

EuroCCP

Default handling procedure

page intentionally left blank

Content

Content	1
Introduction	2
Definitions	3
Procedure Description	4
Procedure Objective	4
Procedure Description	4
Flowchart	5
Description flowchart	8
Roles and responsibilities	12

Introduction

This documents includes the version for publication of the EuroCCP Breach of Rulebook procedure for the Risk Management, Operations, Finance and Relationship Management departments and the Breach and Default Management Team of European Central Counterparty N.V. – further “EuroCCP”.

The purpose and scope of this document is to describe:

- Definitions
- Procedure description
- Roles & responsibilities

This procedure will be reviewed on a quarterly basis or if this is required by the respective situation.

European Central Counterparty NV

Definitions

The following capitalised terms shall, unless specifically defined otherwise, have the respective meanings set out below:

“**BDMT**” means Breach and default Management Team;

“**Clearing Participant**” means the written agreement entered into between EuroCCP and a Clearing Participants pursuant to article 4.4.1. in EuroCCPs’ Clearing rule book;

“**Client**” means any Person which has opened accounts with respect to the trading of Securities in the Books of Clearing Participants, other than a Trading Participant;

“**Collateral**” means cash or such approved Financial Instruments as set out in the Regulation Collateral deposited in a Collateral Account or transferred to EuroCCP by way a title transfer financial collateral arrangement in accordance with the Regulation Collateral;

“**Collateral Account**” means a House Collateral Account, an Omnibus Client Collateral Account, or an Individual Client Collateral Account opened by a Credit Institution, CSD and/or central bank which is approved by EuroCCP, or by EuroCCP, in the name of the Clearing Participant in order to hold Collateral provided by the Clearing Participant by way of depositing approved Financial Instruments and/or cash to cover the Margin for the corresponding Position Account;

“**Competent Authority**” means anybody by which the Clearing Participant, a Co-operating Clearing House of EuroCCP is supervised

“**Co-operating Clearing House**” means a Person which entered into a Link Agreement with EuroCCP with approval from the Competent Authority of EuroCCP;

“**EuroCCP**” means EUROPEAN CENTRAL COUNTERPARTY N.V.;

“**House Collateral Account**” means the Collateral Account holding Collateral to cover the Margin for the House Position Account;

“**Omnibus Client Collateral account**” means the Collateral Account holding Collateral to cover the Margin for the Omnibus Client Position Account;

“**Open Position**” means the net aggregated balance of the Trade Legs of a Clearing Participant, per ISIN code, per Position Account, per CSD account, per currency and per Settlement Date;

“**Statement of Authority**” means a statement of a Clearing Participants to EuroCCP that it authorises a specific Trading Participants to conclude Trades in the name of Clearing Participants, in the form as set out in the Regulation Statement of Authority;

“**Trading Participant**” means any Person which has been and is admitted by an Exchange as a participant of that Exchange as a broker and/or dealer;

