determined by the Clearing House pursuant to Rule E1(c) for each of the business days within the Lookback Period for such Determination Date;~~

~~"Equities Initial Fund Amount" means, in respect of a Determination Date, the Equities Combined Loss Value for immediately preceding such Determination Date, plus 10 per cent. of the largest of such Largest Combined Loss Values;~~

~~"Equities AET Requirement" means, in respect of an Equities Clearing Member (other than a Co-operating Clearing House), that all of the Equities Contracts in the name of such Equities Clearing Member have been closed out or transferred to another Clearing Member;~~

~~"Excess Loss" means the Equities Excess Loss;~~

~~"Fund Amount" means amount (if any) by which the aggregate Notional Contributions exceed the Equities Fund Amount;~~

~~"Excess Ratio" means, in respect of a Weighted Equities Clearing Member, such Weighted Equities Clearing Member's Notional Contribution divided by the aggregate Notional Contributions of all Weighted Equities Clearing Members;~~

~~"Excess Deduction" means, in respect of a Weighted Equities Clearing Member and an Excess, the amount equal to such Excess multiplied by the Excess Ratio of such Weighted Equities Clearing Member;~~

"**Fund Cap**" means the amount as determined by the Risk Committee of the Clearing House from time to time (and as notified to Members in writing);

"**Fund Floor**" means three times the Minimum Contribution, or such other amount as determined by the Risk Committee of the Clearing House from time to time (and as notified to Members in writing);

"**Lookback Period**" means, in respect of a Determination Date business day, the period of three calendar months immediately preceding such Determination Date;

~~"Member" means an Equities Clearing Member and a Clearing Member approved to clear a Specified Market and except where stated otherwise, includes a Co-operating Clearing House;~~

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

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

~~"**Notional Contribution** **Positive DFAM Member**" means, in respect of an Equities Clearing Member and an Equities Determination Date, a DFAM Member whose DFAM the amount determined by the Clearing House for such an Equities Member and in respect of such Equities Determination Date pursuant to Rule E2(b) is greater than zero;~~

~~"**Relevant STLIEOM**" has the meaning specified in the definition of DFAM Member in this Rule E1;~~

"**Second Equities Combined Loss Value Amount**" means, in respect of an Equities Determination Date, the Equities largest of the Largest Combined Loss Values determined by the Clearing House pursuant to Rule E1(c) for each of the business days within the Lookback Period immediately preceding such Equities Determination Date, but calculated as if each Positive DFAM Member was not an Equities Clearing Member on each of the business days during the such Lookback Period for the Determination Date (such that, for the purposes of calculating the Second Equities Combined Loss Values, Largest Combined Loss Values and Second Amount, the uncovered stress loss all of the STLIEOMs of any such Equities Clearing Member will be disregarded) during the Lookback Period);

"**Shortfall**" means the amount (if any) by which the Equities Fund Amount exceeds the aggregate Notional Contributions;

"**Shortfall Ratio**" means, in respect of an Equities Clearing Member, such an Equities Clearing Member's Notional Contribution divided by the aggregate Notional Contributions;

"**Shortfall Contribution**" means, in respect of an Equities Clearing Member and a Shortfall, the amount equal to such Shortfall multiplied by the Shortfall Ratio for such Equities Clearing Member;

"Total Equities Contributions" means, in respect of a day, the total Equities Contributions held by the Clearing House on such day; and

"Weighted Equities Clearing Member" means an Equities Clearing Member for which its Notional Contribution is more than the Minimum Contribution.

[Note: These definitions will be re-ordered into alphabetical order before they are made effective.]

~~(b) "Service" means equities and equities-related services provided by the Clearing House pursuant to its rules governing the clearing of the Specified Markets and includes the Equities Service;~~

~~"Specified Markets" means an EquityClear ATP and any other market from time to time specified by the Clearing House;~~

~~(e) "STLIEOM" means, in respect of a Member and a day, the stress tested loss in excess of the initial margin of such Member for the Equities Business (determined for a given stress tested scenario by the Clearing House), which could be incurred by the Clearing House in respect of that Member's Equities Business if that Member became a Defaulter on that day. References in this definition to Member include a Co-operating Clearing House and the STLIEOM of a Co-operating Clearing House is included in the calculations of the Fund Amount under Rule E2;~~

~~and calculations of "Combined Loss Value", "End of Day Margin Weight", "Peak Intra-Day Margin Weight", "STLIEOM" and "Weight Factor" are carried out in accordance with this Supplement only.~~

~~Capitalised terms not otherwise defined in this Supplement shall have the meanings assigned to them in the General Regulations or the Default Rules, as applicable.~~

## ~~E2. — Fund Amount~~

~~(d)(b) The Equities Fund Amount is denominated in pounds sterling ("GBP") and all amounts referable to it shall be denominated, calculated, called and payable in GBP.~~

~~(c) On each business day, the Clearing House will determine one or more Combined Loss Values and a Largest Combined Loss Value in respect of each of the business days within the Lookback Period immediately preceding such business day.~~

~~(e) — The Equities Fund Amount shall be determined by the Clearing House as of the first business day of each calendar month and the time on such day determined by the Clearing House, and otherwise in accordance with Rule E1(f)~~

(each, an “Equities Determination Date”) and shall, in respect of in accordance with this Rule.

- ~~(f) The Clearing House will determine, on a given Determination Date, the Combined Loss Values for each day within the Lookback Period relating to such Determination Date.~~
- ~~(g) The Fund Amount is, for a given Determination Date, the greater of:~~
  - ~~(h) the an Equities Initial Fund Amount minus the Aggregate DFAM, in respect of such Determination Date; and, equal the Base Amount, provided that the~~
  - ~~(i) the Second Equities Combined Loss Amount, in respect of such Determination Date, plus 10 per cent,~~
  - ~~(j) subject to the following provisions of this Rule.~~
  - ~~(k) On any Determination Date, if the Fund Amount as determined under paragraph (b)(ii) above would shall not be lowerless than the Fund Floor and shall not be more than, the Fund AmountCap and, in order to will be deemed to be equivalent to the achieve such Fund Floor.~~
  - ~~(l) On any Determination Date, if the Fund Amount as determined under paragraph (b)(ii) above would exceed the Fund Cap, the Fund Amount will be deemed to be an amount equivalent to the and/or Fund Cap.~~
- ~~(d) In the case of a Default in relation to which the Clearing House does not apply Contributions under Rule 19 or Rule 21 of the Default Rules, determinations of the Fund Amount under the methodology of this Rule are suspended from the date of the occurrence of a Default until the completion of the management of such Default. Where other such Defaults have commenced during the period of suspension, the suspension will end at the completion of the management of the last of such Defaults shall increase or decrease, respectively, the Base Amount.~~
- ~~(e) Notwithstanding the foregoing, following the Default of an Equities Clearing Member, any such determinations and any such Equities Determination Date which might otherwise have occurred under this Rule E1 shall be suspended for the duration of the period (“Equities Default Period”) commencing on the date of such Default and terminating on the later of:~~
  - ~~(i) the time, as~~
  - ~~(ii) In the case of any Default in relation to which the Clearing House applies Contributions under Rule 19 or Rule 21 of the Default Rules, determinations of the Fund Amount under the methodology of this Rule are suspended from the date of the occurrence of a Default until the expiry of the Cooling Off Period under Rule E7. Where other such Defaults have commenced during the period of suspension, the suspension will end at the expiry of the Cooling Off Period following~~

~~the Default Management Completion Notice in respect of the last of those Defaults.~~

### ~~E3. Contributions to the Default Fund~~

- ~~(i) The amount of each Member's Contribution shall be determined by the Clearing House, on the day falling 30 calendar days after the Equities Default Management Process Completion Date in relation to such Default (or, if such day is not a business day, the immediately preceding next succeeding business day); and~~
- ~~(ii) Where, prior to the end of the period referred to in Rule E1(e)(i) above (or such period as has already been extended pursuant to this Rule E1(e)(ii)), the subsequent Default of one or more Equities Clearing Member(s) (each, a "Relevant Default") occurs, the time, as determined by the Clearing House, on the day falling 30 calendar days after the Equities Default Management Process Completion Date in relation to the Relevant Default which falls latest in time (or, if such day is not a business day, the next succeeding business day); and~~
- ~~(f) Subject to a suspension pursuant to Rule E1(e), the Clearing House may recalculate the Equities Fund Amount on any business day if the Clearing House determines (in its sole discretion) that this is necessary from a risk perspective and, in such case, shall be entitled to adjust the Contributions of Equities Clearing Members in accordance with the Equities Default Fund Supplement.~~

### E2. Equities Contributions

~~notified to such~~ The Clearing House shall determine each Equities Clearing Member's Equities Contribution (other than any Equities Unfunded Contribution or any Supplementary Contribution) in accordance with the following provisions:

- ~~(a) determinations will be made by the Clearing House as of each Equities Determination Date and notified to the relevant Equities Clearing Member as soon as practicable after such determination in accordance with the Procedures. However, Notwithstanding the foregoing, following the Default of an Equities Clearing Member, any determinations of Contributions under the methodology of as of an Equities Determination Date and any such Equities Determination Date which might otherwise have occurred under this Rule E2 shall be are suspended after for the occurrence duration of the Equities Default Default in accordance with paragraph (b)(v) of Rule E2 Period.~~
- ~~(a) An Equities Clearing~~
- ~~(b) A Member's Notional Contribution, in respect of an Equities Determination Date, shall be determined with reference to business conducted by it on the Specified Markets in Equities Contracts as follows:~~
  - ~~(i) the Equities Clearing Member's "End of Day Margin Weight" shall be calculated by dividing the average daily initial margin obligation at~~

the end of each business day (as calculated under the Procedures or other arrangements applicable) which has applied to the Equities Clearing Member during the ReferenceLookback Period immediately preceding such Equities Determination Date in respect of all its Equities Contracts by the total of such average daily obligations applied to all Equities Clearing Members (other than Defaulters);

- (ii) the Equities Clearing Member's **"Peak Intra-Day Margin Weight"** shall be calculated by dividing the average maximum intra-day initial margin obligation arising at any point during each business day during the ReferenceLookback Period immediately preceding such Equities Determination Date (as calculated under the Procedures or other arrangements applicable) which has applied to the Equities Clearing Member in respect of all its Equities Contracts by the total of such average maximum intra-day obligations applied to all Equities Clearing Members (other than Defaulters);
- (iii) the Equities Clearing Member's **"Weight Factor"** shall be calculated by adding one-half of its End of Day Margin Weight to one-half of its Peak Intra-Day Margin Weight,

and the Member's Notional Contribution shall be equal to the amount arrived at by multiplying greater of:

- (i) the Equities Fund Amount multiplied by the Equities Clearing Member's Weight Factor; and
  - (ii) GBP £500,000.;
- (c) An Equities Clearing Member's Equities Contribution, in respect of an Equities Determination Date, shall equal, if:
- (i) nNo Shortfall or Excess exists, the amount of its Notional Contribution;
  - (ii) a Shortfall exists, the amount of its Notional Contribution plus its Shortfall Contribution; or
  - (iii) an Excess exists, the amount of its Notional Contribution minus its Excess Deduction (if any), except that if this would result in any Weighted Equities Clearing Member's Equities Contribution being less than GBP £500,000, then:
    - (A) such Weighted Equities Clearing Member's Equities Contribution shall be GBP £500,000; and
    - (B) if, after treating each Equities Clearing Member's Equities Contribution provided that (x) if the amount calculated for a particular Member pursuant to the foregoing would, when aggregated with the Contributions of all other Members, produce a Fund Amount that is in excess of that permitted under paragraph (b)(iv) of Rule E2(c)(iii) E2, then such excess amount, (e)(iii) as calculated by its Notional Contribution, an Excess still

~~exists, the Clearing House, shall be iteratively notionally allocated to such Member pro rata to its Contribution as originally shall apply Rule E2(c)(iii) again (where each Equities Clearing Member's Contribution calculated pursuant to Rule E2(c)(iii) will be treated as its Notional Contribution for the purpose of such re-application) to reduce the Equities Contribution of each remaining Weighted Equities Clearing Member and shall (if necessary) repeat such process until there is no Excess, where the final calculated and such proportionate excess Equities Contribution shall be deducted the Equities Clearing Member's Equities Contribution;~~

~~(e)(d)~~ Subject to a suspension pursuant to Rule E2(a), the Clearing House may recalculate the Equities Contribution of each Equities Clearing Member on **any business day if** the Clearing House determines (in its sole discretion) that this is necessary from the amount originally calculated and the Member's Contribution a risk perspective and, in such case, such recalculation shall be adjusted accordingly; and provided further that (y) in no case shall a Member's Contribution be less than the Minimum Contribution (notwithstanding that the Fund Amount may, taking into account all Contributions as adjusted in accordance with the provisos to this paragraph, exceed the level specified in paragraph (b)(iv) of Rule E2) Equities Default Fund Supplement.

