

	N°	Title
	IV.5-4b	MANAGEMENT PROCESS OF THE TERMINATION OF THE SPECIAL CLEARING MEMBER'S MEMBERSHIP

Pursuant to Article 2.5.4.10 of the Clearing Rule Book.

Article 1 - Scope and interpretation

1.1 This Instruction applies to the Open Positions relating to Transactions on Fixed Income Securities and Triparty Repo Transactions of a Special Clearing Member whose membership has been terminated in accordance with the provisions of Article 2.5.4.10 of the Clearing Rule Book ("**Terminated Special Clearing Member**").

1.2 In this Instruction:

"**Auction**" means the process of bidding by Bidders for a Special Clearing Member Portfolio prescribed by LCH SA from time to time in accordance with Article 2.4 of this Instruction;

"**Auction Currency**" means in relation to an Auction, the currency of a Special Clearing Member Portfolio which is the subject of that Auction as determined in accordance with Article 2.4 of this Instruction;

"**Competitive Auction**" means an Auction whereby LCH SA requests a single price for a Special Clearing Member Portfolio and the winning bid is the most competitive one;

"**Equal Bid**" means a bid of the same value submitted by two or more Bidders in a given Auction;

"**Bidder**" means a Clearing Member active in the Fixed Income Clearing System (a "**Fixed Income Clearing Member**"), other than the Terminated Special Clearing Member, which has accepted to participate in an Auction in accordance with Article 2.4 of this Instruction;

"**Special Clearing Member Portfolio**" means (i) a Portfolio; or (ii) a group of Fixed Income Transactions or Triparty Repo Transactions resulting from the splitting of a Portfolio or combination of Portfolios pursuant to Article 2.2 of this Instruction including any connected hedging trades concluded by LCH SA through Risk Mitigation;

"**Market Participant**" means, in respect of a specific Fixed Income market, a Fixed Income Clearing Member or Triparty Repo Clearing Member, other than the Terminated Special Clearing Member, which, at the time LCH SA notifies the termination of the Special Clearing Member's membership, has been authorised by LCH SA in respect of that Fixed Income market;

"**Portfolios**" means, in respect of each Fixed Income market, the Fixed Income or Triparty Repo Transactions in such market registered in the name of a Terminated Special Clearing Member, and, where relevant, includes any connected hedging trades concluded by LCH SA through Risk Mitigation; and

"**Risk Mitigation**" means the process of reducing the market risk associated with a Terminated Special Clearing Member's obligations to LCH SA under Fixed Income

Transactions or Triparty Repo Transactions by hedging the exposure prior to the Auction process as described in Article 2.1 of this Instruction.

- 1.3 Terms used in this Instruction which are not defined herein shall have the meanings given to them in the Clearing Rules.

Article 2 - FIXED INCOME AND TRIPARTY REPO TRANSACTIONS

The following provisions shall apply further to the expiration of the Termination Period in accordance with Article 2.5.4.10 of the Clearing Rule Book.

2.1 Risk Mitigation

LCH SA may in its sole discretion, decide to reduce the market risk associated with a Terminated Special Clearing Member's obligations to LCH SA by hedging LCH SA's exposure in Fixed Income or Triparty Repo Transactions to which the Terminated Special Clearing Member is a party, prior to engaging in the preparation of the Auction process. LCH SA, may, for the purposes of such hedging, in its sole discretion, apply any method or procedure it considers appropriate for such purposes.

Special Clearing Members agree that information regarding risk mitigation trades entered into by LCH SA are confidential and must not be disclosed other than as reasonably required to be able to execute such trades.

