

Décision du 14 novembre 2017 relative aux modifications des règles de fonctionnement de la chambre de compensation et du système de règlement-livraison d'instruments financiers LCH SA sur les CDS en vue notamment d'étendre le service de compensation aux options sur CDS

L'Autorité des marchés financiers,

Vu le code monétaire et financier, et notamment ses articles L. 440-1 et L. 621-7 ;

Vu le règlement général de l'Autorité des marchés financiers, et notamment ses articles 541-1, 560-1 et suivants ;

Vu la demande de LCH SA en date du 31 octobre 2017 ;

Décide :

Article 1^{er}

Sont approuvées, dans leur version en langue anglaise, les modifications des règles de fonctionnement de LCH SA en sa qualité de chambre de compensation et de système de règlement-livraison d'instruments financiers telles qu'annexées à la présente décision.

Elles entreront en vigueur à la date déterminée par LCH SA.

Article 2

La présente décision sera notifiée à LCH SA et publiée sur le site Internet de l'Autorité des marchés financiers.

Fait à Paris, le 14 novembre 2017

Le Président de l'AMF

Robert Ophèle

Extracts of the draft CDS Clearing Rule Book taking into account the credit index options initiative

Amended provisions
<p>Article 1.0.1.1</p> <p>LCH SA is a clearing house within the meaning of Article L. 440-1 of the French Monetary and Financial Code and EMIR which acts as a central counterparty for clearing Original Transactions entered into between the CDS Buyer <u>or the Index Swaption Buyer, as the case may be,</u> and the CDS Seller <u>or the Index Swaption Seller, as applicable,</u> in accordance with the CDS Clearing Documentation.</p> <p>In this framework, LCH SA acts in accordance with applicable banking and financial regulations, including EMIR.</p> <p>LCH SA is under the supervision of its Competent Authorities within the scope of their respective remit as granted by their national law.</p>
<p>Article 1.0.1.3</p> <p>In accordance with the CDS Clearing Documentation, LCH SA novates and clears CDS <u>and Index Swaptions,</u> supervises the Cleared Transactions registered in the name of each Clearing Member, calculates the risk associated with such Cleared Transactions, calls Margin to cover this risk, ensures the proper settlement of the Cleared Transactions as central counterparty, manages the CDS Default Management Process and performs all other functions specified in the CDS Clearing Documentation.</p>
<p><u>2006 Definitions:</u> <u>This term shall have the meaning set out in Part C of the CDS Clearing Supplement.</u></p>
<p><u>Bank Recovery and Resolution Directive:</u> <u>Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms.</u></p>

Cash Payment: Any payment due by a Clearing Member to LCH SA, or due to be received by a Clearing Member from LCH SA, of:

- (i) cash amounts due upon the occurrence of Credit Events;
- (ii) Price Alignment Interest;
- (iii) Fixed Amounts;
- (iv) Variation Margin;
- (v) Initial Payment Amount;
- (vi) Premiums;
- ~~(vi)~~~~(vii)~~ any fees due to LCH SA;
- ~~(vii)~~~~(viii)~~ _____ cash amounts due in connection with an MTM Change; or
- ~~(viii)~~~~(ix)~~ any other cash amounts (other than Cash Collateral).

CCM Cleared Transaction: A CDS or an Index Swaption between LCH SA and a CCM acting either in its own name and for its own account (in respect of a House Cleared Transaction) or as *commissionnaire* in its own name and for the account of a Client (in respect of a Client Cleared Transaction), registered in any Trade Account of such CCM and resulting from:

- (i) the novation of an Original Transaction;
- (ii) the creation of an Exercise Cleared Transaction, a Swaption Restructuring Cleared Transaction, a Spin-off Single Name Cleared Transaction, a Restructuring Cleared Transaction, a Resulting Single Name Cleared Transaction or a Physically Settled Cleared Transaction (where applicable) pursuant to the CDS Clearing Supplement;
- (iii) the compression of existing Cleared Transactions to a single Cleared Transaction pursuant to TITLE III, CHAPTER 3;
- (iv) LCH SA and a CCM entering into hedging transactions pursuant to the CDS Default Management Process;
- (v) the porting of Client Cleared Transactions pursuant to TITLE V, CHAPTER 3;
- (vi) the porting of the Relevant Client Cleared Transactions pursuant to Clause 4.3 of the CDS Default Management Process; or
- (vii) the registration of Transfer Positions pursuant to Clause 6 of the CDS Default Management Process.

CDS Buyer: A Clearing Member that is party to an Index Cleared Transaction or a Single Name Cleared Transaction as protection buyer.

CDS Clearing Documentation: The CDS Admission Agreement, the CDS Clearing Rules, the CDS Clearing Supplement Documents, the Index Cleared Transaction Confirmation, the Index Swaption Cleared Transaction Confirmation and the Single Name Cleared Transaction Confirmation (including

<p>all exhibits, attachments, annexes, schedules and appendices thereto, and any document incorporated by reference therein, if any), as each such document is amended from time to time. For the avoidance of doubt, the Product Family Forms do not form part of the CDS Clearing Documentation.</p>
<p>CDS Clearing Service: The service provided by LCH SA in respect of clearing CDS <u>and/or Index Swaptions</u> in accordance with the CDS Clearing Documentation, including the special terms applicable to use of the service by a CCM pursuant to TITLE V and to use of the service by an FCM Clearing Member pursuant to TITLE VI.</p>
<p>CDS Client Clearing Agreement: The client clearing agreement entered into between a Clearing Member and a Client which relates, in whole or in part, to the clearing of CDS <u>and/or Index Swaptions</u> through the CDS Clearing Service.</p>
<p>CDS Client Clearing Services: Clearing services in respect of CDS <u>and/or Index Swaptions</u> provided by a Clearing Member to its Clients.</p>
<p>CDS Intraday Transaction: A CDS which:</p> <ul style="list-style-type: none"> (i) <u>has been entered into between two ATSS Participants; and</u> (ii) <u>is submitted for clearing to LCH SA by the relevant ATSS Participants through an Approved Trade Source System in accordance with Section 3.1.4.</u>
<p>CDS Seller: A Clearing Member that is party to <u>an Index Cleared Transaction or a Single Name Cleared Transaction</u> as protection seller.</p>
<p>Client Trade Leg: Any trade leg of a CDS in respect of which a Client acts as protection buyer or protection seller <u>or any trade leg of an Index Swaption in respect of which a Client acts as Index Swaption buyer or Index Swaption seller.</u></p>
<p>Delegation: The <i>délégation de créance imparfaite</i> mechanism governed by articles <u>12751336 et seq.</u> of the French Civil Code, as described in Article 5.1.2.2.</p>
<p>EMP Creation Period: <u>This term shall have the meaning set out in the CDS Clearing Supplement.</u></p>
<p>End of Day Contributed Price: For each type of CDS <u>or Index Swaption</u> meeting the Eligibility Requirements and identical in all material aspects other than the Notional Amount, the price/spread provided by the Index Publisher to LCH SA for such CDS, <u>or calculated by LCH SA for such Index Swaption,</u> and resulting from the Market Data.</p>

Exercise Cleared Transaction: This term shall have the meaning set out in the CDS Clearing Supplement.

Exercise Notice: This term shall have the meaning set out in the CDS Clearing Supplement.

Extreme Market Developments: Any one of the following:

- (i) an occurrence or circumstance that threatens or may threaten the fair and orderly clearing, settlement or liquidation of, or in respect of, Cleared Transactions (whether generally or in respect of a particular category of Cleared Transactions) or the continuity or proper and sound functioning of the CDS Clearing Service;
- (ii) a suspension to trading on markets of CDS, Index Swaptions, or other financial instruments relevant to the price or value of CDS or Index Swaptions, as applicable, or any other form of market disruption which makes the proper determination of the End of Day Contributed Price impossible or impractical; and/or
- (iii) any occurrence or circumstance that would negatively impact any financial market relevant to the CDS Clearing Service by introducing an unacceptable level of uncertainty, volatility or risk in respect of any or all Cleared Transactions or to the CDS Clearing Service;

and, in each case, the result of which makes it impractical for LCH SA to continue to operate the CDS Clearing Service in accordance with the CDS Clearing Documentation while satisfactorily managing its risks. For the avoidance of doubt, an event may constitute an Extreme Market Development even if it affects only one Clearing Member or a group of Clearing Members.