E3 For the purposes of these calculations under Rule E2:

**"Reference Period"** means the period of three calendar months immediately preceding the Determination Date;

(a) — references to "**Equities Clearing Members**" do not include references to Defaulters (apart from any Defaulter in respect of which the Clearing House permits the application of this Rule) or persons which were formerly Equities Clearing Members but are not Equities Clearing Members ~~on~~at the date Equities Determination Date as of ~~on~~ which the relevant ~~calculation~~determination is made;

(a) \_\_\_\_\_

(b) — Equities Contributions shall~~may~~ be rounded upwards by the Clearing House, if not already such a multiple, to the next integral multiple of one thousand GBP pounds, notwithstanding that the arithmetical sum of Equities Contributions paid by all Equities Clearing Members may thereby exceed the Equities Fund Amount; and

(b) \_\_\_\_\_

(c) no account shall be taken, in calculating initial margin or Margin Weight under ~~this paragraph (b)~~Rule E2 of any offsets applied in calculating the initial margin obligation imposed on Equities Clearing Members in respect of Equities

Contracts, which may otherwise be permissible under the Procedures or other arrangements applicable:-

(d) if (i) an Equities Clearing Member notifies the Clearing House on the Equities Default Management Process Completion Date or the business day occurring immediately after such date that it wishes to resign from the EquityClear Service, (ii) the Equities AET Requirement in respect of such proposed resignation has been satisfied by the Equities Determination Date occurring immediately after such Equities Default Management Process Completion Date, (iii) the Equities Clearing Member is not a Defaulter, and (iv) no Default has occurred from and including the Equities Determination Date referred to in Rule E3(d)(ii) to and including the fourth business day occurring after such Equities Determination Date (“**Equities Contribution Payment Date**”), then the Equities Clearing Member shall cease to be an Equities Clearing Member from such Equities Contribution Payment Date and the Clearing House shall repay the Equities Contribution that it holds for such Equities Clearing Member (to the extent it has not been applied under these Default Rules) in accordance with the Procedures and the Equities Clearing Member shall not be obliged to make any payment to the Clearing House under Rule E7(c). If an Equities Clearing Member notifies the Clearing House in accordance with Rule E3(d)(i), but the requirements under Rules E3(d)(ii), (iii) and/or (iv) are not satisfied, then such Equities Clearing Member will cease to be a Resigning Member in respect of the EquityClear Service.

E4 Without prejudice to any other requirements which the Clearing House may impose, the amount of the Equities Contribution of a New Member in respect of the EquityClear Service shall ~~be the sum of equal:~~

(a) —the Minimum Contribution; and

(a) \_\_\_\_\_

(b) any supplementary sum determined by the Clearing House in its discretion and notified to the New Member. The Clearing House shall determine the amount of such supplementary sum by reference to the actual or expected level of clearing activity of the New Member in respect of the EquityClear Service.

The Equities Contribution of such New Member shall be determined by the Clearing House as of the date it joins the EquityClear Service and it shall be liable to pay its Equities Contribution pursuant to this Rule E4 at the time specified by the Clearing House (and not pursuant to Rule E7).

~~(b) —E5 Except to the extent that the cap specified in paragraph (b)(iv) of Rule E2 would be exceeded, the Clearing House may recalculate the Contributions due from certain Members on any business day other than one falling between the application of a Contribution and the end of the Cooling Off Period, as set out at Rule E7 where the Risk Committee considers (for any reason) that a recalculation is warranted between Determination Dates.~~



A Co-operating Clearing House is not required to contribute to the Equities Default Fund and references in ~~this~~ Rule E2, E3-E3 and E4 to an Equities Clearing Member do not include a Co-operating Clearing House.

#### E4-6 **Interest on Contributions**

On each day interest shall accrue on the amount of each Equities Contribution held by the Clearing House, to the extent that it has not been applied under Rule 19 or Rule 21 of the Default Rules, at such rate as determined by the Clearing House from time to time in light of market conditions and notified by the Clearing House to Equities Clearing Members, and in such manner as provided by the Procedures, provided that the rate of interest for any particular day shall be based on a market-recognised benchmark rate plus or minus a spread. ~~Such rate and such spread shall be determined, in light of market conditions at such time, by the Clearing House from time to time and notified by the Clearing House to Members.~~ Interest on Equities Contributions shall be payable in arrears and shall be paid on the date or dates specified by the Procedures. Any interest which has accrued under this Rule shall not be regarded as part of an Equities Contribution. For the avoidance of doubt, if the rate of interest payable by an Equities Clearing Member is negative, interest shall be payable by Equities Clearing Members to the Clearing House. References in this Rule ~~E4-E6~~ to an Equities Clearing Member do not include a Co-operating Clearing House.

#### E5-7 **Payment of Equities Contributions**

Upon determination of the amount of an Equities Contribution on an Equities Determination Date:

- (a) if the amount of the Equities Contribution of an Equities Clearing Member ~~at close of business on the business day~~ immediately before the time as of which the Clearing House determines the Equities Clearing Member's Equities Contribution under Rule E2 on the relevant Equities Determination Date exceeds the amount of the Equities Clearing Member's Equities Contribution as so determined ~~on the Determination Date~~, the excess shall be paid by the Clearing House to the Equities Clearing Member in accordance with the Procedures;
- (b) if the amount of the Equities Contribution of an Equities Clearing Member ~~at close of business on the business day~~ immediately before the time as of which the Clearing House determines the Equities Clearing Member's Equities Contribution under Rule E2 on the relevant Equities Determination Date is the same as the amount of the Equities Clearing Member's Equities Contribution as so determined ~~on the Determination Date~~, no sum shall then be payable by or to the Equities Clearing Member in respect of its Contribution; and
- (c) if the amount of the Equities Contribution of an Equities Clearing Member ~~at close of business on the business day~~ immediately before the time as of which the Clearing House determines the Equities Clearing Member's Equities Contribution under Rule E2 on the relevant Equities Determination Date is less than the amount of the Equities Clearing Member's Contribution as so determined ~~on the Determination Date~~, the shortfall shall be paid by the Equities Clearing Member to the Clearing House in accordance with the Procedures.

The provisions of this Rule do not apply to a Member which is a Defaulter, unless the Clearing House so requires in any particular case.

References in this Rule ~~E5-E7~~ to an Equities Clearing Member do not include a Co-operating Clearing House.

#### E6-8 Reduction—of the Total Equities Contributions and Supplementary Contributions

- (a) After a Default, unless and until the Clearing House has repaid a Defaulter's Equities Contribution (or the remaining part thereof, as applicable), the Total Equities Contributions shall be reduced by the amount of the Defaulter's Equities Contribution (if any), regardless of whether the Clearing House has applied part or all of that Equities Contribution under the Default Rules.
- (b) Where, after a Default, the Clearing House has applied part or all of the Equities Contributions of the Non-Defaulting Equities Clearing Members under Rule 21 of the Default Rules, the Total Equities Contributions shall be reduced by the deduction of (i) the amount of the Defaulter's Equities Contribution (if any) in accordance with paragraph (a) of this Rule E8, and (ii) the aggregate amount of the Equities Contributions or parts of Equities Contributions of the Non-Defaulting Equities Clearing Members so applied, and the amount of the Equities Contribution that each Non-Defaulting Equities Clearing Member must maintain with the Clearing House shall be reduced by the amount of its Equities Contribution which has been so applied, in each case, until the next Equities Determination Date and subject to (where applicable) the requirement under paragraph (c) of this Rule E8 and Rule E9.
- (c) Following the completion of the default management process for the Default of an Equities Clearing Member, the Clearing House will deliver a notice to the Equities Clearing Members confirming that the relevant Equities Default Management Process Completion Date has occurred. If, following the issuance of such notice, the Clearing House determines (in its sole discretion) that the value of the Equities Default Fund is less than the Fund Floor, the Clearing House may notify each Non-Defaulting Equities Clearing Member that it is required to make a Supplementary Contribution to restore the value of the Equities Default Fund to an amount equal to the Fund Floor.

The amount of a Non-Defaulting Equities Clearing Member's Supplementary Contribution will be based on:

- (i) the proportion that the amount of its Equities Contribution as determined by the Clearing House pursuant to the Equities Default Fund Supplement as of the last Equities Determination Date (or, if such Non-Defaulting Equities Clearing Member joined the EquityClear Service after such Equities Determination Date, the amount of its Equities Contribution as determined by the Clearing House pursuant to the Equities Default Fund Supplement as of the date on which it joined the Equities Service) bear(s) to;

- (ii) ~~(ii)~~ the aggregate of the Equities Contributions determined by the Clearing House pursuant to the Equities Default Fund Supplement as of the last Equities Determination Date (and, if any Non-Defaulting Equities Clearing Member joined the EquityClear Service after such Equities Determination Date, plus the amount of its Equities Contribution as determined by the Clearing House pursuant to the Equities Default Fund Supplement as of the date on which it joined the EquityClear Service).

Supplementary Contributions required hereunder shall be paid within two business days after notification and in accordance with the Procedures.

References in this Rule E8 to an Equities Clearing Member do not include a Co-operating Clearing House.

## E9 **Unfunded Contributions**

~~On any business day~~Where, after the occurrence of a Default, if the Clearing House determines that (i) by reason of reduction in accordance with ~~Rule E7, (i) the Fund Amount (minus any Contribution of the Defaulter) has been~~ Rule E8, the Total Equities Contributions have been reduced by at least 25 per cent., or (ii) by the time of ~~issue of~~ the Equities Default Management Process Completion Notice Date in relation to ~~that~~ the relevant Default, the ~~Fund Amount~~ Total Equities Contributions will have been ~~so~~ reduced by at least 25 per cent, the Clearing House may, by notice in writing (each an "**Equities Unfunded Contribution Notice**"), require each Non-Defaulting Equities Clearing Member to deposit and maintain an amount (each, an "**Equities Unfunded Contribution**") in accordance with ~~the following provisions this Rule:~~

- (a) Equities Unfunded Contributions will only be payable in circumstances where the relevant Equities Unfunded Contribution Notice is delivered by the Clearing House to Equities Clearing Members before the Equities Default Management Process Completion Notice Date in relation to the relevant Default;
- ~~(b)~~ The amount of an Equities Unfunded Contribution payable by an Equities Clearing Member in respect of a Default shall be payable pro rata the product of (i) the percentage by reference to the proportion which that Member's Contribution bears to the aggregate of the Total Equities Contributions of all Non-Defaulting Clearing Members, and shall not exceed the value have been, or will be, reduced, and (ii) the amount of the Equities Contribution of that Equities Clearing Member as determined by the Clearing House pursuant to the Equities Default Fund Supplement as of the Contribution of that Member as calculated on the last last Equities Determination Date prior to the date when the relevant Default occurred;
- ~~(b)~~ Following the payment of an Unfunded Contribution in accordance with paragraphs (a), (b) and (c) (or, in respect of of Rule E6, of an Equities Clearing Member that joined the EquityClear Service after such EquityClear Determination Date, the amount of its Equities Contribution determined by the Clearing House pursuant to the Equities Default Fund Supplement as of the date on which it joined the EquityClear Service);

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

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

#### E7.—Cooling Off and Replenishment of Fund

~~(a) — This Rule applies where, after a Default, the Clearing House has applied part or all of a Contribution under Rule 19 or Rule 21 of the Default Rules. Upon such application the Fund Amount shall be reduced forthwith by the aggregate amount of the Contributions or parts of Contributions so applied, and the amount of the Contribution that each Member must maintain with the Clearing House shall be reduced by the amount of its Contribution which has been applied pursuant to Rule 21 of the Default Rules, in each case, until the next Determination Date and subject to (where applicable) the requirements under Rule E6 and Rule E7(b) and (d). Unless and until the Clearing House has repaid a Defaulter's Contribution, the Fund Amount shall be treated as having been reduced by the amount of the Defaulter's Contribution (if any) regardless of whether the Clearing House has applied part or all of that Contribution under Rule 19 of the Default Rules.~~

~~(b) — If following the issuance of a notice to the effect that it has completed the management of a Default (a "**Default Management Completion Notice**") the aggregate amount of Fund~~

~~Amount determined in accordance with paragraph (a) of this Rule E7 is less than the Fund Floor, the Clearing House may notify each Non-Defaulting Clearing Member that it is required to make a Supplementary Contribution until the next Determination Date, based on the proportion that the value of its Contribution as at the last Determination Date prior to the date when the relevant Default occurred bears to the value of the aggregate Contributions of all Non-Defaulting Clearing Members as at such date, so as to maintain the Fund Amount at no less than the Fund Floor. Supplementary Contributions required hereunder shall be paid within two business days after notification and in accordance with the Procedures.~~