2.2 Portfolio Combination and Splitting

LCH SA shall determine the composition of each Special Clearing Member Portfolio and shall have the discretion to divide a Portfolio into two or more individual Special Clearing Member Portfolios or to combine two or more Portfolios into a single Special Clearing Member Portfolio with the aim of facilitating the efficiency of, and reducing the risk associated with, the Auction process described in Article 2.4 of this Instruction. The overriding principle is that LCH SA will structure Special Clearing Member Portfolios with the intention of ensuring a process of management of the Open Positions of a Terminated Special Clearing Member which best protects the resources of LCH SA. Therefore, nothing in this Article 2.2 shall be deemed to imply that LCH SA is under any obligation to split a particular Portfolio of a Terminated Special Clearing Member (regardless of the number of Fixed Income or Triparty Repo Transactions that such Portfolio contains). Except in case of gross negligence or deliberate act or omission from LCH SA, any losses or costs incurred from Risk Mitigation shall be considered losses of the Terminated Special Clearing Member and will be debited by LCH SA from the Target 2 Account of the Terminated Special Clearing Member in accordance with Article 2.5.4.11 of the Rule Book.

2.3 Direct Repo Transactions

- 2.3.1 LCH SA may directly enter into Repo Transactions outside of Auctions if, in its sole opinion, it considers that, in the circumstances or for timing reasons, or if an Auction will not be the most effective means of managing such assets or Special Clearing Member Portfolios, is likely to fail or if LCH SA determines that it will not be possible to complete any relevant Auction in a timely and efficient manner.

2.4 Auction

- 2.4.1 If LCH SA decides to dispose of a Special Clearing Member Portfolio by way of Auction, it shall, in its discretion identify up to 15 Fixed Income Clearing Members and/or Triparty Repo Clearing Members, other than the Terminated Special Clearing Member, as the case may be, which will be invited to bid in each Auction and shall invite such Bidders to submit bids for such Special Clearing Member Portfolio. All Fixed Income Clearing Members and Triparty

Repo Clearing Members accepting to participate in an Auction agree to be bound by the terms and conditions set out in Annex 1 to this Instruction.

- 2.4.2 LCH SA shall notify each Bidder of all details that may be reasonably required in relation to a Special Clearing Member Portfolio prior to the relevant Auction.
- 2.4.3 The Auction process may take place over a number of days and Auctions of different Special Clearing Member Portfolios may take place at different times.
- 2.4.4 LCH SA will have full discretion in deciding whether or not to accept one or more bids in an Auction for part or all of the Special Clearing Member Portfolio.
- 2.4.5 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 LCH SA are for less than the whole Special Clearing Member Portfolio, one or more further Auctions may, at the discretion of LCH SA, be held in relation to the relevant Special Clearing Member Portfolio or that part of the Special Clearing Member Portfolio which remains.

As soon as practicable following an Auction:

- (a) in the event that one or more bids were accepted, LCH SA will notify all the Bidders which participated in the Auction that one or more bids were accepted and shall notify the Bidders which submitted the accepted bids that their bids were accepted; and
 - (b) in the event that no bid was accepted, or the accepted bids were for less than the whole Special Clearing Member Portfolio, LCH SA will notify such Fixed Income Clearing Members or Triparty Repo Clearing Members as determined by LCH SA of the details of any further Auction.
- 2.4.6 All Bidders agree to use all reasonable efforts to make a bid in an Auction for a Special Clearing Member Portfolio in respect of which such Fixed Income Clearing Member or Triparty Repo Clearing Member is a Market Participant.
 - 2.4.7 LCH SA reserves the right to discretionarily cancel an Auction at any time and at any stage of the Auction Process and shall inform the Bidders promptly of its decision. LCH SA shall be free in such a case to dispose of the Special Clearing Member Portfolio (which it shall be free to split or combine with another Special Clearing Member Portfolio) by way of a new Auction or in accordance with Article 2.3 above.
 - 2.4.8 Bids may be submitted for a Competitive Auction at a price at which the relevant Bidder is willing to take on the entire relevant Special Clearing Member Portfolio and prices will be ranked in accordance with the value of the bid.

