

IMPORTANT NOTICE

European Central Counterparty Limited



#: E#17-09
Date: October 7, 2009
To: All Participants
Attention: Managing Partner/Officer;
Manager, Operations Department;
Manager, Treasury/Finance Department
From: EuroCCP Counsel's Office
Subject: Rule Change – Interoperability

This Important Notice sets out the Corporation's proposal to implement changes to its Rules to facilitate interoperability with other central counterparties.

Background to Interoperability

The Corporation is preparing to implement arrangements with a number of other central counterparties in order to facilitate competitive clearing for a number of trading platforms. The Corporation is currently working towards establishing interoperability for the following trading platforms:

- **Turquoise and NYSE Arca Europe**

The Corporation has been requested by Turquoise and NYSE Arca Europe to interoperate with both LCH.Clearnet Limited and x-Clear. As part of its contractual arrangements with these platforms, the Corporation agreed to adhere to the European Code of Conduct for Clearing and Settlement (the "**Code of Conduct**") and to interoperate with other central counterparties if so requested by the platforms.

The Corporation currently expects to launch interoperability for the Turquoise and NYSE Arca Europe platforms in Q4 2009.

- **Nasdaq OMX Nordic**

The Corporation has signed a Memorandum of Understanding with Nasdaq OMX Nordic to clear for the Nordic exchanges operated by Nasdaq OMX. This will require the Corporation to interoperate with EMCF and x-Clear, with a projected start date in Q1 2010.

What is "competitive clearing" and "interoperability"?

Competitive clearing means more than one CCP concurrently clearing trades executed on a trading venue. Competitive clearing is achieved through the establishment of "interoperability" arrangements between CCPs. Interoperability among CCPs in Europe is

necessary to introduce competition between providers and to enable each market participant to choose which CCP it uses. In order for users to have the choice of a CCP, a trading venue must appoint that CCP to clear its trades.

Essentially, where two (or more) CCPs interoperate in respect of trades effected on a trading platform, some trades will be executed between two firms that use different CCPs. Each CCP will manage separate legs of the transaction:

- CCP A will be responsible for clearing and settling the "receipt leg" of the transaction from its participant that is the seller to the cleared transaction;
- CCP B will be responsible for clearing and settling the "deliver leg" of the transaction to its participant that is the buyer to the cleared transaction;
- CCP A will be responsible for delivering the cleared stock to CCP B in exchange for payment, in order that CCP B can deliver to the buying participant.

For further details on how interoperability works, see the presentation on the Interoperability section of the Corporation's website:

http://www.euroccp.co.uk/docs/EuroCCP_Interoperability_Overview.pdf.

The legal, risk management, and operational arrangements that govern how the CCPs will interact are set out in interoperability agreements (“**Clearing Link Agreements**”) between the interoperating CCPs. A Clearing Link Agreement will typically include provisions specifying:

- the information and disclosure obligations of each CCP to the other;
- the aspects of each CCP's Rule book that will be applied to the other CCP;
- how each CCP will manage a default by the other CCP;
- any specific technical arrangements that will apply between the CCPs.

Each interoperating CCP will also need to ensure that its Rules provide an appropriate basis for the clearing and settlement of transactions that are part-cleared by an interoperating CCP, and that the rights and obligations of its own participants take account of the interoperation.

In addition to the arrangements identified in this Important Notice, it is likely that the Corporation will enter into further interoperability arrangements in the future. Not every interoperability arrangement will necessarily be implemented in the same way. Consequently, the changes proposed by the Corporation in this Important Notice are intended to provide the Corporation with some flexibility with regard the implementation of differing interoperation structures.

Proposed Rule Changes

An interoperating CCP will not become a Participant of the Corporation for the purposes of the Corporation's Rules, and the rights and obligations which arise between the Corporation and the interoperating CCP will be governed by the relevant Clearing Link Agreement. However, the introduction of interoperation will require some changes to the Rules. The text of the proposed changes is set out in the Appendix to this Important Notice. In outline, the main effect of the changes is as follows.