~~(c) — For a further period (a "Cooling Off Period") of 30 calendar days from (and including) any day on which the Clearing House has issued a Default Management Completion Notice after an application pursuant to Rule 19 or Rule 21 of the Default Rules, calculation of the Fund Amount and the Contributions of Members in accordance with Rule E3 shall be suspended.~~

~~(d) — Each Member's Contribution during a Cooling Off Period shall be no less than the Minimum Contribution.~~

~~(e) — if (i) a Member notifies the Clearing House on the Default Management Process Completion Date or the business day occurring immediately after such date that it wishes to resign from the EquityClear Service, (ii) the Equities AET Requirement in respect of such proposed resignation has been satisfied by the Determination Date occurring immediately after such Default Management Process Completion Date, (iii) the Member is not a Defaulter, and (iv) no Default has occurred from and including the Determination Date referred to in Rule E7(e)(ii) to and including the fourth business day occurring after such Determination Date ("Equities Contribution Payment Date"), then the Member shall cease to be an EquityClear Clearing Member from such Equities Contribution Payment Date and the Clearing House shall repay the Equities Contribution that it holds for such Member (to the extent it has not been applied under these Default Rules) in accordance with the Procedures and the Member shall not be obliged to make any payment to the Clearing House under Rule E5(a)(iii). If a Member notifies the Clearing House in accordance with Rule E7(e)(i), but the requirements under Rules E7(e)(ii), (iii) and/or (iv) are not satisfied, then such Member will cease to be a Resigning Member in respect of the applicable Service(s).~~

~~(f) — 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.~~

~~(g) — There may not be more than three exceptional Determination Dates of the type described in (f) above in any period of six months.~~

~~(h) — References in this Rule E7 to a Member do not include a Co-operating Clearing House.~~

## **E108. Loss Allocation**

- (a) 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-E10~~ 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

~~Contribution as at the last Determination Date prior to the date when the relevant Default occurred bears to the value of the aggregate Contributions of all Non-Defaulting Clearing Members as at such date, so as to maintain the Fund Amount at no less than the Fund Floor. Supplementary Contributions required hereunder shall be paid within two business days after notification and in accordance with the Procedures.~~

~~(e) — For a further period (a "**Cooling Off Period**") of 30 calendar days from (and including) any day on which the Clearing House has issued a Default Management Completion Notice after an application pursuant to Rule 19 or Rule 21 of the Default Rules, calculation of the Fund Amount and the Contributions of Members in accordance with Rule E3 shall be suspended.~~

~~(d) — Each Member's Contribution during a Cooling Off Period shall be no less than the Minimum Contribution.~~

~~(e) — if (i) a Member notifies the Clearing House on the Default Management Process Completion Date or the business day occurring immediately after such date that it wishes to resign from the EquityClear Service, (ii) the Equities AET Requirement in respect of such proposed resignation has been satisfied by the Determination Date occurring immediately after such Default Management Process Completion Date, (iii) the Member is not a Defaulter, and (iv) no Default has occurred from and including the Determination Date referred to in Rule E7(e)(ii) to and including the fourth business day occurring after such Determination Date ("**Equities Contribution Payment Date**"), then the Member shall cease to be an EquityClear Clearing Member from such Equities Contribution Payment Date and the Clearing House shall repay the Equities Contribution that it holds for such Member (to the extent it has not been applied under these Default Rules) in accordance with the Procedures and the Member shall not be obliged to make any payment to the Clearing House under Rule E5(a)(iii). If a Member notifies the Clearing House in accordance with Rule E7(e)(i), but the requirements under Rules E7(e)(ii), (iii) and/or (iv) are not satisfied, then such Member will cease to be a Resigning Member in respect of the applicable Service(s).~~

~~(f) — 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.~~

~~(g) — There may not be more than three exceptional Determination Dates of the type described in (f) above in any period of six months.~~

~~(h) — References in this Rule E7 to a Member do not include a Co-operating Clearing House.~~

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process (the "**Loss Distribution Process**") described in this Rule ~~E10 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 an Equities Clearing Member by a resolution authority, including any write-down or conversion of liabilities of such Equities Clearing 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 an Equities Clearing Member by a resolution authority, including any write-down or conversion of liabilities of such Equities Clearing Member.

~~(a)~~(b) **Definitions and interpretation**

In this Rule ~~EE8~~10, references to an Equities Clearing 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 ~~p~~Paragraph (d) of this Rule ~~EE8~~10.

**"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 Equities Clearing Member to the business day on which all Loss Distribution Charges in respect of such Default have been paid in full, and (ii) any business day on which the Clearing House determines that a Loss Distribution Trigger has occurred, PROVIDED THAT the Loss Distribution Period shall not extend beyond the Loss Distribution Cut-Off Date.

**"Loss Distribution Trigger Amount"** means, in respect of any Loss Distribution Period and any Non-Defaulting Equities Clearing Member, an amount equal to twice the Equities Contribution of such Non-Defaulting Equities Clearing Member as at the last Equities Determination Date prior to the date when the Default occurred at the beginning of that Loss Distribution Period; or (ii) an amount as approved by the Requisite Non-Defaulting ~~EquityClear~~ Equities Clearing Members following a Revised Loss Distribution Proposal as described in paragraph (d) of this Rule ~~E10~~8.

**"Loss Distribution Trigger Event"** means, with respect to a Non-Defaulting Equities Clearing Member, the aggregate Cash Payments during the Loss Distribution Period (as amended from time to time) exceeded that Member's

Loss Distribution Trigger Amount (as amended from time to time) on the immediately preceding Loss Distribution Day.

**“Requisite Non-Defaulting Equities ~~EquityClear~~ Clearing Members”** means on any bBusiness dDay in a Loss Distribution Period, Non-Defaulting Equities Clearing Members whose Equities Contributions represented 75% or more of the total size of the Equities Fund Amount (less the Equities Contributions of any Defaulter(s)) as at the last Equities Determination Date prior to the date when the Default occurred.

#### (c) **Loss Distribution Charges**

(i) On each Loss Distribution Day, each Non-Defaulting Equities Clearing Member shall pay to the Clearing House a **“Loss Distribution Charge”** which is equal to the product of (x) the LCH Uncovered Loss in respect of that Loss Distribution Day, and (y) the proportion which that Equities Clearing Member's Equities Contribution bears to the aggregate of the Equities Contributions of all Non-Defaulting Equities Clearing Members, provided that such Loss Distribution Charge shall also include any liquidity amounts. For the purposes of this Rule EE§10, **“liquidity amounts”** means the gross amount paid or payable for borrowed or purchased assets solely to enable the physical settlement of Contracts.

(ii) Any Loss Distribution Charge shall be paid by the Equities Clearing Member to the Clearing House in accordance with the Procedures.

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

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

(ii) If, at any time during a Loss Distribution Period, the Clearing House determines that (A) the Loss Distribution Process is likely to extend beyond the Loss Distribution Cut-Off Date, or (B) a Loss Distribution Trigger Event is likely to occur, the Clearing House may propose to the Non-Defaulting Equities Clearing Members (I) an extension of up to 10 business days, from the date of such proposal, to the Loss Distribution Cut-Off Date, and (II) an increase in each Non-Defaulting Equities Clearing Member's Loss Distribution Trigger Amount of up to twice the Equities Contribution of such Non-Defaulting Equities Clearing Member as at the last Equities Determination Date prior to the date when the Default occurred (any proposal pursuant to (I) and (II) above, a **“Revised Loss Distribution Proposal”**). For the avoidance of doubt, the Clearing House shall propose adjustments to both the Loss Distribution Cut-Off Date and Non-Defaulting Equities Clearing Members' Loss



Distribution Trigger Amount in a Revised Loss Distribution Proposal, regardless of whether the trigger for such Revised Loss Distribution Proposal is (A) or (B) above.

~~(exv)~~(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.

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

~~(exv)~~(v) The Clearing House shall publish the terms of the voting process for the purposes of this paragraph (d) on the bBusiness dDay that the vote is initiated.

#### ~~(e)~~(e) **Application of Loss Distribution Charges**

Apart from liquidity amounts used to effect physical settlement in accordance with paragraph (c)(i) of Rule ~~E10E8~~, the Clearing House shall apply all other payments it receives in respect of Loss Distribution Charges solely for the purposes of meeting any loss incurred by the Clearing House in relation to the Defaulter's Equities Contracts.

#### ~~(a)~~(f) **No Rebate**

(i) Subject to paragraph (f)(ii) of Rule ~~E8E10~~, Rule E11 E9 and paragraph ~~0(e)~~ of Rule ~~E12E10~~, the payment to the Clearing House by any Equities Member of any Loss Distribution Charge shall be final and shall not give rise to any obligation of the Clearing House to repay any such amount or to pay any interest thereon.

(ii) Following the issuance of a Equities Default Management Process Completion Notice Date in relation to the relevant Default, surplus

amounts of Loss Distribution Charges comprising liquidity amounts for physical settlement shall, in the case of a Retiring Member or a Resigning Member, be returned to such Equities Clearing Member, and, in the case of other Equities Clearing Members, be set off against a Equities Clearing Member's Equities Contribution (provided any surplus liquidity amounts in excess of the Equities Contribution shall be returned to such Equities Clearing Member), in both cases, *pro rata* by reference to the proportion which the Loss Distribution Charge paid by the relevant Equities Clearing Member bears to the aggregate of Loss Distribution Charges paid by all Non-Defaulting Equities Clearing Members.

### (b)(g) Auction

If, on a Loss Distribution Day, the LCH Uncovered Loss exceeds the aggregate amount of Loss Distribution Charges, the Clearing House shall, during the Loss Distribution Period, invite all Non-Defaulting Equities Clearing Members (“**Invited Bidders**”) to participate in an auction to acquire certain positions that the Clearing House has not yet closed out (“**Auction Portfolio**”).

- (i) The Clearing House shall prescribe procedures for the completion of such auction process as it considers reasonably appropriate from time to time.
- (ii) The Clearing House shall notify each Invited Bidder of all details that may be reasonably required in relation to the Auction Portfolio prior to commencing the auction. The auction may take place over a number of days and auctions of different Auction Portfolios may take place at different times.
- (iii) Invited Bidders who decide to participate in an auction will submit bids to the Clearing House. Bids may be submitted for the entire Auction Portfolio or for a portion of the Auction Portfolio. Bids shall be submitted as a price at which the relevant Invited Bidder is willing to take on a specified percentage of the Auction Portfolio, and all bids will be ranked in accordance with the price per percentage represented by that bid. The Clearing House will oversee the bidding process in a manner which it considers best protects the resources of the Clearing House and ensures an orderly process. The Clearing House shall be entitled to round up or round down nominal amounts.
- (iv) The Clearing House will have full discretion in deciding whether or not to accept one or more bids in an auction for part or all of the Auction Portfolio and, in so deciding, will take into account the range of bids received relative to the amount of Collateral held in respect of initial margin, variation margin and additional margin and the ~~Default Fund~~ Equities Contribution of the Defaulting Clearing Member and, subject to their availability, the Clearing House resources as set out in Rule 15 of the Default Rules. If the Clearing House does accept one or more bids, the price paid by the relevant winning bidders will be the same. Therefore, if the Clearing House decides to accept more than one bid,

the price payable by all such winning bidders will be the price of the lowest bid which is accepted by the Clearing House. In the event that more than one Invited Bidder submits a bid of the same value (each an "Equal Bid"), the Clearing House may, subject to its discretion to reject one or more such Equal Bids, split the relevant Auction Portfolio between the relevant Invited Bidders who submitted Equal Bids on an individual trade-by-trade basis. The Clearing House may choose to accept a bid in respect of a smaller proportion of an Auction Portfolio than that which an Invited Bidder specified in its bid.

- (v) In the case of an auction in which no bid is accepted or received (as the case may be), or in which the bids accepted by the Clearing House are for less than the whole Auction Portfolio one or more further auctions may, at the discretion of the Clearing House, be held in relation to the relevant Auction Portfolio or that part of the Auction Portfolio which remains.
- (vi) In the event that the auction is unsuccessful the Clearing House may determine a price at which it will cash settle the outstanding position, at a price determined at the discretion of the Clearing House. Following such action the Clearing House will delete such transactions at the relevant ASP, which the Buying and Selling Members will be required to match delete, in line with the provisions outlined in Section 2D.

#### ~~(e)~~(h) **Cash Settlement**

If the Requisite Non-Defaulting ~~Equities Clearing~~ **Equities Clearing** Members do not vote in favour of an increase in the Loss Distribution Cap in accordance with Rule E108(d), the Clearing House may cash settle the outstanding transactions of the Defaulting Clearing Member, at a price determined at the discretion of the Clearing House. Following such action the Clearing House will delete such transactions at the relevant ASP, which the Buying and Selling Members will be required to match delete, in line with the provisions outlined in Section 2D.