Article 3 - TRANSFER OF CASH FLOWS AND REGISTRATION OF POSITIONS

- 3.1 Following the disposal of part or all of a Special Clearing Member Portfolio by way of Auction or otherwise (and notwithstanding that other Special Clearing Member Portfolios of the Terminated Special Clearing Member may not yet have been auctioned), LCH SA will register new Transactions and/or record rights and obligations in the name of the Fixed Income Clearing Members and Triparty Repo Clearing Members whose bids were accepted in respect of that Special Clearing Member Portfolio. In such case, the Transactions and corresponding Trade Legs will be

registered in the House Account(s) of such Clearing Member and will be governed by the Clearing Rules.

- 3.2 LCH SA shall prescribe such procedures and timetable as it considers reasonably appropriate in the circumstances in relation to the above. Fixed Income Clearing Members or Triparty Repo Clearing Members, other than the Terminated Special Clearing Member, whose bids were accepted in respect of that Special Clearing Member Portfolio will be required to exercise best endeavours to comply with such requirements as may be established by LCH SA, including but not limited to the payment of any sums due as a result of the winning bid and the provision of cover in an amount required by LCH SA for Initial Margin, Variation Margin and additional margin in respect of positions which are to be registered in their names. LCH SA agrees that in such procedures it shall make provision for set-off by LCH SA of amounts owed by LCH SA to the Fixed Income Clearing Member or Triparty Repo Clearing Member, other than the Terminated Special Clearing Member, whose bids were accepted in respect of that Special Clearing Member Portfolio as a result of the management of the Open Positions of the Terminated Special Clearing Member against sums owed by the Fixed Income Clearing Member or Triparty Repo Clearing Member, other than the Terminated Special Clearing Member, to LCH SA in respect thereof.
- 3.3. In addition, LCH SA will register new Transactions and/or record rights and obligations in the name of the Terminated Special Clearing Member, which are opposite to the one registered in the name of the Fixed Income Clearing Members and Triparty Repo Clearing Members whose bids were accepted. To this end, each Special Clearing Member authorises LCH SA in the circumstances described in this Instruction, to register new Transactions and/or record rights and obligations on its behalf and for its account.

Article 4 - MISCELLANEOUS

- 4.1 LCH SA may from time to time supplement the details of any of the stages set out in Article 0 of this Instruction immediately on notice to the Special Clearing Members on a case-by-case basis where LCH SA deems it appropriate in view of the circumstances of the Special Clearing Member Event, provided that LCH SA may not take any such action that effects a material change to the terms of this Instruction without the consultation of the Special Clearing Members unless such change is necessary to meet LCH SA's continuing regulatory obligations.
- 4.2 The timetable for implementation of the stages of the management of the Open Positions of the Terminated Special Clearing Member further to the expiration of the Termination Period in accordance with Article 2.5.4.10 of the Clearing Rule Book, shall be determined by LCH SA, in its sole discretion and without prior notice to the Clearing Members.

Annex 1: CONFIDENTIALITY

General obligations

1 Confidentiality

1.1 The Clearing Member agrees that, in consideration of being provided confidential information or material (the "**Confidential Information**") for the purposes of or in relation with the management process of the termination of the Special Clearing Member's Membership, even in the course of a "fire drill" (the "**Permitted Purpose**"), it will keep all such Confidential Information in the strictest confidence, will not disclose it to any person without the prior written permission of the managing director of the LCH SA risk management department, providing always that the Clearing Member shall be relieved of such an obligation of confidentiality in respect of any Confidential Information if:

1.1.1 It comes into the public domain other than through a breach by the Clearing Member of the provisions hereof; or

1.1.2 The Clearing Member is expressly obliged to do so by order of a court of competent jurisdiction upon the application of a third party, or as a result of any request to disclose such part or parts of the Confidential Information in connection with any inquiry or other request by a regulatory authority or self-regulatory authority asserting jurisdiction over the Clearing Member.

1.2 The Clearing Member further agrees that it will not use any Confidential Information for any purpose other than the Permitted Purpose. In this regard the Clearing Member expressly acknowledges and agrees that the Confidential Information may contain commercially sensitive information which if used inappropriately might result in the gaining of an unfair commercial advantage by the Clearing Member over other Clearing Members or other market participants.