- The provisions in Rule 4, Section 9 dealing with the Corporation's right to use Participants' collateral, will be amended to allow the Corporation, if needed, to apply Margin and Guarantee Fund contributions of Participants to fund its margin obligations to CCPs with which it interoperates (these are referred to in the Rules as “**Qualifying Financial Institutions**”). This will not apply to Margin allocated to a client account, and will not affect Participants' contractual right to the return of their contributions in the circumstances provided by the Rules (which remain unchanged).
- The Corporation will aim, so far as practicable, to use letters of credit to secure its exposure to other CCPs, but it may need to make use of Participant contributions if it cannot negotiate acceptable terms for the use of letters of credit, or if its exposure exceeds limits covered by the letter of credit concerned.
- Rule 4, Section 10 will be amended to allow an Excess Loss arising from a default by another CCP (where that loss exceeds the collateral received from that CCP) to be allocated to the Corporation's Participants. (The Corporation's discretion to utilise its own resources to meet an Excess Loss prior to resorting to loss allocation is unaffected by these amendments.)
- Rule 6, Section 1 will be amended to reflect the fact that transactions reported to the Corporation will include transactions requiring delivery by a Participant and an interoperating CCP.
- Rule 7, Section 1 will be amended to clarify the novation process where an interoperating CCP is involved, and to reflect the fact that in these circumstances, the contracts formed under the Corporation's Rules will consist of (a) a contract between the Corporation and its Participant and (b) a contract between the Corporation and the interoperating CCP. The Corporation will accept responsibility for such transactions from the time of trade, but on the additional condition that the novation will be ineffective if the leg of the transaction between the Corporation and the interoperating CCP is cancelled or terminated under the terms of the Clearing Link Agreement (e.g. because the transaction is ineligible for clearance under the interoperating CCP's rules). In this connection the Corporation will be given more flexibility in determining the “**Cut-off Time**” (i.e. the time on a trade date when the novation of transactions becomes irrevocable): the Cut-off Time will be determined in co-ordination with the other CCPs so as to enable all necessary checks to be completed.
- Rule 9, which empowers the Corporation to take appropriate action to deal with defined Market Disruption Events, will be extended to cover the closure, suspension or disruption of the operations of, or any default by, an interoperating CCP
- Rule 29, which gives the Corporation the authority to enter into interoperating arrangements, will be amended to make it clear that the Corporation may adopt inter-operating procedures which will modify the effect of the Rules. Adoption of any such procedures will be subject to the consultation process laid down by Rule 19, unless the Corporation is of the opinion that the changes will not deprive Participants of any material right or impose any material additional obligation on them, or the change falls within one of the existing exceptions in Rule 19. Even where consultation is not required, the Corporation will, as at present, be required to notify Participants of the changes as soon as practicable and in any event before they take effect.
- In addition, there may be amendments to:

- Procedure VII (Settlement Finality) to reflect the above changes including, in particular, to clarify the process for determining the time at which trades become irrevocable where an interoperating CCP is involved; and
- the Buy-in, Splitting and Corporate Action Procedures (Procedures II, III and IV, respectively) as may be necessary to reflect operational arrangements between CCPs as to these matters and any consequential impact on such arrangements with Participants,

and, where such amendments are required, they will be notified to Participants prior to the launch of the relevant interoperability arrangement.

Non-Application of Guarantee Fund and Loss Allocation to Interoperating CCPs

Interoperating CCPs will be required by their Clearing Link Agreements to provide margin on the same basis as Participants, but they will not be required to contribute to the Guarantee Fund or to participate in loss allocation. This reflects practice for interoperating arrangements, as set out in the "Access and Interoperability Guideline" established pursuant to the Code of Conduct.

Application of Shaping and Splitting to Interoperating CCPs

Participants are also advised that, in order to enable interoperating CCPs to reconcile their positions with the Corporation, the Corporation will not use shaping during Corporate Action events (or otherwise) to minimise box positions. Instead, the Corporation will rely on splitting to reduce the possibility of box positions. The Corporation's Procedures will note this accordingly.

Assessment of the Likely Costs of the Proposed Rule Change

The Corporation does not believe that there will be any costs to Participants or to their Non-Clearing Firms associated with the proposed changes.

Comments and Questions on the Proposed Rule Change

Written comments may be addressed to Linda Lamonica, Assistant Secretary, at Llamonica@dtcc.com, and should be submitted by no later than close of business November 6, 2009. Questions with respect to the proposed rule change may be addressed to Merrie Faye Witkin, (DTCC Managing Director and Deputy General Counsel and EuroCCP Company Secretary) at mwitkin@dtcc.com or Karl Spielmann (EuroCCP Vice President and Director of Compliance) at kspielmann@dtcc.com.

Regulatory Impact

Participants should note that the proposals set out in this consultation are subject to any views or comments of the FSA, which may result in further modifications to the proposed amendments. Any modifications requested by the FSA will not be subject to further consultation with Participants.

Effectiveness

The Corporation intends to implement the proposed change as soon as practicable following November 6, 2009, and will notify Participants of the effective date (including any modifications made as a result of comments received from Participants or the FSA) via issuance of a subsequent EuroCCP Important Notice.

Exhibits: Text of proposed changes.

European Central Counterparty Limited

Merrie Faye Witkin
Corporate Secretary and Counsel

EXHIBIT

TEXT OF CHANGES TO EuroCCP's RULES

Underlined text indicates additions to EuroCCP's Rules.

~~Strikethrough~~ text indicates deletions from EuroCCP's Rules.

