



Instruction IV.5-1 Liquidation and Transfer Process in case of an Event of Default of a Clearing Member

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Pursuant to Chapter 5 of Title IV of the Digital Asset Derivatives Clearing Rule Book.

Chapter 1 Common Provisions

Article 1 Scope and Definitions

"Affiliate" means, with respect to a Clearing Member, any entity that controls, directly or indirectly, the Clearing Member, any entity controlled, directly or indirectly, by the Clearing Member or any entity directly or indirectly under common control with such Clearing Member. For this purpose, "control" of an entity or of a Clearing Member means ownership of a majority of the voting power of the entity or the Clearing Member.

"Auction Member Representative" has the meaning set out in Article 13.

"Auction Non Bidder Bid Size" means for each Auction Package (including any Residual Auction Package) and each Non Bidder, the Non Bidder's Minimum Bid Size (or Recalculated Minimum Bid Size for any Residual Auction Package) minus the Bid Size of the Market Bid submitted by the Non Bidder for the Auction Package, or Residual Auction Package as the case may be.

"Auction Non Bidder Fraction" is for each Non Bidder and each Auction Package, or Residual Auction Package as the case may be, the ratio of the Auction Non Bidder Bid Size to the member's Minimum Bid Size (or Recalculated Minimum Bid Size for any Residual Auction Package).

"Auction Package" means a portfolio of Auction Transactions reflecting one or more Open Positions registered in the name of the Defaulting Clearing Member, together with any connected hedging trades that have been concluded by LCH SA through Hedging.

"Auction Package Weight" is for each Auction Package the ratio of the Initial Margin of the said Auction Package to the aggregate of Initial Margin across all Auction Packages. For the purposes of the foregoing, if for an Auction Package there is a Residual Auction Package which is subject to a second round of Competitive Bidding, the Auction Package Weight shall be divided as between the Reduced Auction Package and the Residual Auction Package on a *pro rata* basis by reference to the percentage of the Auction Package that is subject to the Residual Auction Package.

"Auction Portfolio" means all the House Open Positions of a Defaulting Clearing Member and/or Client Open Positions registered in the name of the Defaulting Clearing Member which are not transferred to a new Clearing Member pursuant to Chapter 2 of this Instruction, together with any connected hedging trades that have been conducted by LCH SA through Hedging.

"Auction Transactions" means Digital Asset Derivatives Contracts making up an Auction Package.

"Bid" means a bid submitted to LCH SA by a non-Defaulting Clearing Member as part of Competitive Bidding.

"Bid Credit" has the meaning as set out Article 32.

"Bid Deadline" means the time by which Bids must be submitted in any Competitive Bidding.

"Bid Price" means the price submitted to LCH SA by a non-Defaulting Clearing Member representing the nominal price that a non-Defaulting Clearing Member would either:

- (i) pay to LCH SA; or
- (ii) require LCH SA to pay to it,

in each case in order to accept the registration of the Auction Transactions making-up the Auction Package.

"Bid Size" means, for any Bid, the specified percentage of the Auction Package or the Residual Auction Package, as the case may be, as set out by a non-Defaulting Clearing Member.

"Competitive Bidding" means the competitive auction process in which non-Defaulting Clearing Members submit Bids for Auction Package(s), described in Chapter 3 of this Instruction, as may be supplemented, from time to time, by the terms of reference for the Digital Asset Derivatives Default Management Group.

"Confidential Material" means data (including but not limited to portfolio data) and documents, which are not in the public domain and which are disclosed to a Clearing Member, its associated companies and advisers, or to which a Clearing Member obtains or otherwise has access as a result of participation in the Digital Asset Derivatives Default Management Process as a member of the Digital Asset Derivatives Default Management Group (which, for the avoidance of doubt, does not include any information, data, or documents provided to LCH SA by the Clearing Member).

"DMG Member" means a Clearing Member's DMG Representative within the Digital Asset Derivatives Default Management Group.

"DMG Representatives" has the meaning set out in Article 48.

"DMG Rotation Plan" has the meaning set out in Article 48.

"DMG Term" has the meaning set out in Article 48.

"Hedging" means the process of reducing the market risk associated with a Defaulting Clearing Member's obligations to LCH SA under Digital Asset Derivatives Transactions by reducing the exposure prior to Competitive Bidding, as described in Article 2.

"Information Barrier" means an information barrier established within the different divisions of a Clearing Member to avoid any conflict of interest.

"Initial Allocation Price" means the price at which the entire Auction Package (subject to adjustment pursuant to Article 23(i)) is allocated in accordance with Article 15, Article 25 and Article 29, as applicable.

"Initial Transfer Payable" means the amount a non-Defaulting Clearing Member or a Non Bidder, as appropriate, must pay to LCH SA in order to accept the registration of Auction Transactions, reflecting the Bid Size of its Initial Winning Bid, as determined in accordance with Article 22(iii) or Article 23(iii), as the case may be.

"Initial Transfer Receivable" means the amount a non-Defaulting Clearing Member or a Non Bidder, as appropriate, must receive from LCH SA in order to accept the registration of Auction Transactions, reflecting the Bid Size of its Initial Winning Bid, as determined in accordance with Article 22(iii) or Article 23(iii), as the case may be.

"Initial Winning Bid" means a Bid (or part thereof) which has been allocated against the Auction Package at the Initial Allocation Price or at the Non Bidder Allocation Price pursuant to Article 22 or Article 23, as may be amended in accordance with Article 29 if appropriate.

"Initial Winning Bidder" means a non-Defaulting Clearing Member or Non Bidder, as the case may be, holding an Initial Winning Bid who is notified of this pursuant to Article 26.

"Invoice Back" means the process by which a Digital Asset Derivatives Transaction is created by LCH SA with the role of Buyer and Seller reversed and, at LCH SA's discretion, a different price or premium and other terms as are determined by LCH SA applied. The term **"Invoicing Back"** and other similar expressions shall be construed accordingly.

"LCH Transfer Cost" means the cost to LCH SA of registering all Auction Transactions making up the Auction Package within the Account Structure of one or more non-Defaulting Clearing Members following the conclusion of Competitive Bidding.

"LCH Transfer Receipt" means the amount to be received by LCH SA for registering all Auction Transactions making up the Auction Package within the Account Structure of one or more non-Defaulting Clearing Members following the conclusion of Competitive Bidding.

"Market Bid" means any Bid which satisfies the Market Bid Metric and any other Bid which LCH SA has determined not to be a Non Market Bid.

"Market Bid Metric" is satisfied by a Bid where:

- (i) in respect of a Bid for an Auction Package for which there will be an LCH Transfer Cost, the Bid Price is equal to or less than the aggregate of:
 - a) the Relevant Pro Rata Share of the Initial Allocation Price or Residual Allocation Price, as the case may be, or in the event LCH SA receives Bid(s) from only one non-Defaulting Clearing Member for the Auction Package, the Relevant Pro Rata Share of the Initial Allocation Price determined by LCH SA pursuant to Article 15(ii); and
 - b) the Relevant Pro Rata Share of one time the Initial Margin calculated for the Auction Package;

and

- (ii) in respect of a Bid for an Auction Package for which there will be an LCH Transfer Receipt, the Bid Price is equal to or more than the difference between:
 - a) the Relevant Pro Rata Share of the Initial Allocation Price or Residual Allocation Price, as the case may be, or in the event LCH SA receives Bid(s) from only one non-Defaulting Clearing Member for the Auction Package, the Relevant Pro Rata Share of the Initial Allocation Price determined by LCH SA pursuant to Article 15(ii); and

- b) the Relevant Pro Rata Share of one time the Initial Margin calculated for the Auction Package,

provided that, in any case, the loss resulting from comparing the Bid Price of that Bid with the relevant Initial Allocation Price is not greater than the Initial Margin of the corresponding Auction Package.

For the purpose of this Instruction, "**Relevant Pro Rata Share**" means the percentage of the Bid Size for that Bid compared to the Bid Size of the Auction Package as a whole.

"**Minimum Bid Size**" has the meaning set out in Article 16.

"**Minimum Bid Size Multiplier**" means 1.25 or such other amount as may be determined by LCH SA, in consultation with the Digital Asset Derivatives Default Management Group.

"**Nominated Representative**" means an LCH SA representative who is nominated by the Digital Asset Derivatives Default Management Group to receive Bids in Competitive Bidding, subject that if no one individual is nominated, any of the LCH SA representatives on the Digital Asset Derivatives Default Management Group.

"**Non Bidder**" means a non-Defaulting Clearing Member who does not submit Market Bid(s) in an amount equal to its Minimum Bid Size by the Bid Deadline (and the expiration of any grace period granted by LCH SA, in consultation with the Digital Asset Derivatives Default Management Group, pursuant to Article 15), provided that such non-Defaulting Clearing Member is required to bid for the relevant Auction Package(s) in accordance with Article 13.

"**Non Bidder Allocation Price**" means the price at which Auction Transactions are allocated to Non Bidders in accordance with Article 23 and Article 29.

"**Non Market Bid**" means a Bid which LCH SA, having consulted with the Digital Asset Derivatives Default Management Group, has determined, in its sole discretion, that it was submitted at a Bid Price which does not satisfy the Market Bid Metric (unless LCH SA determines otherwise in accordance with Article 21) in respect of the relevant Auction Package.

"**Permitted Purpose**" means the proper fulfilment by the Clearing Member of its duties under the Digital Asset Derivatives Default Management Process and includes, after the completion of Competitive Bidding, the use by the Clearing Member, its associated companies and advisers (to be determined by it at its discretion) of any data or documents related to Transfer Positions allocated to it by LCH SA, for the purposes of its own ongoing portfolio management and to enable it to comply with ongoing legal or regulatory requirements.

"**Recalculated Minimum Bid Size**" means, for each non-Defaulting Clearing Member, the minimum percentage of the Residual Auction Package, calculated in accordance with Article 32, for which a non-Defaulting Clearing Member is required to submit a Bid.

"**Reduced Auction Package**" means the portion of the Auction Package that is not the Residual Auction Package.

"**Residual Allocation Price**" means the Bid Price of the Bid(s) at which the Residual Auction Package is allocated in accordance with Article 25, pursuant to Section 6 of Chapter 3 of this Instruction.

"Residual Auction Package" means the portion of the Auction Package that LCH SA, in consultation with the Digital Asset Derivatives Default Management Group, determines should be the subject of a second round of Competitive Bidding in accordance with Article 27.

