Clearing Appendix 9

Default Fund Rules

Issued by Nasdaq Clearing AB
DEFAULT FUND RULES

1 APPLICATION
1.1 These Default Fund Rules set forth the terms and conditions governing the relation between the Clearinghouse and Default Fund Participants, and between Default Fund Participants, in connection with the Default Fund.

1.2 The Default Fund Rules are supplemented by the Default Fund Custody Account Agreement, which each Default Fund Participant must enter into separately. If any provision of these Default Fund Rules is inconsistent with a provision of the Default Fund Custody Account Agreement, the latter shall prevail.

2 INTERPRETATION
2.1 References to the Clearinghouse shall, where the context so requires, include its nominees, agents or sub custodians appointed by the Clearinghouse on its behalf in accordance with the Default Fund Rules or the Default Fund Custody Account Agreement.

2.2 Capitalized terms herein shall have the meanings assigned to them below and in the Clearing Rules.

- **Auction**: means, following a Relevant Participant’s default, an auction of certain of such Relevant Participant’s contracts relating to Commodity Instruments, as part of the default management process.

- **Business Day**: means a day (other than a Saturday or Sunday) on which commercial banks in Sweden are generally open for business.

- **Clearing Participant**: means any and all “Account Holders” under these Clearing Rules and any and all “Clearing Members”, “Direct Pledging Customers” and “Direct Clearing Clients” under the FIN Clearing Rules.

- **Clearing Service**: means each part of the Default Fund relating to the services that the Clearinghouse provides constituting the Financial Default Fund, Commodity Default Fund and Seafood Default Fund.

- **Close-Out Balance**: means the amount that the aggregate cost of closing out (including set-off) a Relevant Participant’s Contracts deviates (positive or negative) from the Margin Requirement applicable to the Relevant Participant.

- **COM Close Out Providers**: means Default Fund Participants who have signed a close-out provider agreement with the Clearinghouse in respect of Commodity Instruments.

- **COM Cover 2 Funds**: means the sum of the Junior Capital, Senior Capital, Commodity Default Fund and Mutual Default Fund which at all times shall enable the Clearinghouse to withstand the default of at least the two Clearing Participants to which it has the largest exposures under extreme but plausible market conditions (as determined by the Clearinghouse).

- **Commodity Default Fund**: means the part of the Default Fund relating to Commodity Instruments to be applied upon a Relevant Participant’s default in accordance with Sections 7.1 or 7.3, as applicable, to cover Default Losses allocated to Commodity Instruments.

- **Commodity Instruments**: means Instruments, whether physically or cash settled, whose value is derived from the value of one or more commodities (including freight rates, emission allowances and green certificates) or commodity-based indices, and that are not
exchange-traded funds, however not including Seafood Instruments.

**Commodity Market Proportion**

means the aggregate Fund Requirements for the Commodity Default Fund divided by the sum of the aggregate Fund Requirements for the Commodity Default Fund, the Financial Default Fund and the Seafood Default Fund.

**Contributed Assets**

means all funds and assets contributed by a Default Fund Participant to the Default Fund, whether in the form of cash amounts or securities or otherwise and whether or not Eligible Funds.

**Contribution Day**

means each of 1 March, 1 June, 1 September and 1 December in any year or, if any such day is not a Business Day, the next succeeding Business Day.

**Cover 2 Funds**

means the combined amount of Junior Capital, Senior Capital, Mutual Default Fund and Financial Default Fund, Commodity Default Fund or the Seafood Default Fund, where applicable, which at all times shall enable the Clearinghouse to withstand the default of at least the two Clearing Participants to which it has the largest exposures under extreme but plausible market conditions (as determined by the Clearinghouse).

**Custody Account**

has the meaning ascribed to it in the Default Fund Custody Account Agreement (as applicable in relation to each Default Fund Participant).

**Default Fund**

means the sum of the Contributed Assets to the Commodity Default Fund, the Financial Default Fund, the Seafood Default Fund and the Mutual Default Fund at any time, excluding any funds and assets that have been released by the Clearinghouse pursuant to the Default Fund Rules (whether through a lower Fund Requirement or through Default Fund Exit, and whether or not actually returned to the relevant Default Fund Participant at the relevant time).

**Default Fund Custody Account Agreement**

means, in respect of a Default Fund Participant, an agreement between the Clearinghouse and such Default Fund Participant stipulating terms for a Custody Account to be opened by such Default Fund Participant with the Clearinghouse.

**Default Fund Exempt Participant**

The Clearinghouse may on a case-by-case basis and from time to time decide that a person that is otherwise a Default Fund Participant shall be classified as a Default Fund Exempt Participant, provided that such person (i) provides the Clearinghouse with a drawing facility which provides the Clearinghouse direct drawing rights on a central bank and (ii) such central bank is owned by a government which has a AAA or AA+/Aa1 credit rating with all leading international credit rating agencies. A Default Fund Exempt Participant is not subject to Fund Requirements.

**Default Fund Exit**

means a situation where a Default Fund Participant gives written notice to the Clearinghouse, and the Clearinghouse confirms in writing, that the Default Fund Participant (i) has effectively terminated its clearing membership agreement with the Clearinghouse and (ii) has no remaining obligations towards the Clearinghouse related to such membership other than obligations pursuant to the Default Fund Rules and, if applicable, pending future settlements which are not yet due at the time, but which are fixed and secured through adequate collateral arrangements in favour of the Clearinghouse.
**Default Fund Participant** means any and all “Clearing Members” and “Direct Pledging Customers” under the Non-Commodity Clearing Rules and any and all “Account Holders” under the Clearing Rules, except those who are Default Fund Sponsored Participants or Default Fund Exempt Participants. A Default Fund Participant is subject to a direct Fund Requirement.

**Default Fund Requirements** means a document describing the model for calculation of Fund Requirements, included as a schedule to these Default Fund Rules.

**Default Fund Sponsored Participant** means any and all “Indirect Pledging Customers” under the Non-Commodity Clearing Rules. In addition any “Direct Pledging Customer” under the Non-Commodity Clearing Rules and any “Clearing Client” under the Clearing Rules that another Default Fund Participant has agreed to represent as its Default Fund Sponsored Participant, as approved in each case by the Clearinghouse in accordance with Section 12.1. A Default Fund Sponsored Participant is not subject to Fund Requirements but its associated Default Fund Participant (in respect of an “Indirect Pledging Customer”, its Clearing Account Administrator) shall contribute to the Default Fund for exposures in respect of the Default Fund Sponsored Participants.

**Default Loss** means the deficit that remains after any coverage available to the Clearinghouse has been applied in relation to the Relevant Participant’s obligations, disregarding any contributions to the Default Fund by the Relevant Participant.

**Excess Loss** means any remaining Default Loss allocated to Commodity Instruments, Financial Instruments or Seafood Instruments, as applicable, exceeding the funds under Sections 7.1 – 7.5.

**FIN Cover 2 Funds** means the sum of the Junior Capital, Senior Capital, Financial Default Fund and Mutual Default Fund which at all times shall enable the Clearinghouse to withstand the default of at least the two Clearing Participants to which it has the largest exposures under extreme but plausible market conditions (as determined by the Clearinghouse).

**Financial Default Fund** means the part of the Default Fund relating to Financial Instruments to be applied upon a Relevant Participant’s default in accordance with Sections 7.1 or 7.3, as applicable, to cover Default Losses allocated to Financial Instruments.

**Financial Instruments** means Instruments other than Commodity Instruments and Seafood Instruments.

**Financial Market Proportion** means the aggregate Fund Requirements for the Financial Default Fund divided by the sum of the aggregate Fund Requirements for the Commodity Default Fund, the Financial Default Fund and the Seafood Default Fund.