#### **E119. Application of Recoveries**

The Clearing House shall reimburse the **Equities Clearing** Members (irrespective of whether they remain **Equities Clearing** 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 an **Equities Clearing** Member pursuant to Rules ~~E810~~, 15(h), 15(g), and 15(e);

- (a) any amounts received from the Defaulter as a result of the Clearing House being a creditor of the Defaulter in respect of the **Equities** Business of such Defaulter in the context of the occurrence of any of the events under Rules 5(i) to (p) of the Default Rules in respect of the Defaulter or otherwise; or
- ~~(b)~~(a) any other amounts howsoever obtained or recovered in the course of the management of the Default or which are otherwise referable to the Default or the Defaulter,

in each case net of any related expenses incurred by the Clearing House or other sums owing to the Clearing House by the Defaulter in connection with the Equities Service.

For the avoidance of doubt, nothing in this Rule ~~E11 E9~~ shall oblige the Clearing House to pursue any litigation or take other action in order to recover the amounts contemplated above and if another default fund of the Clearing House has also been applied as a result of the Member's Default, any amounts recovered shall be applied *pari passu* as between the relevant default funds.

The Equities Clearing Members will be reimbursed before applying any recoveries back to the Clearing House. Any recoveries made by the Clearing House in excess of the resources applied or paid by the Equities Clearing Members pursuant to Rules ~~EE810~~, 15(h), 15(g) and 15(e) shall be retained by the Clearing House.

References in this Rule ~~E11 E9~~ to an Equities Clearing -Member do not include a Co-operating Clearing House.

#### E1240. Service Closure

- (a) Where, after the Default of one or more Equities Clearing Members, the Clearing House determines that, notwithstanding the availability of any resources remaining under Rules 15(a) to 15(h) of the Default Rules and the availability of the Loss Distribution Process under Rule ~~EE810~~, the Clearing House does not have sufficient resources to meet its obligations and liabilities arising in respect of Equities Contracts to which it is party with Non-Defaulting Equities Clearing Members, the Clearing House shall make a further determination (an "**Insufficient Resources Determination**") that the Clearing House does not have sufficient available resources under Rules 15(a) to 15(h) of the Default Rules and via the Loss Distribution Process under Rule ~~E8-10~~ to meet its obligations and liabilities arising in respect of those Equities Contracts to which it is party with Non-Defaulting Equities Clearing Members, and the provisions of this Rule shall have effect.
- (b) All outstanding Equities Contracts shall be closed out as of the business day following the date of the Insufficient Resources Determination and any further obligations to make any payments under or in respect of such Equities Contracts shall cease. The closing prices used shall be prices calculated by the Clearing House in accordance with the methodology used by it to carry out end of day margin runs in respect of the outstanding Equities Contracts. Where such data is not available to the Clearing House, the closing price shall be the last price used by the Clearing House to calculate the variation margin obligation for the position to be closed out.
- (c) On the basis of the close out values established for each outstanding Equities Contract, an account shall be taken (as at the time of close out) of what is due, in respect of each Equities Clearing Member, from that Equities Clearing Member to the Clearing House and from the Clearing House to that Equities Clearing Member, as well as all other amounts owing under or in respect of such Equities Contracts and any other amounts that may be due in respect of the Equities Service (including for these purposes, a proportionate share of any amounts owed generally to or from the Clearing House), and the sums due from

the Equities Clearing Member shall be set off against the sums due from the Clearing House and only the balance of the account shall be payable. Amounts due in respect of such Equities Contracts shall include, but shall not be limited to, returns of cash Collateral provided in respect of variation margin associated therewith and returns of Loss Distribution Charges, but shall exclude the repayment of any cash Collateral provided to the Clearing House in respect of initial margin or any Equities Contributions.

To the extent that the aggregate of all of the amounts owed to the Clearing House by Equities Clearing Members (including Co-operating Clearing Houses) plus all of those other resources applicable to the Service under Rules 15(a) to 15(h) of the Default Rules that have not been applied towards an Excess Loss is less than the aggregate of the amounts owed to Equities Clearing Members (including Co-operating Clearing Houses) by the Clearing House, each amount owed to Members by the Clearing House shall be reduced *pro rata* the shortfall. For the avoidance of doubt, no amount owed by the Clearing House to a Co-operating Clearing House is to be reduced pursuant to this paragraph ~~0(e)~~.

(d) The Clearing House shall determine any amounts due to each Equities Clearing Member in respect of the repayment of cash Collateral provided in respect of initial margin obligations and outstanding Equities Contributions to be repaid. The claim of each such Equities Clearing Member in respect of the foregoing shall be limited to a *pro rata* share of the assets available to the Clearing House to satisfy those amounts.

(e) For each Equities Clearing Member, the amount due to it or due from it as determined pursuant to (c) above shall be aggregated with its claim determined pursuant to (d) above and only the net sum shall be payable. Where the result of such calculations is that an Equities Clearing -Member owes an amount to the Clearing House, that Equities Clearing Member shall pay that amount to the Clearing House immediately. Where the result of such calculations is that an Equities Clearing Member is owed an amount by the Clearing House, the Clearing House shall pay that amount to the Equities Clearing Member immediately, subject to (g) below.

(f) The payment of such amount to an Equities Clearing Member pursuant to (e) above, subject to any re-calculations performed pursuant to (g) below, shall constitute the full and final payment in respect of the Equities Service and such Equities Clearing Member shall not be permitted to make any further claims on the Clearing House in respect of amounts relating to the Equities Clearing Service nor shall it be permitted to notify the Clearing House of a Termination Date pursuant to Regulation 45 (*Netting*) for a failure to pay any amounts in relation to the Equities Service.

~~(e)~~(g) The Clearing House may make the payments due under (e) above in one or more instalments to the Equities Clearing Members in proportion to the value of their claims on the Clearing House under (c) above if some but not all of the amounts due under (e) above or Rules 15(a) to (g) of the Default Rules have not yet been received. The Clearing House shall take reasonable steps to recover such amounts and may deduct therefrom reasonable administration costs for such

recovery. To the extent that the Clearing House determines that any such amounts will not in fact be recoverable, it shall re-determine the amounts due to Equities Clearing Members in accordance with this Rule.

~~(e)~~(h) This Rule shall not be applied in the event that a Termination Date has been specified in relation to the Clearing House in accordance with Regulation 45 (*Netting*).

~~(a)~~(i) Nothing in the foregoing shall override the obligation of the Clearing House to return non-cash Collateral provided by an Equities Clearing Member in respect of its initial margin obligations pursuant to the Regulations and Procedures.

~~(b)~~(j) Except for references to Equities Clearing Members and Non--Defaulting Equities Clearing Members in paragraph (a) above, and except where otherwise stated, references in this Rule ~~E12 -E10~~ to an Equities Clearing Member do not include a Co-operating Clearing House.

**SCHEDULE 9**  
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### **Appendix III**

#### Sponsored Clearing Procedures



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**SPONSORED CLEARING PROCEDURES OF  
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Separate initial margin calculations are performed for each SM/AM Account of a Sponsored Member:

- (a) *Margin Parameters:* Sponsored Members and their relevant Agent Members will be notified by the Clearing House of alterations to margin parameters no later than the RepoClear Opening Day before calls are made, based on the new parameters.
- (b) *Expected Shortfall:* General information on Expected Shortfall, including the Clearing House's Margin Advisor and RepoCalc may be obtained by phoning +44 (0)20 7426 6338. Technical questions should be directed to the Clearing House's Risk Department at FLRrepoexchanges@lch.com.
- (c) *Additional Margin:* Sponsored Members and their relevant Agent Members should note that additional margin captures the risks not reflected in the Expected Shortfall model.

2.8.7 *Default Fund Additional Margin:* The Clearing House may from time to time require a Sponsored Member to transfer (or procure the transfer of) Collateral to the Clearing House to meet the default fund additional margin requirement as determined and notified by the Clearing House to such Sponsored Member and their relevant Agent Members ("DFAM"). The methodology by which the Clearing House determines DFAM is available within the LCH portal, which is on the Clearing House website. The Clearing House will record any Collateral a Sponsored Member's corresponding Agent Member has provided to meet its DFAM obligation to the Sponsored Member's SM/AM Default Fund Account.

2.8.72.8.8 *Intra-day Margin Calls:* In accordance with the SC Regulations, the Clearing House is entitled to make additional margin calls for payment the same day (intra-day margin calls), where it is considered necessary. To the extent that additional Collateral may be required, intra-day margin calls result in a request for cash Collateral via the PPS which will be satisfied by a Sponsored Member's corresponding Agent Member from its PPS account.

With regard to RepoClear Term £GC Contracts, where Sponsored Members successfully cover before 7.30am London time, all collateral obligations arising from the latest CREST Term £GC mark to market revaluation, any Term £GC margin held in excess of that required to cover the CREST revaluation will be eligible for immediate (same-day) return via PPS, for onward transfer by a Sponsored Member's corresponding Agent Member to such Sponsored Member's designated account, provided the Clearing House receives a specific Agent Member request by 09:30am London time, via the CMS, and in accordance with Section 3 of these SC Procedures. Any excess margin not requested by the Sponsored Member will be held on account and used to cover subsequent member liabilities.

2.8.82.8.9 *Margin obligations following a Paying Agent Resignation:* Following a Paying Agent Resignation in accordance with SC Regulation 7(q), any margin obligations that subsequently arise will be allocated and discharged in the following manner:



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## **Appendix IV**

FCM Regulations

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**FCM REGULATIONS OF LCH LIMITED**

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	NDF Contract and one FCM ForexClear NDF Contract (as the case may be).
<b>“FCM ForexClear NDO Contract”</b>	means an FCM Contract entered into by the Clearing House with an FCM ForexClear Clearing Member on the FCM ForexClear NDO Contract Terms.
<b>"FCM ForexClear NDO Contract Terms"</b>	means the terms applicable to each FCM ForexClear NDO Contract as set out from time to time in the FCM Product Specific Contract Terms and Eligibility Criteria Manual applicable to FCM ForexClear NDO Contracts.
<b>"FCM ForexClear NDO Transaction"</b>	means a transaction, the details of which may be presented to the Clearing House for registration of such transaction as two FCM ForexClear NDO Contracts or one ForexClear NDO Contract and one FCM ForexClear NDO Contract (as the case may be).
<b>"FCM ForexClear Non-Deliverable Contract"</b>	means an FCM ForexClear NDF Contract or an FCM ForexClear NDO Contract
<b>"FCM ForexClear Non-Deliverable Contract Terms"</b>	means the FCM ForexClear NDF Contract Terms or FCM ForexClear NDO Contract Terms
<b>“FCM ForexClear Non-Deliverable Service”</b>	means the service provided by the Clearing House under the FCM Regulations, whereby the Clearing House makes available services in respect of FCM ForexClear NDF Contracts and FCM ForexClear NDO Contracts
<b>"FCM ForexClear Non-Deliverable Transaction"</b>	means an FCM ForexClear NDF Transaction or an FCM ForexClear NDO Transaction
<b>“FCM ForexClear Suspension Sub-Account”</b>	means the FCM Client Sub-Account of a Pre-Allocation FCM Clearing Member that has been established by the FCM ForexClear Clearing Member to register Unallocated FCM ForexClear Contracts.
<b>“FCM ForexClear Transaction”</b>	means an FCM ForexClear NDF Transaction or FCM ForexClear NDO Transaction.
<b><u>FCM ForexClear Service”</u></b>	<u>means the service provided by the Clearing House under the FCM Rulebook in respect of FCM ForexClear Contracts.</u>
<b>“FCM Futures Client Funds”</b>	means all cash, securities, receivables, rights, intangibles and any other collateral or assets held by an FCM Clearing Member ( <i>i.e.</i> , not furnished to the Clearing House) on behalf of its FCM Clients with respect to Futures Products or other Futures/Options Contracts.

with the Clearing House to be cleared by the Clearing House pursuant to the FCM Regulations.

**“FCM Listed Interest Rates Novation Transaction”** means, in respect of a Rates Exchange, the matched Rates Exchange Particulars representing a bilateral transaction and either:

- (i) concluded other than through the order book of the relevant Rates Exchange; or
- (ii) concluded through an order book of the Rates Exchange, and

in each case:

- (a) entered into between two Executing Parties for purposes of having at least one side of such transaction registered with the Clearing House as an FCM Listed Interest Rates Contract, and the other side of such transaction registered with the Clearing House as either an FCM Listed Interest Rates Contract or a Non-FCM Listed Interest Rates Contract; and
- (b) which the Clearing House and the Rates Exchange have agreed will be cleared in accordance with, and subject to, the Rates Exchange Rules and the FCM Rulebook via novation under FCM Regulation 54 (and not via the FCM Listed Interest Rates Open Offer clearing mechanism).

