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Capitalised terms used in this Margin and Price Alignment Interest Procedure and not otherwise defined herein shall have the meaning given pursuant to the remainder of the CDS Clearing Documentation, as such term is defined in the document entitled “CDS Clearing Rule Book” published by LCH.Clearnet SA, as amended from time to time.

2.1 Overview

All Clearing Members are required to pay Margin to LCH.Clearnet SA.

Further information about the Margin components and the calculation methodology in respect of each such component set out in this Section 2 is available to Clearing Members on the secure section of the Website and the LCAP and/or upon request from LCH.Clearnet SA’s Risk Management Department on +33 1 70 37 10 43 or Lchclearnetsa_CDS_Risk@lchclearnet.com. Such information will be updated and/or re-issued following consultation with the Risk Committee.

Section 3 of the Procedures provides further detail of how Collateral should be transferred, and Cash Payments made, by Clearing Members to LCH.Clearnet SA.

2.2 Margin

(a) Margin Requirement

For each Margin Account of each Clearing Member, the Margin Requirement consists of the following components:

(i) Initial Margin;
(ii) Short Charge Margin;
(iii) Recovery Risk Margin;
(iv) Self-Referencing Protection Margin;
(v) Interest Rate Risk Margin;
(vi) Liquidity and Concentration Risk Margin;
(vii) Accrued Fixed Amount Liquidation Risk Margin;
(viii) Credit Event Margin;
(ix) Additional Margin;
(x) in respect of the House Margin Requirement only: Credit Quality Margin; and
(xi) Contingency Variation Margin.

Details of each of these components are set out below.
(b) Timing for calculation of the Margin Requirement

LCH.Clearnet SA will calculate the Margin Requirement for each Margin Account of each Clearing Member on each Business Day:

(i) by no later than 04:00 CET, which will be the Margin Requirement for the Morning Call; and

(ii) whenever a position corresponding to the relevant trade leg of an Eligible Intraday Transaction is pre-registered in the relevant Clearing Member's Account Structure, in accordance with Section 3.1.7 of the CDS Clearing Rule Book, and the Intraday Novation Margin Requirement is calculated. The most recently calculated Margin Requirement for each Margin Account will be the Margin Requirement used for each of the First Intraday Call and the Second Intraday Call.

LCH.Clearnet SA will notify each Clearing Member of the Margin Requirement for each of its Margin Accounts through the relevant Margin Requirements Results File(s), in each case in accordance with, subject to and at the times set out in Section 5 of the Procedures.

(c) Variation Margin Requirement

Each Clearing Member is required to pay to LCH.Clearnet SA (or is entitled to receive from LCH.Clearnet SA, as applicable) Variation Margin to cover its Total Client Variation Margin Requirement and/or its House Variation Margin Requirement, as detailed in Paragraph 2.13 below and in Section 3 of the Procedures, provided that in any case, if an FCM Clearing Member is required to make Cash Payments in respect of its Total Client Variation Margin Requirement for the purposes of a Collateral Call, such payment will always occur five minutes later than the time slot used to transfer the Collateral to satisfy the Required Collateral Amount, in accordance with Chapter 2 of Title IV of the CDS Clearing Rule Book and Section 3 of the Procedures, or such later time as is permitted by the CDS Clearing Rule Book.

(d) Aggregate Margin for Cleared Transactions which reference a single Reference Entity

Notwithstanding anything to the contrary in the CDS Clearing Documentation, the sum of the aggregate Variation Margin, Initial Margin and the Credit Event Margin that can be called from a Clearing Member that is a CDS Seller in respect of a Cleared Transaction referencing a single Reference Entity may not exceed the Floating Rate Payer Calculation Amount in respect of such Cleared Transaction.

(e) Additional Collateral in respect of Client Cleared Transactions of a “non-hedging nature” of an FCM Clearing Member

Each FCM Clearing Member shall ensure that with respect to a Client Cleared Transaction registered in its FCM Client Trade Account(s) that is of a “non-hedging nature” (as such term is used in Part 39 of the CFTC Regulations), it shall collect additional Collateral from the relevant FCM Client in respect of such Client Cleared Transaction at a level of 10% above the FCM Client Margin Requirement that LCH.Clearnet SA would normally require for such Client Cleared Transaction.

In connection with article 6.2.6.1 of the CDS Clearing Rule Book and this Paragraph 2.2 (e), FCM Clearing Members are not required to lodge such additional Collateral
with LCH.Clearnet SA which is in excess of the relevant FCM Client Margin Requirement.

(f) Determination of the Legally Segregated Value ascribed to each FCM Client Financial Account

In accordance with Section 3.2 of the Procedures, LCH.Clearnet SA will calculate the FCM Margin Balance with respect to each FCM Client Margin Account of an FCM Clearing Member by determining the Legally Segregated Value recorded in the relevant FCM Client Financial Account.