**Fund Requirement** means the requirement for the contribution to the Default Fund calculated by the Clearinghouse and notified to the Default Fund Participants in accordance with Sections 5.1 – 5.2. A Fund Requirement shall be deemed valid and effective from the time of its issue in accordance with these Default Fund Rules and until replaced by a new Fund Requirement, or until the relevant Contributed Assets are released by the Clearinghouse on Default Fund Exit.

**Interim Period** means a period comprising ninety (90) calendar days following a Relevant Participant’s default which causes a Default Loss. For the avoidance of doubt, there may at any time be several Interim
Periods running either sequentially or in parallel and references to an Interim Period shall in each case be to the Interim Period to which the applicable Default Loss relates.

**Junior Capital**

means an amount funded by the Clearinghouse’s own assets in accordance with Section 3.6.

**Market Default Fund**

means the Commodity Default Fund, the Financial Default Fund or the Seafood Default Fund, as applicable.

**Market Proportion**

means the Commodity Market Proportion, the Financial Market Proportion or the Seafood Market Proportion, as applicable.

**Minimum Fund Requirement**

means the minimum Fund Requirement applicable to each Default Fund Participant, as further set out in Section 5.3.

**Mutual Default Fund**

means the part of the Default Fund to be applied upon a Relevant Participant’s default, to cover Default Losses allocated to Commodity Instruments and/or Financial Instruments and/or Seafood Instruments in accordance with Sections 7.1 or 7.5, as applicable.

**Non-Commodity Clearing Rules**

means the terms and conditions for clearing of Instruments issued by Nasdaq Clearing AB, other than these Clearing Rules, as may be amended from time to time. A specification of the applicable Non-Commodity Clearing Rules is available from the Clearinghouse.

**Realised Collateral Balance**

means the actual deficit or surplus value of the collateral provided by a Relevant Participant following recourse and realisation of the collateral by the Clearinghouse in relation to the Margin Requirement applicable to the Relevant Participant.

**Relevant Participant**

means any defaulting Default Fund Participant, Default Fund Sponsored Participant or Default Fund Exempt Participant.

**Seafood Cover 2 Funds**

The sum of the Junior Capital, Senior Capital, Seafood Default Fund and Mutual Default Fund which at all times shall enable the Clearinghouse to withstand the default of at least the two Clearing Participants to which it has the largest exposures under extreme but plausible market conditions (as determined by the Clearinghouse).

**Seafood Default Fund**

means the part of the Default Fund relating to Seafood Instruments to be applied upon a Relevant Participant’s default in accordance with Sections 7.1 or 7.3, as applicable, to cover Default Losses allocated to Seafood Instruments.

**Seafood Instruments**

means instruments whose value is derived from the value of one or more seafood products (including Fresh HOG (head on gutted) Superior Atlantic Salmon 3-6kg).

**Seafood Market Proportion**

means the aggregate Fund Requirements for the Seafood Default Fund divided by the sum of the aggregate Fund Requirements for the Commodity Default Fund, the Financial Default Fund and the Seafood Default Fund.

**Senior Capital**

means capital funded by the Clearinghouse through own assets or other arrangements as further set out in Section 3.6.

**Website**

means http://www.nasdaqomx.com/europeanClearing/ or such other website as designated by the Clearinghouse from time to time.
3 COMPOSITION AND STRUCTURE OF THE DEFAULT FUND

3.1 The Clearinghouse maintains the Default Fund and other resources to cover Default Losses.

3.2 The Fund Requirements shall be satisfied through each Default Fund Participant providing Eligible Funds to cover any Default Losses in respect of Relevant Participants (including itself) in accordance with the Default Fund Rules. Each Default Fund Participant will contribute to the Default Fund in respect of any Default Fund Sponsored Participants associated to it, through its Fund Requirement being increased corresponding to the Fund Requirement of such Default Fund Sponsored Participants.

3.3 A description of the relevant model and calculation method for the size of the Financial Default Fund, the Commodity Default Fund, the Seafood Default Fund and the Junior Capital (as allocated in accordance with section 3.6) is available on the Clearinghouse’s Website. Information about the size, from time to time, of the Commodity Default Fund, the Financial Default Fund, the Seafood Default Fund, the Junior Capital, the Senior Capital, and the Mutual Default Fund shall be made available by the Clearinghouse in connection with the notifications under Section 5.1.

3.4 The size of the Financial Default Fund shall be calculated by the Clearinghouse and increased to an amount that enables the Clearinghouse to withstand, under extreme but plausible market conditions (as determined by the Clearinghouse), Default Losses corresponding to the greater of (a) either the largest Clearing Participant, or of the second and third largest Clearing Participants combined if the sum of their combined exposures is larger; and (b) the combined exposure of the largest and the second largest Clearing Participants which at all times shall be less than the FIN Cover 2 Funds. However, the Clearinghouse has the right to calculate and add a buffer to the Financial Default Fund equivalent to a maximum of 20 (twenty) per cent of the FIN Cover 2 Funds. The size of the Financial Default Fund shall not be less than SEK 50,000,000 (fifty million). The base currency of the Financial Default Fund is SEK.

3.5 The size of the Commodity Default Fund shall be calculated by the Clearinghouse and increased to an amount that enables the Clearinghouse to withstand, under extreme but plausible market conditions (as determined by the Clearinghouse), Default Losses corresponding to the greater of (a) either the largest Clearing Participant, or of the second and third largest Clearing Participants combined if the sum of their combined exposures is larger; and (b) the combined exposure of the largest and the second largest Clearing Participants which at all times shall be less than the COM Cover 2 Funds. However, the Clearinghouse has the right to calculate and add a buffer to the Commodity Default Fund equivalent to a maximum of 20 (twenty) per cent of the COM Cover 2 Funds. The size of the Commodity Default Fund shall not be less than EUR 5,000,000 (five million). The base currency of the Commodity Default Fund is EUR.

3.6 The size of the Seafood Default Fund shall be calculated by the Clearinghouse and increased to an amount that enables the Clearinghouse to withstand, under extreme but plausible market conditions (as determined by the Clearinghouse), Default Losses corresponding to the greater of either (a) the largest Clearing Participant, or of the second and third largest Clearing Participants combined if the sum of their combined exposures is larger; and (b) the combined exposure of the largest and the second largest Clearing Participants which at all times shall be less than the Seafood Cover 2 Funds. However, the Clearinghouse has the right to calculate and add a buffer to the Seafood Default Fund equivalent to a maximum of 20 (twenty) per cent of the Seafood Cover 2 Funds. The size of the Seafood Default Fund shall not be less than NOK 10 million (ten million). The base currency of the Commodity Default Fund is NOK.

3.7 Notwithstanding anything to the contrary in 3.4, 3.5 or 3.6, when there is a shortfall in respect of Cover 2 Funds due to fact that the Clearinghouse has large exposures to the same Clearing Participant(s) in more than one Clearing Service, the Clearinghouse shall increase the size of the relevant Market Default Fund pro-rata to cover for such shortfall.

3.8 The size of the Junior Capital, and the allocation of the Junior Capital to cover Default Losses allocated to Commodity Instruments, Financial Instruments or Seafood Instruments, respectively, shall be determined so as to meet, as a minimum, applicable legal and
regulatory requirements regarding dedicated own resources from time to time. The size of the Senior Capital, shall be set at SEK 200,000,000 (two hundred million).

3.9 The Fund Requirement to the Mutual Default Fund in respect of each Default Fund Participant equals fifteen per cent (15%) of its Fund Requirement in respect of the aggregate of the Commodity Default Fund, the Financial Default Fund and the Seafood Default Fund.

4 DEFAULT FUND CONTRIBUTIONS

4.1 Before participating in and being eligible for clearing, or representing Default Fund Sponsored Participants, a Default Fund Participant shall open a Custody Account and enter into a Default Fund Custody Account Agreement, and contribute the Minimum Fund Requirement or the higher amount notified by the Clearinghouse in its discretion to the Default Fund for the respective market it will participate in.