RULE 1 - INTERPRETATION

[Add/ amend definitions as follows:]

<u>"Corresponding Contract"</u>	<u>means, in relation to an Original Transaction to which a Participant and a Qualifying Financial Institution were party, the rights and obligations assumed between the Corporation and the relevant Qualified Financial Institution as mentioned in Section 1.3 of Rule 7;</u>
"Default Loss"	means any Loss incurred by the Corporation as a result of a failure by a Participant <u>or a Qualified Financial Institution</u> to fulfil its obligations to the Corporation;
"Defaulting <u>User</u> "	means a Participant <u>or Qualifying Financial Institution</u> whose failure to fulfil its obligations to the Corporation has resulted in a Default Loss;
<u>"Link Agreement"</u>	<u>means an agreement between the Corporation and a Qualified Financial Institution concluded in accordance with Rule 29 (Link Arrangements);</u>
<u>"Original Rights and Obligations"</u>	<u>means, in relation to a party to an Original Transaction, that party's rights and obligations under the Original Transaction to make and/or receive cash payments and/or delivery of securities;</u>
"Participant"	means a person, <u>other than a Qualifying Financial Institution</u> , admitted to use of the Corporation's services and "participate" and "participation" shall be construed accordingly;
<u>"Trade Date"</u>	<u>means, in relation to a transaction, the date on which it was effected;</u>

RULE 4 - MARGIN, GUARANTEE FUND AND LOSS ALLOCATION

9. SECTION 9: MANAGEMENT AND USE OF MARGIN AMOUNTS AND THE GUARANTEE FUND

9.1 The Corporation shall not be obliged to segregate the cash Collateral and cash Contributions of individual Participants, or to segregate Collateral from Contributions, and may commingle all such cash amounts for ease of administration. Cash Collateral and/or the Guarantee Fund may be partially or wholly invested by the Corporation in securities issued or guaranteed as to principal and interest by an Eligible Government or agency or instrumentality of an Eligible Government, or in repurchase agreements relating to such securities, or in such other investments authorised for the purpose under the investment policy adopted from time to time by the Corporation. To the extent not so invested, such cash funds shall be deposited by the Corporation in its name with a bank or depository institution selected by the Corporation.

9.2 The Corporation may use and/or dispose of all or any part of the Collateral and/or the Guarantee Fund contributed by a Participant for the following, and only the following, purposes:

- (a) to satisfy in whole or in part any Default Loss for which the Participant is liable in accordance with the provisions of Rule 12 or Section 10 of this Rule; and
- (b) by way of use (including borrowing) to satisfy a Funding Requirement (as defined below) in accordance with and subject to the limitations in Sections 9.3 and 9.4;

provided that:

- (i) any Collateral designated by a Participant as cover for a Client Account may not be used and/or disposed of under Sections 9.3 or 9.4 except in relation to a Default Loss or Funding Requirement attributable to that Client Account or to another Client Account of the same Participant; and
- (ii) the Guarantee Fund may not be applied to satisfy a Default Loss other than a Relevant Default Loss.

9.3 The Corporation may use and/or dispose of ("**apply**") all or any part of the Collateral and/or the Guarantee Fund in order to satisfy, in whole or in part, any Funding Requirement subject to the following provisions of this Section.

(a) Any such property shall (unless the Funding Requirement concerned gives rise to a Loss which falls to be allocated in accordance with Section 10 of this Rule) be repaid, re-credited or returned:

(i) in the case of Margin Funding, as soon as practicable having regard to the Corporation's obligations under the relevant Link Agreement; and

(ii) in any other case as soon as practicable and in any event not later than the Close of Business on the ninetieth day (or, if that day is not a Business Day, on the next Business Day) after the date on which it was applied.

(b) ~~(a)~~ For the purposes of this Rule:

- (i) a "**Funding Requirement**" is a liability, obligation or liquidity requirement of the Corporation incurred in relation to the operation of the System (including the settlement of transactions and Margin Funding but excluding the corporate overhead of the Corporation);

(ii) "Margin Funding" means the provision of margin or collateral to a Qualified Financial Institution under the terms of a Link Agreement, or the funding of such provision;

(iii) ~~(ii)~~ amounts applied to finance settlement obligations on a revolving basis shall be deemed to be returned and re-applied on a daily basis; and

(iv) ~~(iii)~~ reference to the return of property includes, in the case of securities, the delivery of equivalent securities.

9.4 For the purpose of securing loans made to the Corporation or other obligations incurred by the Corporation in relation to any Funding Requirement:

(a) The Corporation may assign, charge or create a security interest in any and all securities, repurchase agreements, deposits or other instruments in which cash deposits comprised in the Collateral and/or the Guarantee Fund are invested, subject always to the proviso to that Section; and

(b) Each Charging Document will include a power for the Corporation to assign, charge or create a security interest in, and otherwise to use and/or dispose any and all property provided by a Participant and charged to the Corporation under such Charging Document, as if the Corporation were the owner of it, for the purposes set out in Section 9.3.

9.5 The loans or obligations referred to in Section 9.4 shall be on terms and conditions deemed necessary or advisable by the Corporation in its sole discretion and may be of greater amount and/or duration than the relevant cash deposits provided or charged by the Participant to the Corporation.

9.6 No Participant shall have any right, claim or action against any secured lender (or its collateral agent) for so long as any loans made by such lender to the Corporation, or other obligations secured by such collateral, are unpaid and outstanding. Subject to the foregoing and to the terms and conditions of such loan, the Corporation shall remain obliged to each Participant to return or replace the Collateral originally provided by such Participant by transferring equivalent Collateral to the Participant in the circumstances and at the times applicable under these Rules and/or the relevant Charging Documents.