"Residual Transfer Payable" means the amount a non-Defaulting Clearing Member or Non Bidder, as appropriate, must pay to LCH SA in order to accept the registration of Auction Transactions, reflecting the Bid Size of its Residual Winning Bid, as determined in accordance with Article 22(iii) or Article 23(iii), as the case may be, pursuant to Section 6 of Chapter 3 of this Instruction.

"Residual Transfer Receivable" means the amount a non-Defaulting Clearing Member or Non Bidder, as appropriate, must receive from LCH SA in order to accept the registration of Auction Transactions, reflecting the Bid Size of its Residual Winning Bid, as determined in accordance with Article 22(iii) or Article 23(iii), as the case may be, pursuant to Section 6 of Chapter 3 of this Instruction.

"Residual Winning Bid" means a Bid (or part thereof) which has been allocated against the Residual Auction Package at the Residual Allocation Price or at the Non Bidder Allocation Price pursuant to Article 22 or Article 23, pursuant to Section 6 of Chapter 3 of this Instruction.

"Risk Committee" means a committee installed by the board of directors of LCH SA in order to provide the latter with advice and recommendations on risk management matters. It is composed of representatives of LCH SA, representatives of Clearing Members and representatives of independent third parties. The committee assesses the risks borne by LCH SA and reviews LCH SA risk policies. More generally, it provides advice and recommendations on risk management framework which are ratified either by LCH SA Chief Executive Officer or by the board of directors of LCH SA as set-out in its terms of reference. The composition, frequency and powers of the committee are organised by its terms of reference as modified from time to time.

"Residual Winning Bidder" means a non-Defaulting Clearing Member or Non Bidder, as the case may be, holding a Residual Winning Bid who is notified of this pursuant to Article 34.

"Total Non Bidder Fraction" means, for a non-Defaulting Clearing Member who is a Non Bidder for one or more Auction Packages, the sum across all Auction Packages of the product of the Auction Package Weight and the Non Bidder's Auction Non Bidder Fraction for that non-Defaulting Clearing Member.

"Transfer Positions" means the positions allocated to a non-Defaulting Clearing Member pursuant to Article 25 and Article 29, if applicable, or Article 24, as the case may be.

"Winning Bid" means any Initial Winning Bid and/or any Residual Winning Bid.

"Winning Bidder" means either an Initial Winning Bidder or a Residual Winning Bidder.

Article 2 General

The following provisions shall apply upon the occurrence of an Event of Default of a Clearing Member.

Subject to the provisions of Chapter 2 of this Instruction, the Digital Asset Derivatives Default Management Process shall involve the following stages (notwithstanding any other tasks that LCH SA is required to perform following the declaration of an Event of Default), each of which shall be completed to the satisfaction of the Digital Asset Derivatives Default Management Group.

It is intended that these stages will be:

- (i) commenced as soon as possible after LCH SA has declared an Event of Default to be occurring in respect of a Clearing Member in accordance with Article 4.5.1.1 of the Digital Asset Derivatives Clearing Rule Book; and
- (ii) completed as soon as possible in the context of the relevant Event of Default.

2.1 The Digital Asset Derivatives Default Management Process

2.1.1 Hedging

For risk mitigation purposes, LCH SA may, at its sole discretion and in consultation with and, with the assistance of, the Digital Asset Derivatives Default Management Group, reduce the market risk associated with a Defaulting Clearing Member's obligations to LCH SA so far as is reasonably practicable by hedging LCH SA's exposure in respect of the Defaulting Clearing Member's Open Positions. The aim of Hedging will be to reduce market exposure in respect of the Defaulting Clearing Member's Open Positions, as much as possible within the time allotted, once LCH SA has declared an Event of Default in accordance with Article 4.5.1.1 of the Digital Asset Derivatives Clearing Rule Book.

2.1.2 Competitive Auction

LCH SA shall then auction the Auction Package(s) to non-Defaulting Clearing Members through Competitive Bidding. LCH SA, in consultation with the Digital Asset Derivatives Default Management Group, shall be entitled to prescribe supplementary procedures for conduct of Competitive Bidding in the terms of reference for the Digital Asset Derivatives Default Management Group as it considers reasonably appropriate from time to time, but always with the aim of encouraging and rewarding participation in Competitive Bidding in line with the principles laid down in the Digital Asset Derivatives Default Management Process.

2.1.3 Digital Asset Derivatives Loss Distribution Process

In the event that LCH SA determines during a Loss Distribution Period that it has an LCH Uncovered Loss (as defined in Instruction IV.3-2 (*Digital Asset Derivatives service continuity and service closure processes*)), LCH SA shall be permitted to invoke the Digital Asset Derivatives Loss Distribution Process as set out in Instruction IV.3-2 (*Digital Asset Derivatives service continuity and service closure processes*).

2.1.4 Service closure

In the event LCH SA makes an Insufficient Resources Determination pursuant to Article 7 (*Service Closure*) of Instruction IV.3-2 (*Digital Asset Derivatives service continuity and service closure processes*), the provisions of such Article 7 will apply and LCH SA and each Clearing Member agree to be bound by such provision.

2.1.5 LCH SA default

If at any stage during the operation of the Digital Asset Derivatives Default Management Process, LCH SA is subject to an LCH SA Default, the provisions of Title I, Chapter 4 of the Digital Asset Derivatives Clearing Rule Book shall prevail with respect to the Open Positions registered in the Account Structure of the non-Defaulting Clearing Members.

2.2 Status of the Digital Asset Derivatives Default Management Process

The Digital Asset Derivatives Default Management Process is the definitive process for default management in respect of Digital Asset Derivatives Transactions and is specified as such in Article 4.5.2.2 of the Digital Asset Derivatives Clearing Rule Book.

2.3 Continuing obligations

The Clearing Member and, as applicable, any Auction Member Representative, shall:

- 2.3.1 be bound by and act in accordance with the Digital Asset Derivatives Default Management Process, to the extent required by LCH SA;
- 2.3.2 enter Bid(s) for each Auction Package for which that Clearing Member must bid in accordance with Article 13 below as part of, and in accordance with the provisions relating to, Competitive Bidding;
- 2.3.3 take all steps and execute all documents necessary or desirable to comply with its obligations as a Clearing Member or, as applicable, any Auction Member Representative arising out of the Digital Asset Derivatives Default Management Process;
- 2.3.4 not commit any act of fraud or engage in any behaviour which amounts to market abuse, insider dealing, market manipulation, anticompetitive conduct or which is in breach of any applicable laws;
- 2.3.5 not engage in or facilitate any practice which may impair the orderly conduct of the Digital Asset Derivatives Default Management Process or bring LCH SA or any of its Clearing Members into disrepute; and
- 2.3.6 abstain from knowingly disseminating or providing LCH SA with information, which is false, misleading or inaccurate in any material respect.

2.4 Sole procedure

LCH SA agrees that:

- 2.4.1 porting or liquidation of Client Open Positions pursuant to Chapter 2 of this Instruction where applicable, and the liquidation process pursuant to Chapter 3 of this Instruction shall be the only permitted methods by which LCH SA shall offload the risk associated with the Defaulting Clearing Member's Open Positions;
- 2.4.2 it shall not, under any circumstances, be permitted to invoke a non-competitive allocation procedure or Invoicing Back in respect of the Defaulting Clearing Member's Open Positions; and
- 2.4.3 notwithstanding the application of the Digital Asset Derivatives Loss Distribution Process set out in Article 7 (*Service Closure*) of Instruction IV.3-2 (*Digital Asset Derivatives service continuity and service closure processes*), it shall not be permitted to pay to non-Defaulting Clearing Members an amount less than the Initial Transfer Receivable or the Residual Transfer Receivable for each such non-Defaulting Clearing Member.

Article 3 Notification

LCH SA shall notify the relevant Defaulting Clearing Member within a reasonable timeframe of the implementation of any transfer or liquidation of its Open Positions and the completion of such transfer or liquidation process.

Article 4 Liability

Without prejudice to Article 1.3.3.6 of the Digital Asset Derivatives Clearing Rule Book, LCH SA shall not be held liable in any way to any Clearing Member or any other person (including, without limitation, any Client or Indirect Client) in respect of any Damage suffered or incurred by a Clearing Member, Client, Indirect Client, or any other person, as the case may be, as a result of the occurrence and management of an Event of Default. In particular, LCH SA shall not be held liable for having been unable to proceed with a transfer of Open Positions or for having decided to proceed with the liquidation of Open Positions or for the terms and conditions of the liquidation.

Article 5 Costs

The Hedging and liquidation costs are all costs incurred by LCH SA in relation to the Hedging and/or liquidation of the Open Positions registered in the name of the Defaulting Clearing Member. Hedging and liquidation costs which can be directly allocated to a Margin Account shall be attributed to such Margin Account, or shall otherwise be attributed to each relevant Margin Account pro rata to the Initial Margin of such Margin Account within the relevant Account Structure.

The transfer costs are all costs incurred by LCH SA in relation to the transfer of the Open Positions registered in the name of the Defaulting Clearing Member. All transfer costs shall be borne by the Defaulting Clearing Member and set-off against the House Collateral posted by the Defaulting Clearing Member.

Chapter 2 Transfer

Article 6 Purpose

Transfer means that the Client Open Positions registered in the name of the Defaulting Clearing Member are transferred to a new Clearing Member. The Clients and Indirect Clients, for the account of whom the Digital Asset Derivatives Transactions corresponding to the Client Open Positions to be transferred have been concluded will therefore have such Digital Asset Derivatives Transactions cleared by a new Clearing Member.

Article 7 Conditions to transfer

LCH SA shall transfer to an alternate Clearing Member the Client Open Positions related to Known Clients in the conditions set out below, provided that it has been provided with all necessary information and documents. Otherwise, where all the relevant conditions have not been met, the Client Open Positions will be liquidated in accordance with the provisions of Chapter 3 of this Instruction.

- **NOSA Structure relating to Clients**

The Client Open Positions registered in a Net Omnibus Segregated Account Structure shall be transferred as a whole, together with any associated Collateral or proceeds from the realisation thereof, to one single alternate Clearing Member, provided that:

- (i) LCH SA has received, a formal request to proceed with such transfer to the same alternate Clearing Member from all the Clients within the Net Omnibus Segregated Account Structure, if they are all Known Clients; and

- (ii) such alternate Clearing Member has accepted such transfer,

within the timeline specified in the Digital Asset Derivatives Clearing Rule Book and in accordance with the conditions set out in a Notice.