Procedure Description

Procedure Objective

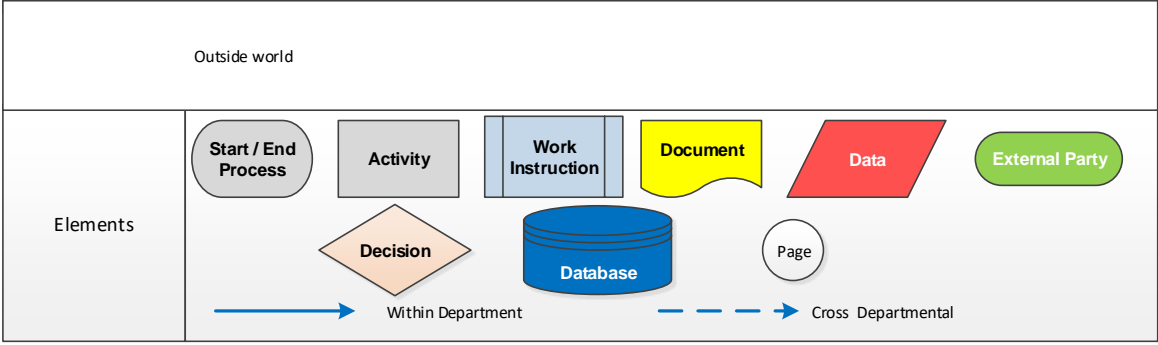
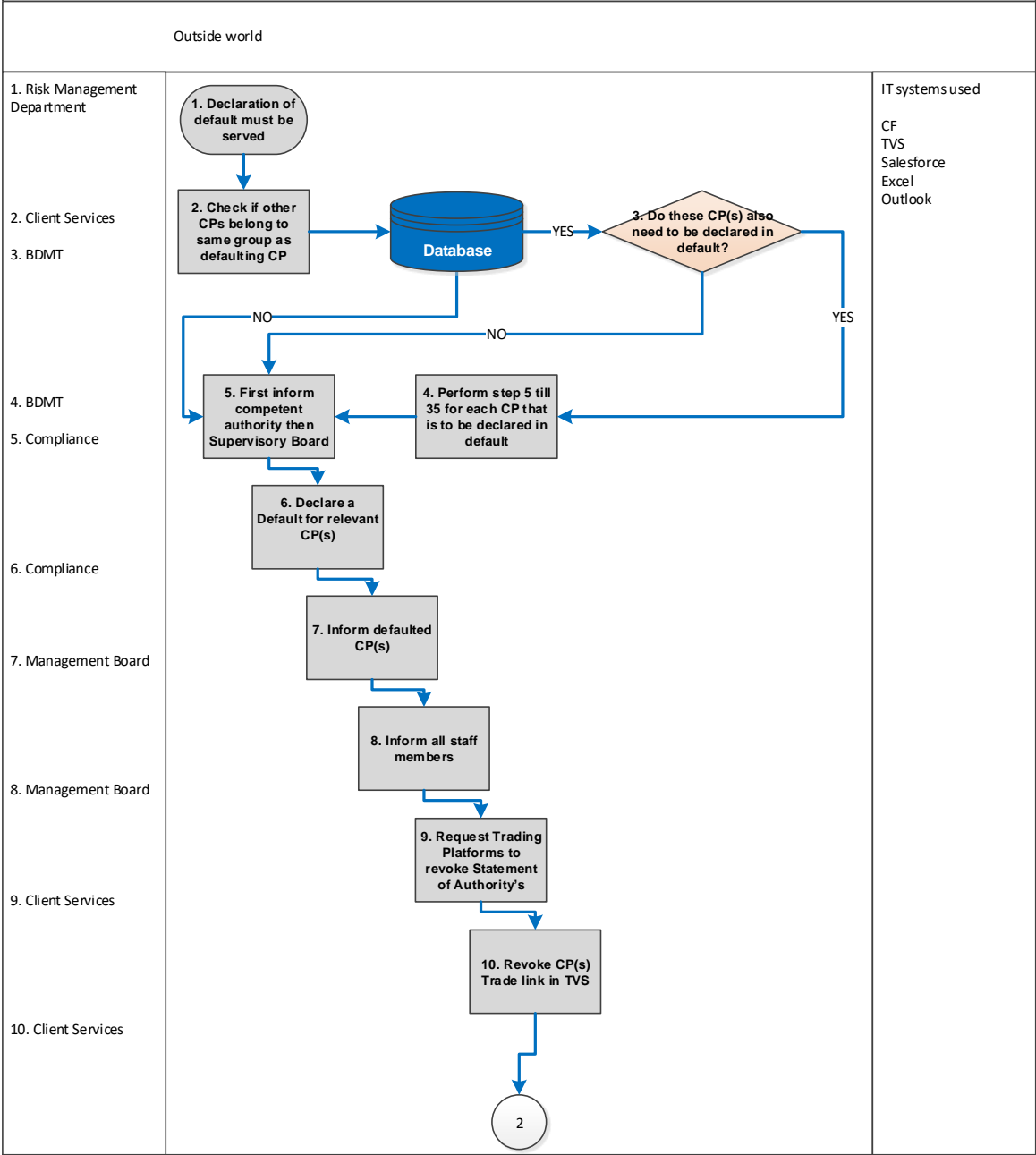
This procedure describes how EuroCCP handles a Clearing Participant default situation. This default situation can apply to a Clearing Participant as well as a Co-operating Clearing House. For reasons of reference, we will only refer to Clearing Participants below but any reference to a Clearing Participant is also meant as a reference to a Co-operating Clearing House.

Handling of a default situation requires a structured approach:
to ensure observance of the defaulting party's obligations towards EuroCCP;
to prevent losses for EuroCCP and;
to minimize impact on the market, Clearing Participants and EuroCCPs services.