LCH.Clearnet SA will determine the Legally Segregated Value of each FCM Clearing Member at the following times:

(i) after the FCM Clearing Member’s satisfaction of the Morning Call to reflect any increase or decrease in the relevant FCM Client Margin Requirement calculated for the purpose of the Morning Call in accordance with Article 6.2.5.1 (ii) of the CDS Clearing Rule Book;

(ii) after the FCM Clearing Member’s satisfaction of any Collateral Call (other than the Morning Call) to reflect only any increase in the relevant FCM Client Margin Requirement calculated for the purpose of such Collateral Call; and

(iii) after each determination of the value of Collateral recorded in the FCM Client Collateral Account provided that (x) there is a decrease in the value resulting from this determination; and (y) such decrease will reduce the Legally Segregated Value in accordance with Article 6.2.4.3 (ii) of the CDS Clearing Rule Book.

LCH.Clearnet SA will record the amended Legally Segregated Value resulting from such determination in the relevant FCM Client Financial Account.

(g) Calculation of Margin following a Payment Failure or the issuance of a Default Notice in respect of a Clearing Member

Pursuant to Article 1.2.9.2 and Article 4.3.2.3 of the CDS Clearing Rule Book, LCH.Clearnet SA may withhold payments it would otherwise be obliged to make to a Clearing Member under the CDS Clearing Documentation.

Where LCH.Clearnet SA withholds the payment (or repayment or reimbursement) of Margin due in respect of a Client Margin Account of the Clearing Member, LCH.Clearnet SA shall nevertheless continue to calculate the Margin that is due, in accordance with the CDS Clearing Rules, and update the records which are attributable to the relevant Client Collateral Account. As appropriate, any Margin which is calculated to be due in respect of the relevant Client Margin Account shall be an “accrual”, forming part of the Client Assets which will either be:

(i) ported in accordance with Clause 4.3.1(ii) of the CDS Default Management Process;

(ii) taken into account when calculating the Client Clearing Entitlement pursuant to Clause 4.4.3 of the CDS Default Management Process; or
(iii) transferred to a Receiving Clearing Member pursuant to TITLE V, Chapter 3 for CCMs and TITLE VI, Chapter 3 for FCM Clearing Members.

2.3 **Excess Collateral and the Client Collateral Buffer**

(a) **House Excess Collateral**

A Clearing Member is entitled (but not obliged) to maintain Collateral over and above that which is needed to satisfy its House Margin Requirement. Such House Excess Collateral will be maintained in its House Collateral Account, in which case it will be used for the novation of House Trade Legs and taken into account by LCH.Clearnet SA when it calculates the amount of Collateral which is needed for the House Margin Account, as part of the Notional and Collateral Check (as set out in Paragraph 2.5(b)(i) below).

(b) **Client Excess Collateral**

A CCM is entitled to maintain Collateral over and above that which is needed to satisfy the CCM Client Margin Requirement in respect of any of its CCM Client Margin Accounts. Such CCM Client Excess Collateral will be maintained in a CCM Client Collateral Account, in which case it will be used for the novation of Client Trade Legs and taken into account by LCH.Clearnet SA when it calculates the amount of Collateral which is needed for the relevant CCM Client Margin Account, as part of the Notional and Collateral Check (as set out in Paragraph 2.5(b)(i) below).

An FCM Clearing Member is not authorised to post additional Collateral over and above that which it needed to satisfy the FCM Client Margin Requirement in respect of any of its FCM Client Margin Accounts. Any FCM Client Excess Collateral recorded in any of its FCM Client Financial Accounts and resulting from any decrease of the Initial Margin in relation to the attached FCM Client Margin Account during a Clearing Day will be used for the novation of Client Trade Legs and taken into account by LCH.Clearnet SA when it calculates the amount of Collateral which is needed for the relevant FCM Client Margin Account, as part of the Notional and Collateral Check, until the next Morning Call.

(c) **Client Collateral Buffer**

A Clearing Member is entitled (but not obliged) to maintain:

(i) in the case of a CCM, Collateral in its Buffer Collateral Account; and

(ii) in the case of an FCM Clearing Member, an amount of Collateral recorded in its FCM Buffer Financial Account,

specifically for the purpose of assisting Clients to satisfy the Notional and Collateral Check performed by LCH.Clearnet SA prior to novation of a Client Trade Leg of an Eligible Intraday Transaction.