FCM Cleared Transaction: A CDS or an Index Swaption between LCH SA and an FCM Clearing Member as agent for the account of an FCM Client (as described in FCM CDS Clearing Regulation 1(c)), registered in the relevant FCM Client Trade Account of such FCM Clearing Member, or as principal for its own account, registered in the FCM House Trade Account of such FCM Clearing Member, and resulting from:

- (i) the novation of an FCM Original Transaction;
- (ii) the creation of an Exercise Cleared Transaction, a Swaption Restructuring Cleared Transaction, a Spin-off Single Name Cleared Transaction, a Restructuring Cleared Transaction, a Resulting Single Name Cleared Transaction or a Physically Settled Cleared Transaction (where applicable) pursuant to the CDS Clearing Supplement;
- (iii) the compression of existing FCM Cleared Transactions to a single FCM Cleared Transaction pursuant to TITLE III, Chapter 3;
- (iv) LCH SA entering into hedging transactions with an FCM Clearing Member pursuant to the CDS Default Management Process;
- (v) the transfer of FCM Cleared Transactions or Porting FCM Cleared Transactions in accordance with Section 3.4.1;
- (vi) the Porting of FCM Cleared Transactions in accordance with the CDS Default Management

<p>Process; or</p> <p>LCH SA and a Backup Clearing Member entering into a new contract on equivalent terms to a terminated FCM Cleared Transaction as part of Porting pursuant to the CDS Default Management Process.</p>
<p>House Trade Leg: Any trade leg of a CDS in respect of which a Clearing Member acts as protection buyer or protection seller, <u>or any trade leg of an Index Swaption in respect of which a Clearing Member acts as Index Swaption buyer or Index Swaption seller.</u></p>
<p>Index Publisher: For the iTraxx® Europe Indices and Markit CDX™ Indices, Markit Group Limited or any successor thereto or any replacement then appointed by the Index Sponsor for purposes of officially publishing the relevant index.</p>
<p>Index Swaption: <u>A transaction which gives to a buyer the right to enter into a CDS referencing a portfolio of Reference Entities specified in a credit default swap index with a seller.</u></p>
<p>Index Swaption Buyer: <u>A Clearing Member that is party to an Index Swaption Cleared Transaction as buyer.</u></p>
<p>Index Swaption Clearing Service: <u>The CDS Clearing Service for which a Clearing Member elects to be registered for in accordance with Section 1 of the Procedures, allowing that Clearing Member to submit Index Swaptions for clearing by LCH SA in accordance with the CDS Clearing Documentation.</u></p>
<p>Index Swaption Cleared Transaction: <u>This term shall have the meaning set out in the CDS Clearing Supplement.</u></p>
<p>Index Swaption Cleared Transaction Confirmation: <u>This term shall have the meaning set out in the CDS Clearing Supplement.</u></p>
<p>Index Swaption Intraday Transaction: <u>An Index Swaption which:</u></p> <ul style="list-style-type: none"> <u>(i) has been entered into between two ATSS Participants; and</u> <u>(ii) is submitted for clearing to LCH SA by the relevant ATSS Participants through an Approved Trade Source System in accordance with Section 3.1.4.</u>
<p>Index Swaption Seller: <u>A Clearing Member that is party to an Index Swaption Cleared Transaction as seller.</u></p>

Insolvency Proceeding: Where a Clearing Member or, as applicable, any related Parent:

- (i) is dissolved (other than pursuant to a consolidation, amalgamation or merger);
- (ii) becomes insolvent or unable to pay its debts or fails or admits in writing in a judicial, regulatory or administrative proceeding or filing its inability generally to pay its debts as they become due;
- (iii) makes a general assignment, arrangement or composition with or for the benefit of its creditors;
- (iv) institutes or has instituted against it a proceeding seeking judgment of insolvency or bankruptcy or any other relief under any bankruptcy or insolvency law or other similar law affecting creditors' rights or a petition is presented for its winding-up or liquidation and in the case of any such proceeding or petition instituted or presented against it, such proceeding or petition: (a) results in a judgment of insolvency or bankruptcy, or the entry of an order for relief, or the making of an order for winding-up or liquidation; or (b) is not dismissed, discharged, stayed or restrained in each case within thirty calendar days of the institution or presentation thereof;
- (v) has a resolution passed for its winding-up, official management or liquidation (other than pursuant to a consolidation, amalgamation or merger);
- (vi) seeks or becomes subject to the appointment of an administrator, provisional liquidator, conservator, receiver, trustee, custodian or other similar official for it or for all or substantially all of its assets;
- (vii) has a secured party take possession of all or substantially all its assets, or has a distress, execution, attachment, sequestration or other legal process levied, enforced or sued on or against all or substantially all its assets and such secured party maintains possession, or any such process is not dismissed, discharged, stayed or restrained in each case within thirty calendar days thereafter; or
- (viii) causes or is subject to any event with respect to it which, under Applicable Law, has an analogous effect to any of the events specified in paragraphs (i) to (vii) above.

For the avoidance of doubt, a resolution procedure, within the meaning of the Bank Recovery and Resolution Directive, does not qualify as an Insolvency Proceeding.

Intraday Transaction: A CDS ~~which:~~

~~(ix) — has been entered into between two ATSS Participants; and~~

~~is submitted for clearing to LCH SA by the relevant ATSS Participants through Intraday Transaction or an Approved Trade Source System in accordance with Section 3.1.4 Index Swaption Intraday Transaction.~~

LCH Settlement Price: This term shall have the meaning given in [Article 4.2.7.1](#).

Non-U.S. CCM: When used in the context of an Original Transaction that is an SBS, a “Non-U.S. CCM” shall mean a CCM that ~~is not a U.S. Person as that term is defined under SEC Regulations.~~engages in securities business activities solely outside the United States, its territories or possessions (except as otherwise permitted under SEC Regulation 15a-6 under the Exchange Act or under any other SEC Regulation without triggering a requirement to be registered as a “broker” or “dealer” under the Exchange Act, as those terms are defined in Section 3 of the Exchange Act). When used in the context of an Original Transaction that is not an SBS, a “Non-U.S. CCM” shall mean a CCM that ~~is not a U.S. Person as that term is defined under CFTC Regulations.~~organized under the laws of, or has its main center of business located in, a jurisdiction other than the United States, its territories or possessions.

Non-U.S. CCM Client: When used in the context of an Original Transaction ~~that is an SBS,~~ a “Non-U.S. CCM Client” shall mean a CCM Client that is organized under the laws of, or has its main center of business located in, a jurisdiction other than the United States, its territories or possessions. ~~not a U.S. Person as that term is defined under SEC Regulations.~~ When used in the context of an Original Transaction that is not an SBS, a “Non-U.S. CCM Client” shall mean a CCM Client that ~~is not a U.S. Person as that term is defined under CFTC Regulations.~~

Payment Failure: Any failure by a Clearing Member to, by the due time, transfer, deliver, deposit with or pay to LCH SA:

- (i) any or all Price Alignment Interest, Initial Payment Amount, Fixed Amounts, Premiums, cash amounts due upon the occurrence of a Credit Event, securities, deliverable obligations or assets owed to LCH SA or to another Clearing Member in respect of Cleared Transactions registered in the name of the Defaulting Clearing Member with LCH SA;
- (ii) subject to Article 4.2.3.3 (iii) Collateral to satisfy its Margin Requirements (including but limited to Spread Margin, Additional Margin, Short Charge Margin, Self-Referencing Protection Margin, Recovery Risk Margin, Interest Rate Risk Margin, Wrong Way Risk Margin, Accrued Fixed Amount Liquidation Risk Margin, Credit Event Margin, Concentration Risk Margin, Credit Quality Margin, Extraordinary Margin, Contingency Variation Margin or any additional Margin imposed by LCH SA pursuant to Article 4.2.1.2);
- (iii) Collateral to satisfy its Contribution Requirement; and
- (iv) Cash Payment to satisfy its Variation Margin Requirement.

Premium: This term shall have the meaning set out in the 2006 Definitions.

Product Family: Each category of CDS or Index Swaption in respect of which LCH SA provides CDS Clearing Services and that may be selected by a Select Member in its Product Family Form.