10. **SECTION 10: ALLOCATION OF LOSS**

10.1 This Section 10 sets out the procedures for the allocation and satisfaction of Default Losses.

10.2 Any Default Loss shall be recovered to the extent possible from the Defaulting ~~Participant~~User in accordance with the Rules, or (as the case may be) the terms of the relevant Link Agreement.

10.3 [Section not used]

10.4 If the Corporation incurs a Relevant Default Loss which is not wholly satisfied in accordance with Section 10.2, the Corporation shall decide in its sole discretion whether or not it is appropriate to apply all or any part of its retained earnings or undistributed income in or towards the discharge of the Relevant Default Loss.

10.5 If the retained earnings and/or undistributed income of the Corporation are not so applied or, to the extent that they are applied, are not sufficient to discharge the Relevant Default Loss, the Participants (other than the Defaulting User, if it is a Participant) shall indemnify the Corporation for the excess amount of the Relevant Default Loss (the "**Excess Loss**") upon the Corporation issuing one Business Day's prior written notice to each Participant

(a "**Loss Allocation Notice**") stating the amount of the Excess Loss and the amount of the Excess Loss allocated to each such Participant.

- 10.6 Each Participant shall indemnify the Corporation for the amount of the Excess Loss allocated to it in the Loss Allocation Notice. The amount due by such a Participant in respect of an Excess Loss shall be an amount equal to such Participant's pro rata share of such Excess Loss, calculated by reference to the following formula:

$A \times B/C$

Where:

- A is the amount of the Excess Loss;
- B is the Participant's average Daily Margin Amount over the twenty Business Day period including and ending on the date on which the Corporation ceased to act for the Defaulting ~~Participant~~User (in either case the "**Relevant Margin Amount**"); and
- C is the sum of the Relevant Margin Amounts of all the Participants.

- 10.7 If a Participant (a "**Retiring Participant**") gives notice of its intention to terminate its participation (its "**Termination Notice**"), its liability for any Excess Loss (the "**Relevant Loss**") may be excluded or limited as follows:

(a) if the Retiring Participant gives its Termination Notice fifteen days or more before ~~the~~ Default Notice (or the equivalent notice under the relevant Link Agreement, as the case may be) is issued in respect of the Defaulting ~~Participant~~User concerned it shall have no liability for the Relevant Loss.

(b) if (a) does not apply, but the Retiring Participant gives its Termination Notice not later than Close of Business on the Business Day following the issue of the first Loss Allocation Notice in respect of the Relevant Loss, the Participant's liability in respect of the Relevant Loss shall not exceed an amount equal to two times the sum of:

- (i) its Margin Amount; and
- (ii) the required Contribution of the Participant,

each as fixed and determined immediately prior to the time of the allocation of such Excess Loss (the "**Maximum Liability Amount**").

(c) if (a) and (b) do not apply, but the Retiring Participant gives its Termination Notice not later than Close of Business on the Business Day following the issue of any subsequent Loss Allocation Notice in respect of the Relevant Loss (the "**Relevant Notice**"), the Retiring Participant's aggregate liability in respect of the Relevant Notice and of any subsequent Loss Allocation Notices in respect of the Relevant Loss shall not exceed the Maximum Liability Amount (but without prejudice to the liability of the Retiring Participant in respect of Loss Allocation Notices prior to the Relevant Notice).

- 10.8 References in Sections 10.6 and 10.7 to the Margin Amount of a Participant are, if the Participant maintains more than one account, to the aggregate of the Margin Amounts in respect of all the accounts of the Participant, including Client Accounts.

- 10.9 If, as a result of any exclusion or limitation of the liability of a Retiring Participant under Section 10.7, any shortfall remains, it shall be reallocated against all remaining Participants in accordance with Sections 10.5 and 10.6.

10.10 Each amount due from a Participant under the foregoing provisions of this Section shall become immediately payable automatically (without any obligation on the part of the Corporation to make demand on the Participant) at the time stated in the relevant Loss Allocation Notice. Without prejudice to its other rights and remedies under the Rules, the Corporation may forthwith, without notice, take all or any of the following steps:

- (a) set off and apply all amounts paid by the Participant to the Guarantee Fund;
- (b) set off all or any cash Collateral held by the Corporation from the Participant (or any money owing by the Corporation to such Participant pursuant to these Rules); and
- (c) convert any money standing to the debit or credit of the Participant's accounts into such other currency or currencies as the Corporation deems appropriate (pursuant to Rule 27); and/or
- (d) realise and apply all or any other Collateral held by the Corporation from the Participant in or towards the amount due from such Participant under this Section 10;

provided that none of the above steps referred to in (b), (c) or (d) may be taken in relation to money or Collateral held in or in respect of Client Accounts. The Corporation may, for this purpose, apply any cash and/or liquidate any securities or other property deposited by each relevant Participant, including, if applicable, making demand under any bank guarantee or drawing against any letter of credit to such extent at such time or times and in such order as it may determine.