**“FCM Listed Interest Rates Open Offer”** means the open offer made by the Clearing House in respect of a Rates Exchange Match under FCM Regulation 53. .

**“FCM Listed Interest Rates Open Offer Eligibility Criteria”** has the meaning set out in FCM Regulation 53.

**“FCM Listed Interest Rates Transaction”** means any transaction entered into between two Executing Parties for purposes of having at least one side of such transaction registered with the Clearing House as an FCM Listed Interest Rates Contract, and the other side of such transaction registered with the Clearing House as either an FCM Listed Interest Rates Contract or a Non-FCM Listed Interest Rates Contract.

**“FCM Listed Interest Rates Service”** means the service provided by the Clearing House under the FCM Rulebook in respect of FCM Listed Interest Rates Contracts.



<b>“FCM SwapClear Contract”</b>	means a contract that is registered for clearing and is entered into by the Clearing House with an FCM Clearing Member on the FCM SwapClear Contract Terms, and which is governed by these FCM Regulations.
<b>“FCM SwapClear Contract Terms”</b>	means the terms applicable to each FCM SwapClear Contract as set out from time to time in the FCM Product Specific Contract Terms and Eligibility Criteria Manual.
<b>“FCM SwapClear Product Eligibility Criteria”</b>	means the product criteria set out in paragraphs 1.1(a), 1.1(b) or 1.1(c), and paragraph 3 of Part B of Schedule 1 to the FCM Product Specific Contract Terms and Eligibility Criteria Manual.
<b>“FCM SwapClear Suspension Sub-Account”</b>	means the FCM Client Sub-Account of a Pre-Allocation FCM Clearing Member that has been established by the FCM SwapClear Clearing Member with a view to registering Unallocated FCM SwapClear Contracts.
<b>“FCM SwapClear Transaction”</b>	means any transaction, the details of which may be presented to the Clearing House via an FCM Approved Trade Source System for registration of such transaction as two FCM SwapClear Contracts or one SwapClear Contract and one FCM SwapClear Contract (as the case may be), regardless of whether such transaction (a) is an existing transaction, (b) was entered into in anticipation of clearing, or (c) is contingent on clearing.
<b><u>“FCM SwapClear Service”</u></b>	<u>means the service provided by the Clearing House under the FCM Rulebook in respect of FCM SwapClear Contracts.</u>
<b>“FCM Swaps Client Funds”</b>	means all cash, securities, receivables, rights, intangibles and any other collateral or assets held by an FCM Clearing Member ( <i>i.e.</i> , not furnished to the Clearing House) on behalf of its FCM Clients with respect to Swaps Products or other Cleared Swaps.
<b>“FCM Swaps Client Segregated Depository Account”</b>	means an omnibus account maintained by an FCM Clearing Member for its FCM Clients with a Permitted Depository (including any applicable “PPS Accounts”, which are described in the FCM Procedures), which is segregated in accordance with Section 4d(f) of the CEA and the CFTC Regulations, which is a Cleared Swaps Customer Account and which contains the FCM Swaps Client Funds of its FCM Clients held in connection with Swap Products or other Cleared Swaps (and, if applicable, the funds of other Cleared Swaps customers of an FCM Clearing Member held in connection with other Cleared Swaps).

<b>“Margin”</b>	means, with respect to a particular account or accounts of an FCM Clearing Member with the Clearing House, the Collateral value that is attributable to such account or accounts as margin for the margining of FCM Contracts in such account or accounts, as determined by the Clearing House in accordance with the FCM Rulebook.
<b>“Multilateral Compression”</b>	means the exercise in which some or all of the FCM SwapClear Contracts or Non-FCM SwapClear Contracts, as applicable, submitted by two or more Compression Clearing Members (either on their own behalf or on behalf of an Authorised Compression Client), as applicable, for inclusion in a Multilateral Compression Cycle are wholly terminated and, where relevant, replaced with other FCM SwapClear Contracts or Non-FCM SwapClear Contracts.
<b>“Multilateral Compression Cycle”</b>	means the process of Multilateral Compression in accordance with a Compression Proposal, by way of an ACSP Compression Cycle .
<b>“MER”</b>	<u>h</u> Has the meaning assigned to it in Section 2.1.3(c) of the FCM Procedures.
<b><u>“New Member”</u></b>	<u>means, in respect of a day and the FCM ForexClear Service, FCM Listed Interest Rates Service or the FCM SwapClear Service, a FCM Clearing Member that has joined the, or is to join, such service on such day.</u>
<b>“Nominated FCM Client”</b>	has the meaning assigned to it in the FCM Procedures.
<b>“Non-FCM Clearing Member”</b>	means either a SwapClear Clearing Member, a ForexClear Clearing Member or a Listed Interest Rates Clearing Member, as applicable.
<b>“Non-FCM Contract”</b>	means either a Non-FCM SwapClear Contract, a Non-FCM ForexClear Contract or a Non-FCM Listed Interest Rates Contract, as applicable.
<b>“Non-FCM ForexClear Contract”</b>	means a “ForexClear Contract” (as such term is defined in the UK General Regulations) and which is governed in accordance with the UK General Regulations.
<b>“Non-FCM Listed Interest Rates Contract”</b>	means a “Listed Interest Rates Contract” (as such term is defined in the UK General Regulations) and which is governed in accordance with the UK General Regulations.
<b>“Non-FCM SwapClear Contract”</b>	means a “SwapClear Contract” (as such term is defined in the UK General Regulations) and which is governed in accordance with the UK General Regulations.



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## **Appendix V**

FCM Procedures

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**FCM PROCEDURES OF  
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determines necessary (in its sole discretion) to ensure that Clearing House is able to (as applicable) net such FCM SwapClear Contracts and/or Non-FCM SwapClear Contracts and/or risk manage such FCM SwapClear Contracts, and may require the FCM Clearing Member that is party to any such FCM SwapClear Contract to comply with such directions issued by the Clearing House as are reasonably connected with such amendments.

#### 2.1.10 *Initial Margin*

The Clearing House will require FCM Clearing Members to furnish it with Initial Margin. This amount will be determined by the prevailing market conditions and the expected time to close out the portfolio. The Portfolio Approach to Interest Rate Scenarios (PAIRS) will be used to calculate Initial Margin requirements for FCM SwapClear Contracts.

Separate Initial Margin calculations are performed for an FCM Clearing Member's house "H" and client "C" accounts and, within a "C" account, separately in respect of each FCM Client Sub-Account therein. No offset between the "C" and "H" accounts is permitted.

The Clearing House reserves the right to require additional amounts of Margin from a specific FCM Clearing Member or from all FCM Clearing Members in accordance with FCM Regulation 14 (*Margin and Collateral*).

##### (a) *Liquidity Multiplier*

Risk Management applies a liquidity multiplier based on Worst Case Loss (WCL) exceeding certain thresholds on the FCM Clearing Member's whole portfolio and individual currencies. The threshold amounts and multipliers are reviewed on an on-going basis. FCM Client accounts are treated as independent accounts for purposes of liquidity and will be called only in the event that the individual account exceeds the relevant threshold.

##### (b) *Intra-day Margin Calls*

In accordance with the Clearing House's FCM Regulations, the Clearing House is entitled to make additional margin calls for payment the same day (intra-day margin calls) where it is considered necessary. Intra-day margin calls can be made at any time throughout the Business Day. Intra-day margin calls will usually be made via the protected payments system (see Section 2.1.11).

In certain circumstances, the Clearing House may wish to make a call for additional funds after the UK PPS cut-off time of 08:00 New York time. In this event, the Clearing House will require payment of additional funds through PPS facilities in the USA (see Section 3.2.1). Members must ensure, in these circumstances, that they are in a position to fund such calls through their nominated US PPS account within one hour of the call.

(c) *Calculation of Initial Margin*

## Portfolio Approach to Interest Rate Scenarios (PAIRS)

The PAIRS calculation is a VAR based approach based on filtered historical simulations. All positions in each currency are re-valued under a series of cross portfolio yield curve scenarios to estimate the highest forecast loss and therefore the Initial Margin requirement. Further details of this method are available upon request and are detailed in the PAIRS TIP document. The PAIRS document and further information relating to Initial Margin calculations can be obtained from the Rates team at +44 (020) 7426 6325 or +44 (020) 7426 7428.

(d) *Tenor Basis Risk Margin Add-on*

A margin add-on will be applied in respect of tenor basis risk.

(e) *Default Fund Additional Margin*

The Clearing House may from time to time require an FCM Clearing Member to transfer Collateral to the Clearing House to meet the default fund additional margin requirement as determined and notified by the Clearing House to such FCM Clearing Member (“**DFAM**”). The methodology by which the Clearing House determines DFAM is available within the LCH portal, which is on ~~the secure area of~~ the Clearing House website. The Clearing House will record any Collateral an FCM Clearing Member has provided to meet its DFAM obligation to the FCM Clearing Member’s Proprietary Account.

(f) *Collateral for Stress Loss Exposure*

In response to a request from an FCM Clearing Member, the Clearing House may require additional Collateral to cover such FCM Clearing Member’s stress loss exposure with respect to an FCM Client Sub-Account (the “**Stress Loss Margin**”). The Stress Loss Margin may be subject to an additional percentage add-on as the Clearing House may require in its sole discretion. The Stress Loss Margin and any add-ons, as applicable, will be called as part of the end of day margin run and by means of morning PPS calls. The request must indicate the percentage of the stress loss exposure that will be covered by Stress Loss Margin. Any request pursuant to this paragraph is subject to the Clearing House’s consent in its sole discretion (and the Clearing house may apply a lower percentage than that requested by the SwapClear Clearing Member).

An FCM Clearing Member may cease paying Stress Loss Margin by giving not less than three (3) business days’ written notice to the Clearing House.

Before making any request to pay or notifying the Clearing House of ceasing to pay Stress Loss Margin, an FCM Clearing Member must obtain the consent of the FCM Client to which the Stress Loss Margin

So:

- (ix) Price Alignment Amount T = Price Alignment Amount T Rate x CVS T--1 x Accrual Factor.

The Clearing House uses the Price Alignment Amount Rate from the relevant EOD overnight index swap curves, which is sourced from the Clearing House.

#### 2.2.13 *Initial Margin (“IM”)*

The Clearing House will require FX FCMs to furnish it with IM. This amount will be calculated intraday and at EOD on each business day as part of each Margin Run. Each FX FCM’s IM requirement, is calculated for the portfolio of open FCM ForexClear Contracts and FCM ForexClear Transactions using ForexClear's Portfolio Analysis and Risk (“FxPAR”) margining model. FxPAR is based on a modified filtered historical simulation value-at-risk methodology. All open FCM ForexClear Contracts and FCM ForexClear Transactions in each Currency Pair are re-valued under a series of cross portfolio yield curve scenarios to estimate the potential portfolio profit and loss and therefore the IM requirement.

These scenarios will be continually monitored and reviewed periodically or on an ad hoc basis according to market conditions. FX FCMs will usually be notified by the Clearing House of alterations to margin parameters no later than the day before calls are made based on the new parameters. Further details of this method are available upon request from the ForexClear Risk team.

FxPAR uses the historical (5 year) data submitted by FXCCMs pursuant to Section 2.2.10, which is adapted to current market prices.

Separate Initial Margin calculations are performed for an FX FCM's house “H” and client “C” accounts and, within a “C” account, separately in respect of each FCM Client Sub-Account therein. No offset between the “C” and “H” accounts is permitted.

The Clearing House reserves the right to require additional amounts of Margin from a specific FX FCM or from all FX FCMs in accordance with FCM Regulation 14 (*Margin and Collateral*).

##### (a) *Credit Risk Multiplier (“CRiM”)*

The CRiM applied will consider the FX FCM's credit worthiness, Initial Margin level and/or stress testing exposures in accordance with LCH Credit Risk Policy.

##### (b) *Liquidity Risk Multiplier (“LRMM”)*

Where an FXCCM has an exposure above set thresholds in a particular Currency Pair or tenor of FCM ForexClear Contracts, the LRMM is applied and additional IM is charged. The LRMM is calculated in

accordance with parameters set by the ForexClear Default Management Group (the “FXDMG”) according to tenor and notional concentration. The thresholds are reviewed quarterly and use prevailing perceptions of market conditions as seen by the FXDMG.

LRMM increases IM called due to concentrated Currency Pair exposure by tenor of FCM ForexClear Contracts. Additional IM is called to mitigate the risk of a position not being closed out in seven days and/or the extra hedging costs that may be incurred.

The Clearing House calculates and applies LRMM as part of each Margin Run, based on the IM for each Currency Pair in the FX FCM’s house position-keeping account.