Settlement Finality Directive: Directive 98/26/EEC of the European Parliament and of the Council of 19 May 1998 on settlement finality in payment and securities settlement systems.

Swaption Restructuring Cleared Transaction: This term shall have the meaning set out in Part C of the CDS Clearing Supplement.

Swaption Type: This term shall have the meaning set out in Part C of the CDS Clearing Supplement.

U.S. CCM: A CCM that is not a Non-U.S. CCM.~~When used in the context of an Original Transaction that~~

~~is an SBS, a "U.S. CCM" shall mean a CCM that is a U.S. Person as that term is defined under SEC Regulations. When used in the context of an Original Transaction that is not an SBS, a "U.S. CCM" shall mean a CCM that is a U.S. Person as that term is defined under CFTC Regulations.~~

~~**U.S. CCM Client:** When used in the context of an Original Transaction that is an SBS, a "U.S. CCM Client" shall mean a CCM Client that is not a Non-U.S. CCM Client is a U.S. Person as that term is defined under SEC Regulations. When used in the context of an Original Transaction that is not an SBS, a "U.S. CCM Client" shall mean a CCM Client that is a U.S. Person as that term is defined under CFTC Regulations.~~

Article 1.1.2.1

The capitalised terms listed in this CDS Clearing Rule Book as having the meaning set out in the CDS Clearing Supplement, the ISDA Credit Derivatives Definitions, an Index Cleared Transaction Confirmation, [an Index Swaption Cleared Transaction Confirmation](#), a Single Name Cleared Transaction Confirmation, or the CDS Dispute Resolution Protocol shall be interpreted in accordance with the governing law of the CDS Clearing Supplement or the CDS Dispute Resolution Protocol, as the case may be.

Article 1.1.3.8

The CDS Clearing Documentation shall be drawn up in English. Different language versions or translations of the CDS Clearing Documentation may be issued for information purposes. In the event of inconsistency between different language versions or translations of the CDS Clearing Documentation, the English language version of the CDS Clearing Documentation shall prevail over any other language versions or translations.

To the extent of any conflict between (i) any definition or provision contained in Appendix 1 of this CDS Clearing Rule Book; (ii) the remainder of this CDS Clearing Rule Book; (iii) the CDS Admission Agreement; (iv) the Pledge Agreement; (v) the CDS Clearing Supplement; (vi) an Index Cleared Transaction Confirmation ~~or, [an Index Swaption Cleared Transaction Confirmation](#) or a~~ Single Name Cleared Transaction Confirmation (as applicable); (vii) the Procedures; or (viii) any Clearing Notices, the first referenced document shall prevail, except with respect to any conflict arising from this CDS Clearing Rule Book being governed by French law and the CDS Clearing Supplement being governed by English law in relation to determining the existence and/or amount of any payment and delivery obligations under any Cleared Transactions, in respect of which the CDS Clearing Supplement, the Index Cleared Transaction Confirmation ~~or, [an Index Swaption Cleared Transaction Confirmation](#) or a~~ Single Name Cleared Transaction Confirmation, as applicable, shall prevail to the extent permitted by law.

Article 1.1.3.9

The "CDS Buyer", "~~CDS~~ Seller", "~~Index Swaption~~ Buyer" and "~~CDS~~ ~~Index Swaption~~ Seller" within the meaning of the CDS Clearing Documentation shall not be construed as being, respectively, a buyer or a seller under a sale contract within the meaning of article 1582 of the French Civil Code.

Article 1.2.2.6

Subject to Article 1.2.2.4 and Article 1.2.2.11, LCH SA shall not, in any circumstances, be permitted to

make any modification to the CDS Clearing Documentation that would alter the terms, including, but not limited to, the payment or delivery obligations, of a Cleared Transaction.

Notwithstanding the foregoing, in relation to any relevant index, where the related Index Publisher publishes an updated form of confirmation in respect of CDS referencing such index or in respect of Index Swaption Cleared Transactions the underlying Index Cleared Transaction of which references such index, or where ISDA publishes an updated form of confirmation for the Single Name Cleared Transaction, LCH SA may, in consultation with the Risk Committee, adopt such form of confirmation in respect of Index Cleared Transactions, Index Swaption Cleared Transactions or Single Name Cleared Transactions, as the case may be, either:

- (i) with respect to existing and future Cleared Transactions referencing such index, Index Swaption Cleared Transactions the underlying Index Cleared Transaction of which references such index or Single Name Cleared Transactions, as the case may be; or
- (ii) with respect to future Cleared Transactions referencing such index, Index Swaption Cleared Transactions the underlying Index Cleared Transaction of which references such index or Single Name Cleared Transactions, as the case may be, only,

and in each case may make consequential changes to the CDS Clearing Supplement and the Procedures, provided that LCH SA may only adopt such confirmations and make consequential changes following consultation with the Risk Committee and provided further that:

- (a) LCH SA may only adopt such confirmations when LCH SA determines, following consultation with the Risk Committee, that such confirmations are industry standard; and
- (b) LCH SA may only modify existing Cleared Transactions as the case may be, if LCH SA determines, following consultation with the Risk Committee, that such modifications will not result in an MTM Change in respect of the relevant Cleared Transaction, as the case may be.

Without prejudice to its right to make other changes to the CDS Clearing Documentation in accordance with this Section 1.2.2, LCH SA shall not, by Clearing Notice or otherwise, issue any interpretation of any provision of any Cleared Transaction that is or purports to be binding on Clearing Members generally. Following the due completion of the process set out in Article 1.2.2.2, LCH SA will issue a Rules Notice in accordance with Article 1.2.2.3.

Article 1.2.2.11

LCH SA may, in consultation with the Risk Committee and such other appropriate legal, operational and other forums established by LCH SA, modify this CDS Clearing Rule Book, the CDS Clearing Supplement and/or the Procedures in accordance with any relevant CDS industry sponsored protocol or other industry sponsored protocol (or, in each case, other multilateral agreement process) to which, as at 17.00 on the originally scheduled closing date of such protocol or other multilateral agreement process, at least 50% of Clearing Members by number and 50% by contribution to the CDS Default Fund as at the date of its last recalculation pursuant to Article 4.4.1.5 and Article 4.4.1.6 agree to adhere, with such modification to be applicable to all existing or future Cleared Transactions of the relevant CDS Type or Swaption Type, as the case may be, as set forth in such protocol or multilateral

agreement process or resolution.

Article 1.2.9.2

Where a Clearing Member is subject to a Payment Failure, LCH SA may (without prejudice to any other rights it may have against the Clearing Member) withhold any payments it would otherwise be obliged to make under the CDS Clearing Documentation to such Clearing Member up to the value of the payment(s) that constitute the Payment Failure (such value calculated using reasonable currency conversion rates where necessary) for so long as the Payment Failure continues.

The scope of the obligations that LCH SA undertakes to perform as counterparty to the relevant Clearing Members with respect to Cleared Transactions and as detailed in the relevant provisions of the CDS Clearing Documentation after registration in accordance with this CDS Clearing Rule Book has occurred include, without limitation:

- (i) the payment of the Variation Margin to the relevant Clearing Member;
- (ii) the payment of the Price Alignment Interest to the Clearing Member;
- (iii) the payment of the Initial Payment Amount, if any, to the relevant Clearing Member;
- (iv) the payment of Fixed Amounts to the CDS Seller; ~~and~~
- (v) following a Credit Event, and in accordance with the CDS Clearing Supplement:
 - (a) when Auction Settlement applies, the payment of the Auction Settlement Amount to the CDS Buyer;
 - (b) when Physical Settlement applies, the payment to the CDS Buyer of the Physical Settlement Amount; and
 - (c) where the Partial Cash Settlement Terms apply pursuant to the Cleared Transaction, the payment of the Cash Settlement Amount to the CDS Buyer; ~~and~~
- (vi) the payment of the Premium to the relevant Index Swaption Seller in accordance with Part C of the CDS Clearing Supplement.

These obligations of LCH SA to each Clearing Member shall be determined after giving effect to netting as set out in Section 3 of the Procedures.