- **NOSA Structure relating to Indirect Clients pursuant to Article 3.2.3.2(ii) of the Digital Asset Derivatives Clearing Rule Book**

The Client Open Positions registered in a Net Omnibus Segregated Account Structure for Indirect Clients as mentioned in Article 3.2.3.2(ii) of the Digital Asset Derivatives Clearing Rule Book will be transferred as a whole, together with any associated Collateral or proceeds from the realisation thereof, to one single alternate Clearing Member, provided that:

- (i) LCH SA has received a formal request to proceed with such transfer to the same alternate Clearing Member from all the Clients whose clients are represented within the Net Omnibus Segregated Account Structure, if they are all Known Clients; and
- (ii) such alternate Clearing Member has accepted such transfer,

within the timeline specified in the Digital Asset Derivatives Clearing Rule Book and in accordance with the conditions set out in a Notice.

- **GOSA Structure relating to Clients**

The Client Open Positions registered in a Gross Omnibus Segregated Account Structure shall be transferred:

- (i) as a whole, together with any associated Collateral or proceeds from the realisation thereof, to one single alternate Clearing Member, provided that:
 - (a) LCH SA has received a formal request to proceed with such transfer to the same alternate Clearing Member from all the Clients within the Gross Omnibus Segregated Account Structure, if they are all Known Client; and
 - (b) such alternate Clearing Member has accepted such transfer,

within the timeline specified in the Digital Asset Derivatives Clearing Rule Book and in accordance with the conditions set out in a Notice.

- (ii) separately, per Client Margin Account, to different alternate Clearing Members (one per Known Client or one for a group of Known Clients), provided that:
 - (a) LCH SA has received a formal request to proceed with such transfer to such alternate Clearing Member from such Clients, if they are all Known Clients; and
 - (b) the relevant alternate Clearing Member has accepted such transfer,

within the timeline specified in the Digital Asset Derivatives Clearing Rule Book and in accordance with the conditions set out in a Notice.

In such a case, the Collateral or the proceeds from the realisation thereof associated with each Client Margin Account to be so transferred shall be determined pro rata to the Initial Margin of each Client Margin Account within the Gross Omnibus Segregated Account Structure.

- **GOSA Structure relating to Indirect Clients pursuant to Article 3.2.3.2(i) of the Digital Asset Derivatives Clearing Rule Book**

The Client Open Positions registered in a Gross Omnibus Segregated Account Structure for Indirect Clients, as mentioned in Article 3.2.3.2(i) of the Digital Asset Derivatives Clearing Rule Book, shall be transferred as a whole, together with any associated Collateral or proceeds from the realisation thereof, to one single alternate Clearing Member, provided that:

- (i) LCH SA has received a formal request to proceed with such transfer to the same alternate Clearing Member from the Known Client; and
- (ii) such alternate Clearing Member has accepted such transfer,

within the timeline specified in the Digital Asset Derivatives Clearing Rule Book and in accordance with the conditions set out in a Notice.

- **ISA Structure relating to Clients**

The Client Open Positions registered in the Individual Segregated Account Structure shall be transferred individually to one single alternate Clearing Member, provided that:

- (i) LCH SA has received a formal request to proceed with such transfer from the Known Client; and
- (ii) the alternate Clearing Member has accepted such transfer,

within the timeline specified in the Digital Asset Derivatives Clearing Rule Book and in accordance with the conditions set out in a Notice.

Article 8 Relations between the new Clearing Member and the Clients

Upon transfer of the Client Open Positions, the relevant Known Client(s) shall be contractually linked to the new Clearing Member.

The relevant Known Client(s) and the new Clearing Member shall be required to comply with their obligations vis-à-vis each other as such obligations result from the Digital Asset Derivatives Clearing Rules.

Chapter 3 Liquidation process

Article 9 Principles of Competitive Bidding

LCH SA, in consultation with the Digital Asset Derivatives Default Management Group, shall ensure that Competitive Bidding is carried out in accordance with the following principles:

- (i) all non-Defaulting Clearing Members shall be required to participate in Competitive Bidding without prejudice to Article 13; and
- (ii) Competitive Bidding should be structured to ensure that the risk associated with the Defaulting Clearing Member is offloaded by the cancellation of the Defaulting Clearing Member's Open Positions at a price set in a commercially reasonable manner and their replacement with equivalent Open Positions registered within the Account Structure of non-Defaulting Clearing Member(s) in the conditions set out in Chapter 4 of this Instruction.

Section 1 Construction of Auction Packages

Article 10 Determination by LCH SA

LCH SA will determine, in consultation with the Digital Asset Derivatives Default Management Group, the number of Auction Packages to be subject to Competitive Bidding.

LCH SA shall be permitted to establish multiple Auction Packages, provided that LCH SA shall not combine the House Open Positions of a Defaulting Clearing Member with the Client Open Positions which have not been transferred pursuant to Chapter 2 of this Instruction in a single Auction Package.

The determination of LCH SA, in consultation with the Digital Asset Derivatives Default Management Group, shall be made in its discretion depending on the context of the particular Event of Default and the circumstances of the Defaulting Clearing Member.

Article 11 Margin off-setting

Where a decision is taken to divide the Auction Portfolio into multiple Auction Packages in accordance with Article 10, LCH SA, in consultation with the Digital Asset Derivatives Default Management Group, shall undertake such division at its discretion in good faith with a view to ensuring that Competitive Bidding is carried out in accordance with the principles set out in Article 9. In exercising its discretion under this Article 11, LCH SA, in consultation with the Digital Asset Derivatives Default Management Group, shall consider, wherever possible, taking into account LCH SA's margining methodology, including within each Auction Package, any Trade Legs which have been offset for the purposes of calculating the Defaulting Clearing Member's Margin requirement.

Article 12 Competitive Bidding for multiple Auction Packages

LCH SA shall hold a separate auction for each Auction Package. The principles set out in Article 13 to Article 33 shall govern Competitive Bidding for each Auction Package and shall apply to each Auction Package separately.

Section 2 Conduct of Competitive Bidding

Article 13 Participation in Competitive Bidding

All non-Defaulting Clearing Members are required to participate in Competitive Bidding for each Auction Package, except that a Non-Defaulting Clearing shall not participate in Competitive Bidding for an Auction Package containing Digital Asset Derivatives Contracts that belong to a Product Family for which that Non-Defaulting Clearing Member is not registered to clear.

Where two or more non-Defaulting Clearing Members within a Financial Group request LCH SA to treat them as a single non-Defaulting Clearing Member for the purpose of requiring participation in Competitive Bidding under this Article 13, LCH SA shall consent to such a request.

A non-Defaulting Clearing Member may appoint one and up to a maximum of five LCH Approved Delegation Beneficiaries (including, but not limited to, Clients of such non-Defaulting Clearing Member or Clients of another non-Defaulting Clearing Member), which have consented to such appointment and shall meet all the requirements imposed by LCH SA from time to time (including executing any documents reasonably requested by LCH SA) and LCH SA has previously determined are capable of successfully participating in the Digital Asset Derivatives Default Management Process (the "**Auction Member Representative(s)**"), which shall submit Bid(s) on behalf of that non-Defaulting Clearing

Member, for the relevant Auction Package(s) as part of, and in accordance with the provisions relating to, Competitive Bidding.

The appointment of an Auction Member Representative does not relieve a non-Defaulting Clearing Member of its obligations in relation to the Digital Asset Derivatives Default Management Process (including its obligation to participate in Competitive Bidding) and in particular, such non-Defaulting Clearing Member shall remain liable for a breach of the requirement to submit Market Bid(s) in an amount equal to its Minimum Bid Size in accordance with the provisions of the Digital Asset Derivatives Default Management Process.

For the avoidance of doubt, the appointment of any Auction Member Representative(s) by a non-Defaulting Clearing Member shall not prevent that non-Defaulting Clearing Member from submitting Bid(s), in addition to the Bid(s) submitted by its Auction Member Representative(s) for the same Auction Package.

Article 14 Bidding process

Subject to Chapter 5 of this Instruction, LCH SA, in consultation with the Digital Asset Derivatives Default Management Group shall determine, and notify to each non-Defaulting Clearing Member, and, as applicable, its Auction Member Representative(s), the following:

- (i) the number of Auction Packages, the size and direction of each Auction Package and such other information as may reasonably be considered necessary for the non-Defaulting Clearing Members to receive;
- (ii) the Minimum Bid Size for each non-Defaulting Clearing Member; and
- (iii) the Bid Deadline.

Article 15 Bidding

Each non-Defaulting Clearing Member who participates in Competitive Bidding for an Auction Package is required to submit its Bid(s) through the mean as specified by LCH SA, in accordance with Article 16 to Article 20 below, to the Nominated Representative. Each Bid will specify the Bid Size and the Bid Price.

Where a non-Defaulting Clearing Member has appointed an Auction Member Representative in accordance with Article 13, it shall validate any Bid submitted by its Auction Member Representative(s) through the mean as specified by LCH SA. LCH SA may, in its absolute discretion, reject a Bid submitted by an Auction Member Representative which has not been validated by the relevant non-Defaulting Clearing Member.

Each Bid submitted by any Auction Member Representative appointed in accordance with Article 13 shall also specify whether it has been submitted on behalf of a non-Defaulting Clearing Member which has appointed that Auction Member Representative or, as applicable, for the own account of such Auction Member Representative if that Auction Member Representative is also a non-Defaulting Clearing Member. In the absence of such information, LCH SA will allocate the relevant Bid(s) received from the relevant Auction Member Representative as follows:

- (i) it shall rank these Bids from best to worst, such that the Bid with the best Bid Price which would ensure the best commercial result for LCH SA shall be regarded as the "best", and shall repeat such determination until all relevant Bids are ranked according to their Bid Price;
- (ii) it shall calculate the aggregate of the uncovered Minimum Bid Size of each non-Defaulting Clearing Member in the place of which that Auction Member Representative is acting;

- (iii) where the calculation made under sub-paragraph (ii) above produces a figure greater than 0, it shall:
 - (a) allocate the Bid with the best Bid Price amongst each of the relevant non-Defaulting Clearing Members *pro rata* the relevant uncovered Minimum Bid Size of each non-Defaulting Clearing Member to the extent necessary for covering the relevant Minimum Bid Size; and
 - (b) repeat the process with each successive Bid with the best Bid Price until such time as the requirement set out in Article 16 in respect of each relevant non-Defaulting Clearing Member is satisfied;
- (iv) it shall allocate the remaining Bid(s) to the Auction Member Representative.

