

AUCTION TERMS FOR CDS DEFAULT AUCTIONS
AUCTION TERMS FOR CDS DEFAULT AUCTIONS

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1. **DEFINITIONS**

The following definitions apply to Parts 1 and 2 of these CDS Auction Procedures:

- 1.1 The term "**Allocated Failed Lot Resources**" means Lot Resources from a Failed Lot allocated pursuant to paragraph 5.7 of Part 2 of these CDS Auction Procedures.
- 1.2 The term "**AP**" means the CDS Auction Clearing Price or Secondary Auction Clearing Price (as applicable) for a Lot (converted into EUR at the rate specified in paragraph 2.2 of the Finance Procedures, if applicable), proportionately scaled to a portfolio size representing 100% of the relevant Lot (or, in respect of a CDS Auction, the applicable fill percentage).
- 1.3 The term "**Bid**" means, with respect to a Lot, an offer to purchase CDS Contracts in a CDS Auction or Secondary CDS Auction (as applicable) made by submitting a Bid Form.
- 1.4 The term "**Bidder**" means, with respect to a Lot, a CDS Auction Participant or a Secondary CDS Auction Participant (as applicable) that has submitted a Bid.
- 1.5 The term "**Bid Form**" means a bid form submitted via ICE's file transfer server or otherwise as set out by the Clearing House, and in the format and in the manner specified by the Clearing House in the CDS Auction Specifications or Secondary CDS Auction Specifications (as applicable).
- 1.6 The term "**BP**" means for a CDS Auction Participant or a Secondary CDS Auction Participant and a Lot, the weighted average Bid price of all valid Bids made by such CDS Auction Participant or Secondary CDS Auction Participant in the CDS Auction or Secondary CDS Auctions (weighted by the portfolio size of each such Bid, and converted into EUR at the rate specified in paragraph 2.2 of the Finance Procedures, if applicable), proportionately scaled to a portfolio size representing 100% (or, in respect of a CDS Auction, the applicable fill percentage) of the relevant Lot. Where a CDS Auction Participant or Secondary CDS Auction Participant has made Bids in the CDS Auction or Secondary CDS Auction in excess of its Minimum Bid Requirement, such weighted average shall only take into account its most competitive Bids in the aggregate equal to such Minimum Bid Requirement. In the case of a CDS Clearing Member, BP shall take into account all valid Bids made by it for its Customer Accounts, Proprietary Accounts and Individually Segregated Sponsored Account, but shall not include Bids made by a Direct Participating Customer for which it acts as CDS Clearing Member or Sponsor.
- 1.7 The term "**CDS Auction**" means the initial Default Auctions of CDS Contracts carried out in accordance with Rule 905(b)(i) and Part 1 of these CDS Auction Procedures (for the avoidance of doubt, such auctions are "Initial CDS Auctions" as defined in the Rules).
- 1.8 The term "**CDS Auction Announcement Circular**" means a Circular in relation to the Event of Default specifying that a CDS Auction is to take place in accordance with Rule 901(b)(i).
- 1.9 The term "**CDS Auction Clearing Price**" means, with respect to a Lot, the price of the Bid at which the sum of the notional amount of CDS Contracts with equal or higher Bids equals or is greater than the notional amount of CDS Contracts being auctioned.
- 1.10 The term "**CDS Auction Participant**" means each CDS Clearing Member that is not a Defaulter and any Direct Participating Customer.
- 1.11 The term "**CDS Auction Priority**" means the CDS Auction Priority GF Sequence and the CDS Auction Priority AC Sequence.

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- 1.12 The term "**CDS Auction Priority AC Sequence**" means, pursuant to Rule 908(i), the following amounts, applied in the following order (i) first, the CDS Assessment Contributions of each Non-Bidding CDS Clearing Member, pro rata based on the relative size of its CDS Assessment Contribution; (ii) second, the Subordinate Assessment Contribution Tranche, pro rata from the Subordinate Assessment Contributions based on their relative size; and (iii) third, the Senior Assessment Contribution Tranche, pro rata based on the relative size of the Senior Assessment Contributions.
- 1.13 The term "**CDS Auction Priority GF Sequence**" means, pursuant to Rule 908(i), the following amounts, applied in the following order: (i) first, the CDS Guaranty Fund Contributions of each Non-Bidding CDS Clearing Member and the CDS Direct Auction Participant Contributions of each Non-Bidding Direct Participating Customer, pro rata based on the relative size of its CDS Guaranty Fund Contributions or CDS Direct Auction Participant Contribution, as applicable; (ii) second, the Subordinate Guaranty Fund Tranche, pro rata from the Subordinate Guaranty Fund Contributions based on their relative size; (iii) third, the Senior Guaranty Fund Tranche, pro rata based on the relative size of the Senior Guaranty Fund Contributions; (iv) fourth, any Replenishment Amounts made available by the Clearing House at this level in the default waterfall.
- 1.14 The term "**CDS Auction Specifications**" means CDS Auction Specifications in the form of the template set out in Annex A to these CDS Auction Procedures.
- 1.15 The term "**CDS Default Auction Procedures**" means these Auction Terms for CDS Default Auctions.
- 1.16 The term "**Clearing House CDS Contributions Tranche**" means the Replenishment Amounts multiplied by the sum of the Lot Guaranty Fund Weightings for all Lots other than Failed Lots.
- 1.17 The term "**Closing Time**" means the closing time specified by the Clearing House for the relevant CDS Auction or Secondary CDS Auction (as applicable) in the CDS Auction Specifications or Secondary CDS Auction Specifications (as applicable).
- 1.18 The term "**Direct Auction Participant Contribution**" means the amount transferred to the Clearing House by a Direct Participating Customer in accordance with paragraph 1.19.
- 1.19 The term "**Direct Participating Customer**" means a Customer, including a Sponsored Principal, invited by the Clearing House to participate in a CDS Auction or Secondary CDS Auction, where (i) the relevant CDS Clearing Member or Sponsor has confirmed that it will clear any resulting transactions of its Customer or Sponsored Principal (as applicable), (ii) solely for the purposes of participating in a CDS Auction, such Customer or Sponsored Principal has transferred to the Clearing House the amount of EUR 7.5 million as a Direct Auction Participant Contribution in respect of such CDS Auction (covering all Lots therein), which may be applied and is returnable as set forth herein and in the Rules, and (iii) such Customer or Sponsored Principal has entered into an agreement with the Clearing House with respect to such Customer or Sponsored Principal's participation in the CDS Auction or Secondary CDS Auction in form and substance acceptable to the Clearing House, pursuant to which, among other matters, such Customer or Sponsored Principal agrees to be bound by these CDS Auction Procedures as they apply to a Direct Participating Customer.
- 1.20 The term "**Elective CDS Auction Participant**" means a CDS Clearing Member that is not a Defaulter whose membership privileges allow it not to be a CDS Auction Participant or a Secondary CDS Auction Participant.
- 1.21 The term "**Excess Successful Lot Resources**" means, for a Lot subject to a Secondary CDS Auction, excess Lot Resources from one or more other Lots (other than Failed Lots) in excess of the amount

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necessary to pay the amounts owed for all CDS Contracts at the CDS Auction Clearing Prices or Secondary CDS Auction Prices (as applicable) for such other Lot(s).

- 1.22 The term "**Excused Non-Participating Bidder**" means, with respect to a Lot:
- (i) a CDS Clearing Member; or
 - (ii) a Direct Participating Customer,
- that is (a) not subject to a Minimum Bid Requirement under paragraph 2.4 of Part 1 of these CDS Auction Procedures or paragraph 2.4 of Part 2 of these Secondary CDS Auction Procedures or (b) does not participate in the CDS Auction or Secondary CDS Auction (as applicable) for such Lot either because it is an Elective CDS Auction Participant which elects not to participate or does not meet the Participation Criteria set out in the relevant Auction Specifications.
- 1.23 The term "**Failed Lot**" means a Lot subject to a CDS Auction or a Secondary CDS Auction that is treated as failed:
- (i) for a CDS Auction, in accordance with paragraph 5.6 of Part 1 of these CDS Auction Procedures; or
 - (ii) for a Secondary CDS Auction, in accordance with paragraph 5.6 of Part 2 of these CDS Auction Procedures.
- 1.24 The term "**First CDS Auction**" means the initial CDS Auction in respect of a Lot.
- 1.25 The term "**Lot**" means the portfolio of a Defaulter (and for a Secondary CDS Auction the remaining portfolio of a Defaulter after Completion of the CDS Auction) as divided into discrete CDS Auctions or Secondary CDS Auctions (as applicable).
- 1.26 The term "**Lot Assessment Contribution**" means, for a Lot and a CDS Clearing Member that is not a Defaulter, the Lot Guaranty Fund Weighting multiplied by the CDS Assessment Contribution of such CDS Clearing Member.
- 1.27 The term "**Lot CDS Direct Auction Participant Contribution**" means, for a Lot and a participating Direct Participating Customer, the Lot Guaranty Fund Weighting multiplied by the CDS Direct Auction Participant Contribution of such Direct Participating Customer for a CDS Auction or Secondary CDS Auction (as applicable).
- 1.28 The term "**Lot Guaranty Fund Contribution**" means, for a Lot and a CDS Clearing Member that is not a Defaulter, the Lot Guaranty Fund Weighting multiplied by the CDS Guaranty Fund Contributions of such CDS Clearing Member.
- 1.29 The term "**Lot Guaranty Fund Weighting**" means the percentage equal to (A) the PRI applicable to such Lot divided by (B) the aggregate of the PRIs for all Lots in a CDS Auction or Secondary CDS Auction (as applicable).
- 1.30 The term "**Lot Resources**" means for a Lot subject to a Secondary CDS Auction, the aggregate of the Lot Assessment Contributions and Lot Guaranty Fund Contributions for all CDS Clearing Members (that are not Defaulters) for such Lot plus the Available Defaulter Resources and Replenishment Amounts.

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- 1.31 The term "**Lot Resource Shortfall**" means for a Lot subject to a Secondary CDS Auction, that the Lot Resources are insufficient to allocate all CDS Contracts in that Lot at the Secondary CDS Auction Clearing Price.
- 1.32 The term "**Minimum Bid Requirement**" means, subject to paragraphs 2.4 and 2.6 of Part 1 of these CDS Auction Procedures, and subject to paragraphs 2.4 and 2.7 of Part 2 of these Secondary CDS Auction Procedures, with respect to a Lot, the requirement for all CDS Clearing Members to Bid for a minimum notional amount of CDS Contracts in such Lot as determined by the Clearing House, in each case as the context so requires.
- 1.33 The term "**Non-Bidding CDS Clearing Member**" means a CDS Clearing Member, not being a Defaulter, that chooses not to participate in the relevant CDS Auction or Secondary CDS Auction of any Lot (except as provided for in these CDS Auction Procedures) or that does not comply with any applicable Minimum Bid Requirement for any Lot.
- 1.34 The term "**Non-Bidding Direct Participating Customer**" means a Direct Participating Customer that chooses not to participate in the relevant CDS Auction or Secondary CDS Auction of any Lot (except as provided for in these CDS Auction Procedures) or that does not comply with any applicable Minimum Bid Requirement for any Lot.
- 1.35 The term "**PRI**" means, with respect to a Lot, the sum equal to the Initial Margin requirement applicable to the Open Contract Positions comprising such Lot (exclusive of the so-called "jump-to-default risk" component), determined by the Clearing House as of the most recent Initial Margin cycle prior to the CDS Auction or Secondary CDS Auction (as applicable).
- 1.36 The term "**Replenishment Amounts**" means amounts or assets of the Clearing House applied by the Clearing House or other third parties applied to meet any shortfall, loss or liability (not being Clearing House Contributions, Loss Assets, Guaranty Fund Contributions or Assessment Amounts).
- 1.37 The term "**Rules**" means the ICE Clear Europe Rules.
- 1.38 The term "**Second CDS Auction**" means a further CDS Auction in respect of a Lot.
- 1.39 The term "**Secondary CDS Auction**" means the secondary default auctions of remaining CDS Contracts carried out in accordance with Rule 905(d)(i)(B) and Part 2 of these CDS Auction Procedures.
- 1.40 The term "**Secondary CDS Auction Announcement Circular**" means a Circular in relation to the Event of Default specifying that a Secondary CDS Auction is to take place in accordance with Rule 905(d)(i)(B).
- 1.41 The term "**Secondary CDS Auction Clearing Price**" means, with respect to a Lot, the price of the Bid at which the sum of the notional amount of CDS Contracts with equal or higher Bids equals or is greater than the notional amount of CDS Contracts being auctioned.
- 1.42 The term "**Secondary CDS Auction Participant**" means each CDS Clearing Member that is not a Defaulter and any Direct Participating Customer.
- 1.43 The term "**Secondary CDS Auction Priority**" means the Secondary CDS Auction Priority GF Sequence and the Secondary CDS Auction Priority AC Sequence.
- 1.44 The term "**Secondary CDS Auction Priority AC Sequence**" means the following amounts, applied in the following order (i) first, the CDS Assessment Contributions of each Non-Bidding CDS Clearing Member, pro rata based on the relative size of its CDS Assessment Contribution; (ii) second, the Subordinate

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Assessment Contribution Tranche, pro rata from the Subordinate Assessment Contributions based on their relative size; (iii) third, the Senior Assessment Contribution Tranche, pro rata based on the relative size of the Senior Assessment Contributions; and (iv) fourth, any Replenishment Amounts made available by the Clearing House at this level in the default waterfall.