Article 1.2.12.2

LCH SA may, in accordance with the provisions of Article L. 632-17 of the French Monetary and Financial Code, when applicable, disclose any information referred to in Article 1.2.12.1 above:

- (i) with the written consent of the relevant Clearing Member;
- (ii) to any person to whom, at such times and in such manner as, LCH SA is required or formally requested to disclose information pursuant to an order of a competent court, or by or on behalf of any relevant Competent Authority with respect to LCH SA and/or the relevant Clearing Member, Client or Affiliate;
- (iii) to an Approved Trade Source System or the TIW, to the extent that such disclosure is necessary for the proper performance by LCH SA or the relevant Clearing Member of its obligations under the CDS Clearing Documentation;
- (iv) as expressly permitted by the CDS Clearing Documentation, including, without limitation, to one or several Clearing Members, to the extent that such disclosure is necessary for the proper management of an Event of Default or of an LCH Default and the implementation by LCH SA and Clearing Members of physical settlement of the Cleared Transactions, and the information thus disclosed by LCH SA shall be treated as confidential information by the receiving Clearing Members and shall not be made known to any other person nor used for any purpose other than that for which it has been disclosed by LCH SA;
- (v) to other clearing houses, to which the relevant Clearing Member is admitted as a member for the purpose of clearing CDS or Index Swaptions, as the case may be, in connection with the occurrence of an Event or an Event of Default in respect of such Clearing Member; or
- (vi) to any other person (with the exception of ratings agencies including but not limited to Moody's, Standard and Poor's and Fitch) to whom LCH SA is authorised to disclose such information pursuant to and in accordance with the provisions of Articles L. 511-33 and L. 511-34 of the French Monetary and Financial Code.

Article 1.2.14.2

The CDS Clearing Supplement, the ISDA Credit Derivatives Definitions, any Cleared Transactions (and any related definitions or Clearing Notices issued in respect of the CDS Clearing Supplement, the ISDA Credit Derivatives Definitions or any Cleared Transactions) and the CDS Dispute Resolution Protocol shall be governed by and construed in accordance with English substantive law.

Article 2.2.0.4

Each Select Member shall indicate in its Product Family Form the Product Families that such Select Member intends to clear through LCH SA.

The Product Family Form of a Select Member may be updated in accordance with Article 3.1.6.8 ~~and~~, Section 5 of the Procedures and Clause 6.1 of the CDS Default Management Process.

A Select Member is entitled to add or remove any Product Family indicated in its Product Family Form in accordance with this Article 2.2.0.4, Article 3.1.6.8 and Section 5 of the Procedures provided that a Select Member may request the removal of a Product Family only if all of its Cleared Transactions registered in its House Account Structure belong to the outstanding Product Families indicated in its updated Product Family Form.

Article 2.2.0.6

In addition to the election made in accordance with Article 2.2.0.3, an Applicant may elect to register for the Index Swaption Clearing Service in accordance with Section 1 of the Procedures.

A Clearing Member may register for, or unregister from, the Index Swaption Clearing Service in accordance with the conditions set out in Section 1 of the Procedures, save as set out in Clause 6.1 of the CDS Default Management Process, in which case the relevant Clearing Member shall be registered for the Index Swaption Clearing Service as from the time of registration of the relevant Transfer Positions in its House Account Structure.

Article 2.2.1.1

Any Applicant wishing to be admitted as a Clearing Member by LCH SA should satisfy the following conditions:

- (i) be validly incorporated and existing under the laws of its jurisdiction of incorporation and (if relevant in such jurisdiction) be in good standing;
- (ii) be the subject of supervision by its Competent Authorities;
- (iii) undertake to accept and comply with the CDS Clearing Documentation by executing the CDS Admission Agreement;
- (iv) in respect of any Applicant wishing to be admitted as a General Member, have a CDS Client Clearing Agreement, meeting the requirements Article 5.1.1.2 (i) (in the case of a CCM) or Article 6.1.1.2 (in the case of an FCM Clearing Member), in place with each of its Clients;
- (v) in respect of any Applicant wishing to be admitted as a General Member, provide LCH SA with updated documentation and information required pursuant to Section 1 of the Procedures, in respect of each of its Clients;
- (vi) to accept to comply with all Applicable Law relating to its status as a Clearing Member and the performance of its obligations pursuant to the CDS Clearing Documentation;
- (vii) not be subject to Insolvency Proceedings;

- (viii) meet the Capital requirements as specified in Section 2.2.3, and any further liquidity and/or solvency requirements as may be set by LCH SA from time to time in accordance with this CDS Clearing Rule Book, taking into account notably the indicators mentioned in Article 2.3.2.1;
- (ix) satisfy a minimum internal credit score which is determined by LCH SA as set out in Article 2.2.4.1 below;
- (x) satisfy LCH SA that it has sufficient expertise in relation to clearing activities, that its Systems and Operations are operationally reliable and capable of supporting the proper performance of its business as a Clearing Member and that its risk management policy is adequate;
- (xi) participate, or demonstrate that it has: (A) an affiliated Clearing Member or, alternatively, a non-clearing member Affiliate that clears through the Clearing Member, that can successfully participate; or (B) an LCH Approved Outsourcing Agent that can successfully participate in the implementation of the CDS Default Management Process, and participate in (and satisfy LCH SA's requirements with respect to the carrying out of) regular fire drills run by LCH SA from time to time, in accordance with this CDS Clearing Rule Book;
- (xii) have nominated and notified to LCH SA:
 - (a) a Person, having director, general partner, trustee or officer status at the Clearing Member (or a Person occupying a similar status or performing similar functions) who is both responsible for the clearing operations of the Clearing Member and authorised to act on behalf of the Clearing Member in respect of all transactions with or involving LCH SA; and
 - (b) an alternate Person that satisfies the requirements set out in sub-paragraph (a) above and who is authorised to act on behalf of the Clearing Member in the event that the first Person is incapable or unable to act;
- (xiii) pay all fees and other amounts required by LCH SA in accordance with the CDS Clearing Documentation, including, without limitation, satisfying its Margin Requirement, its Contribution Requirement and its Cash Payment obligations;
- (xiv) be in a position to provide Collateral in satisfaction of its Margin Requirements and its Contribution Requirement, and to perform Cash Payment obligations, including:
 - (a) submitting evidence and details of duly existing cash accounts (including, at least, one TARGET2 Account and one cash account in US Dollar) for the purposes of payment of cash amounts, as well as evidence that a Power of Attorney has been issued in favour of LCH SA to allow the debiting or crediting of such cash accounts for the performance of Cash Payment obligations and the provision of Cash Collateral; and
 - (b) having in place all appropriate settlement solutions (direct access or indirect access to at least one settlement system) in case of Physical Settlement;
- (xv) have at its disposal the technical environment, including facilities, equipment, operational capability, personnel, hardware and software systems as may be required to support the proper performance of its business as a Clearing Member, including such IT links as may be

- necessary for it to be connected to the CDS Clearing System managed by LCH SA;
- (xvi) have operational competence in CDS and, in respect of any Applicant wishing to register for the Index Swaption Clearing Service, Index Swaptions, substantially similar to Original Transactions eligible for clearing by LCH SA;
 - (xvii) be a TIW Participant for the purposes of maintaining Original Transactions and Cleared Transactions in the TIW;
 - (xviii) be an ATSS Participant for the purpose of submitting Original Transactions for clearing;
 - (xix) have access to one of the means of access and reporting mechanism as specified in a Clearing Notice to obtain CDS Clearing System reports;
 - (xx) be party to any required documentation with DTCC allowing LCH SA as "Service Provider" to :
 - (a) arrange for the removal of Backloading Transactions or if applicable, Intraday Transactions, from the TIW in accordance with Section 3.1.10;
 - (b) arrange for the registration of Cleared Transactions in the TIW in accordance with Section 3.1.10; and
 - (c) send to DTCC messages by which Cleared Transactions would be adhered to Credit Events;
 - (xxi) if it is incorporated or registered in the United States of America, be an eligible contract participant, as defined in Section 1a(12) of the Commodity Exchange Act (other than paragraph (C) thereof);
 - (xxii) satisfy any additional membership requirements as set out in Section 1 of the Procedures, including without limitation any caps on the aggregate amount of Spread Margin it may have on deposit at any given time with LCH SA;
 - (xxiii) accept to comply with the performance of its obligations pursuant to the Pledge Agreement;
 - (xxiv) in respect of any Applicant that is an FCM, be registered with the CFTC as an FCM and a member in good standing with NFA; and
 - (xxv) in respect of any Applicant that is an FCM wishing to be admitted as a CCM, provide LCH SA with an opinion of counsel letter confirming that its performance of the obligations of a CCM would not be contrary to Applicable Law relating to such status, in form and content acceptable to LCH SA.