By submitting a Bid, a non-Defaulting Clearing Member, or as applicable, the Auction Member Representative pursuant to Article 36, represents that it will accept the registration of Auction Transactions equivalent to the Bid Size of the Bid at a cost determined in accordance with these provisions.

Non-Defaulting Clearing Members will be required to submit their Bid(s) by the Bid Deadline. However, in the event that LCH SA provides notification to all non-Defaulting Clearing Members in reasonable time prior to the Bid Deadline, a grace period may be granted to all non-Defaulting Clearing Members provided that such grace period shall be no longer than one hour, after consultation with the Digital Asset Derivatives Default Management Group.

Where Bids are received after the Bid Deadline (and the expiration of any grace period granted by LCH SA, pursuant to this Article), LCH SA may, in its absolute discretion, reject a Bid on the grounds that it would prevent the Digital Asset Derivatives Default Management Process from being completed as soon as possible as set out in Article 2.

In the event that in respect of an Auction Package, none of the Non-Defaulting Clearing Members required to participate in Competitive Bidding has submitted any Market Bid(s) by the Bid Deadline or the expiration of any grace period granted by LCH SA pursuant to this Article, LCH SA may, at its sole discretion and in consultation with the Digital Asset Derivatives Default Management Group, decide to:

- (i) hold a second round of Competitive Bidding in accordance with Article 27 of this Instruction; and/or
- (ii) allocate the Auction Package to the non-Defaulting Clearing Member(s) that did not submit a Market Bid as required in Article 13 above, *pro rata* the relevant Minimum Bid Size of such non-Defaulting Clearing Member(s).

In this case, LCH SA will set the Initial Allocation Price on the basis of the last snapshot of prices communicated by the Trading Venue or ATSS to LCH SA before the Bid Deadline and to be used for the Margin calculation on the Auction Transactions.

Accordingly, the Initial Transfer Payable or Initial Transfer Receivable for the relevant non-Defaulting Clearing Member(s) shall be equal to the product of its/their Minimum Bid Size and that Initial Allocation Price;

and/or

- (iii) proceed with the liquidation of the relevant Open Positions of the Defaulting Clearing Member via a broker who shall execute in its own name and for the account of LCH SA on the relevant

markets orders which are opposite to the Open Positions registered in the name of the Defaulting Clearing Member that are to be liquidated.

Article 16 Minimum Bid Size

For each Auction Package, each non-Defaulting Clearing Member who is required to bid for that Auction Package in accordance with Article 13 above, shall be required to submit Bid(s) in an amount equal to or greater than its Minimum Bid Size.

The Minimum Bid Size ("**MBS**") shall be calculated by LCH SA in accordance with the following formula and expressed as a percentage:

$$\text{MBS} = \min ([A/B] \times C; 100\%)$$

Where:

A is the amount of the non-Defaulting Clearing Member's contribution to the Digital Asset Derivatives Default Fund as at the last revaluation date prior to the declaration of the relevant Event of Default by LCH SA in accordance with Instruction IV.3-1 (*The Digital Asset Derivatives Default Fund*). For the purposes of this calculation, a non-Defaulting Clearing Member's contribution shall be the aggregate of its contribution and the contribution of any other Clearing Member in its Financial Group and with whom it is being treated as a single non-Defaulting Clearing Member pursuant to Article 13;

B is the sum of contributions to the Digital Asset Derivatives Default Fund of all non-Defaulting Clearing Members who are required to bid for that Auction Package in accordance with Article 13 above, as at the last revaluation date of the Digital Asset Derivatives Default Fund prior to the declaration of the relevant Event of Default by LCH SA in accordance with Instruction IV.3-1 (*The Digital Asset Derivatives Default Fund*); and

C is the Minimum Bid Size Multiplier.

Article 17 Submission of one or more Bids satisfying the Minimum Bid Size

A non-Defaulting Clearing Member can satisfy the requirement set out in Article 16 by submitting multiple Bids with differing Bid Prices and Bid Sizes provided that, in aggregate, the Bid Size(s) of the Bids equals or exceeds the Minimum Bid Size. Accordingly, there is no requirement for a non-Defaulting Clearing Member to submit a single Bid whose Bid Size equals the Minimum Bid Size, although it is entitled to do so.

Article 18 Bids in excess of the Minimum Bid Size

A non-Defaulting Clearing Member can submit Bid(s) whose Bid Size(s) alone, or in aggregate, exceed the Minimum Bid Size for any Auction Package, subject that a non-Defaulting Clearing Member shall be prohibited from submitting Bid(s) whose Bid Size(s) alone, or in aggregate, exceeds 100 per cent. of the relevant Auction Package.

Article 19 All or None Bids

In addition to the Bid(s) that each non-Defaulting Clearing Member is required to submit in accordance with Article 16 and Article 17, each non-Defaulting Clearing Member may, in its sole discretion, submit an additional Bid whose Bid Size is equal to 100 per cent of the relevant Auction Package ("**All or None Bid**").

Article 20 Bid Price

Non-Defaulting Clearing Members shall have sole discretion to specify the Bid Price that will apply to the Bid(s) submitted in the course of Competitive Bidding and neither LCH SA nor the Digital Asset Derivatives Default Management Group is permitted to specify, in advance of Competitive Bidding commencing, a minimum or maximum Bid Price that will apply in respect of a particular Auction Package.

Article 21 Assessment of Non Market Bids

Following the Bid Deadline, LCH SA shall review the Bid(s) received in the course of Competitive Bidding to determine whether any Non Market Bid(s) have been submitted. LCH SA shall have the discretion to deem any Bid which does not satisfy the Market Bid Metric to be a Market Bid and in determining whether to exercise such discretion, shall take into account the relevant non-Defaulting Clearing Member's Bid(s) as a whole. For the purposes of the assessment of Non Market Bids, LCH SA may consult with the Digital Asset Derivatives Default Management Group as LCH SA deems it necessary.

Section 3 Allocation of the Auction Package

Article 22 Calculation of the Initial Allocation Price

Following the earlier of the receipt of final Bids from all non-Defaulting Clearing Members and the Bid Deadline (and the expiration of any grace period granted by LCH SA pursuant to Article 15), LCH SA, in consultation with the Digital Asset Derivatives Default Management Group, will determine the Initial Allocation Price, the Initial Transfer Payable and the Initial Transfer Receivable on the following basis:

- (i) it shall rank the Bids, to the exclusion of All or None Bids, from best to worst, such that the Bid with the Bid Price which would ensure the best commercial result for LCH SA shall be regarded as the "best", and shall repeat such determination until all Bids are ranked according to their Bid Price. For these purposes, the "best commercial result" means the price at which LCH SA would receive the greatest amount or would have to pay the least amount in respect of the Auction Package;
- (ii) it shall determine the Initial Allocation Price as follows:
 - (a) it shall deem the Bid with the best Bid Price to be successful and shall allocate the Bid Size of such Bid against the Auction Package;
 - (b) it shall repeat the process with each successive Bid with the best Bid Price until such time as the Auction Package has been completely allocated, subject to adjustment pursuant to Article 23(i) below;
 - (c) if there is more than one Bid at the same Bid Price at which the entire Auction Package would be allocated, the Bids at that Bid Price shall be deemed allocated *pro rata* the relevant Bid Size of each Bid;
 - (d) each of the Bids (or parts thereof) which are allocated shall be deemed Initial Winning Bids and the worst Bid Price of all the Initial Winning Bids shall be the Initial Allocation Price; and
- (iii) the Initial Transfer Payable or Initial Transfer Receivable shall be determined for each non-Defaulting Clearing Member as the product of the Bid Size of that non-Defaulting Clearing Member's Initial Winning Bid and the Initial Allocation Price.

Article 23 Non Bidders

Where LCH SA receives Market Bid(s) but Non Bidders are identified:

- (i) LCH SA shall adjust the procedure for calculating the Initial Allocation Price, the Initial Transfer Payable and the Initial Transfer Receivable for non-Defaulting Clearing Members by conducting the process set out in Article 22(ii)(a) above but on the basis that $n\%$ of the Auction Package shall be allocated, where "n" is equal to 100 minus the aggregate of each Non Bidder's Auction Non Bidder Bid Size provided that where the aggregate of each Non Bidder's Auction Non Bidder Bid Size is equal to or greater than 100, "n" is equal to 0;
- (ii) each Non Bidder shall be deemed to have submitted a single Bid with a Bid Size equal to their Auction Non Bidder Bid Size and a Bid Price equal to the Initial Allocation Price minus EUR 0.01 (where it is due an Initial Transfer Receivable in respect of the Auction Package) or plus EUR 0.01 (where it is required to make an Initial Transfer Payable in respect of the Auction Package) (the "**Non Bidder Allocation Price**") provided that:
 - (a) where the aggregate of each Non Bidder's Auction Non Bidder Bid Size is equal to or greater than 100, the Non Bidder Allocation Price shall be equal to the best Bid Price received for that Auction Package minus EUR 0.01 (where it is due an Initial Transfer Receivable in respect of the Auction Package) or plus EUR 0.01 (where it is required to make an Initial Transfer Payable in respect of the Auction Package); and
 - (b) where the aggregate of each Non Bidder's Auction Non Bidder Bid Size is greater than 100, the Auction Package shall be deemed allocated *pro rata* the relevant Auction Non Bidder Bid Size of each Non Bidder; and
- (iii) the Initial Transfer Payable or Initial Transfer Receivable for each Non Bidder shall then be determined as the product of the relevant Non Bidder's Auction Non Bidder Bid Size and the Non Bidder Allocation Price.

For the avoidance of doubt:

- (i) a non-Defaulting Clearing Member may be deemed to submit Market Bids and Non Market Bids in respect of the same Auction Package and shall only be deemed to be a Non Bidder in respect of those Bids which are Non Market Bids.; and
- (ii) if a non-Defaulting Clearing Member is forbidden from bidding on an Auction Package in accordance with Article 13 above, LCH SA shall not be entitled to deem such Non-Defaulting Clearing Member to be a Non Bidder in respect of that Auction Package.