- 1.45 The term "**Secondary CDS Auction Priority GF Sequence**" means the following amounts, applied in the following order: (i) first, the Lot Guaranty Fund Contributions of any Non-Bidding CDS Clearing Member; (ii) second, the Subordinate Guaranty Fund Tranche, *pro rata* from the Subordinate Guaranty Fund Contributions based on their relative size; (iii) third, the Senior Guaranty Fund Tranche, *pro rata* based on the relative size of the Senior Guaranty Fund Contributions; (iv) fourth, the Clearing House CDS Contributions Tranche.
- 1.46 The term "**Secondary CDS Auction Specifications**" means Secondary CDS Auction Specifications in the form of the template set out in Annex A to Part 2 of these CDS Auction Procedures.
- 1.47 The term "**Senior Assessment Contribution**" means, with respect to a Lot:
- (i) for a CDS Clearing Member that is a Senior Bidder or Excused Non-Participating Bidder (other than an Elective CDS Auction Participant), its Lot Assessment Contribution;
 - (ii) for a CDS Clearing Member that is a Split Bidder, a portion of its Lot Assessment Contribution determined pursuant to the following formula:

its Lot Assessment Contribution multiplied by $((BP - \text{Subordinate Threshold Price}) / PRI)$
 - (iii) for a CDS Clearing Member that is a Subordinate Bidder, zero;
 - (iv) for a CDS Clearing Member that is a Defaulter, zero; and

solely in a CDS Auction:
 - (v) in the case of a Failed Lot, for each CDS Clearing Member that is not a Defaulter, its Lot Assessment Contribution.
- 1.48 The term "**Senior Assessment Contribution Tranche**" means the aggregate of the Senior Assessment Contributions of each CDS Clearing Member for all Lots (other than Failed Lots under a Secondary CDS Auction).
- 1.49 The term "**Senior Bidder**" means, with respect to a Lot, a CDS Auction Participant whose BP for the Lot is more competitive than the Senior Threshold Price.
- 1.50 The term "**Senior Guaranty Fund Contribution**" means, with respect to a Lot:
- (i) for a CDS Clearing Member that is a Senior Bidder or Excused Non-Participating Bidder (other than an Elective CDS Auction Participant), its Lot Guaranty Fund Contribution;
 - (ii) for a CDS Clearing Member that is a Split Bidder, a portion of its Lot Guaranty Fund Contribution determined pursuant the following formula:

its Lot Guaranty Fund Contribution multiplied by $((BP - \text{Subordinate Threshold Price}) / PRI)$
 - (iii) for a CDS Clearing Member that is a Subordinate Bidder, zero;

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(iv) for a CDS Clearing Member that is a Defaulter, zero; and

solely in a CDS Auction:

(v) in the case of a Failed Lot, for each CDS Clearing Member that is not a Defaulter, its Lot Guaranty Fund Contribution;

(vi) for a Direct Participating Customer that is a Senior Bidder or Excused Non-Participating Bidder (other than an Elective CDS Auction Participant), zero;

(vii) for a Direct Participating Customer that is a Split Bidder, a portion of its Lot CDS Direct Auction Participant Contribution determined pursuant to the following formula:

its Lot CDS Direct Auction Participant Contribution multiplied by $((BP - \text{Subordinate Threshold Price}) / \text{PRI})$

(viii) for a Direct Participating Customer that is a Subordinate Bidder, zero; and

(ix) in the case of a Failed Lot, for each Direct Participating Customer, its Lot CDS Direct Auction Participant Contribution.

1.51 The term "**Senior Guaranty Fund Tranche**" means the aggregate of the Senior Guaranty Fund Contributions of each CDS Clearing Member (other than Failed Lots under a Secondary CDS Auction) for all Lots.

1.52 The term "**Senior Threshold Price**" means, with respect to a Lot, an amount (expressed in EUR, with a negative number meaning an amount payable by the Clearing House) equal to AP minus $\frac{1}{2}$ of the PRI. Solely for purposes of the calculation of the Senior Threshold Price, AP will be the CDS Auction Clearing Price or Secondary CDS Auction Clearing Price (as applicable) that would have been determined with respect to 100% of the Lot (or, in respect of a CDS Auction, the applicable fill percentage) originally proposed to be auctioned, even if the actual CDS Auction Clearing Price or Secondary CDS Auction Clearing Price (as applicable) is ultimately determined based on only a portion of such Lot pursuant to paragraph 5.6 of Part 1 of these CDS Auction Procedures or paragraph 5.6 of Part 2 of these CDS Auction Procedures.

1.53 The term "**Split Bidder**" means, with respect to a Lot, a CDS Auction Participant whose BP for the Lot is between the Senior Threshold Price and the Subordinate Threshold Price (inclusive).

1.54 The term "**Subordinate Assessment Contribution**" means, with respect to a Lot:

(i) for a CDS Clearing Member that is a Subordinate Bidder, its Lot Assessment Contribution;

(ii) for a CDS Clearing Member that is a Split Bidder, a portion of its Lot Assessment Contribution equal to its Lot Assessment Contribution minus its Senior Assessment Contribution;

(iii) for a CDS Clearing Member that is a Senior Bidder or Excused Non-Participating Bidder (other than an Elective CDS Auction Participant), zero;

(iv) for a CDS Clearing Member that is a Defaulter, all its available Assessment Contributions; and

solely in a CDS Auction:

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- (v) in the case of a Failed Lot, for each CDS Clearing Member that is not a Defaulter, zero.
- 1.55 The term "**Subordinate Assessment Contribution Tranche**" means the aggregate of the Subordinate Assessment Contributions of each CDS Clearing Member for all Lots (other than Failed Lots under a Secondary CDS Auction).
- 1.56 The term "**Subordinate Bidder**" means, with respect to a Lot, a CDS Auction Participant whose BP for the Lot is less competitive than the Subordinate Threshold Price or an Excused Non-Participating Bidder that is an Elective CDS Auction Participant.
- 1.57 The term "**Subordinate Guaranty Fund Contribution**" means, with respect to a Lot:
- (i) for a CDS Clearing Member that is a Subordinate Bidder, its Lot Guaranty Fund Contribution;
 - (ii) for a CDS Clearing Member that is a Split Bidder, a portion of its Lot Guaranty Fund Contribution equal to its Lot Guaranty Fund Contribution minus its Senior Guaranty Fund Contribution;
 - (iii) for a CDS Clearing Member that is a Senior Bidder or Excused Non-Participating Bidder other than an Elective CDS Auction Participant, zero;
 - (iv) for a CDS Clearing Member that is a Defaulter, all its available CDS Guaranty Fund Contributions; and
- solely in a CDS Auction:
- (v) in the case of a Failed Lot, for each CDS Clearing Member that is not a Defaulter, zero;
 - (vi) for a Direct Participating Customer that is a Subordinate Bidder, its Lot CDS Direct Auction Participant Contribution;
 - (vii) for a Direct Participating Customer that is a Split Bidder, a portion of its Lot CDS Direct Auction Participant Contribution equal to its Lot CDS Direct Auction Participant Contribution minus its Senior Guaranty Fund Contribution;
 - (viii) for a Direct Participating Customer that is a Senior Bidder or Excused Non-Participating Bidder other than an Elective CDS Auction Participant, zero; and
 - (ix) in the case of a Failed Lot, for each Direct Participating Customer, zero.
- 1.58 The term "**Subordinate Guaranty Fund Tranche**" means the aggregate of the Subordinate Guaranty Fund Contributions of each CDS Clearing Member (other than Failed Lots under a Secondary CDS Auction) and, in respect of a CDS Auction, Direct Participating Customer, for all Lots.
- 1.59 The term "**Subordinate Threshold Price**" means, with respect to a Lot, an amount (expressed in EUR, with a negative number meaning an amount payable by the Clearing House) equal to (A) AP minus (B) 1.5 multiplied by the PRI. Solely for purposes of the calculation of the Subordinate Threshold Price, AP will be the CDS Auction Clearing Price or Secondary CDS Auction Clearing Price (as applicable) that would have been determined with respect to 100% of the Lot (or, in respect of a CDS Auction, the applicable fill percentage) originally proposed to be auctioned, even if the actual CDS Auction Clearing Price or Secondary CDS Auction Clearing Price is ultimately determined based on only a portion of such Lot pursuant to paragraph 5.6 of Part 1 of these CDS Auction Procedures or paragraph 5.6 of Part 2 of these CDS Auction Procedures.

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- 1.60 The term "**Winning Bid**" means a Bid which results in the entry into a CDS Contract or CDS Contracts at the CDS Auction Clearing Price or Secondary CDS Auction Clearing Price (as applicable), determined in accordance with paragraph 5.4 of Part 1 of these CDS Auction Procedures or 5.4 of Part 2 of these CDS Auction Procedures (as applicable).
- 1.61 The term "**Winning Bidder**" means the relevant CDS Clearing Member whose Bid is the Winning Bid (for its Proprietary Account, its Customer Account for the account of the relevant Customer, or its Individually Segregated Sponsored Account for the account of the Sponsored Principal for which it acts as Sponsor, as applicable).
- 1.62 Capitalised terms used, but not defined, in these CDS Auctions Procedures shall have the meanings given to them in the Rules, CDS Procedures, Finance Procedures or CDS Standard Terms as applicable, and in the order of priority specified in Rule 102(f) in the event and to the extent of any conflict.
- 1.63 In these CDS Procedures, the term 'CDS Clearing Members' shall be construed to exclude any CDS Clearing Member that is a Defaulter and the terms 'Sponsor' and 'Sponsored Principal' shall be construed to exclude any Sponsor or Sponsored Principal that is a Defaulter.
- 1.64 A reference herein to CDS Contracts includes, where automatic early termination has taken place under Part 9 of the Rules or the Contract Terms, a reference to an auction of the terminated CDS Contracts or notional amounts representing such CDS Contracts.

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PART 1 – CDS AUCTIONS

1. INTRODUCTION

- 1.1 Part 1 of these CDS Default Auction Procedures govern the auctioning of one or more Lots representing CDS Contracts to which a Defaulter is or was a party, where such auction is administered by the Clearing House pursuant to Rule 905(b)(i). These CDS Default Auction Procedures are 'Procedures' as defined in the Rules and are subject to the Rules, including, without limitation, Rule 102. These CDS Default Auction Procedures, and all non-contractual obligations arising out of or in connection with them, are governed by and shall be construed in accordance with English law.
- 1.2 Part 1 of these CDS Default Auction Procedures shall apply to every CDS Auction conducted by the Clearing House pursuant to Rule 905(b)(i). However, they may be modified or supplemented for any particular CDS Auction pursuant to the relevant CDS Auction Specifications as set out in paragraph 2.6, subject to consultation with the CDS Default Committee as provided under the Rules.
- 1.3 The Clearing House will conduct CDS Auctions in accordance with its default policies. In the event of a conflict between the terms of such default policies and Part 1 of these CDS Default Auction Procedures (as modified or supplemented by any applicable CDS Auction Specification as set out in paragraph 2.6), Part 1 of these CDS Default Auction Procedures shall prevail.
- 1.4 References in this Part 1 of the CDS Default Auction Procedures to paragraph numbers shall be to paragraphs in this Part 1, unless otherwise stated.

2. THE AUCTION PROCESS

- 2.1 Any CDS Auctions of CDS Contracts to which a Defaulter is or was party will take place after the Clearing House has issued a CDS Auction Announcement Circular. The Clearing House will provide such advance notice as it determines is reasonable under the circumstances (but in any event at least one hour) to CDS Clearing Members prior to the CDS Auction.
- 2.2 Each CDS Clearing Member is required to Bid in every CDS Auction and for every Lot in a CDS Auction regardless of whether such CDS Clearing Member is at the time of the CDS Auction a party to any CDS Contract, has served a notice of termination for which the Termination Date has not yet passed or is in a Cooling-off Period, except as provided herein and unless its membership privileges permit it not to participate and it so elects not to participate, in which case such CDS Clearing member will not be a CDS Auction Participant. Each CDS Clearing Member's Minimum Bid Requirement will be determined pro rata based on its CDS Guaranty Fund Contributions as compared to the CDS Guaranty Fund Contributions of all non-defaulting CDS Clearing Members, subject to paragraphs 2.4 and 5.7 below. The sum total of the CDS Clearing Member's Minimum Bid Requirements may be set to an amount greater than 100% (but no greater than 150%) of the notional amount of the CDS Contracts in the relevant Lot as may be determined by the Clearing House from time to time, in consultation with the CDS Default Committee.
- 2.3 A CDS Clearing Member may Bid for the account of a Customer and a Sponsor may Bid for the account of a Sponsored Principal, subject to paragraph 3.7. References to a CDS Clearing Member here shall include, where necessary, in respect of an Individually Segregated Sponsored Account, a reference to the Sponsor and Sponsored Principal acting jointly in respect of such Account.
- 2.4 Where applicable, each CDS Auction Participant's Minimum Bid Requirement in respect of a particular Lot shall be communicated to it individually by the Clearing House as soon as practicable prior to the relevant CDS Auction in the format of the template notification set out in Annex B to these CDS Default Auction Procedures. A Minimum Bid Requirement shall not apply to a CDS Auction Participant for a particular

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Lot: (a) to the extent such a Minimum Bid Requirement would be in breach of Applicable Law or the Rules; (b) to the extent that a self-referencing CDS as described in paragraph 10.5 of the CDS Procedures would arise from an accepted Bid; or (c) where the Clearing House, after being notified in writing by the relevant CDS Clearing Member that a Minimum Bid Requirement is inappropriate in the current circumstances, reasonably determines that the Minimum Bid Requirement does not apply. A CDS Auction Participant will notify the Clearing House promptly and in any event at least 12 hours prior to the opening of the relevant CDS Auction (or if the Clearing House has provided less than 15 hours' notice of the relevant CDS Auction, a CDS Auction Participant will notify the Clearing House as promptly as practicable but in any event within 3 business hours (or such shorter period of time until the CDS Auction) following such notice), in writing, if it reasonably considers that clause (a) or (b) above applies to it. An Elective CDS Auction Participant shall notify the Clearing House whether or not it will participate in a CDS Auction within the timeframes set out in the previous sentence, as applicable. Affiliated CDS Clearing Members may transfer, outsource or aggregate their Minimum Bid Requirements to apply to a single one of them subject to notifying the Clearing House prior to a CDS Auction. A CDS Clearing Member that so transfers or outsources its Minimum Bid Requirement to an Affiliate remains liable for any breach by its Affiliate of these CDS Auction Procedures or the CDS Auction Specifications in respect of such CDS Clearing Member's Minimum Bid Requirement (in addition to the liability on the part of its Affiliate for such breach) and will be subject to the CDS Auction Priority as if such Bid were its own.