Article 3.1.6.1

In respect of each Original Transaction novated by LCH SA, with effect from the Novation Time of such Original Transaction:

- (i) if such Original Transaction comprises two House Trade Legs, the parties to such Original Transaction shall be automatically and immediately released and discharged from all their obligations to each other under such Original Transaction (and the books and records of such parties shall be updated to reflect such novation) other than in respect of:
 - (a) any amounts which are due and payable (or deliverable) by one party to the other pursuant to the terms of such Original Transaction but have not yet been paid (or delivered), on or prior to the Novation Time; and
 - (b) any Initial Payment Amounts ~~or~~, any Fixed Amounts or any Premiums, as applicable, when such amounts remain payable between the parties to such Original Transaction and in accordance with the terms of such Original Transaction pursuant to the CDS Clearing Supplement;
- (ii) if such Original Transaction comprises at least one Client Trade Leg, the parties to such Original Transaction shall be released and discharged from all their obligations to each other in accordance with the relevant agreement they have entered into other than in respect of:
 - (a) any amounts which are due and payable (or deliverable) by one party to the other pursuant to the terms of such Original Transaction but have not yet been paid (or delivered), on or prior to the Novation Time; and
 - (b) any Initial Payment Amounts ~~or~~, any Fixed Amounts~~;~~ or any Premiums, as applicable when such amounts remain payable between the parties to such Original Transaction and in accordance with the terms of such Original Transaction pursuant to the CDS Clearing Supplement;
- (iii) each such Original Transaction, other than Index Swaption Intraday Transactions, will be replaced by two Cleared Transactions as follows:
 - (a) a Cleared Transaction entered into between LCH SA (acting as the protection seller in respect of such Cleared Transaction) and either: (x) in the event the Fixed Rate Payer of the Original Transaction is a Clearing Member, the Fixed Rate Payer (acting as CDS Buyer in respect of such Cleared Transaction); or (y) in the event the Fixed Rate Payer of the Original Transaction is a Client, the relevant Nominated Clearing Member (acting as CDS Buyer in respect of such Cleared Transaction), as applicable; and
 - (b) a Cleared Transaction entered into between LCH SA (acting as the protection buyer in respect of such Cleared Transaction) and either: (x) in the event the Floating Rate Payer of the Original Transaction is a Clearing Member, the Floating Rate Payer (acting as CDS Seller in respect of such Cleared Transaction); or (y) in the event the Floating Rate Payer of the Original Transaction is a Client, the relevant Nominated Clearing Member (acting as CDS Seller in respect of such Cleared Transaction), as applicable;

and

(iv) each such Original Transaction which is an Index Swaption Intraday Transaction will be replaced by two Cleared Transactions as follows:

(a) a Cleared Transaction entered into between LCH SA (acting as Index Swaption seller in respect of such Cleared Transaction) and either: (x) in the event the Index Swaption buyer of the Original Transaction is a Clearing Member, such Clearing Member (acting as Index Swaption Buyer in respect of such Cleared Transaction); or (y) in the event the Index Swaption buyer of the Original Transaction is a Client, the relevant Nominated Clearing Member (acting as Index Swaption Buyer in respect of such Cleared Transaction), as applicable; and

(b) a Cleared Transaction entered into between LCH SA (acting as Index Swaption buyer in respect of such Cleared Transaction) and either: (x) in the event the Index Swaption seller of the Original Transaction is a Clearing Member, such Clearing Member (acting as Index Swaption Seller in respect of such Cleared Transaction); or (y) in the event the Index Swaption seller of the Original Transaction is a Client, the relevant Nominated Clearing Member (acting as Index Swaption Seller in respect of such Cleared Transaction), as applicable; and

~~(iv)~~(v) each such Cleared Transaction is deemed entered into by LCH SA as a system and is irrevocable in accordance with Article L. 330-1 III and IV of the French Monetary and Financial Code.

Any failure by a party to perform its obligations under such Original Transaction shall not affect the liability of any such party to LCH SA following the novation of such Original Transaction.

Article 3.1.6.4

LCH SA will be entitled to assume and will assume that no Credit Event Notice ~~or~~, Notice of Physical Settlement, Notice to Exercise Movement Option or Exercise Notice under an Original Transaction submitted for clearing by LCH SA in accordance with this TITLE III, Chapter 1 has been delivered by either party to the other prior to the Novation Time for that Original Transaction (other than any deemed delivery of a Credit Event Notice pursuant to a DC Credit Event Announcement). Each Clearing Member upon submitting an Original Transaction for clearing by LCH SA acknowledges and agrees that any Credit Event Notice (other than any deemed delivery of a Credit Event Notice pursuant to a DC Credit Event Announcement) ~~or~~, Notice of Physical Settlement (or NOPS Amendment Notice), Notice to Exercise Movement Option or Exercise Notice delivered in relation to an Original Transaction which is accepted for clearing by LCH SA in accordance with Section 3.1.1, Section 3.1.2 or Section 3.1.4 shall be deemed, at the Novation Time, never to have been delivered.

Article 3.1.6.8

In respect of a Select Member, if LCH SA registers a Cleared Transaction, the category of which does not belong to any of the Product Families indicated in the Product Family Form of that Select Member, the Select Member shall be bound by the terms of such Cleared Transaction and LCH SA shall notify that Select Member of such Cleared Transaction by 20.00 CET at the latest on that Clearing Day. If this notification is given:

- (i) on or before 20.00 CET on a Clearing Day: such notification will be deemed to have been received on the Clearing Day on which such notification is given; or
- (ii) after 20.00 CET on a Clearing Day such notification will be deemed to have been received on the following Clearing Day.

As from the deemed date of receipt of the notification, as determined in accordance with (i) or (ii) of this Article 3.1.6.8, that Select Member will have until the End of Real Time on the Clearing Day following the deemed date of receipt of that notification to:

- (x) either send an updated Product Family Form including the relevant new Product Family (ies) to LCH SA in the manner set out in Section 5 of the Procedures; or
- (y) reverse that Cleared Transaction in accordance with Section 5 of the Procedures.

Where the Select Member does not take one of the two measures listed above before the End of Real Time on the relevant Clearing Day, the Select Member's Product Family Form will be automatically updated by adding the relevant new Product Family (ies) and this update shall be deemed to have occurred at the End of Real Time on that Clearing Day.

Article 3.1.10.7

The process as described in Article 3.1.10.1 will apply, *mutatis mutandis*, in all other circumstances where termination and creation messages relating to Cleared Transactions of a Clearing Member are to be exchanged between the Approved Trade Source System, LCH SA and such Clearing Member, including, without limitation, in connection with:

- (i) the creation of ~~Restructuring Matched Pairs or Settlement~~ Matched Pairs (where applicable)

and subject to Sections 5 and 6 of Part A ~~or~~, Part B or Part C, as applicable, of the CDS Clearing Supplement, as applicable); and

- (ii) the transfer of Cleared Transactions.

Article 3.2.2.3

LCH SA shall calculate a Clearing Member's Open Positions registered in its House Margin Account by netting the Cleared Transactions which are allocated to the House Margin Account and which are of the same CDS Type or Swaption Type, as applicable.

Article 3.3.1.3

As set out in Section 5 of the Procedures and in the CDS Clearing Supplement:

- (i) following a Credit Event in respect of any Cleared Transactions, other than a Restructuring Credit Event, LCH SA may compress Cleared Transactions to result in one or more Cleared Transaction(s) *per* CDS Type;
- (ii) ~~As set out in Section 5 of the Procedures~~ following a Restructuring Credit Event in respect of any Cleared Transactions, LCH SA may compress Single Name Cleared Transactions or Index Swaption Cleared Transactions, as the case may be, to result in one or more Cleared Transaction(s) *per* CDS Type or Swaption Type, as the case may be;
- (iii) ~~As set out in Section 5 of the Procedures~~ following a DC Credit Event Announcement, if the Fallback Settlement Method applies in respect of any Cleared Transactions, LCH SA may compress Physically Settled Cleared Transactions to result in one or more Cleared Transactions *per* CDS Type;
- (iv) during an EMP Creation Period, LCH SA may compress Index Swaption Cleared Transactions to result in one or more Exercise Cleared Transactions.