10.11 If all or any part of a Participant's Collateral and/or its Contribution is applied in discharging any amount due from it under the preceding provisions of this Section and this results in a deficiency in its Margin Amount and/or its Contribution, as the case may be (a "**Funding Deficiency**"), the Participant shall, by the deadline stated by the Corporation, provide to the Corporation such further Collateral and/or Contribution as required to make good the Funding Deficiency. The Participant shall be obliged to make good any Funding Deficiency, notwithstanding that it may cease to be a Participant, whether pursuant to Section 10.7, otherwise. The amount paid by a Participant in respect of its Funding Deficiency shall be apportioned by the Corporation between Collateral and/or Contribution in such proportions as it thinks fit.

10.12 If the Participant shall fail to perform its obligations under this Section 10, the Corporation may take disciplinary action against the Participant pursuant to Rule 21. Any disciplinary action which the Corporation takes pursuant to Rule 21, or the voluntary or involuntary cessation of participation by the Participant, shall not affect the obligations of the Participant to the Corporation or any remedy to which the Corporation may be entitled under these Rules and applicable law.

10.13 The obligation of each Participant to indemnify the Corporation for the amount of any Excess Loss allocated to it under this Section 10 shall be an absolute obligation and not conditional on the Corporation or any other Participant having complied with these Rules.

10.14 If the amount of an Excess Loss indemnified by Participants under this Section 10 is afterward recovered by the Corporation in whole or in part, the Corporation shall notify the Participants by whom the Excess Loss was borne (at their last known address, if they have since ceased to be Participants) of the net amount of the recovery (after deduction of any amount of the Relevant Default Loss borne by the Corporation out of its retained earnings) and the amount refundable to them (a "**Refund**") out of the net amount so recovered (which shall be shared between them in the same proportions in which the Excess Loss was borne by them).

- 10.15 Any unclaimed Refund may be invested or otherwise used by the Corporation until claimed. No Refund shall bear interest as against the Corporation.
- 10.16 Any Refund which has remained unclaimed for a period of 12 months from the date of notification under Section 10.14 shall, if the Corporation so determines, be applied:
- (a) first, in making a further Refund under Section 10.14 to those Participants which have claimed their Refunds until they have received the full amount indemnified by them in respect of the Default Loss to which the Refund relates; and
 - (b) secondly, the balance shall cease to be refundable by the Corporation and shall thenceforth belong to the Corporation absolutely and be available for use by the Corporation in its clearance and settlement activities.

[The remainder of Rule 4 will be unchanged.]

RULE 6 –TRADE REPORTING

1. SECTION 1 –APPROVED ENTITIES

- 1.1 An Approved Facility or other person approved by the Corporation for this purpose (an “**Approved Entity**”) may submit to the Corporation for trade reporting, data on any transaction calling for delivery of Eligible Instruments between (1) two Participants or (2) a Participant and a Qualifying Financial Institution. The Corporation shall deem the report of any such data by any Approved Entity to have been authorised by ~~the~~any Participant or Qualifying Financial Institution on whose behalf the data has been reported. ~~Data reported by any Approved Entity to the Corporation shall not be deemed to be reported by the Participant to the Corporation until such data is accepted by the Corporation.~~
- 1.2 The Corporation shall be entitled to rely upon any data so submitted without inquiry into the accuracy or validity of such data. It shall be the responsibility of ~~the~~each Participant concerned to take appropriate corrective action with the Approved Entity which submitted the data to resolve any differences resulting from its submission to the Corporation. Acceptance by the Corporation of data from an Approved Entity shall not relieve ~~the~~any Participant from, or alter, amend or modify, any obligations of the Participant pursuant to the Rules.
- 1.3 A determination by the Corporation to accept data from an Approved Entity shall not be deemed to be an approval of such organization, or an assumption by the Corporation of any responsibility or liability for such Approved Entity’s operation or failure to operate, which shall remain solely between the Participant and such organization.

2. SECTION 2 –TRADE DATA

- 2.1 Trade data submitted to the Corporation shall be submitted Real-time in the form executed (without any form of “pre-netting”), and shall:
- (a) be in such formats;
 - (b) include such identifying details; and
 - (c) meet such operational parameters;
- each as established from time to time by the Corporation.
- 2.2 The Corporation will review trade data received to establish whether it contains such information as the Corporation determines to be necessary. If the trade data does not contain the information required by the Corporation, the Corporation will:
- (a) reject the trade data;
 - (b) advise the relevant Approved Entity in such form and by such time as may be established by the Corporation from time to time; and
 - (c) treat such data as if it had never been submitted.

3. SECTION 3 – REPORTS ISSUED BY THE CORPORATION

- 3.1 The Corporation will issue Reports reflecting trade data received and accepted by the Corporation (“**Trade Status Reports**”). Such Reports may also display such other data as the Corporation shall determine.