Where a Clearing Member holds:

(i) in the case of a CCM, Collateral in its Buffer Collateral Account; and

(ii) in the case of an FCM Clearing Member, an amount of Collateral recorded in its FCM Buffer Financial Account,
the Available Client Collateral Buffer (or portion thereof) will be allocated to its Client Margin Account(s) on an automatic ‘first in time’ basis, meaning that whenever a Client Trade Leg of an Eligible Intraday Transaction is received by LCH.Clearnet SA and the Eligibility Controls and Client Transaction Checks have been successfully completed pursuant to Article 3.1.4.3, LCH.Clearnet SA will allocate the Available Client Collateral Buffer (or portion thereof) to the relevant Client Margin Account where the relevant Client Excess Collateral is otherwise insufficient to satisfy the Notional and Collateral Check. For the avoidance of doubt, a Clearing Member has no discretion or ability to instruct LCH.Clearnet SA as to which Client Margin Account(s) the Available Client Collateral Buffer should be allocated to.

LCH.Clearnet SA shall reflect how the Client Collateral Buffer has been allocated between the Client Margin Account(s) of a Clearing Member in its books and records but the Collateral comprising the Client Collateral Buffer shall, at all times (save where the relevant Clearing Member is a Defaulting Clearing Member or, in respect of a CCM, following an LCH Default), remain, in the case of a CCM, in the Buffer Collateral Account, and in the case of an FCM Clearing Member, the amount of such Collateral recorded in the FCM Buffer Financial Account.

Where:

(i) Client Collateral Buffer has been allocated to a Client Margin Account of a Clearing Member; and

(ii) there is a decrease in the Client Margin Requirement calculated in respect of such Client Margin Account following the novation of the Client Trade Leg of an Eligible Intraday Transaction,

the amount of the Client Collateral Buffer allocated to such Client Margin Account will be reduced by an amount equal to the decrease in such Client Margin Requirement and such amount will then become Available Client Collateral Buffer.

Following the occurrence of an Event of Default or, in respect of a CCM, an LCH Default, an amount of Collateral equal to the Allocated Client Collateral Buffer for the relevant Client Margin Account will be transferred:

(i) in the case of a CCM, from the Buffer Collateral Account of the Defaulting Clearing Member to the relevant CCM Client Collateral Account; or

(ii) in the case of an FCM Clearing Member, from the FCM Buffer Financial Account of the Defaulting Clearing Member to the relevant FCM Client Financial Account,

in accordance with Article 1.3.1.3(iv) of the CDS Clearing Rule Book or clause 4.2 of the CDS Default Management Process, as applicable.

(d) The House Excess Collateral Threshold and Client Collateral Buffer Threshold

Where a Clearing Member wishes to transfer additional Collateral to LCH.Clearnet SA with a view to maintaining House Excess Collateral and/or Client Buffer Collateral as described in Paragraphs 2.3(a) and (c) above, it must notify LCH.Clearnet SA of its:

(i) House Excess Collateral Threshold; and/or
(ii) Client Collateral Buffer Threshold.

To set its House Excess Collateral Threshold and/or Client Collateral Buffer Threshold for a Business Day (D), a Clearing Member must notify LCH.Clearnet SA by submitting the form (which is available on the Website) by email at the email address specified in Paragraph 2.1. The form must be received by LCH.Clearnet SA by no later than 12.00 CET on D-1. It is the Clearing Member’s responsibility to ensure the due receipt by LCH.Clearnet SA of the relevant form. Accordingly, the Clearing Member should confirm its request no later than 12:00 CET by a phone call to LCH.Clearnet SA’s Risk Management Department on +33 1 70 37 10 43, although a failure to do so shall not invalidate any request actually received by LCH.Clearnet SA.

Once a Clearing Member has notified LCH.Clearnet SA of its House Excess Collateral Threshold and/or Client Collateral Buffer Threshold, LCH.Clearnet SA will apply this in the context of each successive Collateral Call, until such time as the relevant Clearing Member notifies LCH.Clearnet SA of an amended House Excess Collateral Threshold and/or Client Collateral Buffer Threshold.

2.4 Collateral and Cash Payments

(a) Types of Collateral and currencies for Cash Payments

Section 3 of the Procedures sets out the Collateral types which a Clearing Member can transfer, and currencies in which Cash Payments can be made, to LCH.Clearnet SA to satisfy its obligations in respect of each of the Margin components listed in Paragraph 2.2 above and for the purposes of maintaining Excess Collateral and/or Client Collateral Buffer.

(b) Transferring Collateral and making Cash Payments

Further details on the process for:

(i) transferring Collateral to satisfy the Required Collateral Amount;

(ii) transferring additional Collateral to LCH.Clearnet SA with a view to maintaining Excess Collateral in one or more Collateral Account(s), if applicable or substituting for another type of Collateral; and

(ii) making Cash Payments, to satisfy the Total Client Variation Margin Requirement and/or House Variation Margin Requirement of each Clearing Member;

are set out in Section 3 of the Procedures.