Following an Event of Default, TITLE IV, CHAPTER 3 of this CDS Clearing Rule Book shall prevail and apply in relation to all matters concerning aggregation, compression, set off, closing out and termination of Cleared Transactions.

Article 3.3.1.4

In the event that a Clearing Member does elect for the compression of some or all of its Cleared Transactions in accordance with this Section 3.3.1 and Section 5 of the Procedures, such compression shall take place through termination of the relevant existing Cleared Transaction or Cleared Transactions of the same CDS Type or Swaption Type, as applicable, in consideration for entry into a new replacement single Cleared Transaction.

Article 3.3.1.7

Where compression has taken place in respect of any Cleared Transactions, the accrued Fixed Amounts or Premiums, as applicable, for the relevant Cleared Transactions shall be netted and the Fixed Amount or Premiums, as applicable, for the Cleared Transaction resulting from the compression

shall be determined by reference to the Cleared Transactions which were compressed.

Section 4.2.7 Markit LCH Settlement Price and LCH Settlement Price

Article 4.2.7.1

LCH SA will use End of Day Contributed Prices, or if, for any reason whatsoever, such End of Day Contributed Prices are not available to LCH SA, other composite prices/spreads provided by the Index Publisher or any data providers or such other prices/spreads as may be determined by the Risk Committee, for the purposes of any risk calculation performed by LCH SA pursuant to this CDS Clearing Rule Book including, without limitation, calculating and valuing a Clearing Member's Open Positions and calculating its Margin Requirement. The price/spread actually used by LCH SA to calculate the settlement prices for

- (i) Index Cleared Transactions and Single Name Cleared Transactions on either an end of day or intra-day basis shall be referred to as the "**Markit LCH Settlement Price**"; and
- (ii) Index Swaption Cleared Transactions on either an end of day or intra-day basis shall be referred to as the "LCH Settlement Price".

Article 4.2.7.2

Each Clearing Member is hereby authorised:

- (i) to use the Markit LCH Settlement Prices and the LCH Settlement Prices internally and solely in connection with its clearing functions;
- (ii) in respect of a General Member: to provide Markit LCH Settlement Prices and the LCH Settlement Prices to those Clients with Open Positions registered in its corresponding Client Margin Accounts; provided that: (a) such distribution is at no cost; (b) the Markit LCH Settlement Prices and the LCH Settlement Prices are provided for use by such Clients internally and solely in connection with their clearing functions, (c) any permitted onward distribution to the Client's affiliates and clients is equivalently restricted, and (d) the Markit LCH Settlement Prices and the LCH Settlement Prices are identified as such.

For the avoidance of doubt, "clearing functions" shall mean the validation of the Clearing Member's, or any relevant Clients', Margin Requirements and the calculation and valuation of the Clearing Member's, or any relevant Client's, Open Positions for the purposes of its own internal books and records.

Article 4.2.7.3

Each Clearing Member accepts that LCH SA, the Index Publisher and ~~its~~their data providers, specifically disclaim (i) all warranties or representations as to, and (ii) all liabilities whether in contract, tort (including, but not limited to, negligence) or otherwise in relation to, the quality, fitness for purpose, completeness or accuracy of the Markit LCH Settlement Prices ~~and the LCH Settlement Prices~~.
Prices.

Article 4.2.7.4

Should a Clearing Member breach the provisions of this Section 4.2.7, it shall indemnify LCH SA for any losses, costs, or expenses incurred by LCH SA as a result of that breach.

Article 4.2.7.5

Each Clearing Member acknowledges and agrees that the Markit LCH Settlement Prices and the LCH Settlement Prices are provided “as is”, and that neither the Index Publisher, LCH SA nor any other person makes any representation or warranty related to the Markit LCH Settlement Prices and the LCH Settlement Prices nor shall the Index Publisher, LCH SA or any of #stheir data providers have any liability, duty or obligation for or relating to the Markit LCH Settlement Prices and the LCH Settlement Prices, any errors, inaccuracies, omissions or delays in content, or for any actions taken in reliance thereon. In no event shall the Index Publisher, LCH SA or any of #stheir data providers be liable for damages including, without limitation, damages resulting from lost data or lost profits or revenue, the costs of recovering such data, claims by third parties or for similar costs, or any special, incidental or consequential damages arising out of the use of the Markit LCH Settlement Prices. and of the LCH Settlement Prices.

Article 4.2.7.6

Each Clearing Member hereby makes the Index Publisher an intended third party beneficiary of Article 4.2.7.1 to Article 4.2.7.5 above in respect of the Markit LCH Settlement Prices only.

Article 4.2.7.7

In connection with the establishment and validation of an End of Day Contributed Price, each Price Contribution Participant shall, in accordance with process set out in Section 5 of the Procedures relating to End of Day Contributed Prices, enter into a CDS and/or an Index Swaption with another Price Contribution Participant following notification from LCH SA that they are required to do so and the terms on which such CDS and/or an Index Swaption should be executed. By the End of Day on the Price Contribution Day following receipt of such notification from LCH SA, the Price Contribution Participant shall evidence that such CDS and/or an Index Swaption has been entered into, as described in Section 5 of the Procedures.

Article 4.2.7.8

A General Member or a Select Member which has opted to be a Price Contribution Participant in accordance with Article 2.2.0.5 can delegate the performance of: (i) the submission of Market Data pursuant to Section 5 of the Procedures; and (ii) the entry into CDS and/or Index Swaption pursuant to Article 4.2.7.7 above to its Price Contribution Delegate.

Notwithstanding the due appointment of a Price Contribution Delegate, the General Member or the Select Member which has opted to be a Price Contribution Participant in accordance with Article 2.2.0.5 shall remain responsible to LCH SA for the due performance of its obligations under Article 4.2.7.7 above and Section 5 of the Procedures.

Article 5.1.1.3

The following provisions shall constitute the Mandatory Client Clearing Provisions:

- (i) the receipt of CDS Clearing Services from the CCM, which result in the registration of Client Cleared Transactions within such CCM's CCM Client Trade Account(s), will be governed by the applicable provisions of the CDS Clearing Documentation and the CDS Client Clearing Agreement;
- (ii) upon LCH SA's registration of Client Cleared Transactions within the CCM Client Account Structure of the relevant CCM (whether following a novation pursuant to Title III, Chapter 1, transfer of Client Cleared Transactions pursuant to Title V, Chapter 3 or porting of Relevant Client Cleared Transactions pursuant to the CDS Client Clearing DMP):
 - (a) a client transaction having the same economic terms as the Client Cleared Transaction will be deemed to arise under the CDS Client Clearing Agreement (a "**Deemed Client Transaction**") whereby: (x) if the CCM is a CDS Seller or an Index Swaption Seller under a Client Cleared Transaction, such CCM shall be a CDS buyer or an Index Swaption buyer, as applicable, and the CCM Client shall be the CDS seller or Index Swaption seller, as applicable, under the Deemed Client Transaction; and (y) if the CCM is a CDS Buyer or an Index Swaption Buyer under a Client Cleared Transaction, such CCM shall be the CDS seller or Index Swaption seller, as applicable, and the CCM Client shall be the CDS buyer or Index Swaption buyer, as applicable, under the Deemed Client Transaction, and in each case such that the CCM Client will remain in the same economic position as it had in relation to the original transaction that it entered into; and
 - (b) where the Receiving Clearing Member receives Client Assets or the Backup Clearing Member receives Ported Collateral in connection with the registration of such Client Cleared Transaction, the CCM Client shall be deemed to have provided equivalent collateral in relation to the corresponding Deemed Client Transaction in such form as is agreed between the CCM and the CCM Client;

[...]