3.2 On each Business Day, at such times as the Corporation shall determine, the Corporation will also produce a Report (a "**Position Detail Report**") on an account by account basis. The Position Detail Report will indicate (i) for those Participant accounts the Participant has designated as Netting Accounts as provided in Rule 7, all Accepted Trades received prior to the established cut off time to be settled on a Netted basis as provided in Rule 7, and (ii) for those Participant accounts the Participant has designated as Non-Netting Accounts as provided in Rule 7, all Accepted Trades received prior to the established cut off time to be settled on a trade-for-trade basis. With respect to Netting Accounts, the Position Detail Report will indicate a net position (Netted by ~~trade~~[Trade](#) and Settlement Dates) with respect to Eligible Instruments of each ISIN and Acceptable Currency in which a Participant had a trade. Accepted Trades received after the cut off time will be processed and reported the next Business Day for the appropriate Settlement Dates.

4. **SECTION 4 – CANCELLATION AND CORRECTION**

4.1 An Approved Entity may submit cancellation and/or correction instructions to the Corporation in such form and by such time as may be established by the Corporation from time to time with respect to relevant markets.

4.2 Upon receipt of valid cancellation or correction instructions, or upon the exercise of the Corporation's authority conferred by Section 4.3, the Corporation will take such action as it determines to be appropriate in respect of ~~such~~[the](#) trade or trades concerned. Each cancellation or correction of an Accepted Trade will be reflected in an appropriate Report.

4.3 Notwithstanding anything to the contrary in this Rule 6, the Corporation shall have the authority (but not the obligation), in order to correct or avoid an error, to unilaterally modify, add, or cancel data submitted by an Approved Entity.

RULE 7 – NOVATION OF OBLIGATIONS, NETTING, SETTLEMENT AND DELIVERIES

1. SECTION 1: NOVATION OF TRANSACTIONS

1.1 Each transaction included in a Trade Status Report (the "Original Transaction") shall be novated as provided in Section 1.3 at the time when the transaction is accepted or deemed to be accepted (pursuant to Section 1.7 below) by the Corporation (the "**Time of Novation**"). A transaction which has been novated under this Section 1.1 is referred to in these rules as an "**Accepted Trade**".

1.2 If notice of cancellation of an ~~Accepted Trade~~ (~~the "Original Transaction"~~) is received by the Corporation from the relevant Approved Entity prior to the cut-off time specified by the Corporation and is shown as cancelled on a Report then, at the time when the Report is issued to Participants, the Novation in respect of the Original Transaction shall be reversed unless an Insolvency Event has occurred in relation to an original party. Similarly, if the Corporation receives notice of a correction (if applicable in the relevant market) of an ~~Accepted Trade~~Original Transaction from the Approved Entity prior to such specified cut-off time or the Corporation, pursuant to its authority under Rule 6, makes a correction to avoid an error, and the details of such correction are indicated on a Report then, at the time the Report is issued to Participants, the Novation in respect of the Original Transaction shall be reversed and replaced with a novated transaction reflecting the terms of such transaction as appropriately adjusted by the correction. Accordingly, if an Original Transaction is reported as cancelled or corrected, that Original Transaction shall be treated as if it had never been accepted and novated under this Section 1 and, if an Original Transaction is corrected, it shall be treated as if it had always been in the form as corrected.

1.3 At the Time of Novation:

~~(a) — each Participant which is party to a transaction novated under Section 1.1 shall be released from its obligation to deliver securities or make payments (as the case may be) and its rights against the other in respect of the corresponding payment or deliver obligation owed to it shall cease to exist (being the "Discharged Rights and Obligations");~~

(a) ~~(b) the~~where a Participant ~~which~~ was the seller (whether as principal or agent) under the ~~transaction so novated~~Original Transaction, it shall (acting as principal) acquire rights against, and assume obligations towards, the Corporation exactly equivalent to the ~~Discharged~~Original Rights and Obligations ~~but of the seller~~ with the substitution of the Corporation (acting as principal) in place of the original buyer;

(b) ~~(c) the~~where a Participant which was the buyer (whether as principal or agent) under the ~~transaction so novated~~Original Transaction, it shall (acting as principal) acquire rights against, and assume obligations towards, the Corporation exactly equivalent to the ~~Discharged~~Original Rights and Obligations of the buyer but with the substitution of the Corporation (acting as principal) in place of the original seller;

(c) where either the buyer or the seller under the Original Transaction is a Qualified Financial Institution, the Qualified Financial Institution will acquire the corresponding rights against, and assume the corresponding obligations towards the Corporation pursuant to the relevant Link Agreement; and

(d) the Original Rights and Obligations shall, as between Participants party to the Original Transaction, be discharged and cease to exist.