Article 24 Assessment of All or None Bids

In the event that LCH SA received one or more All or None Bids from non-Defaulting Clearing Members, LCH SA, in consultation with the Digital Asset Derivatives Default Management Group, shall:

- (i) rank the All or None Bids, from best to worst, such that the All or None Bid with the Bid Price which would ensure the best commercial result for LCH SA shall be regarded as the "best", and shall repeat such determination until all All or None Bids are ranked according to their Bid Price;
- (ii) determine whether the Bid Price of the best All or None Bid would ensure a better commercial result for LCH SA than the Initial Allocation Price; and
- (iii) if that is the case, allocate the Bid Size of such best All or None Bid against the Auction Package and register such best All or None Bid in respect of the relevant non-Defaulting Clearing Member in the conditions set out in Chapter 4 of this Instruction, where references to:
 - (a) the Initial Winning Bidder shall be understood as references to such relevant non-Defaulting Clearing Member; and

- (b) Initial Transfer Payable and Initial Transfer Receivable shall be understood as the amount such relevant non-Defaulting Clearing Member must, respectively, pay to, or receive from, LCH SA in order to accept the registration of Auction Transactions reflecting the Bid Size of its best All or None Bid.

Article 25 Process of Allocation at the Initial Allocation Price

When, as the case may be, the Bid Price of the best All or None Bid would not ensure a better commercial result for LCH SA than the Initial Allocation Price, LCH SA, in consultation with the Digital Asset Derivatives Default Management Group, shall allocate each Auction Package amongst each of the Initial Winning Bidders in a fair and consistent manner as follows:

- (i) the Auction Package will be allocated on the basis of the best Bid Price in accordance with Article 22(ii) above and until the Auction Package is completely allocated;
- (ii) each non-Defaulting Clearing Member with one or more Initial Winning Bids in respect of an Auction Package shall be attributed a percentage of each of the Auction Transactions comprised in such Auction Package, which will be equal to the aggregate of the Bid Sizes of its Initial Winning Bids;
- (iii) LCH SA will then allocate to each Initial Winning Bidder, except the Initial Winning Bidder(s) ranked last in accordance with sub-paragraph (i) of this Article (the “Last Initial Winning Bidder(s)”), a number of Digital Asset Derivatives Contracts resulting from the application of such percentage and where that number is a decimal, LCH SA shall round it up or down to the nearest whole number of the total Digital Asset Derivatives Contracts. If there is no nearest whole number, the number of the total Digital Asset Derivatives Contracts to be allocated will be rounded up;
- (iv) following the allocation of the Digital Asset Derivatives Contracts to all the Initial Winning Bidders in accordance with sub-paragraph (iii) of this Article, LCH SA will allocate any residual number of Digital Asset Derivatives Contracts within the Auction Package (the “Residual Digital Asset Derivatives Contracts”) to the Last Initial Winning Bidder, irrespective of the percentage that was attributed to that Last Initial Winning Bidder in accordance with sub-paragraph (ii) of this Article, provided that, where there is more than one Non Bidder designated as Last Initial Winning Bidder, LCH SA will select among them only one Last Initial Winning Bidder to which it shall allocate the Residual Digital Asset Derivatives Contracts on the basis of the following descending priority
 - (a) the Non Bidder which did not submit any Bid by the Bid Deadline;
 - (b) the Non Bidder which submitted Bid(s) in an amount lower than its Minimum Bid Size;
 - (c) the Non Bidder which did not submit any Market Bid(s) by the Bid Deadline;
 - (d) the Non Bidder with the latest Market Bid(s) submission; and
 - (e) the Non Bidder with the lowest contribution to the Digital Asset Derivatives Default Fund.

Where the successive application of all the criteria from (a) to (e) of this sub-paragraph (iv) would not permit the full allocation of the Residual Digital Asset Derivatives Contracts to only one Last Initial Winning Bidder, LCH SA may at its own discretion use other fair and objective criteria to ensure the complete allocation of such Residual Digital Asset Derivatives Contracts.

Article 26 Notification of the conclusion of the Competitive Bidding Process

Following the determination of:

- (i) the Initial Allocation Price and the Initial Transfer Payable or Initial Transfer Receivable for each non-Defaulting Clearing Member (excluding Non Bidders);

- (ii) the Non Bidder Allocation Price and the Initial Transfer Payable or Initial Transfer Receivable for each Non Bidder; and
- (iii) any All or None Bid(s),

and provided that LCH SA has determined that it has sufficient financial resources in accordance with Article 35 and that it does not need to hold a second round of Competitive Bidding in accordance with Article 27, LCH SA will notify all non-Defaulting Clearing Members, and, as applicable, Auction Member Representatives, that the Competitive Bidding process for the relevant Auction Package has been concluded and shall additionally notify each non-Defaulting Clearing Member with an Initial Winning Bid, and, as applicable, its Auction Member Representative(s), the details of the Initial Allocation Price or Non Bidder Allocation Prices (as the case may be) and the Initial Transfer Payable or Initial Transfer Receivable.

Subject to Article 39, an Initial Winning Bidder shall be contractually bound to accept registration of the Transfer Positions within its Account Structure in accordance with Article 36.

Section 4 Review of Competitive Bidding

Article 27 Decision to hold a second round of Competitive Bidding

Where, following the calculation of the Initial Allocation Price and the Non Bidder Allocation Price (as appropriate), the Initial Transfer Payable and the Initial Transfer Receivable in accordance with Article 22, LCH SA, in consultation with the Digital Asset Derivatives Default Management Group, determines that an LCH Transfer Cost arises such as to require recourse to LCH SA's dedicated own resources, as referred to in Article 4.5.2.9(iv) of the Digital Asset Derivatives Clearing Rule Book, then it shall be permitted to consider holding a second round of Competitive Bidding.

In such circumstance LCH SA, in consultation with the Digital Asset Derivatives Default Management Group, shall determine in its absolute discretion whether:

- (i) it would be possible, through holding a second round of Competitive Bidding, to generate higher LCH Transfer Receipts (if the Auction Package has a positive mark-to-market) or a lower LCH Transfer Cost (if the Auction Package has a negative mark-to-market); and
- (ii) it would not be unrealistic that, following a second round of Competitive Bidding, the LCH Transfer Receipt or LCH Transfer Cost would be such as to enable LCH SA to register the Winning Bids within the Account Structure of the non-Defaulting Clearing Member(s), in accordance with Article 36, without exhausting the financial resources available to LCH SA under Article 4.5.2.9 of the Digital Asset Derivatives Clearing Rule Book.

Article 28 Participation in a second round of Competitive Bidding

Where LCH SA determines that a lower LCH Transfer Cost or a higher LCH Transfer Receipt, as appropriate, could be generated, it shall require non-Defaulting Clearing Members to participate in a second round of Competitive Bidding as soon as is reasonably practicable. LCH SA will consult with the Digital Asset Derivatives Default Management Group in accordance with the procedure set out in the terms of reference for the Digital Asset Derivatives Default Management Group.

LCH SA, in consultation with the Digital Asset Derivatives Default Management Group, shall determine the percentage of the original Auction Package which will be subject to the second Competitive Bidding (such portion being referred to in the remainder of this Article as the "Residual Auction Package"). However, LCH SA shall not be permitted to determine that more than 20 per cent. of the relevant Auction

Package shall form the Residual Auction Package, unless a minor increase to such percentage would have, in the reasonable determination of LCH SA and the Digital Asset Derivatives Default Management Group, a material impact on the LCH Transfer Cost or LCH Transfer Receipt, as applicable, which it is expected will be generated as a result of the second round of Competitive Bidding. For the avoidance of any doubt, a second round of Competitive Bidding may not be carried out where the Initial Winning Bid is an All or None Bid.

Section 5 Recalculated Allocation of the Auction Package and Initial Registration

Article 29 Recalculation of Initial Allocation Price

In the event that LCH SA determines that a second round of Competitive Bidding shall take place, LCH SA, in consultation with the Digital Asset Derivatives Default Management Group, shall recalculate the Initial Allocation Price and the Non Bidder Allocation Price, as appropriate, (and, by definition, the Bids thereby treated as Initial Winning Bids) and Initial Transfer Payable or Initial Transfer Receivable by following the procedure set out in Article 22 in respect of the Reduced Auction Package.

Article 30 Notification of the conclusion of the Competitive Bidding Process

Following any recalculation of:

- (i) the Initial Allocation Price and the Initial Transfer Payable or Initial Transfer Receivable for each non-Defaulting Clearing Member (excluding Non Bidders); and
- (ii) the Non Bidder Allocation Price and the Initial Transfer Payable or Initial Transfer Receivable for each Non Bidder,

pursuant to Article 29, provided it has determined that it has sufficient financial resources in accordance with Article 35, LCH SA will notify all non-Defaulting Clearing Members and, as applicable, Auction Member Representatives, of the results of the Competitive Bidding process including, for each non-Defaulting Clearing Member with an Initial Winning Bid, and as applicable, its Auction Member Representative(s), the details of the Initial Allocation Price or Non Bidder Allocation Prices (as the case may be) and the Initial Transfer Payable or Initial Transfer Receivable. Subject to Article 39, an Initial Winning Bidder shall be contractually bound to accept registration of the Transfer Positions within its Account Structure in accordance with Article 36.

Section 6 Conduct of Competitive Bidding for the Residual Auction Package

Article 31 General

Competitive Bidding for the Residual Auction Package should be carried out in accordance with Article 9 to Article 21, treating the Residual Auction Package as the Auction Package for purposes of interpreting such provisions, but subject to the remainder of this Article.

In applying such provisions to Competitive Bidding for the Residual Auction Package:

- (i) the Residual Allocation Price shall be determined on the basis that it were the Initial Allocation Price;
- (ii) the Residual Winning Bids shall be determined on the basis that they were Initial Winning Bids;
- (iii) the Residual Transfer Payable shall be determined on the basis that it were the Initial Transfer Payable;

- (iv) the Residual Transfer Receivable shall be determined on the basis that it were the Initial Transfer Receivable; and
- (v) LCH SA shall allocate the Auction Transactions for the Residual Auction Package in accordance with Article 25.

