

VIA CFTC Portal

14 December 2020

Mr Christopher Kirkpatrick
Commodity Futures Trading Commission
115 21st Street NW
Three Lafayette Centre
Washington DC 20581

LCH Limited Self Certification: Rule changes related to the distribution of losses to Clearing Members in a default event

Dear Mr Kirkpatrick

Pursuant to CFTC regulation §40.6(a), LCH Limited (“LCH”), a derivatives clearing organization registered with the Commodity Futures Trading Commission (the “CFTC”), is submitting for self-certification changes to its the Default Rules to clarify the process in place for the distribution of losses across Clearing Members in the event of one or more defaults. The changes impact the SwapClear and Listed Rates services (the “Rates service”) and the ForexClear service.

Part I: Explanation and Analysis

As you are aware, LCH has a default waterfall of resources to be used in the event of a Clearing Member default. The first layers includes the defaulter’s own margin and contribution to the mutualised default fund, which is the most substantial amount of resources. If this is not sufficient to cover all losses, LCH will use the dedicated amount of its own capital in the waterfall (skin in the game). If these resources are exhausted, any residual losses will be covered the contributions of the non-defaulting Clearing Members to the mutualised default fund. The focus of the rule changes is the distribution of default management losses to this layer of the default waterfall.

The changes do not have any material effect on how losses would be distributed, but provide a clearer explanation of the methodology.

The rule changes will go live on, or after, 31 December 2020.

Part II: Description of Rule Changes

The type of default management losses in question are Market Losses and Auction Losses. The rule changes aim to clarify these terms, noting that:

- **“Market Losses”** on the defaulter’s book are those resulting from market moves from the time of the default and losses arising from the process of hedge execution. Market

losses are met through the default waterfall directly. Where the losses hit the mutualised resources, these will be met by all Clearing Members directly pro-rata based on their remaining funded and unfunded contributions, in the order set out in Rule 2.5 of the Rates Service DMP Annex and Rule 2.4 of the ForexClear Service DMP Annex, respectively.

- **“Auction Losses”** result from the sale of the defaulter’s portfolio alongside any net present value (“NPV”) movement of the defaulter’s portfolio from the last EoD margin and settlement call to the point of the sale. LCH will use an incentive structure to distribute such losses to non-defaulting Clearing Members, as further explained below, following the order set out in Rules 2.7 and 2.8 of the Rates Service DMP Annex, and Rule 2.6 of the ForexClear Service DMP Annex, respectively.

In relation to the Listed Rates service, contracts of the defaulter would be expected to be closed out through trading. Any loss resulting from such close-out are regarded as market risk losses and are defined as “Exchange Losses” in the rules. Exchange Losses will be covered by the defaulting Clearing Member first and, if its resources are not sufficient, by the non-defaulting Clearing Members in the order described under section 2.9 of the Rates Service DMP Annex.

Auction Incentive Participation Ratios

The Auction Losses, as any other loss resulting from a default, will be allocated first to the defaulter’s resources and then LCH’s skin in the game. Should some of or all of the losses be realised in the mutualised default fund, an incentive structure will be used to allocate them to the non-defaulting Clearing Members, as set out below.

At the point of default, each surviving Clearing Member will have a paid in contribution to the mutualised default fund and a set of risk positions across some or all of the products offered in the relevant service. Each Clearing Member’s contribution is assigned to one of a set of buckets that will be used to derive the Auction Incentive Participation (“AIP”) Ratios per contract per currency. The ratio is based on the greatest loss LCH would incur if a Clearing Member defaulted in a given contract/currency (referred to as “Undiversified Expected Shortfall” in the rules). Ahead of each auction, such AIP Ratio computed at the point of default will be applied to the remaining contribution of each Clearing Member at that point in time to determine the AIP amount of each Clearing Member, i.e. the amount each Clearing Member has at risk in a given auction.

The way auction losses are allocated is based on the bidding behaviour of Clearing Members in an auction, with the non-bidders or those whose bid was not accepted to be penalised first. This structure reinforces the incentive to bid well in auctions.

Amended sections of the Rulebook:

The majority of the changes are included in the following sections. Redundant wording has been deleted, where required:

Schedule 2 – Rates Service DMP Annex:

- 2.5 Market Losses
- 2.6 Auction Incentive Pools
- 2.7 Auction Losses for OTC portfolios
- 2.8 Auction Losses - Basis Portfolios (such portfolios include any SwapClear contracts that have been portfolio margined with eligible Listed Rates Contracts)
- 2.9 Exchange Closed-Out Contracts
- 2.10 Gains

Schedule 3 – ForexClear DMP Annex:

- 2.4 Market Losses
- 2.5 Auction Incentive Pools
- 2.6 Auction Losses – Auction Portfolios
- 2.7 Gains

The above schedules also include clarifications of existing terms as well as new definitions, most of which are relevant to the AIP structure set out above.

The text of the changes to the Default Rules is attached hereto as **Appendix I**.

Part III: Core Principle Compliance

LCH has reviewed the changes against the requirements of the Core Principles, including Core Principle G, and finds that they will continue to comply with all the requirements and standards therein.

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:

<http://www.lch.com/rules-regulations/proposed-rules-changes>

Part V: Opposing Views

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

Certification

LCH hereby certifies to the Commodity Futures Trading Commission, pursuant to the procedures set forth in the Commission regulation § 40.6, that attached rule submission complies with the Commodity Exchange Act, as amended, and the regulations promulgated there under.

Should you have any questions please contact me.

Yours sincerely

P.P. 

Julian Oliver
Chief Compliance Officer
LCH Limited

Appendix I
Default Rules

LCH The Markets'
Partner

**LCH LIMITED
DEFAULT RULES**

there is more than one) all such FCM Omnibus Futures Client Accounts with LCH of the Defaulter combined;

- (ix) with regard to a net sum produced by reference to FCM Contracts registered in an FCM Omnibus Foreign Futures Client Account with LCH of the Defaulter, that FCM Omnibus Foreign Futures Client Account with LCH, or (if there is more than one) all such FCM Omnibus Foreign Futures Client Accounts with LCH of the Defaulter combined;
 - (x) with regard to a net sum produced by reference to Contracts registered in one or more Proprietary Accounts of the Defaulter, that Proprietary Account or those Proprietary Accounts combined and (if the Clearing House has elected in accordance with Rule 11(a)) any Treasury Accounts of the Defaulter;
 - (xi) with regard to a net sum produced by reference to one or more Treasury Accounts of the Defaulter, that Treasury Account or those Treasury Accounts combined, and (if the Clearing House has elected in accordance with Rule 11(a)) any Proprietary Accounts; and
 - (xii) with regard to a net sum produced by reference to Contracts registered in SM/AM Account with LCH of the Defaulter, that SM/AM Account.
- (d) Notwithstanding any provision of the Rulebook to the contrary, any loss which relates to a Treasury Account may not be treated as a Default Loss, whether or not Collateral has been applied in respect of such loss. Nothing in this Rule 11(d) requires the Clearing House to apply Collateral in respect of any such loss, except that the Clearing House may not apply Collateral in respect of any such loss to the extent that doing so would give rise to an Excess Loss.
12. Without further authorisation, permission or cooperation from the Defaulter (or a related Agent Member), the Clearing House may appoint any person to take or assist it in taking any step under these Rules or to complete or assist it in completing the process set out in Rule 8.
13. The Clearing House may co-operate, by the sharing of information and otherwise, with any Regulatory Body or relevant Exchange, any relevant office-holder acting in relation to the Defaulter or its estate and any other authority or body having responsibility for, or any Clearing Member having an interest in, any matter arising out of or connected with the circumstances mentioned in Rule 3.
14. In addition to such copy report as it supplies under section 162(3) of the Companies Act 1989, the Clearing House shall report to the Defaulter (and, if applicable, its related Agent Members), or any relevant office-holder acting in relation to the Defaulter or its estate, on steps taken in relation to the Defaulter under Rule 6.

Reduction of Losses on Default

15. Subject to: (i) any contrary provision of the Rulebook and/or (ii) any variation or modification in, or clarification of, the application of the resources described below set

out in an Annex, where a Defaulter fails to pay any sum payable to the Clearing House, the Clearing House shall reduce or bear its loss in the manner provided by this Rule:

- (a) first, to the extent the Clearing House determines appropriate, in applying any Collateral transferred to the Clearing House by or for the account of the Defaulter (including, where the Defaulter is a Sponsored Member, available Agent Buffer transferred to the Clearing House by the Defaulter's Agent Members in respect of the Defaulting Sponsored Member's collateral account as per Regulations 16(c) and (d)), any other sum owed to the Defaulter or its Agent Member (other than (i) any Contribution of the Defaulter or (ii) any ForexClear Option Service Liquidity Fund Contributions of the Defaulter) and any Collateral transferred to the Clearing House by a Custodial Segregated Client in respect of a Custodial Segregated Account of the Defaulter (together, "**Margin Cover**"), **provided that** (i) Margin Cover related to a particular type of Business is to be applied first to any loss attributable to that Business until such loss is absorbed; and (ii) save in the case where the relevant Client Accounts are two or more Individual Segregated Accounts and/or Custodial Segregated Accounts opened by the Defaulter on behalf of the same Clearing Client (or, in the case of a Defaulter who is an FCM Clearing Member, two or more FCM Client Sub-Accounts held in the name of the same FCM Client, two or more FCM Omnibus Futures Client Accounts with LCH, or two or more FCM Omnibus Foreign Futures Client Accounts with LCH, as applicable), in no circumstances will Margin Cover transferred by or for the account of the Defaulter and/or by a Custodial Segregated Client in respect of obligations arising on a Client Account be applied by the Clearing House pursuant to this stage (a) in respect of any loss attributable to any of the Defaulter's other accounts; and (iii) in the case where the defaulter is a Sponsored Member, that Collateral transferred for Margin Cover directly be applied first before any Agent Buffer used in the context of Regulation 16;
- (b) second, by (i) recourse to the Defaulter's relevant Contribution made by the Defaulter or for the account of the Defaulter by an Agent Member in respect of the type of Business to which the loss relates, followed by (ii) recourse to any other Contribution made by the Defaulter or for the account of the Defaulter by an Agent Member to the extent not utilised under (i) above. The Clearing House will exercise its rights of recourse under this stage (a) by set-off against the Clearing House's obligation to repay the relevant Contributions to the Defaulter or (B) where the Defaulter is a Sponsored Member, by recourse to the indemnities in respect of all Contributions of each Agent Member to the Defaulter's Contribution given under Rule 19 (i) and (ii) respectively by each Agent Member of the Defaulter and set-off against the Clearing House's obligation to repay contributions to the Agent Members;
- (c) ~~(b)~~ third, where the Defaulter is a Sponsored Member, by recourse to the indemnities in respect of all available Agent Resource Contribution given under SC Regulation 17 (*Agent Resource Contribution*) and Rule 19 by each Agent Member of the Defaulter in respect of any Agent Resource Contribution posted by such Agent in proportion to the portfolio of the defaulted Sponsored Clearing Member (which shall be satisfied by set-off against the Clearing House's

obligation to repay the relevant Agent Resource Contributions to such Agent Members);

- (d) ~~(e)~~ fourth, by payment from the Clearing House's own account of an amount (the "**Capped Amount**") (i) determined by the Clearing House from time to time in accordance with the requirements relating to **the calculation and the setting** aside of dedicated own resources under the Own Resources Provision; or (ii) in the case of a subsequent Default occurring before the Clearing House has reinstated the dedicated resources required in accordance with the Own Resources Provision, representing the residual amount of such dedicated own resources.

Where there are amounts due from the Defaulter at this stage in respect of more than one type of Business (each a "**Relevant Business**" in respect of the Defaulter), a separate Capped Amount determined in accordance with Rule 15(~~e~~d)(i)-(ii) will be paid from the Clearing House's own account under this stage (~~e~~d) in respect of such Relevant Business.

- (e) ~~(d)~~ fifth, to the extent that any insurance or analogous arrangement is not available to the Clearing House, by recourse to the indemnities given under Rule 21 by Clearing Members and relevant Agent Members other than the Defaulter (which shall be satisfied by set-off against the Clearing House's obligation to repay the relevant Contributions of such Clearing Members or relevant Agent Members). If the criteria specified in a relevant Supplement for calling any Unfunded Contributions have been satisfied, then references to the Contributions of Clearing Members or relevant Agent Members other than the Defaulter in this Rule 15(e) shall include such Unfunded Contributions;

- (f) ~~(e)~~ sixth, by recourse to any insurance cover or analogous arrangement;

- (g) ~~(f)~~ seventh, by recourse to the indemnities given under Rule 21 by Clearing Members or relevant Agent Members (as applicable) other than the Defaulter (which shall be satisfied by set-off against the Clearing House's obligation to repay the relevant Contributions to of such Clearing Members or relevant Agent Members (as applicable). If the criteria specified in a relevant Supplement for calling any Unfunded Contributions have been satisfied, then the references to the Contributions of Clearing Members or relevant Agent Members (as applicable) other than the Defaulter in this Rule 15(g) shall include such Unfunded Contributions;

- (h) ~~(g)~~ eighth, by recourse to any other indemnities, guarantees, undertakings or monies provided by Clearing Members (excluding the ForexClear Option Service Liquidity Fund Contributions); or

- (i) ~~(h)~~ ninth, by recourse to the relevant Supplement.

Where a Defaulter is engaged in more than one Relevant Business, the completion of the default management processes in respect of such Relevant Businesses may occur at different times. The Clearing House may be required to make a determination in respect of one Relevant Business (including certification of a Default Loss under Rule 16(b), certification of a net sum payable under Rule 19(a) or the value of an Excess Loss) in

order to manage the Default at a time when (a) the determination is contingent on an outcome of the default management process in respect of some other Relevant Business, and (b) that outcome has not yet been reached. In the interests of efficient resolution, the Clearing House may at such point make assumptions about that outcome, and proceed with the relevant process on that basis. Where any such assumptions have been made, the Clearing House shall, on the completion of the default management processes in respect of all Relevant Businesses, make such credits to the default funds relating to the Relevant Businesses and such distributions to former Clearing Members as may be necessary to put the default funds and those firms which had contributed to such Default funds at the time of the relevant default in the position that they would have been in if the correct outcomes had been reached and the relevant assumptions had not been made.

This Rule has effect without prejudice to any rights of the Clearing House or any other person against the Defaulter.

Terms on which Contribution and Agent Resource Contribution is held

16.

- (a) Subject to Rules 16(b) and (c) below, the outstanding balance of a Clearing Member's Contribution and in the case of a Sponsored Member, the Agent Resource Contribution and Contribution of its Agent Members performing the Agent Member Services (or, as appropriate, part thereof) shall be repayable to the Clearing Member or, in the case of a Sponsored Member, each of its Agent Members and (other than Agent Resource Contribution) Agent Members performing the Back-up Agent Services (as applicable) on the earliest to occur of the following events:
 - (i) if the Clearing Member is not a Defaulter (or the Clearing Member is a Defaulter and has validly exercised its rights under Regulation 45(e)) or SC Regulation 45(e), the effective date of termination of the Clearing Member's status as a Clearing Member (including a Termination Date under Regulation 45 (*Netting*) or under FCM Regulation 37 (*Netting*) or under SC Regulation 27 (*Netting*));
 - (ii) if the Clearing Member has become a Defaulter, the date or event appointed by the Clearing House for repayment of sums due to the Clearing Member under Rule 9;
 - (iii) the amount of a relevant Contribution and, if applicable, relevant Agent Resource Contributions being reduced by virtue of the recalculation of its amount in accordance with the relevant Supplement (in which case the relevant Contribution and, if applicable, relevant Agent Resource Contributions shall be repayable only to the extent of such reduction);
 - (iv) the Clearing House making an Insufficient Resources Determination pursuant to a Supplement; and
 - (v) the expiry of a period of 50 years from the date on which the Contribution was paid to the Clearing House.

SCHEDULE 1
CLIENT CLEARING ANNEX

1. The Client Clearing DMP in respect of any contract which is a Contract entered into in respect of Client Clearing Business other than FCM Contracts (each a "**Relevant Contract**") shall involve the stages set out in this Annex. For the avoidance of doubt, in the case of a Defaulter who engages in more than one Relevant Client Clearing Business, the stages set out in this Annex will be implemented
 - (f) subject to paragraph (b) below, separately in relation to the Relevant Contracts entered into by such Defaulter in respect of each such Relevant Client Clearing Business; and
 - (g) as a single process in respect of all Relevant Contracts that are Rates Service Contracts entered into by a Defaulter on behalf of its Portfolio Margining Clients on a combined basis.

Except in respect of Relevant Contracts entered into in respect of Rates Service Client Clearing Business, the Clearing House will not combine Relevant Contracts relating to different Relevant Client Clearing Businesses in a single Client Clearing DMP. The terms "**Account Balance**", "**Clearing Client**", "**Relevant Contract**", "**Relevant Auction Contract**", "**Individual Segregated Account**", "**Custodial Segregated Account**", "**Individual Segregated Account Clearing Client**", "**Custodial Segregated Client**", "**Individual Segregated Account Balance**", "**Custodial Segregated Account Balance**", "**Indirect Gross Account**", "**Indirect Gross Account Clearing Client**", "**Indirect Net Account**", "**Indirect Net Account Clearing Client**", "**Omnibus Segregated Account**", "**Non-Identified Client Omnibus Net Segregated Account**", "**Identified Client Omnibus Net Segregated Account**", "**Affiliated Client Omnibus Net Segregated Account**", "**Omnibus Gross Segregated Account**", "**Non-Identified Omnibus Segregated Clearing Client**", "**Identified Omnibus Segregated Clearing Client**", "**Affiliated Omnibus Segregated Clearing Client**", "**Omnibus Gross Segregated Clearing Client**", "**Omnibus Segregated Account Balance**", "**Indirect Clearing Client**", "**Client Clearing Entitlement**", "**Aggregate Omnibus Client Clearing Entitlement**" and "**Clearing Agreement**" where used in paragraphs 2 to 18 of this Annex shall be interpreted accordingly.

2. For the purposes of this Annex, a Relevant Contract relating to ForexClear Client Clearing-~~Client~~ Business or Rates Service Client Clearing Business of a Clearing Member and a Relevant Contract relating to RepoClear Client Clearing Business of a Clearing Member which is a Fixed Income Contract (each a "**Relevant Auction Contract**") will be included in a Portfolio (as such term is defined in, respectively, the ForexClear DMP Annex to the Default Rules, the Rates Service DMP Annex to the Default Rules and the RepoClear DMP Annex to the Default Rules) from such time as the Clearing House determines that such Relevant Auction Contract will not be ported. For the avoidance of doubt, any such Portfolio will only contain Relevant Auction Contracts entered into by a Clearing Member on behalf of its Clearing Clients. The Clearing House shall not be entitled to combine client and house positions in a single Portfolio.
3. In the case of a Relevant Contract other than a Relevant Auction Contract which cannot be ported in accordance with the terms of this Annex, the Clearing House may take any

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 ~~issue of a~~ Default Notice relating to ~~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 (~~i.e.~~ depending on whether such Contracts are SwapClear Contracts, Portfolio Margined Contracts or Listed Interest Rates Contracts that are not 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, ~~indeed,~~ 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 ~~large positions in~~ other Contracts ~~traded on exchange of ATS-~~ ~~organised markets~~ 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 2.52.6 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 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 bears to,
 - (ii) the aggregate Undiversified Expected Shortfall for all the SwapClear 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**" ~~has the meaning given in the first paragraph of Rule 2 of this Annex;~~ 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 end of day margin and settlement call of the Clearing House 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 ~~both~~ SwapClear Contracts ~~and~~ Portfolio Margined Contracts and/or Listed Interest Rates Contracts; as more fully ~~described~~ defined in Rule 2.3 ~~below 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;

"**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" ~~has the meaning given in Rule 2.4(d) of this Annex;~~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 of a Defaulting Listed Interest Rates Clearing Member that are closed-out under the Exchange Rules of the Exchange to which they relate, ~~which, for the avoidance of doubt, will be all Listed Interest Rates;~~

"Exchange Losses" means the losses in respect of the Exchange Closed-out Contracts of a Defaulting Listed Interest Rates Clearing Member who is not a Joint Rates Service Clearing Member and those Listed Interest Rates Contracts of a Defaulting Joint Rates Service Clearing Member that are not Portfolio Listed Interest Rates Contracts;

"Expected Auction Participant" means, in respect of an OTC Auction Portfolio, any Non-Defaulting SCM who, at the time of the ~~Clearing House declares a 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;

"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" ~~has the meaning given~~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;

~~"**Initial Resources**" has the meaning given in Rule 2.6(b) of this Annex;~~

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

~~"**Listed Interest Rates Out Bidder**" has the meanings given in Rule 2.6(f)(ii) of this Annex;~~
"**Only Clearing Member**" means a Listed Interest Rates Clearing Member, which is not an SCM;

~~"**Listed Interest Rates Short Bidder**" has the meaning given in Rule 2.6(f)(ii) of this Annex;~~

~~"**Losing AP Type**" has the meaning given in Rule 2.6(e)(iv) of this Annex;~~

~~"**Losing Original 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" ~~has the meaning given in Rule 2.6(g) of this Annex;~~

~~"Losing Original SCM" has the meaning given in Rule 2.6(d) of this Annex;~~

~~"Losing Unfunded Joint Rates Service Clearing Member" has the meaning given in Rule 2.6(n) of this Annex;~~

~~"Losing Unfunded SCM" has the meaning given in Rule 2.6(f)(iv) of this Annex;~~

~~"Margin Cover" has the meaning given in Rule 15(a) of the Default Rules; 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;

~~"Original Listed Interest Rates Contributions" has the meaning given in Rule 2.6(e) of this Annex;~~

~~"Original SwapClear Contributions" has the meaning given in Rule 2.6(e) of this Annex;~~

"OTC Auction Portfolio" means (i) a Portfolio containing only SwapClear Contracts, or (ii) 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" has the meaning given in Rule 2.6(e)(ii) of this Annex;~~ means a bid in an Auction, which is Accepted and higher than the winning bid in such Auction;

~~"Participating Non-Defaulting Joint Rates Service Clearing Member" has the meaning given in Rule 2.9(a)(iv)(B) of this Annex;~~ 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 (ii) Hedging SwapClear Contracts and/or Hedging Listed Interest Rates Contracts connected to the relevant SwapClear Contracts or 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 or Hedging Listed Interest Rates Contracts concluded by the Clearing House through Risk Neutralisation;

~~"Potential Listed Interest Rates Unfunded Contributions" has the meaning given in Rule 2.5(b) of this Annex;~~

~~"Potential SwapClear Unfunded Contributions" has the meaning given in Rule 2.5(b)(iii) of this Annex;~~

"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~~default management group established by the Clearing House pursuant to the terms of this Annex;

"**Rates Service DMP** ~~or Rates Service Default Management Process~~" 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;

~~"Relevant Listed Interest Rates Unfunded Contributions" has the meaning given to it in Rule 2.6(m) of this Annex;~~

~~"Relevant Original Listed Interest Rates Contributions" has the meaning given to it in Rule 2.6(e) of this Annex;~~

~~"Relevant Original SwapClear Contributions" has the meaning given to it in Rule 2.6(e) of this Annex;~~

~~"Relevant SwapClear Unfunded Contributions" has the meaning given to it in Rule 2.6(e) of this Annex;~~

~~"Remaining Non-Defaulting Joint Rates Service Clearing Member" means each Non-Defaulting Joint Rates Service Clearing Member which is not a Participating Non-Defaulting Joint Rates Service Clearing Member;~~Short Bidder" means, in respect of an Auction of:

~~"Remaining Original Listed Interest Rates Short Bidder" has the meaning given in Rule 2.6(f)(ii) of this Annex;~~

~~"Remaining Original SwapClear Short Bidder" has the meaning given in Rule 2.6(e)(ii) of this Annex;~~

~~"Remaining Unfunded Listed Interest Rates Short Bidder" has the meaning given to it in Rule 2.6(m)(ii) of this Annex;~~

~~"Remaining Unfunded SwapClear Short Bidder" has the meaning given to it in Rule 2.6(j)(ii) of this Annex;~~

(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 ~~a specific~~ an OTC Auction Portfolio, a SwapClear Contract registered in the name of a Non-Defaulting SCM that (ia) is denominated in the same Auction Portfolio Currency as such SwapClear Contracts and (iib) 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 by hedging the exposure ~~prior to~~ 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;

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

"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 Joint Rates Service Clearing Member (i.e., that, which is not also a Listed Interest Rates Clearing Member);~~

~~"SwapClear Out Bidder" has the meanings given in Rule 2.6(e)(ii) of this Annex; "SwapClear Short Bidder" has the meaning given in Rule 2.6(e)(ii) of this Annex; and~~

~~"Worst Case Loss Undiversified Expected Shortfall" means, in respect of (i) the SwapClear Contracts in an OTC Auction Portfolio or (ii) the Resembling Contracts of a particular Non-Defaulting SCM a specific currency and SwapClear Contract Category, the largest loss which the Clearing House determines could be incurred by the Clearing House in respect of the relevant group of such SwapClear Contracts, as determined by the Clearing House using 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 ~~which are not defined herein~~ shall have the meanings given to them in the Regulations ~~and in the~~ FCM Regulations.

2. ~~Rates Service Clearing House Business, Relevant Auction Contracts in respect of Rates Service Client Clearing Business and FCM SwapClear House Business~~ Rates Service DMP

The Rates Service ~~Default Management Process~~ 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 SwapClear House Rates Service Client Business shall involve the processes described in this Rule 2. ~~Rules 2.1 to 2.4 describe the steps for the determination of losses to the Clearing House in respect of OTC Auction Portfolios and Basis Portfolios by way of an auction process. Rules 2.5 to 2.7 describe the steps for the allocation of resources to losses arising from the auction of OTC Auction Portfolios (the "Auction Losses"). Rules 2.8 and 2.9 describe the steps for the allocation of resources to losses incurred by the Clearing House in respect of Exchange Closed-out Contracts and Basis Portfolios, respectively.~~

Resources will be allocated based on the order ~~that the processes described in Rules 2.1 to 2.9 are carried out. Accordingly, once a process is commenced the relevant resources will be allocated in accordance with the steps and order set out in the relevant Rule which applies to that process~~ 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 ~~(i)~~ reduce the resources which are available to meet the losses in respect of any subsequent process and ~~(ii)~~, 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 ~~the processes described in Rules 2.1 to 2.9 are commenced~~ 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 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 ~~SCMs within 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 ~~individual~~ OTC Auction Portfolios and/or two or more Basis Portfolios from a Portfolio ~~(including a Basis Portfolio)~~, whether by ~~simply~~ dividing such Portfolio or separating certain Contracts from such Portfolio, with the aim of facilitating the efficiency of, and reducing the risk associated with, the auction process provided for in Rule ~~2.32.4~~ 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 to split a particular Portfolio of a Defaulting SCM (regardless of the number of Contracts that such Portfolio contains); 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 ~~Basis~~ 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**"); ~~and/or~~
- (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) ~~(any such Listed Interest Rates Contract, a "**Hedging Listed Interest Rates Contract**")~~); 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 aim of Risk Neutralisation is to reduce market exposure to within defined tolerance limits expressed as deltas or other measures of market risk and as established from time to time by the Clearing House in consultation with the Rates Service DMG or as may reasonably be determined by the Clearing House in consultation with the Rates Service~~

~~DMG once a Default has occurred.~~ 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 above.~~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 that the SwapClear service closes on the day on which it executes such SwapClear Transaction or FCM SwapClear Transaction).

2.3 *Basis Portfolio Composition*

~~Prior to each Auction and for each relevant currency, the~~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 ~~Contract~~Contracts concluded by the Clearing House through Risk Neutralisation. ~~The aim in constructing the Basis Portfolio is to transfer all futures risk associated with the Portfolio Margined Contracts into (a) OTC equivalent risk, and (b) an OTC futures basis position.~~

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 ~~broadly~~ in the manner provided by Rule 15 ~~(Reduction of Losses on Default)~~ of the Default Rules or, as the case may be, the extent of any gains to the Clearing House ~~which the Clearing House must pay to the Defaulting SCM.~~

The Clearing House, in consultation with the Rates Service DMG, shall prescribe such procedures (in addition to those set out ~~herein~~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, ~~prior to~~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 ~~SCM shall be~~ Rates Service Clearing Member is entitled to submit a bid in respect of an Auction ~~of an OTC Auction Portfolio~~ on behalf of one or more affiliated ~~SCMs~~ 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 ~~or not to accept~~ Accept a particular bid in an Auction and, ~~in so deciding, will take into account the relevant factors that determine risk premiums, as well as the range of bids received relative to the amount of Collateral held in respect of initial margin and, subject to their availability, the Clearing House resources as set out in Rule 15 of the Default Rules. In the event that more than one Non-Defaulting SCM or Non-Defaulting Joint Rates Service Clearing Member submits a bid of the same value (each an "Equal Bid"), the Clearing House will, subject to its discretion to reject all such Equal Bids, select the bid which was received first in time~~ deciding which Accepted bid it will select as the winning bid.
- (f) In the case of an Auction in which no bid is ~~accepted~~ 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) ~~in the event that a bid was accepted~~ one or more bid(s) is Accepted, the Clearing House will notify ~~(1)~~ :
- (A) in the case of an Auction of an OTC Auction Portfolio, the Expected Auction Participants together with any other Non-Defaulting SCMs ~~who~~ which participated in the Auction that ~~a one or more bid was accepted;~~ (2) (s) is Accepted;
- (B) in the case of an Auction of a Basis Portfolio, the Non-Defaulting Joint Rates Service Clearing Members ~~who~~ which participated in the Auction that ~~a bid was accepted~~ one or more bid(s) is Accepted; and ~~(3)~~
- (C) in both such cases, the SCM ~~who~~ which submitted the ~~accepted~~ winning bid that ~~its bid was accepted~~ it is the winner of the Auction; and

- (ii) ~~in the event that~~ no bid ~~was accepted~~ is Accepted, the Clearing House will notify ~~(1)~~ all Non-Defaulting SCMs of the details of any further Auction ~~(in respect of an OTC Auction Portfolio;~~ and ~~(2)~~ all Non-Defaulting Joint Rates Service Clearing Members of the details of any further Auction ~~(in respect of a Basis Portfolio).~~

- (h) ~~(g)~~ Each Non-Defaulting SCM agrees to use all reasonable efforts to make a bid in an Auction for an OTC Auction Portfolio in respect of which it is an Expected Auction Participant and each Non-Defaulting Joint Rates Service Clearing Member agrees to use all reasonable efforts to make a bid in an Auction for a Basis Portfolio.