- 1.4 ~~To the extent that the~~ Nothing in these Rules shall affect any rights ~~and~~or obligations of ~~each~~a party to ~~a transaction~~an Original Transaction which are not ~~novated~~discharged as described under Section ~~1.3, these rights and obligations shall continue in force and between these parties.~~1.3(d).
- 1.5 The obligations assumed by the Corporation under Section 1.3 as a counterparty to a Participant shall take effect subject to these Rules in all respects, including, without limitation, all restrictions on the Corporation's obligations and liabilities contained in these Rules.
- 1.6 If and to the extent that the terms of any transaction or any Participant's accounting or other records, forms, correspondence or telephone or other statements, are or purport to be inconsistent with the terms of these Rules, the terms of these Rules shall prevail.
- 1.7 Each transaction effected on, via or by an Approved Entity shall be deemed to be accepted by the Corporation for the purposes of Section 1.1 of this Rule and Novation in respect of the transaction concerned pursuant to Section 1.3 of this Rule (the "**Relevant Novation**") shall consequently have automatic effect at the time that the transaction is effected (i.e., the time at which a binding transaction is created under the terms and conditions of the relevant Approved Entity; the "**Time of Trade**"), subject to the satisfaction of all the following conditions:
- (a) the transaction satisfies the requirements of the Corporation for validation and acceptance of transactions in force and applied by the Corporation at the Time of Trade; and
 - (b) the complete trade data in respect of the transaction (including both buy and sell sides) is received by the Corporation prior to ~~the Close of Business for the Business Day in which the transaction is effected~~such time on the Trade Date as shall be prescribed by the Corporation (the "**Cut-off Time**"); and
 - (c) ~~The~~the Corporation has not, prior to the Time of Trade, notified the Approved Entity that it will not accept trades:
 - (i) from a Participant or Non-Clearing Firm that is a party to, or responsible for, the transaction; and/or
 - (ii) in relation to the Eligible Instrument that is the subject of the transaction;;
and
 - (d) the Corresponding Contract (where applicable) is not avoided or otherwise terminated pursuant to the relevant Link Agreement prior to the Cut-off Time.
- If all of the above conditions are satisfied, then such deemed acceptance, and assumption and release of rights and obligations by virtue of the Relevant Novation, shall be treated as taking effect as from the Time of Trade.
- 1.8 The Corporation may make Procedures varying the provisions of this Section ~~4-7~~1 of Rule 7 as they apply to:
- (a) a specific service or type of transaction; or
 - (b) transactions reported by a particular Approved Entity.
- 1.9 Section 1.7 of this Rule 7 is without prejudice to any other right of the Corporation pursuant to these Rules in respect of Accepted Trades and transactions submitted to the Corporation, including, without limitation, the Corporation's rights pursuant to Sections 2.2 and 4 of Rule 6, Section 1.2 of Rule 7 and Section 3 of Rule 12.

- 1.10 Nothing in Section 1.7 of this Rule 7 shall fetter the Corporation's discretion to validate and accept a transaction in accordance with Section 1.1 of Rule 7, notwithstanding that such transaction does not satisfy the conditions in Section 1.7 of this Rule 7.

[The remainder of Rule 7 will be unchanged.]

RULE 9 – MARKET DISRUPTION AND FORCE MAJEURE

1. SECTION 1: MARKET DISRUPTION EVENTS

1.1 On the happening of any one or more of the events or circumstances set out below (each a "**Market Disruption Event**"), the Corporation shall be entitled to take such action as is set out in this Rule:

- (a) a state of war existing, imminent or threatened which is likely to affect or has affected the normal course of business, including performance by the Corporation or by one or more Participants of any obligations under these Rules;
- (b) the exercise, variation or revocation of controls by the government of any nation, state or territory or any institution or agency thereof; which appears likely to affect the normal course of business, including performance by the Corporation or one or more Participants of any obligations under these Rules;
- (c) the introduction, variation, termination or permitted lapse of any provision, or notice (or the appearance) of an intention to do so by the EU or any international organisation, or any institution or agency thereof of a nature likely to affect the normal course of business, including performance by the Corporation or by one or more Participants of obligations under these Rules;
- (d) the closure, suspension or disruption of the operations of, or any default by, an Approved Entity ~~or by~~ a Relevant Securities Depository or other Settlement Entity [or a Qualified Financial Institution](#); or
- (e) Force Majeure, including (without limitation) any other event or circumstances beyond the control of the Corporation which the Corporation determines may adversely affect its ability to perform its obligations under the Rules. Such events or circumstances may include, but are not limited to, acts of God or the public enemy; acts of civil or military authority other than the acts referred in the preceding paragraphs of this Rule; embargoes; fire; flood; labour disputes; unavailability, failure, malfunction or restriction of computer or data processing facilities or other technology, or energy supplies, or of bank transfer, payment securities or settlement or communication systems, and any other causes beyond the parties' reasonable control.

[The remainder of Rule 9 will be unchanged.]