Procedure Description

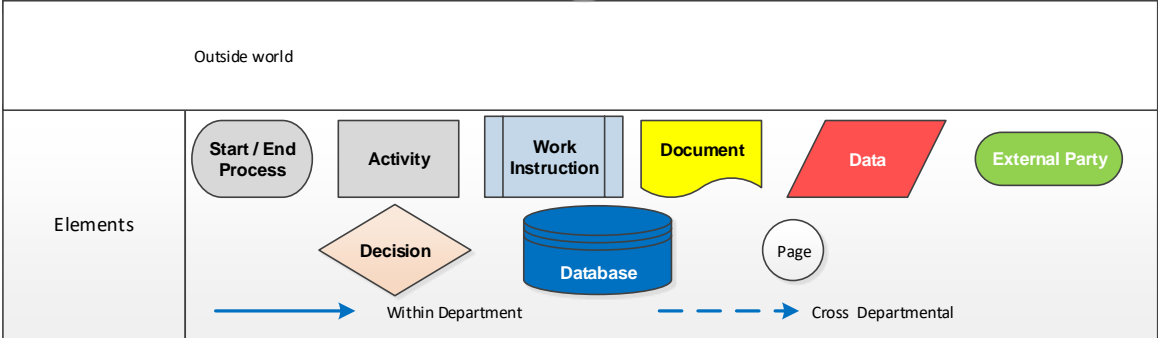
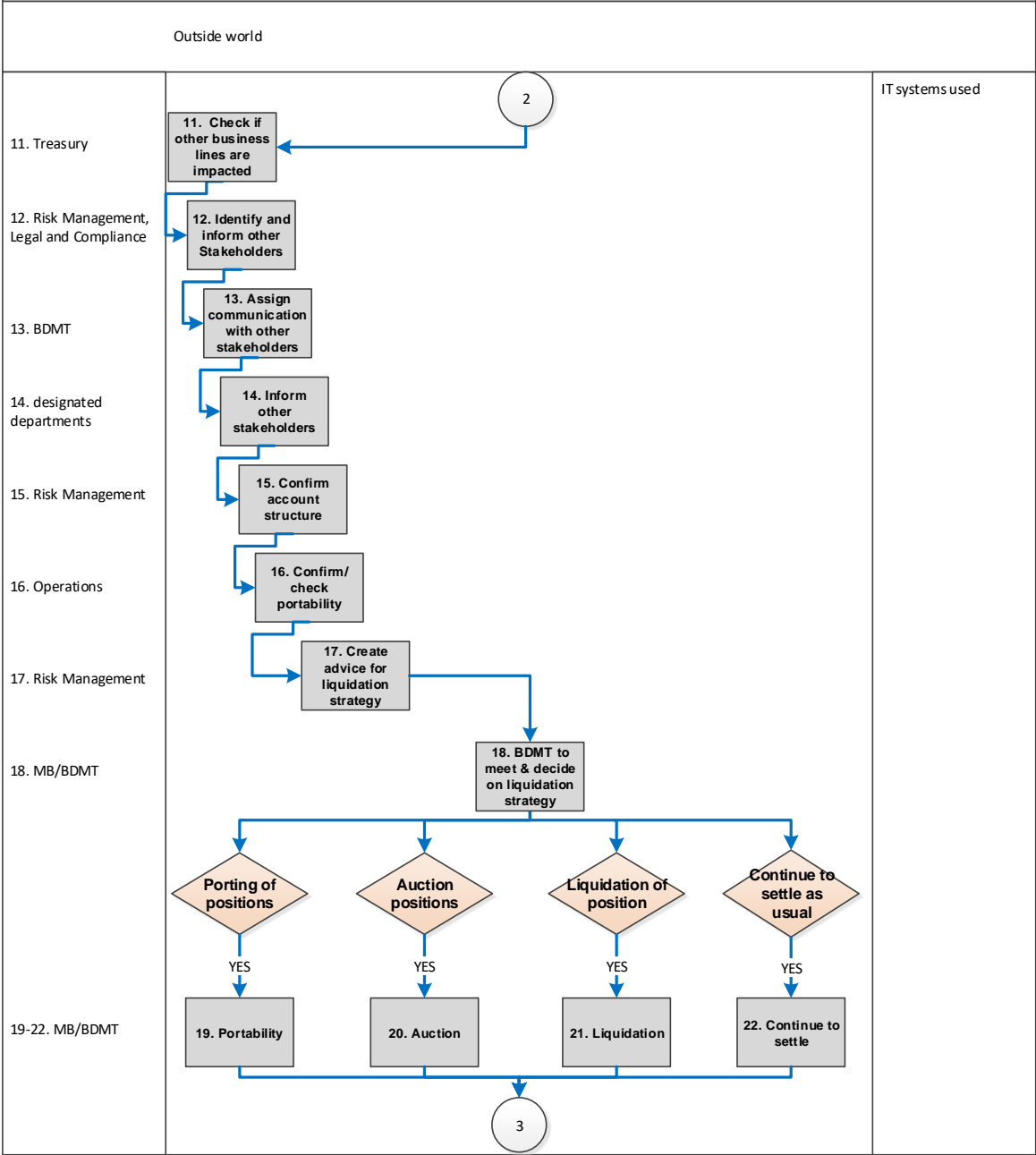
1. This procedure starts when a default is already declared. The procedure to declare a Clearing Participant in default is described in "Breach of Rulebook procedure v2.0".
2. A default is handled by the EuroCCP Breach and Default Management Team (BDMT). The role of the BDMT is described in the "Breach of Rulebook procedure v2.0".
3. The Management Board of EuroCCP is responsible for appropriate measures to be taken in close cooperation with relevant stakeholders, especially EuroCCP Risk Management and Compliance. Timely and accurate communication to the Supervisory Board, Regulator(s) and Clearing Participants is critical in the default management process. Furthermore the risk committee will be duly informed to keep them at the same information level as the three parties named earlier in this section.
4. During this procedure the Corporate Secretary assumes the following responsibilities:
Ensure that all letters / documents sent out by EuroCCP as a result of the default event are appropriately signed by the authorised signatories of EuroCCP.
Take notes and file emails / reports and other documents as required.
Report to BDMT at each meeting on development of default situation and progress of actions taken by BDMT.
5. Throughout this procedure the Legal Department will assist in:
Advising and checking all letters and documents before sending out as a result of the default.
Advising the Management Board about legal consequences.
6. Throughout this procedure the Operations and Client services departments will assist by:
Providing information relating to ongoing settlements.
Monitoring that no new trades are accepted on the defaulting Clearing Participant's behalf.
7. Throughout this procedure, Treasury will monitor and take appropriate action in relation to EuroCCP's funding and cash flow needs. If required Treasury will make use of the available credit lines and emergency liquidity lines to ensure continuous operational process.
8. Communication with the stakeholders is not limited to the points mentioned in the remainder of this procedure but should at least include these points.
9. On an ongoing basis Risk Management reports to EuroCCP's Management Board and the independent members of its Supervisory Board in their capacity as chairman and member of the Risk Committee on the progress of unwinding the portfolio and any profit and loss on the positions.