2.5 Market Losses

- (a) Market Losses will be met using the available resources as set out in Rule 15 of the Default Rules. Where the Clearing House determines that there are insufficient resources under Rules 15(a) to 15(d) of the Default Rules (inclusive) to meet such losses, they will be attributed to Non-Defaulters' remaining SwapClear Contributions and remaining Listed Interest Rates Contributions in the following order and proportions:
 - (i) Market Losses will be attributed to the remaining SwapClear Funded Contribution of each Non-Defaulter *pro rata* according to the proportion that the remaining SwapClear Funded Contribution of such Non-Defaulter bears to the total of all such remaining SwapClear Funded Contributions.
 - (ii) If and to the extent there are Market Losses outstanding after the attribution process in Rule 2.5(a)(i) of this Annex, those Market Losses will be attributed to the remaining Listed Interest Rates Funded Contribution of each Non-Defaulting Joint Rates Service Clearing Member *pro rata* according to the proportion that the remaining Listed Interest Rates Funded Contribution of such Non-Defaulting Joint Rates Service Clearing Member bears to the total of the remaining Listed Interest Rates Funded Contributions of all Non-Defaulting Joint Rates Service Clearing Members.
 - (iii) If and to the extent there are Market Losses outstanding after the attribution process in Rule 2.5(a)(ii) of this Annex, those Market Losses will be attributed to the remaining Listed Interest Rates Funded Contribution of each Non-Defaulting Listed Interest Rates-Only Clearing Member *pro rata* according to the proportion that the remaining Listed Interest Rates Funded Contribution of such Non-Defaulting Listed Interest Rates-Only Clearing Member bears to the total of the remaining Listed Interest Rates Funded Contributions of all Non-Defaulting Listed Interest Rates-Only Clearing Members.
 - (iv) If and to the extent there are Market Losses outstanding after the attribution process in Rule 2.5(a)(iii) of this Annex, those Market Losses will be attributed to the remaining SwapClear Unfunded Contributions of each Non-Defaulter *pro rata* according to the proportion that the

remaining SwapClear Unfunded Contributions of such Non-Defaulter bear to the total of all such remaining SwapClear Unfunded Contributions.

(v) If and to the extent there are Market Losses outstanding after the attribution process in Rule 2.5(a)(iv) of this Annex, those Market Losses will be attributed to the remaining Listed Interest Rates Unfunded Contributions of each Non-Defaulting Joint Rates Service Clearing Member *pro rata* according to the proportion that the remaining Listed Interest Rates Unfunded Contributions of such Non-Defaulting Joint Rates Service Clearing Member bear to the total of the remaining Listed Interest Rates Unfunded Contributions of all Non-Defaulting Joint Rates Service Clearing Members.

(vi) If and to the extent there are Market Losses outstanding after the attribution process in Rule 2.5(a)(v) of this Annex, those Market Losses will be attributed to the remaining Listed Interest Rates Unfunded Contributions of each Non-Defaulting Listed Interest Rates-Only Clearing Member *pro rata* according to the proportion that the remaining Listed Interest Rates Unfunded Contributions of such Non-Defaulting Listed Interest Rates-Only Clearing Member bear to the total of the remaining Listed Interest Rates Unfunded Contributions of all Non-Defaulting Listed Interest Rates-Only Clearing Members.

(b) The Clearing House will attribute Market Losses (if any) pursuant to Rule 2.5(a) of this Annex on each business day during the implementation of the Rates Service DMP at the same time as its end of day margin and settlement call.

2.6 ~~2.5~~ **Auction Incentive Pools**

(a) The Clearing House will calculate an auction incentive pool (each, an "AIP") for ~~each individual OTC Auction Portfolio for the purposes of providing an initial allocation of the resources potentially available to it to satisfy Auction Losses, which, for the avoidance of doubt, will not include amounts in respect of the following:~~

(i) ~~the Listed Interest Rates Contribution of any Listed Interest Rates Clearing Member who is not a Joint Rates Service Clearing Member (whether or not such Listed Interest Rates Clearing Member is the Defaulter); and~~ OTC Auction Portfolio(s) in a specific Auction Portfolio Currency and Auction Portfolio Category; and

(ii) ~~the value of the resources required to be applied to meet in full losses incurred by the Clearing House in respect of the auction to Non-Defaulting Joint Rates Service Clearing Members of each of the Basis Portfolios containing Contracts of the relevant Defaulter. each Basis Portfolio.~~

~~Notwithstanding such initial allocation, any resources utilised by the Clearing House will be allocated to Auction Losses in accordance with Rule 2.6 below.~~

- (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) ~~(b) For each AIP, the resources shall be allocated as follows:~~ 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.
- ~~(i) the resources of the Defaulting SCM and of any Custodial Segregated Client of such Defaulter, which such resources shall comprise the following:~~
- ~~(A) in respect of a Defaulting SCM who is a SwapClear Only Clearing Member: (i) the Margin Cover for the SwapClear Contracts of the Defaulting SCM available pursuant to Rule 15(a) of the Default Rules at the time of the auction process notwithstanding the proviso in (ii) of Rule 15(a) of the Default Rules, treating such available Margin Cover as split into two separate amounts for these purposes — one in respect of Margin Cover delivered by the Defaulting SCM to the Clearing House in respect of SwapClear Contracts relating to the SwapClear Clearing House Business of such Defaulting SCM which will be allocated to AIPs relating to OTC Auction Portfolios containing SwapClear Contracts relating to SwapClear Clearing House Business of the Defaulting SCM, only; and the other in respect of Margin Cover delivered by the Defaulting SCM or any Custodial Segregated Client of such Defaulting SCM to the Clearing House in respect of SwapClear Contracts relating to the SwapClear Client Clearing Business of such Defaulting SCM which will be allocated to AIPs relating to OTC Auction Portfolios containing SwapClear Contracts relating to the SwapClear Client Clearing Business of the Defaulting SCM, only; and (ii) the SwapClear Contribution made by the Defaulting SCM available pursuant to Rule 15(b) of the Default Rules at the time of the auction process will be allocated to the AIPs based on the proportion that (a) the risk of the relevant OTC Auction Portfolio bears to (b) the aggregate of the risks (on an absolute basis) for all OTC Auction Portfolios; and~~
- ~~(B) in respect of a Defaulting Joint Rates Service Clearing Member: (i) the Margin Cover relating to the SwapClear Contracts and the Listed Interest Rates Contracts of the Defaulting Joint Rates Service Clearing Member available pursuant to Rule 15(a) of the Default Rules at the time of the auction process but (1) taking into account (to the extent applicable) the utilisation of such Margin Cover pursuant to Rule 2.9(a)(i) and 2.9(b)(i) of this~~

~~Annex; and (2) notwithstanding the proviso in (ii) of Rule 15(a) of the Default Rules, treating such available Margin Cover as split into two separate amounts for these purposes — one in respect of Margin Cover delivered by the Defaulting Joint Rates Service Clearing Member to the Clearing House in respect of SwapClear Contracts and Listed Interest Rates Contracts relating to the House Clearing Business of such Defaulting Joint Rates Service Clearing Member which will be allocated to AIPs relating to OTC Auction Portfolios containing SwapClear Contracts relating to SwapClear Clearing House Business of the Defaulting Joint Rates Service Clearing Member, only; and the other in respect of Margin Cover delivered by the Defaulting Joint Rates Service Clearing Member or any Custodial Segregated Client of such Defaulting Joint Rates Service Clearing Member to the Clearing House in respect of SwapClear Contracts and Listed Rates Contracts relating to the Client Clearing Business of such Defaulting Joint Rates Service Clearing Member which will be allocated to AIPs relating to OTC Auction Portfolios containing SwapClear Contracts relating to the SwapClear Client Clearing Business of the Defaulting Joint Rates Service Clearing Member, only; and (ii) the SwapClear Contribution and Listed Interest Rates Contribution made by the Defaulting Joint Rates Service Clearing Member available pursuant to Rule 15(b) of the Default Rules at the time of the auction process taking into account (to the extent applicable) the utilisation of such Contributions pursuant to 2.9(a)(ii) and 2.9(b)(ii) of this Annex, will be allocated to the AIPs based on the proportion that (a) the risk of the relevant OTC Auction Portfolio bears to (b) the aggregate of the risks (on an absolute basis) for all OTC Auction Portfolios;~~

~~(ii) — the Capped Amount available in respect of the SwapClear Business of the Defaulting SCM pursuant to Rule 15(c) of the Default Rules (taking into account (to the extent applicable) the utilisation of such Capped Amount pursuant to Rule 2.9(a)(iii) and 2.9(b)(iii) of this Annex) will be allocated to the AIPs based on the proportion that (a) the risk of the relevant OTC Auction Portfolio bears to (b) the aggregate of the risks (on an absolute basis) for all OTC Auction Portfolios;~~

~~(iii) — the Non-Defaulters' SwapClear Contribution of each Non-Defaulting SCM and the total value of the **SwapClear Unfunded Contributions** that would be callable but have not been called by the Clearing House from each such Non-Defaulting SCM in respect of the relevant Default in accordance with Rule S7 of the Default Rules (the "**Potential SwapClear Unfunded Contributions**") will be allocated (taking into account (to the extent applicable) the utilisation of such SwapClear Contributions pursuant to Rule 2.9(a)(v) and 2.9(b)(v) of this Annex) between each AIP relating to an OTC Auction Portfolio in respect of which the relevant Non-Defaulting SCM has Resembling Contracts based on the proportion that: (a) the risk of the Resembling Contracts of~~

~~such SCM related to the relevant OTC Auction Portfolio bears to (b) the aggregate of the amounts calculated in (a) for all of the Resembling Contracts of such Non-Defaulting SCM; **provided that** where there is more than one OTC Auction Portfolio that corresponds to the same Resembling Contracts, the Non-Defaulters' SwapClear Contributions and Potential SwapClear Unfunded Contributions allocated to the AIP related to those Resembling Contracts will be further divided for the purposes of allocation into AIPs relating to the relevant OTC Auction Portfolios based on the proportion that (a) the risk of the SwapClear Contracts in each such OTC Auction Portfolio bears to (b) the aggregate of the amounts calculated in (a) for each of the OTC Auction Portfolios corresponding to the relevant Resembling Contracts; and~~

- ~~(iv) — the Non-Defaulters' Listed Interest Rates Contribution of each Non-Defaulting Joint Rates Service Clearing Member and the total value of the Listed Interest Rates Unfunded Contributions that would be callable but have not been called by the Clearing House from each such Non-Defaulting Joint Rates Service Clearing Member in respect of the relevant Default in accordance with Rule S7 of the Default Rules (the "**Potential Listed Interest Rates Unfunded Contributions**") will be allocated between each AIP relating to an OTC Auction Portfolio in respect of which the relevant Non-Defaulting Joint Rates Service Clearing Member has Resembling Contracts based on the proportion that: (a) the risk of the Resembling Contracts of such Joint Rates Service Clearing Member related to the relevant OTC Auction Portfolio bears to (b) the aggregate of the amounts calculated in (a) for all of the Resembling Contracts of such Non-Defaulting Joint Rates Service Clearing Member; **provided that** where there is more than one OTC Auction Portfolio that corresponds to the same Resembling Contracts, the Non-Defaulters' Listed Interest Rates Contributions and Potential Listed Interest Rates Unfunded Contributions allocated to the AIP related to those Resembling Contracts will be further divided for the purposes of allocation into AIPs relating to the relevant OTC Auction Portfolios based on the proportion that (a) the risk of the SwapClear Contracts in each such OTC Auction Portfolio bears to (b) the aggregate of the amounts calculated in (a) for each of the OTC Auction Portfolios corresponding to the relevant Resembling Contracts.~~

~~2.6~~ ~~Loss Attribution Related to OTC Auction Portfolios~~

- ~~(a) — Following the completion of all Auctions of all OTC Auction Portfolios of the Defaulting SCM, the Clearing House will determine whether the Auction Losses are such that the Non-Defaulters' SwapClear Contributions and (if and to the extent applicable) the Non-Defaulters' Listed Interest Rates Contributions of Joint Rates Service Clearing Members must be utilised. Where applicable, Auction Losses will be allocated to Non-Defaulters' SwapClear Contributions and to Non-Defaulters' Listed Interest Rates Contributions of Joint Rates Service Clearing Members in accordance with the loss attribution process described in Rule 2.6(b) to 2.6(g) of this Annex. All losses other than Auction Losses associated with the implementation of the Rates Service Default~~

~~Management Process in respect of an OTC Auction Portfolio or the SwapClear Contracts contained therein will be allocated to the SwapClear Contributions of individual Non-Defaulting SCMs and to the Non-Defaulters' Listed Interest Rates Contributions of individual Joint Rates Service Clearing Members *pro rata* based on the proportion that the value of the relevant Contribution bears to aggregate value of all such Contributions at the time of the relevant Default.~~

- ~~(b) For each OTC Auction Portfolio, losses to the Clearing House will be met using the resources as set out in Rule 15. In applying those resources, the Clearing House will allocate Auction Losses by reference to the resources allocated to the AIPs related to such OTC Auction Portfolios in accordance with Rule 2.5 of this Annex. Where there are no Auction Losses in respect of an OTC Auction Portfolio or the Auction Losses in respect of an OTC Auction Portfolio do not require the full amount of the resources referred to in sub-paragraphs (i) and (iii) of Rule 2.5(b) of this Annex allocated to the AIP related to the relevant OTC Auction Portfolio (the "**Initial Resources**") to be fully utilised, the relevant surplus Initial Resources will be allocated *pro rata* between those AIPs relating to OTC Auction Portfolios in respect of which there are Auction Losses requiring the utilisation of resources beyond the Initial Resources available in the relevant AIP in accordance with Rules 15(a), 15(b) and 15(c) until such time as all Initial Resources have been fully utilised.~~
- ~~(c) In the case of each Auction for which there are Auction Losses in respect of which the Non-Defaulters' SwapClear Contributions must be utilised, those Non-Defaulter's SwapClear Contributions, not including, for these purposes, any part of such Non-Defaulters' SwapClear Contributions that reflects any SwapClear Unfunded Contributions deposited with the Clearing House pursuant to the Default in respect of which the relevant Auction was held (the "**Original SwapClear Contributions**") and that have been allocated to the AIP relating to the relevant OTC Auction Portfolio (the "**Relevant Original SwapClear Contributions**") will be used first in the following order:~~
- ~~(i) the Auction Losses will be attributed to the Relevant Original SwapClear Contributions of those Non-Defaulting SCMs who are Expected Auction Participants in respect of the relevant OTC Auction Portfolio and who did not bid in the relevant Auction. Auction Losses will be attributed to the Relevant Original SwapClear Contribution of an individual SCM pursuant to this sub-paragraph (i) based upon the proportion that: (a) the value of the Relevant Original SwapClear Contribution of such SCM bears to (b) the total value of the Relevant Original SwapClear Contributions of all Non-Defaulting SCMs who are Expected Auction Participants in respect of the relevant OTC Auction Portfolio and who did not bid in the relevant Auction;~~
- ~~(ii) if and to the extent that there are Auction Losses outstanding after the attribution process referred to in sub-paragraph (i) above, those Auction Losses will be attributed to the Relevant Original SwapClear Contributions of the SwapClear Short Bidders. For the purposes of this sub-paragraph (ii) and sub-paragraph (ii) of Rule 2.6(e) of this Annex the term "**SwapClear Short Bidder**" means any Non-Defaulting SCM who is an Expected Auction Participant and who submitted an~~

~~unsuccessful bid in the relevant Auction, save for any SCM who submitted either (a) in respect of an OTC Auction Portfolio that was of positive ("in the money") value to the Clearing House, a higher bid in an Auction than the bid accepted by the Clearing House in accordance with Rule 2.3(d) of this Annex; or (b) in respect of an OTC Auction Portfolio that was of negative ("out of the money") value to the Clearing House, a lower bid in an Auction than the bid accepted by the Clearing House in accordance with Rule 2.3(d) of this Annex (each such SCM, a **"SwapClear Out Bidder"** and each such bid, an **"Out Bid"**).~~

~~Auction Losses will be attributed to an individual SwapClear Short Bidder pursuant to this sub-paragraph (ii) based upon the proportion that (a) the variance of the bid of such SwapClear Short Bidder from the winning bid (denominated in units of the relevant Auction Portfolio Currency) bears to (b) the sum of the variances of the bids of all SwapClear Short Bidders from the winning bid (denominated in units of the relevant Auction Portfolio Currency).~~

~~Where the value of the Auction Losses attributed to an individual SwapClear Short Bidder pursuant to this sub-paragraph (ii) is greater than the value of the Relevant Original SwapClear Contribution of such SwapClear Short Bidder, the relevant excess Auction Losses will be attributed to each SwapClear Short Bidder whose Relevant Original SwapClear Contribution exceeds the value of the Auction Losses that have been attributed to it pursuant to this sub-paragraph (ii) (each a **"Remaining Original SwapClear Short Bidder"**) by (a) calculating the amount which is the bid of the relevant Remaining Original SwapClear Short Bidder divided by the sum of the bids of all Remaining Original SwapClear Short Bidders; and (b) multiplying such amount by the value of the relevant excess Auction Losses.~~

~~The Clearing House will repeat the loss attribution process described in this sub-paragraph (ii) until the first to occur of (a) the Auction Losses being fully met; and (b) the Relevant Original SwapClear Contributions of all SwapClear Short Bidders being fully attributed;~~

- ~~(iii) if and to the extent that there are Auction Losses outstanding after the attribution process referred to in sub-paragraph (ii) above, those Auction Losses will be attributed to the Relevant Original SwapClear Contribution of the Non-Defaulting SCM who submitted the winning bid, together with, where applicable, the Relevant Original SwapClear Contribution of any Non-Defaulting SCM who submitted a bid which was an Equal Bid or an Out Bid in relation to that winning bid. The outstanding Auction Losses will be attributed to the Relevant Original SwapClear Contribution of an individual SCM pursuant to this sub-paragraph (iii) based upon the proportion that: (a) the value of the Relevant Original SwapClear Contribution of such SCM bears to (b) the total value of the Relevant Original SwapClear Contributions of (i) the SCM who submitted the winning bid; (ii) any SCMs who submitted an Equal Bid to such winning bid; and (iii) any SCMs who were SwapClear Out Bidders, in the relevant Auction; and~~

- ~~(iv) — if, for an OTC Auction Portfolio, there remain Auction Losses outstanding after the attribution process referenced to in sub-paragraph (iii) above, and there are AIPs relating to other OTC Auction Portfolios containing Contracts denominated in the same Auction Portfolio Currency as the relevant OTC Auction Portfolio in which the Relevant Original SwapClear Contributions have not been fully utilised, the Clearing House shall attribute the remaining Auctions Losses amongst such remaining Original SwapClear Contributions through the attribution process set out in sub-paragraphs (i) to (iii) above.~~
- ~~(d) — If and to the extent that there are Auction Losses outstanding following the attribution process referred to in Rule 2.6(c) above, those Auction Losses will be attributed to the Original SwapClear Contributions of those Non-Defaulting SCMs (each a "**Losing Original SCM**") who have Resembling Contracts in respect of any of the OTC Auction Portfolios in relation to which Auction Losses have arisen (each a "**Losing AP Type**") and whose Original SwapClear Contributions have not yet been fully utilised. Such remaining Auction Losses will be attributed to any remaining Original SwapClear Contribution of each such Losing Original SCM pursuant to this Rule 2.6(d) based upon the proportion that: (a) the risk of all of the Resembling Contracts of such SCM in respect of all such Losing AP Types bears to (b) the aggregate of the amounts calculated in (a) for all SCMs. The Clearing House will repeat the loss attribution process described in this Rule 2.6(d) until the first to occur of (a) the Auction Losses being fully met; and (b) the Original SwapClear Contributions of all Losing Original SCMs being fully attributed.~~
- ~~(e) — If and to the extent that there are Auction Losses outstanding following the attribution process referred to in 2.6(c)(iv) above, those remaining Auction Losses will be allocated to the Original SwapClear Contributions of each Non-Defaulting SCM who is not a Losing Original SCM in respect of any of the Losing AP Types based upon the proportion that (a) the value of each such Original SwapClear Contribution bears to (b) the aggregate of the amounts calculated in (a) for all such relevant Non-Defaulting SCMs.~~
- ~~(f) — If and to the extent that there are Auction Losses outstanding following the attribution process referred to in Rule 2.6(e) above, those remaining Auction Losses will be allocated to the Non-Defaulters' Listed Interest Rates Contributions of Joint Rates Service Clearing Members not including, for these purposes, any part of such Non-Defaulters' Listed Interest Rates Contributions that reflects any Listed Interest Rates Unfunded Contributions deposited with the Clearing House pursuant to the Default in respect of which the relevant Auction was held (the "**Original Listed Interest Rates Contributions**") and that have been allocated to the AIP relating to the relevant OTC Auction Portfolio (the "**Relevant Original Listed Interest Rates Contributions**") will be used first in the following order:~~
- ~~(i) — the Auction Losses will be attributed to the Relevant Original Listed Interest Rates Contributions of those Non-Defaulting Joint Rates Service Clearing Members who are Expected Auction Participants in respect of the relevant OTC Auction Portfolio and who did not bid in the relevant Auction. Auction Losses will be attributed to the Relevant~~

~~Original Listed Interest Rates Contribution of an individual Joint Rates Service Clearing Member pursuant to this sub-paragraph (i) based upon the proportion that: (a) the value of the Relevant Original Listed Interest Rates Contribution of such Joint Rates Service Clearing Member bears to (b) the total value of the Relevant Original Listed Interest Rates Contributions of all Non-Defaulting Joint Rates Service Clearing Members who are Expected Auction Participants in respect of the relevant OTC Auction Portfolio and who did not bid in the relevant Auction;~~

~~if and to the extent that there are Auction Losses outstanding after the attribution process referred to in sub-paragraph (i) above, those Auction Losses will be attributed to the Relevant Original Listed Interest Rates Contributions of the Listed Interest Rates Short Bidders. For the purposes of this sub-paragraph (ii) and sub-paragraph (ii) of Rule 2.6(m) of this Annex the term "**Listed Interest Rates Short Bidder**" means any Non-Defaulting Joint Rates Service Clearing Member who is an Expected Auction Participant and who submitted an unsuccessful bid in the relevant Auction, save for any Joint Rates Service Clearing Member (a "**Listed Interest Rates Out Bidder**") who submitted an Out Bid;~~

- ~~(ii) Auction Losses will be attributed to an individual Listed Interest Rates Short Bidder pursuant to this sub-paragraph (ii) based upon the proportion that (a) the variance of the bid of such Listed Interest Rates Short Bidder from the winning bid (denominated in units of the relevant Auction Portfolio Currency) bears to (b) the sum of the variances of the bids of all **Listed Interest Rates Short Bidders** from the winning bid (denominated in units of the relevant Auction Portfolio Currency).~~

~~Where the value of the Auction Losses attributed to an individual Listed Interest Rates Short Bidder pursuant to this sub-paragraph (ii) is greater than the value of the Relevant Original Listed Interest Rates Contribution of such Listed Interest Rates Short Bidder, the relevant excess Auction Losses will be attributed to each Listed Interest Rates Short Bidder whose Relevant Original Listed Interest Rates Contribution exceeds the value of the Auction Losses that have been attributed to it pursuant to this sub-paragraph (ii) (each a "**Remaining Original Listed Interest Rates Short Bidder**") by (a) calculating the amount which is the bid of the relevant Remaining Original Listed Interest Rates Short Bidder divided by the sum of the bids of all Remaining Original Listed Interest Rates Short Bidders; and (b) multiplying such amount by the value of the relevant excess Auction Losses.~~

~~The Clearing House will repeat the loss attribution process described in this sub-paragraph (i) until the first to occur of (a) the Auction Losses being fully met; and (b) the Relevant Original Listed Interest Rates Contributions of all Listed Interest Rates Short Bidders being fully attributed;~~

- ~~(iii) — if and to the extent that there are Auction Losses outstanding after the attribution process referred to in sub-paragraph (ii) above, those Auction Losses will be attributed to the Relevant Original Listed Interest Rates Contribution of the Non-Defaulting Joint Rates Service Clearing Member who submitted the winning bid, together with, where applicable, the Relevant Original Listed Interest Rates Contribution of any Non-Defaulting Joint Rates Service Clearing Member who submitted a bid which was an Equal Bid or an Out Bid in relation to that winning bid. The outstanding Auction Losses will be attributed to the Relevant Original Listed Interest Rates Contribution of an individual Joint Rates Service Clearing Member pursuant to this sub-paragraph (iii) based upon the proportion that: (a) the value of the Relevant Original Listed Interest Rates Contribution of such Joint Rates Service Clearing Member bears to (b) the total value of the Relevant Original Listed Interest Rates Contributions of (i) the Joint Rates Service Clearing Member who submitted the winning bid; (ii) any Joint Rates Service Clearing Members who submitted an Equal Bid to such winning bid; and (iii) any Joint Rates Service Clearing Members who were Listed Interest Rates Out Bidders, in the relevant Auction; and~~
- ~~(iv) — if, for an OTC Auction Portfolio, there remain Auction Losses outstanding after the attribution process referenced to in sub-paragraph (iii) above, and there are AIPs relating to other OTC Auction Portfolios containing Contracts denominated in the same Auction Portfolio Currency and belonging to the same Auction Portfolio Category as the relevant OTC Auction Portfolio in which the Relevant Original Listed Interest Rates Contributions have not been fully utilised, the Clearing House shall attribute the remaining Auction Losses amongst such remaining Original Listed Interest Rates Contributions through the attribution process set out in sub-paragraphs (i) to (iii) above.~~
- ~~(g) — If and to the extent that there are Auction Losses outstanding following the attribution process referred to in Rule 2.66(e) above, those Auction Losses will be attributed to the Original Listed Interest Rates Contributions of those Non-Defaulting Joint Rates Service Clearing Members (each a "**Losing Original Joint Rates Service Clearing Member**") who have Resembling Contracts in respect of any of the Losing AP Types and whose Original Listed Interest Rates Contributions have not yet been fully utilised. Such remaining Auction Losses will be attributed to the remaining Original Listed Interest Rates Contribution of each Losing Original Joint Rates Service Clearing Member pursuant to this Rule 2.6(g) based upon the proportion that: (a) the risk of all of the Resembling Contracts of such Joint Rates Service Clearing Member in respect of all such Losing AP Types bears to (b) the aggregate of the amounts calculated in (a) for all Joint Rates Service Clearing Members. The Clearing House will repeat the loss attribution process described in this Rule 2.66(f)(iv) until the first to occur of (a) the Auction Losses being fully met; and (b) the Original Listed Interest Rates Contributions of all Losing Original Joint Rates Service Clearing Members being fully attributed.~~

- ~~(h) — If and to the extent that there are Auction Losses outstanding following the attribution process referred to in Rule 2.66(f)(iv) above, those remaining Auction Losses will be allocated to the Original Listed Interest Rates Contributions of each Non-Defaulting Joint Rates Service Clearing Member who is not a Losing Original Joint Rates Service Clearing Member in respect of any of the Losing AP Types, based upon the proportion that (a) the value of each such Original Listed Interest Rates Contribution bears to (b) the aggregate of the amounts calculated in (a) for all such relevant Non-Defaulting Joint Rates Service Clearing Members.~~
- ~~(i) — If and to the extent that there are Auction Losses outstanding following the attribution process described in Rule 2.6(h) above, those Auction Losses will be allocated to the Non-Defaulters' Listed Interest Rates Contribution of each Listed Interest Rates Clearing Member who is not a Joint Rates Service Clearing Member, not including, for these purposes, any part of such Non-Defaulters' Listed Interest Rates Contributions that reflects any Listed Interest Rates Unfunded Contributions deposited with the Clearing House pursuant to the relevant Default based upon the proportion that the value of the relevant Non-Defaulters' Listed Interest Rates Contribution bears to the aggregate of the values of all such Non-Defaulters' Listed Interest Rates Contributions.~~
- ~~(j) — If and to the extent that there are Auction Losses outstanding following the attribution process referred to in Rule 2.6(i) above, the SwapClear Unfunded Contributions that have been allocated to the AIP relating to the relevant OTC Auction Portfolio (the "**Relevant SwapClear Unfunded Contributions**") will be used first in the following order:~~
- ~~(i) — the Auction Losses will be attributed to the Relevant SwapClear Unfunded Contributions of those Non-Defaulting SCMs who are Expected Auction Participants in respect of the relevant OTC Auction Portfolio and who did not bid in the relevant Auction. Auction Losses will be attributed to the Relevant SwapClear Unfunded Contribution of an individual SCM pursuant to this sub-paragraph (i) based upon the proportion that: (a) the value of the Relevant SwapClear Unfunded Contribution of such SCM bears to (b) the total value of the Relevant SwapClear Unfunded Contributions of all SCMs who are Expected Auction Participants in respect of the relevant OTC Auction Portfolio and who did not bid in the relevant Auction;~~
- ~~(ii) — if and to the extent that there are Auction Losses outstanding after the attribution process referred to in sub-paragraph (i) above, those Auction Losses will be attributed to the Relevant SwapClear Unfunded Contributions of the SwapClear Short Bidders in the relevant Auction. Auction Losses will be attributed to an individual SwapClear Short Bidder pursuant to this sub-paragraph (ii) based upon the proportion that (a) the variance of the bid of such SwapClear Short Bidder from the winning bid (denominated in units of the relevant Auction Portfolio Currency) bears to (b) the sum of the variances of the bids of all SwapClear Short Bidders from the winning bid (denominated in units of the relevant Auction Portfolio Currency).~~