1.3 Subject to paragraph 1.5, the Clearing Member may disclose any Confidential Information to any of its employees, representatives, associated companies and advisers on a "strictly need to know" basis, in the event that any such person needs that Confidential Information for the Permitted Purpose (and to that extent only), provided that the Clearing Member notifies the managing director of the LCH SA risk management department prior to such disclosure.

1.4 The Clearing Member agrees to establish and adhere to adequate procedures (including, without limitation, the establishment of appropriate information barriers) to ensure that any employee or representative to whom any Confidential Information is disclosed shall not use any part or all of that Confidential Information for any proprietary purpose outside the scope of the Permitted Purpose.

1.5 This paragraph and the duties hereunder shall survive the termination of the management process of the termination of the Special Clearing Member's Membership and, in relation to any Confidential Material, shall expire on the second anniversary of the date the Confidential Information was first provided to the Clearing Member, without prejudice to confidentiality obligations under any applicable law which would prevent the Clearing Member from disclosing or using any Confidential Information otherwise than pursuant to and in accordance with paragraphs 1.1 to 1.4 above.

2 Secrecy

2.1 Except in accordance with the terms of this Annex, the Clearing Member agrees that it shall treat as strictly confidential and shall not disclose or allow to be divulged to any person:

2.1.1 Confidential Information;

2.1.2 the fact that it has received any Confidential Information;

2.1.3 the existence of any discussions or negotiations between the parties in this matter;

2.1.4 details of the Permitted Purpose and any of the proposals, terms, conditions, facts or other matters relating to any of the foregoing. Subject only to the Clearing Member being relieved of such an obligation because of the circumstances covered in paragraphs 1.1.1 and 1.1.2.

2.2 LCH SA undertakes to ensure that the Clearing Member is fully apprised of information on the management process of the termination of the Special Clearing Member's Membership that it makes public and which is accordingly of relevance to the Clearing Member's obligations.

3 Property

The parties acknowledge that the property in the Confidential Information (or any part of it) shall not pass to the Clearing Member or any Clearing Member, and the property in the media on which it is conveyed to the receiving party shall not pass to the Clearing Member or any Clearing Member unless expressly so agreed by LCH SA in writing.

4 Return of Confidential Material

Upon request by LCH SA, and in any event upon fulfilment of the Permitted Purpose, the Clearing Member shall promptly return to LCH SA by a secure method of transportation all or any part of the Confidential Information and all copies thereof in its possession or control or that of its employees or representatives, including all other papers, programs and records incorporating any of that Confidential Information, or shall destroy such information and shall certify to LCH SA in writing that it has done so provided that the Clearing Member is permitted to retain copies of any Confidential Information which it requires for legal or regulatory reasons.

5 No Representations or Warranties; No Conflict of Interest

5.1 The Confidential Information is disclosed by LCH SA without any representation or warranty whatsoever as to its accuracy or completeness or otherwise.

5.2 LCH SA acknowledges and agrees that, subject to compliance with the terms of this Annex by the Clearing Member and any of its employees or representatives to whom Confidential Material is provided in accordance with this Annex, the Clearing Member's participation in the management process of the termination of the Special Clearing Member's Membership shall not prevent the Clearing Member from carrying out any transaction, or otherwise providing investment services in respect of, investments that the Clearing Member may subsequently learn are the subject of Confidential Information and, furthermore, LCH SA agrees that it shall not be able to assert that the Clearing Member has a conflict of interest in doing so nor shall LCH SA have a claim or action in respect of the foregoing against the Clearing Member or any of its directors, employees or other representatives.

6 Remedies

Without affecting any other rights or remedies that LCH SA may have, the Clearing Member acknowledges that LCH SA may be irreparably harmed by any breach of the terms of the management process of the termination of the Special Clearing Member's Membership and that damages alone may not necessarily be an adequate remedy. Accordingly, LCH SA will be entitled to the remedies of injunction, specific performance and other equitable relief, or any combination of these remedies, for any threatened or actual breach of its terms, and not proof of special damages will be necessary to enforce the management process of the termination of the Special Clearing Member's Membership.