Default handling procedure – page 1



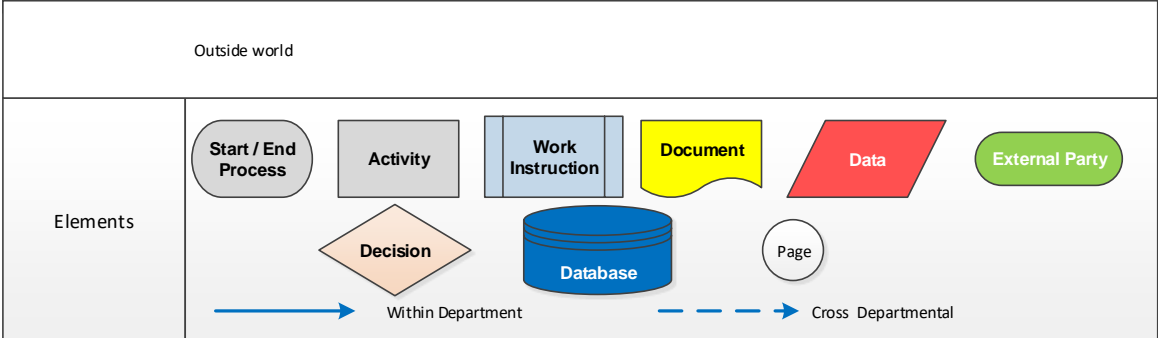
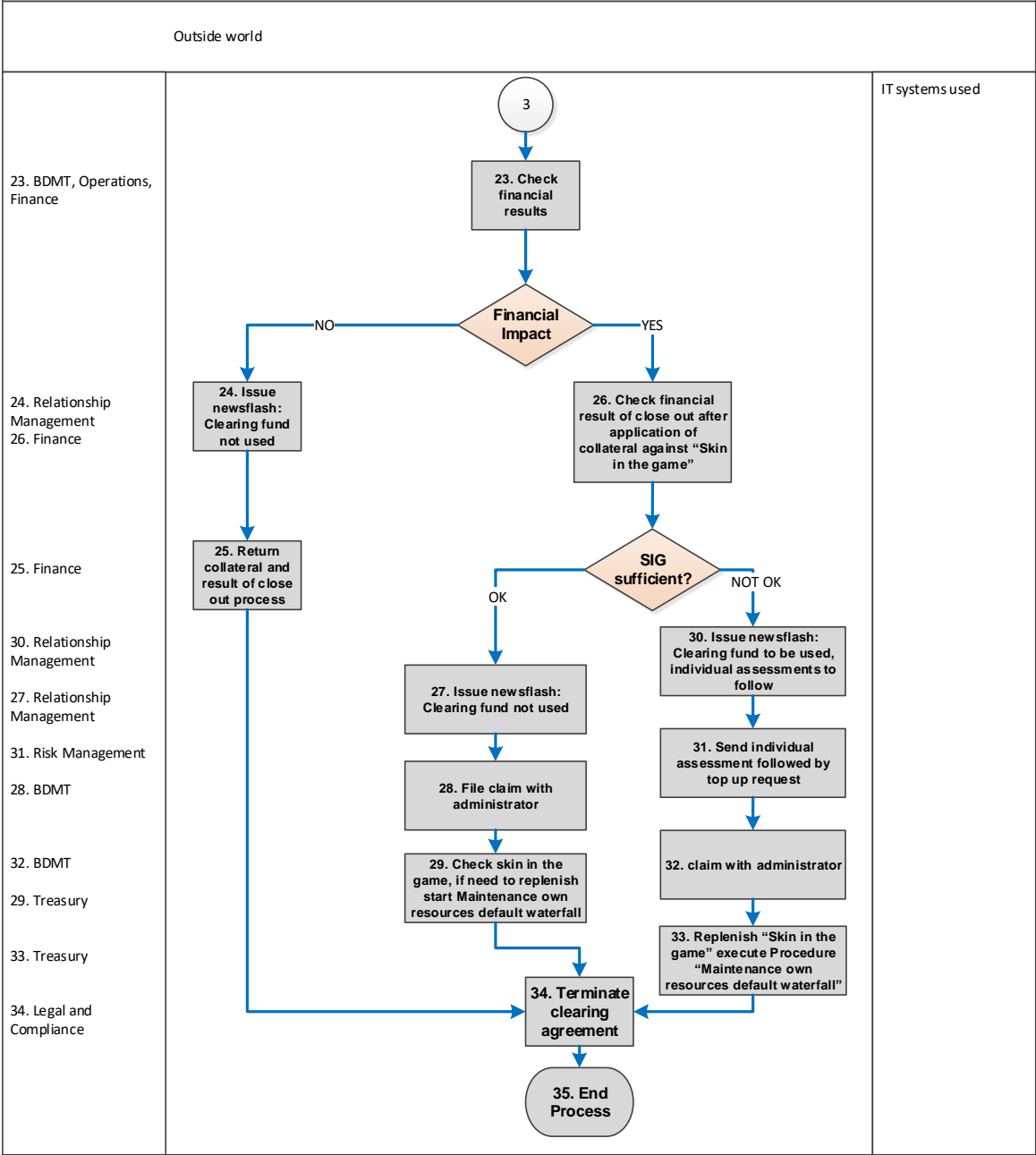
Version 2.2 20180629