~~Where the value of the Auction Losses attributed to an individual SwapClear Short Bidder pursuant to this sub-paragraph (ii) is greater than the value of the Relevant SwapClear Unfunded Contribution of such SwapClear Short Bidder, the relevant excess Auction Losses will be attributed to each SwapClear Short Bidder whose Relevant SwapClear Unfunded Contribution exceeds the value of the Auction Losses that have been attributed to it pursuant to this sub-paragraph (ii) (each a "Remaining Unfunded SwapClear Short Bidder") by (a) calculating the amount which is the bid of the relevant Remaining Unfunded SwapClear Short Bidder divided by the sum of the bids of all Remaining Unfunded SwapClear Short Bidders; and (b) multiplying such amount by the value of the relevant excess Auction Losses.~~

~~The Clearing House will repeat the loss attribution process described in this sub-paragraph (ii) until the first to occur of (a) the Auction Losses being fully met; and (b) the Relevant SwapClear Unfunded Contributions of all SwapClear Short Bidders being fully attributed;~~

~~(iii) if and to the extent that there are Auction Losses outstanding after the attribution process referred to in sub-paragraph (ii) above, those Auction Losses will be attributed to the Relevant SwapClear Unfunded Contribution of the Non-Defaulting SCM who submitted the winning bid, together with, where applicable, the Relevant SwapClear Unfunded Contribution of any Non-Defaulting SCM who submitted a bid which was an Equal Bid or an Out Bid in relation to that winning bid. The outstanding Auction Losses will be attributed to the Relevant SwapClear Unfunded Contribution of an individual SCM pursuant to this sub-paragraph (iii) based upon the proportion that: (a) the value of the Relevant SwapClear Unfunded Contribution of such SCM bears to (b) the total value of the Relevant SwapClear Unfunded Contributions of (i) the SCM who submitted the winning bid; (ii) any SCMs who submitted an Equal Bid to such winning bid; and (iii) any SCMs who were SwapClear Out Bidders, in the relevant Auction; and~~

~~(iv) if, for an OTC Auction Portfolio, there remain Auction Losses outstanding after the attribution process referenced to in sub-paragraph (iii) above, and there are AIPs relating to other OTC Auction Portfolios containing SwapClear Contracts denominated in the same Auction Portfolio Currency and belonging to the same Auction Portfolio Category as the relevant OTC Auction Portfolio in which the Relevant SwapClear Unfunded Contributions have not been fully utilised, the Clearing House shall attribute the remaining Auctions Losses amongst such Remaining SwapClear Unfunded Contributions through the attribution process set out in sub-paragraphs (i) to (iii) above.~~

~~(k) If and to the extent that there are Auction Losses outstanding following the attribution process referred to in Rule 2.6(j) above, those Auction Losses will be attributed to the SwapClear Unfunded Contributions of those Non-Defaulting SCMs (each a "**Losing Unfunded SCM**") who have Resembling Contracts in respect of any of the Losing AP Types and whose SwapClear Unfunded Contributions have not yet been fully utilised. Such remaining~~

~~Auction Losses will be attributed to any remaining SwapClear Unfunded Contribution of each such Losing Unfunded SCM pursuant to this Rule 2.6(k) based upon the proportion that: (a) the risk of all of the Resembling Contracts of such SCM in respect of all such Losing AP Types bears to (b) the aggregate of the amounts calculated in (a) for all Losing Unfunded SCMs. The Clearing House will repeat the loss attribution process described in this Rule 2.6(k) until the first to occur of (a) the Auction Losses being fully met; and (b) the SwapClear Unfunded Contributions of all Losing Unfunded SCMs being fully attributed.~~

- ~~(l) If and to the extent that there are Auction Losses outstanding following the attribution process referred to in Rule 2.6(k) above, those remaining Auction Losses will be allocated to the SwapClear Unfunded Contributions of each Non-Defaulting SCM who is not a Losing Unfunded SCM in respect of any of the Losing AP Types based upon the proportion that (a) the value of each such SwapClear Unfunded Contribution bears to (b) the aggregate of the amounts calculated in (a) for each of such SCMs.~~
- ~~(m) If and to the extent that there are Auction Losses outstanding following the attribution process referred to in Rule 2.6(l) above, the Listed Interest Rates Unfunded Contributions of Joint Rates Service Clearing Members that have been allocated to the AIP relating to the relevant OTC Auction Portfolio (the "**Relevant Listed Interest Rates Unfunded Contributions**") will be used first in the following order:
 - ~~(i) the Auction Losses will be attributed to the Relevant Listed Interest Rates Unfunded Contributions of those Non-Defaulting Joint Rates Service Clearing Members who are Expected Auction Participants in respect of the relevant OTC Auction Portfolio and who did not bid in the relevant Auction. Auction Losses will be attributed to the Relevant Listed Interest Rates Unfunded Contribution of an individual Joint Rates Service Clearing Member pursuant to this sub-paragraph (i) based upon the proportion that: (a) the value of the Relevant Listed Interest Rates Unfunded Contribution of such Joint Rates Service Clearing Member bears to (b) the total value of the Relevant Listed Interest Rates Unfunded Contributions of all Joint Rates Service Clearing Members who are Expected Auction Participants in respect of the relevant OTC Auction Portfolio and who did not bid in the relevant Auction;~~
 - ~~(ii) if and to the extent that there are Auction Losses outstanding after the attribution process referred to in sub-paragraph (i) above, those Auction Losses will be attributed to the Relevant Listed Interest Rates Unfunded Contributions of the Listed Interest Rates Short Bidders in the relevant Auction. Auction Losses will be attributed to an individual Listed Interest Rates Short Bidder pursuant to this sub-paragraph (ii) based upon the proportion that (a) the variance of the bid of such Listed Interest Rates Short Bidder from the winning bid (denominated in units of the relevant Auction Portfolio Currency) bears to (b) the sum of the variances of the bids of all Listed Interest Rates Short Bidders from the winning bid (denominated in units of the relevant Auction Portfolio Currency).~~~~

~~Where the value of the Auction Losses attributed to an individual Listed Interest Rates Short Bidder pursuant to this sub-paragraph (ii) is greater than the value of the Relevant Listed Interest Rates Unfunded Contribution of such Listed Interest Rates Short Bidder, the relevant excess Auction Losses will be attributed to each Listed Interest Rates Short Bidder whose Relevant Listed Interest Rates Unfunded Contribution exceeds the value of the Auction Losses that have been attributed to it pursuant to this sub-paragraph (ii) (each a "**Remaining Unfunded Listed Interest Rates Short Bidder**") by (a) calculating the amount which is the bid of the relevant Remaining Unfunded Listed Interest Rates Short Bidder divided by the sum of the bids of all Remaining Unfunded Listed Interest Rates Short Bidders; and (b) multiplying such amount by the value of the relevant excess Auction Losses.~~

~~The Clearing House will repeat the loss attribution process described in this sub-paragraph (ii) until the first to occur of (a) the Auction Losses being fully met; and (b) the Relevant Listed Interest Rates Unfunded Contributions of all Listed Interest Rates Short Bidders being fully attributed;~~

- ~~(iii) — if and to the extent that there are Auction Losses outstanding after the attribution process referred to in sub-paragraph (ii) above, those Auction Losses will be attributed to the Relevant Listed Interest Rates Unfunded Contribution of the Non-Defaulting Joint Rates Service Clearing Member who submitted the winning bid, together with, where applicable, the Relevant Listed Interest Rates Unfunded Contribution of any Non-Defaulting Joint Rates Service Clearing Member who submitted a bid which was an Equal Bid or an Out Bid in relation to that winning bid. The outstanding Auction Losses will be attributed to the Relevant Listed Interest Rates Unfunded Contribution of an individual Joint Rates Service Clearing Member pursuant to this sub-paragraph (iii) based upon the proportion that: (a) the value of the Relevant Listed Interest Rates Unfunded Contribution of such Joint Rates Service Clearing Member bears to (b) the total value of the Relevant Listed Interest Rates Unfunded Contribution of (i) the Joint Rates Service Clearing Member who submitted the winning bid; (ii) any Joint Rates Service Clearing Members who submitted an Equal Bid to such winning bid; and (iii) any Joint Rates Service Clearing Members who were Listed Interest Rates Out Bidders, in the relevant Auction; and~~
- ~~(iv) — if, for an OTC Auction Portfolio, there remain Auction Losses outstanding after the attribution process refereneed to in sub-paragraph (iii) above, and there are AIPs relating to other OTC Auction Portfolios containing SwapClear Contracts denominated in the same Auction Portfolio Currency and belonging to the same Auction Portfolio Category as the relevant OTC Auction Portfolio in which the Relevant Listed Interest Rates Unfunded Contributions have not been fully utilised, the Clearing House shall attribute the remaining Auction Losses amongst such Relevant Listed Interest Rates Unfunded Contributions~~

~~through the attribution process set out in sub-paragraphs (i) to (iii) above.~~

- ~~(n) — If and to the extent that there are Auction Losses outstanding following the attribution process referred to in Rule 2.6(m) above, those Auction Losses will be attributed to the Listed Interest Rates Unfunded Contributions of those Non-Defaulting Joint Rates Service Clearing Members (each a "**Losing Unfunded Joint Rates Service Clearing Member**") who have Resembling Contracts in respect of any of the Losing AP Types and whose Listed Interest Rates Unfunded Contributions have not yet been fully utilised. Such remaining Auction Losses will be attributed to any remaining Listed Interest Rates Unfunded Contribution of each such Losing Unfunded Joint Rates Service Clearing Member pursuant to this Rule 2.6(n) based upon the proportion that: (a) the risk of all of the Resembling Contracts of such Joint Rates Service Clearing Member in respect of all such AP Types bears to (b) the aggregate of the amounts calculated in (a) for all Losing Unfunded Joint Rates Service Clearing Members. The Clearing House will repeat the loss attribution process described in this Rule 2.6(n) until the first to occur of (a) the Auction Losses being fully met; and (b) the Listed Interest Rates Unfunded Contributions of all Losing Unfunded Joint Rates Service Clearing Members being fully attributed.~~
- ~~(o) — If and to the extent that there are Auction Losses outstanding following the attribution process referred to in Rule 2.6(n) above, those remaining Auction Losses will be allocated to the Listed Interest Rates Unfunded Contributions of each Non-Defaulting Joint Rates Service Clearing Member who is not a Losing Unfunded Joint Rates Service Clearing Member in respect of any of the Losing AP Types based upon the proportion that (a) the value of each such Listed Interest Rates Unfunded Contribution bears to (b) the aggregate of the amounts calculated in (a) for each of such Joint Rates Service Clearing Members.~~
- ~~(p) — If and to the extent that there are Auction Losses outstanding following the attribution process described in Rule 2.6(o) above those Auction Losses will be allocated to the Listed Interest Rates Unfunded Contributions of each Non-Defaulting Listed Interest Rates Clearing Member who is not a Joint Rates Service Clearing Member and the total value of the Listed Interest Rates Unfunded Contributions that would be callable but have not been called by the Clearing House from the relevant Listed Interest Rates Clearing Members in respect of the relevant Default in accordance with Rule L5 of Part B to the Rates Service Default Fund Supplement based upon the proportion that the value of the relevant Listed Interest Rates Unfunded Contribution bears to the aggregate of the values of all such Listed Interest Rates Unfunded Contributions.~~

- 2.7 For the purposes of Rules 2.5 and 2.6 above, all references to the risk associated with (i) the Contracts in an OTC Auction Portfolio or (ii) the Resembling Contracts of a Non-Defaulting SCM, shall be references to such risk as determined by the Clearing House in its sole discretion on the basis of Worst Case Loss. [Auction Losses - OTC Auction Portfolios](#)

2.8 ~~Loss Attribution Related to Exchange Closed-Out Contracts~~

- ~~(a) — Losses to the Clearing House in respect of the Exchange Closed-out Contracts of a Defaulting Listed Interest Rates Clearing Member who is not a Joint Rates Service Clearing Member, will be met using resources in the following order:~~
- ~~(i) — first, by applying the Margin Cover for the Listed Interest Rates Contracts of the Defaulting Clearing Member available pursuant to Rule 15(a) of the Default Rules;~~
 - ~~(ii) — second, by recourse to the Listed Interest Rates Contribution made by the Defaulting Clearing Member available pursuant to Rule 15(b) of the Default Rules (and, for the avoidance of doubt, for purposes of this subparagraph (ii), the reference to “Business” in Rule 15(b) of the Default Rules shall be understood to refer to the Defaulting Clearing Member’s Listed Interest Rates Business);~~
 - ~~(iii) — third, by a payment of the Capped Amount available in respect of the Rates Service Business of the Defaulting Listed Interest Rates Clearing Member pursuant to Rule 15(c) of the Default Rules;~~
 - ~~(iv) — fourth, by recourse to the Non-Defaulters’ Listed Interest Rates Contribution of each Listed Interest Rates Clearing Member, not including, for these purposes, any part of such Non-Defaulters’ Listed Interest Rates Contributions that reflects any Listed Interest Rates Unfunded Contributions deposited with the Clearing House pursuant to the relevant Default, allocated to the Non-Defaulters’ Listed Interest Rates Contributions of individual Listed Interest Rates Clearing Members based upon the proportion that the value of the relevant Non-Defaulters’ Listed Interest Rates Contribution bears to the aggregate of the values of all such Non-Defaulters’ Listed Interest Rates Contributions;~~
 - ~~(v) — fifth, by recourse to the Non-Defaulters’ SwapClear Contributions of each SwapClear Clearing Member, not including, for these purposes, any part of such Non-Defaulters’ SwapClear Contributions that reflects any SwapClear Unfunded Contributions deposited with the Clearing House pursuant to the relevant Default, allocated to the Non-Defaulters’ SwapClear Contributions of individual SwapClear Clearing Members based upon the proportion that the value of the relevant Non-Defaulters’ SwapClear Contribution bears to the aggregate of the values of all such Non-Defaulters’ SwapClear Contributions;~~
 - ~~(vi) — sixth, by recourse to the Listed Interest Rates Unfunded Contributions of each Non-Defaulting Listed Interest Rates Clearing Member and the total value of the Listed Interest Rates Unfunded Contributions that would be callable but have not been called by the Clearing House from the relevant Listed Interest Rates Clearing Members in respect of the relevant Default in accordance with Rule L5 of Part B to the Rates Service Default Fund Supplement, allocated to the Listed Interest Rates Unfunded Contributions of individual Non-Defaulting Listed Interest Rates Clearing Members based upon the proportion that the value of the relevant Listed Interest Rates Unfunded Contribution bears to the~~

~~aggregate of the values of all such Listed Interest Rates Unfunded Contributions; and~~

~~(vii) seventh, by recourse to the SwapClear Unfunded Contributions of each Non-Defaulting SCM and the total value of the SwapClear Unfunded Contributions that would be callable but have not been called by the Clearing House from the relevant Non-Defaulting SCMs in respect of the relevant Default in accordance with Rule S7 of Part A to the Rates Service Default Fund Supplement, allocated to the SwapClear Unfunded Contributions of individual Non-Defaulting SCMs based upon the proportion that the value of the relevant SwapClear Unfunded Contribution bears to the aggregate of the values of all such SwapClear Unfunded Contributions;~~

~~(b) Losses to the Clearing House in respect of the Exchange Closed-out Contracts of a Defaulting Listed Interest Rates Clearing Member who is a Joint Rates Service Clearing Member, will be met using resources in the following order:~~

~~(i) first, by applying the Margin Cover for the Listed Interest Rates Contracts and the SwapClear Contracts of the Defaulting Clearing Member available pursuant to Rule 15(a) of the Default Rules;~~

~~(ii) second, by recourse to the Listed Interest Rates Contribution and the SwapClear Contribution made by the Defaulting Clearing Member available pursuant to Rule 15(b) of the Default Rules (and, for the avoidance of doubt, for purposes of this sub-paragraph (ii), the reference to "Business" in Rule 15(b) of the Default Rules shall be understood to refer to the Defaulting Clearing Member's Listed Interest Rates Business and its SwapClear Business);~~

~~(iii) third, by a payment of the Capped Amount available in respect of the Rates Service Business of the Defaulting Listed Interest Rates Clearing Member pursuant to Rule 15(c) of the Default Rules;~~

~~(iv) fourth, by recourse to the Non-Defaulters' Listed Interest Rates Contribution of each Joint Rates Service Clearing Member, not including, for these purposes, any part of such Non-Defaulters' Listed Interest Rates Contributions that reflects any Listed Interest Rates Unfunded Contributions deposited with the Clearing House pursuant to the relevant Default;~~

~~(v) fifth, by recourse to the Non-Defaulters' Listed Interest Rates Contribution of each Listed Interest Rates Clearing Member who is not a Joint Rates Service Clearing Member, not including, for these purposes, any part of such Non-Defaulters' Listed Interest Rates Contributions that reflects any Listed Interest Rates Unfunded Contributions deposited with the Clearing House pursuant to the relevant Default;~~

~~(vi) sixth, by recourse to the Non-Defaulters' SwapClear Contributions of each SwapClear Clearing Member, not including, for these purposes,~~

~~any part of such Non-Defaulters' SwapClear Contributions that reflects any SwapClear Unfunded Contributions deposited with the Clearing House pursuant to the relevant Default, allocated to the Non-Defaulters' SwapClear Contributions of individual SwapClear Clearing Members based upon the proportion that the value of the relevant Non-Defaulters' SwapClear Contribution bears to the aggregate of the values of all such Non-Defaulters' SwapClear Contributions;~~

- ~~(vii) seventh, by recourse to the Listed Interest Rates Unfunded Contributions of each Non-Defaulting Joint Rates Service Clearing Member and the total value of the Listed Interest Rates Unfunded Contributions that would be callable but have not been called by the Clearing House from the Non-Defaulting Joint Rates Service Clearing Members in respect of the relevant Default in accordance with Rule L5 of Part B to the Rates Service Default Fund Supplement;~~
- ~~(viii) eighth, by recourse to the Listed Interest Rates Unfunded Contributions of each Listed Interest Rates Clearing Member who is not a Joint Rates Service Clearing Member and the total value of the Listed Interest Rates Unfunded Contributions that would be callable but have not been called by the Clearing House from the relevant Listed Interest Rates Clearing Members in respect of the relevant Default in accordance with Rule L5 of Part B to the Rates Service Default Fund Supplement; and~~
- ~~(ix) ninth, by recourse to the SwapClear Unfunded Contributions of each Non-Defaulting SCM and the total value of the SwapClear Unfunded Contributions that would be callable but have not been called by the Clearing House from the relevant Non-Defaulting SCMs in respect of the relevant Default in accordance with Rule S7 of Part A to the Rates Service Default Fund Supplement, allocated to the SwapClear Unfunded Contributions of individual Non-Defaulting SCMs based upon the proportion that the value of the relevant SwapClear Unfunded Contribution bears to the aggregate of the values of all such SwapClear Unfunded Contributions.~~

~~2.9~~ ~~Loss Attribution Related to Basis Portfolios~~

- (a) ~~Those losses incurred by the Clearing House as a result of the Auction of a Basis Portfolio of a Defaulting Joint Rates Service Clearing Member that relate to the close-out of the Portfolio Margined Contracts of the Defaulting Joint Rates Service Clearing Member included in the relevant Basis Portfolio will be met using resources in the following order: Auction Losses, in respect of an OTC Auction Portfolio, will be met using the available resources as set out in Rule 15 of the Default Rules. Where the Clearing House determines there are insufficient resources under Rules 15(a) to 15(d) of the Default Rules (inclusive) to meet such losses, they will be attributed to Non-Defaulters' remaining SwapClear Contributions and remaining Listed Interest Rates Contributions in accordance with the loss attribution process described in Rule 2.7(b) to 2.7(i) of this Annex.~~

- (b) In the case of an Auction of an OTC Auction Portfolio, for which the Clearing House determines there are insufficient resources under Rule 15(a) to 15(d) of the Default Rules (inclusive) to meet the Auction Losses for such Auction, such losses will be met first by the Non-Defaulters' remaining SwapClear Funded Contributions that are included in the AIP relating to the OTC Auction Portfolio in the following order and proportions:
- (i) the Auction Losses will be attributed to the remaining AIP Amounts of those Non-Defaulting SCMs which are both Expected Auction Participants, in respect of the OTC Auction Portfolio, and Non-Bidders in the Auction. Auction Losses will be attributed to the remaining AIP Amount of each such Non-Defaulting SCM pursuant to this sub-paragraph (i) pro rata according to the proportion that such SCM's remaining AIP Amount bears to the total of the remaining AIP Amounts of all Non-Defaulting SCMs which are both Expected Auction Participants, in respect of the OTC Auction Portfolio, and Non-Bidders in the Auction;
- (ii) if and to the extent there are Auction Losses outstanding after the attribution process in sub-paragraph (i) above, those Auction Losses will be attributed to the remaining AIP Amounts of the Remaining Short Bidders for the OTC Auction Portfolio in accordance with this sub-paragraph (ii). Where:
- (A) the Loss Portion applicable to each Remaining Short Bidder is less than or equal to its remaining AIP Amount, then the Clearing House will, in respect of each Remaining Short Bidder, attribute Auction Losses equal to the Loss Portion applicable to the Remaining Short Bidder to its remaining AIP Amount; or
- (B) the Loss Portion applicable to one or more Remaining Short Bidders is greater than its remaining AIP Amount, then the Clearing House will attribute Auction Losses to all of the remaining AIP Amounts of such Remaining Short Bidders only (so that they cease to be Remaining Short Bidders for the purposes of this Rule 2.7(b)(ii) and the Auction) and will repeat the loss attribution process in this Rule 2.7(b)(ii) for any outstanding Auction Losses until the Auction Losses are fully met or the remaining AIP Amounts of all Remaining Short Bidders for the OTC Auction Portfolio are fully attributed; and
- (iii) if and to the extent there are Auction Losses outstanding after the attribution process in sub-paragraph (ii) above, those Auction Losses will be attributed to the remaining AIP Amount of the Non-Defaulting SCM who submitted the winning bid in the Auction, together with (where applicable) the remaining AIP Amount of any Non-Defaulting SCM who submitted a bid which was an Equal Bid or an Out Bid in relation to that winning bid. The outstanding Auction Losses will be attributed to the remaining AIP Amount of each such SCM pursuant to this sub-paragraph (iii) pro rata according to the proportion that such SCM's remaining AIP Amount bears to the total of the remaining AIP

Amounts of: (A) the SCM which submitted the winning bid in the Auction; (B) any SCMs which submitted an Equal Bid to such winning bid in the Auction; and (C) any SCMs which were Out Bidders in the Auction.

- (c) If and to the extent there are Auction Losses outstanding following the attribution process in Rule 2.7(b) of this Annex, those Auction Losses will be attributed to the remaining SwapClear Funded Contribution of each Non-Defaulting SCM *pro rata* according to the proportion that the remaining SwapClear Funded Contribution of such Non-Defaulting SCM bears to the total of the remaining SwapClear Funded Contributions of all Non-Defaulting SCMs.
- (d) If and to the extent there are Auction Losses outstanding following the attribution process in Rule 2.7(c) of this Annex, those Auction Losses will be attributed to the remaining Listed Interest Rates Funded Contribution of each Non-Defaulting Joint Rates Service Clearing Member *pro rata* according to the proportion that the remaining Listed Interest Rates Funded Contribution of such Non-Defaulting Joint Rates Service Clearing Member bears to the total remaining Listed Interest Rates Funded Contributions of all Non-Defaulting Joint Rates Service Clearing Members.
- (e) If and to the extent there are Auction Losses outstanding following the attribution process in Rule 2.7(d) of this Annex, those Auction Losses will be attributed to the remaining Listed Interest Rates Funded Contribution of each Non-Defaulting Listed Interest Rates-Only Clearing Member *pro rata* according to the proportion that the remaining Listed Interest Rates Funded Contribution of such Non-Defaulting Listed Interest Rates-Only Clearing Member bears to the total remaining Listed Interest Rates Funded Contributions of all Non-Defaulting Listed Interest Rates-Only Clearing Members.
- (f) If and to the extent there are Auction Losses outstanding following the attribution process in Rule 2.7(e) of this Annex, the remaining SwapClear Unfunded Contributions that are included in the AIP relating to the OTC Auction Portfolio will be used in the following order:
 - (i) ~~first, by applying the Margin Cover for the SwapClear Contracts and the Listed Interest Rates Contracts of the Defaulting Joint Rates Service Clearing Member available pursuant to Rule 15(a) of the Default Rules, provided that in no circumstances will any such Margin Cover transferred by the Defaulting Joint Rates Service Clearing Member or any Custodial Segregated Client of such Defaulting Joint Rates Service Clearing Member in respect of obligations arising on a Client Account be applied by the Clearing House in respect of any loss attributable to the Auction of a Basis Portfolio containing Listed Interest Rates Contracts attributable to the House Clearing Business of the Defaulting Joint Rates Service Clearing Member;~~ the Auction Losses will be attributed to the remaining AIP Amounts of those Non-Defaulting SCMs which are both Expected Auction Participants, in respect of the OTC Auction Portfolio, and Non-Bidders in the Auction. Auction Losses will be attributed to the remaining AIP Amount of each such Non-Defaulting SCM pursuant to this sub-paragraph (i) *pro rata*

according to the proportion that such SCM's remaining AIP Amount bears to the total of the remaining AIP Amounts of all SCMs which are both Expected Auction Participants, in respect of the OTC Auction Portfolio, and Non-Bidders in the Auction;

(ii) ~~second, by recourse to the SwapClear Contribution and the Listed Interest Rates Contribution made by the Defaulting Joint Rates Service Clearing Member available pursuant to Rule 15(b) of the Default Rules;~~ if and to the extent there are Auction Losses outstanding after the attribution process referred to in sub-paragraph (i) above, those Auction Losses will be attributed to the remaining AIP Amounts of the Remaining Short Bidders for the OTC Auction Portfolio in accordance with this sub-paragraph (ii). Where:

(A) the Loss Portion applicable to each Remaining Short Bidder is less than or equal to its remaining AIP Amount, then the Clearing House will, in respect of each Remaining Short Bidder, attribute Auction Losses equal to the Loss Portion applicable to the Remaining Short Bidder to its remaining AIP Amount; or

(B) the Loss Portion applicable to one or more Remaining Short Bidders is greater than its remaining AIP Amount, then the Clearing House will attribute Auction Losses to all of the remaining AIP Amounts of such Remaining Short Bidders only (so that they cease to be Remaining Short Bidders for the purposes of this Rule 2.7(f)(ii) and the Auction) and will repeat the loss attribution process in this Rule 2.7(f)(ii) for any outstanding Auction Losses until the Auction Losses are fully met or the remaining AIP Amounts of all Remaining Short Bidders for the OTC Auction Portfolio are fully attributed; and

(iii) ~~third, by a payment of the Capped Amount available in respect of the Rates Service Business of the Defaulting Joint Rates Service Clearing Member pursuant to Rule 15(e) of the Default Rules, to the extent that such Capped Amount is not required to be utilised in respect of losses incurred by the Clearing House relating to Exchange Closed-out Contracts in accordance with Rule 2.8 of this Annex;~~ if and to the extent there are Auction Losses outstanding after the attribution process referred to in sub-paragraph (ii) above, those Auction Losses will be attributed to the remaining AIP Amounts of the Non-Defaulting SCM who submitted the winning bid, together with (where applicable) the remaining AIP Amount of any Non-Defaulting SCM who submitted a bid which was an Equal Bid or an Out Bid in relation to that winning bid. The outstanding Auction Losses will be attributed to the remaining AIP Amount of each such Non-Defaulting SCM pursuant to this sub-paragraph (iii) *pro rata* according to the proportion that such SCM's remaining AIP Amount bears to the total of the remaining AIP Amounts of: (A) the SCM which submitted the winning bid in the Auction; (B) any SCMs which submitted an Equal Bid to such winning bid in the Auction; and (C) any SCMs which were Out Bidders in the Auction.

~~(iv) — fourth, by recourse to the Non-Defaulters' SwapClear Contribution of each Non-Defaulting Joint Rates Service Clearing Member, not including, for these purposes, any part of such Non-Defaulters' SwapClear Contributions that reflects any~~

- (g) If and to the extent there are Auction Losses outstanding following the attribution process referred to in Rule 2.7(f) of this Annex, those Auction Losses will be attributed to the remaining SwapClear Unfunded Contributions deposited with the Clearing House pursuant to the relevant Default and allocated in the following order: of each Non-Defaulting SCM *pro rata* according to the proportion that the remaining SwapClear Unfunded Contributions of such Non-Defaulting SCM bear to the total of the remaining SwapClear Unfunded Contributions of all Non-Defaulting SCMs.
- (h) If and to the extent there are Auction Losses outstanding following the attribution process referred to in Rule 2.7(g) of this Annex, those Auction Losses will be attributed to the remaining Listed Interest Rates Unfunded Contributions of each Non-Defaulting Joint Rates Service Clearing Member *pro rata* according to the proportion that the remaining Listed Interest Rates Unfunded Contributions of such Non-Defaulting Joint Rates Service Clearing Member bear to the total remaining Listed Interest Rates Unfunded Contributions of all Non-Defaulting Joint Rates Service Clearing Members.
- (i) If and to the extent that there are Auction Losses outstanding following the attribution process described in Rule 2.7(h) of this Annex, those Auction Losses will be attributed to the remaining Listed Interest Rates Unfunded Contributions of each Non-Defaulting Listed Interest Rates-Only Clearing Member *pro rata* according to proportion that remaining Listed Interest Rates Unfunded Contributions of such Non-Defaulting Listed Interest Rates-Only Clearing Member bear to the total remaining Listed Interest Rates Unfunded Contributions of all Non-Defaulting Listed Interest Rates-Only Clearing Members.