(c) *Sovereign Risk Multiplier (“SRM”)*

SRM reflects the additional risk related to a potential country default or a change in a country’s currency regime, including risk relating to a country’s external debt or level of foreign exchange reserves, which would impact FCM ForexClear Contracts transacted in certain Reference Currencies. The SRM calculation considers the probability of sovereign default occurring and the depreciation or appreciation risk of the Reference Currencies

(d) *Default Fund Additional Margin*

The Clearing House may from time to time require an FX FCM to transfer Collateral to the Clearing House to meet the default fund additional margin requirement as determined and notified by the Clearing House to such FX FCM (“DFAM”). The methodology by which the Clearing House determines DFAM is available within the LCH portal, which is on ~~the secure area of~~ the Clearing House website. The Clearing House will record any Collateral an FX FCM has provided to meet its DFAM obligation to the FX FCM’s Proprietary Account.

2.2.14 ***Additional Margin, ForexClear Tolerance, MER Buffer, Completion Margin and Intraday Margin Calls***

(a) *Additional Margin*

The Clearing House may require an FX FCM to furnish additional amounts of Margin (in addition to Initial Margin) as security for the performance by an FX FCM of its obligations to the Clearing House in respect of FCM ForexClear Contracts to which such FX FCM is a party in accordance with FCM Regulation 14 (*Margin and Collateral*). This may be required from time to time where, in the opinion of the Clearing House, the risk inherent in FCM ForexClear Contracts to which such FX FCM is a party is not adequately covered by Initial Margin. This may cover instances where stress testing losses under various scenarios provided in the ForexClear Default Fund Supplement have increased.

(b) *Minimum Excess Requirement Buffer (“MER Buffer”)*



its sole discretion, upon notice to the relevant FCM Listed Interest Rates Clearing Member. FCM Listed Interest Rates Operations will provide details of such accounts to an FCM Listed Interest Rates Clearing Member upon request.

### 2.3.5 *Margin and Collateral*

#### (a) *Initial Margin*

The Clearing House will require FCM Listed Interest Rates Clearing Members to furnish it with Initial Margin. Initial Margin requirements in respect of an FCM Listed Interest Rates Clearing Member's FCM Omnibus Listed Interest Rates Client Account with LCH are calculated on a gross basis for each FCM Client equal to the sum of the Initial Margin that would be required by the Clearing House as if each such FCM Client was an FCM Listed Interest Rates Clearing Member. The Clearing House reserves the right to require additional amounts of Margin from a specific FCM Listed Interest Rates Clearing Member or from all FCM Listed Interest Rates Clearing Members in accordance with FCM Regulation 14.

#### (i) Initial Margin Parameters

Initial margin parameters are set by the Clearing House after consultation with the relevant Rates Exchange. However, in accordance with the FCM Regulations, the Clearing House retains the right at its discretion to vary the rates for the whole market or for an FCM Listed Interest Rates Clearing Member's accounts.

FCM Listed Interest Rates Clearing Members will be notified by the Clearing House of alterations to initial margin parameters no later than the day before PPS Calls are made based on the new rates.

#### (ii) Intra-Day Margin Calls

In accordance with the FCM Regulations the Clearing House is entitled to make additional margin calls for payment the same day (intra-day margin calls) where it considers necessary. Intra-day margin calls will be made via the Protected Payments System (see FCM Procedure 3.2).

#### (iii) Calculation of Initial Margin

*Value at Risk (VaR)*. Initial margin obligations are re-calculated at the close of each business day using a VaR algorithm developed to calculate margin requirements on FCM Listed Interest Rates Contracts.

Technical questions about this algorithm should be directed to the Clearing House Risk Management Department on +44 (0) 20 7426 7520.

(iv) Default fund additional margin

The Clearing House may from time to time require a FCM Listed Interest Rates Clearing Member to transfer Collateral to the Clearing House to meet the default fund additional margin requirement as determined and notified by the Clearing House to such FCM Listed Interest Rates Clearing Member ("DFAM"). The methodology by which the Clearing House determines DFAM is available within the LCH portal, which is on the Clearing House website. The Clearing House will record any Collateral a FCM Listed Interest Rates Clearing Member has provided to meet its DFAM obligation to the FCM Listed Interest Rates Clearing Member's Proprietary Account.

(b) *Daily Settlement Amounts and Contingent Margin*

All open contracts are marked to market daily by the Clearing House in accordance with the relevant Rates Exchange Rules and the FCM Listed Interest Rates Contract Terms. The official quotation is used as the market price. Profits or losses are either credited to or debited from an FCM Listed Interest Rates Clearing Member's FCM Omnibus Listed Interest Rates Client Account with LCH or they form non-realised contingent liabilities or credits.

(i) Realised Daily Settlement Amounts

Realised daily settlement amounts are the calculated profit or loss arising from a comparison between the value of open positions at the relevant official quotations with the value of positions recorded by the Clearing House (i.e. the trade price for new trades and the previous day's official quotation for other positions). Realised daily settlement amounts are realised into postings to the FCM Omnibus Listed Interest Rates Client Account with LCH.

(ii) Contingent Margin

Contingent margin is calculated with reference to the official quotation at which a contract went to delivery and the underlying asset value or the next nearest futures delivery month official quotation, dependent on the terms of the FCM Listed Interest Rates Contract or these FCM Procedures. Contingent margin is calculated for FCM Listed Interest Rates Contracts which are subject to delivery of an underlying asset.

(iii) Option Daily Settlement Amounts



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## Appendix VI

Procedure 2B (RepoClear Service)

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**LCH LIMITED**  
**PROCEDURES SECTION 2B**  
**REPOCLEAR CLEARING SERVICE**

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1.1.2 *RepoClear Functions:* The following functions are performed within the RepoClear system:

- calculation of delivery obligations;
- calculation of settlement amounts for delivery versus payment;
- calculation of initial, variation and delivery margin requirements;
- calculation of price alignment interest;
- payment and reporting of coupons; and
- reporting of RepoClear Contracts and RepoClear Term £GC Contracts and trade status.

Eligible Repo/Bond Trades and/or Eligible Term £GC Trades submitted via an ATMS or ATS (see Section 1.3.1 (*Approved Trade Matching Systems (ATMS's) and Automated Trading Systems (ATS's)*)) will be processed and stored within the RepoClear system. Information regarding RepoClear Contracts and RepoClear Term £GC Contracts and margin are disseminated via Clearing Member Reporting (see Section 1.1.4 ).

1.1.3 *Clearing House System Requirements:* In order to submit Eligible Repo/Bond Trades and/or Eligible Term £GC Trades to the Clearing House, a RepoClear Participant must be a user of at least one approved ATMS or ATS (as the case may be).

A RepoClear Clearing Member ("**RCM**") (or RepoClear Dealer acting as transferor/ transferee – see Section 1.1.7 below) must hold, or have access to (for example via a settlement agent), both cash and securities settlement accounts with an Approved Depository/Settlement System ("**ADS**") for each eligible RepoClear category of bonds they intend to register for clearing (see Section 1.4.1 (*Approved Depository/Settlement Systems ("ADS")*)). The Clearing House will publish details of further ADSs via Clearing Member bulletin.

RCMs and RDs must have a system to access RepoClear Member Reporting through a connection to the Clearing House's Clearing Member portal.

1.1.4 *Clearing Member Reporting:* A user reporting tool is provided to RCMs. All RepoClear reports will be disseminated via the Clearing House's secure password access Clearing Member portal. There will be no printed report distribution by the Clearing House.

RCMs will be able to produce reports either to print locally or to download in machine readable data-file format. Detailed VAR outputs will also be available to RCMs on a daily basis. VAR is described in Section [1.8.4\(b\)](#)~~1.8.6(b)~~ (*Initial Margin*).

Queries about the Clearing Member portal should be directed to the Clearing House Service Desk on +44 (0)20 7426 7200 or [servicedesk@lch.com](mailto:servicedesk@lch.com).

## 1.8 Margin and Collateral

1.8.1 Margin and Collateral requirements in respect of RepoClear positions are made up of ~~four~~ five basic components:

1.8.1(a) Variation margin

1.8.2(b) Delivery margin

(c) Initial margin

1.8.3(d) Default Fund Additional Margin

1.8.4(e) Concentration risk margin

These ~~four~~ five components are described below. Further detail on the margin and Collateral requirements in respect of RepoClear positions is available in the RepoClear Service Description. Technical questions should be directed to the Clearing House Risk Department at FLRrepoexchanges@lch.com

~~1.8.5~~ 1.8.2 *Variation Margin*: Variation margin represents the change in the net present value (NPV) of a RepoClear Contract or RepoClear Term £GC Contract over a one day period (last RepoClear Opening Day minus current RepoClear Opening Day). All RepoClear Contracts and RepoClear Term £GC Contracts will be marked to market at least daily, in accordance with Regulation 24 (*Settlement and Revaluation: Clearing Process System*). Changes in the NPV of RepoClear Contracts and RepoClear Term £GC Contracts, based on the mark to market calculation, will be paid or received in cash, in the relevant currency of the Contract, on an assumed settlement basis.

With respect to RepoClear Term £GC Contracts, variation margin based on the mark to market calculation, will be calculated for the repo interest only, and Collateral in respect of the variation margin obligations will be transferred to or from the Clearing House in cash on a daily basis in the currency of the relevant RepoClear Term £GC Contract on an assumed settlement basis.

Separate variation margin calculations are performed for a Clearing Member's Proprietary Account and for each "C" Client Account which is a sub account of a RCM's Client Account. No offset between the "C" and the "H" accounts is allowed and, except pursuant to a Cross-ISA Client Excess Deduction, no offset is allowed between any Client Accounts.

(a) *Price Alignment Interest*: The payment of Collateral in respect of variation margin (the change in NPV) on a daily basis would potentially distort the pricing mechanisms for RepoClear Contracts and RepoClear Term £GC Contracts cleared through the Clearing House. In order to minimise the impact of the variation margin obligation, the Clearing House will, for each RCM, either charge interest on cumulative amounts received by the RCM in respect of variation margin obligations or pay interest on cumulative amounts paid.

1.8.61.8.3 *Delivery Margin – RepoClear Contracts only:* Delivery margin is designed to protect the Clearing House against the possible losses caused by the different timings of the payments of variation margin and the settlement of positions in the event of an RCM failing to deliver bonds or in the event of an RCM default.

Delivery margin will be calculated based on cumulative variation margin by delivery. If an RCM is long cumulative variation margin on a net settlement position in a security for settlement on day 's', it will be called for delivery margin equal to the cumulative variation margin on s-2.

If on the other hand, an RCM is short cumulative variation margin on a net settlement position in a security for settlement on day 's', it will be called for delivery margin equal to the cumulative variation margin on s-1. Delivery margin will not be called in respect of RepoClear Term £GC Contracts.

1.8.71.8.4 *Initial Margin:* The Clearing House requires RCMs to transfer Collateral in respect of the initial margin obligation to the Clearing House. Expected Shortfall will be used to calculate initial margin requirements for RepoClear Contracts and RepoClear Term £GC Contracts.

Separate initial margin calculations are performed for a Clearing Member's Proprietary Account and for each "C" Client Account which is a sub account of a RCM's Client Account. No offset between the "C" and the "H" accounts is allowed and, except pursuant to a Cross-ISA Client Excess Deduction, no offset is allowed between any Client Accounts.

- (a) *Margin Parameters:* RCMs will be notified by the Clearing House of alterations to margin parameters no later than the RepoClear Opening Day before calls are made based on the new parameters.
- (b) *Expected Shortfall:* General information on Expected Shortfall - including the Clearing House's Margin Advisor and RepoCalc may be obtained by phoning +44 (0)20 7426 6338. Technical questions should be directed to the Clearing House Risk Department at [FLRrepoexchanges@lch.com](mailto:FLRrepoexchanges@lch.com).

1.8.5 *Default Fund Additional Margin:* The Clearing House may from time to time require an RCM to transfer Collateral to the Clearing House to meet the default fund additional margin requirement as determined and notified by the Clearing House to such RCM ("DFAM"). The methodology by which the Clearing House determines DFAM is available within the LCH portal, which is on the Clearing House website. The Clearing House will record any Collateral an RCM has provided to meet its DFAM obligation to the RCM's Proprietary Account.

1.8.81.8.6 *Concentration Risk Margin ("CRM"):* CRM reflects the additional risk created when an RCM posts securities during their clearing activities and the Clearing House may not be able to realise the securities' value within the holding period at the current market price, given the underlying market liquidity.



The Clearing House undertakes periodic liquidity surveys for the purpose of calculating CRM requirements. RCMs are required to respond to the Clearing House's reasonable request for data as part of such liquidity surveys.

~~1.8.9~~1.8.7 *Intra-day Margin Calls*: In accordance with the Regulations, the Clearing House is entitled to make additional margin calls for payment the same day (intra-day margin calls) where it is considered necessary. To the extent that additional Collateral may be required, intra-day margin calls result in a request for cash Collateral via the PPS.