- 2.5 The Clearing House may, in consultation with the CDS Default Committee, divide the portfolio of a Defaulter into Lots as it considers appropriate. The Clearing House may at its discretion determine which particular CDS Contracts or packages of CDS Contracts are to be the subjects of a particular Lot and may establish Lots by selecting by way of CDS Contract Set or generic type (e.g. indices, single names or by sector). The Clearing House may combine contracts with different currencies in the same Lot. In these circumstances, CDS Auction Participants must still provide Bids in a single currency, being that specified in the relevant CDS Auction Specifications. Payment obligations resulting from the CDS Auction will be in the specified currency. In creating any such Lots, the Clearing House will consider if CDS Contracts that provide margin offsets for one another in the normal margining methodology of the Clearing House should be retained in the same Lot. It is expected that the Clearing House will create one or more separate Lots consisting of CDS Contracts for which one or more CDS Clearing Members is excused from a Minimum Bid Requirement under paragraph 2.4. The Clearing House may, in consultation with the CDS Default Committee, conduct CDS Auctions, and auction Lots within any CDS Auction, in such order as it considers appropriate; provided that within any CDS Auction the Clearing House will use reasonable efforts to auction all Lots at the same time. Prior to the publication of a CDS Auction Announcement Circular or the circulation of the CDS Auction Specifications, the Clearing House may have engaged in close-out or hedging trades or other transactions in respect of the portfolio of a Defaulter in accordance with Part 9 of the Rules. In exercising its discretion under paragraph 2.5, the Clearing House, in consultation with the CDS Default Committee, shall consider, wherever possible, taking into account the Clearing House's margining methodology and margin requirements applicable to CDS Clearing Members and Sponsored Principals, including within each Lot of CDS Contracts, any CDS Contracts which have been offset for the purposes of calculating the Defaulter's margin requirements.
- 2.6 In respect of each Lot, the Clearing House will provide each CDS Auction Participant (other than Defaulters) with information about CDS Contracts to be auctioned, timing for the Bidding process, participation criteria, and, without prejudice to paragraph 2.4, any applicable Minimum Bid Requirements, any minimum or maximum reserve price and other matters in writing in the format of the CDS Auction Specifications, such CDS Auction Specifications to be provided with such advance notice as the Clearing House determines is reasonable under the circumstances (but in any event at least one hour) prior to the CDS Auction. The CDS Auction Specifications may include amendments or additions to any provision of these CDS Auction Procedures or may disapply any provision of these CDS Auction Procedures (provided that CDS Auction Specifications may not modify or disapply any provision of the CDS Auction Priority or otherwise be inconsistent with the Rules). In the event of any conflict between the CDS Auction

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Specifications and these CDS Auction Procedures in respect of any particular Lot, the CDS Auction Specifications shall prevail. If any Person which has been provided a copy of any CDS Auction Specifications believes that he does not satisfy any of the specified participation criteria, he should contact the Clearing House as soon as practicable, and, if the Clearing House agrees that such Person does not satisfy the criteria, he shall refrain from Bidding for the relevant Lot. The Clearing House may restrict any such Person's access to CDS Auctions if it determines that a Person does not satisfy the specified participation criteria. The Clearing House may update or correct any details in the CDS Auction Specifications at any time prior to the commencement of Bidding in the relevant CDS Auction.

- 2.7 The requirements applicable to a Direct Participating Customer will not apply to any other Customers of CDS Clearing Members for whose account a CDS Clearing Member may submit a Bid in an auction. Equally, the requirements applicable to a Direct Participating Customer will not apply to any other Sponsored Principals for which a Clearing Member acts as Sponsor and for whose account the Clearing Member may submit a Bid in an auction. A CDS Clearing Member's Bid for its Proprietary Account, Customer Account, or, in respect of a Sponsored Principal for which it acts as Sponsor, Individually Segregated Sponsored Account, will count towards its Minimum Bid Requirement. Bids made by a Direct Participating Customer will not count toward the Minimum Bid Requirement of any CDS Clearing Member or Sponsor acting for such Direct Participating Customer. Each Direct Participating Customer and Elective CDS Auction Participant in a CDS Auction will have a Minimum Bid Requirement equal to 1% of the relevant Lot and may Bid for up to 100% of all Lots.
- 2.8 CDS Auction Participants shall be treated equally as regards the provision of information relating to CDS Auctions by the Clearing House. Any Person (including any CDS Clearing Member, Customer, Sponsor, Sponsored Principal or Direct Participating Customer) who receives any information in connection with a CDS Auction or possible CDS Auction shall hold such information in confidence and in accordance with the Rules, and shall not disclose it to any other Person except where such disclosure is made: (i) with the prior written consent of the Clearing House; (ii) to a Regulatory Authority or Governmental Authority where a request is formally made to the Person by or on behalf of the same or pursuant to Applicable Law in writing, provided that the Person making such disclosure notifies the Clearing House of its disclosure where it is lawful to do so; (iii) pursuant to an order of a competent court or other Governmental Authority or otherwise to such other Persons, at such times and in such manner as may be required by Applicable Law, provided that the Person making such disclosure notifies the Clearing House of its disclosure where it is lawful to do so; or (iv) in the case of a CDS Clearing Member or Sponsor, to a Customer or Sponsored Principal where such Customer or Sponsored Principal has expressed his interest in participating in the CDS Auction and is subject to a duty of confidentiality similar to that set out in this paragraph 2.8. For the avoidance of doubt, nothing in the foregoing paragraph shall prevent CDS Auction Participants from disclosing information to counsel for the purposes of obtaining legal advice in circumstances where a professional duty of confidentiality arises.
- 2.9 All Bids must be made by submitting a Bid Form. Bids must be received during the time window and prior to the Closing Time specified by the Clearing House in the relevant CDS Auction Specifications.
- 2.10 The CDS Auction will proceed pursuant to a 'sealed bid' process whereby the relevant CDS Auction Participants will be asked to submit Bids for the Lot or a particular percentage of the Lot in the appropriate Bid Form. The CDS Auction Specifications may specify a minimum Bid size. Any Bid below any specified minimum Bid size will be null and void unless the Clearing House, in its absolute discretion, determines otherwise.
- 2.11 A Bid Form will be treated as invalid and void if it is illegible, spoiled or is incomplete, as applicable.
- 2.12 During such period after the Closing Time as is specified in the CDS Auction Specifications, the Clearing House will notify CDS Auction Participants to inform them either: (i) that there were Winning Bidders and

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that such Bidders have been notified; or (ii) that no Bids were successful as determined in accordance with paragraph 5.6.

- 2.13 A Winning Bidder (or its CDS Clearing Member, Sponsor or Sponsored Principal, if applicable) may be required to post additional Margin as and when required in accordance with the Clearing House's margin methodology and procedures.

3. **THE BIDDING PROCESS**

- 3.1 A CDS Auction Participant will make Bids for each Lot in a CDS Auction which, as a minimum, comply with any applicable Minimum Bid Requirement notified to it. Any failure to comply with an applicable Minimum Bid Requirement shall have the consequences set forth herein but shall not itself constitute an Event of Default under the Rules. The Clearing House is not obliged to solicit Bids from CDS Auction Participants other than notifying CDS Auction Participants of any applicable Minimum Bid Requirement. The Clearing House shall be entitled to use CDS Direct Auction Participant Contributions in connection with a CDS Auction as set forth herein and in the Rules.
- 3.2 With respect to each CDS Auction, the Clearing House will determine the Lot Guaranty Fund Weighting for each Lot.
- 3.3 The order of application of CDS Guaranty Fund Contributions and Assessment Contributions shall be modified if there is a CDS Default Auction as set out in Rule 908(i). The CDS Auction Priority established for a CDS Auction will apply to all CDS Guaranty Fund or CDS Assessment Contributions of non-defaulting Clearing Members to be applied under Part 9 of the Rules with respect to all Lots comprising such CDS Auction in the aggregate.
- 3.4 Following the conclusion of the default procedures in accordance with Part 9 of the Rules, any unused CDS Direct Auction Participant Contributions will be returned to the relevant Direct Participating Customer.
- 3.5 Notwithstanding anything to the contrary herein, a Non-Bidding CDS Clearing Member with respect to any Lot, or a Non-Bidding Direct Participating Customer with respect to any Lot, will be treated as such for purposes hereof with respect to all Lots in the relevant CDS Auction, regardless of whether it would otherwise have been a Senior Bidder, Excused Non-Participating Bidder or Subordinate Bidder for any other Lot.
- 3.6 The Lot CDS Direct Auction Participant Contribution of a CDS Direct Participating Customer that is a Senior Bidder for that Lot will not be applied pursuant to the Primary CDS Auction Priority. Following the conclusion of the default procedures in accordance with Part 9 of the Rules, with respect to a Primary CDS Auction, any unused CDS Direct Auction Participant Contributions will be returned to the relevant CDS Direct Participating Customer.
- 3.7 For the avoidance of doubt, if a CDS Auction fails in respect of all Lots, no CDS Auction Priority will be established for that CDS Auction and amounts will be charged to the CDS Guaranty Fund as set forth under the Rules until the completion of a subsequent CDS Auction under these CDS Auction Procedures, if any (which subsequent CDS Auction shall establish a new CDS Auction Priority).
- 3.8 A CDS Auction Participant may submit multiple Bids for each Lot, or (if it is a CDS Clearing Member) a percentage of each Lot, in a particular Lot on its own account or for the account of a Customer, provided that such CDS Auction Participant ensures that all of its Bids, whether for its account or for the account of its Customers are submitted in the same Bid Form or otherwise as specified in the CDS Auction Specifications. A Bid made by a CDS Auction Participant by, for, or on behalf of a Customer shall be identified as such and such Bid shall be treated as a Bid for the relevant Customer Account. A Bid made

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by, for, or on behalf of a Sponsored Principal or by a Sponsor in such capacity shall be identified as such and treated as a Bid for the relevant Individually Segregated Sponsored Account. A CDS Clearing Member can satisfy its Minimum Bid Requirement by submitting multiple Bids with differing Bid prices and Bid sizes provided that, in aggregate, its submitted Bids equal or exceed the Minimum Bid Requirement and any individual Bid is larger than any applicable minimum Bid size.

- 3.9 All the requirements of the Rules concerning the provision of information to the Clearing House, including in Rule 106 and Part 2, apply in respect of the submission of Bids by a CDS Auction Participant.
- 3.10 Bids can only be submitted during the time window specified by the Clearing House in the CDS Auction Specifications. The time period for submission will end at the Closing Time. The Closing Time may be postponed for up to one hour by the Clearing House giving notice of such postponement to all CDS Auction Participants, following consultation to the extent practicable with the CDS Default Committee and the term "Closing Time" shall be construed accordingly.
- 3.11 A Bid must be in respect of all CDS Contracts or a percentage of all CDS Contracts in the relevant Lot. Any partial Bids, such as Bids which specify a particular CDS Contract, will be invalid and void. With respect to a particular Lot, no CDS Auction Participant is permitted to Bid, in aggregate, in excess of the notional amount of CDS Contracts being auctioned in such Lot.
- 3.12 No CDS Auction Participant may make a referential Bid (e.g. a Bid which purports to be a Bid which is €1 higher or lower than the highest or lowest Bidder) or make a Bid that is subject to conditions. Any such Bid will be treated as invalid and void and the CDS Auction Participant will be treated as if it had chosen not to participate.
- 3.13 A CDS Auction Participant may amend or modify a submitted Bid by resubmitting its entire Bid Form. In the event a Bid Form is resubmitted with any amendments or modifications, the Clearing House will disregard any previous Bid Form submitted by such CDS Auction Participant and any such previous Bid Form will be null and void. After the Closing Time, all submitted Bid Forms are irrevocable provided that if the Clearing House is satisfied, upon the request of a CDS Auction Participant, that a genuine mistake has been made in the submission of a Bid, the Clearing House may, at its own discretion, permit the CDS Auction Participant to withdraw the Bid and/or correct such mistake, before the CDS Auction Clearing Price is determined. If such erroneous Bid is so withdrawn but not corrected by such time, it will be deemed not to have been submitted at all for purposes of these CDS Auction Procedures and the CDS Auction Participant will be treated as if it had chosen not to participate.
- 3.14 Each Bid will be deemed to have been submitted at the time it is recorded as being received by the Clearing House. Except as provided in paragraph 3.13, any Bid received after the Closing Time will be treated as invalid and void and the CDS Auction Participant will be treated as if it had chosen not to participate.
- 3.15 Any Bid that does not comply with the requirements of these CDS Auction Procedures or the CDS Auction Specifications will be treated as invalid and void. Bids so invalidated will not be counted toward a CDS Auction Participant's Minimum Bid Requirement and the CDS Auction Participant will be treated as if it had chosen not to participate.
- 3.16 Any CDS Clearing Member that is a Defaulter will be ineligible to participate in a CDS Auction relating to another Defaulter's Contracts and will be treated for purposes of the CDS Auction Priority as if it had chosen not to participate. Neither any CDS Clearing Member that is a Defaulter nor any Sponsor acting for a Sponsored Principal that is a Defaulter may participate in an auction of its own Contracts.