2.8 Auction Losses - Basis Portfolios

- (a) Auction Losses, in respect of a Basis Portfolio, will be met using the available resources as set out in Rule 15 of the Default Rules. Where the Clearing House determines there are insufficient resources under Rules 15(a) to 15(d) of the Default Rules (inclusive) to meet such losses, they will be attributed to Non-Defaulters' remaining SwapClear Contributions and remaining Listed Interest Rates Contributions in accordance with the loss attribution process described in Rule 2.8(b) to 2.8(i) of this Annex.
- (b) In the case of an Auction of a Basis Portfolio, for which the Clearing House determines there are insufficient resources under Rule 15(a) to 15(d) of the Default Rules (inclusive) to meet the Auction Losses for such Auction, such losses will be met first by the Non-Defaulting Joint Rates Service Clearing Members' remaining SwapClear Funded Contributions that are included in the AIP relating to the Basis Portfolio in the following order and proportions:

(i) the Auction Losses will be attributed to the remaining AIP Amounts of those Non-Defaulting Joint Rates Service Clearing Members which are Non-Bidders in the Auction. Auction Losses will be attributed to the remaining AIP Amount of each such Non-Defaulting Joint Rates Service Clearing Member pursuant to this sub-paragraph (i) *pro rata* according to the proportion that such Non-Defaulting Joint Rates Service Clearing Member's remaining AIP Amount bears to the total of the remaining AIP Amounts of all Non-Defaulting Joint Rates Service Clearing Members which are Non-Bidders in the Auction;

(ii) if and to the extent there are Auction Losses outstanding after the attribution process in sub-paragraph 2.7(b)(i) above, those Auction Losses will be attributed to the remaining AIP Amounts of the Remaining Short Bidders for the Basis Portfolio in accordance with this sub-paragraph (ii). Where:

~~(A) between the Non-Defaulters' SwapClear Contributions of individual Non-Defaulting Joint Rates Service Clearing Members based on the proportion that: (a) the risk of the Listed Interest Rates Contracts of the relevant Joint Rates Service Clearing Member bears to (b) the aggregate of the amounts calculated in (a) for all of the Non-Defaulting Joint Rates Service Clearing Members;~~ the Loss Portion applicable to each Remaining Short Bidder is less than or equal to its remaining AIP Amount, then the Clearing House will, in respect of each Remaining Short Bidder, attribute Auction Losses equal to the Loss Portion applicable to the Remaining Short Bidder to its remaining AIP Amount; or

~~(B) where the value of the losses attributed to an individual Non-Defaulting Joint Rates Service Clearing Member pursuant to sub-paragraph (A) above is greater than the value of the SwapClear Contribution of such Non-Defaulting Joint Rates Service Clearing Member, the relevant excess losses will be attributed to each Non-Defaulting Joint Rates Service Clearing Member to whom losses have been attributed pursuant to sub-paragraph (A) above and whose SwapClear Contribution exceeds the value of such attributed losses (each a "Participating Non-Defaulting Joint Rates Service Clearing Member") based on the proportion that: (a) the risk of the Listed Interest Rates Contracts of the relevant Joint Rates Service Clearing Member bears to (b) the aggregate of the amounts calculated in (a) for all of the Participating Non-Defaulting Joint Rates Service Clearing Members;~~ the Loss Portion applicable to one or more Remaining Short Bidders is greater than its remaining AIP Amount, then the Clearing House will attribute Auction Losses to all of the remaining AIP Amounts of such Remaining Short Bidders only (so that they cease to be Remaining Short Bidders for the purposes of this Rule 2.8(b)(ii) and the Auction) and will repeat the loss attribution process in

this Rule 2.8(b)(ii) for any outstanding Auction Losses until the Auction Losses are fully met or the remaining AIP Amounts of all Remaining Short Bidders for the Basis Portfolio are fully attributed; and

~~The Clearing House will repeat the loss attribution process described in this sub-paragraph (B) until the first to occur of (a) the losses being fully met; and (b) the SwapClear Contributions of all Participating Non-Defaulting Joint Rates Service Clearing Members being fully attributed; and~~

- ~~(C) if and to the extent that there are losses outstanding after the attribution process referred to in sub-paragraph (B) above, the relevant excess losses will be attributed to each Remaining Non-Defaulting Joint Rates Service Clearing Member's SwapClear Contributions pro-rata based on the proportion that the value of the relevant SwapClear Contribution bears to aggregate value of the SwapClear Contributions of all Remaining Non-Defaulting Joint Rates Service Clearing Members;~~
- ~~(v) fifth, by recourse to the Non-Defaulters' SwapClear Contribution of each SwapClear-Only Clearing Member, not including, for these purposes, any part of such Non-Defaulters' SwapClear Contributions that reflects any SwapClear Unfunded Contributions deposited with the Clearing House pursuant to the relevant Default and allocated between the Non-Defaulters' SwapClear Contributions of individual SwapClear-Only Clearing Members based on the proportion that the value of the relevant Non-Defaulters' SwapClear Contribution bears to the aggregate of the values of all such Non-Defaulters' SwapClear Contributions;~~
- ~~(vi) sixth, by recourse to the Non-Defaulters' Listed Interest Rates Contributions of each Non-Defaulting Joint Rates Service Clearing Member, not including, for these purposes, any part of such Non-Defaulters' Unfunded Listed Interest Rates Contributions that reflects any Listed Interest Rates Contributions deposited with the Clearing House pursuant to the relevant Default and allocated between the Non-Defaulters' Listed Interest Rates Contributions of individual Non-Defaulting Joint Rates Service Clearing Members based on the proportion that the value of the relevant Non-Defaulters' Listed Interest Rates Contribution bears to the aggregate of the values of all such Non-Defaulters' Listed Interest Rates Contributions;~~
- ~~(vii) seventh, by recourse to the Non-Defaulters' Listed Interest Rates Contribution of each Listed Interest Rates Clearing Member who is not a Joint Rates Service Clearing Member, not including, for these purposes, any part of such Non-Defaulters' Listed Interest Rates Contributions that reflects any Listed Interest Rates Unfunded Contributions deposited with the Clearing House pursuant to the relevant Default;~~

~~(viii) eighth, by recourse to the SwapClear Unfunded Contributions of each Non-Defaulting Joint Rates Service Clearing Member and the total value of the SwapClear Unfunded Contributions that would be callable but have not been called by the Clearing House from the relevant Joint Rates Service Clearing Members in respect of the relevant Default in accordance with Rule S7 of Part A to the Rates Service Default Fund Supplement and allocated in the following order:~~

(iii) if and to the extent there are Auction Losses outstanding after the attribution process in sub-paragraph 2.7(b)(ii) above, those Auction Losses will be attributed to the remaining AIP Amount of the Non-Defaulting Joint Rates Service Clearing Member who submitted the winning bid in the Auction, together with (where applicable) the remaining AIP Amount of any Non-Defaulting Joint Rates Service Clearing Member who submitted a bid which was an Equal Bid or an Out Bid in relation to that winning bid. The outstanding Auction Losses will be attributed to the remaining AIP Amount of each such Non-Defaulting Joint Rates Service Clearing Member pursuant to this sub-paragraph (iii) *pro rata* according to the proportion that such Non-Defaulting Joint Rates Service Clearing Member's remaining AIP Amount bears to the total of the remaining AIP Amounts of: (A) the Joint Rates Service Clearing Member which submitted the winning bid in the Auction; (B) any Joint Rates Service Clearing Members which submitted an Equal Bid to such winning bid in the Auction; and (C) any Joint Rates Service Clearing Member which were Out Bidders in the Auction.

(c) If and to the extent there are Auction Losses outstanding following the attribution process in Rule 2.8(b) of this Annex, those Auction Losses will be attributed to the remaining SwapClear Funded Contribution of each Non-Defaulting SCM *pro rata* according to the proportion that the remaining SwapClear Funded Contribution of such Non-Defaulting SCM bears to the total of the remaining SwapClear Funded Contributions of all Non-Defaulting SCMs.

(d) If and to the extent there are Auction Losses outstanding following the attribution process in Rule 2.8(c) of this Annex, those Auction Losses will be attributed to the remaining Listed Interest Rates Funded Contribution of each Non-Defaulting Joint Rates Service Clearing Members *pro rata* according to the proportion that the remaining Listed Interest Rates Funded Contribution of such Non-Defaulting Joint Rates Service Clearing Member bears to the total remaining Listed Interest Rates Funded Contributions of all Non-Defaulting Joint Rates Service Clearing Members.

(e) If and to the extent there are Auction Losses outstanding following the attribution process in Rule 2.8(d) of this Annex, those Auction Losses will be attributed to the remaining Listed Interest Rates Funded Contribution of each Non-Defaulting Listed Interest Rates-Only Clearing Member *pro rata* according to the proportion that the remaining Listed Interest Rates Funded Contribution of such Non-Defaulting Listed Interest Rates-Only Clearing Member bears to the total remaining Listed Interest Rates Funded Contributions of all Non-Defaulting Listed Interest Rates-Only Clearing Members.

(f) If and to the extent there are Auction Losses outstanding following the attribution process in Rule 2.8(e) of this Annex, the remaining SwapClear Unfunded Contributions that are included in the AIP relating to the Basis Portfolio will be used in the following order:

(i) the Auction Losses will be attributed to the remaining AIP Amounts of those Non-Defaulting Joint Rates Service Clearing Members which are Non-Bidders in the Auction. Auction Losses will be attributed to the remaining AIP Amount of each such Non-Defaulting Joint Rates Service Clearing Member pursuant to this sub-paragraph (i) *pro rata* according to the proportion that such Non-Defaulting Joint Rates Service Clearing Member's remaining AIP Amount bears to the total of the remaining AIP Amounts of all Non-Defaulting Joint Rates Service Clearing Members which are Non-Bidders in the Auction;

(ii) if and to the extent there are Auction Losses outstanding after the attribution process referred to in sub-paragraph (i) above, those Auction Losses will be attributed to the remaining AIP Amounts of the Remaining Short Bidders for the Basis Portfolio in accordance with this sub-paragraph (ii). Where:

~~(A) between the called and callable SwapClear Unfunded Contributions of individual Non-Defaulting Joint Rates Service Clearing Members based on the proportion that: (a) the risk of the Listed Interest Rates Contracts of the relevant Non-Defaulting Joint Rates Service Clearing Member bears to (b) the aggregate of the amounts calculated in (a) for all of the Non-Defaulting Joint Rates Service Clearing Members;~~
the Loss Portion applicable to each Remaining Short Bidder is less than or equal to its remaining AIP Amount, then the Clearing House will, in respect of each Remaining Short Bidder, attribute Auction Losses equal to the Loss Portion applicable to the Remaining Short Bidder to its remaining AIP Amount; or

~~(B) where the value of the losses attributed to an individual Non-Defaulting Joint Rates Service Clearing Member pursuant to sub-paragraph (A) above is greater than the value of the called and callable SwapClear Unfunded Contributions of such Non-Defaulting Joint Rates Service Clearing Member, the relevant excess losses will be attributed to each Participating Non-Defaulting Joint Rates Service Clearing Member based on the proportion that: (a) the risk of the Listed Interest Rates Contracts of the relevant Joint Rates Service Clearing Member bears to (b) the aggregate of the amounts calculated in (a) for all of the Participating Non-Defaulting Joint Rates Service Clearing Members;~~
the Loss Portion applicable to one or more Remaining Short Bidders is greater than its remaining AIP Amount, then the Clearing House will attribute Auction Losses to all of the remaining AIP Amounts of such Remaining Short Bidders only (so that they cease to be Remaining Short Bidders for the purposes of this Rule 2.8(f)(ii) and the Auction) and will repeat

the loss attribution process in this Rule 2.8(f)(ii) for any outstanding Auction Losses until the Auction Losses are fully met or the remaining AIP Amounts of all Remaining Short Bidders for the Basis Portfolio are fully attributed; and

~~The Clearing House will repeat the loss~~

- (iii) if and to the extent there are Auction Losses outstanding after the attribution process referred to in sub-paragraph (ii) above, those Auction Losses will be attributed to the remaining AIP Amounts of the Non-Defaulting Joint Rates Service Clearing Members who submitted the winning bid, together with (where applicable) the remaining AIP Amount of any Non-Defaulting Joint Rates Service Clearing Member who submitted a bid which was an Equal Bid or an Out Bid in relation to that winning bid. The outstanding Auction Losses will be attributed to the remaining AIP Amount of each such Non-Defaulting Joint Rates Service Clearing Member pursuant to this sub-paragraph (iii) *pro rata* according to the proportion that such Non-Defaulting Joint Rates Service Clearing Member's remaining AIP Amount bears to the total of the remaining AIP Amounts of: (A) the Joint Rates Service Clearing Member which submitted the winning bid in the Auction; (B) any Joint Rates Service Clearing Members which submitted an Equal Bid to such winning bid in the Auction; and (C) any Joint Rates Service Clearing Members which were Out Bidders in the Auction.
- (g) If and to the extent there are Auction Losses outstanding following the attribution process referred to in Rule 2.8(f) of this Annex, those Auction Losses will be attributed to the remaining SwapClear Unfunded Contributions of each Non-Defaulting SCM *pro rata* according to the proportion that the remaining SwapClear Unfunded Contributions of such Non-Defaulting SCM bear to the total of the remaining SwapClear Unfunded Contributions of all Non-Defaulting SCMs.
- (h) If and to the extent there are Auction Losses outstanding following the attribution process referred to in Rule 2.8(g) of this Annex, those Auction Losses will be attributed to the remaining Listed Interest Rates Unfunded Contributions of each Non-Defaulting Joint Rates Service Clearing Member *pro rata* according to the proportion that the remaining Listed Interest Rates Unfunded Contributions of such Non-Defaulting Joint Rates Service Clearing Member bear to the total remaining Listed Interest Rates Unfunded Contributions of all Non-Defaulting Joint Rates Service Clearing Members.
- (i) If and to the extent that there are Auction Losses outstanding following the attribution process described in ~~this sub-paragraph (B) until the first to occur of (a) the losses being fully met; and (b) the called and callable SwapClear Unfunded Contributions of all Participating Non-Defaulting Joint Rates Service Clearing Members being fully attributed; and~~
- ~~(C) — if and to the extent that there are losses outstanding after the attribution process referred to in sub-paragraph (B) above, the relevant excess losses will be attributed to each Remaining Non-~~

~~Defaulting Joint Rates Service Clearing Member's called and callable SwapClear Unfunded Contributions pro rata based on the proportion that the value of the relevant called and callable SwapClear Unfunded Contribution bears to aggregate value of the called and callable SwapClear Unfunded Contributions of all Remaining Non-Defaulting Joint Rates Service Clearing Members;~~

- ~~(ix) ninth, by recourse to the SwapClear Unfunded Contributions of each SwapClear Only Clearing Member other than the Defaulter and the total value of the SwapClear Unfunded Contributions that would be callable but have not been called by the Clearing House from the relevant SwapClear Only Clearing Members in respect of the relevant Default in accordance with Rule S7 of Part A to the Rates Service Default Fund Supplement, allocated, for these purposes, between the called and callable SwapClear Unfunded Contributions of individual SwapClear Only Clearing Members based on the proportion that the value of the relevant SwapClear Unfunded Contribution bears to the aggregate of the values of all such SwapClear Unfunded Contributions;~~
- ~~(x) tenth, by recourse to the Listed Interest Rates Unfunded Contributions of each Non-Defaulting Joint Rates Service Clearing Member and the total value of the Listed Interest Rates Unfunded Contributions that would be callable but have not been called by the Clearing House from the relevant Non-Defaulting Joint Rates Service Clearing Members in respect of the relevant Default in accordance with Rule L5 of Part B to the Rates Service Default Fund Supplement, allocated, for these purposes, between the called and callable Listed Interest Rates Unfunded Contributions of individual Joint Rates Service Clearing Members based on the proportion that the value of the relevant Listed Interest Rates Unfunded Contribution bears to the aggregate of the values of all such Listed Interest Rates Unfunded Contributions; and~~
- ~~(xi) eleventh, by recourse to the Listed Interest Rates Unfunded Contributions of each Listed Interest Rates Clearing Member who is not a Joint Rates Service Clearing Member and the total value of the Listed Interest Rates Unfunded Contributions that would be callable but have not been called by the Clearing House from the relevant Listed Interest Rates Clearing Members in respect of the relevant Default in accordance with Rule L5 of Part B to the Rates Service Default Fund Supplement~~Rule 2.8(h) of this Annex, those Auction Losses will be attributed to the remaining Listed Interest Rates Unfunded Contributions of each Non-Defaulting Listed Interest Rates-Only Clearing Member pro rata according to proportion that remaining Listed Interest Rates Unfunded Contributions of such Non-Defaulting Listed Interest Rates-Only Clearing Member bear to the total remaining Listed Interest Rates Unfunded Contributions of all Non-Defaulting Listed Interest Rates-Only Clearing Members.

2.9 Exchange Closed-Out Contracts

- (a) Exchange Losses relating to a Defaulting Listed Interest Rates-Only Clearing Member will be met using the available resources as set out in Rule 15 of the Default Rules. Where the Clearing House determines there are insufficient resources under Rules 15(a) to 15(d) of the Default Rules (inclusive) to meet such losses, they will be met in the following order and proportions:
- (i) first, by recourse to the Listed Interest Rates Funded Contribution of each Non-Defaulting Listed Interest Rates Clearing Member attributed *pro rata* according to the proportion that the Listed Interest Rates Funded Contribution of such Non-Defaulting Listed Interest Rates Clearing Member bears to the total of the Listed Interest Rates Funded Contributions of all Non-Defaulting Listed Interest Rates Clearing Members;
 - (ii) second, by recourse to the SwapClear Funded Contributions of each Non-Defaulting SCM attributed *pro rata* according to the proportion that the SwapClear Funded Contribution of such Non-Defaulting SCM bears to the total of the SwapClear Funded Contributions of all Non-Defaulting SCMs;
 - (iii) third, by recourse to the Listed Interest Rates Unfunded Contributions of each Non-Defaulting Listed Interest Rates Clearing Member attributed *pro rata* according to the proportion that the Listed Interest Rates Unfunded Contribution of such Non-Defaulting Listed Interest Rates Clearing Member bears to the total of the Listed Interest Rates Unfunded Contributions of all Non-Defaulting Listed Interest Rates Clearing Members; and
 - (iv) fourth, by recourse to the SwapClear Unfunded Contributions of each Non-Defaulting SCM attributed *pro rata* according to the proportion that the SwapClear Unfunded Contributions of such Non-Defaulting SCM bear to the total of the SwapClear Unfunded Contributions of all Non-Defaulting SCMs.
- (b) ~~Those losses incurred by the Clearing House as a result of the Auction of a Basis Portfolio of~~ Exchange Losses relating to a Defaulting Joint Rates Service Clearing Member ~~that relate to the close out of the Hedging Rates Service Contracts of the Defaulting Joint Rates Service Clearing Member included in the relevant Basis Portfolio will be met using resources~~ will be met using the available resources as set out in Rule 15 of the Default Rules. Where the Clearing House determines there are insufficient resources under Rules 15(a) to 15(d) of the Default Rules (inclusive) to meet such losses, they will be met in the following order and proportions:
- (i) first, by ~~applying the Margin Cover for the SwapClear Contracts and for the~~ recourse to the remaining Listed Interest Rates ~~Contracts of the Funded Contributions of each Non-~~ Defaulting Joint Rates Service Clearing Member ~~available pursuant to Rule 15(a) of the Default Rules, provided that in no circumstances will any such Margin Cover~~

~~transferred by the attributed *pro rata* according to the proportion that the remaining Listed Interest Rates Funded Contribution of such Non-Defaulting Joint Rates Service Clearing Member or any Custodial Segregated Client of such bears to the total of the remaining Listed Interest Rates Funded Contributions of all Non-Defaulting Joint Rates Service Clearing Member in respect of obligations arising on a Client Account be applied by the Clearing House in respect of any loss attributable to the Auction of a Basis Portfolio containing Listed Interest Rates Contracts attributable to the House Clearing Business of the Defaulting Joint Rates Service Clearing Member~~Members;

- (ii) second, by recourse to the ~~SwapClear Contribution and the~~remaining Listed Interest Rates Contribution made by the Funded Contribution of each Non-Defaulting Joint Listed Interest Rates Service Clearing Member available pursuant to Rule 15(b) of the Default Rules; -Only Clearing Member attributed *pro rata* according to the proportion that the remaining Listed Interest Rates Funded Contribution of such Non-Defaulting Listed Interest Rates-Only Clearing Member bears to the total of the remaining Listed Interest Rates Funded Contributions of all Non-Defaulting Listed Interest Rates-Only Clearing Members;
- (iii) ~~third, by a payment of the Capped Amount available in respect of the Rates Service Business of the Defaulting Joint Rates Service Clearing Member pursuant to Rule 15(c) of the Default Rules, to the extent that such Capped Amount is not required to be utilised in respect of losses incurred by the Clearing House relating to Exchange Closed-out Contracts in accordance with Rule 2.8 of this Annex;~~third, by recourse to the remaining SwapClear Funded Contributions of each Non-Defaulting SCM attributed *pro rata* according to the proportion that the remaining SwapClear Funded Contribution of such Non-Defaulting SCM bears to the total of the remaining SwapClear Funded Contributions of all Non-Defaulting SCMs;
- (iv) fourth, by recourse to the ~~Non-Defaulters' SwapClear Contribution~~remaining Listed Interest Rates Unfunded Contributions of each Non-Defaulting Joint Rates Service Clearing Member, ~~not including, for these purposes, any part of such Non-Defaulters' SwapClear Contributions that reflects any SwapClear Unfunded Contributions deposited with the Clearing House pursuant to the relevant Default and allocated between the Non-Defaulters' SwapClear Contributions of individual SCMs based on attributed *pro rata* according to~~ the proportion that the ~~value of the relevant Non-Defaulters' SwapClear Contribution bears to the aggregate~~remaining Listed Interest Rates Unfunded Contributions of such Non-Defaulting Joint Rates Service Clearing Member bears to the total of the ~~values~~remaining Listed Interest Rates Unfunded Contributions of all ~~such Non-Defaulters' SwapClear Contributions;~~ Non-Defaulting Joint Rates Service Clearing Members;
- (v) fifth, by recourse to the ~~Non-Defaulters'~~remaining Listed Interest Rates Unfunded Contributions of each Non-Defaulting ~~Joint Rates Service~~

~~Clearing Member, not including, for these purposes, any part of such Non-Defaulters' Listed Interest Rates Contributions that reflects any Listed Interest Rates Contributions deposited with the Clearing House pursuant to the relevant Default and allocated between the Non-Defaulters' Listed Interest Rates Contributions of individual Non-Defaulting Joint Rates Service Clearing Members based on~~Listed Interest Rates-Only Clearing Member attributed *pro rata* according to the proportion that the value of the relevant Non-Defaulters' remaining Listed Interest Rates Unfunded Contribution of such Non-Defaulting Listed Interest Rates-Only Clearing Member bears to the aggregate of the values of all such Non-Defaulters' Listed Interest Rates Contributions;total of the remaining Listed Interest Rates Unfunded Contributions of all Non-Defaulting Listed Interest Rates-Only Clearing Members; and

- (vi) ~~sixth by recourse to the Non-Defaulters' Listed Interest Rates Contributions of each SwapClear Only Clearing Member, not including, for these purposes, any part of such Non-Defaulters' Listed Interest Rates Contributions that reflects any Listed Interest Rates Contributions deposited with the Clearing House pursuant to the relevant Default and allocated between the Non-Defaulters' Listed Interest Rates Contributions of individual SwapClear Only Clearing Members based on the proportion that the value of the relevant Non-Defaulters' Listed Interest Rates Contribution bears to the aggregate of the values of all such Non-Defaulters' Listed Interest Rates Contributions;~~ by recourse to the remaining SwapClear Unfunded Contributions of each Non-Defaulting SCM attributed *pro rata* according to the proportion that the remaining SwapClear Unfunded Contribution of such Non-Defaulting SCM bears to the total of the remaining SwapClear Unfunded Contributions of all Non-Defaulting SCMs.
- (vii) ~~seventh, by recourse to the Non-Defaulters' Listed Interest Rates Contribution of each Listed Interest Rates Clearing Member who is not a Joint Rates Service Clearing Member, not including, for these purposes, any part of such Non-Defaulters' Listed Interest Rates Contributions that reflects any Listed Interest Rates Unfunded Contributions deposited with the Clearing House pursuant to the relevant Default;~~
- (viii) ~~eighth, by recourse to the SwapClear Unfunded Contributions of each Non-Defaulting SCM and the total value of the SwapClear Unfunded Contributions that would be callable but have not been called by the Clearing House from the relevant SwapClear Clearing Members in respect of the relevant Default in accordance with Rule S7 of Part A to the Rates Service Default Fund Supplement, allocated, for these purposes, between the called and callable SwapClear Unfunded Contributions of individual Non-Defaulting SCMs based on the proportion that the value of the relevant SwapClear Unfunded Contribution bears to the aggregate of the values of all such SwapClear Unfunded Contributions;~~

- ~~(ix) — ninth, by recourse to the Listed Interest Rates Unfunded Contributions of each Non-Defaulting Joint Rates Service Clearing Member and the total value of the Listed Interest Rates Unfunded Contributions that would be callable but have not been called by the Clearing House from the relevant Joint Rates Service Clearing Members in respect of the relevant Default in accordance with Rule L5 of Part B to the Rates Service Default Fund Supplement, allocated, for these purposes, between the called and callable Listed Interest Rates Unfunded Contributions of individual Non-Defaulting Joint Rates Service Clearing Members based on the proportion that the value of the relevant Listed Interest Rates Unfunded Contribution bears to the aggregate of the values of all such Listed Interest Rates Unfunded Contributions;~~
- ~~(x) — tenth, by recourse to the Listed Interest Rates Unfunded Contributions of each SwapClear Only Service Clearing Member and the total value of the Listed Interest Rates Unfunded Contributions that would be callable but have not been called by the Clearing House from the relevant SwapClear Only Clearing Members in respect of the relevant Default in accordance with Rule L5 of Part B to the Rates Service Default Fund Supplement, allocated, for these purposes, between the called and callable Listed Interest Rates Unfunded Contributions of individual SwapClear Only Clearing Members based on the proportion that the value of the relevant Listed Interest Rates Unfunded Contribution bears to the aggregate of the values of all such Listed Interest Rates Unfunded Contributions; and~~
- ~~(xi) — eleventh, by recourse to the Listed Interest Rates Unfunded Contributions of each Listed Interest Rates Clearing Member who is not a Joint Rates Service Clearing Member and the total value of the Listed Interest Rates Unfunded Contributions that would be callable but have not been called by the Clearing House from the relevant Listed Interest Rates Clearing Members in respect of the relevant Default in accordance with Rule L5 of Part B to the Rates Service Supplement.~~

~~For the purposes of this paragraph 2.9, all references to the risk associated with the Listed Interest Rates Contracts of a Non-Defaulting SCM denominated in a particular currency, shall be references to such risk as determined by the Clearing House in its sole discretion on the basis of Worst Case Loss.~~

2.10 Gains

- (a) If, at any point during the Rates Service DMP, but before the implementation of the Rates Service Loss Distribution Process, the Clearing House determines that gains have accrued in respect of any OTC Auction Portfolio(s) and/or Basis Portfolio(s), it will reimburse each Non-Defaulter (to the extent that Market Losses, Exchange Losses or Auction Losses have been attributed to it pursuant to this Annex) by the amount of such gains in the following order and proportions:
- (i) The Clearing House will reimburse each Non-Defaulter for such gains pro rata according to the proportion that the Market Losses and

Exchange Losses attributed to such Non-Defaulter's Rates Service Unfunded Contributions bear to the total Market Losses and Exchange Losses attributed to all Non-Defaulters' Rates Service Unfunded Contributions, up to a maximum of the Market Losses and Exchange Losses attributed to such Non-Defaulter's Rates Service Unfunded Contributions.

(ii) If and to the extent there are gains remaining to be reimbursed following the process described in Rule 2.10(a)(i) of this Annex, the Clearing House will reimburse each Non-Defaulter for such gains *pro rata* according to the proportion that the Auction Losses attributed to such Non-Defaulter's SwapClear Unfunded Contributions bear to the total Auction Losses attributed to all Non-Defaulters' SwapClear Unfunded Contributions, up to a maximum of the Auction Losses attributed to such Non-Defaulter's SwapClear Unfunded Contributions.

(iii) If and to the extent there are gains remaining to be reimbursed following the process described in Rule 2.10(a)(ii) of this Annex, the Clearing House will reimburse each Non-Defaulter for such gains *pro rata* according to the proportion that the Market Losses and Exchange Losses attributed to such Non-Defaulter's Rates Service Funded Contribution bear to the total Market Losses and Exchange Losses attributed to all Non-Defaulters' Rates Service Funded Contributions, up to a maximum of the Market Losses and Exchange Losses attributed to such Non-Defaulter's Rates Service Funded Contribution.

(iv) If and to the extent there are gains remaining to be reimbursed following the process described in Rule 2.10(a)(iii) of this Annex, the Clearing House will reimburse each Non-Defaulter for such gains *pro rata* according to the proportion that the Auction Losses attributed to such Non-Defaulter's SwapClear Funded Contribution bear to the total Auction Losses attributed to all Non-Defaulters' SwapClear Funded Contributions, up to a maximum of the Auction Losses attributed to such Non-Defaulter's SwapClear Funded Contribution.