## 1.9 Notifications to the Clearing House regarding activities of RepoClear Dealers

1.9.1 *Notification of transferor/transferee capacity*: Any notification by an RCM authorising a RepoClear Dealer to act as transferor/transferee as set out above in Section 1.1.7 must be made in writing addressed to the Head of RepoClear Operations, and delivered to the Clearing House in accordance with Section 1.9.6 (*Requirements for giving Notice*) below. Such notification must contain the name of the RCM, the name of the RepoClear Dealer (as it appears on the relevant RepoClear Dealer Clearing Agreement) and the date upon which such RepoClear Dealer may commence to act as transferor/transferee ("**the commencement date**"). It must be received by the Clearing House no less than 20 business days before the commencement date. The RepoClear Dealer's RCM must ensure that the Clearing House is advised of all relevant details regarding cash and securities accounts held by that RepoClear Dealer at relevant ADSs.

1.9.2 *Termination or suspension of transferor/transferee capacity*: An RCM may terminate or suspend such notification at any time, providing that it gives no less than 20 business days' written notice of such termination or suspension to the Clearing House in accordance with 1.9.6 below. Any such notice must contain the name of the RCM, the name of the RepoClear Dealer (as it appears on the relevant RepoClear Dealer Clearing Agreement) and the date upon which termination or suspension is to become effective. Where any such notice is one requesting suspension it shall identify the period of time for which such suspension is sought.

1.9.3 *Authorisation of a RepoClear Dealer to trade on an approved Automated Trading System*: Any RCM wishing to authorise a RepoClear Dealer (with whom it has entered into a RepoClear Dealer Clearing Agreement with the Clearing House) to trade on any one or more approved ATs (see Section 1.3.1 (*Approved Trade Matching Systems (ATMS's) and Automated Trading Systems (ATS's)*)) above must do so in writing addressed to the Head of RepoClear Operations. Such written authorisation must be delivered to the Clearing House in accordance with Section 1.9.6 (*Requirements for giving notice*) below and received by the Clearing House no less than 2 business days before the earliest date referred to in paragraph (e) of Section 1.9.3 (*Authorisation of a RepoClear Dealer to trade on an approved Automated Trading System*) below and must contain the following particulars:

- (a) Name of the RCM.



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## Appendix VII

Procedure 2C (SwapClear Service)

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**LCH LIMITED**

**PROCEDURES SECTION 2C**

**SWAPCLEAR CLEARING SERVICE**

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the Clearing House's reasonable request for data as part of such liquidity surveys.

#### 1.9.4 *Intra-day Margin Calls*

In accordance with the Regulations, the Clearing House is entitled, where considered necessary, to demand that a Clearing Member transfer additional Collateral to the Clearing House the same day (intra-day margin calls). Intra-day margin calls can be made at any time throughout the business day. Intra-day margin calls will usually be made via the protected payments system (see Section 1.11).

In certain circumstances the Clearing House may require a Clearing Member to transfer additional cash Collateral to the Clearing House after the closure of London PPS facilities at 16:00 hours London time. In this event the Clearing House will require payment of additional cash Collateral through PPS facilities in the USA (see Section 1.3 of Procedure 3 (*Financial Transactions*)). **Members must ensure, in these circumstances, that they are in a position to comply with such demands through their nominated US PPS account within one hour of the demand.**

#### 1.9.5 Calculation of Initial Margin

##### *Portfolio Approach to Interest Rate Scenarios (PAIRS)*

PAIRS is a historical model which takes historical events that occurred within the look-back period and from these calculates initial margin in line with the Clearing House's risk policies (which also take into account regulatory requirements). All positions in each currency are revalued under a series of scaled historical market moves and initial margin is calculated as the Expected Shortfall (ES) of the portfolio. Further details of this method are available upon request and are detailed in the PAIRS TIP document. The PAIRS document and further information relating to initial margin calculations can be obtained from SwapClear Risk on +44 (0)20 7 426 7549.

#### 1.9.6 *Default Fund Additional Margin*

The Clearing House may from time to time require an SCM to transfer Collateral to the Clearing House to meet the default fund additional margin requirement as determined and notified by the Clearing House to such SCM ("DFAM"). The methodology by which the Clearing House determines DFAM is available within the LCH portal, which is on ~~the secure area of~~ the Clearing House website. The Clearing House will record any Collateral an SCM has provided to meet its DFAM obligation to the SCM's Proprietary Account.

#### 1.9.7 *Collateral for Stress Loss Exposure*

In response to a request from a SwapClear Clearing Member, the Clearing House may require additional Collateral to cover such SwapClear Clearing Member's stress loss exposure with respect to a Client Account (the "**Stress Loss Margin**"). The Stress Loss Margin may be subject to an additional

Account Balance(s) recorded to the Relevant Client Account and attributable to such SwapClear Clearing Client, and (iii) such other related information as determined by the Clearing House in its sole discretion; and

- (b) “**Relevant Client Account**” means, in respect of a Defaulting SCM and a SwapClear Clearing Client, a Client Account (i) in the SwapClear Service and in the name of such Defaulting SCM, and (ii) attributable to such SwapClear Clearing Client (and, as applicable, one or more other SwapClear Clearing Client(s)).

#### 1.28.5 *SwapClear Contributions*

SwapClear Contributions will be called via PPS on the fourth business day of each month or otherwise pursuant to a determination of a SwapClear Contribution under the Default Rules.

Excess SwapClear Contribution amounts due to SwapClear Clearing Members following a SwapClear Determination Date will (subject to the Default Rules) be repaid to SwapClear Clearing Members' PPS accounts on the fourth business day immediately following such SwapClear Determination Date.

If a Resignation Effective Date has occurred in respect of a Resigning Member and the SwapClear Service pursuant to Rule S3(d)(2)(e) of the Rates Service Default Fund Supplement, then the Clearing House will repay the SwapClear Contribution that it holds for such Clearing Member (to the extent it has not been applied under the Default Rules) to the Clearing Member's relevant PPS account on such Resignation Effective Date.

Interest on SwapClear Contributions will be paid to SwapClear Clearing Members' PPS accounts on the fifth business day of each month, in respect of the "**interest accrual period**" occurring immediately prior to such business day. Interest is calculated in respect of each "**interest accrual period**", which commences on (and includes) the fourth business day of each month (each, a "**SwapClear Reset Day**") and ends on (and includes) the calendar day immediately before the next SwapClear Reset Day. Notwithstanding the preceding paragraphs, if the rate of interest payable on SwapClear Contributions is negative, interest shall be payable by SwapClear Clearing Members to the Clearing House.

#### 1.28.6 *Quantifying SwapClear Contributions*

For the purposes of calculating the SwapClear Non-Tolerance Weight of an SCM under Rule S1(f) of the Rates Service Default Fund Supplement – SwapClear, the Uncovered Stress Loss (as defined in Rule S1(f)) of an SCM shall be determined by reference to the SwapClear Contracts entered into (1) on behalf of the relevant SCM and (2) with respect to the SwapClear Clearing Clients and FCM Clients of such SCM.



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## **Appendix VIII**

Procedure 2D (EquityClear Service)

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**LCH LIMITED**  
**PROCEDURES SECTION 2D**  
**EQUITYCLEAR CLEARING SERVICE**

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any EquityClear Clearing Member which engages in EquityClear Clearing Client Business.

#### 1.4.4 Collateral Accounts

Clearing Member position accounts have collateral accounts associated with them. These are, *inter alia*, used to record cash balances and financial instruments. Information contained within a position-keeping account is consolidated with the associated collateral account, as follows:

<b>Position-Keeping Account</b>	<b>Collateral Account</b>	
H	House	H
C	Client	C

Each client "C" position-keeping account and the client "C" collateral account of an EquityClear Clearing Member may hold any number of segregated sub-accounts. Each Individual Segregated Account of the EquityClear Clearing Member will map onto one such segregated sub-account in the client "C" position-keeping account and one such segregated sub-account in the client "C" collateral account, each Indirect Gross Account of the EquityClear Clearing Member will map onto one such segregated sub-account in the client "C" position-keeping account and one such segregated sub-account in the client "C" collateral account, and each Omnibus Segregated Account will map onto one such segregated sub-account in the client "C" position-keeping account and one such segregated sub-account in the client "C" collateral account. In the case of Indirect Gross Accounts, the relevant segregated sub-accounts of the client "C" position-keeping account will be further segregated into position-keeping sub-accounts for each Indirect Gross Sub-Account (relating to each Indirect Clearing Client).

#### 1.4.5 Other Accounts

The Clearing House may, at its discretion, open further accounts.

#### 1.4.6 Default Fund Account

Each Clearing Member's Default Fund Contribution is held on a separate account. In accordance with the Default Rules this account attracts a rate of interest of SONIA – 10. The Default Fund account is designated by the single character code F.

### 1.5 Margin and Collateral

Separate initial and variation margin calculations are performed for an Equities ~~EquityClear~~ Clearing Member's Proprietary Account, each Client Account (other than an Indirect Gross Account) and each Indirect Gross Sub-Account within an Indirect Gross Account. No offset between the Proprietary Accounts and Client Accounts is allowed (except pursuant to Rule 8(d) of the Default Rules or any Insufficient Resources Determination Rule) and no offset between any Client Accounts is allowed



(except pursuant to Rule 15(a)(ii) of the Default Rules, a Cross-ISA Client Excess Deduction or any Insufficient Resources Determination Rule).

### 1.5.1+5.1 Initial margin

The Clearing House will require ~~Equities~~ ~~EquityClear~~ Clearing Members to transfer Collateral in respect of their initial margin obligations to the Clearing House. The Clearing House will determine the initial margin obligations of an ~~EquityClear~~ ~~Equities~~ Clearing Member, which ~~is will comprise~~ (without limitation to the Clearing House's rights under Regulation 20):

the amount calculated by the Clearing House using the LCH ERA algorithm; ~~and~~

~~(a) if the EquityClear Clearing Member is a Positive DFAM Member (as defined under Rule E1 of the Equities Default Fund Supplement) in respect of the EquityClear Service, the amount determined and notified to the EquityClear Clearing Member, which amount will not exceed the DFAM amount (as defined under, and calculated by the Clearing House in accordance with, Rule E1 of the Equities Default Fund Supplement), in respect of the EquityClear Clearing Member and the EquityClear Service.~~

### 1.5.2 Interoperability margin

An Equities Clearing Member using the interoperability service is required to pay margin in respect of that service.

### 1.5.3 Default fund additional margin

The Clearing House may from time to time require an Equities Clearing Member to transfer Collateral to the Clearing House to meet the default fund additional margin requirement as determined and notified by the Clearing House to such Equities Clearing Member ("DFAM"). The methodology by which the Clearing House determines DFAM is available within the LCH portal, which is on the Clearing House website. The Clearing House will record any Collateral an Equities Clearing Member has provided to meet its DFAM obligation to the Equities Clearing Member's Proprietary Account.

### 1.5.21.5.4 Variation margin

Variation margin represents the change in value of each open ~~EquityClear~~ ~~Equities~~ Contract from the value at the time of trade to the current market value or from the previous closing price to the current market value for EquityClear (ccCFD) Contracts which were not traded that same day.

Variation margin in respect of ~~Equities~~ ~~EquityClear~~ (~~Equities~~) Contracts (other than EquityClear (ccCFD) Contracts) will be in non-realised or contingent form (i.e. it will be in the form of a credit or debit posted to the Equities Clearing Member's relevant accounts). -In order to cope with step changes in the variation

margin due to the settlement cycle, the Clearing House will restrict the use of credit variation margin just ahead of settlement (and such restriction may continue from the occurrence of a Settlement Fail to its resolution).— Further information on the restriction can be found in the ERA technical information pack.

Variation margin in respect of EquityClear (ccCFD) Contracts is realised. The relevant contracts are settled to market daily and any profit or loss is credited to or debited from the relevant Proprietary Account or Client Account on a daily basis. Variation margin on an accrued Cash Equivalent Dividend Payment will be in contingent form.

~~(a) — Interoperability margin~~

~~Clearing Members using the interoperability service are required to pay margin in respect of that service.~~

~~1.5.3~~1.5.5 Margin Parameters

The margin parameters for LCH ERA used in the initial and variation margin requirement calculation will be made available by the Clearing House on the website. In the event of changes to parameters, Equities Clearing Members will be notified as soon as possible of amendments and no later than the day before calls are made based upon the new parameters.

~~1.5.4~~1.5.6 Intra-day Margin Calls

The Clearing House will calculate each Equities Clearing Member's initial and variation margin requirement at several points throughout the day. In the event that an Equities Clearing Member has insufficient Collateral with the Clearing House an intra-day PPS call will be issued. ~~-Equities~~ Clearing Members should ensure that they are, at any point throughout the day, in a position to meet a PPS call.