4.2 Default Fund Participants shall meet the most recently notified Fund Requirement not later than 10:30 a.m. (CET) on each Contribution Day as per Section 5.1 in respect of ordinary Fund Requirement notifications, or 10:30 a.m. (CET) on the relevant Business Day as per Section 5.2 in respect of additional Fund Requirement notifications.

4.3 All contributions to the Default Fund by Default Fund Participants shall be in the form of Eligible Funds. Contributed Assets shall be deposited, registered, held and disposed of in accordance with the Default Fund Custody Account Agreement and the Collateral List. Each Default Fund Participant shall ensure that it complies with the Default Fund Custody Account Agreement at all times.

4.4 The Clearinghouse maintains the Collateral List. In case of changes to the Collateral List with respect to Eligible Funds each Default Fund Participant must ensure that all Contributed Assets are compliant with the updated Collateral List no later than such list becoming effective. Release of Contributed Assets, following the contribution of replacement assets in accordance with Section 4.3, is subject to Section 4.7.

4.5 It is each Default Fund Participant’s responsibility to ensure that the Contributed Assets at all times are in Eligible Funds that meet the applicable Fund Requirement. Notwithstanding the foregoing obligation, if the value of the Contributed Assets, when valued in accordance with the Collateral List, at any time becomes lower than the applicable Fund Requirement, the relevant Default Fund Participant shall within one (1) Business Day following written demand from the Clearinghouse contribute the deficit amount in accordance with Section 4.3.

4.6 A Default Fund Participant may, subject to the prior consent of the Clearinghouse, given in its discretion, replace its Contributed Assets with other Eligible Funds at any time, subject to the Default Fund Participant complying with its applicable Fund Requirement at all times. Release of Contributed Assets, following the contribution of replacement assets in accordance with Section 4.3, is subject to Section 4.7.

4.7 Contributed Assets may be released to Default Fund Participants, upon request to the Clearinghouse, to the extent the value of such Contributed Assets, when valued in accordance with the Collateral List, exceed the applicable Fund Requirement, and subject to the prior consent of the Clearinghouse, given in its discretion. A request by a Default Fund Participant to the Clearinghouse for release of excess contributions to the Default Fund made before 10:30 a.m. (CET) on a Business Day will be processed and approved or rejected by the Clearinghouse during the same Business Day. If approved, the release will be effectuated within one (1) Business Days from the time of the approval. If rejected, the Clearinghouse will inform the Default Fund Participant of the grounds for rejection.

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1 The size of the Senior Capital will be maintained at 300 MSEK during the period 2017-11-20 - 2017-12-01, i.e. between the updated Default Fund Rules take effect and until the first Contribution Day under the amended Default Fund Rules.
4.8 The Clearinghouse is entitled to use any Contributed Assets and the guarantee commitment under Section 8.1 to cover Default Losses until the Contributed Assets and guarantee commitment have been or should have been released by the Clearinghouse in accordance with these Default Fund Rules.

5 CALCULATION AND NOTIFICATION OF FUND REQUIREMENTS

5.1 Fund Requirements shall be calculated in accordance with the model set out from time to time in the Default Fund Requirements. The Clearinghouse calculates and notifies the Default Fund Participant of the applicable Fund Requirement (including in respect of its Default Fund Sponsored Participants as applicable) not less than five (5) Business Days prior to each Contribution Day.

5.2 In addition to the provisions of Section 5.1, the Clearinghouse may, by applying the model for calculation of Fund Requirements described in the Default Fund Requirements, carry out additional calculations of Fund Requirements at any time between two Contribution Days in respect of one or more Default Fund Participants (including their Default Fund Sponsored Participants as applicable). In such cases the Clearinghouse shall notify Default Fund Participants promptly after a decision to carry out an additional calculation has been made and will furthermore notify affected Default Fund Participants of the new Fund Requirement. Contribution of Eligible Funds meeting the new Fund Requirements shall be made not later than five (5) Business Days after the Clearinghouse has notified each affected Default Fund Participant of its new Fund Requirement. Following a request by a Default Fund Participant, the Clearinghouse will provide the basis for the new calculation.

5.3 Notwithstanding Sections 5.1 and 5.2, the Minimum Fund Requirement per Default Fund Participant is as follows and must always be fulfilled (see also Section 4.1):

a. For a Default Fund Participant that is only clearing Financial Instruments the Minimum Fund Requirement is SEK 300,000 (three hundred thousand).

b. For a Default Fund Participant that is only clearing Commodity Instruments the Minimum Fund Requirement is EUR 30,000 (thirty thousand).

c. For a Default Fund Participant that is only clearing Seafood Instruments the Minimum Fund Requirement is (a) NOK 250,000 (two hundred and fifty thousand) for "Direct Pledging Customers" under the Non-Commodity Clearing Rules and "Direct Clearing Clients" under the Clearing Rules or (b) NOK 250,000 (two hundred and fifty thousand) for all other Default Fund Participants.

d. For a Default Fund Participant that is clearing instruments pertaining to more than one of the categories Financial Instruments, Commodity Instruments and Seafood Instruments, the Minimum Fund Requirement is the aggregate Minimum Fund Requirement of the applicable sums under (a) through (c) above.

5.4 Where a Default Fund Participant has multiple memberships under the Clearing Rules that each are subject to a Fund Requirement in respect of Commodity Instruments under section 5.3 b or in respect of Seafood Instruments under section 5.3 c, that Default Fund Participant will be subject to one single Fund Requirement in respect of all such Commodity Instruments or all such Seafood Instruments, respectively, for all such memberships and the Contributed Assets from that Default Fund Participant in respect of such single Fund Requirement shall be available to the Clearinghouse for any and all defaults by such Default Fund Participant under any of the memberships. A single Fund Requirement pursuant to this section will be calculated by aggregating the Fund Requirement for each applicable membership and any Minimum Fund Requirement shall apply to such aggregate Fund Requirement.

6 ALLOCATION OF DEFAULT LOSS BETWEEN COMMODITY INSTRUMENTS AND SEAFOOD INSTRUMENTS

6.1 Where a Relevant Participant is clearing only Commodity Instruments or Seafood Instruments under these Clearing Rules, then any Default Loss shall, for the purpose of Sections 7, 8.1 and 8.2, be allocated to Commodity Instruments or Seafood Instruments accordingly.
6.2 Where a Relevant Participant is clearing instruments pertaining to more than one of the categories Commodity Instruments and Seafood Instruments under these Clearing Rules, then any Default Loss shall, for the purpose of Sections 7, 8.1 and 8.2, be allocated to:

a. Commodity Instruments with an amount equal to the sum of (i) the Realised Collateral Balance multiplied with the proportion of the Relevant Participant’s Margin Requirement for Commodity Instruments relative to the sum of the Relevant Participant’s Margin Requirement for Commodity Instruments and Seafood Instruments, and (ii) the Close-Out Balance for the Commodity Instruments; and

b. Seafood Instruments with an amount equal to the sum of (a) the Realised Collateral Balance multiplied with the proportion of the Relevant Participant’s Margin Requirement for Seafood Instruments relative to the Relevant Participant’s Margin Requirement for Commodity Instruments and Seafood Instruments, and (b) the Close-Out Balance for the Seafood Instruments.

7 REALISATION OF THE DEFAULT FUND AND APPLICATION OF OTHER RESOURCES

In the event of one or several Default Losses, the Default Fund and the Junior Capital and the Senior Capital shall be available to cover such Default Losses in the order of priority stipulated in this Section:

7.1 First,

a. in case of a default by a Default Fund Participant, all its Contributed Assets (whether or not in excess of the Fund Requirement and whether or not pending release from the Clearinghouse at the relevant time); or

b. in case of a default by a Default Fund Sponsored Participant, all Contributed Assets from its associated defaulting Default Fund Participant in respect of the Default Fund Sponsored Participant;

provided that the value of the available Contributed Assets under subsection (b) above shall not be less than the Minimum Fund Requirement. When determining the Minimum Fund Requirement for a Default Fund Sponsored Participant under this Section 7.1, the relevant entity or person shall be considered a separate Default Fund Participant that is a Direct Pledging Customer.