(b) The Clearing House's calculation of the amount by which a gain that is reimbursed to a Non-Defaulter pursuant to Rule 2.10(a)(i), (ii), (iii) and/or (iv) of this Annex increases such Non-Defaulter's SwapClear Contributions and/or Listed Interest Rates Contributions is determinative and final and, after such reimbursement and increase, the totality of such Non-Defaulter's Rates Service Contributions will be subject to subsequent attribution of losses (if any) pursuant to this Annex.

(c) Rule CS8 of the Rates Service Default Fund Supplement will not apply to the gains reimbursed to this Rule 2.10.

3. **Default Management in respect of Rates Service Client Clearing Business and FCM ~~SwapClear~~ Rates Service Client Business**

3.1 The Rates Service DMP ~~in respect of~~ for any ~~contract which is a~~ Rates Service Contract in respect of Rates Service Client Clearing Business shall involve the stages described

in the Client Clearing Annex (which such stages, for the avoidance of doubt, will result in a Rates Service Contract in respect of Rates Service Client Clearing Business being dealt with in accordance with Rule ~~9~~² above in the event that it cannot be ported by the Clearing House).

3.2 The Rates Service DMP ~~in respect of~~^{for} any ~~contract which is an FCM Swap Clear~~^{FCM Rates Service} Contract forming part of a Defaulter²'s FCM Rates Service shall be conducted in accordance with FCM Regulation 13(e) (*Transfer*). The provisions of Default Rule 10 shall also apply.

4. **Transfer of Cash Flows and Registration of Positions**

4.1 Following the disposal of an OTC Auction Portfolio or a Basis Portfolio by way of Auction (and notwithstanding that other OTC Auction Portfolios and/or Basis Portfolios of the Defaulting SCM may not yet have been auctioned) the Clearing House, will, with the co-operation of the Non-Defaulting SCMs, transfer to the Non-Defaulting SCM whose bid won the relevant OTC Auction Portfolio or Basis Portfolio (as the case may be) the rights and obligations, from the Defaulting SCM, arising out of the positions which that Non-Defaulting SCM has successfully bid for under the Rates Service ~~Default Management Process~~^{DMP}. Such transfer may take place by way of registration of new positions with the Clearing House in the name of the relevant Non-Defaulting SCM, or novation of rights and obligations to the relevant Non-Defaulting SCM. All such registrations shall be made in a way that recognises the Collateral paid or received in respect of variation margin and any amounts paid or received in respect of settlement in relation to the Rates Service Contracts of the Defaulting SCM representing such new positions.

4.2 In order to effect the transfer of positions, the Clearing House shall prescribe such procedures and timetable as it considers reasonably appropriate in the circumstances. SCMs will be required to exercise best endeavours to comply with such requirements as may be established by the Clearing House, after consultation with the Rates Service DMG, to effect the transfer of positions, including but not limited to the payment of any sums due as a result of the winning bid and the provision of Collateral in an amount required by the Clearing House in respect of initial margin and variation margin obligations in respect of positions which are to be registered in their names. The Clearing House agrees that in such procedures it shall make provision for set-off by the Clearing House of amounts owed by the Clearing House to individual Non-Defaulting SCMs as a result of the operation of the Rates Service DMP against sums owed by those individual SCMs to the Clearing House in respect thereof.

4.3 Where, as a result of an Auction, the Clearing House is required to make a payment to a Non-Defaulting SCM in respect of a winning bid, the Clearing House shall not be permitted to register any position, whether as a new position or as a novation of existing rights and obligations, to any such SCM if the Clearing House does not simultaneously credit that SCM with the requisite amount. If any position is so registered without such payment, such registration shall be deemed void *ab initio* and unenforceable against the relevant SCM. For the avoidance of doubt, the Clearing House will utilise the resources available to it pursuant to Rule 15 of the Default Rules for the purposes of making such a payment notwithstanding that other OTC Auction Portfolios and/or Basis Portfolios of the Defaulting SCM may not yet have been auctioned and that the loss attribution process provided for by Rule ~~2.6~~² of this Annex has not yet occurred.

5. **Information Regarding the Rates Service DMP**

- 5.1 Whenever the Rates Service DMP is implemented by the Clearing House in respect of a Defaulting SCM, the Clearing House will, with the assistance of the Rates Service DMG, provide such ongoing information to SCMs as the Clearing House deems reasonably appropriate in respect of the progress of the Rates Service DMP.
- 5.2 Nothing in this Rule 5 shall require the Clearing House to disclose information in respect of the Rates Service DMP which, in the reasonable opinion of the Clearing House, may be subject to obligations of confidentiality, may constitute market sensitive data or is, in the Clearing House's reasonable opinion, inappropriate for disclosure to SCMs.

6. **Bankruptcy Code and Related Issues**

Notwithstanding any other provision of this Annex in the event of a Default by an FCM Clearing Member, the completion of any and all actions, including but not limited to any transfers or transactions, permitted or required to be taken by the Clearing House hereunder shall be subject in all respects to the provisions of the Bankruptcy Code, Part 190 and Part 22 of the CFTC Regulations, the Dodd-Frank Wall Street Reform and Consumer Protection Act 2010, and the receipt of any approvals required under the Bankruptcy Code or such regulations.

7. **CEA Issues**

Notwithstanding any other provision of this Annex in the event of a Default by an FCM Clearing Member, the operation of this Annex shall in all respects be subject to applicable provisions of the CEA and CFTC Regulations (including Part 22 thereof) regarding the handling, custody, liquidation, transfer and disposition of client positions and assets, including but not limited to those provisions requiring segregation of client assets and prohibiting application of the assets of non-defaulting clients to amounts owed by defaulting clients.

8. **Miscellaneous**

- 8.1 Subject to Rules 2.5 ~~and~~to 2.9 (inclusive) of this Annex, the resources available to the Clearing House and their order of use are defined in Rule 15 of the Default Rules as modified and/or supplemented by the Rates Service Default Fund Supplements.
- 8.2 The Clearing House may from time to time supplement the details of any of the stages set out in Rule ~~02~~ of this Annex or any other aspects of the Rates Service DMP, in consultation with the Rates Service DMG, either by way of further Guidance or immediately on notice to SCMs on a case-by-case basis where the Clearing House deems it appropriate to do so in the circumstances of the Default, **provided that** the Clearing House may not take any such action that effects a material change to the terms of this Annex without the written consent of 50 percent of all SCMs and 50 percent of all Listed Interest Rates Clearing Members unless such change is invoked unilaterally against all SCMs and Listed Interest Rates Clearing Members and is necessary to manage the Clearing House's risk or otherwise to meet the Clearing House's continuing regulatory obligations including those applicable to it as a Recognised Clearing House and a Derivatives Clearing Organization. The Clearing House agrees that, in the

ordinary course, it shall discuss any such Guidance with the Rates Service DMG prior to bringing the Guidance into effect except that it shall not be required to do so where (i) the Guidance is not material to the rights and obligations of the SCMs and the Listed Interest Rates Clearing Members; or (ii) the Clearing House deems it inappropriate to do so in the circumstances of the Default and it is not possible to convene the Rates Service DMG in timely fashion.

- 8.3 The timetable for implementation of the stages of the Rates Service Default Management Process following issue of a Default Notice by the Clearing House shall be either (i) as prescribed by the Clearing House from time to time in consultation with the Rates Service DMG and set out in the Guidance; or (ii) imposed by the Clearing House without prior notice to the SCMs on a case-by-case basis where the Clearing House, in consultation with the Rates Service DMG, deems it appropriate to do so in the circumstances of the Default.

9. **Role and Constitution of Rates Service DMG**

- 9.1 The Rates Service DMG shall meet at regular intervals in order to:

- (a) review the market risk of SCMs and Clearing Clients to ensure risk profiles and margin coverage are compatible with default management principles;
- (b) review market liquidity and associated margin add-ons to ensure risk concentrations and positions are adequately covered;
- (c) provide advice on valuation and margin techniques and models;
- (d) review market developments and changes in trading instruments and practices;
- (e) review new product proposals and existing product extensions, particularly focusing on pricing and margin computation and surrounding liquidity and market issues;
- (f) review the Rates Service DMP, including the terms of reference thereof, together with any Guidance issued in respect thereof, to ensure that appropriate systems, reports and resources are available to manage an SCM default, and consider appropriate supplements or amendments to the Rates Service DMP and/or Guidance in order to improve the procedures in place;
- (g) review hedging strategies, auction processes, including portfolio splitting and loss allocation, and timescales for hedge and auction processes; and
- (h) consider any other business relevant to the Rates Service DMP which any member of the Rates Service DMG from time to time sees fit to raise at such meetings.

The members of the Rates Service DMG shall also meet within one hour, or as soon as reasonably practicable, following notification by the Clearing House that a Default Notice has been served upon an SCM, and at sufficiently frequent intervals thereafter for so long as may be necessary to assist the Clearing House in the implementation of the Rates Service DMP as contemplated under the Rulebook. Such implementation shall include, without limitation, the provision of general default management advice

SCHEDULE 3 FOREXCLEAR DMP ANNEX

1. Scope and interpretation

- 1.1 The Clearing House has established a ForexClear DMP which will apply to ForexClear Contracts following the ~~issuing of a~~ Default ~~Notice relating to~~ of a ForexClear 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. The fundamental principles of the ForexClear 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 ForexClear DMP will be undertaken on the basis of the principles contained herein.
- 1.2 The Clearing House has an obligation to ensure the on-going integrity of the ForexClear Service and of the ForexClear Contracts in the interests of the Non-Defaulting FXCCMs. When a ForexClear Clearing Member defaults, Non-Defaulting FXCCMs are required to supply impartial expertise through the ForexClear DMG and to bid for the Auction Portfolios of a Defaulting FXCCM, as laid out in this Annex. In addition, most FXCCMs or their parent companies or subsidiaries or fellow subsidiaries, have direct interests in that integrity, notably as contributors to the various default funds of the Clearing House. Each FXCCM shall take all steps and execute all documents necessary or required by the Clearing House to comply with its obligations as ~~an~~ FXCCM arising out of this ForexClear DMP Annex.
- 1.3 The initial margining process in respect of ForexClear Contracts will be such so as to ensure that the acceptance of bids for the Auction Portfolio of a Defaulting FXCCM will recognise risk premiums, ~~and that equivalent premiums will be paid by the Clearing House in closing out large positions in other Contracts traded on exchange or ATS-organised markets.~~
- 1.4 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 ~~2.4~~2.5 of this Annex;

"AIP Amount" means, in respect of a Non-Defaulting FXCCM and the Auction Portfolio(s) in a specific Auction Portfolio Currency Pair and Auction Portfolio Category, the product of (a) such Non-Defaulting FXCCM's AIP Ratio applicable to the Auction Portfolio Currency Pair and Auction Portfolio Category of such Auction Portfolio(s), and (b) the total of its (i) remaining ForexClear Funded Contribution, and (ii) remaining ForexClear Unfunded Contributions;

"AIP Ratio" means, in respect of a Non-Defaulting FXCCM and the Auction Portfolio(s) in a specific Auction Portfolio Currency Pair and Auction Portfolio Category, the ratio that (a) the Undiversified Initial Margin Amount for the ForexClear Contracts of such Non-Defaulting FXCCM that are registered in its name at the time of the relevant Default and are in such Auction Portfolio Currency Pair and Auction Portfolio Category bears to, (b) the aggregate Undiversified Initial Margin Amount for

all the ForexClear Contracts that are registered in the name of such Non-Defaulting FXCCM at the time of the relevant Default;

"**Auction**" means the process of bidding by Non-Defaulting FXCCMs for an Auction Portfolio, as prescribed by the Clearing House, following consultation with the ForexClear DMG from time to time in accordance with Rule 2.3 of this Annex;

"**Auction Losses**" ~~has the meaning given in Rule 2.5(b) of this Annex;~~ means, in respect of an Auction Portfolio, all losses arising from:

- (a) the auction and sale of such Auction Portfolio; and
- (b) a change in the net present value of the ForexClear Contracts within such Auction Portfolio during the Auction Losses Calculation Period;

"Auction Losses Calculation Period" means, in respect of an Auction Portfolio and the business day on which the Clearing House auctions and sells such portfolio, the period:

- (a) commencing immediately after the end of day margin and settlement call of the Clearing House for the previous business day; and
- (b) ending at the point at which the Clearing House sells such portfolio;

"**Auction Portfolio**" means ~~(i)~~ (a) a Portfolio; or ~~(ii)~~ (b) a group of ForexClear Contracts resulting from the splitting of a Portfolio pursuant to Rule 2.1 of this Annex including in both such cases any connected Hedging ForexClear Contracts concluded by the Clearing House through Risk Neutralisation;

"**Auction Portfolio Category**" means, in relation to an Auction Portfolio, the ForexClear Contract Category to which the ForexClear Contracts in the Auction Portfolio belong, provided that in the case of an Auction Portfolio containing both ForexClear NDF Contracts and ForexClear Contracts that are not ForexClear NDF Contracts, the relevant Auction Portfolio Category shall be deemed to be the ForexClear Non-NDF Contract Category;

"**Auction Portfolio Currency Pair**" means in relation to an Auction Portfolio, the Currency Pair in which the ForexClear Contracts in the Auction Portfolio are denominated;

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

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

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

"**Currency Pair**" has the meaning set out at Part A of the Schedule to the ForexClear Regulations;

"**Derivatives Clearing Organization**" means an organisation designated and registered as such by way of United States Code - Title 7, Chapter 1, paragraph 7a-~~1~~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" has the meaning given in Rule 2.3(e) of this Annex;~~means an Accepted bid in an Auction, which is equal to another Accepted bid in the same Auction;

"Expected Auction Participant" means, in respect of an Auction Portfolio, any Non-Defaulting FXCCM who, at the time of the ~~Clearing House declared a~~relevant Default, has at least one Resembling Contract registered in its name;

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

"FCM ForexClear House Business" means the FCM ForexClear Contracts entered into by an FCM Clearing Member for its ~~own account or for the account of an affiliate~~Proprietary Account;

"ForexClear Contract Category" means a category of ForexClear Contracts, being either the ForexClear NDF Contract Category or the ForexClear Non-NDF Contract Category;

~~"ForexClear Default Management Process" or "ForexClear DMP" means the processes of the Clearing House outlined in this Annex, as may be supplemented and/or amended from time to time in accordance with this Annex;~~

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

"ForexClear DMG" means the advisory ~~ForexClear Default Management Group~~default management group established by the Clearing House pursuant to the terms of this Annex;

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

"ForexClear Funded Contribution" means the ForexClear Contribution of a ForexClear Clearing Member, excluding any ForexClear Unfunded Contribution in respect of the ForexClear Clearing Member;

"ForexClear NDF Clearing Member" means an FXCCM who is designated by the Clearing House as a ForexClear NDF Clearing Member eligible to have registered in its name ForexClear NDF Contracts;

"ForexClear NDF Contract Category" means the category of ForexClear Contracts which comprises ForexClear NDF Contracts registered with the Clearing House;

"ForexClear NDF-Only Clearing Member" means a ForexClear NDF Clearing Member who is not also a ForexClear Option Clearing Member;

"**ForexClear Non-NDF Contract Category**" means the category of ForexClear ~~Contract~~Contracts which comprises all ForexClear Contracts registered with the Clearing House other than ForexClear NDF Contracts registered with the Clearing House;

"ForexClear Option-Only Clearing Member" means a ForexClear Option Clearing Member who is not also a ForexClear NDF Clearing Member;

"ForexClear Unfunded Contribution" has the meaning assigned to "Unfunded Contribution" in Rule F8 of the ForexClear Default Fund Supplement;

"**Guidance**" means guidance, in the form of one or more written notices, issued from time to time ~~pursuant to Rule (a) of this Annex~~ by or on behalf of the Clearing House to FXCCMs, supplementing the detail or conduct of any aspect of the ForexClear DMP;

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

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

~~"Higher Bid" and "Higher Bidder" have the meanings given in Rule 2.5(e) of this Annex;~~Loss Portion" means, in respect of an Auction of an Auction Portfolio, a Remaining Short Bidder who bid in such Auction, and

~~"Initial Resources" has the meaning given in Rule 2.5(b) of this Annex;~~

~~"Losing AP Type" has the meaning given in Rule 2.5(d) of this Annex;~~

~~"Losing Original FXCCM" has the meaning given in Rule 2.5(d) of this Annex;~~

~~"Losing Unfunded FXCCM" has the meaning given in Rule 2.5(g) of this Annex;~~

~~"Margin Cover" has the meaning given in Rule 15(a) of the Default Rules;~~

(a) Rule 2.6(b)(ii) of this Annex, the amount equal to the product of:

- (i) the outstanding Auction Losses to be attributed to Remaining Short Bidders under Rule 2.6(b)(ii) of this Annex, and
- (ii) 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) Rule 2.6(d)(ii) of this Annex, the amount equal to the product of:

- (i) the outstanding Auction Losses to be attributed to Remaining Short Bidders under Rule 2.6(d)(ii) of this Annex, and
- (ii) 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" means any losses in respect of the implementation of the ForexClear DMP, including losses arising from the execution of hedging ForexClear Transactions for the purpose of Risk Neutralisation, but excluding Auction Losses;

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

"Non-Defaulter" means an FXCCM that is not a Defaulter;

"Non-Defaulters' Contributions" means the ForexClear Contributions made by Non-Defaulting FXCCMs to the ForexClear Default Fund;

~~"Original Contributions" has the meaning given in Rule 2.3(e) of this Annex;~~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 FXCCM, which submitted an Out Bid in such Auction;

"Portfolio" means, in respect of each Currency Pair, the ForexClear Contracts in such Currency Pair registered in the name of a Defaulting FXCCM in respect of House Clearing Business or the ForexClear Contracts in such Currency Pair registered in the name of a Defaulting FXCCM in respect of Client Clearing Business (or, in the case of an FCM Clearing Member that is a Defaulter, the FCM ForexClear Contracts in such Currency Pair registered in respect of its FCM ForexClear Client Business) and, in both such cases includes, where relevant, any Hedging ForexClear Contracts connected to the relevant ForexClear Contracts concluded by the Clearing House through Risk Neutralisation. For the avoidance of doubt, a Portfolio containing ForexClear Contracts relating to the Client Clearing Business or FCM ForexClear Client Business of a Defaulting FXCCM will only contain ForexClear Contracts relating to Client Clearing Business or FCM ForexClear Client Business, as appropriate. The Clearing House shall not be entitled to combine client and house positions in a single Portfolio;

~~"Potential Unfunded Contributions" has the meaning given in Rule 2.4(b) of this Annex;~~

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

~~"Relevant Original Contributions" has the meaning given to it in Rule 2.5(e) of this Annex;~~Remaining Short Bidder" means, in respect of an Auction of an Auction Portfolio and

(a) Rule 2.6(b)(ii) of this Annex, a Short Bidder in such Auction whose remaining AIP Amount, which is in the form of ForexClear Funded Contributions and forms part of the AIP relating to such Auction Portfolio, is greater than zero, and

(b) ~~"Relevant Unfunded Contributions" has the meaning given to it in Rule 2.5(f) of this Annex;~~Rule 2.6(d)(ii) of this Annex, a Short Bidder in such Auction whose remaining AIP Amount, which is in the form of ForexClear Unfunded

Contributions and forms part of the AIP relating to such Auction Portfolio, is greater than zero;

~~"Remaining Original Short Bidder" has the meaning given to it in Rule 2.5(e) of this Annex;~~

~~"Remaining Unfunded Short Bidder" has the meaning given to it in Rule 2.5(f) of this Annex;~~

"**Resembling Contract**" means, in respect of the ForexClear Contracts in ~~a specific~~ an Auction Portfolio, a ForexClear Contract registered in the name of a Non-Defaulting FXCCM that ~~(i)~~ (a) is denominated in the same currencies as the Auction Portfolio Currency Pair and ~~(ii)~~ (b) belongs to the ForexClear Contract Category which corresponds to the Auction Portfolio Category of such Auction Portfolio;

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

~~"Short Bidder" has the meaning given in Rule 2.5(e) of this Annex.~~ means, in respect of an Auction of an Auction Portfolio, a Non-Defaulting FXCCM that (a) is an Expected Auction Participant for such Auction Portfolio, and (b) submitted a bid, which is Accepted, but lower than the winning bid, in such Auction; and

"Undiversified Initial Margin Amount" means, in respect of the ForexClear Contracts in a specific Currency Pair and ForexClear Contract Category, the required initial margin amount for such ForexClear Contracts, as determined by the Clearing House.

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

2. **ForexClear ~~Clearing House Business and FCM ForexClear House Business~~ DMP**

The ForexClear ~~Default Management Process~~ DMP in respect of: (a) ForexClear Clearing House Business ~~and;~~ (b) Relevant Auction Contracts in respect of ForexClear Client Clearing Business; (c) FCM ForexClear House Business; and (d) FCM ForexClear ~~House~~ Client Business, shall involve the stages described in this Rule 2.

Resources will be allocated based on the order and proportions described in Rules 2.4 to 2.6 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-Defaulters. For the avoidance of doubt, the Clearing House may in its sole and absolute discretion determine the order in which it constructs Auction Portfolios and auctions Auction Portfolios.

2.1 ***Portfolio Splitting***

The Clearing House, in consultation with and with the assistance of the ForexClear DMG, shall determine the composition of each Auction Portfolio and shall have the discretion to divide a Portfolio into two or more individual Auction Portfolios with the

aim of facilitating the efficiency of, and reducing the risk associated with, the auction process provided for in Rule 2.3 of this Annex. The overriding principle [behind the portfolio splitting process](#) is that the Clearing House will structure Auction Portfolios with the intention of ensuring a ForexClear 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. Therefore, nothing in this Rule 2.1 shall be deemed to imply: (a) that the Clearing House is under any obligation to split a particular Portfolio of a Defaulting FXCCM (regardless of the number of ForexClear Contracts that such Portfolio contains); or (b) any particular requirements as to the composition of an individual Auction Portfolio (including in terms of combining or separating ForexClear Contracts belonging to different ForexClear Contract Categories), except that, subject to overriding risk procedures, it is broadly anticipated that the parameters of any Auction Portfolio shall not be materially different to those set out in the Clearing House's fire drill.

2.2 *Risk Neutralisation*

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

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

The Clearing House may transfer one or more Hedging ForexClear 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 aim of Risk Neutralisation is to reduce market exposure to within defined tolerance limits expressed as deltas or other measures of market risk and as established from time to time by the Clearing House in consultation with the ForexClear DMG or as may reasonably be determined by the Clearing House in consultation with the ForexClear DMG once a Default has occurred.~~ 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-~~above~~. Where a Hedging ForexClear Service Clearing Member executes a hedging ForexClear Transaction or FCM ForexClear Transaction (as applicable) with the Clearing House, it agrees to present such ForexClear Transaction or FCM ForexClear 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 that the ForexClear service closes on the day on which it executes such ForexClear Transaction or FCM ForexClear Transaction).

2.3 Auction

- (a) Following the completion of Risk Neutralisation, the Clearing House ~~shall calculate the AIP for each Auction Portfolio under Rule 2.4 and~~ shall auction each Auction Portfolio to Non-Defaulting FXCCMs in order to:
- (i) seek to re-establish with those Non-Defaulting FXCCMs the positions ~~it~~the Clearing House had with the Defaulting FXCCM under the relevant ForexClear Contracts ~~in each Auction Portfolio with Non-Defaulting FXCCMs and to;~~ and
 - (ii) seek to determine the net value of those ForexClear Contracts for the purposes of determining the extent of any losses to the Clearing House which are to be reduced or borne in the manner provided by Rule 15 (~~Reduction of Losses on Default~~) of the Default Rules or, as the case may be, the extent of any gains to the Clearing House ~~which the Clearing House must pay to the Defaulting FXCCM.~~

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

- (b) The Clearing House shall notify each Non-Defaulting FXCCM of all details that may be reasonably required in relation to an Auction Portfolio ~~prior to~~before the relevant Auction.
- (c) The auction process may take place over a number of days and Auctions of different Auction Portfolios may take place at different times.
- (d) The relevant Non-Defaulting FXCCMs will submit bids to the Clearing House representatives on the ForexClear DMG, who will ensure that the identities of the bidders are not revealed to the FXCCM representatives on the ForexClear

DMG. For the avoidance of doubt, ~~ana~~ Non-Defaulting FXCCM ~~shall be~~ is entitled to submit a bid on behalf of one or more affiliated Non-Defaulting FXCCMs. The ForexClear DMG will oversee the bidding process in a manner which it considers best protects the resources of the Clearing House and ensures an orderly process.

- (e) The Clearing House, in consultation with the ForexClear DMG, will have full discretion in deciding whether ~~or not to accept~~ Accept a particular bid in an Auction and, ~~in so deciding, will take into account the relevant factors that determine risk premiums, as well as the range of bids received relative to the amount of Collateral held in respect of initial margin and, subject to their availability, the Clearing House resources as set out in Rule 15 of the Clearing House's Default Rules. In the event that more than one FXCCM submits a bid of the same value (each an "Equal Bid"), the Clearing House will, subject to its discretion to reject all such Equal Bids,~~ deciding which Accepted bid it will select as the winning bid which was received first in time.
- (f) In the case of an Auction in which no bid is ~~accepted~~ Accepted or received (as the case may be), one or more further Auctions will be held in relation to the relevant Auction Portfolio.
- (g) As soon as practicable following the submission of bids in an Auction, if:
 - (i) ~~in the event that a bid was accepted~~ one or more bid(s) is Accepted, the Clearing House will notify ~~those~~ the Expected Auction Participants together with any other Non-Defaulting FXCCMs ~~who~~ which participated in the Auction that ~~a bid was accepted~~ one or more bid(s) is Accepted, and shall notify the FXCCM who submitted the ~~accepted~~ winning bid that ~~its bid was accepted; or~~ it is the winner of the Auction; and
 - (ii) ~~in the event that~~ no bid ~~was accepted~~ is Accepted, the Clearing House will notify all Non-Defaulting FXCCMs of the details of any further Auction.
- (h) ~~(g) The~~ Each Non-Defaulting FXCCM agrees to use all reasonable efforts to make a bid in an Auction for an Auction Portfolio in respect of which ~~such~~ FXCCM it is an Expected Auction Participant.

2.4 Market Losses

- (a) Market Losses will be met using the available resources as set out in Rule 15 of the Default Rules. Where the Clearing House determines that there are insufficient resources under Rules 15(a) to 15(d) of the Default Rules (inclusive) to meet such losses, they will be attributed to Non-Defaulters' remaining ForexClear Contributions in the following order and proportions:
 - (i) Market Losses will be attributed to the remaining ForexClear Funded Contribution of each Non-Defaulter pro rata according to the proportion that the remaining ForexClear Funded Contribution of such Non-

Defaulter bears to the total of all such remaining ForexClear Funded Contributions; and

(ii) if and to the extent there are Market Losses outstanding after the attribution process in Rule 2.4(a)(i) of this Annex, those Market Losses will be attributed to the remaining ForexClear Unfunded Contributions of each Non-Defaulter *pro rata* according to the proportion that the remaining ForexClear Unfunded Contributions of such Non-Defaulter bear to the total of all such remaining ForexClear Unfunded Contributions.

(b) The Clearing House will attribute Market Losses (if any) pursuant to Rule 2.4(a) of this Annex on each business day during the implementation of the ForexClear DMP at the same time as its end of day margin and settlement call.

2.5 ~~2.4~~ ***Auction Incentive Pools***

~~(a) Before commencing the auction process, the~~ The Clearing House will calculate an auction incentive pool (each, an "AIP") for ~~each individual Auction Portfolio for the purposes of providing an initial allocation of the resources potentially available to it to satisfy any loss incurred in the Auction of each such Auction Portfolio. Notwithstanding such initial allocation, any resources utilised by the Clearing House will be allocated in accordance with Rule 2.5 below;~~ the Auction Portfolio(s) in a specific Auction Portfolio Currency Pair and Auction Portfolio Category.

(b) The AIP for the Auction Portfolio(s) in a specific Auction Portfolio Currency Pair and Auction Portfolio Category will be the sum of the AIP Amounts for such Auction Portfolio(s).

~~(c) For each AIP, the resources shall be allocated as follows:~~ For the avoidance of doubt, an AIP and the AIP Amounts which comprise such AIP will change as the remaining ForexClear Funded Contributions and remaining **ForexClear Unfunded Contributions** change throughout the implementation of the ForexClear DMP.

~~(i) — the resources of the Defaulting FXCCM (in the form of: (i) that part of the Margin Cover for the ForexClear Contracts of the Defaulting FXCCM pursuant to Rule 15 of the Default Rules and (ii) the ForexClear Contribution made by the Defaulting FXCCM to the ForexClear Default Fund) available pursuant to Rule 15 of the Default Rules at the time of the auction process will be allocated to the AIPs based on the proportion that (a) the risk of the relevant Auction Portfolio bears to (b) the aggregate of the risks (on an absolute basis) for all~~

2.6 ***Auction Losses – Auction Portfolios;***

~~(ii) — the portion of the Capped Amount applied to the ForexClear Business of the Defaulting FXCCM pursuant to Rule 15 of the Default Rules will be allocated to the AIPs based on the proportion that (a) the risk of the~~

relevant Auction Portfolio bears to (b) the aggregate of the risks (on an absolute basis) for all Auction Portfolios; and

(iii) — the Non-Defaulters' Contribution of each FXCCM and the total value of the ~~ForexClear Unfunded Contributions~~ which would be callable but have not been called by the Clearing House from the relevant FXCCM in respect of the relevant Default in accordance with Rule F8 of the Default Rules (the "~~Potential Unfunded Contributions~~") will be allocated between the AIPs relating to an Auction Portfolio in respect of which the relevant FXCCM has Resembling Contracts based on the proportion that: (a) the risk of the Resembling Contracts of such FXCCM related to the relevant Auction Portfolio bears to (b) the aggregate of the amounts calculated in (a) for all of the Resembling Contracts of such FXCCM; **provided that** where there is more than one Auction Portfolio that corresponds to the same Resembling Contracts, the Non-Defaulter's Contributions and Potential Unfunded Contributions allocated to the AIP related to those Resembling Contracts will be further divided for the purposes of allocation into AIPs relating to the relevant Auction Portfolios based on the proportion that (a) the risk of the ForexClear Contracts in each such Auction Portfolio bears to (b) the aggregate of the amounts calculated in (a) for each of the Auction Portfolios corresponding to the relevant Resembling Contracts.