RULE 12 – DEFAULT RULES AND PROCEDURES ON CEASING TO ACT FOR A PARTICIPANT

1. SECTION 1: APPLICABILITY

- 1.1 The Corporation shall be entitled to take action under Section 3 of this Rule with respect to a Participant if:
- (a) such Participant is or appears to be unable to perform its obligations under or in connection with one or more Clearing Contracts and/or Transfer Orders, or appears to be likely to become unable to perform such obligations, or any other Termination Event occurs and is continuing in relation to each Participant; and
 - (b) the Corporation has ceased to act for the Participant with respect to a particular transaction or to transactions generally as provided in Rule 11.
- 1.2 The provisions of this Rule 12 constitute the default rules of the Corporation for the purposes of Part VII, the Recognition Regulations and the Settlement Finality Regulations (the "**Default Requirements**").
- 1.3 The exercise by the Corporation of its powers under this Rule 12 shall be subject to any directions given by the FSA pursuant to Section 166 of the Companies Act 1989.
- 1.4 The Corporation shall co-operate, by the sharing of information and otherwise, with the FSA, the Bank of England, any Relevant Office-Holder, and any other authority or body having responsibility for any matter arising out of, or connected with, the default of a Participant.
- 1.5 [To the extent provided in the relevant Link Agreement, the provisions of this Rule 12 shall apply to a Qualified Financial Institution as if it were a Participant.](#)

[The remainder of Rule 12 will be unchanged.]

RULE 19 - RULE CHANGES

1. Subject to this Rule, the Corporation may from time to time amend or cancel any Rule or Procedure, or make or adopt additional Rules or Procedures (in each case a "**Rule Change**"), provided that the Rule Change may not:
 - (a) affect a Participant's right to cease to be a Participant; or
 - (b) alter the provisions of this Rule or of Rule 4,unless before the Rule Change becomes effective the Participant is given an opportunity to give written notice to the Corporation of its election that the Corporation shall cease to act for it.
2. A Rule Change may include such transitional provisions as the Corporation considers appropriate.
3. The Corporation shall immediately notify all Participants of any proposal to make a Rule Change. Any such notification shall be accompanied by:
 - (a) the text of the proposed Rule Change and sufficient explanation to enable Participants to understand its intended purpose and effect and;
 - (b) an appropriately detailed assessment of the likely costs and benefits of the Rule Change.
4. The Corporation shall:
 - (a) allow Participants a reasonable period (not less than 30 days) to make comments on the Rule Change;
 - (b) upon request, make such comments available to Participants unless the commenter has requested otherwise;
 - (c) give due consideration to such comments before adopting the Rule Change; and
 - (d) notify the Participants of any material amendment to the Rule Change which it makes in the light of such comments.
5. The Corporation shall not be required to follow the procedures set out in paragraphs 2 and 3 above (the "**Consultation Procedures**") in the case of a Rule Change which:
 - (a) is required to comply with the law or the Corporation's obligations under or pursuant to the Act;
 - (b) is required to comply with the rules or procedures of an Approved Entity or Relevant Securities Depository and where the Corporation believes the prompt implementation of such Rule Change is necessary to prevent the disruption of normal business operations or prompt and accurate settlement of securities transactions; provided, however, if the proposed Rule Change will have a material impact on Participants who do not use (or clear for users of) the Approved Entity or Relevant Securities Depository concerned, then the Corporation shall follow the Consultation Procedures before effecting such Rule Change;
 - (c) relates solely to the provision of services to Participants with respect to an Approved Entity newly designated as such by the Corporation;
 - (d) in the Corporation's opinion is needed as a matter of urgency to protect the interest of the Corporation or its Participants;

- (e) relates to a Procedure to be adopted under Section 3 (Calculation of Margin Amount) or Section 6 (Guarantee Fund) of Rule 4 insofar as the Corporation deems such Rule Change necessary or appropriate for the adequate protection of the Corporation and its Participants
- (f) is made pursuant to Rule 29 (Link Arrangements) and in the Corporation's opinion will not deprive Participants of any material right or impose any material additional obligation on them; or
- (g) ~~(f)~~ in the Corporation's opinion will not materially affect the rights and obligations of Participants.

but:

- (i) the Corporation shall notify Participants as soon as practicable that it intends to make the Rule Change specified, and in any event before the Rule Change specified comes into effect; and
 - (ii) any Rule Change made in accordance with subparagraph (d) above shall cease to have effect at the end of such period (not exceeding six months) as shall be specified in the notice referred to in (i) above, unless prior to the end of such period the Rule Change is confirmed by the Corporation after following the Consultation Procedures.
6. Any Rule Change to which Section 300B of the Act applies shall not be made unless and until permitted by Section 300C or 200D of the Act (as the case may be).

RULE 29 – LINK ARRANGEMENTS

The Corporation may establish links with one or more regulated entities providing clearance and settlement services, whether as a central counterparty or otherwise ("**Qualified Financial Institutions**") and may make available to such Qualified Financial Institutions for the benefit or on behalf of the Qualified Financial Institution's participants and members such services of the Corporation which the Corporation in its sole discretion shall determine to provide. The Corporation may enter into such agreements as it may deem appropriate with any such Qualified Financial Institution which agreement and the Rules of the Corporation, as well as the Rules, procedures and other documents of the Qualified Financial Institution shall govern link transactions between participants and members of such Qualified Financial Institutions and the Participants. The Corporation may from time to time establish procedures which shall be applicable to the operation of such links which procedures may be amended from time to time. Any such procedures may (subject to the provisions of Rule 19 (Rule Changes)) vary the provisions of these Rules and shall be a part of these Rules.