



Instruction IV.5-2 Liquidation and Transfer process in case of an Event of Default of a Clearing Member

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Pursuant to Article 4.5.2.6 and 4.5.2.8 of the Clearing Rule Book.

Chapter 1 – Common Provisions

Article 1 - General

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

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

Article 2 - Decision

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

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

Article 3 – Management and transfer and/or liquidation

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

Article 4 – Notification

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

Article 5 – Liability

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



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

Chapter 2 – Provisions relating to Collateral provided by way of a Belgian law security interest

Article 6 – Default notification

Upon the occurrence of an Event of Default and the issue by LCH SA of a notice of default in accordance with the Clearing Rules:

(i) LCH SA may, at its sole discretion, request the Defaulting Clearing Member to transfer the Collateral provided by way of a Belgian law security interest and recorded in its Client Pledged Account(s) (if any) to LCH SA with full title in order to facilitate the transfer of such Collateral together with associated Client Open Positions and/or the payment of the amount due to or by the Clients of the Defaulting Clearing Member; and

(ii) LCH SA may enforce directly the security interest granted by the Defaulting Clearing Member under, and in accordance with, the Pledge Agreement.

Article 7 – Perfection and enforceability

Subject to LCH SA providing Euroclear Bank with a copy of the notice of default issued by LCH SA in accordance with Article 6 above, LCH SA shall be able to perfect and enforce the pledge on the Collateral provided by way of a Belgian law security interest (meaning that it shall be entitled to apply such Collateral transferred by the Defaulting Clearing Member as envisaged by the Clearing Rules and in particular Article 4.5.2.7 of the Clearing Rule Book) against the Defaulting Clearing Member, any other creditors of the Defaulting Clearing Member and/or the trustee in bankruptcy, without having to notify, or secure any consent from the Defaulting Clearing Member or any other person, and without having to obtain any court approval (see article 8 of the Law of 15 December 2004 implementing the Directive 2002/47/EC on financial collateral arrangements under Belgian law as amended from time to time).

Article 8 – Enforcement by appropriation for the purposes of transferring Client Collateral to an alternate Clearing Member

In the event LCH SA has requested the Defaulting Clearing Member to transfer the Collateral provided by way of a Belgian law security interest in accordance with Article 6 (i) above and the Defaulting Clearing Member fails to transfer the Collateral provided by way of a Belgian law security interest and recorded in its Client Pledged Account(s) (if any) to LCH SA within such period as LCH SA has specified in its request pursuant to Article 6 above, and it has been determined that some or all of such Collateral is to be transferred to an alternate Clearing Member, LCH SA shall enforce the security interest granted to it under, and in accordance with, the Pledge Agreement by appropriation of the Defaulting Clearing Member's Collateral provided by way of a Belgian law security interest and recorded in its relevant Client Pledged Account(s) (if any) in respect of Client Open Positions to be transferred to an alternate Clearing Member.

**Article 9 – Transfer to an alternate Clearing Member**

Where the Collateral in respect of Client Open Positions to be transferred includes or is comprised of Collateral provided by way of a Belgian law security interest and recorded in its Client Pledged Account(s) (if any) and that the alternate Clearing Member wishes to have such Collateral provided to LCH SA by way of a Belgian law security interest rather than on a full title transfer basis, the transfer of such Collateral shall be conditional upon the alternate Clearing Member having:

- entered into a Pledge Agreement with LCH SA; and
- opened with LCH SA the relevant Client Pledged Account at Euroclear Bank for the purpose of holding the relevant Collateral in respect of such Client Open Positions and for the relevant Product Group(s).

Article 10 – Transfer to LCH SA

In order to transfer Collateral provided by way of a Belgian law security interest and recorded in its Client Pledged Account(s) (if any) to LCH SA in order to satisfy a request made in accordance with Article 6(i) above, the Defaulting Clearing Member must provide LCH SA with its consent to the debit of such Collateral from its Client Pledged Account(s) by Euroclear Bank, pursuant to an instruction of LCH SA. The Defaulting Clearing Member must evidence its consent by submitting written confirmation by any means or form specified by LCH SA.

Following the receipt of the consent of the Defaulting Clearing Member, LCH SA will submit instructions via Euroclear Bank. When LCH SA receives the confirmation of transfer from Euroclear Bank, LCH SA shall update the relevant Client Collateral Account(s) of the Defaulting Clearing Member to reflect that such Collateral has been transferred with full title to LCH SA.

In the event LCH SA has requested the Defaulting Clearing Member to transfer the Collateral provided by way of a Belgian law security interest in accordance with Article 6 (i) above and the Defaulting Clearing Member has not sent its consent within the timeframe specified by LCH SA, LCH SA shall be entitled to enforce the security interest granted to it under, and in accordance with, the Pledge Agreement and, in accordance with the Clearing Rules, by appropriation of the Collateral provided by way of a Belgian law security interest and recorded in its Client Pledged Account(s) (if any).

Chapter 3 – Provisions relating to Collateral provided by way of the triparty Collateral solution

Article 11 – Default notification

Upon the occurrence of an Event of Default, LCH SA shall issue a notice of default to the Defaulting Clearing Member in accordance with the Clearing Rules as well as, where the Defaulting Clearing Member has posted Collateral using the triparty Collateral solution, to the relevant triparty agent, pursuant to and in accordance with the terms of the Triparty Documentation.