(c) — Where a Portfolio for a particular Currency Pair has been split into two or more Auction Portfolios, the Non-Defaulters' Contributions and Potential Unfunded Contributions allocated to the AIP related to the relevant Portfolio will be further divided for the purposes of allocation into AIPs relating to the relevant Auction Portfolios based on the proportion that (a) the risk of the ForexClear Contracts in each such Auction Portfolio bears to (b) the aggregate of the amounts calculated in (a) for each of the Auction Portfolios in the relevant Currency Pair.

2.5 ~~Loss Attribution~~

- (a) Following the completion of all Auctions of all Auction Portfolios of the Defaulting FXCCM, the Clearing House will determine whether losses incurred by it as a result of such Auctions are such that the Non-Defaulters' Contributions must be utilised. Where applicable, such losses will be allocated to ~~Non-Defaulters' Auction Losses~~, in respect of an Auction Portfolio, will be met using available resources as set out in Rule 15 of the Default Rules. Where the Clearing House determines there are insufficient resources under Rules 15(a) to (d) of the Default Rules (inclusive) to meet such losses, they will be attributed to ~~Non-Defaulters' remaining ForexClear Contributions~~ in accordance with the loss attribution process described in ~~Rules 2.5~~ Rule 2.6(b) to 2.5(h) below 2.6(c) of this Annex.
- (b) For each Auction Portfolio, losses to the Clearing House will be met using the resources as set out in Rule 15 of the Default Rules. In applying those resources, the Clearing House will allocate the losses in respect of each Auction Portfolio (the "~~Auction Losses~~") by reference to the resources allocated to the AIPs related to such Auction Portfolios in accordance with Rule 2.4. Where there are

~~no Auction Losses in respect of an Auction Portfolio or the Auction Losses in respect of an Auction Portfolio do not require the full amount of the resources referred to in sub-paragraphs (i) and (ii) of Rule 2.4(b) allocated to the AIP related to the relevant Auction Portfolio (the "Initial Resources") to be fully utilised, the relevant surplus Initial Resources will be allocated *pro rata* between those AIPs relating to Auction Portfolios in respect of which there are Auction Losses requiring the utilisation of resources beyond the Initial Resources available in the relevant AIP in accordance with Rules 15(a), 15(b) and 15(c) of the Default Rules until such time as all Initial Resources have been fully utilised.~~ In the case of an Auction of an Auction Portfolio, for which the Clearing House determines there are insufficient resources under Rule 15(a) to 15(d) of the Default Rules (inclusive) to meet the Auction Losses for such Auction, such losses will be met first by the Non-Defaulters' remaining ForexClear Funded Contributions that are included in the AIP relating to the Auction Portfolio in the following order and proportions:

- (i) the Auction Losses will be attributed to the remaining AIP Amounts of those Non-Defaulting FXCCMs which are both Expected Auction Participants, in respect of the Auction Portfolio, and Non-Bidders in the Auction. Auction Losses will be attributed to the remaining AIP Amount of each such Non-Defaulting FXCCM pursuant to this sub-paragraph (i) *pro rata* according to the proportion that such FXCCM's remaining AIP Amount bears to the total of the remaining AIP Amounts of all Non-Defaulting FXCCMs which are both Expected Auction Participants, in respect of the Auction Portfolio, and Non-Bidders in the Auction;
- (ii) if and to the extent there are Auction Losses outstanding after the attribution process in subparagraph (i) above, those Auction Losses will be attributed to the remaining AIP Amounts of the Remaining Short Bidders for the Auction Portfolio in accordance with this sub-paragraph (ii). Where:
 - (A) the Loss Portion applicable to each Remaining Short Bidder is less than or equal to its remaining AIP Amount, then the Clearing House will, in respect of each Remaining Short Bidder, attribute Auction Losses equal to the Loss Portion applicable to the Remaining Short Bidder to its remaining AIP Amount; or
 - (B) the Loss Portion applicable to one or more Remaining Short Bidders is greater than its remaining AIP Amount, then the Clearing House will attribute Auction Losses to all of the remaining AIP Amounts of such Remaining Short Bidders only (so that they cease to be Remaining Short Bidders for the purposes of this Rule 2.6(b)(ii) and the Auction) and will repeat the loss attribution process in this Rule 2.6(b)(ii) for any outstanding Auction Losses until the Auction Losses are fully met or the remaining AIP Amounts of all Remaining Short Bidders for the Auction Portfolio are fully attributed; and
- (iii) if and to the extent there are Auction Losses outstanding after the attribution process in subparagraph (ii) above, those Auction Losses

will be attributed to the remaining AIP Amount of the Non-Defaulting FXCCM who submitted the winning bid in the Auction, together with (where applicable) the remaining AIP Amount of any Non-Defaulting FXCCM who submitted a bid which was an Equal Bid or an Out Bid in relation to that winning bid. The outstanding Auction Losses will be attributed to the remaining AIP Amount of each such FXCCM pursuant to this sub-paragraph (iii) *pro rata* according to the proportion that such FXCCM's remaining AIP Amount bears to the total of the remaining AIP Amounts of: (A) the FXCCM which submitted the winning bid in the Auction; (B) any FXCCMs which submitted an Equal Bid to such winning bid in the Auction; and (C) any FXCCMs which were Out Bidders in the Auction.

(c) ~~In the case of each Auction for which there are Auction Losses in respect of which the Non-Defaulters' Contributions must be utilised, those Non-Defaulter's Contributions, not including, for these purposes, any part of such Non-Defaulters' Contributions that reflect any ForexClear Unfunded Contribution deposited with the Clearing House pursuant to the Default in respect of which the relevant Auction was held (the "**Original Contributions**") and which have been allocated to the AIP relating to the relevant Auction Portfolio (the "**Relevant Original Contributions**") will be used first in the following order:~~If and to the extent that there are Auction Losses outstanding following the attribution process in Rule 2.6(b) of this Annex, then:

(i) ~~the Auction Losses will be attributed to the Relevant Original Contributions of those FXCCMs who are Expected Auction Participants in respect of the relevant Auction Portfolio and who did not bid in the relevant Auction. Auction Losses will be attributed to the Relevant Original Contribution of an individual FXCCM pursuant to this sub-paragraph (i) based upon the proportion that: (a) the value of the Relevant Original Contribution of such FXCCM bears to (b) the total value of the Relevant Original Contributions of all FXCCMs who are Expected Auction Participants in respect of the relevant Auction Portfolio and who did not bid in the relevant Auction;~~where the Auction Portfolio Category of the Auction Portfolio is the ForexClear NDF Contract Category, those Auction Losses will be attributed:

(A) first, to the remaining ForexClear Funded Contribution of each Non-Defaulting ForexClear NDF Clearing Member *pro rata* according to the proportion that the remaining ForexClear Funded Contribution of such Non-Defaulting ForexClear NDF Clearing Member bears to the total of the remaining ForexClear Funded Contributions of all Non-Defaulting ForexClear NDF Clearing Members; and

(B) then, to the remaining ForexClear Funded Contribution of each Non-Defaulting ForexClear Option-Only Clearing Member *pro rata* according to the proportion that the remaining ForexClear Funded Contribution of such Non-Defaulting ForexClear Option-Only Clearing Member bears to the total of the

remaining ForexClear Funded Contributions of all Non-Defaulting ForexClear Option-Only Clearing Members; or

- (ii) ~~if and to the extent that there are Auction Losses outstanding after the attribution process referred to in sub-paragraph (i) above, those Auction Losses will be attributed to the Relevant Original Contributions of the Short Bidders. For the purposes of this sub-paragraph (ii) and sub-paragraph (ii) of Rule 2.5(f), the term "Short Bidder" means any FXCCM who is an Expected Auction Participant and who submitted an unsuccessful bid in the relevant Auction save for any FXCCM who submitted a higher bid in an Auction than the bid accepted by the Clearing House in accordance with Rule 2.3(d) (each such FXCCM, a "Higher Bidder" and each such bid, a "Higher Bid").~~ where the Auction Portfolio Category of the Auction Portfolio is the ForexClear Non-NDF Contract Category, those Auction Losses will be attributed:

~~Auction Losses will be attributed to an individual Short Bidder pursuant to this sub-paragraph (ii) based upon the proportion that (a) the variance of the bid of such Short Bidder from the winning bid in USD bears to (b) the sum of the variances of the bids of all Short Bidders from the winning bid in USD.~~

~~Where the value of the Auction Losses attributed to an individual Short Bidder pursuant to this sub-paragraph (ii) is greater than the value of the Relevant Original Contribution of such Short Bidder, the relevant excess Auction Losses will be attributed to each Short Bidder whose Relevant Original Contribution exceeds the value of the Auction Losses which have been attributed to it pursuant to this sub-paragraph (ii) (each a "Remaining Original Short Bidder") by (a) calculating the amount which is the bid of the relevant Remaining Original Short Bidder divided by the sum of the bids of all Remaining Original Short Bidders; and (b) multiplying such amount by the value of the relevant excess Auction Losses.~~

~~The Clearing House will repeat the loss attribution process described in this sub-paragraph (ii) until the first to occur of (a) the Auction Losses being fully met; and (b) the Relevant Original Contributions of all Short Bidders being fully attributed; and~~

- ~~(iii) if and to the extent that there are Auction Losses outstanding after the attribution process referred to in sub-paragraph (ii) above, those Auction Losses will be attributed to the Relevant Original Contribution of the FXCCM who is an Expected Auction Participant in respect of the relevant Auction Portfolio and who submitted the winning bid, together with, where applicable, the Relevant Original Contribution of any FXCCM who is an Expected Auction Participant in respect of the relevant Auction Portfolio and who submitted a bid which was an Equal Bid or a Higher Bid in relation to that winning bid. The outstanding Auction Losses will be attributed to the Relevant Original Contribution of an individual FXCCM pursuant to this sub-paragraph (iii) based upon the proportion that: (a) the value of the Relevant Original Contribution~~

~~of such FXCCM bears to (b) the total value of the Relevant Original Contributions of (i) the FXCCM who submitted the winning bid; (ii) any FXCCMs who submitted an Equal Bid to such winning bid; and (iii) any FXCCMs who were Higher Bidders in the relevant Auction.~~

~~If, for an Auction Portfolio, there remain Auction Losses outstanding after the attribution process referenced to in sub-paragraph (iii) above, and there are AIPs relating to other Auction Portfolios containing ForexClear Contracts denominated in the same Auction Portfolio Currency Pair and belonging to the same Auction Portfolio Category as the relevant Auction Portfolio in which the Relevant Original Contributions have not been fully utilised, the Clearing House shall attribute the remaining Auction Losses amongst such Remaining Original Contributions through the attribution process set out in sub-paragraphs (i) to (iii) above.~~

(A) first, to the remaining ForexClear Funded Contribution of each Non-Defaulting ForexClear Option Clearing Member *pro rata* according to the proportion that the remaining ForexClear Funded Contribution of such Non-Defaulting ForexClear Option Clearing Member bears to the total of the remaining ForexClear Funded Contributions of all Non-Defaulting ForexClear Option Clearing Members; and

(B) then, to the remaining ForexClear Funded Contribution of each Non-Defaulting ForexClear NDF-Only Clearing Member *pro rata* according to the proportion that the remaining ForexClear Funded Contribution of such Non-Defaulting ForexClear NDF-Only Clearing Member bears to the total of the remaining ForexClear Funded Contributions of all Non-Defaulting ForexClear NDF-Only Clearing Members;

(d) ~~If and to the extent that there are Auction Losses outstanding following the attribution process referred to in Rule 2.5(c) above, those Auction Losses will be attributed to the Original Contributions of those FXCCMs (each a "Losing Original FXCCM") who have Resembling Contracts (which, for the purposes of this paragraph (d), shall be determined without regard to limb (i) of the definition thereof) in respect of any of the Auction Portfolios in relation to which Auction Losses have arisen (each a "Losing AP Type") and whose Original Contributions have not yet been fully utilised. Such remaining Auction Losses will be attributed to any remaining Original Contribution of each such FXCCM pursuant to this Rule 2.5(d) based upon the proportion that: (a) the risk of all of the Resembling Contracts of such FXCCM in respect all such Losing AP Types bears to (b) the aggregate risk of the amounts calculated in (a) for all Losing Original FXCCMs. The Clearing House will repeat the loss attribution process described in this Rule 2.5(d) until the first to occur of (a) the Auction Losses being fully met; and (b) the Original Contributions of all Losing Currency Original FXCCMs being fully attributed.~~
If and to the extent there are Auction Losses outstanding following the attribution process in Rule 2.6(c) of this Annex, the remaining ForexClear Unfunded Contributions that are included in the AIP relating to the Auction Portfolio will be used in the following order:

- ~~(e) If and to the extent that there are Auction Losses outstanding following the attribution process referred to in Rule 2.5(d) above, those remaining Auction Losses will be allocated to the Original Contributions of each FXCCM who is not a Losing Original FXCCM in respect of any of the Losing AP Types based upon the proportion that (a) the value of each such Original Contribution bears to (b) the aggregate of the amounts calculated in (a) for each of such FXCCMs.~~
- ~~(f) If and to the extent that there are Auction Losses outstanding following the attribution process referred to in Rule 2.5(e) above, the ForexClear Unfunded Contributions which have been allocated to the AIP relating to the relevant Auction Portfolio (the "**Relevant Unfunded Contributions**") will be used first in the following order:~~
- ~~(i) the Auction Losses will be attributed to the **Relevant Unfunded Contributions** remaining AIP Amounts of those Non-Defaulting FXCCMs ~~who~~ which are both Expected Auction Participants, in respect of the ~~relevant~~ Auction Portfolio, and ~~who did not bid~~ Non-Bidders in the ~~relevant~~ Auction. Auction Losses will be attributed to the **Relevant Unfunded Contributions of an individual** remaining AIP Amount of each such Non-Defaulting FXCCM pursuant to this sub-paragraph (i) ~~based upon~~ pro rata according to the proportion that: ~~(a) the value of the Relevant Unfunded Contribution of~~ such FXCCM's remaining AIP Amount bears to ~~(b) the total value of the Relevant Unfunded Contributions~~ remaining AIP Amounts of all ~~FXCCMs who~~ SCMs which are both Expected Auction Participants, in respect of the Auction Portfolio, and ~~who did not bid~~ Non-Bidders in the ~~relevant~~ Auction;~~
 - ~~(ii) if and to the extent that there are Auction Losses outstanding after the attribution process referred to in sub-paragraph (i) above, those Auction Losses will be attributed to the **Relevant Unfunded Contributions** remaining AIP Amounts of the Remaining Short Bidders in for the ~~relevant~~ Auction. ~~Auction Losses will be attributed to an individual Short Bidder pursuant to this sub-paragraph (ii) based upon the proportion that (a) the variance of the bid of such Short Bidder from the winning bid in USD bears to (b) the sum of the variances of the bids of all Short Bidders from the winning bid in USD~~ Auction Portfolio in accordance with this sub-paragraph (ii). ~~Where the value of the Auction Losses attributed to an individual Short Bidder pursuant to this sub-paragraph (ii) is greater than the value of the Relevant Unfunded Contribution of such Short Bidder, the relevant excess Auction Losses will be attributed to each Short Bidder whose Relevant Unfunded Contribution exceeds the value of the Auction Losses which have been attributed to it pursuant to this sub-paragraph (ii) (each a "**Remaining Unfunded Short Bidder**") by (a) calculating the amount which is the bid of the relevant Remaining Unfunded Short Bidder divided by the sum of the bids of all Remaining Unfunded Short Bidders; and (b) multiplying such amount by the value of the relevant excess Auction Losses.~~ Where:
 - (A) the Loss Portion applicable to each Remaining Short Bidder is less than or equal to its remaining AIP Amount, then the Clearing~~

House will, in respect of each Remaining Short Bidder, attribute Auction Losses equal to the Loss Portion applicable to the Remaining Short Bidder to its remaining AIP Amount; or

(B) ~~The Clearing House~~ the Loss Portion applicable to one or more Remaining Short Bidders is greater than its remaining AIP Amount, then the Clearing House will attribute Auction Losses to all of the remaining AIP Amounts of such Remaining Short Bidders only (so that they cease to be Remaining Short Bidders for the purposes of this Rule 2.6(d)(ii) and the Auction) and will repeat the loss attribution process ~~described~~ in this ~~sub-paragraph (ii)~~ Rule 2.6(d)(ii) for any outstanding Auction Losses until the ~~first to occur of (a) the~~ Auction Losses ~~being~~are fully met; ~~and (b) the Relevant Unfunded Contributions or the remaining AIP Amounts~~ of all Remaining Short Bidders beingfor the Auction Portfolio are fully attributed; and

(iii) if and to the extent ~~that~~ there are Auction Losses outstanding after the attribution process referred to in sub-paragraph (ii) above, those Auction Losses will be attributed to the ~~Relevant Unfunded Contribution~~remaining AIP Amounts of the Non-Defaulting FXCCM who is an Expected Auction Participant in respect of the relevant Auction Portfolio and who submitted the winning bid, together with, (where applicable, ~~the Relevant Unfunded Contribution~~) the remaining AIP Amount of any Non-Defaulting FXCCM who is an Expected Auction Participant in respect of the relevant Auction Portfolio and who submitted a bid which was an Equal Bid or a Higheran Out Bid in relation to that winning bid. The outstanding Auction Losses will be attributed to the ~~Relevant Unfunded Contribution of an individual~~remaining AIP Amount of each such Non-Defaulting FXCCM pursuant to this sub-paragraph (iii) ~~based upon~~pro rata according to the proportion that: ~~(a) the value of the Relevant Unfunded Contribution of~~ such FXCCM's remaining AIP Amount bears to ~~(b) the total value of the Relevant Unfunded Contributions of (i) remaining AIP Amounts of:~~ (A) the FXCCM ~~who~~which submitted the winning bid in the Auction; ~~(ii) B) any FXCCMs who~~which submitted an Equal Bid to such winning bid in the Auction; and ~~(iii) C) any FXCCMs who~~which were HigherOut Bidders; in the ~~relevant~~Auction.

(e) If and to the extent there are Auction Losses outstanding following the attribution process referred to in Rule 2.6(d) of this Annex, then:

(i) where the Auction Portfolio Category of the Auction Portfolio is the ForexClear NDF Contract Category, those Auction Losses will be attributed:

(A) first, to the remaining ForexClear Unfunded Contributions of each Non-Defaulting ForexClear NDF Clearing Member pro rata according to the proportion that the remaining ForexClear Unfunded Contributions of such Non-Defaulting ForexClear NDF Clearing Member bear to the total of the remaining

ForexClear Unfunded Contributions of all Non-Defaulting ForexClear NDF Clearing Members; and

- (B) then, to the remaining ForexClear Unfunded Contributions of each Non-Defaulting ForexClear Option-Only Clearing Member *pro rata* according to the proportion that the remaining ForexClear Unfunded Contributions of such Non-Defaulting ForexClear Option-Only Clearing Member bear to the total of the remaining ForexClear Unfunded Contributions of all Non-Defaulting ForexClear Option-Only Clearing Members; or
- (ii) where the Auction Portfolio Category of the Auction Portfolio is the ForexClear Non-NDF Contract Category, those Auction Losses will be attributed:

 - (A) first, to the remaining ForexClear Unfunded Contributions of each Non-Defaulting ForexClear Option Clearing Member *pro rata* according to the proportion that the remaining ForexClear Unfunded Contributions of such Non-Defaulting ForexClear Option Clearing Member bear to the total of the remaining ForexClear Unfunded Contributions of all Non-Defaulting ForexClear Option Clearing Members; and
 - (B) then, to the remaining ForexClear Unfunded Contributions of each Non-Defaulting ForexClear NDF-Only Clearing Member *pro rata* according to the proportion that the remaining ForexClear Unfunded Contributions of such Non-Defaulting ForexClear NDF-Only Clearing Member bear to the total of the remaining ForexClear Unfunded Contributions of all Non-Defaulting ForexClear NDF-Only Clearing Members.

2.7 Gains

- ~~(a) If, for an Auction Portfolio, there remain Auction Losses outstanding after the attribution process referenced to in sub-paragraph (iii) above, and there are AIPs relating to other Auction Portfolios containing ForexClear Contracts denominated in the same Auction Portfolio Currency Pair and belonging to the same Auction Portfolio Category as the relevant Auction Portfolio in which the Relevant Unfunded Contributions have not been fully utilised, the Clearing House shall attribute the remaining Auction Losses amongst such Remaining Unfunded Contributions through the attribution process set out in sub-paragraphs (i) to (iii) above.~~ at any point during the ForexClear DMP, but before the implementation of the ForexClear Loss Distribution Process, the Clearing House determines that gains have accrued in respect of any Auction Portfolio(s), it will reimburse each Non-Defaulter (to the extent that Market Losses or Auction Losses have been attributed to it pursuant to this Annex) by the amount of such gains in the following order and proportions:
- ~~(g) If and to the extent that there are Auction Losses outstanding following the attribution process referred to in Rule 2.5(f) above, those Auction Losses will be attributed to the ForexClear Unfunded Contributions of those FXCCMs~~

~~(each a "Losing Unfunded FXCCM") who have Resembling Contracts (which, for the purposes of this paragraph (g), shall be determined without regard to limb (i) of the definition thereof) in respect of any of the Losing AP Types and whose ForexClear Unfunded Contributions have not yet been fully utilised. Such remaining Auction Losses will be attributed to any remaining ForexClear Unfunded Contributions of each such FXCCM pursuant to this Rule 2.5(g) based upon the proportion that: (a) the risk of all of the Resembling Contracts of such FXCCM in respect of all such Losing AP Types bears to (b) the aggregate risk of the amounts calculated in (a) for all Losing Unfunded FXCCMs. The Clearing House will repeat the loss attribution process described in this Rule 2.5(g) until the first to occur of (a) the Auction Losses being fully met; and (b) the ForexClear Unfunded Contributions of all Losing Unfunded FXCCMs being fully attributed.~~

~~(h) If and to the extent that there are Auction Losses outstanding following the attribution process referred to in Rule 2.5(g) above, those remaining Auction Losses will be allocated to the ForexClear Unfunded Contributions of each FXCCM who is not a Losing Unfunded FXCCM in respect of any of the Losing AP Types based upon the proportion that (a) the value of each such ForexClear Unfunded Contribution bears to (b) the aggregate of the amounts calculated in (a) for each of such FXCCMs.~~

~~2.6 For the purposes of Rules 2.4 and 2.5 above, all references to the risk associated with (i) the ForexClear Contracts in an Auction Portfolio or (ii) the Resembling Contracts of a Non-Defaulting FXCCM, shall be references to such risk as determined by the Clearing House in its sole discretion for the purpose of calculating initial margin requirements in accordance with the Procedures.~~

(i) The Clearing House will reimburse each Non-Defaulter for such gains *pro rata* according to the proportion that the Market Losses attributed to such Non-Defaulter's ForexClear Unfunded Contributions bear to the total Market Losses attributed to all Non-Defaulters' ForexClear Unfunded Contributions, up to a maximum of the Market Losses attributed to such Non-Defaulter's ForexClear Unfunded Contributions.

(ii) If and to the extent there are gains remaining to be reimbursed following the process described in Rule 2.7(a)(i) of this Annex, the Clearing House will reimburse each Non-Defaulter for such gains *pro rata* according to the proportion that the Auction Losses attributed to such Non-Defaulter's ForexClear Unfunded Contributions bear to the total Auction Losses attributed to all Non-Defaulters' ForexClear Unfunded Contributions, up to a maximum of the Auction Losses attributed to such Non-Defaulter's ForexClear Unfunded Contributions.

(iii) If and to the extent there are gains remaining to be reimbursed following the process described in Rule 2.7(a)(ii) of this Annex, the Clearing House will reimburse each Non-Defaulter for such gains *pro rata* according to the proportion that the Market Losses attributed to such Non-Defaulter's ForexClear Funded Contribution bear to the total Market Losses attributed to all Non-Defaulter's ForexClear Funded

Contributions, up to a maximum of the Market Losses attributed to such Non-Defaulter's ForexClear Funded Contribution.

(iv) If and to the extent there are gains remaining to be reimbursed following the process described in Rule 2.7(a)(iii) of this Annex, the Clearing House will reimburse each Non-Defaulter for such gains *pro rata* according to the proportion that the Auction Losses attributed to such Non-Defaulter's ForexClear Funded Contribution bear to the total Auction Losses attributed to all Non-Defaulter's ForexClear Funded Contributions, up to a maximum of the Auction Losses attributed to such Non-Defaulter's ForexClear Funded Contribution.

(b) The Clearing House's calculation of the amount by which a gain that is reimbursed to a Non-Defaulter pursuant to Rule 2.7(a)(i), (ii), (iii) and/or (iv) of this Annex increases such Non-Defaulter's ForexClear Contributions is determinative and final and, after such reimbursement and increase, the totality of such Non-Defaulter's ForexClear Contributions will be subject to subsequent attribution of losses (if any) pursuant to this Annex.

(c) Rule F12 of the ForexClear Default Fund Supplement will not apply to the gains reimbursed pursuant to this Rule 2.7.

3. **Default Management in respect of ~~FCM~~ ForexClear Client Clearing Business and FCM ForexClear ~~Clearing-Client~~ Business**

~~3.1 The ForexClear DMP in respect of any Contract which is an FCM ForexClear Contract in respect of FCM ForexClear Client Business shall be conducted in accordance with FCM Regulation 13(e) (Transfer). The provisions of Rule 9 of the Default Rules shall also apply.~~ 3.2 The ForexClear DMP in respect of any Contract which is a ForexClear Contract in respect of ForexClear Clearing-Client Client Business

3.1 The ForexClear DMP for any ForexClear Contract in respect of ForexClear Client Clearing Business shall be conducted in accordance with the Client Clearing Annex (which such stages, for the avoidance of doubt, will result in a ForexClear Contract in respect of ForexClear Client Clearing-~~Client~~ Business being dealt with in accordance with Rule 2 above in the event that it cannot be ported by the Clearing House).

3.2 The ForexClear DMP for any FCM ForexClear Contract forming part of a Defaulter's FCM ForexClear Client Business shall be conducted in accordance with FCM Regulation 13(e) (Transfer). The provisions of Default Rule 10 shall also apply.

4. **Transfer of Cash Flows / Registration of Positions**

4.1 Following the disposal of an Auction Portfolio by way of Auction (and notwithstanding that other Auction Portfolios of the Defaulting FXCCM may not yet have been auctioned) the Clearing House, will, with the co-operation of the Non-Defaulting FXCCMs, transfer to the Non-Defaulting FXCCM whose bid won ~~that~~ the relevant Auction Portfolio the rights and obligations, from the Defaulting FXCCM, arising out of the positions which that Non-Defaulting FXCCM has successfully bid for under the ForexClear ~~Default Management Process~~ DMP. Such transfer may take place by way of registration of new positions with the Clearing House in the name of the relevant

Non-Defaulting FXCCM, or novation of rights and obligations to the relevant Non-Defaulting FXCCM. All such registrations shall be made in a way that recognises the ~~amounts of Collateral transferred to or from the Clearing House~~ paid or received in respect of variation margin and any amounts paid or received in respect of settlement in relation to the ForexClear Contracts of the Defaulting FXCCM representing such new positions.

- 4.2 In order to effect the transfer of positions, the Clearing House shall prescribe such procedures and timetable as it considers reasonably appropriate in the circumstances. FXCCMs will be required to exercise best endeavours to comply with such requirements as may be established by the Clearing House, after consultation with the ForexClear DMG, to effect the transfer of positions, including but not limited to the payment of any sums due as a result of the winning bid and the provision of Collateral in an amount required by the Clearing House in respect of ~~their~~ initial margin and variation margin obligations in respect of positions which are to be registered in their names. The Clearing House agrees that in such procedures it shall make provision for set-off by the Clearing House of amounts owed by the Clearing House to the ~~FXCCM~~ individual Non-Defaulting FXCCMs as a result of the operation of the ForexClear DMP against sums owed by ~~the FXCCM~~ those individual Non-Defaulting FXCCMs to the Clearing House in respect thereof.
- 4.3 Where, as a result of an Auction, the Clearing House is required to make a payment to ~~an~~ a Non-Defaulting FXCCM in respect of a winning bid, the Clearing House shall not be permitted to register any position, whether as a new position or as a novation of existing rights and obligations, to any such FXCCM if the Clearing House does not simultaneously credit that FXCCM with the requisite amount. If any position is so registered without such payment, such registration shall be deemed void *ab initio* and unenforceable against the relevant FXCCM. For the avoidance of doubt, the Clearing House will utilise the resources available to it pursuant to Rule 15 of the Default Rules for the purposes of making such a payment notwithstanding that other Auction Portfolios of the Defaulting FXCCM may not yet have been auctioned and that the loss attribution process provided for by Rule ~~2.52.6~~ has not yet occurred.