Default handling procedure – page 2



Version 2.2 20180629

Default handling procedure – page 3



Version 2.2 20180629

Description flowchart steps

1. **A breach is determined to be so severe that a Declaration of Default must be served to a Clearing Participant.**
BDMT decides to serve a Declaration of default to the Clearing Participant in question, in accordance with steps 1 to 5.
2. **Client Services checks whether there are other Clearing Participants belonging to the same group as the defaulting Clearing Participant.**
Check by Client Services to find out whether there are other Clearing Participants belonging to the same group. The result of this check is reported to the BDMT
3. **Should these other Clearing Participants in the same group also be declared in default?**
BDMT meets to discuss whether the other Clearing Participants in the same group should also be declared in default. Even if not in default they should be mentioned as part of the same group in steps throughout this procedure.
4. **Perform step 5 to 35 for each Clearing Participant that is to be declared in default**
Step 5 to 35 (the actual Declaration of the default for a specific Clearing Participant and the ensuing handling of the default in the books of EuroCCP) needs to be performed for each Clearing Participant that is in default.
5. **Inform the National Competent Authority and Supervisory Board**
Before the declaration is issued, Compliance will inform EuroCCPs National Competent Authority and its Supervisory Board about the intended Declaration of default and keep them up to date throughout the default management process.
6. **Declare a default for the relevant Clearing Participant(s).**
Client Services will provide the necessary information to enable Compliance to draft the Declaration of default. This Declaration of default is then approved by the Management Board. Client Services will assist in providing the contracts and Statements of Authority of the defaulting Clearing Participant and other relevant documentation as requested by the BDMT.
7. **Inform defaulted Clearing Participant(s)**
The Management Board or departments empowered by the Management Board will inform the defaulted Clearing Participant in writing and by fax or email that it is in default, with reference made to the relevant Clearing Rule Book section.
8. **Inform all staff members**
The Management Board will issue an internal message to all staff members regarding the ongoing default handling. The message will be subject to predefined guidelines.
9. **Instruct relevant Trading Platforms to revoke Statement of Authority**
Client Services will instruct all relevant Exchanges in writing (email or fax) to suspend the Clearing Participant's trading activity and that of its underlying Trading Participants/Clients, and will obtain timely confirmation thereafter that no further trades will be sent to EuroCCP.

10. Revoke the Clearing Participant’s trade link internally

Upon request from the BDMT, Client Services will revoke the defaulted Clearing Participant’s trade link in TVS (EuroCCP’s novation system) in order to prevent the receipt of new trades, as detailed in the related work instruction. Operations will ensure that buy-ins related to the positions of the defaulted Clearing Participant will be postponed until further notice.

11. Check if other business lines are impacted

Treasury will run an assessment to identify if other areas within EuroCCP are affected by the occurring default. In the event the defaulted Clearing Participant fulfilled additional roles other than Clearing Participant the liquidation strategy could be impacted.

It must be identified if;

1. The defaulted Clearing Participant acted as an settlement agent for one or more markets;
2. The defaulted Clearing Participant acted as a cash management agent;
3. The defaulted Clearing Participant acted as a liquidity provider
4. Other

All findings will be reported to the BDMT, who will take the findings into consideration when deciding on the proposed liquidation strategy.

12. Identify and inform other Stakeholders

Risk Management, Legal and Compliance will identify other stakeholders who need to be informed with regard to the ongoing default handling. This shall also include incoming queries from stakeholders which are not identified immediately (for example: queries from media).

The following stakeholders are identified but are not limited to the following;

EuroCCP’s Risk Committee
Clearing Participants
European Association of CCP Clearing Houses
Interoperating CCPs
Media (incoming queries).

13. Assign communication with other stakeholders

Once the other stakeholders are identified, the BDMT will assign persons and/or departments who will be responsible for the communication to the identified stakeholders.

14. Inform other stakeholders

Once the other stakeholders are identified and assigned, these will be informed by the designated persons and/or departments.

All stakeholders will be informed through newflashes.

The below list contains predefined stakeholders* including those who shall inform these stakeholders.

Stakeholder	Informed by
EuroCCPs Risk Committee	Chief Risk Officer
Clearing Participants	Relationship Management
European Association of CCP Clearing Houses	Risk Management
Interoperating CCPs	Risk Management
Media	Green Target

*not in order of relevance. Note that stakeholders can be informed concurrently.

15. Confirm account structure

Risk Management will confirm the Clearing Participant's account structure regarding margin / positions (House, Client omnibus segregated and Client individually segregated) accounts and collateral accounts to the BDMT. For all accounts, a separate wind-down scenario will be implemented as collateral and positions may not be co-mingled between these accounts.

16. Confirm/check portability arrangements

For all Client omnibus and individually segregated accounts, Operations will perform the following steps:

Check whether a contractual relationship exists with another non-defaulted Clearing Participant to port positions and collateral. If not, proceed to step 17. If yes, Operations will check that the other Clearing Participant is able to receive the collateral and open positions for the account within the transfer period as specified in EuroCCP's Regulation Segregation and Portability. If not, proceed to step 17. If yes, Operations will check whether all settlement instructions can be cancelled for the account at the defaulted Clearing Participant. If yes, proceed to step 17.1.