## 1.6 Financing for ccCFDs

For futures style ccCFDs with expiry dates, the cost of carry is priced into the CFD and is thus not exchanged as a separate cash flow.

For equity ccCFDs, the cost of carry/financing is made up of the applicable benchmark rate and a spread component (combined into one financing price) and is based on the overnight value of a Clearing Member's position.

For non-equity spot related ccCFDs, the cost of carry refers only to the appropriate bank rate (e.g. Fed Funds).

On a daily basis margin and financing calculations are applied, and where appropriate, Positions impacted by corporate event activity are updated.

The financing component is paid by the ccCFD buyer to the seller and is calculated on a position by position basis, which is aggregated to the House or Client account level.



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## **Appendix IX**

Procedure 21 (ForexClear Service)

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**LCH LIMITED**  
**PROCEDURES SECTION 2I**  
**FOREXCLEAR CLEARING SERVICE**

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$$(A) \quad PAA T = PAAT \text{ Rate} \times MTMT-1 \times \text{Accrual Factor.}$$

The Clearing House uses the PAA Rate from the relevant EOD overnight index swap curves, which is sourced from the Clearing House.

1.5.6 *Initial Margin:* The Clearing House will require FXCCMs to transfer Collateral to the Clearing House in respect of their initial margin obligations. Each FXCCM's initial margin obligation will be calculated on an aggregate basis across its ForexClear Contracts within the ForexClear Non-Deliverable Service and ForexClear Deliverable Service.

- (a) *Calculation of Initial Margin:* Separate initial margin calculations are performed for an FXCCM's Proprietary Account, each Client Account (other than an Indirect Gross Account and an Omnibus Gross Segregated Account), each Indirect Gross Sub-Account within an Indirect Gross Account and each Omnibus Gross Segregated Sub-Account within an Omnibus Gross Segregated Account. No offset between the Proprietary Accounts and the Client Accounts is allowed (except pursuant to Rule 8(d) of the Default Rules or any Insufficient Resources Determination Rule) and no offset between any Client Accounts is allowed (except pursuant to Rule 15(a)(ii) of the Default Rules, a Cross-ISA Client Excess Deduction or any Insufficient Resources Determination Rule).

The initial margin obligation is calculated on a real-time (or near real-time) basis throughout each day. With respect to each FXCCM, it is calculated for the portfolio of open ForexClear Contracts and ForexClear Transactions using ForexClear's Portfolio Analysis and Risk ("**FxPAR**") margining model. FxPAR is based on a modified historical simulation expected shortfall methodology. All open ForexClear Contracts and ForexClear Transactions in each Currency Pair are re-valued under a series of FX rate and yield curve scenarios to estimate the potential portfolio profit and loss and therefore the initial margin requirement.

The adequacy of the initial margin calculation is reviewed daily. ForexClear Clearing Members will usually be notified by the Clearing House of alterations to margin model parameters no later than the day before calls are made based on the new parameters. Further details of this method are available upon request from the ForexClear Risk team.

FxPAR uses the market data submitted by FXCCMs pursuant to paragraph 1.5.1(a) (*Product Valuation*).

*Initial Margin Add-ons:* Credit risk, liquidity risk and sovereign risk margin add-ons are measured and applied to FXCCMs as part of the initial margin requirement calculation.

- (b) *Credit Risk Margin ("**CRiM**"):* CRiM reflects the additional risk related to the FXCCM's credit quality. The CRiM calculation

considers the FXCCM's credit worthiness, initial margin obligation level and/or stress testing exposures in accordance with LCH Credit Risk Policy.

- (c) *Liquidity Risk Margin ("LRM")*: LRM reflects the additional risk due to the FXCCM having concentrated risk exposures above set thresholds in a particular Currency Pair or tenor of ForexClear Contracts. The LRM requirement is calculated in accordance with parameters set by the ForexClear Default Management Group (the "FXDMG").

The Clearing House undertakes periodic liquidity surveys for the purpose of calculating LRM requirements. FXCCMs are required to respond to the Clearing House's reasonable request for data as part of such liquidity surveys.

- (d) *Sovereign Risk Margin ("SRM")*: SRM reflects the additional risk related to a potential country default or a change in a country's currency regime, including risk relating to a country's external debt or level of foreign exchange reserves, which would impact ForexClear Contracts transacted in certain Reference Currencies. The SRM calculation considers the probability of sovereign default occurring and the depreciation or appreciation risk of the Reference Currencies.

- (e) *Settlement Management Margin ("SMM")*: SMM reflects the additional risk associated with a potential settlement failure. The SMM calculation considers the FXCCM's future settlement obligations in each of the relevant currencies and the potential cost of utilising and replenishing liquidity provisions, where required, to fulfil those settlement obligations. The SMM is calculated in respect of ForexClear Deliverable Contracts only.

The Clearing House undertakes periodic surveys for the purpose of calculating SMM requirements. FXCCMs are required to respond to the Clearing House's reasonable request for data as part of such surveys.

- (f) *Default Fund Additional Margin*: The Clearing House may from time to time require an FXCCM to transfer Collateral to the Clearing House to meet the default fund additional margin requirement as determined and notified by the Clearing House to such FXCCM ("DFAM"). The methodology by which the Clearing House determines DFAM is available within the LCH portal, which is on the secure area of the Clearing House website. The Clearing House will record any Collateral an FXCCM has provided to meet its DFAM obligation to the FXCCM's Proprietary Account.

- (g) *Additional Margin*: The Clearing House may require an FXCCM to transfer additional Collateral to the Clearing House (in addition to amounts of Collateral already transferred to the Clearing House in respect of any initial margin and variation margin obligations) as



**Appendix X**

Procedure 2J (Listed Rates Service)

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**LCH LIMITED**  
**PROCEDURES SECTION 2J**  
**LISTED INTEREST RATES CLEARING SERVICE**

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Rates Client Clearing Business and H for Listed Interest Rates Clearing House Business. The H account is obligatory. The C account will be used in respect of any Listed Interest Rates Clearing Member which engages in Listed Interest Rates Client Clearing Business.

#### 1.4.4 *Operational Accounts*

The Clearing House will open operational accounts in respect of a Listed Interest Rates Clearing Member, which are used to record cash and securities balances and its Listed Interest Rates Contributions. The Clearing House may open and close such operational accounts, in its sole discretion, upon notice to the relevant Listed Interest Rates Clearing Members. Listed Interest Rates Operations will provide details of such accounts to a Listed Interest Rates Clearing Member upon request.

#### 1.4.5 *Listed Interest Rates Client Clearing Business*

If a Listed Interest Rates Clearing Member engages in Listed Interest Rates Client Clearing Business, the Clearing House will maintain a client "C" position-keeping account and a client "C" collateral account for such Listed Interest Rates Clearing Member, which may have any number of segregated sub-accounts. Each Individual Segregated Account of the Listed Interest Rates Clearing Member will map onto one such segregated sub-account in the client "C" position-keeping account and one such segregated sub-account in the client "C" collateral account, each Indirect Gross Account of the Listed Interest Rates Clearing Member will map onto one such segregated sub-account in the client "C" position-keeping account and one such segregated sub-account in the client "C" collateral account, and each Omnibus Segregated Account will map onto one such segregated sub-account in the client "C" position-keeping account and one such segregated sub-account in the client "C" collateral account. In the case of Indirect Gross Accounts, the relevant segregated sub-accounts of the client "C" position-keeping account will be further segregated into position-keeping sub-accounts for each Indirect Gross Sub-Account (relating to each Indirect Clearing Client). In the case of Omnibus Gross Segregated Accounts, the relevant segregated sub-accounts of the client "C" collateral account and "C" position-keeping account will be further segregated into sub-accounts for each Omnibus Gross Segregated Sub-Account (relating to an Omnibus Gross Segregated Clearing Client or a group of Combined Omnibus Gross Segregated Clearing Clients together, as applicable).

### 1.5 **Margin and Collateral**

#### 1.5.1 *Initial Margin*

Separate initial margin calculations are performed for a Listed Interest Rates Clearing Member's Proprietary Account, each Client Account (other than an Indirect Gross Account and Omnibus Gross Segregated Account), each Indirect Gross Sub-Account within an Indirect Gross Account and each Omnibus Gross Segregated Sub-Account within an Omnibus Gross Segregated Account. No offset between the Proprietary Accounts and the Client Accounts is allowed (except pursuant to Rule 8(d) of the Default Rules or any Insufficient Resources Determination Rule) and no offset between any Client Accounts is allowed

(except pursuant to Rule 15(a)(ii) of the Default Rules, a Cross-ISA Client Excess Deduction or any Insufficient Resources Determination Rule).

Margin requirements in respect of Listed Interest Rates Contracts are calculated net per account (except in the case of an Indirect Gross Account, where the margin requirements are calculated net per Indirect Gross Sub-Account, and in the case of an Omnibus Gross Segregated Account, where the margin requirements are calculated net per Omnibus Gross Segregated Sub-Account), meaning that if long and short Listed Interest Rates Contracts are held in the same account in the same delivery month for futures, or the same series for options, the initial margin requirement is calculated by reference to the net position of such Listed Interest Rates Contracts. The Clearing House will calculate an account's (or, in the case of an Indirect Gross Account, an Indirect Gross Sub-Account's, or, in the case of an Omnibus Gross Segregated Account, an Omnibus Gross Segregated Sub-Account's) net position in respect of any Designated Listed Interest Rates Contract by reference to all trading in such Contract on Designated Rates Exchanges.

(a) *Initial Margin Parameters*

Initial margin parameters are set by the Clearing House after consultation with the relevant Rates Exchange(s). However, in accordance with the Regulations, the Clearing House retains the right at its discretion to vary the rates for the whole market or for a Clearing Member's accounts.

Clearing Members will be notified by the Clearing House of alterations to initial margin parameters no later than the day before PPS Calls are made based on the new rates.

(b) *Intra-day Margin Calls*

In accordance with the Regulations the Clearing House is entitled to make additional margin calls for payment the same day (intra-day margin calls) where it considers necessary. Intra-day margin calls will be made via the Protected Payments System (see Section 1.3 of Procedure 3 (*Financial Transactions*)).

(c) *Calculation of Initial Margin*

(i) *Value At Risk (VaR)*

Initial margin obligations are re-calculated at the close of each business day using a VaR algorithm developed to calculate margin requirements on Listed Interest Rates Contracts.

Technical questions about this algorithm should be directed to the Clearing House Risk Management Department on +44 (0)20 7426 7520.

(d) *Default fund additional margin*

The Clearing House may from time to time require a Listed Interest Rates Clearing Member to transfer Collateral to the Clearing House to meet the default fund additional margin requirement as determined and notified by the Clearing House to such Listed Interest Rates Clearing Member ("DFAM"). The methodology by which the Clearing House determines DFAM is available within the LCH portal, which is on the Clearing House website. The Clearing House will record any Collateral a Listed Interest Rates Clearing Member has provided to meet its DFAM obligation to the Listed Interest Rates Clearing Member's Proprietary Account.

### 1.5.2 Variation Margin

All open contracts are marked to market daily by the Clearing House in accordance with the Listed Interest Rates Contract Terms. The official quotation is used as the market price. Profits or losses are either credited to or debited from a Clearing Member's Proprietary Account or Client Account (as applicable) or they form non-realised contingent liabilities or credits.

Separate variation margin calculations are performed for a Clearing Member's Proprietary Account, each Client Account (other than an Indirect Gross Account and Omnibus Gross Segregated Account), each Indirect Gross Sub-Account within an Indirect Gross Account and each Omnibus Gross Segregated Sub-Account within an Omnibus Gross Segregated Account (as applicable). No offset between the Proprietary Accounts and the Client Account is allowed (except pursuant to Rule 8(d) of the Default Rules or any Insufficient Resources Determination Rule), and no offset between any Client Accounts is allowed (except pursuant to Rule 15(a)(ii) of the Default Rules, a Cross-ISA Client Excess Deduction or any Insufficient Resources Determination Rule).

#### (a) Realised Margin

Realised margin is the calculated profit or loss arising from a comparison between the value of open positions at the relevant official quotations with the value of positions recorded by the Clearing House (i.e. the trade price for new trades and the previous day's official quotation for other positions). Realised margin is realised into postings to the relevant Proprietary Account or Client Account (as applicable).

#### (b) Variation Margin

Variation margin is realised into postings to the relevant Proprietary Account or Client Account (as applicable).

Contingent Variation Margin. Contingent variation margin is calculated with reference to the official quotation at which a Contract went to delivery and the underlying asset value or the next nearest futures delivery month official quotation, dependent on the terms of the Listed Interest Rates Contract or these Procedures. Contingent variation