5. **Information regarding ~~Default Management Process~~ the ForexClear DMP**

- 5.1 Whenever the ForexClear DMP is implemented by the Clearing House in respect of a Defaulting FXCCM, the Clearing House will, with the assistance of the ForexClear DMG, provide such ongoing information to FXCCMs as the Clearing House deems reasonably appropriate in respect of the progress of the ForexClear DMP.
- 5.2 Nothing in this Rule 5 shall require the Clearing House to disclose information in respect of the ForexClear DMP which, in the reasonable opinion of the Clearing House, may be subject to obligations of confidentiality, may constitute market sensitive data or is, in the Clearing House's reasonable opinion, inappropriate for disclosure to FXCCMs.

6. **Bankruptcy Code and Related Issues**

Notwithstanding any other provision of this Annex in the event of a Default by an ~~FXCCM~~ FCM Clearing Member, the completion of any and all actions, including but not limited to any transfers or transactions, permitted or required to be taken by the

Clearing House hereunder shall be subject in all respects to the provisions of the Bankruptcy Code, Part 190 and Part 22 of the CFTC Regulations, the Dodd-Frank Wall Street Reform and Consumer Protection Act 2010, and the receipt of any approvals required under the Bankruptcy Code or such regulations.

7. CEA Issues

Notwithstanding any other provision of this Annex, in the event of a Default by an ~~FXCCM~~FCM Clearing Member, the operation of this Annex shall in all respects be subject to applicable provisions of the CEA and CFTC Regulations (including Part 22 thereof) regarding the handling, custody, liquidation, transfer and disposition of client positions and assets, including but not limited to those provisions requiring segregation of client assets and prohibiting application of the assets of non-defaulting clients to amounts owed by defaulting clients.

8. Miscellaneous

8.1 Subject to Rules 2.4 ~~and 2.5~~to 2.6 (inclusive) of this Annex, the resources available to the Clearing House and their order of use are defined in Rule 15 of the Default Rules as modified and/or supplemented by the ForexClear Default Fund Supplement.

8.2 ~~(a)~~ The Clearing House may from time to time supplement the details of any of the stages set out in Rule 2 of this Annex or any other aspects of the ForexClear DMP, in consultation with the ForexClear DMG, either by way of further Guidance; or ~~(b)~~ ~~—~~ immediately on notice to FXCCMs on a case-by-case basis where the Clearing House deems it appropriate to do so in the circumstances of the Default, **provided that** the Clearing House may not take any such action that effects a material change to the terms of this Annex without the written consent of 50 percent of all ForexClear Clearing Members unless such change is invoked unilaterally against all FXCCMs and is necessary to manage the Clearing House's risk or otherwise to meet the Clearing House's continuing regulatory obligations including those applicable to it as a Recognised Clearing House and a Derivatives Clearing Organization. ~~(c)~~ The Clearing House agrees that, in the ordinary course, it shall discuss any such Guidance with the ForexClear DMG prior to bringing the Guidance into effect except that it shall not be required to do so where (i) the Guidance is not material to the rights and obligations of the FXCCMs or (ii) the Clearing House deems it inappropriate to do so in the circumstances of the Default and it is not possible to convene the ForexClear DMG in timely fashion.

8.3 ~~8.2~~ The timetable for implementation of the stages of the ForexClear Default Management Process following issue of a Default Notice by the Clearing House shall be either ~~(1)~~ as prescribed by the Clearing House from time to time in consultation with the ForexClear DMG and set out in Guidance; or ~~(2)~~(i) imposed by the Clearing House without prior notice to the FXCCMs on a case-by-case basis where the Clearing House, in consultation with the ForexClear DMG, deems it appropriate to do so in the circumstances of the Default.

9. Role and Constitution of ForexClear DMG

9.1 The ForexClear DMG shall meet at regular intervals in order to:

- (a) review the market risk of FXCCMs and Clearing Clients to ensure risk profiles and margin coverage are compatible with default management principles;
- (b) review market liquidity and associated margin add-ons to ensure risk concentrations and positions are adequately covered;
- (c) provide advice on valuation and margin techniques and models;
- (d) review market developments and changes in trading instruments and practices;
- (e) review new product proposals and existing product extensions, particularly focusing on pricing and margin computation and surrounding liquidity and market issues;
- (f) review hedging strategies, auction processes, including portfolio splitting and loss allocation, and timescales for hedge and auction processes; and
- (g) consider any other business relevant to the ForexClear DMP which any member of the ForexClear DMG from time to time sees fit to raise at such meetings.

9.2 The members of the ForexClear DMG shall also meet within one hour, or as soon as reasonably practicable, following notification by the Clearing House that a Default Notice has been served upon an FXCCM, and at sufficiently frequent intervals thereafter for so long as may be necessary to assist the Clearing House in the implementation of the ForexClear DMP as contemplated under this Rulebook. Such implementation shall include, without limitation, the provision of general default management advice with regard to: (1) the ongoing obligations of the Clearing House to its non-defaulting members; (2) the neutralisation and closing-out of the individual obligations of the Defaulting FXCCM and any relevant Clearing Clients; (3) execution of hedging strategy, the management of short term risk and likely market movement resulting from the given Default, including resulting from execution of hedging strategy; (4) determination of Clearing Client portability (as applicable); and (5) the splitting of Portfolios and the disposal of Auction Portfolios in accordance with the ForexClear DMP. Where it is not possible or practicable for the FXCCM to provide its nominated representative within an appropriate timeframe, it shall provide an alternate of suitable experience and expertise to participate on the ForexClear DMG.

9.3 The ForexClear DMG shall be made up of the following individuals who, unless stated otherwise, shall be appointed by the Clearing House which shall ensure that the composition is such as to provide effective review of the ForexClear DMP and suitable expertise and representation of market-making capacity in the event of a Default:

- (a) in the event of the issuance of a Default Notice, the Head of ~~Business~~ Risk of the ForexClear Service (or his or her nominee), who shall act as chairman;
- (b) at least six representatives of at least four FXCCMs, being senior executives with appropriate skills and expertise to cover all products cleared in the ForexClear Service;

- (c) at least one director (staff member of director grade) of the Clearing House's or ForexClear Service's Risk Management department; and

such other individuals as the ForexClear DMG considers appropriate from time to time in relation to individual meetings.

In the event the ForexClear DMG is unable to convene with the full set of individuals set forth above due to extreme or improbable circumstances, upon approval from the Chief Executive Officer of the Clearing House, or his or her nominee, the ForexClear DMG may be constituted with a subset of the above described individuals.

- 9.4 For the purpose of ForexClear DMG meetings convened to deal with a specific Defaulting FXCCM, the Clearing House may, after consultation with the ForexClear DMG, invite the Defaulting FXCCM to nominate one or more representatives to join the ForexClear DMG to assist it in carrying out its functions in the ForexClear Default Management Process for that Defaulting FXCCM, and request representatives from any other FXCCMs. In the event of receiving such request, the FXCCM shall be obliged to provide its nominated representative, or an alternate with appropriate skills, experience and expertise, as if the FXCCM were a member of the ForexClear DMG.
- 9.5 In establishing the ForexClear DMG, the Clearing House agrees that in the normal course of events (not including the Clearing House's declaration of a Default and the invocation of the processes as outlined in Rules ~~2~~, 2, 3 and 4 of this Annex) it will, as far as practicable, review the membership of the ForexClear DMG on a regular basis and may rotate membership of the ForexClear DMG amongst all FXCCMs. The FXCCM agrees that, when requested to do so by the Clearing House, it will make available a representative to participate in the ForexClear DMG. The Clearing House shall agree with the FXCCM the identity of such representative and shall have the right to request a substitute where it believes the FXCCM's nominated representative does not have the requisite skills or expertise.
- 9.6 Each FXCCM who makes available a representative to serve on the ForexClear DMG agrees, and shall procure that, to the extent applicable, its representative agrees:
 - (a) to ensure that such representative will be fully available, at any time and for such periods of time as the Clearing House may require during the course of a Default, to perform their function as a member of the ForexClear DMG including attending meetings, and considering and advising the Clearing House upon aspects of the ForexClear DMP. The FXCCM shall ensure that the representative's other work commitments do not affect their availability for this purpose;
 - (b) to ensure that such representative meets the applicable requirements set forth in the terms of reference for the ForexClear DMG
 - (c) to take all steps to respect the confidential capacity in which such a representative receives information through the ForexClear DMG and to establish adequate procedures to prevent the disclosure or use for any commercial purpose outside the scope of the ForexClear DMP of any such confidential information by the FXCCM or its representative. Such procedures

shall normally include, without limitation, the establishment of information barriers within the FXCCM;

- (d) to be bound by and to ensure that it and any of its executives or directors serving on the ForexClear DMG complies with the requirements contained in the Procedures or the FCM Procedures (as the case may be); and
- (e) in the event the representative is unable to fulfil the requirements set forth in this Rule 9.6 and the terms of reference for the ForexClear DMG, including where there is a change of circumstance of the representative such that there is an impact to the representative's ability to fulfil his or her role on the ForexClear, the FXCCM shall immediately notify the Clearing House.

9.7 Each FXCCM shall accept that:

- (a) representatives of FXCCMs serving on the ForexClear DMG are doing so in order to assist the Clearing House in ensuring the on-going integrity of the ForexClear Service in the interests of Non-Defaulting FXCCMs; and
- (b) representatives of FXCCMs serving on the ForexClear DMG and their employers shall have no liability for any disinterested advice or actions, mandated or otherwise, that are undertaken as part of the ForexClear Default Management Process, **provided, however, that** nothing in this Rule 9.7(b) shall exclude the liability of such representatives and employers for any personal injury or death caused by their negligence or for any fraud or wilful default on the part of such representatives and employers.

9.8 FXCCMs are required to attend at least three (3) of the four (4) ForexClear DMG quarterly meetings and the annual fire-drill exercise held each calendar year. In the event an FXCCM does not comply with the foregoing attendance requirements, the Clearing House reserves the right to replace any member of the ForexClear DMG.

9.9 The Clearing House agrees that, in exercising its rights and obligations in consulting with the ForexClear DMG pursuant to this Agreement, it will use all reasonable commercial endeavours to agree a common position with the ForexClear DMG, **provided that** nothing in this Rule shall prevent the Clearing House acting in a way which it reasonably determines necessary to manage its risk or otherwise meet its continuing regulatory obligations including those applicable to it as a Recognised Clearing House and a Derivatives Clearing Organization.

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, in consultation with the Fixed Income DMG, may choose to accept a bid in respect of a smaller proportion of an Auction Portfolio than that which an Invited Bidder specified in its bid.

- (g) In the case of an Auction in which no bid is accepted or received (as the case may be), or in which the bids accepted by the Clearing House are for less than the whole Auction Portfolio, subject to paragraph (i) below, one or more further Auctions may, at the discretion of the Clearing House, be held in relation to the relevant Auction Portfolio or that part of the Auction Portfolio which remains.

As soon as practicable following an Auction:

- (i) in the event that one or more bids were accepted, the Clearing House will notify all the Invited Bidders who participated in the Auction that one or more bids were accepted and shall notify the Invited Bidders who submitted the accepted bids that their bids were accepted; and
 - (ii) in the event that no bid was accepted, or the accepted bids were for less than the whole Auction Portfolio, the Clearing House will notify such RCMs as determined by the Clearing House in consultation with the Fixed Income DMG of the details of any further Auction.
- (h) All Invited Bidders agree to use all reasonable efforts to make a bid (subject, in the case of a Sponsored Member, to such Sponsored Member having received the consent of its relevant Agent Member(s)) in an Auction for an Auction Portfolio in respect of which such RCM is a Market Participant.
 - (i) The Clearing House may directly sell assets or Auction Portfolios outside of Auctions if an Auction fails or, in the opinion of the Clearing House in consultation with the Fixed Income DMG, is likely to fail or if the Clearing House determines (in consultation with the Fixed Income DMG) that it will not be possible to complete any relevant Auction in a timely and efficient manner and without putting the resources available to the Clearing House pursuant to Rule 15 at risk.

2.4 *Auction Resources and Reserve Price*

- (a) Before commencing the auction process, the Clearing House will calculate a base price ("**Base Price**") for each individual Auction Portfolio based on an initial allocation of the resources potentially available to it from the Defaulting RCM or, where the Defaulting RCM is a Sponsored Member, resources available from the Sponsored Member and its Agent Member(s) to satisfy any loss incurred in the Auction of each such Auction Portfolio pursuant to paragraphs (a) to (c) of Rule 15 and, consequently, taking into account market prices, a reserve price ("**Reserve Price**") for such Auction. Notwithstanding such initial allocation, any resources utilised by the Clearing House will be allocated in accordance with Rule 2.5 below.

- (b) For each Auction Portfolio, the resources shall be allocated as follows:
- (i) the resources of the Defaulting RCM and, where the Defaulting RCM is a Sponsored Member, resources available from the Sponsored Member and its Agent Member(s) (in the form of: (i) the Margin Cover of the Defaulting RCM pursuant to Rule 15(a) of the Default Rules (ii) the Contributions made by or for the account of the Defaulting RCM to the RepoClear Default Fund available pursuant to Rule 15(b) of the Default Rules and (iii) where the Defaulting RCM is a Sponsored Member, the related Agent Resource Contribution made by the relevant Agent Member and made available pursuant to Rule 15(c) of the Default Rules, in each case at the time of the auction process) will be allocated to the Auction Portfolios based on the proportion that (a) the risk of the relevant Auction Portfolio bears to (b) the aggregate of the risks (on an absolute basis) for all Auction Portfolios; and
 - (ii) the portion of the Capped Amount applied to the RepoClear Business of the Defaulting RCM pursuant to Rule 15(ed) of the Default Rules will be allocated to the Auction Portfolios based on the proportion that (a) the risk of the relevant Auction Portfolio bears to (b) the aggregate of the risks (on an absolute basis) for all Auction Portfolios.

2.5 *Loss Attribution*

- (a) Following the completion of all Auctions of all Auction Portfolios of the Defaulting RCM, the Clearing House will determine whether losses incurred by it following such Auctions are such that the Non-Defaulters' Contributions must be utilised. Where applicable, such losses will be allocated to Non-Defaulters' Contributions in accordance with the loss attribution process described in Rules 2.5(b) to 2.5(d) of this Annex.
- (b) For each Auction Portfolio, losses to the Clearing House will be met using the resources set out in Rule 15. In applying those resources, the Clearing House will allocate the losses in respect of each Auction Portfolio (the "**Auction Losses**") by reference to the resources allocated to such Auction Portfolios in accordance with Rule 2.3(i) of this Annex. Where there are no Auction Losses in respect of an Auction Portfolio or the Auction Losses in respect of an Auction Portfolio do not require the full amount of the resources referred to in Rule 2.4(b) of this Annex allocated to the relevant Auction Portfolio (the "**Initial Resources**") to be fully utilised, the relevant surplus Initial Resources will be allocated *pro rata* between those Auction Portfolios in respect of which there are Auction Losses requiring the utilisation of resources beyond the Initial Resources available in the relevant Auction Portfolio in accordance with Rules 15(a), 15(b), 15(c) and 15(d) until such time as all Initial Resources have been fully utilised.
- (c) In the case of each Auction for which there are Auction Losses, those Auction Losses will be allocated to the Non-Defaulter's Contributions (the "**Original Contributions**").

SCHEDULE 5
FOREXCLEAR DEFAULT FUND SUPPLEMENT

- F1. **In accordance** with and subject to Rule F2, the amount of each ForexClear Clearing Member's ForexClear Contributions shall be determined by the Clearing House as soon as practicable after each ForexClear Determination Date as appropriate on the basis of information available as at close of business on such ForexClear Determination Date and notified to such FXCCM as soon as practicable after such determination in accordance with the Procedures.
- F2. Each FXCCM's ForexClear Contribution (other than any ForexClear 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 the date that an FXCCM joins the ForexClear Service, and at the close of business on the first business day of each month, and otherwise in accordance with paragraph (f) below (each, a "**ForexClear Determination Date**") **provided, however, that** following a Default, any such determinations and any such ForexClear Determination Date which might otherwise have occurred under this Rule F2 shall be suspended for the duration of the period (the "**ForexClear Default Period**") commencing on the date of such Default and terminating on the last to occur of the following dates:
 - (i) the date which is the close of business 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)), 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 ForexClear Default Management Process Completion Date in relation to a Relevant Default which falls latest in time (or, if such day is not a business day, the next succeeding business day);
 - (b) On each business day, the Clearing House will determine a "**Combined Loss Value**" in respect of each of the 30 preceding business days. The Combined Loss Value in respect of a particular day will be the sum of the largest and the second largest stress-testing loss incurred on that day in relation to ForexClear Business (for a given scenario);
 - (c) the "**ForexClear Fund Amount**" shall equal the sum of (i) the "**ForexClear NDF Sub-Fund Amount**," (ii) the "**ForexClear Non-NDF Sub-Fund Amount**" and (iii) the "**ForexClear Tolerance Amount**". The ForexClear NDF Sub-Fund Amount and ForexClear Non-NDF Sub-Fund Amount shall be calculated in United States dollars ("**USD**") and, for a given ForexClear Determination Date, shall be (i) in relation to the ForexClear NDF Sub-Fund Amount, the largest of the 30 Combined Loss Values in respect of ForexClear NDF Contracts, and (ii) in relation to the ForexClear Non-NDF Sub-Fund

ForexClear Fund Amount has been reduced and (ii) the value of the ForexClear Contribution of such FXCCM as determined by the Clearing House at the last ForexClear Determination Date prior to the date when the relevant Default occurred;

- (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 the last ForexClear Determination Date prior to the date when the relevant Default occurred; and
- (d) following a Default in respect of which ForexClear Unfunded Contributions were paid (the "**First Default**"), the Clearing House may require the payment of further ForexClear Unfunded Contributions in respect of subsequent Defaults (which, for the avoidance of doubt, can never be a First Default), provided that ForexClear Unfunded Contributions will not be payable in respect of any more than three Defaults in any six month period (commencing on the date of delivery of the first ForexClear Unfunded Contribution Notice in respect of the First Default).

FXCCMs will be required to deposit the full amount of their ForexClear Unfunded Contributions (without exercising any rights of set-off or counterclaim) with the Clearing House on the business day following the receipt of a ForexClear Unfunded Contribution Notice.

For the avoidance of doubt, references to "FXCCMs" for the purposes of this Rule F8 include any FXCCM (other than a Defaulting FXCCM) who is: (i) a Retiring Member but whose status as a Clearing Member has not yet been terminated; and (ii) a Resigning Member whose resignation from the ForexClear Service is not yet effective.

F9. **ForexClear Loss Distribution Process**

Where, after a Default, the Clearing House determines that the ForexClear Excess Loss resulting from the Default will exceed the amounts to be applied to it under Rules 15(a) to 15(hg) of the Default Rules, the Clearing House may implement the process (the "**ForexClear Loss Distribution Process**") described in this Rule F9.

- (a) For the purposes of this Rule F9 and Rule F11, the following definitions will apply:

"Actual Base Currency Gains, Losses and Realised Cash Flows by Cash Payment" means, in respect of each Cash Payment and any business day, the sum of the Pre Haircut Base Currency Gains, Losses and Realised Cash Flows by Cash Payment and any Cash Gainer Base Currency Adjustment to Cash Payment or Cash Loser Base Currency Adjustment to Cash Payment.

"Auction Portfolio" has the meaning assigned to it in the ForexClear DMP Annex.

"Available Resources" means, in respect of any Loss Distribution Period, the amounts available to the Clearing House for application in meeting any loss suffered or incurred by the Clearing House in accordance with Rules 15(a) to 15(h) of the Default Rules as at the relevant Last Call Prior to Default.

"Cash Gain" means, in respect of any Cash Gainer and any Loss Distribution Day, the amount of positive Cumulative Pre Haircut Base Currency Gains Losses and Realised Cash Flows in respect of such Cash Gainer in respect of such Loss Distribution Day.

"Cash Gainer" means, in respect of any Loss Distribution Day, each Margin Account in respect of which the value of the Cumulative Pre Haircut Base Currency Gains Losses and Realised Cash Flows on such Loss Distribution Day is greater than zero.

"Cash Gainer Payment Currency Adjustment to Cash Payment" has the meaning set out in paragraph (b)(i) of this Rule F9.

"Cash Loser" means, in respect of any Loss Distribution Day, each Margin Account in respect of which the value of the Cumulative Pre Haircut Base Currency Gains Losses and Realised Cash Flows on such Loss Distribution Day is equal to or less than zero.

"Cash Loser Base Currency Adjustment to Cash Payment" has the meaning set out in paragraph (b)(ii) of this Rule F9.

"Cash Loser Payment Currency Adjustment to Cash Payment" has the meaning set out in paragraph (b)(ii) of this Rule F9.

"Cash Payment" means, in respect of any business day, the aggregated amount which would be paid by the Clearing House to a Non-Defaulting FXCCM (expressed as a positive number) or by such FXCCM to the Clearing House (expressed as a negative number) in respect of a Cash Payment Type in a Cash Payment Currency on such business day.

"Cash Payment Currency" means each of the currencies in which payments made between the Clearing House and an FXCCM may be denominated.

"Cash Payment Type" means each of the Price Alignment Interest (as defined in the ForexClear Procedures), Price Alignment Amount, consideration (fee) payments, Variation Settlement and cash Collateral in respect of the variation margin obligations payable in respect of a Margin Account of a Non-Defaulting FXCCM, and any payment under Section 4.1 (or, in the case of ForexClear NDF STM Contracts, Section 10.1) of the ForexClear STM Terms.

"Cumulative Actual Base Currency Gains, Losses and Realised Cash Flows" means in respect of each Margin Account of each Non-Defaulting FXCCM and any business day, the sum of the Cumulative Actual Base Currency Gains, Losses and Realised Cash Flows by Cash Payments payable on such Margin Account.

"Cumulative Actual Base Currency Gains, Losses and Realised Cash Flows by Cash Payment" means, in respect of each Cash Payment and any business day, the aggregate amount, if any, paid by the Clearing House to a Non-Defaulting FXCCM (expressed as a positive number) or by such FXCCM to the Clearing House (expressed as a negative number) in respect of Actual Base Currency Gains, Losses and Realised Cash Flows by Cash Payment from but excluding the relevant Last Call Prior to Default to and including such business day.

"Cumulative LCH Transfer Cost" means, on any business day during any Loss Distribution Period, the sum of any LCH Transfer Cost for each day from but excluding the relevant Last Call Prior to Default to and including such business day.

"Cumulative Pre Haircut Base Currency Gains Losses and Realised Cash Flows" means, in respect of each Margin Account of each Non-Defaulting FXCCM and any business day, the sum of the Cumulative Pre Haircut Base Currency Gains Losses and Realised Cash Flows by Cash Payments payable on such Margin Account.

"Cumulative Pre Haircut Base Currency Gains Losses and Realised Cash Flows by Cash Payment" means, in respect of each Cash Payment and any business day, the sum of the Pre Haircut Base Currency Gains, Losses and Realised Cash Flows by Cash Payment for such Cash Payment for each day from but excluding the relevant Last Call Prior to Default to and including such business day.

"Distribution Haircut" or **"DH"** means, on each Loss Distribution Day, the fraction determined by the Clearing House in accordance with the following formula:

$$DH(t) = LUL(t) / TCG(t)$$

where:

"LUL" means the LCH Uncovered Loss; and

"TCG" means the Total Cash Gains.

"FXCCM Adjustment Amount" means in respect of the Margin Account(s) of any Non-Defaulting FXCCM and any Loss Distribution Day, an amount equal to the sum of the Cumulative Pre Haircut Base Currency Gains Losses and Realised Cash Flows in respect of such Margin Account(s) of such FXCCM less the sum of the Cumulative Actual Base Currency Gains, Losses and Realised Cash Flows in respect of such Margin Account(s) of such Clearing Member, in each case in respect of the Loss Distribution Period in which such Loss Distribution Day falls.

"Last Call Prior to Default" means the most recent business day prior to the day of the relevant Default on which transfers of Collateral and/or other

payments required to be made by Non-Defaulting FXCCMs to the Clearing House were made in full.

"LCH Transfer Cost" means the cost (converted, where applicable, into USD at a rate of exchange determined by the Clearing House in its sole discretion) to the Clearing House of transferring the rights and obligations arising out of the Auction Portfolios of a Defaulting FXCCM to those FXCCMs who have successfully bid for such Auction Portfolios in Auctions.

"LCH Uncovered Loss" means, in respect of the Clearing House on any business day in any Loss Distribution Period, the amount calculated in accordance with the following formula:

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

where:

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

"CLC" means the Cumulative LCH Transfer Cost;

"TAR" means the Total Available Resources; and

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

"Loss Distribution Cut-Off Date" means, with respect to a Loss Distribution Period, the day falling ten (10) business days from the date of commencement of the ForexClear Loss Distribution Process or such earlier or later business day as determined pursuant to paragraph (d) of this Rule F9.

"Loss Distribution Day" means any business day in a Loss Distribution Period on which the Clearing House, in consultation with the ForexClear DMG, prior to calling for Collateral in respect of margin or other payment in respect of settlement on such business day, determines that the LCH Uncovered Loss for that business day is greater than zero.

"Loss Distribution Period" means the period from, but excluding, the day on which a Default occurs with respect to an FXCCM to (but excluding) the earlier of: (i) the business day on which (a) the rights and obligations arising out of the Auction Portfolios of the Defaulting FXCCM are transferred to those FXCCMs which have successfully bid for such Auction Portfolios in Auctions, or, if any Default occurs with respect to any other FXCCM prior to the end of a Loss Distribution Period, the rights and obligations arising out of the Auction Portfolios of any subsequent Defaulting FXCCM are transferred to those FXCCMs who have successfully bid for such Auction Portfolios in Auctions and (b) all payments required to be made by such FXCCMs and/or the Clearing House in respect of such Auction(s) have been made in full; or (ii) any business day on which the Clearing House determines that a Loss Distribution Trigger Event has occurred; PROVIDED THAT, in each case, the Loss Distribution Period shall not extend beyond the Loss Distribution Cut-Off Date.

"Loss Distribution Trigger Amount" means, in respect of any Loss Distribution Period and any Non-Defaulting FXCCM, an amount equal to either (i) twice the ForexClear Contribution of such Non-Defaulting FXCCM as at the last ForexClear Determination Date prior to the date when the Default occurred at the beginning of that Loss Distribution Period or \$200 million, whichever is the greater; or (ii) an amount as approved by the Requisite Non-Defaulting FXCCMs following a Revised Loss Distribution Proposal as described in paragraph (d) of this Rule F9.

"Loss Distribution Trigger Event" means, with respect to a Non-Defaulting FXCCM, the aggregate Cash Gainer Payment Currency Adjustments applied to Cash Payments during the Loss Distribution Period (as amended from time to time) exceeded that FXCCM's Loss Distribution Trigger Amount (as amended from time to time) on the immediately preceding Loss Distribution Day.

"Margin Account" means each Proprietary Account, Individual Segregated Account, Indirect Gross Sub-Account, Omnibus Segregated Account and FCM Client Sub-Account related to the ForexClear Service of an FXCCM.

"Payment Currency Adjustment to Cash Payment" means one or more Cash Gainer Payment Currency Adjustment to Cash Payment(s) and/or one or more Cash Loser Payment Currency Adjustment to Cash Payment(s).

"Pre Haircut Base Currency Gains, Losses and Realised Cash Flows by Cash Payment" means, in respect of each Cash Payment and any business day, the amount (converted, where applicable, into USD at the Rate of Exchange) which would be paid by the Clearing House to a Non-Defaulting FXCCM (expressed as a positive number) or by such FXCCM to the Clearing House (expressed as a negative number) on such business day in the absence of the application of the Distribution Haircut.

"Rate of Exchange" means, for any day, the applicable rate of exchange for converting one currency into another as determined by the Clearing House by reference to Reuters.

"Requisite Non-Defaulting FXCCMs" means on any business day in a Loss Distribution Period, Non-Defaulting FXCCMs whose ForexClear Contributions represented 75% or more of the total size of the ForexClear Fund Amount (less the Contribution of any Defaulter(s)) as at the last ForexClear Determination Date prior to the date when the Default occurred.

"t" means, in respect of any determination made in relation to a business day, such business day.

"t-1" means, in respect of any determination made in relation to a business day, the business day immediately prior to such business day.

"Total Available Resources" means, on any business day during a Loss Distribution Period the sum of (i) the Available Resources and (ii) any Unfunded Contributions deposited with the Clearing House since the relevant Last Call Prior to Default.

"Total Cash Gains" means, in respect of any business day, the sum of the Cash Gain in respect of all Cash Gainers on such business day.

"Total Cumulative Pre Haircut Base Currency Gains Losses and Realised Cash Flows" means, in respect of any business day the sum of all Total Cumulative Pre Haircut Base Currency Gains Losses and Realised Cash Flows by Cash Payments.

"Total Cumulative Pre Haircut Base Currency Gains Losses and Realised Cash Flows by Cash Payment" means, in respect of any business day, the sum of the Total Pre Haircut Base Currency Gains Losses and Realised Cash Flows by Cash Payment for each business day from but excluding the relevant Last Call Prior to Default to and including such business day.

"Total Pre Haircut Base Currency Gains Losses and Realised Cash Flows by Cash Payment" means, in respect of any business day, the sum of the Pre Haircut Base Currency Gains Losses and Realised Cash Flows by Cash Payment in respect of all Margin Accounts of all Non-Defaulting SCMs on such business day.

"Underlying Cash Payment" means, in respect of a Cash Gainer Base Currency Adjustment to Cash Payment or a Cash Loser Base Currency Adjustment to Cash Payment, the Cash Payment in respect of which such Cash Gainer Base Currency Adjustment to Cash Payment or Cash Loser Base Currency Adjustment to Cash Payment is calculated.