- (vi) the CCM Client irrevocably consents to the benefit of the Delegation by which, under the CDS Admission Agreement, the CCM has delegated to LCH SA the obligation to pay to the CCM Client an amount equal to the CDS Client Clearing Entitlement, calculated in respect of each such CCM Client, if any. The Delegation is a *délégation imparfaite* governed by articles 12751336 *et seq.* of the French Civil Code and the CDS Clearing Documentation. Accordingly, the CCM Client irrevocably acknowledges that, upon LCH SA's payment to the CCM Client under the Delegation, the CCM is discharged pro tanto from paying to the Client an amount equal to the CDS Client Clearing Entitlement automatically without further notice;
- (vii) the Client undertakes to return to the CCM any amounts received from LCH SA pursuant to the Delegation where such amounts exceed the amount which is due from the CCM to the CCM Client in relation to the clearing of CDS and/or Index Swaptions, as applicable, through

the CDS Clearing Service in accordance with the CDS Client Clearing Agreement;

[...]

(xvii) to the extent the Markit LCH Settlement Prices [and/or the LCH Settlement Prices](#) are provided to the CCM Client, the Client shall:

(a) use such Markit LCH Settlement Prices [and/or the LCH Settlement Prices](#) internally and solely in connection with its clearing functions; and

(b) only be permitted to provide the Markit LCH Settlement Prices [and/or the LCH Settlement Prices](#) to an affiliate or a client of its own if: (1) it does so at no cost; (2) the Markit LCH Settlement Prices [and/or the LCH Settlement Prices](#) are provided for the affiliate or client to use internally and solely in connection with their respective clearing functions; and (3) the Markit LCH Settlement Prices [and/or the LCH Settlement Prices](#) are identifiable as such;

For the avoidance of doubt, “clearing functions” shall mean the validation of the CCM Client's Margin Requirement (or any margin requirement applicable to the CCM Client’s affiliate or client) and the calculation and valuation of the CCM Client's Open Positions (or the net open positions of the CCM Client’s affiliate or client) for the purposes of its own internal books and records;

[...]

Article 5.1.2.2

Each CCM has irrevocably delegated LCH SA, in favour of each of its CCM Clients, in the payment to each of its CCM Clients of an amount equal to the CDS Client Clearing Entitlement calculated in respect of each of its CCM Clients, if any. The Delegation is a *délégation imparfaite* governed by articles [12751336](#) *et seq.* of the French Civil Code and the CDS Clearing Documentation. Accordingly, the CCM irrevocably acknowledges that:

(i) it has directed LCH SA to pay to each of its CCM Clients, an amount equal to the relevant CDS Client Clearing Entitlement, if positive; and

(ii) upon LCH SA paying the amount due in accordance with the Delegation to each CCM Client of the CCM, LCH SA shall irrevocably be discharged pro tanto from paying an amount equal to the relevant CDS Client Clearing Entitlement to the CCM automatically without further notice;

For the avoidance of doubt, this Delegation shall not restrict or otherwise prejudice the entitlement of the CCM to any Collateral in relation to its CCM House Margin Account save as expressly provided above.

Article 6.1.1.3

Each FCM Client (and, if permitted pursuant to Article 6.1.1.1, an Affiliate), by participating in Original Transactions and entering FCM Cleared Transactions through its FCM Clearing Member, shall be deemed to understand, acknowledge and agree that:

[...]

(xii) to the extent the Markit LCH Settlement Prices [and/or the LCH Settlement Prices](#) are provided to the FCM Client, the FCM Client shall:

(a) use such Markit LCH Settlement Prices [and/or the LCH Settlement Prices](#) internally and solely in connection with its clearing functions; and

(b) only be permitted to provide the Markit LCH Settlement Prices [and/or the LCH Settlement Prices](#) to an affiliate or a client of its own if: (1) it does so at no cost; (2) the Markit LCH Settlement Prices [and/or the LCH Settlement Prices](#) are provided for the affiliate or client to use internally and solely in connection with their respective clearing functions; and (3) the Markit LCH Settlement Prices [and/or the LCH Settlement Prices](#) are identifiable as such.

For the avoidance of doubt, "clearing functions" shall mean the validation of the FCM Client's Margin Requirement (or any margin requirement applicable to the FCM Client's affiliate or client) and the calculation and valuation of the FCM Client's Open Positions (or the net open positions of the Client's affiliate or client) for the purposes of its own internal books and records;

[...]

Article 6.4.1.1

If at any time a liquidation date, howsoever described in the relevant clearing agreement or addendum to an existing agreement between an FCM Clearing Member and its FCM Client relating, in whole or in part, to clearing of CDS [and/or Index Swaptions, as the case may be](#), through the CDS Clearing Service, occurs in respect of one or more of the FCM Cleared Transaction(s) carried by an FCM Clearing Member for the account of an FCM Client and, at the time of such liquidation date, the relevant FCM Clearing Member is not a Defaulting Clearing Member, the relevant FCM Clearing Member may instruct LCH SA to transfer the relevant Client Cleared Transactions from the relevant FCM Client Trade Account to its FCM House Trade Account, in accordance with this TITLE VI, Chapter 4 and the Procedures.

Appendix 1 – CDS Default Management Process

"**Invoice Back**" means the process by which a Cleared Transaction of the same CDS Type [or Swaption Type, as applicable](#), is created by LCH SA with the role of CDS Buyer [or Index Swaption Buyer, as applicable](#) and CDS Seller [or Index Swaption Seller, as applicable](#), reversed and, at LCH SA's discretion, a different price or premium and other terms as are determined by LCH SA applied. The term "**Invoicing Back**" and other similar expressions shall be construed accordingly;

"Product Cash Payments" means, in respect of each Margin Account and any Clearing Day, any Fixed Amounts, Initial Payment Amounts, Auction Settlement Amounts ~~or any~~, Cash Settlement Amounts or any Premiums (as defined for the purpose of the applicable Cleared Transaction) connected to such Margin Account on such Clearing Day;

"Transaction Categories" mean the different categories of Cleared Transactions, being:

(i) Index Cleared Transactions together with the relevant off-setting Single Name Cleared Transactions;

(ii) Index Swaption Cleared Transactions together with the relevant off-setting Index Cleared Transactions;

~~(ii)(iii)~~ residual Index Cleared Transactions; ~~and~~

~~(iii)(iv)~~ residual Single Name Cleared Transactions; ~~and~~

~~(iv)(v)~~ residual Index Swaption Cleared Transactions;

4.2.5 ascertain whether:

(i) if the Defaulting Clearing Member is a CCM:

(a) each CCM Individual Segregated Account Client of the Defaulting Clearing Member has appointed a Backup Clearing Member;

(b) each of the CCM Net Omnibus Segregated Account Clients attributable to a single CCM Net Omnibus Segregated Account Structure of the Defaulting Clearing Member has appointed a single Backup Clearing Member;

(c) with respect to each CCM Gross Omnibus Segregated Account Structure of the Defaulting Clearing Member, each of the CCM Gross Omnibus Segregated Account Clients attributable to a single CCM Gross Omnibus Sub-Account Structure has appointed a single Backup Clearing Member; and

(ii) if the Defaulting Clearing Member is an FCM Clearing Member, each of the FCM Clients of the Defaulting Clearing Member has appointed a Backup Clearing Member;

within the compulsory timeframe as set out in Clause 4.3.1 or Clause 4.3.2 below as the case may be;

5.4.1 Participation in Competitive Bidding

All Auction Participants are required to participate in Competitive Bidding for each Auction Package notwithstanding that any Auction Participant may not have registered within its Account Structure a Cleared Transaction of the type included in the relevant Transaction Category for an Auction Package, save where:

(i) an Auction Package comprises Single Name Cleared Transactions whose Reference Entity is the Auction Participant, in which case that Auction Participant is not required

to participate in Competitive Bidding for that Auction Package;

- (ii) an Auction Participant is a Select Member, in which case such Auction Participant is not required to participate in Competitive Bidding for an Auction Package containing any Cleared Transaction that does not belong to any Product Family as set out in that Select Member's Product Family Form in force on the Business Day immediately preceding the CDS Post-Default Period; ~~and~~

(iii) an Auction Participant is not registered for the Index Swaption Clearing Service in accordance with Section 1 of the Procedures, in which case such Auction Participant is not required to participate in Competitive Bidding for an Auction Package containing any Index Swaption Cleared Transaction; and

~~(iii)~~(iv) LCH SA reasonably considers on a non-discriminatory basis that such Auction Participant is not required to participate in Competitive Bidding for that Auction Package.