(c) Repayment of Collateral

References, in this Section 2 of the Procedures, to the “repayment” or “reimbursement” of Margin shall mean that:

(i) the amount called from a Clearing Member in respect of the relevant Margin component shall, from such point, be reduced to zero in respect of the relevant Open Positions; and
(ii) the value of any Collateral that has been transferred to LCH.Clearnet SA in respect of such Margin component shall be taken into account by LCH.Clearnet SA in calculating the relevant Clearing Member’s Margin Balance in accordance with Section 3 of the Procedures.

2.5 Payment of the Margin Requirement, Variation Margin and provision of Excess Collateral and Client Collateral Buffer

(a) Morning Call

(i) Scheduled Margin Calculation Time

The Margin Requirement and Variation Margin Requirement for each Margin Account of a Clearing Member is calculated on each Business Day by 07.45 CET.

The relevant Margin Requirement Results File, provided as part of the Backloading Transaction Reports, will notify each Clearing Member of its:

(A) Margin Requirement for the Morning Call (and each component thereof);

(B) Margin Balance;

(C) Excess Collateral or Margin Shortfall (as the case may be);

(D) Variation Margin Requirement, and

(E) House Excess Collateral Threshold and Client Collateral Buffer Threshold,

for the relevant Margin Accounts in accordance with and subject to Section 5 of the Procedures.

Each Clearing Member is required to:

(x) transfer Collateral to satisfy the Required Collateral Amount, and

(y) make Cash Payments in respect of its House Variation Margin Requirement and in the case of a CCM only, its Total Client Variation Margin Requirement,

between 08.30 CET and 08.55 CET in accordance with Section 4.2.3 of the CDS Clearing Rule Book and Section 3 of the Procedures, or such later time as is permitted by the CDS Clearing Rule Book.

In addition, each FCM Clearing Member is required to make Cash Payments in respect of its Total Client Variation Margin Requirement between 9.00 CET and 9.05 CET in accordance with Section 4.2.3 of the CDS Clearing Rule Book and Section 3 of the Procedures, or such later time as is permitted by the CDS Clearing Rule Book.

Following such transfer of Collateral and/or Cash Payments by an FCM Clearing Member, any FCM Client Excess Collateral recorded in any of its FCM Client Financial Accounts will be moved into the FCM Unallocated Client
Collateral Financial Account and recorded as FCM Unallocated Client Excess Collateral.

If a Backloading Failure occurs, LCH.Clearnet SA will issue Intraday Call Reports, in accordance with and subject to Section 5 of the Procedures, to all Clearing Members, setting out in respect of each Margin Account of each Clearing Member:

(A) Margin Requirement (and each component thereof);
(B) Margin Balance;
(C) Excess Collateral or Margin Shortfall (as the case may be);
(D) Variation Margin Requirement; and
(E) House Excess Collateral Threshold and Client Collateral Buffer Threshold.

(b) Margin calculations during the Real Time Session

(i) Intraday Novation Margin Requirement

As part of the Notional and Collateral Checks performed by LCH.Clearnet SA, in order to clear Intraday Transactions on a ‘trade by trade’ basis, LCH.Clearnet SA will calculate the Intraday Novation Margin Requirement.

LCH.Clearnet SA will calculate the Intraday Novation Margin Requirement in respect of the relevant Clearing Member’s Margin Account when LCH.Clearnet SA pre-registers a position corresponding to the relevant trade leg of an Eligible Intraday Transaction in accordance with Section 3.1.7 of the CDS Clearing Rule Book. The calculation identifies the additional, or reduced, risk exposure (as applicable) which would be attributable to the relevant Margin Account following the novation of such pre-registered positions, and accordingly the Intraday Novation Margin Requirement may either be a positive or negative figure.

Following the calculation of such Intraday Novation Margin Requirement, LCH.Clearnet SA will recalculate the Available Client Collateral Buffer and, in respect of the relevant Margin Account, the Margin Requirement and the Excess Collateral for such Margin Account. These calculations will be undertaken on the assumption that the relevant Eligible Intraday Transactions, accounted for in the calculation of the Intraday Novation Margin Requirement, will be novated as contemplated. If the relevant Eligible Intraday Transactions are not novated for any reason, LCH.Clearnet SA will refresh its calculations to determine the Available Client Collateral Buffer plus the Margin Requirement and Excess Collateral for the relevant Margin Account.

LCH.Clearnet SA shall only calculate the Intraday Novation Margin Requirement for a Margin Account during the Real Time Session. Where the relevant Business Day is a Clearing Day and the Real Time Session does not take place, no calculation of the Intraday Novation Margin Requirement will be performed by LCH.Clearnet SA on such Business Day.
In the event LCH.Clearnet SA determines that there is a positive Intraday Novation Margin Requirement for a Margin Account and there is insufficient:

(A) House Excess Collateral; or

(B) Client Excess Collateral and/or Available Client Collateral Buffer which can be allocated to the relevant Client Margin Account,

as applicable, to satisfy such Intraday Novation Margin Requirement, the relevant Eligible Intraday Transaction will become a Rejected Transaction.