7.2 Second, the Junior Capital to cover any remaining Default Losses, provided that Junior Capital allocated in accordance with section 3.6 to cover Default Losses allocated to Commodity Instruments, Financial Instruments or Seafood Instruments, shall only be applied to cover such Default Losses.

If the default occurs during an Interim Period, any Junior Capital (as allocated in accordance with section 3.6) already realised or to be realised to cover Default Losses in respect of previously occurred default(s) shall reduce the size of the Junior Capital (as allocated in accordance with section 3.6) with an amount equal to the amount realised or to be realised in previously occurred defaults when applying this Section 7.2.

7.3 Third, the contributions by each non-defaulting Default Fund Participant to (a) the Commodity Default Fund shall be applied on a pro rata basis relative to the aggregate contributions made by all non-defaulting Default Fund Participants to the Commodity Default Fund in accordance with Schedule 2 of these Default Fund Rules, to cover any remaining Default Loss allocated to Commodity Instruments, and/or (b) the Financial Default Fund shall be applied on a pro rata basis relative to the aggregate contributions made by all non-defaulting Default Fund Participants to the Financial Default Fund to cover any remaining Default Loss allocated to Financial Instruments, and/or (c) the Seafood Default Fund shall be applied on a pro rata basis relative to the aggregate contributions made by all non-defaulting Default Fund Participants to the Seafood Default Fund to cover any remaining Default Loss allocated to Seafood Instruments.

If the default occurs during an Interim Period, any contributions to the Commodity Default Fund and/or Financial Default Fund and/or the Seafood Default Fund already realised or to be realised to cover Default Losses in respect of previously occurred default(s) shall reduce
the size of the Commodity Default Fund and/or Financial Default Fund and/or the Seafood Default Fund, as applicable, by an amount equal to the amount realised or to be realised in previously occurred defaults when applying this Section 7.3.

7.4 Fourth, the Senior Capital shall be applied to cover any remaining Default Losses, provided that if Default Losses have occurred in respect of instruments pertaining to more than one of the categories Financial Instruments, Commodity Instruments and Seafood Instruments, the following shall apply:

a. first, the Commodity Market Proportion multiplied by the Senior Capital shall be applied to cover any Default Losses allocated to Commodity Instruments and the Financial Market Proportion multiplied by the Senior Capital shall be applied to cover any Default Losses allocated to Financial Instruments and the Seafood Market Proportion multiplied by the Senior Capital shall be applied to cover any Default Losses allocated to Seafood Instruments; and

b. second, to the extent any remaining Default Losses have not been covered under (a), any remaining Senior Capital shall be applied to cover any Default Losses allocated to Commodity Instruments or Financial Instruments or Seafood Instruments; if necessary by applying (a) *mutatis mutandis* until such remaining Senior Capital is exhausted, whereby the Fund Requirements for the Market Default Fund in respect of which Default Losses have been fully covered under (a) shall be excluded for the purposes of determining the applicable Market Proportion.

If the default occurs during an Interim Period, any Senior Capital already realised or to be realised to cover Default Losses in respect of previously occurred default(s) shall reduce the size of the Senior Capital with an amount equal to the amount realised or to be realised in previously occurred defaults when applying this Section 7.4.

If more than one Relevant Participant defaults during the same day, and such defaults involve Default Losses in respect of instruments pertaining to more than one of the categories Financial Instruments, Commodity Instruments and Seafood Instruments, the Senior Capital will be allocated between such defaults as if they had occurred simultaneously.

7.5 Fifth, contributions made by each non-defaulting Default Fund Participant to the Mutual Default Fund shall be applied on a pro rata basis relative to the aggregate contributions made by all non-defaulting Default Fund Participants, to cover any remaining Default Losses, provided that if Default Losses have occurred in respect of instruments pertaining to more than one of the categories Financial Instruments, Commodity Instruments and Seafood Instruments, the following shall apply:

a. first, the Commodity Market Proportion multiplied by the Mutual Default Fund shall be applied to cover any Default Losses allocated to Commodity Instruments and the Financial Market Proportion multiplied by the Mutual Default Fund shall be applied to cover any Default Losses allocated to Financial Instruments and the Seafood Market Proportion multiplied by the Mutual Default Fund shall be applied to cover any Default Losses allocated to Seafood Instruments; and

b. second, to the extent any remaining Default Losses have not been covered under (a), any remaining contributions to the Mutual Default Fund shall be applied to cover any Default Losses allocated to Commodity Instruments or Financial Instruments or Seafood Instruments; if necessary by applying (a) *mutatis mutandis* until such remaining Mutual Default Fund is exhausted, whereby the Fund Requirements for the Market Default Fund in respect of which Default Losses have been fully covered under (a) shall be excluded for the purposes of determining the applicable Market Proportion.

If the default occurs during an Interim Period, any contributions to the Mutual Default Fund already realised or to be realised to cover Default Losses in respect of previously occurred default(s) shall reduce the size of the Mutual Default Fund with an amount equal to the amount realised or to be realised in previously occurred defaults when applying this Section 7.5.

7.6 Sixth, the guarantee commitment given by each Default Fund Participant in respect of Excess Losses under Section 8.1 shall be used to cover any remaining Default Losses.
7.7 Seventh, to the extent any remaining Default Losses have arisen in connection with a default under an Interim Period, any capital replenished in accordance with Sections 9.1 and 9.3, shall be applied to cover such Default Losses in the order that mutatis mutandis follows from Sections 7.2 - 7.5 to cover any remaining Losses.

7.8 The Clearinghouse shall be entitled to realise the contributions available under Sections 7.1, 7.3, 7.5 and 7.7 above, without making a demand on the Default Fund Participants, by application of Contributed Assets. Default Fund Participants will be notified of such realisations through their receipt of a replenishment request in accordance with Section 9.1.

7.9 For the period until 9 December 2018 and pertaining solely to the Interim Period commenced on 11 September 2018 and ending on 9 December 2018 ("Current Commodity Interim Period"), this Rule 7.9 shall apply to the application of this Section 7. In the event of there being one or several further Default Losses attributable to Commodity Instruments ("Commodity Default Losses"), the Default Fund and the Junior Capital and the Senior Capital shall be available to cover such Commodity Default Losses in accordance with and in the order of priority stipulated in Section 7 subject that there shall be Temporary Junior Capital to cover any remaining Commodity Default Losses, such Temporary Junior Capital to be applied after the application of all the Contributed Assets of the Default Fund Participant or, in the case of a default by a Default Fund Sponsored Participant, of its associated defaulting Default Fund Participant pursuant to Section 7.1 and prior to the application of any other cover that may be available pursuant to Sections 7.2 - 7.8. After the application of the Temporary Junior Capital pursuant to this Section, any further Commodity Default Losses shall be covered in accordance with Sections 7.2 - 7.8 and the Default Fund Rules. In the event that there are further Commodity Default Losses in the Current Commodity Interim Period, Section 9 shall not apply in relation to Temporary Junior Capital.

For the purposes of this Section 7.9, Temporary Junior Capital means an amount funded by the Clearinghouse’s own assets in an amount of SEK 200 million:

8 GUARANTEE COMMITMENT

8.1 In the event of any Excess Loss allocated to Commodity Instruments and/or Financial Instruments and/or Seafood Instruments (respectively), each Default Fund Participant which has made contributions to the Commodity Default Fund and/or the Financial Default Fund and/or Seafood Default Fund (as applicable) undertakes to, without exception or objection and subject only to Section 8.4, upon receipt of the first written request from the Clearinghouse, within two (2) Business Days (excluding the day of demand) pay to the Clearinghouse a cash amount, into a bank account designated by the Clearinghouse, corresponding to its pro rata share of such Excess Losses (as calculated by the Clearinghouse in accordance with Section 8.2) in relation to the Commodity Default Fund and/or the Financial Default Fund and/or Seafood Default Fund (as applicable).