Article 32 Recalculated Minimum Bid Size

Each non-Defaulting Clearing Member's Minimum Bid Size shall be subject to recalculation for the Residual Auction Package depending on the outcome of the first round of Competitive Bidding:

- (i) where the Bid Size of a non-Defaulting Clearing Member's Initial Winning Bid for the related Auction Package exceeds that non-Defaulting Clearing Member's original Minimum Bid Size calculated in accordance with Article 16, that non-Defaulting Clearing Member will have its Minimum Bid Size for the Residual Auction Package reduced by an amount equal to the Bid Credit. For these purposes, the "Bid Credit" for any non-Defaulting Clearing Member shall be the percentage difference between the Minimum Bid Size and the percentage of the Bid Size of that non-Defaulting Clearing Member's Initial Winning Bid, subject to the maximum value for the Bid Credit of the Minimum Bid Size;
- (ii) for each non-Defaulting Clearing Member to whom a Bid Credit has not been ascribed, that non-Defaulting Clearing Member's Minimum Bid Size shall be increased by a *pro rata* share of the aggregate Bid Credits ascribed in relation to that Residual Auction Package.

Article 33 Competitive Bidding Process for the Residual Auction Package

LCH SA shall not be permitted to review the Competitive Bidding for the Residual Auction Package and shall be required to complete its obligations with respect to registration of the Transfer Positions, arising therefrom.

Article 34 Notification of Residual Allocation Price

Following the calculation of:

- (i) the Residual Allocation Price and the Residual Transfer Payable or Residual Transfer Receivable for each non-Defaulting Clearing Member (excluding Non Bidders); and
- (ii) the Non Bidder Allocation Price and the Residual Transfer Payable or Residual Transfer Receivable for each Non Bidder,

pursuant to Section 6 of Chapter 3 of this Instruction, LCH SA will notify all non-Defaulting Clearing Members, and, as applicable, Auction Member Representatives, of the results of the second round of Competitive Bidding including, for each non-Defaulting Clearing Member with a Residual Winning Bid, and, as applicable, its Auction Member Representative(s), the details of the Residual Allocation Price or Non Bidder Allocation Price (as the case may be) and the Residual Transfer Payable or Residual Transfer Receivable. Subject to Article 39, a Residual Winning Bidder shall be contractually bound to accept registration of the Transfer Positions within its Account Structure in accordance with Article 36.

Section 7 LCH SA determination of financial resources

Article 35

Following the determination of the Initial Allocation Price pursuant to the first round of Competitive Bidding (or Residual Allocation Price pursuant to the second round of Competitive Bidding, as the case may be), LCH SA shall determine whether it has sufficient financial resources to meet its obligations

arising from such Competitive Bidding, including but not limited to the ability to credit a Winning Bidder with an Initial Transfer Receivable or a Residual Transfer Receivable, as the case may be.

LCH SA may only notify Winning Bidders in accordance with Article 26, Article 30 or Article 34, as appropriate, and perform its obligations pursuant to Chapter 4 of this Instruction in respect of the relevant Transfer Positions if it has reasonably determined that it does have sufficient financial resources.

If LCH SA determines it does not have sufficient financial resources to meet its obligations arising from such Competitive Bidding, it shall notify all non-Defaulting Clearing Members of the failure of Competitive Bidding and may decide to proceed with the liquidation of the relevant Open Positions of the Defaulting Clearing Member via a broker who shall execute in its own name and for the account of LCH SA on the relevant markets orders which are opposite to the Open Positions registered in the name of the Defaulting Clearing Member that are to be liquidated. For the avoidance of doubt, in such situation, no non-Defaulting Clearing Member shall be deemed to have a Winning Bid and LCH SA shall not be permitted to register any Transfer Positions within the Account Structure of any Non-Defaulting Clearing Member.

Chapter 4 Registration of Transfer Positions

Article 36 Registration of Winning Bids

LCH SA, in consultation with the Digital Asset Derivatives Default Management Group, shall register the Transfer Positions within the House Account Structure of:

- (i) an Initial Winning Bidder by no later than 09.15 on the Clearing Day following conclusion of the first round of Competitive Bidding; and
- (ii) a Residual Winning Bidder by no later than 09.15 on the Clearing Day following conclusion of the second round of Competitive Bidding.

Where the Initial Winning Bidder and/or Residual Winning Bidder is a non-Defaulting Clearing Member which has appointed an Auction Member Representative that is also a non-Defaulting Clearing Member or a Client in accordance with Article 13, that Initial Winning Bidder and/or Residual Winning Bidder may request LCH SA to register the Transfer Positions within the relevant House Account Structure or Client Account Structure of that Auction Member Representative, subject:

- (a) to such Auction Member Representative consenting in advance to such transfer and meeting all the requirements imposed by LCH SA from time to time in relation to accepting such rights and obligations (including executing any documents reasonably requested by LCH SA);
- (b) to LCH SA's determination in its reasonable discretion that the transfer would not be likely to result in a material and adverse impact on LCH SA, the Digital Asset Derivatives Clearing Service or another Clearing Member;
- (c) that if such Auction Member Representative is also a Clearing Member, is, at the time of the registration of the Transfer Positions, a non-Defaulting Clearing Member; and
- (d) that if such Auction Member Representative is also a Client of another Clearing Member:
 - (x) both the Auction Member Representative and its Clearing Member have given in advance their consent to register the Transfer Positions in the relevant Client Account Structure of the Auction Member Representative's other Clearing Member and to meet all the requirements and obligations arising from such registration, in accordance with these

Digital Asset Derivatives Clearing Rules or any other executed document requested by LCH SA; and (y) the Clearing Member which holds the Auction Member Representative's Client Account Structure in which the Transfer Positions will be registered, is, at the time of the registration of the Transfer Positions, a non-Defaulting Clearing Member.

Until such time as such registration of the Transfer Positions has been effected, the non-Defaulting Clearing Member shall remain liable to perform its obligations (including in respect of the Transfer Positions to be registered) under the Digital Asset Derivatives Default Management Process and in particular, where conditions specified in paragraphs (b) and (c) above are not satisfied, the Transfer Positions will be registered within the House Account Structure of such non-Defaulting Clearing Member by the times set out in paragraphs (i) and (ii) above.

For the avoidance of doubt, where two rounds of Competitive Bidding have been undertaken on the same day, LCH SA, in consultation with the Digital Asset Derivatives Default Management Group, shall nevertheless undertake separate registration processes for the Transfer Positions arising from the first round of Competitive Bidding and the Transfer Positions arising from the second round of Competitive Bidding.

Article 37 Registration Obligations

In order to effect the registration of the Transfer Positions within a Winning Bidder's Account Structure, as contemplated by Article 36, LCH SA shall prescribe such procedures and timetable as it considers reasonably appropriate in the circumstances. Winning Bidders, or, as applicable, Auction Member Representatives pursuant to Article 36, will be required to comply with such requirements as may be established by LCH SA, after consultation with the Digital Asset Derivatives Default Management Group, to effect the registration of the Transfer Positions. In particular:

- (i) Winning Bidders or, as applicable, Auction Member Representatives, will provide LCH SA with Collateral to satisfy increased Margins requirement which shall take account of the Transfer Positions;
- (ii) if Competitive Bidding has given rise to an Initial Transfer Receivable or a Residual Transfer Receivable, as the case may be, LCH SA will credit the Winning Bidder or, as applicable, Auction Member Representatives, with the requisite amount;
- (iii) if Competitive Bidding has given rise to an Initial Transfer Payable or a Residual Transfer Payable, as the case may be, the Winning Bidder or, as applicable, Auction Member Representatives, will pay the requisite amount to LCH SA; and
- (iv) LCH SA shall ensure that the registration of the Transfer Positions is made in a way that recognises the Variation Margin that is transferred or received in relation to the Digital Asset Derivatives Transactions of the Defaulting Clearing Member representing such Transfer Positions, to date.

Article 38 Winning Bidder failure to register Transfer Positions

In the event that registration of a Transfer Position in accordance with Article 36 requires the Winning Bidder, or, as applicable, the Auction Member Representative pursuant to Article 36, to pay to LCH SA an amount reflecting an Initial Transfer Payable or a Residual Transfer Payable, as the case may be, any failure by the Winning Bidder, or, as applicable, the Auction Member Representative(s) pursuant to Article 36, to pay such amount or to provide Collateral to LCH SA as Margin in respect of the Transfer Position shall constitute a Contractual Event of Default with respect to the relevant Winning Bidder (but excluding the Auction Member Representative acting as such pursuant to Article 36).

Article 39 LCH SA failure to register Transfer Positions

- (i) LCH SA shall not be permitted to register any Transfer Position with a Winning Bidder, or, as applicable, an Auction Member Representative pursuant to Article 36, unless it is satisfied that its financial resources are sufficient to credit each Winning Bidder, or, as applicable, each Auction Member Representative pursuant to Article 36, with its Initial Transfer Receivable or Residual Transfer Receivable, as the case may be.
- (ii) If LCH SA fails to credit such amount to the relevant Winning Bidder, or, as applicable, the relevant Auction Member Representative pursuant to Article 36:
 - (a) either prior to or simultaneously with calling for or returning, as the case may be, any Collateral taking into consideration the Open Positions reflecting such Transfer Positions; or
 - (b) where, in order to credit the required amounts to the Winner Bidder, or, as applicable, the Auction Member Representative pursuant to Article 36, LCH SA is dependent on additional contributions to the Digital Asset Derivatives Default Fund from non-Defaulting Clearing Members being received in the same payment window as the payment or receipt of such Collateral, immediately after the payment window in which such Collateral shall be paid or received,

such registration of the Transfer Position shall be deemed void *ab initio* and unenforceable against the Winning Bidder, or, as applicable, the Auction Member Representative pursuant to Article 36, and:

- (x) LCH SA shall not take any Open Positions reflecting such Transfer Positions into account for the purpose of calculating that Winning Bidder's, or, as applicable, the Auction Member Representative's pursuant to Article 36, Margins requirement on an ongoing basis; and
 - (y) to the extent a Collateral call has already been made in respect of a Winning Bidder, or, as applicable, the Auction Member Representative pursuant to Article 36, taking account of Open Positions reflecting such Transfer Positions, and the relevant Winning Bidder, or, as applicable, the relevant Auction Member Representative pursuant to Article 36, has transferred Collateral in satisfaction of its Margin requirement on that basis, the amount of Collateral called in respect of the Open Positions reflecting such Transfer Positions shall be returned to the Winning Bidder, or, as applicable, the Auction Member Representative pursuant to Article 36, in accordance with Instruction IV.4-1 (*Collateral, Variation Margin and Cash Payments*).
- (iii) In the event that LCH SA does not receive sufficient available resources in the relevant payment window on account of the failure of one or more non-Defaulting Clearing Members, LCH SA, in consultation with the Digital Asset Derivatives Default Management Group, may take such action as is required, including holding a further auction process. In the event that LCH SA reasonably believes, after consultation with the Digital Asset Derivatives Default Management Group, that it will have sufficient available resources following an additional request for additional contributions to the Digital Asset Derivatives Default Fund from the then non-Defaulting Clearing Members, LCH SA shall call for such amounts in accordance with Instruction IV.3-1 (*The Digital Asset Derivatives Default Fund*) no later than the first available payment window on the following Clearing Day and the registration of the Transfer Positions shall not be regarded as void *ab initio* until LCH SA has determined whether it has sufficient available resources following such payment window.