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4. PARTICIPATION BY CUSTOMERS AND SPONSORED PRINCIPALS IN THE AUCTION

- 4.1 A CDS Clearing Member may make an unlimited number of separate Bids in respect of its Customers for whom it acts as Clearing Member or Sponsored Principals for whom it acts as Sponsor (in addition to any Bids for its Proprietary Account), in accordance with paragraph 3.7. A CDS Clearing Member must have all due approval, consent or authorisation from its Customer or Sponsored Principal to make the relevant Bid. Each CDS Clearing Member that makes Bids on behalf of a Customer or Sponsored Principal (other than a Direct Participating Customer) represents, acknowledges and agrees that such Customer or Sponsored Principal will be subject to the restrictions of paragraph 2.8 with respect to any information provided to such Customer or Sponsored Principal in connection with the CDS Auction.
- 4.2 A CDS Clearing Member shall become liable for the entry into of CDS Contracts resulting from the Bids made on behalf of a Customer including any Direct Participating Customer that is its Customer in the same way as it is liable for and becomes party to other Customer Account contracts or contracts entered into otherwise for Customers pursuant to the Rules. A CDS Clearing Member shall become liable as Sponsor for the Bids made for, by or on behalf of a Sponsored Principal (including any CDS Auction Participant that is a Sponsored Principal) in the same way as it is liable for and becomes party to other CDS Contracts recorded in an Individually Segregated Sponsored Account.
- 4.3 Except as otherwise set out in these CDS Auction Procedures and as provided for in the Rules, each CDS Auction Participant (that is not already bound hereto) shall hereby be deemed to have agreed to become bound by these CDS Auction Procedures and by the Rules as if it were a CDS Clearing Member in respect of its conduct in relation to a CDS Auction by conduct, as a result of its participation in the CDS Auction.
- 4.4 The Clearing House reserves the right to verify any Bid to ensure such Bid will be cleared by a CDS Clearing Member or Sponsor and reserves the right to invalidate a Bid where the Clearing House reasonably believes that such Bid, if accepted, would not be cleared by a CDS Clearing Member or Sponsor (notwithstanding paragraph 4.2) or that such Bid would be in breach of any position limits or other risk policies implemented by the Clearing House pursuant to the Rules. Any such invalidation will be made prior to the notifications made pursuant to paragraphs 2.12 and 5.8. Bids so invalidated will not be counted toward a CDS Clearing Member's Minimum Bid Requirement and the CDS Auction Participant will be treated as if it had chosen not to participate.

5. SELECTION OF THE WINNING BID

- 5.1 The Clearing House's primary goal in respect of a CDS Auction will be to conduct a successful and competitive CDS Auction. For purposes hereof, a CDS Auction with respect to a Lot will be successful if it is fully allocated to Winning Bidder(s), without using more default resources than are available under the Rules and appropriate given market conditions, considering all relevant factors, including the Defaulter's available funds, the anticipated rate of consumption of the Defaulter's available funds, the effectiveness of hedging on the CDS Auction portfolio, the anticipated market depth for the CDS Contracts in the Defaulter's portfolio, the relationship of the risk profile of the Lot to the Defaulter's aggregate portfolio, Available Defaulter Resources, the characteristics of the Bids received (including the distribution of Bids, increments between Bids and the consumption of default resources at different potential clearing Bid levels and auction fill levels) and other relevant market characteristics and conditions.
- 5.2 The Clearing House may at its discretion but giving due consideration to the CDS Default Policy, set any minimum reserve price and/or any maximum reserve price (which in either case may not be disclosed to any Bidders).
- 5.3 The Clearing House may at its discretion, in consultation with the CDS Default Committee, withdraw a Lot prior to the Closing Time.

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- 5.4 Promptly after the Closing Time for a Lot, the Clearing House will sort Bids submitted to it in the order of the price Bid per percentage unit of notional amount. The Bids will be ordered sequentially, starting with the highest Bid price and ending with the lowest Bid price. Unless paragraph 5.6 applies, the Lot will be allocated in full to bids above the CDS Auction Clearing Price. The CDS Auction Clearing Price is payable either, by the Clearing House to the CDS Auction Participant or its CDS Clearing Member, or to the Clearing House by the CDS Auction Participant or its CDS Clearing Member, as applicable. In the event that a Bid is also invalid or void or no CDS Contract is established with the CDS Auction Participant (or, if applicable, its CDS Clearing Member) submitting any Bid for any reason, such Bid will not be accepted and the CDS Auction Participant will be treated as if it had chosen not to participate.

Examples of how the CDS Auction Clearing Price is calculated are set out below, for illustrative purposes only:

Example 1

Note in these examples a negative Bid indicates a payment by the Clearing House

Ranking	Cash Bid	% of Portfolio	Cash/1%	Allocation % of Portfolio
1	€20,000	20%	€1,000	20%
2	€0	30%	€0	30%
3	-€2,500,000	25%	-€100,000	25%
4	-€3,000,000	25%	-€120,000	25%
5	-€3,900,000	30%	-€130,000	0%
6	-€6,000,000	40%	-€150,000	0%
7	-€7,750,000	50%	-€155,000	0%
8	-€6,400,000	40%	-€160,000	0%
9	-€3,300,000	20%	-€165,000	0%
10	-€43,000,000	20%	-€2,150,000	0%

Unless paragraph 5.6 applies, the CDS Auction Clearing Price will be -€120,000/1%. Portfolio will be allocated in full to bids above the CDS Auction Clearing Price.

Example 2

Ranking	Cash Bid	% of Portfolio	Cash/1%	Allocation % of Portfolio
1	€20,000	20%	€1,000	20%
2	€0	30%	€0	30%

Unless paragraph 5.6 applies, the CDS Auction Clearing Price will be -€120,000/1%. Portfolio will be allocated in full to bids 1,2 and 3 and allocated in part to bid 4.

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3	-€2,500,000	25%	-€100,000	25%
4	-€3,600,000	30%	-€120,000	25%
5	-€3,900,000	30%	-€130,000	0%
6	-€5,250,000	35%	-€150,000	0%
7	-€7,750,000	50%	-€155,000	0%
8	-€6,400,000	40%	-€160,000	0%
9	-€3,300,000	20%	-€165,000	0%
10	-€43,000,000	20%	-€2,150,000	0%

Example 3

Ranking	Cash Bid	% of Portfolio	Cash/1%	Allocation % of Portfolio
1	€20,000	20%	€1,000	20%
2	€0	30%	€0	30%
3	-€2,500,000	25%	-€100,000	25%
4 (1)	-€3,600,000	30%	-€120,000	12.5%
4 (2)	-€3,600,000	30%	-€120,000	12.5%
6	-€3,900,000	30%	-€130,000	0%
7	-€5,250,000	35%	-€150,000	0%
8	-€7,750,000	50%	-€155,000	0%
9	-€6,400,000	40%	-€160,000	0%
10	-€3,300,000	20%	-€165,000	0%

Unless paragraph 5.6 applies, the CDS Auction Clearing Price will be -€120,000/1%. Portfolio will be allocated in full to bids 1,2 and 3. Bids 4(1) and 4(2) will receive a *pro rata* share of the remaining portfolio.

5.5 All CDS Contracts shall be allocated to winning CDS Auction Participants at the CDS Auction Clearing Price in a fair and consistent manner and in accordance with the Bid size used in the calculation of the CDS Auction Clearing Price. In the event that there are multiple Bids at the CDS Auction Clearing Price, to the extent there is a shortfall of CDS Contracts being available, CDS Contracts shall be allocated pro rata according to the notional amount of CDS Contracts the relevant CDS Auction Participants Bid for at the relevant price, unless the Clearing House determines otherwise pursuant to any risk policies implemented by the Clearing House pursuant to the Rules. Bids below any applicable minimum reserve price, above any

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applicable maximum reserve price, or invalidated pursuant to paragraph 4.4 or Bids that the Clearing House determines, in consultation with the CDS Default Committee, would be inconsistent with the considerations set forth in paragraph 5.1, may, at the discretion of the Clearing House be excluded for the purposes of calculating the CDS Auction Clearing Price, allocating CDS Contracts at the CDS Auction Clearing Price or determining whether a CDS Clearing Member has met the Minimum Bid Requirement unless the Clearing House, in its discretion, decides otherwise and the CDS Auction Participant will be treated as if it had chosen not to participate.

- 5.6 The Clearing House may, in the First CDS Auction at its discretion, in consultation with the CDS Default Committee, (i) determine the CDS Auction Clearing Price for such Lot for less than 100% of the notional amount of the CDS Contracts if, in the reasonable determination of the Clearing House, a material impact on the amounts payable or receivable by the Clearing House would result if 100% of the notional amount of the CDS Contracts were awarded in the CDS Auction, in which case the Clearing House will call a Second CDS Auction to auction off any remainder of such Lot; or (ii) determine, in light of the Bids received (or lack of Bids received), the size of the Bids received, and the considerations set forth in paragraph 5.1, that there will be no Winning Bidder for the Lot and that the CDS Auction for that Lot shall be treated as a Failed Lot. If clause (i) applies, the portion of the relevant Lot that will be auctioned in a Second CDS Auction will be treated as a Failed Lot for purposes of the application of the CDS Auction Priority for the First CDS Auction, and the relevant Lot Guaranty Fund Weightings will be modified accordingly. For both a First CDS Auction and a Second CDS Auction, if the Auction Clearing Price falls below any minimum reserve price or above any maximum reserve price, the Clearing House may at its discretion nonetheless accept Bids at such Auction Clearing Price and the CDS Auction for that Lot shall not be treated as a Failed Lot.

An example of how this paragraph 5.6 would apply is set out below, for illustrative purposes only:

Ranking	Cash Bid	% of Portfolio	Cash/1%
1	€20,000	20%	€1,000
2	€0	30%	€0
3	-€3,000,000	30%	-€100,000
4	-€2,400,000	20%	-€120,000
5	-€3,900,000	30%	-€130,000
6	-€6,000,000	40%	-€150,000
7	-€7,750,000	50%	-€155,000
8	-€6,400,000	40%	-€160,000
9	-€3,300,000	20%	-€165,000
10	-€43,000,000	20%	-€2,150,000

The CDS Auction Clearing Price for 80% of the portfolio shall be -€100,000/1%

Price of remaining 20% will be determined in a Second CDS Auction

- 5.7 Any Second CDS Auction shall be announced pursuant to a further CDS Auction Announcement Circular and shall be held in accordance with these CDS Auction Procedures. The Clearing House shall circulate a

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CDS Auction Specification for a Second CDS Auction. A CDS Auction Participant for the First CDS Auction shall be deemed to be a CDS Auction Participant for the Second CDS Auction. The Clearing House may at its discretion withdraw a Lot in the Second CDS Auction prior to the relevant Closing Time. The Minimum Bid Requirement applicable to each CDS Auction Participant shall be reduced by any CDS Contracts actually won by such CDS Auction Participant (including, in the case of a CDS Clearing Member, any Bids won by, for, or on behalf of, such CDS Clearing Member's Customers or Sponsored Principals for whom such CDS Clearing Member acts as Sponsor) at the CDS Auction Clearing Price pursuant to the First CDS Auction. Any such reductions in CDS Clearing Members' Minimum Bid Requirements will be shared pro rata as an increased Minimum Bid Requirement for all CDS Clearing Members who did not have any CDS Contracts allocated to them at the CDS Auction Clearing Price pursuant to the First CDS Auction.

- 5.8 Each Bid constitutes an offer to the Clearing House to enter into CDS Contracts, such offer being made by the relevant CDS Auction Participant. The Clearing House shall use reasonable endeavours to notify Winning Bidders within 15 minutes after the Closing Time of the CDS Auction. Immediately upon notification by the Clearing House to a Bidder that it has a Winning Bid by e-mail, telephone, in writing or otherwise and without the need for any further step, this shall constitute acceptance of the offer by the Clearing House and resulting CDS Contracts shall be entered into between the Clearing House and the Winning Bidder (for its Proprietary Account or its Customer Account for the account of the relevant Customer, or the Individually Segregated Sponsored Account for the account of its Sponsored Principal, as applicable) in accordance with the Rules, on economically identical terms to the CDS Contracts that are the subject of the Lot in the relevant CDS Auction.
- 5.9 The Clearing House may abandon or alter the procedure for any CDS Auction, including conducting Second CDS Auctions, at any time prior to the entry into of CDS Contracts with Winning Bidders, taking into account such considerations as it deems necessary or desirable to protect the financial integrity of the Clearing House, the Clearing Members generally or the marketplace for any instruments cleared by the Clearing House, and such other matters as it may deem appropriate, and in consultation with the CDS Default Committee as provided under the Rules.
- 5.10 In the event that there is or are one or more Failed Lots for a CDS Auction, for whatever reason, the Clearing House may, at its discretion, in consultation with the CDS Default Committee, (i) run a Second CDS Auction for the same Lot or Lots in accordance with paragraph 6.8 and/or (ii) run a new First CDS Auction for the remaining portfolio (which may include differently organised or constituted Lots, as determined to be appropriate by the Clearing House hereunder). There shall be no limit to the number of Second CDS Auctions that may so be run.

6. POST-BID PROCEDURE

- 6.1 The Winning Bidder will become a party to new CDS Contracts with the Clearing House on economically identical terms to the CDS Contracts that are the subject of the Lot in the CDS Auction. CDS Contracts will be established with the Winning Bidder pursuant to the termination of relevant CDS Contracts between the Defaulter and the Clearing House and the establishment of new, economically identical CDS Contracts between the Clearing House and the Winning Bidder pursuant to a Transfer that is a termination or replacement under Rule 904. The Winning Bidder will be treated as if it were a "Transferee Clearing Member" for purposes of Part 9 of the Rules provided that the provisions of Part 9 to the extent relating to Customers shall not apply.
- 6.2 Customer-CM Transactions that are entered into as a result of the CDS Auction will be established in accordance with the Rules, the Procedures and the Standard Terms at the same time as CDS Contracts are entered into pursuant to paragraph 5.8.

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- 6.3 Such Customer-CM Contracts resulting from the CDS Auction will be established between the Clearing House and the Winning Bidder(s) (or its or their CDS Clearing Member(s) or Sponsor(s)) in respect of any particular CDS Contract, at the CDS Auction Clearing Price determined by the Clearing House as at the time specified in accordance with paragraph 6.5.
- 6.4 The Winning Bidder may be subject to an additional Margin call as a consequence of it becoming party to CDS Contracts pursuant to a CDS Auction (whether for its Proprietary Account, Customer Account or Individually Segregated Sponsored Account). Any call for Margin required under these CDS Auction Terms will take place pursuant to the Rules and Finance Procedures.
- 6.5 Records of new CDS Contracts in Accounts at the Clearing House may be updated by the Clearing House after the time that new CDS Contracts arise. The Winning Bidder will become party to new CDS Contracts resulting from the CDS Auction at the time that it is notified by the Clearing House that it is the Winning Bidder, notwithstanding the time at which the establishment of new CDS Contracts is completed in the Clearing House's books and records.
- 6.6 Once new CDS Contracts have been established between the Winning Bidder and the Clearing House, the Bid which gave rise to the CDS Contracts will be treated as valid regardless of any failure of the CDS Auction Participant to have satisfied any participation criteria or otherwise as to the validity of any Bid.