Where two or more Auction Participants within a Financial Group request LCH SA to treat them as a single Auction Participant for the purpose of requiring participation in Competitive Bidding under this Clause 5.4.1, LCH SA shall consent to such a request.

5.6.3 Non Bidders

Where Non Bidders are identified:

- (i) LCH SA shall adjust the procedure for calculating the Initial Allocation Price, the Initial Transfer Payable and the Initial Transfer Receivable for Auction Participants by conducting the process set out in Clause 5.6.1(ii)(a) but on the basis that $n\%$ of the Auction Package shall be allocated, where "n" is equal to 100 minus the aggregate of each Non Bidder's Auction Non Bidder Bid Size provided that where the aggregate of each Non Bidder's Auction Non Bidder Bid Size is equal to or greater than 100, "n" is equal to 0;
- (ii) each Non Bidder shall be deemed to have submitted a single Bid with a Bid Size equal to their Auction Non Bidder Bid Size and a Bid Price equal to the Initial Allocation Price minus EUR 0.01 (where it is due an Initial Transfer Receivable in respect of the Auction Package) or plus EUR 0.01 (where it is required to make an Initial Transfer Payable in respect of the Auction Package)(the "**Non Bidder Allocation Price**") provided that:
 - (a) where the aggregate of each Non Bidder's Auction Non Bidder Bid Size is equal to or greater than 100, the Non Bidder Allocation Price shall be equal to the best Bid Price received for that Auction Package minus EUR 0.01 (where it is due an Initial Transfer Receivable in respect of the Auction Package) or plus EUR 0.01 (where it is required to make an Initial Transfer Payable in respect of the Auction Package); and
 - (b) where the aggregate of each Non Bidder's Auction Non Bidder Bid Size is greater than 100, the Auction Package shall be deemed allocated *pro rata* the relevant Auction Non Bidder Bid Size of each Non Bidder; and

(iii) the Initial Transfer Payable or Initial Transfer Receivable for each Non Bidder shall then be determined as the product of the relevant Non Bidder's Auction Non Bidder Bid Size and the Non Bidder Allocation Price.

For the avoidance of doubt, an Auction Participant may be deemed to submit Market Bids and Non-Market Bids in respect of the same Auction Package and shall only be deemed to be a Non-Market Bidder in respect of those Bids which are Non Market Bids.

6.1 Registration of Winning Bids

LCH SA, in consultation with the CDS Default Management Group, shall register the Transfer Positions within the House Account Structure of:

- 6.1.1 an Initial Winning Bidder by no later than 09.15 on the Clearing Day following conclusion of the first round of Competitive Bidding; and
- 6.1.2 a Residual Winning Bidder by no later than 09.15 on the Clearing Day following conclusion of the second round of Competitive Bidding.

For the avoidance of doubt, where two rounds of Competitive Bidding have been undertaken on the same day, LCH SA, in consultation with the CDS Default Management Group, shall nevertheless undertake separate registration processes for the Transfer Positions arising from the first round of Competitive Bidding and the Transfer Positions arising from the second round of Competitive Bidding.

In the event LCH SA shall register Transfer Positions that include:

- (i) any Index Cleared Transaction and/or Single Name Cleared Transaction in the House Account Structure of a Select Member whose current Product Family Form does not include the Product Family to which the category of such Cleared Transaction belongs, an update of its Product Family Form shall be carried out in accordance with Article 3.1.6.8;
- (ii) any Index Swaption Cleared Transaction in the House Account Structure of a Clearing Member that is:
 - (a) a General Member or a Select Member which is not registered for the Index Swaption Clearing Service: that Clearing Member will be automatically registered for the Index Swaption Clearing Service and in respect of a Select Member, its Product Family Form will be automatically updated by adding the relevant new Product Family(ies). The registration for the Index Swaption Clearing Service shall be deemed to have occurred at the time of registration of the relevant Transfer Positions in the House Account Structure of that Clearing Member and in respect of a Select Member, the update of its Product Family Form shall be carried out in accordance with Article 3.1.6.8; or
 - (b) a Select Member which is registered for the Index Swaption Clearing Service, but whose current Product Family Form does not include the Product Family to which the relevant Index Swaption Cleared Transaction belongs, the update of its Product Family Form shall be carried out in accordance with Article 3.1.6.8.

8.3 Observable Market Price

For the purpose of determining an observable market price for each Cleared Transaction pursuant to Clause 8.2(i) above, LCH SA shall use its best efforts to determine the price of the relevant Cleared Transactions as at the end of the Business Day following the Early Termination Trigger Date, using such sources as it believes reasonable to provide the value of such Cleared Transactions. In doing so, LCH SA would be expected to use the following sources in order of

descending priority as valuation points:

- (i) the end of day settlement prices published by another reputable clearing house operating in respect of CDS and/or Index Swaptions, as applicable, for the relevant valuation day;
- (ii) other objective and observable market prices for the relevant valuation day; and
- (iii) the mean settlement price for the relevant valuation day, calculated on the basis of a broad-based survey of market participants active in trading CDS and/or Index Swaptions, as applicable.

11.2.2 Appointment of Clearing Member representatives

Each Clearing Member is required to notify LCH SA of at least two representatives that can be called upon to participate, on behalf of that Clearing Member, as a member of the CDS Default Management Group in accordance with a rotational plan maintained by the CDS Default Management Committee in accordance with Clause 10.1.6 above ("**DMG Representatives**").

In nominating DMG Representatives, each Clearing Member shall identify a representative that shall be its principal DMG Representative and representative(s) that shall be its back-up DMG Representative(s).

Each proposed DMG Representative and each individual mentioned in Clause 11.2.1(iv) shall be required to file a Fitness Self Certification and a CV with LCH SA. LCH SA shall be permitted to undertake reasonable diligence in respect of any proposed DMG Representative before approving such representative's inclusion, on behalf of the relevant Clearing Member, on the rotational plan (the "**DMG Rotation Plan**") and may require a Clearing Member to nominate alternative DMG Representative(s) if it is not reasonably satisfied that the nominated representative(s) comply with the requirements set out in Clause 11.2.1(ii). LCH SA shall also be permitted to undertake reasonable diligence in respect of any individual mentioned in Clause 11.2.1(iv) and to refuse to appoint any such individual.

The DMG Rotation Plan will be managed by the CDS Default Management Committee in accordance with the following principles:

- (i) the DMG Rotation Plan will list all DMG Representatives and the Clearing Member that each DMG Representative represents;
- (ii) the DMG Rotation Plan will set out a timetable for the appointment/retirement of Clearing Members to/from the CDS Default Management Group, the timetable being set by the CDS Default Management Committee in its discretion with a view to ensuring that the composition of the CDS Default Management Group at any one time has suitable expertise and representation of market-making capacity in the event of a default;
- (iii) at least five different Clearing Members shall be appointed to the CDS Default Management Group at any one time, provided that among those Clearing Members, at least two Clearing Members shall be registered for the Index Swaption Clearing Service. For the avoidance of doubt, in the event that the CDS Default Management Group is required to convene in accordance with Clause 11.1.1, a Clearing Member that has been

appointed to the CDS Default Management Group shall be permitted to provide any (but not all) of its principal or back up DMG Representatives to assist LCH SA in the management of the relevant Event of Default;

- (iv) the duration of each Clearing Member's appointment to the CDS Default Management Group shall be for a minimum of 6 months and a maximum of 5 years (at the discretion of the relevant Clearing Member) (the "**DMG Term**");
- (v) at the end of a Clearing Member's DMG Term (save where the expiry of such DMG Term arises in the course of management of an Event of Default, in which case the Clearing Member's DMG Term shall be extended at the discretion of the CDS Default Management Committee), the DMG Representatives representing such Clearing Member shall retire from the CDS Default Management Group and DMG Representatives (representing a different Clearing Member), as set out in the DMG Rotation Plan, shall be appointed to the CDS Default Management Group simultaneously in his/her place(s);
- (vi) only two Clearing Members may retire from the CDS Default Management Group and be replaced, in accordance with paragraph (v) above, in any 3 month period so as to maintain continuity of participation in the CDS Default Management Group.