Notwithstanding any discretion provided to LCH SA in paragraph (iii) above, LCH SA shall be prohibited from determining not to credit each Winning Bidder, or, as applicable, the Auction Member Representative pursuant to Article 36, with the full amount of its Initial Transfer Receivable or Residual Transfer Receivable and if it determines that it does not have, and will not have through the payment of additional contributions to the Digital Asset Derivatives Default Fund, sufficient available resources to credit such amounts, the registration of such Transfer Positions shall be deemed void *ab initio* in accordance with paragraph (ii) above.

Article 40 Off-setting

LCH SA agrees that it shall make provision for set-off by LCH SA of amounts owed by LCH SA to the Winning Bidder, or, as applicable, the Auction Member Representative pursuant to Article 36, as a result of the operation of the Digital Asset Derivatives Default Management Process against sums owed by the Winning Bidder, or, as applicable, the Auction Member Representative pursuant to Article 36, to LCH SA in respect thereof.

Chapter 5 Information regarding the Digital Asset Derivatives Default Management Process

Article 41 Notifications

Whenever the Digital Asset Derivatives Default Management Process is implemented by LCH SA in respect of a Defaulting Clearing Member, LCH SA will, with the assistance of the Digital Asset Derivatives Default Management Group, provide such ongoing information to Clearing Members as LCH SA deems reasonably appropriate in respect of the progress of the Digital Asset Derivatives Default Management Process.

In particular LCH SA shall notify each Clearing Member:

- (i) when an Event of Default has been notified to a Defaulting Clearing Member in accordance with Article 4.5.1.1 of the Digital Asset Derivatives Clearing Rule Book;
- (ii) in advance of both the first and second round of Competitive Bidding, as the case may be, those items listed in Article 14;
- (iii) whether or not a grace period has been granted to non-Defaulting Clearing Members as a whole, or a particular non-Defaulting Clearing Member, pursuant to Article 15;
- (iv) whether or not their Bid(s) has been deemed to be Market Bid(s) in the course of either the first or second round of Competitive Bidding (if applicable);
- (v) whether or not they are an Initial Winning Bidder, what the Initial Allocation Price is and what the Initial Transfer Payable or Initial Transfer Receivable, as the case may be, is in accordance with Article 26 and/or Article 29;
- (vi) whether or not they have been deemed a Non Bidder, what the Non Bidder Allocation Price is and what the Initial Transfer Payable or Initial Transfer Receivable, as the case may be, is in accordance with Article 23;
- (vii) which Transfer Positions are to be registered within its Account Structure as a result of being deemed an Initial Winning Bidder or a Non Bidder, as the case may be, or, as applicable, acting as an Auction Member Representative pursuant to Article 36, in respect of the first round of Competitive Bidding and in respect thereof:
 - (a) what the procedure and timeline will be for registration of the Transfer Positions, arising from the first round of Competitive Bidding, within its Account Structure;

- (b) prior to registering the Transfer Positions within its Account Structure, what the increase to the Winning Bidder's Margins requirement will be;
- (c) prior to registering the Transfer Positions within its Account Structure, what the Initial Transfer Payable, or the Initial Transfer Receivable, as appropriate, will be;
- (viii) whether or not a second round of Competitive Bidding will be held;
- (ix) to the extent a second round of Competitive Bidding is held, whether or not they are the holder of a Residual Winning Bid, what the Residual Allocation Price is and what the Residual Transfer Payable or Residual Transfer Receivable, as the case may be, is;
- (x) which Transfer Positions are to be registered within its Account Structure as a result of being deemed a Residual Winning Bidder or a Non Bidder, as the case may be, or, as applicable, acting as an Auction Member Representative pursuant to Article 36, in respect of the second round of Competitive Bidding and in respect thereof:
 - (a) what the procedure and timeline will be for registration of the Transfer Positions, arising from the second round of Competitive Bidding, within its Account Structure;
 - (b) prior to registering the Transfer Positions within its Account Structure, what the increase to the Winning Bidder's Margins requirement will be;
 - (c) prior to registering the Transfer Positions within its Account Structure, what the Residual Transfer Payable or the Residual Transfer Receivable, as appropriate, will be; and
- (xi) where LCH SA has determined that its financial resources are not sufficient to meet its obligations arising from either the first or second round of Competitive Bidding, as the case may be, in accordance with Article 29, of the failure of Competitive Bidding and the occurrence of an LCH SA default.

Article 42 Sensitive Information

Nothing in this Chapter 5 shall require LCH SA to disclose information in respect of the Digital Asset Derivatives Default Management Process which, in the reasonable opinion of LCH SA, may be subject to obligations of confidentiality, may constitute market sensitive data or is, in LCH SA's reasonable opinion, inappropriate for disclosure to Clearing Members.

Article 43 Competitive Bidding

The Nominated Representative will ensure that the identity of each non-Defaulting Clearing Member, or, as applicable, each Auction Member Representative, is not revealed to the DMG Members.

Chapter 6 Digital Asset Derivatives Default Management Committee and Digital Asset Derivatives Default Management Group

Section 1 Role and constitution of the Digital Asset Derivatives Default Management Committee

Article 44 Role

The Digital Asset Derivatives Default Management Committee shall meet at regular intervals (at least quarterly) in order to:

- (i) determine the provisions of the terms of reference for the Digital Asset Derivatives Default Management Group that will supplement the principles set out in the Digital Asset Derivatives Default Management Process and assist the members of the Digital Asset Derivatives Default

- Management Group in implementing the Digital Asset Derivatives Default Management Process;
- (ii) keep both the Digital Asset Derivatives Default Management Process and the terms of reference for the Digital Asset Derivatives Default Management Group under review and to assist LCH SA in the design, testing and further improvement of the Digital Asset Derivatives Default Management Process;
 - (iii) participate in regular fire drills in relation to the Digital Asset Derivatives Default Management Process;
 - (iv) keep under review the terms of reference for the Digital Asset Derivatives Default Management Group to ensure they remain appropriate;
 - (v) maintain and keep under review the DMG Rotation Plan, as described at Article 48 below;
 - (vi) consider appropriate supplements or amendments to the Digital Asset Derivatives Default Management Process and/or the terms of reference for the Digital Asset Derivatives Default Management Group in order to improve the procedures in place;
 - (vii) keep under review the manner in which non-Defaulting Clearing Members should be encouraged and incentivised to participate in Competitive Bidding and the consequences (if any) for non-participation or non market participation in Competitive Bidding; and
 - (viii) consider any other business relevant to the Digital Asset Derivatives Default Management Process which any member of the Digital Asset Derivatives Default Management Committee from time to time sees fit to raise at such meetings.

Article 45 Composition

The Digital Asset Derivatives Default Management Committee shall be made up of the following individuals, each to be appointed by LCH SA, in consultation with the Risk Committee:

- (i) representatives nominated by each of the Clearing Members (including, without limitation, those DMG Representatives that have been appointed, or will be appointed within the next 6 months, on behalf of a Clearing Member to the Digital Asset Derivatives Default Management Group in accordance with the DMG Rotation Plan or representatives from an Affiliate whom a Clearing Member may appoint) with appropriate skills and expertise who shall participate in the design and testing, etc. of the Digital Asset Derivatives Default Management Process;
- (ii) at least one director (staff member of director grade) of the LCH SA Risk Management department, who shall be appointed as the vice-chairman of the Digital Asset Derivatives Default Management Committee by the chief executive officer of LCH SA; and
- (iii) such other individuals as the Digital Asset Derivatives Default Management Committee and/or the Risk Committee considers appropriate from time to time in relation to such meetings.

In making such appointments, LCH SA shall ensure that the composition of the Digital Asset Derivatives Default Management Committee is such as to provide effective review of the Digital Asset Derivatives Default Management Process and has suitable expertise and representation of market-making capacity in the event of an Event of Default.

In carrying out each appointment, LCH SA shall require each representative of a Clearing Member mentioned in Article 45(i) and each individual mentioned in Article 45(iii) to file a fitness self certification and a *curriculum vitae* with LCH SA. LCH SA shall be permitted to undertake reasonable diligence in respect of each of them before appointing them as members of the Digital Asset Derivatives Default Management Committee, and may require a Clearing Member to nominate alternative representative(s) if it is not reasonably satisfied that the proposed representative(s) comply with the requirements set out in Article 45(i) and/or refuse to appoint any individual mentioned in Article 45(iii).

Section 2 Role and constitution of the Digital Asset Derivatives Default Management Group

Article 46 Role

The Digital Asset Derivatives Default Management Group shall meet within one hour, or as soon as reasonably practical, following notification by LCH SA that a Clearing Member is the subject of an Event of Default in accordance with Article 4.5.1.1 of the Digital Asset Derivatives Clearing Rule Book, and at sufficiently frequent intervals thereafter for so long as may be necessary to assist LCH SA in the implementation of the Digital Asset Derivatives Default Management Process. Such implementation shall include, without limitation, the provision of default management advice with regard to:

- (i) the ongoing obligations of LCH SA to non-Defaulting Clearing Members;
- (ii) Hedging and closing-out of Digital Asset Derivatives Transactions registered in the name of the Defaulting Clearing Member; and
- (iii) the registration of Transfer Positions in accordance with the Digital Asset Derivatives Default Management Process.