7. OTHER TERMS

- 7.1 Neither the Clearing House nor any of its Affiliates makes any representation or warranty as to the accuracy of any records of the Defaulter or any of its Affiliates. In particular, the Clearing House makes no representation or warranty as to whether any CDS Contract recorded in the Proprietary Account, Customer Account or Individually Segregated Sponsored Account of the Defaulter is correctly recorded in such account or as to whether any consent of any Customer, Affiliate or Sponsor of the Defaulter is required to any CDS Auction or the termination of CDS Contracts to which a Defaulter is party. The Clearing House makes no warranty, whether express or implied, as to quality, appropriateness or in respect of the merits of any investment decision relating to any Lot. The Clearing House does not provide, and is not responsible or liable for, any investment advice in relation to any CDS Auction.
- 7.2 Although the information to be provided by the Clearing House in respect of a CDS Auction is believed to be accurate subject to the qualifications in paragraph 7.1 above, neither the Clearing House nor any of its Affiliates, nor any of their respective agents, officers, directors, committee members, employees, or advisers makes any representation or warranty, express or implied, as to the accuracy or completeness of such information, including but not limited to the value or marketability of any CDS Contracts or Open Contract Positions. Each CDS Auction Participant is responsible for making its own determination as to whether to proceed with or without further investigation or as to its Bidding (including the appropriate Bidding value) on any Lot.
- 7.3 The Clearing House is under no obligation to enforce these CDS Auction Procedures against a Bidder at the request of any other Bidder.
- 7.4 All CDS Auction Participants are hereby on notice that the Clearing House is not a member of any professional or other association, society, institution or organisation of auctioneers or agents and is not therefore bound by the rules or practices of any such association, society, institution or organisation. The conduct of CDS Auctions may be carried out only to manage an Event of Default in accordance with the Rules and does not constitute the ordinary day-to-day business of the Clearing House. Any standard rules, customs, good practice guidelines or guidance or other industry practices relating to auctions or agency sales are hereby disappplied and disclaimed. All and any rights of any Person bound by these CDS Auction Procedures which may arise as a result of a liability of the Clearing House pursuant to common law or

AUCTION TERMS FOR CDS DEFAULT AUCTIONS

statutory duties applicable to auctioneers or selling agents are hereby expressly waived by all CDS Auction Participants to the fullest extent permitted by law. The implied term of care and skill under section 13 of the Supply of Goods and Services Act 1982 is hereby expressly excluded in respect of the conduct of any CDS Auction by the Clearing House. The Clearing House expressly disclaims any duty of care or skill in respect of the conduct of any CDS Auction by the Clearing House arising other than expressly pursuant to these CDS Auction Procedures. The Clearing House will not provide and has not provided any valuation services in connection with any CDS Auction.

- 7.5 The time and date at which Bids are due, the time and date for the establishment of CDS Contracts or calling of Margin or the Closing Time (subject to paragraph 4.9) may be delayed beyond the times and dates set forth in these CDS Auction Procedures or specified in the CDS Auction Specifications if the Clearing House, in its discretion, in consultation with the CDS Default Committee, considers this to be necessary or appropriate. Notwithstanding anything to the contrary in these CDS Auction Procedures, to the fullest extent lawfully permissible, the Clearing House may postpone, cancel, adjourn or terminate a CDS Auction at any time, and may withdraw all or any portion of the CDS Contracts from any CDS Auction Lot, in consultation with the CDS Default Committee.
- 7.6 In respect of any CDS Auction, each CDS Auction Participant: (i) acknowledges that copies of the Auctions (Bidding Agreements) Acts 1927 and 1969 (as amended and including any amendments thereto) have been made available to it online at www.legislation.gov.uk for the duration of the CDS Auction and agrees and acknowledges that it has received any other notices required to be provided to it under Applicable Law; (ii) agrees and acknowledges that it has received sufficient information concerning the identity of the persons conducting the auction on behalf of the Clearing House; and (iii) waives any right to make any claim that it has not received any information or documentation of a nature referred to in this paragraph 8.6 and agrees in favour of the Clearing House not to make any statement to the contrary to any third party.
- 7.7 Without limiting the obligations of CDS Clearing Members, Sponsored Principals, Sponsors and Customers under the Rules, all CDS Auction Participants shall comply with Rule 203 of the Rules (including, without limitation, complying with their obligation not to commit any act of fraud or to engage in any behaviour which amounts to market abuse, insider dealing, market manipulation, money laundering or which is in breach of any similar Applicable Laws).
- 7.8 It is the responsibility of each Winning Bidder to make any transaction or other reports or notifications to any Regulatory Authority or Governmental Authority (including, without limitation, any transaction reports) that it is required to make pursuant to Applicable Law.

Annex A**CDS Auction Specifications**

AUCTION TERMS FOR CDS DEFAULT AUCTIONS
ICE Clear Europe Limited

Lot [1]: [general description of Lot] – [Name of Defaulter]

ICE Clear Europe Ltd (the "**Clearing House**") is conducting an auction of certain open positions in contracts, presently held in respect of [*Name of Defaulter*], and in that connection the Clearing House is requesting Bids from CDS Auction Participants for certain Lots. This document constitutes CDS Auction Specifications for purposes of the Clearing House's CDS Auction Terms for CDS Default Auctions (the "**CDS Auction Procedures**"). The CDS Auction Procedures apply in full to this auction Lot, to the extent applicable and save to the extent expressly modified in paragraph 7.

Information provided by the Clearing House in connection with these CDS Auction Specifications is confidential and subject to paragraph 2.8 of Part 1 of the CDS Auction Procedures. CDS Clearing Members or Sponsors that intend to provide Bids on behalf of Customers or Sponsored Principals (as applicable) are reminded of the restrictions that apply under paragraph 2.8 of Part 1 of the CDS Auction Procedures to all CDS Clearing Members, Customers, Sponsors and Sponsored Principals with respect to relevant information to be provided to such Customers or Sponsored Principals concerning the CDS Auction.

1. Participation Criteria

[State any conditions and criteria if there are to be any restrictions on the categories of Persons who may be CDS Auction Participants or any restrictions on the categories of Customers or Sponsored Principals for whom CDS Clearing Members or Sponsors (as applicable) can Bid or limitations on which Customers or Sponsored Principals may Bid directly]

If any Person which has been provided with these CDS Auction Specifications is for any reason unable to meet the specified participation criteria, he should contact the Clearing House immediately and, if the Clearing House agrees that such Person does not satisfy the criteria, such person shall refrain from Bidding in the CDS Auction. The Clearing House may restrict any such Person's access to CDS Auctions if it determines that a Person does not satisfy the specified participation criteria.

2. Subject matter of the Lot

The Lot comprises [*details of CDS Contracts*].

3. Bid Form

All Bids for this Lot must be submitted on the Bid Form in the schedule to this document by e-mail to [*email address*]. Any Bid Form which is illegible, spoiled or incomplete will be rejected and treated as void and invalid and the submitter will be treated as if it had chosen not to participate in the CDS Auction except to the extent that the CDS Auction Procedures provide otherwise. Please see the CDS Auction Procedures for further information. Each Bid Form must specify the amount of consideration (in [*currency*]) that the Bidder will pay the Clearing House or will be prepared to be paid by the Clearing House (as applicable) in consideration for the entry into of all the CDS Contracts which are the subject matter of the Lot.

All Bid Forms and any other communication relating to this CDS Auction Lot should be sent to: [*email address*].

4. Timing

[Further details of the CDS Contracts included in this Lot will be disclosed to all CDS Auction Participants at [*time*] on [*date*] (the "**Starting Time**").]

AUCTION TERMS FOR CDS DEFAULT AUCTIONS

The Closing Time (deadline for receipt of Bids) is [*time*] on [*date*].

Winning Bidders will be notified of their Winning Bids by the Clearing House between [*times*].

A conference call will be open from [*times*] on [*date*], during which time CDS Auction Participants will be notified by the Clearing House (i) that the Winning Bidders have been notified of the fact that it has won; or (ii) that there is no Winning Bidder. Dial in details are as follows:

[*Call details*]

The Clearing House will confirm whether each Bid has been accepted by e-mail.

Winning Bidders will become party to new CDS Contracts immediately upon notification that they are the Winning Bidder, pursuant to the CDS Auction Procedures.

All CDS Contracts for which a CDS Auction Participant is the Winning Bidder will be Transferred to the relevant Account of the CDS Clearing Member or Sponsored Principal at the CDS Auction Clearing Price, at the close of business on [*date*].

5. [Minimum Bid size]

[Bids may only be for Lot sizes which are at least [*25%*] of [*the CDS Contracts in a particular Lot*]]

6. [Currency]

[All Bids to be made in the specified currency]

7. Modifications to CDS Auction Procedures

[*Specify any*] / [*None.*]

BID FORM
for CDS Auction Lots related to [Name of Defaulter]
made pursuant to Part 1 of the CDS Auction Procedures of ICE Clear Europe
and the relevant CDS Auction Specifications

[Specify by inserting the amount and checking the appropriate box]

CDS Auction Participant name	CDS Auction Lot Number	Percentage of Lot	Cash Amount (always a positive number) [(EUR)]	Member Pay or Receive	CDS Auction Participant number	Desk (Hub) Account	Contact	Prop. Account or Customer Account of CDS Clearing Member (or Individually Segregated Sponsored Account)	Customer or Sponsored Principal name (if applicable)
<input type="checkbox"/>	1	<input type="checkbox"/> %	<input type="checkbox"/>	[Pay]	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
<input type="checkbox"/>	1	<input type="checkbox"/> %	<input type="checkbox"/>	[Receive]	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
<input type="checkbox"/>	2	<input type="checkbox"/> %	<input type="checkbox"/>	[Pay]	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
<input type="checkbox"/>	2	<input type="checkbox"/> %	<input type="checkbox"/>	[Receive]	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
<input type="checkbox"/>	3	<input type="checkbox"/> %	<input type="checkbox"/>	[Pay]	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
<i>etc.</i>	<i>etc.</i>	<i>etc.</i>	<i>etc.</i>	<i>etc.</i>	<i>etc.</i>	<i>etc.</i>	<i>etc.</i>	<i>etc.</i>	

Signed by: _____

Authorised Signatory of CDS Auction Participant

State full legal name of CDS Auction Participant: _____

AUCTION TERMS FOR CDS DEFAULT AUCTIONS

Annex B**Form of Notice of Minimum Bid Requirement**

[ICE Clear Europe Limited Letterhead]

[Name of CDS Auction Participant]

[Email Address]

[Date]

CDS Default Auction - Notification of Minimum Bid Requirement

Further to *[reference to CDS Auction Announcement Circular]* (the "**Circular**"), the Clearing House hereby notifies you of the Minimum Bid Requirement (as defined in the Clearing House's CDS Auction Terms for CDS Default Auctions (the "**CDS Auction Procedures**")) applicable to you in respect of the CDS Default Auctions to be held in accordance with the CDS Auction Procedures, the Circular and the applicable auction specifications.

[Set out Minimum Bid Requirement]

CDS Auction Participants are referred to the CDS Auction Procedures for further information on the Minimum Bid Requirement (and in particular paragraphs 2.4, 2.6 and 3.1 of Part 1 of the CDS Auction Procedures).

Signed

[Name]

[Title]

AUCTION TERMS FOR CDS DEFAULT AUCTIONS

PART 2 - SECONDARY CDS AUCTIONS**1. INTRODUCTION**

- 1.1 Part 2 of these CDS Auction Procedures governs the auctioning of one or more Lots representing the remaining CDS Contracts to which a Defaulter is or was a party, where such auction is administered by the Clearing House pursuant to Rule 905(d)(i)(B). These CDS Auction Procedures are 'Procedures' as defined in the Rules and are subject to the Rules, including, without limitation, Rule 102. These CDS Auction Procedures, and all non-contractual obligations arising out of or in connection with them, are governed by and shall be construed in accordance with English law.
- 1.2 Part 2 of these Secondary CDS Auction Procedures shall apply to every Secondary CDS Auction conducted by the Clearing House pursuant to Rule 905(d)(i)(B). However, they may be modified or supplemented for any particular Secondary CDS Auction pursuant to the relevant Secondary CDS Auction Specifications as set out in paragraph 2.7, subject to consultation with the CDS Default Committee as provided under the Rules.
- 1.3 The Clearing House will conduct Secondary CDS Auctions in accordance with its default policies. In the event of a conflict between the terms of such default policies and Part 2 of these Secondary CDS Auction Procedures (as modified or supplemented by any applicable CDS Auction Specification as set out in paragraph 2.7), Part 2 of these CDS Auction Procedures shall prevail.
- 1.4 References in this Part 2 of the CDS Default Auction Procedures to paragraph numbers shall be to paragraphs in this Part 2, unless otherwise stated.