For the avoidance of doubt, in the event LCH.Clearnet SA determines that there is a neutral or negative Intraday Novation Margin Requirement (due to the pre-registered position corresponding to the relevant trade leg of an Eligible Intraday Transaction being set off against Open Positions registered in the relevant Margin Account), none of the House Excess Collateral, Client Excess Collateral and/or Available Client Collateral, as applicable, will be used or applied for the purpose of satisfying the Notional and Collateral Check.

LCH.Clearnet SA will perform a reporting update in respect of each Clearing Member’s Margin Account ten times per Business Day (by 10.00 CET, 10.55 CET, 12.30 CET, 13.30 CET, 14.15 CET, 14:55 CET, 16.15 CET, 17.00 CET, 18.00 CET and 19.00 CET) in order to inform such Clearing Member of the updated Margin Requirement for each Margin Account, level of Excess Collateral and/or Client Collateral Buffer recorded in, or allocated to, the relevant Collateral Accounts.

(ii) Intraday Call

LCH.Clearnet SA will perform an Intraday Call twice per Business Day (by 11.25 CET (the "First Intraday Call") and 15.25 CET (the "Second Intraday Call") in order, if necessary, to transfer Collateral to satisfy the Required Collateral Amount and to make Cash Payments.

Where the relevant Business Day is a Clearing Day, the First Intraday Call and the Second Intraday Call will not be performed to the extent there is no Real Time Session, on that Clearing Day.

The Margin Requirement in respect of each Margin Account of a Clearing Member for an Intraday Call will be the latest Margin Requirement calculated on that Clearing Day.

First Intraday Call:

During the First Intraday Call, LCH.Clearnet SA will issue to each Clearing Member the relevant risk management and collateral management reports (as set out in Section 5 of the Procedures), which will notify each such Clearing Member of its House Excess Collateral Threshold and Client Collateral Buffer Threshold and, in respect of each Margin Account, the:

(A) Margin Requirement for the First Intraday Call (and each component thereof);

(B) Excess Collateral or Margin Shortfall (as the case may be);
(C) Margin Balance; and

(D) Variation Margin Requirement (only in respect of Backloading Transactions novated following the Morning Call on the relevant Clearing Day);

in accordance with and subject to Section 5 of the Procedures.

**Second Intraday Call:**

During the Second Intraday Call, LCH.Clearnet SA will issue to each Clearing Member the relevant risk management and collateral management reports (as set out in Section 5 of the Procedures), which will notify each such Clearing Member of its House Excess Collateral Threshold and Client Collateral Buffer Threshold and, in respect of each Margin Account, the:

(A) Margin Requirement for the Second Intraday Call (and each component thereof);

(B) Excess Collateral or Margin Shortfall (as the case may be); and

(C) Margin Balance;

in accordance with and subject to Section 5 of the Procedures.

Each Clearing Member is required to transfer Collateral to satisfy its Required Collateral Amount and to make Cash Payments in respect of its Variation Margin Requirement, in respect of each Margin Account, as set out in Section 3 of the Procedures.

2.6 **Reports**

All files and reports, mentioned in this Section 2 of the Procedures, will be available to Clearing Members through the eCCW website and the LCAP. If the eCCW website and the LCAP are, for any reason unavailable, LCH.Clearnet SA will otherwise make such reports available to Clearing Members at the requisite time.

Please see Section 5 of the Procedures for further details about the relevant files and reports.

2.7 **Initial Margin, Short Charge Margin, Self-Referencing Protection Margin, Recovery Risk Margin and Interest Rate Risk Margin**

Initial Margin, Short Charge Margin, Self-Referencing Protection Margin, Recovery Risk Margin and Interest Rate Risk Margin cover the potential costs caused by a Defaulting Clearing Member and/or a double Event of Default, i.e. a combined Credit Event of a Reference Entity and a Clearing Member Event of Default (in which the Clearing Member is a CDS Seller).

(a) **Initial Margin**

The Initial Margin is calculated using the Value-at-Risk (VaR) model which is based on the following principles: at the Margin Account level, a distribution of potential losses is built from simulated scenarios based on the joint credit spread variations observed in the past. LCH.Clearnet SA then determines the Initial Margin based on a
quantile of the worst losses that the Margin Account could bear in the case of unfavourable credit spread fluctuations.

The Initial Margin calculated in respect of the House Margin Account covers the potential costs of liquidating House Cleared Transactions of the Defaulting Clearing Member whilst the Initial Margin calculated in respect of each Client Margin Account covers the potential costs of liquidating any Non-Ported Cleared Transactions attributable to such Client Margin Account. It covers the potential future credit spread fluctuations in case of unfavourable market movements under normal circumstances.