(b) *Adjustment of Underlying Cash Payments*

(i) *Cash Gainer*

On each Loss Distribution Day for each Margin Account of each Non-Defaulting FXCCM which is deemed to be a Cash Gainer, the relevant FXCCM shall be required to pay the Clearing House an amount equal to each positive amount determined as follows or, as applicable, the Clearing House shall be required to pay the relevant FXCCM the absolute value of each negative amount determined as follows (in each case, such amount the "**Cash Gainer Payment Currency Adjustment to Cash Payment**"): the Cash Gainer Payment Currency Adjustment to Cash Payment is the value of the amount determined in accordance with the formula below (the "**Cash Gainer Base Currency Adjustment to Cash Payment**") converted at the Rate of Exchange into the Cash Payment Currency in which the relevant Underlying Cash Payment is denominated:

where:

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

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

Clearing House shall pay that amount to the FXCCM immediately, subject to (f) below.

- (e) The payment of such amount to an FXCCM, pursuant to (d) above subject to any re-calculations performed pursuant to (f), shall constitute the full and final payment in respect of the ForexClear Service and such FXCCM shall not be permitted to make any further claims on the Clearing House in respect of amounts relating to the ForexClear 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 ForexClear Service.
- (f) The Clearing House may make the payments due under(c) above in one or more instalments to the FXCCMs in proportion to the value of their claims on the Clearing House under (b) above if some but not all of the amounts due under (c) above or Rules 15(a) to 15(h) 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 FXCCMs in accordance with this Rule F11.
- (g) This Rule F11 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*).
- (h) Nothing in the foregoing shall override the obligation of the Clearing House to return non-cash Collateral transferred to the Clearing House by a FXCCM in respect of its initial margin obligations pursuant to the Regulations and Procedures.

F12 Application of any Recoveries

~~The~~[Following the completion of a ForexClear DMP and subject to Rule 2.7\(c\) of the ForexClear 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 F9, [15\(h\)](#), 15(g), 15(e) and:

- (i) any amounts received from the Defaulting FXCCM as a result of the Clearing House being a creditor of the Defaulting FXCCM in respect of the ForexClear Business of such Defaulting FXCCM 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 FXCCM or otherwise; or
- (ii) any other amounts howsoever obtained or recovered in the course of the Clearing House's operation of the ForexClear ~~Default Management Process~~[DMP](#) or which are otherwise referable to the Defaulting FXCCM,

in each case net of any related expenses incurred by the Clearing House or other sums owing to the Clearing House by the Defaulting FXCCM in connection with the ForexClear Service. For the avoidance of doubt, nothing in this Rule F12 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 FXCCM's Default, any amounts recovered shall be applied *pari passu* as between the relevant default funds.

The FXCCMs 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 FXCCMs pursuant to Rules F9, 15([h](#)), [15\(g\)](#), ~~and/or~~ 15([e](#)), shall be retained by the Clearing House.

SCHEDULE 6
RATES SERVICE DEFAULT FUND SUPPLEMENT

CS1. Rates Service Fund Amount

- (a) The Rates Service Default Fund is denominated in GBP, and all amounts referable to it shall be denominated, calculated, called and payable in GBP.
- (b) On each business day, the Clearing House will determine a "**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.
- (c) The "**Rates Service Fund Amount**" shall be determined by the Clearing House at the close of business on the first business day of each calendar month, and otherwise in accordance with paragraph (d) 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 equal to 10 per cent of the value ~~referred~~referred to in (1); plus (3) the SwapClear Tolerance Amount. 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.
- (d) The Clearing House may recalculate the Rates Service Fund Amount on any business day if the largest of the 60 Combined Loss Values determined under paragraph (b) above on that day differs by more than 25 per cent. from the Combined Loss Value on which the previous Rates Service Contribution determination was based and, on such business day, the Clearing House shall be entitled to require those Clearing Members whose portfolios have caused the increase in the Combined Loss Value to pay an additional amount in respect of their Contributions.

CS2. Rates Service Fund Amount — Allocation

On each Rates Service Determination Date the Clearing House shall calculate:

- (a) 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.
- (b) 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).

- (c) The "**SwapClear Combined Loss Value**" in respect of each of the 60 preceding business days. The SwapClear Combined Loss Value in respect of a particular day will be the sum of the largest and the second largest stress-testing loss incurred on that day in relation to SwapClear Business (which includes, for the avoidance of doubt, Portfolio Margined Contracts) (for a given scenario).
- (d) 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.
- (e) The "**Total Combined Loss Value**" which shall be the sum of the SwapClear Combined Loss Value and the Listed Rate Combined Loss Value.
- (f) The "**Rates Service Fund Amount - SwapClear**" which shall be calculated as follows :

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

- (g) The "**Rates Service Fund Amount - Listed Interest Rates**" which shall be the greater of:
- (i) the "**Weighted Rates Service Fund Amount**", which shall be the amount calculated as follows:

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

$$+ (1.1 \times \text{Combined Loss Value} - \text{Limb (2)})$$

- (i) or the Default Fund Floor (as defined in Rule L2).
- (h) The "**SwapClear Tolerance**" which shall be the aggregate amount of temporary initial margin forbearance provided by the Clearing House to SwapClear Clearing Members to enable registration of SwapClear Contracts.
- (i) In the event that the Rates Service Fund Amount - Listed Interest Rates equals the Default Fund Floor, then the Rates Service Fund Amount - SwapClear shall be reduced by the amount by which the Default Fund Floor is greater than the Weighted Rates Service Fund Amount.

CS3. **Contributions to the Rates Service Fund**

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

CS4. **Rates Service Loss Distribution Process**

Where, after a Default, the Clearing House determines that the Rates Service Excess Loss resulting from the Default will exceed the amounts to be applied to it under Rules 15(a) to 15(g) of the Default Rules, the Clearing House may implement the process (the "**Rates Service Loss Distribution Process**") described in this Rule CS4.

- (a) For the purposes of this Rule CS4 and for Rule CS5 the following definitions will apply:

"Actual Base Currency Gains, Losses and Realised Cash Flows by Cash Payment" means, in respect of each Cash Payment and any business day, the sum of the Pre Haircut Base Currency Gains, Losses and Realised Cash Flows by Cash Payment and any Cash Gainer Base Currency Adjustment to Cash Payment or Cash Loser Base Currency Adjustment to Cash Payment.

"Auction Portfolio" has the meaning assigned to it in the Rates Service DMP Annex.

"Available Resources" means, in respect of any Loss Distribution Period, the amounts available to the Clearing House for application in meeting any loss suffered or incurred by the Clearing House in accordance with Rules 15(a) to 15(~~g~~h) of the Default Rules as at the relevant Last Call Prior to Default.

"Cash Gain" means, in respect of any Cash Gainer and any Loss Distribution Day, the amount of positive Cumulative Pre Haircut Base Currency Gains Losses and Realised Cash Flows in respect of such Cash Gainer in respect of such Loss Distribution Day.

"Cash Gainer" means, in respect of any Loss Distribution Day, each Margin Account in respect of which the value of the Cumulative Pre Haircut Base Currency Gains Losses and Realised Cash Flows on such Loss Distribution Day is greater than zero.

"Cash Gainer Base Currency Adjustment to Cash Payment" has the meaning set out in paragraph (b)(i) of this Rule CS4.

"Cash Gainer Payment Currency Adjustment to Cash Payment" has the meaning set out in paragraph (b)(i) of this Rule CS4.

"Cash Loser" means, in respect of any Loss Distribution Day, each Margin Account in respect of which the value of the Cumulative Pre Haircut Base Currency Gains Losses and Realised Cash Flows on such Loss Distribution Day is equal to or less than zero.

"Cash Loser Base Currency Adjustment to Cash Payment" has the meaning set out in paragraph (b)(ii) of this Rule CS4.

"Cash Loser Payment Currency Adjustment to Cash Payment" has the meaning set out in paragraph (b)(ii) of this Rule CS4.

"Cash Payment" means, in respect of any business day, the aggregated amount which would be paid by the Clearing House to a Non-Defaulting Rates Service Clearing Member (expressed as a positive number) or by such Rates Service Clearing Member to the Clearing House (expressed as a negative number) in respect of a Cash Payment Type in a Cash Payment Currency on such business day.

"Cash Payment Currency" means each of the 17 currencies in which payments made between the Clearing House and an SCM may be denominated.

"Cash Payment Type" means each of (i) the Price Alignment Amount, Price Alignment Interest, coupon payments, consideration (fee) payments and cash Collateral in respect of the variation margin obligations payable in respect of a Margin Account relating to the SwapClear Business of a Non-Defaulting Rates Service Clearing Member; and (ii) consideration (fee) payments, payments under Section 4.1 of the SwapClear STM Terms, daily settlement amounts and Variation Settlement payable in respect of a Margin Account relating to the Listed Interest Rates Business of a Non-Defaulting Rates Service Clearing Member.

"Cumulative Actual Base Currency Gains, Losses and Realised Cash Flows" means in respect of each Margin Account of each Non-Defaulting Rates Service Clearing Member and any business day, the sum of the Cumulative Actual Base Currency Gains, Losses and Realised Cash Flows by Cash Payments payable on such Margin Account.

"Cumulative Actual Base Currency Gains, Losses and Realised Cash Flows by Cash Payment" means, in respect of each Cash Payment and any business day, the aggregate amount, if any, paid by the Clearing House to a Non-Defaulting Rates Service Clearing Member (expressed as a positive number) or by such Rates Service Clearing Member to the Clearing House (expressed as a negative number) in respect of Actual Base Currency Gains, Losses and Realised Cash Flows by Cash Payment from but excluding the relevant Last Call Prior to Default to and including such business day.

"Cumulative LCH Transfer Cost" means, on any business day during any Loss Distribution Period, the sum of any LCH Transfer Cost for each day from but excluding the relevant Last Call Prior to Default to and including such business day.

"Cumulative Pre Haircut Base Currency Gains Losses and Realised Cash Flows" means, in respect of each Margin Account of each Non-Defaulting Rates Service Clearing Member and any business day, the sum of the Cumulative Pre Haircut Base Currency Gains Losses and Realised Cash Flows by Cash Payments payable on such Margin Account.

"Cumulative Pre Haircut Base Currency Gains Losses and Realised Cash Flows by Cash Payment" means, in respect of each Cash Payment and any business day, the sum of the Pre Haircut Base Currency Gains, Losses and Realised Cash Flows by Cash Payment for such Cash Payment for each day from but excluding the relevant Last Call Prior to Default to and including such business day.

"Distribution Haircut" or **"DH"** means, on each Loss Distribution Day, the fraction determined by the Clearing House in accordance with the following formula:

$$DH(t) = LUL(t) / TCG(t)$$

where:

"LUL" means the LCH Uncovered Loss; and

"TCG" means the Total Cash Gains.

"Exchange Closed-out Loss" means the loss (converted, where applicable, into pounds sterling at the Rate of Exchange) to the Clearing House associated with the Exchange Closed-out Contracts of a Defaulting Listed Interest Rates Clearing Member.

"Last Call Prior to Default" means the most recent business day prior to the day of the relevant Default on which transfers of Collateral and/or other payments required to be made by Non-Defaulting Rates Service Clearing Members to the Clearing House were made in full.

"LCH Transfer Cost" means the cost (converted, where applicable, into pounds sterling at the Rate of Exchange) to the Clearing House of transferring the rights and obligations arising out of the Auction Portfolios of a Defaulting SCM to those SCMs who have successfully bid for such Auction Portfolios in Auctions.

"LCH Uncovered Loss" means, in respect of the Clearing House on any business day in any Loss Distribution Period, the amount calculated in accordance with the following formula:

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

where:

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

"CLC" means the Cumulative LCH Transfer Cost;

"ECL" means the Exchange Closed-out Loss;

"TAR" means the Total Available Resources; and

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

"Loss Distribution Cut-Off Date" means, with respect to a Loss Distribution Period the day falling ten (10) business days from the date of commencement of the Rates Service Loss Distribution Process or such earlier or later business day as determined pursuant to paragraph (d) of this Rule CS4.

"Loss Distribution Day" means any business day in a Loss Distribution Period on which the Clearing House, in consultation with the Rates Service DMG, prior to calling for Collateral in respect of margin or other payment in respect of settlement on such business day, determines that the LCH Uncovered Loss for that business day is greater than zero.

"Loss Distribution Period" means the period from, but excluding, the day on which a Default occurs with respect to a Rates Service Clearing Member to but excluding, the earlier of: (i) (A) in the case of a Defaulting Rates Service Clearing Member who is an SCM, the business day on which (a) the rights and obligations arising out of the Auction Portfolios of the Defaulting SCM are transferred to those SCMs which have successfully bid for such Auction Portfolios in Auctions, or, if any Default occurs with respect to any other SCM prior to the end of a Loss Distribution Period, the rights and obligations arising out of the Auction Portfolios of any subsequent Defaulting SCM are transferred to those SCMs who have successfully bid for such Auction Portfolios in Auctions and (b) all payments required to be made by such SCMs and/or the Clearing House in respect of such Auction(s) have been made in full; or (B) in the case of a Defaulter who is a Listed Interest Rates Clearing Member but not an SCM, the business day on which the Clearing House has taken such action as it considers to be required to extinguish or transfer the rights and obligations of such a Defaulter; and (ii) any business day on which the Clearing House determines that a Loss Distribution Trigger Event has occurred, PROVIDED THAT, in each case, the Loss Distribution Period shall not extend beyond the Loss Distribution Cut-Off Date.

"Loss Distribution Trigger Amount" means, in respect of any Loss Distribution Period and any Non-Defaulting Rates Service Clearing Member, an amount equal to either (i) twice the Rates Service Contribution of such Non-Defaulting Rates Service Clearing Member as at the last Rates Service Determination Date prior to the date when the Default occurred at the beginning of that Loss Distribution Period or £200 million, whichever is the greater; or (ii) an amount as approved by the Requisite Non-Defaulting Rates Service Clearing Members following a Revised Loss Distribution Proposal as described in paragraph (d) of this Rule CS4.

"Loss Distribution Trigger Event" means, with respect to a Non-Defaulting Rates Service Clearing Member, the aggregate Cash Gainer Payment Currency Adjustments applied to Cash Payments during the Loss Distribution Period (as amended from time to time) exceeded that Rates Service Clearing Member's Loss Distribution Trigger Amount (as amended from time to time) on the immediately preceding Loss Distribution Day.

"Margin Account" means: (i) for a Rates Service Clearing Member, each Proprietary Account, Individual Segregated Account, Indirect Gross Sub-Account, Custodial Segregated Account, Non-Identified Client Omnibus Net Segregated Account, Affiliated Client Omnibus Net Segregated Account, Identified Client Omnibus Net Segregated Account and Omnibus Gross Segregated Sub-Account; and (ii) for each FCM Rates Clearing Member, the Proprietary Account and each FCM Client Omnibus Account with LCH (provided that, in respect of an FCM Omnibus Client Swaps Account with LCH, this term refers to each FCM Client Sub-Account contained therein).

"Omnibus Gross Segregated Sub-Account" means the sub-account allocated to each individual Omnibus Gross Segregated Clearing Client or each set of Combined Omnibus Gross Segregated Clearing Clients within an Omnibus Gross Segregated Account for the purposes of recording SwapClear Contracts referable to each such individual client or group of clients.

"Payment Currency Adjustment to Cash Payment" means one or more Cash Gainer Payment Currency Adjustment to Cash Payment(s) and/or one or more Cash Loser Payment Currency Adjustment to Cash Payment(s).

"Pre Haircut Base Currency Gains, Losses and Realised Cash Flows by Cash Payment" means, in respect of each Cash Payment and any business day, the amount (converted, where applicable, into pounds sterling at the Rate of Exchange) which would be paid by the Clearing House to a Non-Defaulting Rates Service Clearing Member (expressed as a positive number) or by such Rates Service Clearing Member to the Clearing House (expressed as a negative number) on such business day in the absence of the application of the Distribution Haircut.

"Rate of Exchange" means, for any day, the applicable rate of exchange for converting one currency into another as determined by the Clearing House by reference to Reuters.

"Rates Service Adjustment Amount" means in respect of the Margin Account(s) of any Non-Defaulting Rates Service Clearing Member and any Loss Distribution Day, an amount equal to the sum of the Cumulative Pre Haircut Base Currency Gains Losses and Realised Cash Flows in respect of such Margin Account(s) of such Rates Service Clearing Member less the sum of the Cumulative Actual Base Currency Gains, Losses and Realised Cash Flows in respect of such Margin Account(s) of such Rates Service Clearing Member, in each case in respect of the Loss Distribution Period in which such Loss Distribution Day falls.

"Requisite Non-Defaulting Rates Service Clearing Members" means on any business day in a Loss Distribution Period, Non-Defaulting Rates Service Clearing Members whose Rates Service Contributions represented 75% or more of the total size of the Rates Service Fund Amount (less the Contribution of any Defaulter(s)) as of the last Rates Service Determination Date prior to the date when the Default occurred.

"t" means, in respect of any determination made in relation to a business day, such business day.

"t-1" means, in respect of any determination made in relation to a business day, the business day immediately prior to such business day.

"**Total Available Resources**" means, on any business day during a Loss Distribution Period the sum of (i) the Available Resources and (ii) any Unfunded Contributions deposited with the Clearing House since the relevant Last Call Prior to Default.

"**Total Cash Gains**" means, in respect of any business day, the sum of the Cash Gain in respect of all Cash Gainers on such business day.

"**Total Cumulative Pre Haircut Base Currency Gains losses and Realised Cash Flows**" means, in respect of any business day the sum of all Total Cumulative Pre Haircut Base Currency Gains Losses and Realised Cash Flows by Cash Payments.

"**Total Cumulative Pre Haircut Base Currency Gains Losses and Realised Cash Flows by Cash Payment**" means, in respect of any business day, the sum of the Total Pre Haircut Base Currency Gains Losses and Realised Cash Flows by Cash Payment for each business day from but excluding the relevant Last Call Prior to Default to and including such business day.

"**Total Pre Haircut Base Currency Gains Losses and Realised Cash Flows by Cash Payment**" means, in respect of any business day, the sum of the Pre Haircut Base Currency Gains Losses and Realised Cash Flows by Cash Payment in respect of all Margin Accounts of all Non-Defaulting Rates Service Clearing Members on such business day.

"**Underlying Cash Payment**" means, in respect of a Cash Gainer Base Currency Adjustment to Cash Payment or a Cash Loser Base Currency Adjustment to Cash Payment, the Cash Payment in respect of which such Cash Gainer Base Currency Adjustment to Cash Payment or Cash Loser Base Currency Adjustment to Cash Payment is calculated.

(b) **Adjustment of Underlying Cash Payments**

(i) *Cash Gainer*

On each Loss Distribution Day for each Margin Account of each Non-Defaulting Rates Service Clearing Member which is deemed to be a Cash Gainer, the relevant Rates Service Clearing Member shall be required to pay the Clearing House an amount equal to each positive amount determined as follows or, as applicable, the Clearing House shall be required to pay the relevant Rates Service Clearing Member the absolute value of each negative amount determined as follows (in each case, such amount the "**Cash Gainer Payment Currency Adjustment to Cash Payment**"):

(B) a Loss Distribution Trigger Event is likely to occur, the Clearing House may (or, where a Loss Distribution Trigger Event has occurred, the Clearing House shall on the same business day) propose to the Non-Defaulting Rates Service Clearing Members an increase in each Non-Defaulting Rates Service Clearing Member's Loss Distribution Trigger Amount of up to twice the Rates Service Contribution of such Non-Defaulting Rates Service Clearing Member as at the last Rates Service Determination Date prior to the date when the Default occurred or £200 million, whichever is the greater,

any proposal under (A) and/or (B) above, a **Revised Loss Distribution Proposal**.

If (x) more than 50% of the Non-Defaulting Rates Service Clearing Members participate in a vote concerning the Revised Loss Distribution Proposal and (y) the Requisite Non-Defaulting Rates Service Clearing Members vote in favour of the Revised Loss Distribution Proposal, the Loss Distribution Cut-Off Date shall be extended and/or the Loss Distribution Trigger Amount shall be increased (as applicable) for each Non-Defaulting Rates Service Clearing Member and shall be applicable for the remainder of the relevant Loss Distribution Period or until further adjusted pursuant to this paragraph (d)(i). If more than 50% of Non-Defaulting Rates Service Clearing Members do not participate in such vote and/or if the Requisite Non-Defaulting Rates Service Clearing Members do not vote in favour of the Revised Loss Distribution Proposal, the Loss Distribution Period shall not be extended. For the avoidance of doubt, the Loss Distribution Cut-Off Date and Loss Distribution Trigger Amount may be adjusted one or more times in respect of a single Default pursuant to this paragraph (d)(i).

(ii) ~~(i)~~ The Clearing House shall publish the terms of the voting process for the purposes of this paragraph (d) on or before the business day on which such vote is to be held.

(e) ~~(B)~~ **No Rebate**

The payment to the Clearing House by any Rates Service Clearing Member of any Cash Gainer Payment Currency Adjustment to Cash Payment 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.

CS5. Voluntary Payments

Where, after the Default of one or more Rates Service Clearing 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 Rates Service Loss Distribution Process in accordance with the terms of Rule CS4, it is clear that the Clearing House does not have sufficient resources to meet its obligations and liabilities arising in respect of those Rates Service Contracts to which it is party with Non-Defaulting Rates Service Clearing Members, the Clearing House will by notice in writing (a "**Rates Service Voluntary Payment Notice**"): (i) inform

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 Rates Service.

- (f) The Clearing House may make the payments due under paragraph (d) above in one or more instalments to the Rates Service Clearing Members in proportion to the value of their claims on the Clearing House under paragraph (b) above if some but not all of the amounts due under (d) above or Rules 15(a) to 15(h) 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 Rates Service Clearing Members in accordance with this Rule.
- (g) 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*).
- (h) Nothing in the foregoing shall override the obligation of the Clearing House to return non-cash Collateral provided by a Rates Service Clearing Member in 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 ~~Default Management Process~~[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 the proportion of the value that such Non-Defaulting Rates Service Clearing Member's SwapClear Contribution and/or Listed Interest Rates Contribution (as applicable), in each case as at the last Rates Service Determination Date, bear(s) to the value of the aggregate SwapClear Contributions and/or aggregate Listed Interest Rates Contributions (as applicable) 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**

~~The~~[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(f)~~, 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(~~gh~~), 15(g) and/or 15(e) shall be retained by the Clearing House.

“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 of such amount may be made using a different stress scenario to the Combined Loss Value;

“STLIEOM” means, 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;

- (b) Following a Default, any such determinations and any such RepoClear Determination Date which might otherwise have occurred under this Rule 2 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:
- (i) 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
 - (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)) 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 day 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 the Minimum RepoClear Contribution, in which case a RCM’s RepoClear Contribution shall be the Minimum RepoClear Contribution.

For these purposes:

“Minimum RepoClear Contribution” shall be EUR 2,500,000;

“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~~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

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) 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

- (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).

RCMs or, in the case of Sponsored Members, their Agent Members for them and on their accounts will be required to deposit the full amount of their RepoClear Unfunded Contributions (without exercising any rights of set-off or counterclaim) with the Clearing House on the business day following the receipt of a RepoClear Unfunded Contribution Notice.

For the avoidance of doubt, references to (a) "RCMs" for the purposes of this Rule R7 include any RCM (other than a Defaulting RCM) who is: (i) a Retiring Member but whose status as a Clearing Member has not yet been terminated; and (ii) a Resigning Member whose resignation from the RepoClear Service is not yet effective and (b) "Agent Member" for the purposes of this Rule R8 include any Agent Member (other than a Defaulting RCM) who is: (i) a Retiring Agent Member but whose status as an Agent Member has not yet been terminated; and (ii) a Resigning Agent Member whose resignation from the RepoClear Service is not yet effective.

R8 RepoClear Loss Distribution Process

Where, after a Default, the Clearing House determines that the RepoClear Excess Loss resulting from the Default will exceed the amounts to be applied to it under Rules 15(a) to 15(h) of the Default Rules, the Clearing House may implement the process (the "**RepoClear Loss Distribution Process**") described in this Rule R8.

- (a) For the purposes of this Rule R8, the following definitions will apply:

"Available Resources" means, in respect of any Loss Distribution Period or Service Closure Period, the aggregated amount which is available to be paid by the Clearing House for application in meeting any loss suffered or incurred by the Clearing House in accordance with Rules 15(a) to 15(h) of the Default Rules as at and including the relevant Last Call Prior to Default.

"Cash Payment" means, in respect of any business day, the aggregated amount which would be paid by the Clearing House to a Non-Defaulting RCM or, in the case of a Sponsored Member, to its relevant Agent Members (expressed as a positive number) or by such RCM or in the case of a Sponsored Member, by

its relevant Agent Members to the Clearing House (expressed as a negative number) in a Cash Payment Currency on such business day.

"Cash Payment Currency" means, in respect of each RCM, the Currency in which or, in the case of a Sponsored Member, its relevant Agent Members it paid its RepoClear Contribution.

"Cumulative LCH Transfer Cost" means, as determined on any business day during any Loss Distribution Period or Service Closure Period, the sum of any LCH Transfer Cost for each day from but excluding the relevant Last Call Prior to Default to and including such business day.

"Final Determination Date" means a business day subsequent to an Insufficient Resources Determination Date when a Service Closure Payment is to be determined.

"Insufficient Resources Determination Date" means the day on which an Insufficient Resources Determination (as defined in Rule 10) is made by the Clearing House.

"Last Call Prior to Default" means the most recent business day prior to the day of the relevant Default on which transfers of Collateral and/or other payments required to be made by Non-Defaulting RCMs or, in the case of Sponsored Members, by their relevant Agent Members to the Clearing House were made in full subject to any tolerances that the Clearing House may apply.

"LCH Transfer Cost" means any cost (converted, where applicable, into EUR at a Rate of Exchange determined by the Clearing House in its sole discretion) to the Clearing House arising out of transferring the rights and obligations arising out of the Fixed Income Contracts of a Defaulting RCM to any other RCM or third parties.

"LCH Final Uncovered Loss" means the aggregate of LCH Uncovered Losses arising on each day in a Service Closure Period.

"LCH Uncovered Loss" means, in respect of the Clearing House, as determined on any business day in any Loss Distribution Period or Service Closure Period, the amount greater than zero calculated in accordance with the following formula:

$$(TRCMCP + CLC) - (TAR + TLD)$$

where:

"TRCMCP" means the TRCM Cash Payment;

"CLC" means the Cumulative LCH Transfer Cost;

"TAR" means the Total Available Resources; and

"TLD" means Total Loss Distribution; and

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

"Loss Distribution Cut-Off Date" means with respect to a Loss Distribution Period the day falling ten (10) business days from the date of commencement of the RepoClear Loss Distribution Process or such earlier business day (as determined by the Clearing House) or later business day (as determined by the ballot process pursuant to paragraph (c) of this Rule R8).

"Loss Distribution Day" means any business day in a Loss Distribution Period on which the Clearing House, prior to calling for Collateral in respect of margin on such business day, determines that the LCH Uncovered Loss for that business day is greater than zero.

"Loss Distribution Period" means the period from, but excluding, the earlier of: (i) the day on which a Default occurs with respect to an RCM to the business day on which all Loss Distribution Charges in respect of such Default have been paid in full and (ii) any business day on which the Clearing House determines that a Loss Distribution Trigger Event has occurred, PROVIDED THAT the Loss Distribution Period shall not extend beyond the Loss Distribution Cut-Off Date.

"Loss Distribution Trigger Amount" means, in respect of any Loss Distribution Period and any Non-Defaulting RCMs, an amount equal to twice the RepoClear Contribution of such Non-Defaulting RCM as at the last RepoClear Determination Date prior to the date when the Default occurred at the beginning of that Loss Distribution Period; or (ii) an amount as approved by the Requisite Non-Defaulting RCMs following a Revised Loss Distribution Proposal as described in paragraph (c) of this Rule R8.

"Loss Distribution Trigger Event" means, with respect to a Non-Defaulting RCM, the aggregate Cash Payments during the Loss Distribution Period (as amended from time to time) exceeded that RCM's Loss Distribution Trigger Amount (as amended from time to time) on the immediately preceding Loss Distribution Day.

"Rate of Exchange" means, for any day, the applicable rate of exchange for converting one currency into another as determined by the Clearing House by reference to Reuters.

"RCM Cash Payment" means, in respect of any Cash Payment (converted, where applicable into EUR at a Rate of Exchange determined by the Clearing House in its sole discretion) and any business day (a) the amount of any such Cash Payment which would be paid by the Clearing House to a Non-Defaulting RCM in respect of the Fixed Income Contracts of a Defaulting RCM on such business day (expressed as a positive number) excluding any cash payments made by the Clearing House to such Non-Defaulting RCM or, in the case of a Sponsored Member, its relevant Agent Members in respect of (i) delivery versus payment transfers and (ii) all transfers of cash Collateral other than in respect of variation margin; and (b) the amount of any Cash Payments made by the relevant Non-Defaulting RCM or, in the case of a Sponsored Member, its relevant Agent Members to the Clearing House in respect of the Fixed Income

Contracts of a Defaulting RCM on such business day (expressed as a negative number) excluding any cash payments made by the relevant Non-Defaulting RCM to the Clearing House in respect of (i) delivery versus payment transfers and (ii) all transfers of cash Collateral other than in respect of variation margin.

“Requisite Non-Defaulting RCMs” means on any business day in a Loss Distribution Period, Non-Defaulting RCMs whose RepoClear Contributions represented 75% or more of the total size of the RepoClear Segregated Fund Amount (less the RepoClear Contributions of any Defaulter(s)) as at the last RepoClear Determination Date prior to the date on which the Default occurred.

“Service Closure Period” means the period from and including an Insufficient Resources Determination Date to, but including, a Final Determination Date.

“Total Available Resources” means, during a Loss Distribution Period or Service Closure Period the sum of (i) the Available Resources and (ii) any Unfunded Contributions.

“Total Loss Distribution” means, as determined on the day an LCH Uncovered Loss is being determined, the sum of any Loss Distribution Charges paid by Non-Defaulting RCMs or, in the case of a Sponsored Member, its relevant Agent Members from but 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,