2. THE AUCTION PROCESS

- 2.1 Any Secondary CDS Auctions of CDS Contracts to which a Defaulter is or was party will take place after the Clearing House has issued a Secondary CDS Auction Announcement Circular. The Clearing House will provide such advance notice as it determines is reasonable under the circumstances (but in any event at least one hour) to CDS Clearing Members prior to the Secondary CDS Auction.
- 2.2 Each CDS Clearing Member is required to Bid in every Secondary CDS Auction and for every Lot in a Secondary CDS Auction regardless of whether such CDS Clearing Member is at the time of the Secondary CDS Auction a party to any CDS Contract, has served a notice of termination for which the Termination Date has not yet passed or is in a Cooling-off Period, except as provided herein and unless its membership privileges permit it not to participate and it so elects not to participate, in which case such CDS Clearing member will not be a Secondary CDS Auction Participant. Each CDS Clearing Member's Minimum Bid Requirement will be determined pro rata based on its CDS Guaranty Fund Contributions as compared to the CDS Guaranty Fund Contributions of all non-defaulting CDS Clearing Members, subject to paragraph 2.4 below. The sum total of the CDS Clearing Member's Minimum Bid Requirements may be set to an amount greater than 100% (but no greater than 150%) of the notional amount of the CDS Contracts in the relevant Lot as may be determined by the Clearing House from time to time, in consultation with the CDS Default Committee.
- 2.3 A CDS Clearing Member may Bid for the account of a Customer and a Sponsor may Bid for the account of a Sponsored Principal, subject to paragraph 3.6. References to a CDS Clearing Member here shall include, where necessary, in respect of an Individually Segregated Sponsored Account, a reference to the Sponsor and Sponsored Principal acting jointly in respect of such Account.
- 2.4 Each Secondary CDS Auction Participant's Minimum Bid Requirement in respect of a particular Lot shall be communicated to it individually by the Clearing House as soon as practicable prior to the relevant

AUCTION TERMS FOR CDS DEFAULT AUCTIONS

Secondary CDS Auction in the format of the template notification set out in Annex B to Part 2 of these CDS Auction Procedures. A Minimum Bid Requirement shall not apply to a Secondary CDS Auction Participant for a particular Lot: (a) to the extent such a Minimum Bid Requirement would be in breach of Applicable Law or the Rules; (b) to the extent that a self-referencing CDS as described in paragraph 10.5 of the CDS Procedures would arise from an accepted Bid; or (c) where the Clearing House, after being notified in writing by the relevant CDS Clearing Member that a Minimum Bid Requirement is inappropriate in the current circumstances, reasonably determines that the Minimum Bid Requirement does not apply.

- 2.5 A Secondary CDS Auction Participant will notify the Clearing House promptly and in any event at least 12 hours prior to the opening of the relevant Secondary CDS Auction (or if the Clearing House has provided less than 15 hours' notice of the relevant Secondary CDS Auction, a Secondary CDS Auction Participant will notify the Clearing House as promptly as practicable but in any event within 3 business hours (or such shorter period of time until the Secondary CDS Auction) following such notice), in writing, if it reasonably considers that clause (a) or (b) above applies to it. An Elective Secondary CDS Auction Participant shall notify the Clearing House whether or not it will participate in a Secondary CDS Auction within the timeframes set out in the previous sentence, as applicable. Affiliated CDS Clearing Members may transfer, outsource or aggregate their Minimum Bid Requirements to apply to a single one of them subject to notifying the Clearing House prior to a Secondary CDS Auction. A CDS Clearing Member that so transfers or outsources its Minimum Bid Requirement to an Affiliate remains liable for any breach by its Affiliate of these CDS Auction Procedures or the Secondary CDS Auction Specifications in respect of such CDS Clearing Member's Minimum Bid Requirement (in addition to the liability on the part of its Affiliate for such breach) and will be subject to the Secondary CDS Auction Priority as if such Bid were its own.
- 2.6 The Clearing House may, in consultation with the CDS Default Committee, divide the remaining portfolio of a Defaulter (after completion of the CDS Auction) into discrete Secondary CDS Auctions, each consisting of one or more Lots as it considers appropriate. The Clearing House will endeavour to establish a single Lot for the entire remaining portfolio of the Defaulter, except to the extent one or more CDS Clearing Members are excused from a Minimum Bid Requirement with respect to certain CDS Contracts under paragraph 2.4 (in which case the Clearing House may designate such CDS Contracts into one or more separate Lots), or if the Clearing House otherwise determines in consultation with the CDS Default Committee that it will facilitate a successful Secondary CDS Auction to divide the portfolio into separate Lots. The Clearing House may combine Contracts with different currencies in the same Lot. In these circumstances, Secondary CDS Auction Participants must still provide Bids in a single currency, being that specified in the relevant Secondary CDS Auction Specifications. Payment obligations resulting from the Secondary CDS Auction will be in the specified currency. The Clearing House may, in consultation with the CDS Default Committee, auction Lots within any Secondary CDS Auction, in such order as it considers appropriate, provided that the Clearing House will use reasonable efforts to auction all such Lots at the same time. Prior to the publication of a Secondary CDS Auction Announcement Circular or the circulation of the Secondary CDS Auction Specifications, the Clearing House may have engaged in close-out or hedging trades or other transactions in respect of the portfolio of a Defaulter in accordance with Part 9 of the Rules. In exercising its discretion under paragraphs 2.6, the Clearing House, in consultation with the CDS Default Committee, shall consider, wherever possible, taking into account the Clearing House's margining methodology and margin requirements applicable to CDS Clearing Members and Sponsored Principals, including within each Lot of CDS Contracts, any CDS Contracts which have been offset for the purposes of calculating the Defaulter's margin requirements.
- 2.7 In respect of each Lot, the Clearing House will provide each Secondary CDS Auction Participant (other than Defaulters) with information about CDS Contracts to be auctioned, timing for the Bidding process, participation criteria, and, without prejudice to paragraph 2.4, any applicable Minimum Bid Requirements, any minimum or maximum reserve price and other matters in writing in the format of the Secondary CDS Auction Specifications, such Secondary CDS Auction Specifications to be provided with such advance

AUCTION TERMS FOR CDS DEFAULT AUCTIONS

notice as the Clearing House determines is reasonable under the circumstances (but in any event at least one hour) prior to the Secondary CDS Auction. The Secondary CDS Auction Specifications may include amendments or additions to any provision of these CDS Auction Procedures or may disapply any provision of these CDS Auction Procedures (provided that Secondary CDS Auction Specifications may not modify or disapply any provision of the Secondary CDS Auction Priority or otherwise be inconsistent with the Rules). In the event of any conflict between the Secondary CDS Auction Specifications and this Part 2 of the CDS Auction Procedures in respect of any particular Lot, the Secondary CDS Auction Specifications shall prevail. If any Person which has been provided a copy of any Secondary CDS Auction Specifications believes that he does not satisfy any of the specified participation criteria, he should contact the Clearing House as soon as practicable, and, if the Clearing House agrees that such Person does not satisfy the criteria, he shall refrain from Bidding for the relevant Lot. The Clearing House may restrict any such Person's access to Secondary CDS Auctions if it determines that a Person does not satisfy the specified participation criteria. The Clearing House may update or correct any details in the Secondary CDS Auction Specifications at any time prior to the commencement of Bidding in the relevant Secondary CDS Auction. The requirements applicable to a Direct Participating Customer will not apply to any other Customers of CDS Clearing Members for whose account a CDS Clearing Member may submit a Bid in an auction. Equally, the requirements applicable to a Direct Participating Customer will not apply to any other Sponsored Principals for which a Clearing Member acts as Sponsor and for whose account the Clearing Member may submit a Bid in an auction. Each Direct Participating Customer and Elective CDS Auction Participant in a CDS Auction will not have a Minimum Bid Requirement when participating in a Secondary CDS Auction. Direct Participating Customers will not need to transfer or maintain with the Clearing House a Direct Auction Participant Contribution when participating in a Secondary Auction.

- 2.8 A CDS Clearing Member's Bid for its Proprietary Account, Customer Account, or, in respect of a Sponsored Principal for which it acts as Sponsor, Individually Segregated Sponsored Account, will count towards its Minimum Bid Requirement. Bids made by a Direct Participating Customer will not count toward the Minimum Bid Requirement of any CDS Clearing Member or Sponsor acting for such Direct Participating Customer.
- 2.9 Secondary CDS Auction Participants shall be treated equally as regards the provision of information relating to Secondary CDS Auctions by the Clearing House. Any Person (including any CDS Clearing Member, Customer, Sponsor, Sponsored Principal or Direct Participating Customer) who receives any information in connection with a Secondary CDS Auction or possible Secondary CDS Auction shall hold such information in confidence and in accordance with the Rules, and shall not disclose it to any other Person except where such disclosure is made: (i) with the prior written consent of the Clearing House; (ii) to a Regulatory Authority or Governmental Authority where a request is formally made to the Person by or on behalf of the same or pursuant to Applicable Law in writing, provided that the Person making such disclosure notifies the Clearing House of its disclosure where it is lawful to do so; (iii) pursuant to an order of a competent court or other Governmental Authority or otherwise to such other Persons, at such times and in such manner as may be required by Applicable Law, provided that the Person making such disclosure notifies the Clearing House of its disclosure where it is lawful to do so; or (iv) in the case of a CDS Clearing Member or Sponsor, to a Customer or Sponsored Principal where such Customer or Sponsored Principal has expressed his interest in participating in the Secondary CDS Auction and is subject to a duty of confidentiality similar to that set out in this paragraph 2.9. For the avoidance of doubt, nothing in the foregoing paragraph shall prevent Secondary CDS Auction Participants from disclosing information to counsel for the purposes of obtaining legal advice in circumstances where a professional duty of confidentiality arises.
- 2.10 All Bids must be made by submitting a Bid Form. Bids must be received during the time window and prior to the Closing Time specified by the Clearing House in the relevant Secondary CDS Auction Specifications.

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- 2.11 The Secondary CDS Auction will proceed pursuant to a 'sealed bid' process whereby the relevant Secondary CDS Auction Participants will be asked to submit Bids for the Lot or a particular percentage of the Lot in the appropriate Bid Form. The Secondary CDS Auction Specifications may specify a minimum Bid size. Any Bid below any specified minimum Bid size will be null and void unless the Clearing House, in its absolute discretion, determines otherwise.
- 2.12 A Bid Form will be treated as invalid and void if it is illegible, spoiled or is incomplete, as applicable.
- 2.13 During such period after the Closing Time as is specified in the Secondary CDS Auction Specifications, the Clearing House will notify Secondary CDS Auction Participants to inform them either: (i) that there were Winning Bidders and that such Bidders have been notified; or (ii) that no Bids were successful as determined in accordance with paragraph 5.6.
- 2.14 A Winning Bidder (or its CDS Clearing Member, Sponsor or Sponsored Principal, if applicable) may be required to post additional Margin as and when required in accordance with the Clearing House's margin methodology and procedures.

3. THE BIDDING PROCESS

- 3.1 A Secondary CDS Auction Participant will make Bids for each Lot in a Secondary CDS Auction which, as a minimum, comply with any applicable Minimum Bid Requirement notified to it. Any failure to comply with an applicable Minimum Bid Requirement shall have the consequences set forth herein but shall not itself constitute an Event of Default under the Rules. The Clearing House is not obliged to solicit Bids from Secondary CDS Auction Participants other than notifying Secondary CDS Auction Participants of any applicable Minimum Bid Requirement.
- 3.2 With respect to each Secondary CDS Auction, the Clearing House will determine the Lot Guaranty Fund Weighting for each Lot.
- 3.3 The order of application of CDS Guaranty Fund Contributions and Assessment Contributions shall be modified if there is a CDS Default Auction as set out in Rule 908(i). The Secondary CDS Auction Priority established for a Secondary CDS Auction will apply to all CDS Guaranty Fund or CDS Assessment Contributions of non-defaulting Clearing Members to be applied under Part 9 of the Rules with respect to all Lots comprising such Secondary CDS Auction in the aggregate.
- 3.4 Notwithstanding anything to the contrary herein, a Non-Bidding CDS Clearing Member with respect to any Lot, will be treated as such for purposes hereof with respect to all Lots in the relevant Secondary CDS Auction, regardless of whether it would otherwise have been a Senior Bidder, Excused Non-Participating Bidder or Subordinate Bidder for any other Lot.
- 3.5 For the avoidance of doubt, if a Secondary CDS Auction fails in respect of all Lots, no Secondary CDS Auction Priority will be established for that Secondary CDS Auction and amounts will be charged to the CDS Guaranty Fund as set forth under the Rules until the completion of a subsequent Secondary CDS Auction under these CDS Auction Procedures, if any (which subsequent Secondary CDS Auction shall establish a new Secondary CDS Auction Priority). Except as provided herein, the Lot Resources in respect of any Failed Lot for a Secondary CDS Auction shall not be applied in the Secondary CDS Auction Priority for that Secondary CDS Auction.
- 3.6 A Secondary CDS Auction Participant may submit multiple Bids for each Lot, or (if it is a CDS Clearing Member) a percentage of each Lot, in a particular Lot on its own account or for the account of a Customer, provided that such Secondary CDS Auction Participant ensures that all of its Bids, whether for its account or for the account of its Customers are submitted in the same Bid Form or otherwise as specified in the

AUCTION TERMS FOR CDS DEFAULT AUCTIONS

Secondary CDS Auction Specifications. A Bid made by a Secondary CDS Auction Participant by, for, or on behalf of a Customer shall be identified as such and such Bid shall be treated as a Bid for the relevant Customer Account. A Bid made by, for, or on behalf of a Sponsored Principal or by a Sponsor in such capacity shall be identified as such and treated as a Bid for the relevant Individually Segregated Sponsored Account. A CDS Clearing Member can satisfy its Minimum Bid Requirement by submitting multiple Bids with differing Bid prices and Bid sizes provided that, in aggregate, its submitted Bids equal or exceed the Minimum Bid Requirement and any individual Bid is larger than any applicable minimum Bid size.