17. Risk management makes advice on proposed liquidation strategy

Risk Management will establish the value and risks of the Collateral and (remaining) Open Positions in the account of the defaulted Clearing Participant(s). The outcome of this analysis will be used to determine whether EuroCCP should:

- 1) port the positions where possible;
- 2) auction the position to one or more relevant parties;
- 3) liquidate the positions;
- 4) allow the defaulting party to continue to settle;
- 5) a combination of two or more of the options above.

1) Port the positions where possible

The possibility for portability is already dealt with under step 16. No additional steps need to be taken other than ensuring that the positions to be ported (including collateral) will no longer be included in the rest of the analysis below.

2) Auction the position to one or more relevant parties

Auction of positions will be undertaken in case the positions are not suitable for trading out via a broker. This might be the case for larger or more complex portfolios. In addition, settlement liquidity needs to be taken into account.

3) Liquidate the positions

For smaller and less complex positions, trading out via a broker might be preferable to an auction. Below a certain size, positions can be easily traded out and generally at a lower cost than through an auction, including greater flexibility in the timing of the transactions rather than auctioning the whole portfolio at once.

4) Allow the defaulting party to continue to settle

Risk Management can advise to allow the defaulting Clearing Participant to continue to fulfil its settlement obligations, if Risk Management and Compliance conclude that the defaulting Clearing Participant can still comply with its (settlement) obligations. This arrangement will be reviewed on an ongoing basis. As an orderly settlement of positions may be the most effective way to finalise the settlement process, this may prove to be the preferred option.

5) A combination of two or more of the options above

Risk Management may opt for a combination of two or more of the mentioned strategies above. Portability must be offered where requested and achievable. The non-portable positions will then be assessed and dealt with accordingly. Risk Management will advise BDMT throughout the process.

18. BDMT to meet and decide on liquidation strategy

BDMT will review Risk Management's advice and implement an appropriate liquidation strategy after decision of the MB

Should the liquidation of positions have a P&L impact on third parties, the documentation and communication to these parties will confirm that a fair price has been obtained, given the conditions under which this liquidation occurred.

19. Portability

For those positions that can be ported, settlement instructions will be cancelled and recreated at the new Clearing Participant. The corresponding margin requirement will be sent to the new Clearing Participant.

20. Auction

In case the Management Board upon advice of the BDMT decides to auction the unsettled positions arising from the event of default, it will select between three and five parties to auction the portfolio. EuroCCP will disclose the positions following receipt of signed Non-Disclosure Agreements (NDA). The positions are disclosed no later than close of business of the day with the deadline for receipt of bids no later than 8am CET the following morning, both deadlines being up to discretion of the BDMT. The Management Board will decide, following advice from Risk Management to the BDMT and the advice of BDMT, on the acceptability of the incoming bids and once agreed, BDMT will ensure the transfer of the settlement obligations from the defaulting Clearing Participant to the Clearing Participant that has won the auction / has acquired the positions. Furthermore, BDMT will manage all resulting cash flows.

21. Liquidation

An alternative option is that the Management Board upon advice of the BDMT decides not to auction the position, but that EuroCCP takes over the obligations and liquidates the position. Once the Management Board decides to liquidate, Risk Management will coordinate the liquidation process by involving up to three equity brokers, taking into account an appropriate time frame.

22. Settlements as usual

EuroCCP will suspend the defaulted Clearing Participant in accordance with the Clearing Rule Book section 5.8.3 and it will refuse any new trade legs in the defaulting Clearing Participant's name. Once all settlement obligations for the defaulting Clearing Participant have been fulfilled, the relationship between EuroCCP and the defaulting Clearing Participant can be terminated. Settlement activity will be closely monitored throughout the process.

23. Check financial result of close out against available collateral

Operations will transfer the collateral pledged by the defaulted Clearing Participant to EuroCCPs Default collateral account and Operations will confirm receipt of the collateral to the BDMT. Finance will provide the BDMT with an overview of any outstanding amounts (e.g. outstanding invoices) from the defaulted Clearing Participant. Operations will inform the BDMT on any operational damages and costs which may have arisen during the course of the event of default. Potential damages can arise, however are not limited to, penalties for late delivery or payment, and funding costs. For each account type, the BDMT will assess whether the collateral, Clearing Fund contribution and Interoperability Fund deposit furnished by the defaulted Clearing Participant is sufficient to cover losses and costs arising from closing out all obligations.