8.2 A Default Fund Participant’s pro rata share of Excess Losses pursuant to Section 8.1 shall be calculated as the proportion of such Default Fund Participant’s most recent notified Fund Requirement in respect of the Commodity Default Fund and/or the Financial Default Fund and/or Seafood Default Fund (as applicable) (not including, if applicable, such part of the Fund Requirement which pertains to a defaulted Default Fund Sponsored Participant of such Default Fund Participant) relative to the sum of the most recent notified Fund Requirements for all Default Fund Participants in respect of the Commodity Default Fund and/or the Financial Default Fund and/or Seafood Default Fund (as applicable) (not including, if applicable, such part of any Fund Requirement which pertains to a defaulted Default Fund Sponsored Participant), subject in all cases to Section 8.4.

8.3 [Intentionally left blank].

8.4 The guarantee commitments under Section 8.1 shall be limited as follows:

a. It shall not exceed one hundred percent (100%) of the most recent notified Fund Requirement in respect of the Commodity Default Fund and/or the Financial Default Fund and/or Seafood Default Fund, respectively, as applicable to the relevant Default Fund Participant at the time of the first Excess Loss which invokes the guarantee
commitment hereunder (not including, if applicable, such part of the Fund Requirement which pertains to a defaulted Default Fund Sponsored Participant of such Default Fund Participant); and

b. It shall be reduced and limited by an amount equivalent to such amount that the Default Fund Participant has replenished in accordance with Section 9.1 (as applicable) for any Interim Period.

9 REPLENISHMENT AND REDISTRIBUTION

9.1 Any realised Default Fund contributions shall be replenished by new contributions in Eligible Funds by each non-defaulting Default Fund Participant so that the Fund Requirement (not including, if applicable, such part of the Fund Requirement which pertains to a defaulted Default Fund Sponsored Participant of such Default Fund Participant) is fulfilled within two (2) Business Days following a replenishment request, which may be notified by the Clearinghouse from the day of any realisation of a Default Fund Participant’s contributions to the Default Fund. During an Interim Period (as applicable to each Default Loss), replenished funds may only be applied in relation to Default Losses under Section 7.7. Following the applicable Interim Period, the replenished funds will be moved to their original priority level under Sections 7.1, 7.3 and 7.5, as applicable.

9.2 A Default Fund Participant’s obligations to replenish funds in accordance with Section 9.1 shall terminate:

a. on the date any amount is utilised under the guarantee commitment in Section 8.1; or

b. on the date of the Default Fund Exit, provided that the Default Fund Exit occurs before the Clearinghouse has notified the Default Fund Participant of a replenishment request under Section 9.1.

9.3 Any realised Junior Capital and Senior Capital contributed by the Clearinghouse shall be replenished by the Clearinghouse within two (2) Business Days from such realisation. During any Interim Period (as applicable to each Default Loss), replenished funds may only be applied in relation to Default Losses under Section 7.7. Following the applicable Interim Period, the replenished funds will be moved to their original priority level under Sections 7.2 and 7.4, as applicable.

9.4 In the event that the Clearinghouse, following a Default Loss which has yielded contributions by Default Fund Participants and the Clearinghouse pursuant to Section 7 above, is able to recover any Default Loss (or parts thereof) from the defaulting Relevant Participant, the Clearinghouse shall redistribute such recovered amounts to the Default Fund Participants who contributed to the applicable Default Loss, including the Clearinghouse itself (to the extent it contributed to the Default Loss through the Senior Capital, the Junior Capital or otherwise).

9.5 Redistribution of recovered amounts pursuant to Section 9.4 shall take place by applying Section 7 level by level in reverse order, starting from the level of priority which was last triggered in relation to the applicable Default Loss and ending where and when the recovered amount has been fully redistributed. On each level of priority to which redistribution is applicable, each Default Fund Participant shall be entitled to a pro rata reimbursement of its actual contribution of Contributed Assets to the applicable Default Loss, as valued on the day on which such Contributed Assets were applied to the Default Loss. For the avoidance of doubt, any additional and subsequent amounts recovered in respect of the same Default Loss shall be redistributed on the same basis, starting from where redistribution was previously cut off in relation to that Default Loss.

9.6 A Default Fund Participant’s right to redistribution in accordance with Sections 9.4 and 9.5 is conditional that the Clearinghouse has not assigned its corresponding claim to the Default Fund Participant pursuant to Section 10.1. In cases where the claim has been assigned to a Default Fund Participant pursuant to Section 10.1, such Default Fund Participant shall be deemed to have waived its right to any amounts recovered pursuant to Section 9.4.
10 ASSIGNMENT OF CLAIMS

10.1 Should any contributions to the Default Fund be realised under Section 7 and/or any funds be paid by a Default Fund Participant under the guarantee commitment under Section 8.1, the Clearinghouse will upon a written request from a Default Fund Participant, who has suffered damage, without undue delay assign to the Default Fund Participant such claims that the Default Fund Participant may have against a Relevant Participant pro rata to that Default Fund Participant’s share of the amount covered by the Default Fund or through the guarantee commitment.

11 DEFAULT FUND EXIT

11.1 Following a Default Fund Exit, the Clearinghouse shall, subject to Sections 4.8 and 11.2, release the Default Fund Participant’s Contributed Assets and the guarantee commitment on the first Contribution Day following the Default Fund Exit. However, if the Default Fund Exit occurs less than ten (10) Business Days prior to the date the Clearinghouse is to notify the next Fund Requirements in accordance with Section 5.1 in respect of such first Contribution Day, the Contributed Assets and the guarantee commitment will be released on the next Contribution Day following such first Contribution Day.

11.2 If the Default Fund Exit occurs during an Interim Period, the release of the Default Fund Participant’s remaining Contributed Assets and the guarantee commitment shall be effected on the first Contribution Day that occurs following expiration of the Interim Period. However, if the Default Fund Exit occurs less than ten (10) Business Days prior to the date the Clearinghouse is to notify the next Fund Requirements in accordance with Section 5.1 in respect of such first Contribution Day, the Contributed Assets and the guarantee commitment will be released on the next Contribution Day following such first Contribution Day.

12 DEFAULT FUND SPONSORED PARTICIPANTS THAT ARE “DIRECT PLEDGING CUSTOMERS”

12.1 The Clearinghouse may approve in its sole discretion that a “Direct Pledging Customer” under the Non-Commodity Clearing Rules shall be considered a Default Fund Sponsored Participant. A Default Fund Participant that has agreed to represent such “Direct Pledging Customer” as its Default Fund Sponsored Participant shall submit a written confirmation to that effect to the Clearinghouse, in the form required by the Clearinghouse from time to time.

A “Direct Pledging Customer” will be released from its obligations as a Default Fund Participant and considered a Default Fund Sponsored Participant once the Clearinghouse has given its approval and confirmed that the Default Fund Participant has contributed the applicable Fund Requirement in relation to the Direct Pledging Customer as notified by the Clearinghouse.

12.2 A Default Fund Participant that represents a “Direct Pledging Customer” as its Default Fund Sponsored Participant shall, in respect of such Default Fund Sponsored Participant, always contribute at least the Minimum Fund Requirement that would have been applicable to such Default Fund Sponsored Participant if it were a Default Fund Participant.