- 3.7 All the requirements of the Rules concerning the provision of information to the Clearing House, including in Rule 106 and Part 2, apply in respect of the submission of Bids by a Secondary CDS Auction Participant.
- 3.8 Bids can only be submitted during the time window specified by the Clearing House in the Secondary CDS Auction Specifications. The time period for submission will end at the Closing Time. The Closing Time may be postponed for up to one hour by the Clearing House giving notice of such postponement to all Secondary CDS Auction Participants, following consultation to the extent practicable with the CDS Default Committee and the term "Closing Time" shall be construed accordingly.
- 3.9 A Bid must be in respect of all CDS Contracts or a percentage of all CDS Contracts in the relevant Lot. Any partial Bids, such as Bids which specify a particular CDS Contract, will be invalid and void. With respect to a particular Lot, no Secondary CDS Auction Participant is permitted to Bid, in aggregate, in excess of the notional amount of CDS Contracts being auctioned in such Lot.
- 3.10 No Secondary CDS Auction Participant may make a referential Bid (e.g. a Bid which purports to be a Bid which is €1 higher or lower than the highest or lowest Bidder) or make a Bid that is subject to conditions. Any such Bid will be treated as invalid and void and the Secondary CDS Auction Participant will be treated as if it had chosen not to participate.
- 3.11 A Secondary CDS Auction Participant may amend or modify a submitted Bid by resubmitting its entire Bid Form. In the event a Bid Form is resubmitted with any amendments or modifications, the Clearing House will disregard any previous Bid Form submitted by such Secondary CDS Auction Participant and any such previous Bid Form will be null and void. After the Closing Time, all submitted Bid Forms are irrevocable provided that if the Clearing House is satisfied, upon the request of a Secondary CDS Auction Participant, that a genuine mistake has been made in the submission of a Bid, the Clearing House may, at its own discretion, permit the Secondary CDS Auction Participant to withdraw the Bid and/or correct such mistake, before the Secondary CDS Auction Clearing Price is determined. If such erroneous Bid is so withdrawn but not corrected by such time, it will be deemed not to have been submitted at all for the purposes of Part 2 of these Secondary CDS Auction Procedures and the Secondary CDS Auction Participant will be treated as if it had chosen not to participate.
- 3.12 Each Bid will be deemed to have been submitted at the time it is recorded as being received by the Clearing House. Except as provided in paragraph 3.11, any Bid received after the Closing Time will be treated as invalid and void and the Secondary CDS Auction Participant will be treated as if it had chosen not to participate.
- 3.13 Any Bid that does not comply with the requirements of these CDS Auction Procedures or the Secondary CDS Auction Specifications will be treated as invalid and void. Bids so invalidated will not be counted toward a Secondary CDS Auction Participant's Minimum Bid Requirement and the Secondary CDS Auction Participant will be treated as if it had chosen not to participate.
- 3.14 Any CDS Clearing Member that is a Defaulter will be ineligible to participate in a Secondary CDS Auction relating to another Defaulter's Contracts and will be treated for purposes of the Secondary CDS Auction Priority as if it had chosen not to participate. Neither any CDS Clearing Member that is a Defaulter nor any

AUCTION TERMS FOR CDS DEFAULT AUCTIONS

Sponsor acting for a Sponsored Principal that is a Defaulter may participate in an auction of its own Contracts.

4. PARTICIPATION BY CUSTOMERS AND SPONSORED PRINCIPALS IN THE AUCTION

- 4.1 A CDS Clearing Member may make an unlimited number of separate Bids in respect of its Customers for whom it acts as Clearing Member or Sponsored Principals for whom it acts as Sponsor (in addition to any Bids for its Proprietary Account), in accordance with paragraph 3.6. A CDS Clearing Member must have all due approval, consent or authorisation from its Customer or Sponsored Principal to make the relevant Bid. Each CDS Clearing Member that makes Bids on behalf of a Customer or Sponsored Principal (other than a Direct Participating Customer) represents, acknowledges and agrees that such Customer or Sponsored Principal will be subject to the restrictions of paragraph 2.9 with respect to any information provided to such Customer or Sponsored Principal in connection with the Secondary CDS Auction.
- 4.2 A CDS Clearing Member shall become liable for the entry into of CDS Contracts resulting from the Bids made on behalf of a Customer including any Direct Participating Customer that is its Customer in the same way as it is liable for and becomes party to other Customer Account contracts or contracts entered into otherwise for Customers pursuant to the Rules. A CDS Clearing Member shall become liable as Sponsor for the Bids made for, by or on behalf of a Sponsored Principal (including any Secondary CDS Auction Participant that is a Sponsored Principal) in the same way as it is liable for and becomes party to other CDS Contracts recorded in an Individually Segregated Sponsored Account.
- 4.3 Except as otherwise set out in these CDS Auction Procedures and as provided for in the Rules, each Secondary CDS Auction Participant (that is not already bound hereto) shall hereby be deemed to have agreed to become bound by these CDS Auction Procedures and by the Rules as if it were a CDS Clearing Member in respect of its conduct in relation to a Secondary CDS Auction by conduct, as a result of its participation in the Secondary CDS Auction.
- 4.4 The Clearing House reserves the right to verify any Bid to ensure such Bid will be cleared by a CDS Clearing Member or Sponsor and reserves the right to invalidate a Bid where the Clearing House reasonably believes that such Bid, if accepted, would not be cleared by a CDS Clearing Member or Sponsor (notwithstanding paragraph 4.2) or that such Bid would be in breach of any position limits or other risk policies implemented by the Clearing House pursuant to the Rules. Any such invalidation will be made prior to the notifications made pursuant to paragraphs 2.13 and 5.9. Bids so invalidated will not be counted toward a CDS Clearing Member's Minimum Bid Requirement and the Secondary CDS Auction Participant will be treated as if it had chosen not to participate.

5. SELECTION OF THE WINNING BID

- 5.1 The Clearing House will aim to conduct a successful and competitive Secondary CDS Auction. For purposes hereof, a Secondary CDS Auction with respect to a Lot will be successful if it results in an aggregate price for the relevant CDS Contracts in such Lot that is within any available Lot Resources for such Lot (for the avoidance of doubt, after application of any available default resources ranking prior to the Secondary CDS Auction Priority under Rule 908). The Clearing House may also apply RGD in connection with a Secondary CDS Auction in accordance with Rule 914.
- 5.2 The Clearing House may at its discretion but giving due consideration to the CDS Default Policy, set any minimum reserve price and/or any maximum reserve price (which in either case may not be disclosed to any Bidders).
- 5.3 The Clearing House may at its discretion, in consultation with the CDS Default Committee, withdraw a Lot prior to the Closing Time.

AUCTION TERMS FOR CDS DEFAULT AUCTIONS

- 5.4 Promptly after the Closing Time for a Lot, the Clearing House will sort Bids submitted to it in the order of the price Bid per percentage unit of notional amount. The Bids will be ordered sequentially, starting with the highest Bid price and ending with the lowest Bid price. Unless paragraph 5.6 applies, the Lot will be allocated in full to bids above the Secondary CDS Auction Clearing Price. The Secondary CDS Auction Clearing Price is payable either, by the Clearing House to the Secondary CDS Auction Participant or its CDS Clearing Member, or to the Clearing House by the Secondary CDS Auction Participant or its CDS Clearing Member, as applicable. In the event that a Bid is also invalid or void or no CDS Contract is established with the Secondary CDS Auction Participant (or, if applicable, its CDS Clearing Member) submitting any Bid for any reason, such Bid will not be accepted and the Secondary CDS Auction Participant will be treated as if it had chosen not to participate.

Examples of how the Secondary CDS Auction Clearing Price is calculated are set out below, for illustrative purposes only:

Example 1

Note in these examples a negative Bid indicates a payment by the Clearing House

Ranking	Cash Bid	% of Portfolio	Cash/1%	Allocation % of Portfolio
1	€20,000	20%	€1,000	20%
2	€0	30%	€0	30%
3	-€2,500,000	25%	-€100,000	25%
4	-€3,000,000	25%	-€120,000	25%
5	-€3,900,000	30%	-€130,000	0%
6	-€6,000,000	40%	-€150,000	0%
7	-€7,750,000	50%	-€155,000	0%
8	-€6,400,000	40%	-€160,000	0%
9	-€3,300,000	20%	-€165,000	0%
10	-€43,000,000	20%	-€2,150,000	0%

Unless paragraph 5.6 applies, the Secondary CDS Auction Clearing Price will be - €120,000/1%. Portfolio will be allocated in full to bids above the Secondary CDS Auction Clearing Price.

Example 2

Ranking	Cash Bid	% of Portfolio	Cash/1%	Allocation % of Portfolio
1	€20,000	20%	€1,000	20%
2	€0	30%	€0	30%

Unless paragraph 5.6 applies, the Secondary CDS Auction Clearing Price will be - €120,000/1%. Portfolio will be allocated in full to bids 1,2 and 3 and allocated in part to bid 4.

AUCTION TERMS FOR CDS DEFAULT AUCTIONS

3	-€2,500,000	25%	-€100,000	25%
4	-€3,600,000	30%	-€120,000	25%
5	-€3,900,000	30%	-€130,000	0%
6	-€5,250,000	35%	-€150,000	0%
7	-€7,750,000	50%	-€155,000	0%
8	-€6,400,000	40%	-€160,000	0%
9	-€3,300,000	20%	-€165,000	0%
10	-€43,000,000	20%	-€2,150,000	0%

Example 3

Ranking	Cash Bid	% of Portfolio	Cash/1%	Allocation % of Portfolio
1	€20,000	20%	€1,000	20%
2	€0	30%	€0	30%
3	-€2,500,000	25%	-€100,000	25%
4 (1)	-€3,600,000	30%	-€120,000	12.5%
4 (2)	-€3,600,000	30%	-€120,000	12.5%
6	-€3,900,000	30%	-€130,000	0%
7	-€5,250,000	35%	-€150,000	0%
8	-€7,750,000	50%	-€155,000	0%
9	-€6,400,000	40%	-€160,000	0%
10	-€3,300,000	20%	-€165,000	0%

Unless paragraph 5.6 applies, the Secondary CDS Auction Clearing Price will be - €120,000/1%. Portfolio will be allocated in full to bids 1,2 and 3. Bids 4(1) and 4(2) will receive a *pro rata* share of the remaining portfolio.

- 5.5 All CDS Contracts shall be allocated to winning Secondary CDS Auction Participants at the Secondary CDS Auction Clearing Price in a fair and consistent manner and in accordance with the Bid size used in the calculation of the Secondary CDS Auction Clearing Price. In the event that there are multiple Bids at the Secondary CDS Auction Clearing Price, to the extent there is a shortfall of CDS Contracts being available, CDS Contracts shall be allocated pro rata according to the notional amount of CDS Contracts the relevant Secondary CDS Auction Participants Bid for at the relevant price, unless the Clearing House determines otherwise pursuant to any risk policies implemented by the Clearing House pursuant to the Rules. Bids

AUCTION TERMS FOR CDS DEFAULT AUCTIONS

below any applicable minimum reserve price, above any applicable maximum reserve price, or invalidated pursuant to paragraph 4.4 or Bids that the Clearing House determines, in consultation with the CDS Default Committee, would be inconsistent with the considerations set forth in paragraph 5.1, as applicable, may, at the discretion of the Clearing House be excluded for the purposes of calculating the Secondary CDS Auction Clearing Price, allocating CDS Contracts at the Secondary CDS Auction Clearing Price or determining whether a CDS Clearing Member has met the Minimum Bid Requirement unless the Clearing House, in its discretion, decides otherwise and the Secondary CDS Auction Participant will be treated as if it had chosen not to participate.

- 5.6 The Clearing House may, in any given Secondary CDS Auction of a Lot, at its discretion in accordance with the Rules, determine, in light of the Bids received (or lack of Bids received), the size of the Bids received, and the considerations set forth in paragraph 5.1, that there will be no Winning Bidder for the Lot and that the Secondary CDS Auction for that Lot shall be treated as a Failed Lot. If the Auction Clearing Price falls below any minimum reserve price or above any maximum reserve price, the Clearing House may at its discretion nonetheless accept Bids at such Auction Clearing Price and the auction of such Lot shall not be treated as a Failed Lot.
- 5.7 If, in relation to any given Secondary CDS Auction of a Lot, the Clearing House determines that there is a Lot Resource Shortfall, but that there are Excess Successful Lot Resources to cover the Lot Resource Shortfall, then the Clearing House may nonetheless determine in its discretion in accordance with the Rules that such Lot shall not be a Failed Lot and to accept Bids below or above any minimum reserve or maximum reserve price. In addition, the Clearing House may determine in its discretion in accordance with the Rules to allocate all or a portion of the Lot Resources from any Failed Lot as Allocated Failed Lot Resources to cover a Lot Resource Shortfall.
- 5.8 If, a Lot Resource Shortfall would occur for any Lot or Lots (notwithstanding application of additional resources pursuant to paragraph 5.7) as a result of a Secondary CDS Auction taking place on the fifth consecutive Loss Distribution Day under Rule 914(o), then the Clearing House may in its discretion but subject to the requirements of the Rules, determine the Secondary CDS Auction Clearing Price for such Lot or Lots for less than 100% of the CDS Contracts such that the Lot Resources for such Lot or Lots (together with any such additional resources) will be sufficient to pay the amounts owed with respect to such portion of the Contracts at such price. The remainder of such Lot or Lots shall be subject to Partial Tear-Up under and in accordance with Rule 915.
- 5.9 Each Bid constitutes an offer to the Clearing House to enter into CDS Contracts, such offer being made by the relevant CDS Clearing Member. The Clearing House shall use reasonable endeavours to notify Winning Bidders within 15 minutes after the Closing Time of the Secondary CDS Auction. Immediately upon notification by the Clearing House to a Bidder that it has a Winning Bid by e-mail, telephone, in writing or otherwise and without the need for any further step, this shall constitute acceptance of the offer by the Clearing House and resulting CDS Contracts shall be entered into between the Clearing House and the Winning Bidder (for its Proprietary Account or its Customer Account for the account of the relevant Customer, or the Individually Segregated Sponsored Account for the account of its Sponsored Principal, as applicable) in accordance with the Rules, on economically identical terms to the CDS Contracts that are the subject of the Lot in the relevant Secondary CDS Auction.
- 5.10 The Clearing House may abandon or alter the procedure for any Secondary CDS Auction, including conducting subsequent Secondary CDS Auctions, at any time prior to the entry into of CDS Contracts with Winning Bidders, taking into account such considerations as it deems necessary or desirable to protect the financial integrity of the Clearing House, the Clearing Members generally or the marketplace for any instruments cleared by the Clearing House, and such other matters as it may deem appropriate, and in consultation with the CDS Default Committee as provided under the Rules.

AUCTION TERMS FOR CDS DEFAULT AUCTIONS

- 5.11 In the event of a failed Secondary CDS Auction of any Lot or Lots for whatever reason, the Clearing House may (in accordance with Rules 905(d)(i)(B) and 914(n)) run another Secondary CDS Auction for the entire remaining portfolio of the Defaulter (which may include differently organized or constituted Lots, as determined to be appropriate by the Clearing House hereunder). There shall be no limit to the number of repeated Secondary CDS Auctions under this provision, subject to the requirements of the Rules. Notwithstanding the foregoing, in the event of a Failed Lot for Secondary CDS Auction on the fifth consecutive Loss Distribution Day under Rule 914(o), no further Secondary CDS Auctions for such Lot shall be held, and such Failed Lot shall be subject to Partial Tear-Up under and in accordance with the Rule 915.