With respect to each Margin Account of each Clearing Member:

(i) Cleared Transactions for which the relevant Clearing Member acts as CDS Buyer are treated as assets with positive liquidation value; and

(ii) Cleared Transactions for which the relevant Clearing Member acts as CDS Seller are treated as liabilities with negative liquidation value.

(b) Initial Margin Floor

LCH.Clearnet SA may, by Clearing Notice, specify an Initial Margin Floor applicable to a particular CDS Type approved by the board of directors of LCH.Clearnet SA following consultation with the Risk Committee.

Where the calculation of Initial Margin would result in the Initial Margin for any Margin Account of a Clearing Member being less than the Initial Margin Floor, the Initial Margin requirement for such Margin Account shall be equal to the Initial Margin Floor.

(c) Short Charge Margin

Where a Clearing Member is acting as a CDS Seller, Short Charge Margin will be required to cover the risk that the Clearing Member is subject to an Event of Default at the same time as a Credit Event occurs with respect to a Reference Entity.

The Short Charge Margin is calculated using an algorithm, approved by the board of directors of LCH.Clearnet SA following consultation with the Risk Committee, based on the Open Positions registered in the relevant Margin Account of the Clearing Member.

(d) Self-Referencing Protection Margin

Where a Clearing Member is acting as a CDS Seller in respect of a Cleared Transaction for which such Clearing Member is, or becomes, the Reference Entity, Self-Referencing Protection Margin will be required to cover the protection that would have to be paid by LCH.Clearnet SA with respect to this Clearing Member should the Clearing Member be subject to an Event of Default.

The Self-Referencing Protection Margin is calculated using an algorithm, approved by the board of directors of LCH.Clearnet SA following consultation with the Risk Committee, based on the Open Positions registered in the relevant Margin Account of the Clearing Member.
(e) **Recovery Risk Margin**

Recovery Risk Margin covers the risk of future price fluctuations in case of unfavourable recovery rate movements under normal circumstances and when liquidating a Defaulting Clearing Member’s portfolio of House Cleared Transactions or Non-Ported Cleared Transactions.

The Recovery Risk Margin is calculated using an algorithm, approved by the board of directors of LCH.Clearnet SA following consultation with the Risk Committee, based on the Open Positions registered in the relevant Margin Account of the Clearing Member.

(f) **Interest Rate Risk Margin**

Interest Rate Risk Margin covers the risk of future price fluctuations in case of unfavourable interest rate movements under normal circumstances and when liquidating a Defaulting Clearing Member’s portfolio of House Cleared Transactions or Non-Ported Cleared Transactions.

The Interest Rate Risk Margin is calculated using an algorithm, approved by the board of directors of LCH.Clearnet SA following consultation with the Risk Committee, based on the Open Positions registered in the relevant Margin Account of the Clearing Member.

### 2.8 Liquidity and Concentration Risk Margin

Liquidity and Concentration Risk Margin is required to cover the bid-ask spread incurred when liquidating the House Cleared Transactions or the Non-Ported Cleared Transactions of a Defaulting Clearing Member. The size of this bid-ask spread will increase if the positions exceed predetermined thresholds in respect of the relevant credit default swap index or Reference Entity. Further details of the thresholds are available on a Clearing Notice published on the Website and/or upon request from LCH.Clearnet SA’s Risk Management Department on +33 1 70 37 10 43 or Lchclearnetsa_CDS_Risk@lchclearnet.com.

Liquidity and Concentration Risk Margin is calculated:

(a) in respect of the House Margin Account of a Clearing Member to cover the potential costs of hedging or liquidating the House Cleared Transactions in case an Event of Default occurs in respect of such Clearing Member; and

(b) in respect of a Client Margin Account of a Clearing Member to cover the potential costs of hedging or liquidating the Non-Ported Cleared Transactions attributable to such Client Margin Account in case an Event of Default occurs in respect of such Clearing Member.

The Liquidity and Concentration Risk Margin is calculated using an algorithm (including thresholds) approved by the board of directors of LCH.Clearnet SA following consultation with the Risk Committee.

### 2.9 Accrued Fixed Amount Liquidation Risk Margin

Each Clearing Member acting as a CDS Buyer is required to pay Accrued Fixed Amount Liquidation Risk Margin in respect of the relevant Cleared Transactions to cover the risk that it is subject to an Event of Default and accrued Fixed Amounts are
due during the period that the relevant House Cleared Transactions or Non-Ported Cleared Transactions, as applicable, are liquidated pursuant to the CDS Default Management Process.

The Accrued Fixed Amount Liquidation Risk Margin is calculated daily for each Margin Account of each Clearing Member and corresponds to the aggregate amount of daily Fixed Amounts for such CDS Buyer pursuant to its Cleared Transactions during a rolling forward-looking period of 5 Business Days.