24. Issue newsflash: Clearing Fund not used. Default is handled.

Relationship Management will inform other stakeholders, as mentioned in step 14, that the liquidation of the portfolio of the defaulted Clearing Participant has been concluded, i.e. all obligations arising out of the portfolio have been met without making use of the Clearing Fund.

25. Return available collateral and result of close out process

If the losses and costs incurred on an account are met by the collateral provided for that account, the collateral is offset by the losses and costs. Any remaining collateral for a specific Client will be returned by Finance to the specific Client if known by EuroCCP. Otherwise, any remaining collateral will be transferred to the Client's account of the defaulted Clearing Participant. The remaining collateral for the House account is returned to the defaulted Clearing Participant.

26. Check financial result of close out after application of available collateral against "skin in the game".

Finance will check if after application of all available collateral (including the Clearing Fund contribution and the Interoperability Fund deposit of the defaulted Clearing Participant), one or more of the accounts of the defaulted Clearing Participant still show a debit balance. If so, then EuroCCPs dedicated own resources ("skin in the game") will be applied. Should there be more than one account with a debit balance; EuroCCP will apply those dedicated own resources to cover the remaining debit balances on all accounts. Should the combined debit balances be greater than the dedicated own resources, they will be applied in such a manner to minimize the remaining debit balances.

27. Issue newsflash: Clearing Fund not used. Default is handled.

Relationships Management will inform other stakeholders, as mentioned in step 14, that the liquidation of the portfolio of the defaulted Clearing Participant has been concluded i.e. all obligations arising out of the portfolio have been met, without making use of the Clearing Fund.

28. File claim with administrator

The BDMT will prepare a claim and will file this claim with the administrator of the defaulted Clearing participant for the amount of the dedicated own resources that were used.

29. Replenishment of dedicated own resources

Treasury will check whether the "skin in the game" needs to be replenished. If so, start procedure "Maintenance own resources default waterfall".

30. Issue newsflash: Clearing Fund to be used. Individual assessments to follow

If the losses and costs suffered on an account exceed the collateral, the Interoperability Fund deposit and the Clearing Fund contribution of the defaulted Clearing Participant together with EuroCCP’s dedicated own resources, the following will apply:

In case a Clearing Participant is the defaulted party, the Clearing Fund will be applied as set out in the Clearing Rule Book article 8.5. The BDMT will coordinate all outgoing cash flows from the Clearing Fund. In case a Co-operating Clearing House is the defaulted party, EuroCCP will first enforce the security provided by the Co-operation Clearing house as defined in the Clearing Rule Book article 8.4.3 before applying the Clearing Fund as set out in the Clearing Rule Book article 8.5. The BDMT will coordinate all outgoing cash flows from the Clearing Fund.

In the event that the event of default results in a payment to be made out of the Clearing Fund, Relationship Management will inform the non-defaulting Clearing Participants of their share of the payment.

Relationship Management will inform other stakeholders, as mentioned in step 14, that the portfolio of the defaulted Clearing Participant has been liquidated, i.e. all obligations arising out of the portfolio have been met. Finally the the status of the Clearing Fund will be communicated to the other stakeholders.

31. Send individual assessment followed by top up request

Risk Management will send the affected Clearing Participants their individual assessment. In the event that the losses resulting from the default handling exceed the total contributions to the Clearing Fund, the assessment will be accompanied with a top-up request in accordance with chapter 8.6 of the Clearing Rulebook.

32. File claim with administrator

The BDMT will prepare a claim and file it with the administrator of the defaulted Clearing Participant for the amount of EuroCCP’s dedicated own resources and the Clearing Fund that were used.

33. Replenishment of dedicated own resources

Treasury will start procedure “Maintenance own resources default waterfall”.

34. Terminate clearing agreement

Legal & Compliance will terminate the clearing agreement with the defaulting Clearing Participant.

Roles and responsibilities

RACI*	Role	Responsibility
R	Risk Management	Monitoring and starting procedure
A	BDMT	Ultimate decisions
C	Legal / Compliance	Advise from a legal perspective how to handle default
I	Internal Audit	Monitor how the procedure was dealt with

* Responsible / Accountable / Consulted / Informed