12.3 A Default Fund Participant may request to terminate its obligations under these Default Fund Rules in relation to a Default Fund Sponsored Participant that is a “Direct Pledging Customer” by giving written notice to the Clearinghouse. The Default Fund Participant shall send a copy of the notice to the relevant Default Fund Sponsored Participant. The obligations will be terminated 20 Business Days following the Clearinghouse’s written confirmation (not including the day of confirmation) that it is in receipt of the notice, such confirmation not to be unreasonably withheld, or such earlier day as decided by the Clearinghouse in its discretion. If notice is given during an Interim Period or an Interim Period is triggered before the expiry of the 20 Business Day period, the Clearinghouse may decide that the Default Fund Participant’s obligations shall instead terminate at a later Business Day, however no later than the Business Day following the expiry of the Interim Period. Following termination, the relevant “Direct Pledging Customer” will again be considered a Default Fund Participant.
The Default Fund Participant will remain solely responsible for all obligations which have arisen under these Default Fund Rules in relation to the relevant Default Fund Sponsored Participant before the termination is completed in accordance with the above.

12.4 Upon receipt of a copy of a notice in accordance with Section 12.3, the Default Fund Sponsored Participant shall within ten (10) Business Days (not including the day of receipt) inform the Clearinghouse how it intends to fulfill its Fund Requirement after its Default Fund Participant’s obligations have been terminated.

### 13 COM CLOSE OUT PROVIDERS

13.1 The Clearinghouse may, in its sole discretion, invite certain Default Fund Participants to become COM Close Out Providers. Only COM Close Out Providers will be able to participate in Auctions.

13.2 Following the default of a Relevant Participant, where the Default Loss is such that the Contributed Assets of each non-defaulting Default Fund Participant need to be applied pursuant to Section 7, such Contributed Assets of each non-defaulting Default Fund Participant in the Commodity Default Fund shall be applied in accordance with Schedule 2 of these Default Fund Rules.

### 14 DEFAULT NOTIFICATION PROCEDURE

14.1 The Clearinghouse will notify Default Fund Participants in the event a default has been declared by the Clearinghouse. Such default notification shall be distributed as soon as practically possible in accordance with the Clearinghouse’s default notification procedure, which is available at the Clearinghouse’s Website.
Contributions are made to the Commodity Default Fund and/or Financial Default Fund and/or Seafood Default Fund as well as to the Mutual Default Fund. A Default Fund Participant’s share of the Financial Default Fund and/or Commodity Default Fund and/or Seafood Default Fund is based on the Default Fund Participant’s (including its Default Fund Sponsored Participants’) 3-month average Initial Margin in relation to the aggregated average values of all Default Fund Participants and Default Fund Sponsored Participants in the respective market. Default Fund Participants’ and/or Default Fund Sponsored Participants’ calculated average Initial Margin shall be multiplied by 0.5 when such Default Fund Participants’ and/or Default Fund Sponsored Participants’ Initial Margin is provided in relation to an Individual Client Segregated Account.

A Default Fund Participant’s share represents the share of the applicable Default Fund that the Default Fund Participant shall contribute to. An additional 15% of such amount is added to the Mutual Default Fund. Hence, the calculated contribution of a Default Fund Participant includes contributions to the Financial Default Fund and/or the Commodity Default Fund and/or the Seafood Default Fund and the Mutual Default Fund. A Default Fund Participant’s calculated Fund Requirement includes calculated contributions in respect of its own accounts as well as its Default Fund Sponsored Participants (if any).

The calculation of the size of the Financial Default Fund, the Commodity Default Fund and the Seafood Default Fund is described in sections 3.4 – 3.7 of the Default Fund Rules.

If the calculated Fund Requirement would be lower than the applicable Minimum Fund Requirement, the Minimum Fund Requirement will be applied. For contributions in respect of Default Fund Sponsored Participants that are either “Direct Pledging Customers” or “Clearing Clients”, the Minimum Fund Requirement that would have applied to such Default Fund Sponsored Participant if it were a separate Default Fund Participant is applied for each such individual Default Fund Sponsored Participant.

The Clearinghouse may increase or reduce the Fund Requirement of an individual Default Fund Participant to take into account known or anticipated changes in clearing volume and risk, including, but not limited to, changes resulting from account and position transfers and mergers and acquisitions involving the Default Fund Participant. Any such increase or reduction in a Default Fund Participant’s Fund Requirement shall be made at the absolute discretion of the Clearinghouse, acting reasonably.

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SCHEDULE 2

SENIORISATION OF CONTRIBUTED ASSETS

The provisions of this Schedule 2 will apply where, pursuant to the default of a Relevant Participant, a hedging and/or Auction process has been held as part of the default management process for such Relevant Participant.

1. Where the Default Loss is such that the Contributed Assets of each non-defaulting Default Fund Participant need to be applied pursuant to Section 6, such Contributed Assets of each non-defaulting Default Fund Participant in the Commodity Default Fund shall be applied to cover the remaining Default Loss in the following order:

   (i) first, (x) the Contributed Assets of those Default Fund Participants who are not Close Out Providers and (y) such part of the Contributed Assets equal to the Non-Senior Proportion of the Contributed Assets of Close Out Providers ((x) and (y) together the “Junior Contributed Assets”), in each case on a pro rata basis relative to the aggregate Junior Contributed Assets of all non-defaulting Default Fund Participants to the Commodity Default Fund;

   (ii) if and to the extent that there is still a Default Loss outstanding after the attribution process referred to in sub-clause (i) above, such part of the Contributed Assets equal to the Relevant Proportion of the Contributed Assets of each Tier 3 Close Out Provider, on a pro rata basis relative to the aggregate Relevant Proportion of Contributed Assets of all Tier 3 Close Out Providers;

   (iii) if and to the extent that there is still a Default Loss outstanding after the attribution process referred to in sub-clause (ii) above, such part of the Contributed Assets equal to the Relevant Proportion of the Contributed Assets of each Tier 2 Close Out Provider, on a pro rata basis relative to the aggregate Relevant Proportion of Contributed Assets of all Tier 2 Close Out Providers; and

   (iv) if and to the extent that there is still a Default Loss outstanding after the attribution process referred to in sub-clause (iii) above, such part of the Contributed Assets equal to the sum of (x) the Relevant Proportion of the Contributed Assets of each Tier 1 Close Out Provider, and (y) the Relevant Hedging Proportion of the Contributed Assets of each Hedge Provider, in both cases on a pro rata basis relative to the sum of the aggregate Relevant Proportion of Contributed Assets of all Tier 1 Close Out Providers and the aggregate Relevant Hedging Proportion of Contributed Assets of all Hedge Providers.

2. In order to categorise Close Out Providers as Hedge Providers, Tier 1 Close Out Providers, Tier 2 Close Out Providers and/or Tier 3 Close Out Providers, the Clearinghouse will follow the procedure set out in Clauses 3 – 6 below. In respect thereof:

   (i) if the Clearinghouse has to run multiple Default Cycles in respect of the portfolio of the same Relevant Participant, the provisions of this Schedule 2 shall be applied to each Default Cycle as set out, making such determinations in respect of the portfolio and (where relevant) each Auction Bucket or part thereof which is remaining;

   (ii) a Close Out Provider may be categorised in more than one category in respect of its Contributed Assets and the categorisation of a Close Out Provider as a Senior Close Out Provider in respect of part of its Contributed Assets does not preclude the categorisation of such Close Out Provider as a Senior Close Provider in a different category, or outside of any category, for some or all of its remaining Contributed Assets;

   (iii) the purpose of these provisions is to allocate 100% of the Contributed Assets of each non-defaulting Default Fund Participant (and for the avoidance of doubt, the maximum amount of Contributed Assets of each non-defaulting Default Fund Participant which can be seniorised is 100%);

   (iv) the Clearinghouse may close out part of a Relevant Participant’s portfolio (measured as a reduction of the Initial Margin of such Relevant Participant’s portfolio) other than through Hedging and/or an Auction. In the event that it does so, the
Clearinghouse will be able to utilise the resources available to it in Section 6 of the Default Fund Rules as it determines necessary and the provisions set out in this Schedule 2 shall be applicable to the remainder of such resources. As such, seniorisation of the Contributed Assets of any non-defaulting Default Fund Participant will not be available in respect of that part of the portfolio equal to the reduced Initial Margin. Accordingly, the Clearinghouse shall make such adjustments to the calculations (including to calculations that have already been made\(^2\)) as are necessary to reflect the use of any such resources\(^3\) and the reduction in the amount of total net Initial Margin of the portfolio or any Auction Bucket shall be reduced by the amount of Initial Margin reduced other than through Hedging and/or an Auction:

(v) in respect of the foregoing, it is acknowledged that the Clearinghouse may enter into transactions with Close Out Providers outside the scope of their Close Out Provider Agreement or other third parties in circumstances where the Clearinghouse does not approach all Close Out Providers for a bid in respect of the transaction and any resulting contracts shall not permit the Close Out Provider to be eligible for seniorisation in respect of such contracts and amendments shall be made to the calculations as set out in the sub-paragraph above; and

(vi) in applying the Contributed Assets of a Default Fund Participant as set out above, the Clearinghouse may determine which particular assets to apply through the waterfall.