2.10 Credit Event Margin

Each Clearing Member acting as a CDS Seller is required to pay Credit Event Margin in respect of the relevant Cleared Transactions to cover the risk of non-payment by the CDS Seller where a Credit Event occurs with respect to the Reference Entity which is the subject of the Cleared Transaction(s).

Credit Event Margin will be calculated by LCH.Clearnet SA for each Margin Account of each Clearing Member, on each Business Day from the date of the relevant DC Credit Event Announcement until the settlement process in respect of such Cleared Transaction has been completed (including Physical Settlement as set out in the CDS Clearing Supplement, or Auction Settlement, as applicable) or any disputes in relation thereto have been finally resolved. The calculation of the Credit Event Margin is based on an estimated recovery rate of the Affected Cleared Transaction or the Restructuring Cleared Transaction, as the case may be, and the exposure of LCH.Clearnet SA by reference to the notional amount of the Clearing Member's Cleared Transaction(s) affected by the Credit Event.

Credit Event Margin will be reimbursed to the CDS Seller on the Business Day following completion or resolution of the settlement process (including Physical Settlement, or Auction Settlement and/or index re-versioning, as applicable) or the day on which settlement can no longer occur in respect of such Credit Event (including without limitation because no relevant Credit Event Notice or Notice of Physical Settlement is delivered within the required timeframes).

In the event that a DC Credit Event Announcement made in relation to a Credit Event is reversed then LCH.Clearnet SA shall reimburse each Clearing Member with the amount of any Credit Event Margin on the next following Business Day in accordance with Section 3 of the Procedures.

2.11 Additional Margin

A Clearing Member will be required to pay Additional Margin for each Margin Account in respect of which the Margin Account Uncovered Risk is greater than x% of the current value of the CDS Default Fund.

Additional Margin will be equal to the difference between x% of the current value of the CDS Default Fund and the relevant Margin Account Uncovered Risk on such Business Day.

The number x will depend on the internal credit score that LCH.Clearnet SA attributes to each Clearing Member and will be the same for each Margin Account of the Clearing Member. Any change to the number x will be communicated to the Clearing Member.
When Additional Margin is required to be paid to LCH.Clearnet SA, or the amount of Additional Margin payable is increased due to a change in the relevant Margin Account Uncovered Risk, LCH.Clearnet SA will notify the Clearing Member in the Margin Requirements Results File pursuant to Section 5 of the Procedures.

2.12 Variation Margin

Variation Margin is an amount exchanged on each Business Day between the Clearing Member and LCH.Clearnet SA to account for the potential profit or loss on a Cleared Transaction due to the variation of the market value of a CDS.

It covers price fluctuations which have occurred since the registration of each Cleared Transaction. LCH.Clearnet SA will calculate the Variation Margin payable in respect of each Margin Account of each Clearing Member as the difference between:

(a) the net position value of the relevant Open Positions registered at the time of calculation in the relevant Margin Account on the current Business Day; and

(b) the net position value of the Open Positions registered in the relevant Margin Account on the immediately preceding Business Day.

In respect of a Margin Account of a Clearing Member, the Variation Margin Requirement is determined:

(a) at the Morning Call: in respect of Open Positions already registered in a Margin Account; and

(b) at the First Intraday Call: in respect of Backloading Transactions novated further to the Morning Call.

The net position value of an Open Position is equal to:

(a) the End of Day Contributed Prices provided to LCH.Clearnet SA in accordance with Article 4.2.9.1 of the CDS Clearing Rule Book and Section 5 of the Procedures (or, where such End of Day Contributed Prices are not available to LCH.Clearnet SA, the prices/spreads as set out in Article 4.2.9.1 of the CDS Clearing Rule Book and Section 5 of the Procedures); plus

(b) accrued coupon payments, minus

(c) an amount equal to the Initial Payment Amount where the Clearing Member is required to pay the Initial Payment Amount, in accordance with Section 3 of the CDS Clearing Supplement, but has not made such payment as at the relevant Business Day (if applicable); plus

(d) an amount equal to the Initial Payment Amount where the Clearing Member is entitled to receive the Initial Payment Amount, in accordance with Section 3 of the CDS Clearing Supplement, but has not received such payment as at the relevant Business Day (if applicable).
Where the difference between the net position values of a Clearing Member’s Margin Account is:

(a) a negative amount: such Clearing Member owes Variation Margin to LCH.Clearnet SA (and will be considered a Variation Margin debtor in relation to such Margin Account); or

(b) a positive amount: LCH.Clearnet SA owes Variation Margin to such Clearing Member.

On the basis of these calculations, LCH.Clearnet SA will determine the Total Client Variation Margin Requirement and/or the House Variation Margin Requirement which will trigger Cash Payment(s) to be made by the Clearing Member and/or LCH.Clearnet SA in accordance with Section 3 of the Procedures.