6. POST-BID PROCEDURE

- 6.1 The Winning Bidder will become a party to new CDS Contracts with the Clearing House on economically identical terms to the CDS Contracts that are the subject of the Lot in the Secondary CDS Auction. CDS Contracts will be established with the Winning Bidder pursuant to the termination of relevant CDS Contracts between the Defaulter and the Clearing House and the establishment of new, economically identical CDS Contracts between the Clearing House and the Winning Bidder pursuant to a Transfer that is a termination or replacement under Rule 904. The Winning Bidder will be treated as if it were a "Transferee Clearing Member" for purposes of Part 9 of the Rules provided that the provisions of Part 9 to the extent relating to Customers shall not apply.
- 6.2 Customer-CM Transactions as are entered into as a result of the Secondary CDS Auction will be established in accordance with the Rules, the Procedures and the Standard Terms at the same time as CDS Contracts are entered into pursuant to paragraph 5.9.
- 6.3 Such Customer-CM Contracts resulting from the Secondary CDS Auction will be established between the Clearing House and the Winning Bidder(s) (or its or their CDS Clearing Member(s) or Sponsor(s)) in respect of any particular CDS Contract, at the Secondary CDS Auction Clearing Price determined by the Clearing House as at the time specified in accordance with paragraph 6.5.
- 6.4 The Winning Bidder may be subject to an additional Margin call as a consequence of it becoming party to CDS Contracts pursuant to a Secondary CDS Auction (whether for its Proprietary Account, Customer Account or Individually Segregated Sponsored Account). Any call for Margin required under these CDS Auction Procedures will take place pursuant to the Rules and Finance Procedures.
- 6.5 Records of new CDS Contracts in Accounts at the Clearing House may be updated by the Clearing House after the time that new CDS Contracts arise. The Winning Bidder will become party to new CDS Contracts resulting from the Secondary CDS Auction at the time that it is notified by the Clearing House that it is the Winning Bidder, notwithstanding the time at which the establishment of new CDS Contracts is completed in the Clearing House's books and records.
- 6.6 Once new CDS Contracts have been established between the Winning Bidder and the Clearing House, the Bid which gave rise to the CDS Contracts will be treated as valid regardless of any failure of the Secondary CDS Auction Participant to have satisfied any participation criteria or otherwise as to the validity of any Bid.

7. OTHER TERMS

- 7.1 Neither the Clearing House nor any of its Affiliates makes any representation or warranty as to the accuracy of any records of the Defaulter or any of its Affiliates. In particular, the Clearing House makes no representation or warranty as to whether any CDS Contract recorded in the Proprietary Account, Customer Account or Individually Segregated Sponsored Account of the Defaulter is correctly recorded in such

AUCTION TERMS FOR CDS DEFAULT AUCTIONS

account or as to whether any consent of any Customer, Affiliate or Sponsor of the Defaulter is required to any Secondary CDS Auction or the termination of CDS Contracts to which a Defaulter is party. The Clearing House makes no warranty, whether express or implied, as to quality, appropriateness or in respect of the merits of any investment decision relating to any Lot. The Clearing House does not provide, and is not responsible or liable for, any investment advice in relation to any Secondary CDS Auction.

- 7.2 Although the information to be provided by the Clearing House in respect of a Secondary CDS Auction is believed to be accurate subject to the qualifications in paragraph 7.1 above, neither the Clearing House nor any of its Affiliates, nor any of their respective agents, officers, directors, committee members, employees, or advisers makes any representation or warranty, express or implied, as to the accuracy or completeness of such information, including but not limited to the value or marketability of any CDS Contracts or Open Contract Positions. Each Secondary CDS Auction Participant is responsible for making its own determination as to whether to proceed with or without further investigation or as to its Bidding (including the appropriate Bidding value) on any Lot.
- 7.3 The Clearing House is under no obligation to enforce these CDS Auction Procedures against a Bidder at the request of any other Bidder.
- 7.4 All Secondary CDS Auction Participants are hereby on notice that the Clearing House is not a member of any professional or other association, society, institution or organisation of auctioneers or agents and is not therefore bound by the rules or practices of any such association, society, institution or organisation. The conduct of Secondary CDS Auctions may be carried out only to manage an Event of Default in accordance with the Rules and does not constitute the ordinary day-to-day business of the Clearing House. Any standard rules, customs, good practice guidelines or guidance or other industry practices relating to auctions or agency sales are hereby disappplied and disclaimed. All and any rights of any Person bound by these CDS Auction Procedures which may arise as a result of a liability of the Clearing House pursuant to common law or statutory duties applicable to auctioneers or selling agents are hereby expressly waived by all Secondary CDS Auction Participants to the fullest extent permitted by law. The implied term of care and skill under section 13 of the Supply of Goods and Services Act 1982 is hereby expressly excluded in respect of the conduct of any Secondary CDS Auction by the Clearing House. The Clearing House expressly disclaims any duty of care or skill in respect of the conduct of any Secondary CDS Auction by the Clearing House arising other than expressly pursuant to these CDS Auction Procedures. The Clearing House will not provide and has not provided any valuation services in connection with any Secondary CDS Auction.
- 7.5 The time and date at which Bids are due, the time and date for the establishment of CDS Contracts or calling of Margin or the Closing Time (subject to paragraph 3.8) may be delayed beyond the times and dates set forth in these CDS Auction Procedures or specified in the Secondary CDS Auction Specifications if the Clearing House, in its discretion, in consultation with the CDS Default Committee, considers this to be necessary or appropriate. Notwithstanding anything to the contrary in these CDS Auction Procedures, to the fullest extent lawfully permissible, the Clearing House may postpone, cancel, adjourn or terminate a Secondary CDS Auction at any time, in consultation with the CDS Default Committee.
- 7.6 In respect of any Secondary CDS Auction, each Secondary CDS Auction Participant: (i) acknowledges that copies of the Auctions (Bidding Agreements) Acts 1927 and 1969 (as amended and including any amendments thereto) have been made available to it online at www.legislation.gov.uk for the duration of the Secondary CDS Auction and agrees and acknowledges that it has received any other notices required to be provided to it under Applicable Law; (ii) agrees and acknowledges that it has received sufficient information concerning the identity of the persons conducting the auction on behalf of the Clearing House; and (iii) waives any right to make any claim that it has not received any information or documentation of a nature referred to in this paragraph 7.6 and agrees in favour of the Clearing House not to make any statement to the contrary to any third party.

AUCTION TERMS FOR CDS DEFAULT AUCTIONS

- 7.7 Without limiting the obligations of CDS Clearing Members, Sponsored Principals, Sponsors and Customers under the Rules, all Secondary CDS Auction Participants shall comply with Rule 203 of the Rules (including, without limitation, complying with their obligation not to commit any act of fraud or to engage in any behaviour which amounts to market abuse, insider dealing, market manipulation, money laundering or which is in breach of any similar Applicable Laws).
- 7.8 It is the responsibility of each Winning Bidder to make any transaction or other reports or notifications to any Regulatory Authority or Governmental Authority (including, without limitation, any transaction reports) that it is required to make pursuant to Applicable Law.

AUCTION TERMS FOR CDS DEFAULT AUCTIONS

Annex A

ICE Clear Europe Limited

Secondary CDS Auction Specifications

Lot [1]: [general description of Lot] – [Name of Defaulter]

ICE Clear Europe Ltd (the "**Clearing House**") is conducting an auction of certain open positions in contracts, presently held in respect of [*Name of Defaulter*], and in that connection the Clearing House is requesting Bids from Secondary CDS Auction Participants for certain Lots. This document constitutes Secondary CDS Auction Specifications for purposes of the Clearing House's CDS Auction Terms for CDS Default Auctions (the "**CDS Auction Procedures**"). The Secondary CDS Auction Procedures apply in full to this auction Lot, to the extent applicable and save to the extent expressly modified in paragraph 7.

Information provided by the Clearing House in connection with these Secondary CDS Auction Specifications is confidential and subject to paragraph 2.9 of Part 2 of the CDS Auction Procedures. CDS Clearing Members or Sponsors that intend to provide Bids on behalf of Customers or Sponsored Principals (as applicable) are reminded of the restrictions that apply under paragraph 2.9 of Part 2 of the CDS Auction Procedures to all CDS Clearing Members, Customers, Sponsors and Sponsored Principals with respect to relevant information to be provided to such Customers or Sponsored Principals concerning the Secondary CDS Auction.

1. Participation Criteria

[State any conditions and criteria if there are to be any restrictions on the categories of Persons who may be Secondary CDS Auction Participants or any restrictions on the categories of Customers or Sponsored Principals for whom CDS Clearing Members or Sponsors (as applicable) can Bid or limitations on which Customers or Sponsored Principals may Bid directly]

If any Person which has been provided with these Secondary CDS Auction Specifications is for any reason unable to meet the specified participation criteria, he should contact the Clearing House immediately and, if the Clearing House agrees that such Person does not satisfy the criteria, such person shall refrain from Bidding in the Secondary CDS Auction. The Clearing House may restrict any such Person's access to Secondary CDS Auctions if it determines that a Person does not satisfy the specified participation criteria.

2. Subject matter of the Lot

The Lot comprises [*details of CDS Contracts*].

3. Bid Form

All Bids for this Lot must be submitted on the Bid Form in the schedule to this document by e-mail to [*email address*]. Any Bid Form which is illegible, spoiled or incomplete will be rejected and treated as void and invalid and the submitter will be treated as if it had chosen not to participate in the Secondary CDS Auction except to the extent that the CDS Auction Procedures provide otherwise. Please see the CDS Auction Procedures for further information. Each Bid Form must specify the amount of consideration (in [*currency*]) that the Bidder will pay the Clearing House or will be prepared to be paid by the Clearing House (as applicable) in consideration for the entry into of all the CDS Contracts which are the subject matter of the Lot.

All Bid Forms and any other communication relating to this Secondary CDS Auction Lot should be sent to: [*email address*].

AUCTION TERMS FOR CDS DEFAULT AUCTIONS

4. Timing

[Further details of the CDS Contracts included in this Lot will be disclosed to all Secondary CDS Auction Participants at *[time]* on *[date]* (the "**Starting Time**").]

The Closing Time (deadline for receipt of Bids) is *[time]* on *[date]*.

Winning Bidders will be notified of their Winning Bids by the Clearing House between *[times]*.

A conference call will be open from *[times]* on *[date]*, during which time Secondary CDS Auction Participants will be notified by the Clearing House (i) that the Winning Bidders have been notified of the fact that it has won; or (ii) that there is no Winning Bidder. Dial in details are as follows:

[Call details]

The Clearing House will confirm whether each Bid has been accepted by e-mail.

Winning Bidders will become party to new CDS Contracts immediately upon notification that they are the Winning Bidder, pursuant to the CDS Auction Procedures.

All CDS Contracts for which a Secondary CDS Auction Participant is the Winning Bidder will be Transferred to the relevant Account of the CDS Clearing Member or Sponsored Principal at the Secondary CDS Auction Clearing Price, at the close of business on *[date]*.

5. [Minimum Bid size]

[Bids may only be for Lot sizes which are at least **[25%]** of *[the CDS Contracts in a particular Lot]*]

6. [Currency]

[All Bids to be made in the specified currency]

7. Modifications to CDS Auction Procedures

[Specify any] / [None.]

BID FORM
for CDS Auction Lots related to [Name of Defaulter]
made pursuant to the Part 2 of the CDS Auction Procedures of ICE Clear Europe
and the relevant Secondary CDS Auction Specifications

[Specify by inserting the amount and checking the appropriate box]

CDS Auction Participant name	CDS Auction Lot Number	Percentage of Lot	Cash Amount (always a positive number) [(EUR)]	Member Pay or Receive	CDS Auction Participant number	Desk (Hub) Account	Contact	Prop. Account or Customer Account of CDS Clearing Member (or Individually Segregated Sponsored Account)	Customer or Sponsored Principal name (if applicable)
<input type="checkbox"/>	1	<input type="checkbox"/> %	<input type="checkbox"/>	[Pay]	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
<input type="checkbox"/>	1	<input type="checkbox"/> %	<input type="checkbox"/>	[Receive]	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
<input type="checkbox"/>	2	<input type="checkbox"/> %	<input type="checkbox"/>	[Pay]	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
<input type="checkbox"/>	2	<input type="checkbox"/> %	<input type="checkbox"/>	[Receive]	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
<input type="checkbox"/>	3	<input type="checkbox"/> %	<input type="checkbox"/>	[Pay]	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
<i>etc.</i>	<i>etc.</i>	<i>etc.</i>	<i>etc.</i>	<i>etc.</i>	<i>etc.</i>	<i>etc.</i>	<i>etc.</i>	<i>etc.</i>	

Signed by: _____

Authorised Signatory of Secondary CDS Auction Participant

State full legal name of Secondary CDS Auction Participant: _____

AUCTION TERMS FOR CDS DEFAULT AUCTIONS

Annex B**Form of Notice of Minimum Bid Requirement**

[ICE Clear Europe Limited Letterhead]

[Name of CDS Auction Participant]

[Email Address]

[Date]

Secondary CDS Default Auction - Notification of Minimum Bid Requirement

Further to *[reference to Secondary CDS Auction Announcement Circular]* (the "**Circular**"), the Clearing House hereby notifies you of the Minimum Bid Requirement (as defined in the Clearing House's CDS Auction Procedures for CDS Default Secondary Auctions (the "**Secondary CDS Auction Procedures**")) applicable to you in respect of the CDS default auctions to be held in accordance with the Secondary CDS Auction Procedures, the Circular and the applicable auction specifications.

[Set out Minimum Bid Requirement]

CDS Auction Participants are referred to the Secondary CDS Auction Procedures for further information on the Minimum Bid Requirement (and in particular paragraphs 2.4, 2.7 and 3.1 of the Secondary CDS Auction Procedures).

Signed

[Name]

[Title]