3. Prior to an Auction, the Clearinghouse may, in its absolute discretion, split the portfolio of the Relevant Participant into Auction Buckets and, where it does so, the Clearinghouse shall calculate for each Auction Bucket its Auction Bucket IM\(^4\) and its Bucket Weight. For each such Auction, the calculation of the Auction Bucket IM and the Bucket Weight for each such Auction Bucket prior to the Auction shall provide indicative figures for that Auction in order to assist the auction participants and the Clearinghouse shall recalculate such Auction Bucket IM and Bucket Weight after completion of the Auction, which figures shall be utilised for the purposes of this Schedule.

4. Further to an Auction, the Clearinghouse shall determine the categorisation of each Close Out Provider on the basis of the following:

(i) each Close Out Provider providing a Winning Bid will be a Tier 1 Close Out Provider, and the Relevant Proportion of its Contributed Assets, in respect of a Winning Bid that is a Portfolio Bid, shall be 100% of the Auction Proportion or Partial Auction Proportion (as the case may be) and, in the case of a Winning Bid for an Auction Bucket, shall correspond to the Bucket Weight of the relevant Auction Bucket:

For example, if a Close Out Provider provides a winning bid in respect of an Auction Bucket with a Bucket Weight of 60%, the Relevant Proportion of such Close Out Provider’s Contributed Assets shall be 60%;

(ii) in cases where a Close Out Provider has provided bids solely in respect of one or more Auction Buckets:

(a) any Close Out Provider who has provided a bid in respect of an Auction Bucket with a Bid Differential to the Winning Bid (if any) in respect of such

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\(^2\) If the Clearinghouse undertakes an Auction and then undertakes activities that fall outside of Hedging or Auctions, but in circumstances where some of the portfolio remains subject to a further auction, the Clearinghouse will need to make adjustments to the calculations made for the first Auction to ensure consistency is applied through the whole process.

\(^3\) Default Fund Participants should note that, if the use of resources were such that the Contributed Assets of non-defaulting Default Fund Participants were utilised in activities other than Hedging and Auctions, the amount of resources available for seniorisation hereunder would be less and adjustments will therefore be made to the relevant calculations.

\(^4\) Default Fund Participants should note that the sum of Auction Portfolio IMs for Auction Buckets within the Relevant Participant’s portfolio is likely to be larger than the Initial Margin for the overall portfolio, due to lost netting effects.
Auction Bucket of up to 10% shall be a Tier 2 Close Out Provider in respect of that Auction Bucket, and the Relevant Proportion of its Contributed Assets shall correspond to the Bucket Weight of that Auction Bucket;

(b) any Close Out Provider who has provided a bid in respect of an Auction Bucket with a Bid Differential to the Winning Bid (if any) in respect of such Auction Bucket of equal to or more than 10% but less than 20% shall be a Tier 3 Close Out Provider in respect of that Auction Bucket, and the Relevant Proportion of its Contributed Assets shall correspond to the Bucket Weight of that Auction Bucket;

(c) in cases where the Winning Bid is a Portfolio Bid, only those Close Out Providers providing other Portfolio Bids will be eligible to be classified as Senior Close Out Providers in respect of the Relevant Proportion of their Contributed Assets and, for the avoidance of doubt, any Close Out Provider who has provided bids solely in respect of one or more Auction Buckets will not be eligible to be a Senior Close Out Provider in respect of any of the Auction Buckets making up that Auction.

(iii) in cases where a Close Out Provider has provided only a Portfolio Bid (and no bids for any of the Auction Buckets):

(a) any Close Out Provider who has provided a Portfolio Bid with a Bid Differential to the Winning Bid or, where there was a Winning Bid for all of the Eligible Auction Buckets making up the portfolio in that Auction, the sum of the Winning Bids for each such Eligible Auction Bucket, of up to 10% shall be a Tier 2 Close Out Provider, and the Relevant Proportion of its Contributed Assets shall be 100% of the Auction Proportion or Partial Auction Proportion (as the case may be);

(b) any Close Out Provider who has provided a Portfolio Bid with a Bid Differential to the Winning Bid or, where there was a Winning Bid for all of the Eligible Auction Buckets making up the portfolio in that Auction, the sum of the Winning Bids for each such Eligible Auction Bucket, of equal to or more than 10% but less than 20% shall be a Tier 3 Close Out Provider, and the Relevant Proportion of its Contributed Assets shall be 100% of the Auction Proportion or Partial Auction Proportion (as the case may be);

(c) in cases where there are Winning Bids in respect of some but not all Auction Buckets, such Close Out Provider will not be eligible to be classified as a Senior Close Out Provider in respect of the Portfolio Bid; and

(iv) in cases where a Close Out Provider has provided both a Portfolio Bid and bids in respect of one or more Auction Buckets, the Clearinghouse shall determine, first, whether the Close Out Provider is a Senior Close Out Provider pursuant to subsection (iii) above and, secondly, whether the Close Out Provider is, in respect of any of its bids for any Auction Bucket, a Senior Close Out Provider pursuant to subsection (ii) above and:

(a) if it is a Senior Close Out Provider solely in respect of its Portfolio Bid, or where its categorisation for any of its bids for an Auction Bucket is lower than its Portfolio Bid, the Relevant Proportion of its Contributed Assets shall be 100% at the level calculated pursuant to subsection (iii) above;

(b) if it is a Senior Close Out Provider solely in respect of its bid for one or more Auction Buckets, the Relevant Proportion of its Contributed Assets shall be the sum of the Relevant Proportions corresponding to the Bucket Weights for each such Auction Bucket as calculated pursuant to subsection (ii) above;

(c) if it is a Senior Close Out Provider in respect of both of its Portfolio Bid and a bid for one or more Auction Buckets, where one or more of the bids for an Auction Bucket has a more senior categorisation than its Portfolio Bid, the Relevant Proportion of its Contributed Assets shall be (x) the Relevant Proportion corresponding to the Bucket Weight for each such Auction Bucket as calculated pursuant to subsection (ii) above and (y) the balance (being
100% less each of the Relevant Proportions applied in (x)) of the Relevant Proportion of its Contributed Assets shall be applied at the level calculated pursuant to subsection (iii) above.

For example:

- an Auction is split into Auction Buckets and the Close Out Provider has provided separate bids in respect of one or more Auction Bucket(s) and a Portfolio Bid;
- one of the bids provided by such Close Out Provider for an Auction Bucket is a Tier 1 Bid and the Portfolio Bid is a Tier 2 Bid, the other bids provided by the Close Out Provider for the other Auction Buckets are not classified as Tier 1 Bids or Tier 2 Bids;
- the Close Out Provider shall be a Tier 1 Close Out Provider in respect of the percentage of such Close Out Provider’s Contributed Assets which corresponds to the Bucket Weight of the Auction Bucket in respect of which the Close Out Provider provided a Tier 1 Bid; and
- the Close Out Provider shall be a Tier 2 Close Out Provider in respect of the remainder of the Auction Proportion of such Close Out Provider’s Contributed Assets, due to the fact that such Close Out Provider’s Portfolio Bid which was a Tier 2 Bid.