The amount of Variation Margin paid or received by LCH.Clearnet SA to or from a Clearing Member may be adjusted in accordance with Clause 7 of the CDS Default Management Process.

2.13 Contingency Variation Margin

Contingency Variation Margin is calculated in respect of Backloading Transactions and new Cleared Transactions arising from the novation of Eligible Intraday Transactions. It is intended to cover the risk that the Clearing Member fails to make Cash Payment(s) to meet the Variation Margin Requirement in respect of each of its Margin Accounts at the next relevant Collateral Call.

Contingency Variation Margin is called from a Clearing Member in place of the Variation Margin which LCH.Clearnet SA determines would have been owed by such Clearing Member had such Clearing Member been required to make a Cash Payment to satisfy the Variation Margin Requirement in relation to the relevant Margin Account at that point in time (being the time of the Morning Call, the First Intraday Call or the Second Intraday Call, as described below).

Contingency Variation Margin is called (as applicable) in relation to each Margin Account of a Clearing Member:

(a) in respect of Backloading Transactions: during the Morning Call.

Contingency Variation Margin paid by a Clearing Member during the Morning Call is repaid to such Clearing Member at the First Intraday Call if the required Variation Margin has been paid by such Clearing Member at the First Intraday Call in accordance with Paragraph 2.13 above.

(b) in respect of Eligible Intraday Transactions: during the First Intraday Call and/or the Second Intraday Call.

Contingency Variation Margin paid by a Clearing Member during the First Intraday Call and/or the Second Intraday Call is repaid to such Clearing Member at the Morning Call on the following Business Day if the required Variation Margin has been paid by such Clearing Member at the relevant Morning Call in accordance with Paragraph 2.13 above.
2.14 **Price Alignment Interest**

Each Clearing Member that receives Variation Margin payments from LCH.Clearnet SA is required to pay Price Alignment Interest. LCH.Clearnet SA shall pay Price Alignment Interest to each Clearing Member that pays Variation Margin in accordance with Paragraph 2.13 above. The A0102E Report published in accordance with and subject to Section 5 of the Procedures and received by each Clearing Member on each Business Day shall indicate the amount of Price Alignment Interest paid or received by a Clearing Member.

These payments are made in order to minimise distortion of pricing for Original Transactions cleared through LCH.Clearnet SA as a result of daily Variation Margin payments and changes in the net present value of Open Positions.

Price Alignment Interest is calculated for each Clearing Member by LCH.Clearnet SA using the interest rate prevailing on that Business Day, as published by LCH.Clearnet SA on the Website, on the basis of the net position value of the Open Positions registered in the Margin Accounts of the Clearing Member on the immediately preceding Business Day.

2.15 **Credit Quality Margin**

LCH.Clearnet SA may require a Clearing member to provide Credit Quality Margin when LCH.Clearnet SA determines that the credit quality of such Clearing Member has deteriorated, depending on the internal credit score that LCH.Clearnet SA attributes to the relevant Clearing Member: (i) following monitoring carried out in accordance with Article 2.3.2.1 of the CDS Clearing Rule Book; and/or (ii) in the circumstances set out in Article 4.2.1.2 of the CDS Clearing Rule Book.

On each Business Day, Credit Quality Margin will be equal to the higher of the amounts calculated as follows:

(a) \((Y-1)\times MR\) where \(Y\) stands for the credit multiplier applied to the Clearing Member’s Margin Requirements and \(MR\) stands for the Clearing Member’s Margin Requirements; or

(b) \(X\times(\text{Stress Risk} - MR)\) where \(X\) stands for the stress risk percentage and \((\text{Stress Risk} - MR)\) stands for the Clearing Member’s Member Uncovered Risk.

Credit multipliers and stress risk percentage are determined in accordance with the methodology established by LCH.Clearnet SA. Credit multipliers which can be applied range from 1 to 1.4, meaning that the additional liability for any Clearing Member is capped at 40% of the relevant Clearing Member’s Margin Requirement. The stress risk percentage ranges between 0% and 100% of the Member Uncovered Risk, meaning that the additional liability for any Clearing Member is capped at 100% of the relevant Clearing Member’s Member Uncovered Risk.

LCH.Clearnet SA assesses the amount of the Credit Quality Margin across each of the Margin Accounts of a Clearing Member. Credit Quality Margin will only be called in relation to a Clearing Member’s House Margin Account.

LCH.Clearnet SA may update a Clearing Member’s credit multiplier or the stress risk percentage that should apply: (i) following monitoring carried out in accordance with Article 2.3.2.1 of the CDS Clearing Rule Book; and/or (ii) in the circumstances set out
in Article 4.2.1.2 of the CDS Clearing Rule Book. LCH.Clearnet SA will notify a
Clearing Member of the Credit Quality Margin that has been called in the Margin
Requirements Results File in accordance with Section 5 of the Procedures.