5. Where a Non-Clearing Member acts as a Close Out Provider, its related General Clearing Member’s default fund contribution will be seniorised to the extent that such Non-Clearing Member provides a Tier 1 Bid, a Tier 2 Bid or a Tier 3 Bid, as if the General Clearing Member itself had entered into the Relevant Hedges or provided the Tier 1 Bid, Tier 2 Bid or Tier 3 Bid, as applicable.

6. The Clearinghouse shall be responsible for making all calculations in accordance with this Schedule 2 and all such calculations shall be final and binding in the absence of manifest error. In the event that there are circumstances arising in respect of an Auction which are not contemplated herein, and/or in the event that not all of the Contributed Assets of any non-defaulting Default Fund Participant are allocated and/or available for utilisation pursuant to the calculations herein, the Clearinghouse shall make such determinations as it thinks fit in its sole discretion, including to ensure all resources available to it pursuant to Section 6 of the Default Fund Rules are fully utilised.

7. For the purposes of this Schedule 2 the following definitions shall apply:

"Actual Auction Proportion" means, in the event of any Auction in respect of which the total Initial Margin making up the portfolio for that auction has not been successfully transferred to Clearing Participants as a result of such Auction, the proportion calculated by the aggregate of the Auction Bucket IM for which there have been Winning Bids divided by the aggregate of the Auction Bucket IM for each Auction Bucket of the Relevant Participant subject to the Auction multiplied by the Auction Proportion.

"Auction" means following a Relevant Participant’s default, an auction of certain of such Relevant Participant’s contracts relating to Commodity Instruments, as part of the default management process (and, for the avoidance of doubt, a Partial Auction shall be deemed an Auction for the purposes of this Schedule).

"Auction Bucket" means, in relation to the Auction of a portfolio, the sub-portfolios into which a portfolio has been sub-divided by the Clearinghouse and, in circumstances where there is a Partial Auction, that part of the portfolio that is not to be offered in that Auction shall be one such sub-portfolio.

"Auction Bucket IM" means, in related to an Auction Bucket, the Initial Margin calculated by the Clearinghouse for that Auction Bucket.

"Auction Proportion" means, at any point, the proportion calculated as 100% less the Hedging Proportion (if any) for any completed hedging phase within any prior or the existing
Default Cycle and any Actual Auction Proportion (if any) for a prior Auction, subject to any recalculation pursuant to Clause 2(iv).

“Bid Differential” means an amount, expressed as a percentage, equal to:

- for an Auction Bucket: (relevant bid – Winning Bid)/Auction Bucket Initial Margin
- for a Portfolio Bid where the Winning Bid is a different Portfolio Bid: (relevant bid – Winning Bid)/total Initial Margin for the overall portfolio (subject to any recalculation pursuant to Clause 2(iv))
- for a Portfolio Bid where the Winning Bids were in respect of each of the Auction Buckets within the portfolio: (relevant bid – aggregate of each Winning Bid)/aggregate of the Auction Bucket IM for each Auction Bucket within the portfolio).

“Bucket Weight” means, for an Auction Bucket for a particular Auction, the size of such Auction Bucket relative to the size of the whole portfolio, calculated by dividing the Auction Bucket’s Auction Bucket IM by the sum of the Auction Bucket IM for each Auction Bucket in that Auction, then multiplied by the Auction Proportion for that Auction.

“Close Out Provider” means each Default Fund Participant which has signed a Close Out Provider Agreement with the Clearinghouse in respect of Commodity Instruments.

“Close Out Provider Agreement” means a close out provider agreement in respect of Commodity Instruments between a Default Fund Participant and the Clearinghouse.

“Default Cycle” means a cycle of the default management process represented by Hedges and/or an Auction.

“Eligible Auction Bucket” means, in relation to a Partial Auction, those Auction Buckets which are made available to auction participants.

“Hedge” means one or more contract(s) entered into between the Clearinghouse and a Close Out Provider as part of the hedging phase of the default management process, provided that the Clearinghouse has approached each Close Out Provider to solicit a bid in respect of such Hedge.

“Hedge Bid Request” means a request for quote sent by the Clearinghouse to Close Out Providers in connection with the hedging phase of the default management process.

“Hedge Provider” means a Close Out Provider which has entered into one or more contracts with the Clearinghouse in respect of one or more Hedge Bid Requests.

“Hedging Proportion” means, at any point, the proportion calculated as

- 100% less the Hedging Proportion (if any) for any completed hedging phase and any Actual Auction Proportion (if any) for a prior Auction (subject in each case to any recalculation pursuant to Clause 2(iv)), multiplied by
- the proportion calculated by the aggregate net Initial Margin for each successfully executed Hedge in the Default Cycle divided by the aggregate net Initial Margin of each successfully executed Hedge in the Default Cycle and the net Post-Hedge Initial Margin,

where, Post Hedge Initial Margin means the total net Initial Margin on the portfolio of the Relevant Participant following execution of all Hedges in that Default Cycle.

“Non-Senior Proportion” means, in relation to a Close Out Provider, the proportion of such Close Out Provider’s Contributed Assets remaining (if any) after the deduction of each Relevant Proportion and each Relevant Hedging Proportion of such Contributed Assets.

“Partial Auction” means, in relation to an Auction, an auction where the whole of the portfolio, or remaining portfolio, of a Relevant Participant is not made available in that Auction.

“Partial Auction Proportion” means, in relation to a Partial Auction, the Actual Auction Proportion for that Auction.
“Portfolio Bid” means, in relation to an Auction, a bid for the portfolio as a whole, whether the portfolio has been split into Auction Buckets or not and, in respect of a Partial Auction, a bid for the remaining portfolio as represented by the Eligible Auction Buckets (whether as a single bid or as an aggregate of bids for each Eligible Auction Bucket).

“Relevant Hedge” means, in relation to a Close Out Provider, each Hedge entered into between such Close Out Provider and the Clearinghouse in connection with the hedging phase of the default management process.

“Relevant Hedging Proportion” means, in relation to each Hedge Provider and a Default Cycle, the proportion of such Hedge Provider’s Contributed Assets calculated as the total net Initial Margin of its Relevant Hedges for that Default Cycle divided by the total net Initial Margin of all Hedges for that Default Cycle, expressed as a percentage, multiplied by the Hedging Proportion.

“Relevant Proportion” means, in relation to a Close Out Provider, the proportion of such Close Out Provider’s Contributed Assets calculated in accordance with Clauses 4 and 5, as applicable.

“Senior Close Out Provider” means, in respect of an Auction, a Tier 1 Close Out Provider, Tier 2 Close Out Provider and/or Tier 3 Close Out Provider and in respect of a Hedge Bid Request, a Hedge Provider.

“Tier 1 Close Out Provider” means, in respect of an Auction, the Close Out Provider(s) who submitted the winning bid(s) (each such bid, a “Tier 1 Bid”).

“Tier 2 Close Out Provider” means, in respect of an Auction, the Close Out Provider(s) who submitted bids with a Bid Differential to the winning bid of up to 10% of Initial Margin (each such bid, a “Tier 2 Bid”).

“Tier 3 Close Out Provider” means, in respect of an Auction, the Close Out Provider(s) who submitted bids with a Bid Differential to the winning bid of between 10 and 20% of Initial Margin (each such bid, a “Tier 3 Bid”).

“Winning Bid” means, in respect of an Auction, each bid determined by the Clearinghouse in its absolute discretion as the best bid in respect of the default management process, whether that bid is a Portfolio Bid or a bid in respect of an Auction Bucket.