Sub-section 1 Composition

Article 47 Membership

The Digital Asset Derivatives Default Management Group shall be made up of the following individuals each to be appointed by LCH SA in consultation with the Digital Asset Derivatives Default Management Committee and the Risk Committee:

- (i) the Global Head of Digital Asset Clear who shall act as chairman or any director of Digital Asset Clear as may be appointed by the Chairman as the Vice Chairman;
- (ii) representatives from the trading function of at least three Clearing Members, being senior executives with appropriate skills and expertise, knowledge of the Digital Asset Derivatives Default Management Process and experience of fire drills undertaken by the Digital Asset Derivatives Default Management Committee, who shall be nominated by the relevant Clearing Members and appointed in accordance with Article 48 below;
- (iii) at least one director (staff member of director grade) of the LCH SA risk management department; and
- (iv) such other individuals as the Digital Asset Derivatives Default Management Group considers appropriate from time to time in relation to individual meetings.

In making such appointments, LCH SA shall ensure that the composition of the Digital Asset Derivatives Default Management Group is such as to provide effective review of the Digital Asset Derivatives Default Management Process and has suitable expertise and representation of market-making capacity in the event of an Event of Default.

Article 48 Appointment of Clearing Member representatives

Each Clearing Member is required to notify LCH SA of at least two representatives, and for that purpose may appoint representatives from an Affiliate, that can be called upon to participate, on behalf of that Clearing Member, as a member of the Digital Asset Derivatives Default Management Group in accordance with a rotation plan maintained by the Digital Asset Derivatives Default Management Committee in accordance with Article 44(v) above ("**DMG Representatives**").

In nominating DMG Representatives, each Clearing Member shall identify a representative that shall be its principal DMG Representative and representative(s) that shall be its back-up DMG Representative(s).

Each proposed DMG Representative and each individual mentioned in Article 47(iv) above shall be required to file a fitness self certification and a *curriculum vitae* with LCH SA. LCH SA shall be permitted to undertake reasonable diligence in respect of any proposed DMG Representative before approving such representative's inclusion, on behalf of the relevant Clearing Member, on the rotation plan (the "DMG Rotation Plan") and may require a Clearing Member to nominate alternative DMG Representative(s) if it is not reasonably satisfied that the nominated representative(s) comply with the requirements set out in Article 47(iii) above. LCH SA shall also be permitted to undertake reasonable diligence in respect of any individual mentioned in Article 47(iv) and to refuse to appoint any such individual.

The DMG Rotation Plan will be managed by the Digital Asset Derivatives Default Management Committee in accordance with the following principles:

- (i) the DMG Rotation Plan will list all DMG Representatives and the Clearing Member that each DMG Representative represents;
- (ii) the DMG Rotation Plan will set out a timetable for the appointment/retirement of Clearing Members to/from the Digital Asset Derivatives Default Management Group, the timetable being set by the Digital Asset Derivatives Default Management Committee in its discretion with a view to ensuring that the composition of the Digital Asset Derivatives Default Management Group at any one time has suitable expertise and representation of market-making capacity in the event of a default;
- (iii) at least three different Clearing Members shall be appointed to the Digital Asset Derivatives Default Management Group at any one time. For the avoidance of doubt, in the event that the Digital Asset Derivatives Default Management Group is required to convene in accordance with Article 46, a Clearing Member that has been appointed to the Digital Asset Derivatives Default Management Group shall be permitted to provide any (but not all) of its principal or back up DMG Representatives to assist LCH SA in the management of the relevant Event of Default;
- (iv) the duration of each Clearing Member's appointment to the Digital Asset Derivatives Default Management Group shall be for a minimum of 6 months and a maximum of 5 years (at the discretion of the relevant Clearing Member) (the "**DMG Term**");
- (v) at the end of a Clearing Member's DMG Term (save where the expiry of such DMG Term arises in the course of management of an Event of Default, in which case the Clearing Member's DMG Term shall be extended at the discretion of the Digital Asset Derivatives Default Management Committee), the DMG Representatives representing such Clearing Member shall retire from the Digital Asset Derivatives Default Management Group and DMG Representatives (representing a different Clearing Member), as set out in the DMG Rotation Plan, shall be appointed to the Digital Asset Derivatives Default Management Group simultaneously in its/their place(s);
- (vi) only one Clearing Member may retire from the Digital Asset Derivatives Default Management Group and be replaced, in accordance with paragraph (v) above, in any 3-month period so as to maintain continuity of participation in the Digital Asset Derivatives Default Management Group.

Article 49 Additional members

Following consultation with the Digital Asset Derivatives Default Management Group, LCH SA may invite the Defaulting Clearing Member to nominate one or more representatives to join the Digital Asset Derivatives Default Management Group to assist it in carrying out its functions under the Digital Asset Derivatives Default Management Process for that Defaulting Clearing Member. LCH SA may also

request that representatives from other Clearing Members to join the Digital Asset Derivatives Default Management Group, following consultation with the Digital Asset Derivatives Default Management Group.

In the event of receiving such request, the Defaulting Clearing Member and/or the Clearing Member, as appropriate, will be obliged to provide its Digital Asset Derivatives Default Management Committee representative, or an alternate with appropriate skills, experience and expertise as if that representative were a member of the Digital Asset Derivatives Default Management Committee, to participate in the Digital Asset Derivatives Default Management Group. The Digital Asset Derivatives Default Management Committee shall be able to request a substitute where it believes the Defaulting Clearing Member and/or the Clearing Member's nominated representative, as appropriate, does not have the requisite skills or expertise.

Sub-section 2 Organisation

Article 50 Clearing Member undertakings

Each Clearing Member who makes available a DMG Member agrees, and shall procure that to, the extent applicable, its DMG Member agrees:

- (i) to ensure that its DMG Member will be fully available, at any time and for such periods of time as LCH SA may require during the course of an Event of Default, to perform its function as a member of the Digital Asset Derivatives Default Management Group including attending meetings, considering and advising LCH SA upon aspects of the Digital Asset Derivatives Default Management Process. The Clearing Member shall ensure that its DMG Member's other work commitments do not affect its availability for this purpose;
- (ii) to take all steps to respect the confidential capacity in which such a representative receives information through the Digital Asset Derivatives Default Management Group and to establish adequate procedures to prevent the disclosure or use for any commercial purpose outside the scope of the Digital Asset Derivatives Default Management Process of any such confidential information by the Clearing Member, its DMG Member or, as applicable, the Clearing Member's Affiliate. Such procedures shall normally include, without limitation, the establishment of Information Barriers within the Clearing Member and, as applicable, within the Clearing Member's Affiliate; and
- (iii) to be bound by and to ensure that it and any of its, or, as applicable, Affiliate's, executives, directors or employees serving on the Digital Asset Derivatives Default Management Group complies with the Annex to this Instruction covering confidentiality, non-disclosure and other terms.

Section 3 Participation in the Digital Asset Derivatives Default Management Committee and Digital Asset Derivatives Default Management Group

Article 51 No liability

Each Clearing Member shall accept that representatives of Clearing Members serving on the Digital Asset Derivatives Default Management Committee and DMG Members are doing so in order to assist LCH SA in ensuring the ongoing integrity of the Digital Asset Derivatives Clearing Service in the interests of non-Defaulting Clearing Members, and that those representatives/DMG Members or their employers, shall have no liability for any disinterested advice or actions, mandated or otherwise, that are undertaken as part of the Digital Asset Derivatives Default Management Process.

Article 52 LCH SA's actions

LCH SA agrees that, in exercising its rights and obligations in consulting with the Digital Asset Derivatives Default Management Committee or the Digital Asset Derivatives Default Management Group, as the case may be, pursuant to the Digital Asset Derivatives Default Management Process, it will use all reasonable commercial endeavours to agree a common position with the Digital Asset Derivatives Default Management Committee or the Digital Asset Derivatives Default Management Group, as appropriate, provided that nothing in this Article shall prevent LCH SA acting in a way which it reasonably determines necessary to manage its risk or otherwise meet its continuing obligations as a clearing house under the supervision of its Competent Authorities.

Chapter 7 Subsistence of the Digital Asset Derivatives Management Process

Article 53 Applications for membership

Every Applicant shall be required to execute the Digital Asset Derivatives Admission Agreement, a condition of which shall be an undertaking to adhere to the Digital Asset Derivatives Default Management Process, failing which an application for membership shall not be approved by LCH SA.

Article 54 Condition of Continuing Membership

Each Clearing Member shall be required to participate in the Digital Asset Derivatives Default Management Process as a condition of continuing membership of the Digital Asset Derivatives Clearing Service.

Article 55 Automatic Termination

Save with regard to the provisions of Article 56, the Digital Asset Derivatives Default Management Process shall cease to bind a Clearing Member immediately upon the termination of its membership.

Article 56 Survival

The termination of a Clearing Member's membership shall not affect any accrued rights or liabilities of either LCH SA or the Clearing Member nor shall it affect the coming into force or the continuance in force of any provision of the Digital Asset Derivatives Default Management Process which is expressly or by implication intended to come into or continue in force on or after that termination, including without limitation the provisions of Sub-sections 1 and 2 of Section 2 of Chapter 6 of this Instruction and Chapter 7 of this Instruction.

Chapter 8 Provisions relating to Collateral provided by way of a Belgian law security interest

Article 57 Default notification

Upon the occurrence of an Event of Default and the issue by LCH SA of a notice of default in accordance with the Digital Asset Derivatives Clearing Rules:

- (i) LCH SA may, at its sole discretion, request the Defaulting Clearing Member to transfer the Collateral provided by way of a Belgian law security interest and recorded in its Client Pledged Account(s) (if any) to LCH SA with full title in order to facilitate the transfer of such Collateral together with associated Client Open Positions in accordance with Chapter 2 of this Instruction and/or the payment of the amount due to or by the Clients of the Defaulting Clearing Member; and
- (ii) LCH SA may enforce directly the security interest granted by the Defaulting Clearing Member under, and in accordance with, the Pledge Agreement.

Article 58 Perfection and enforceability

Subject to LCH SA providing Euroclear Bank with a copy of the notice of default issued by LCH SA in accordance with Article 57 above, LCH SA shall be able to perfect and enforce the pledge on the Collateral provided by way of a Belgian law security interest (meaning that it shall be entitled to apply such Collateral transferred by the Defaulting Clearing Member as envisaged by the Digital Asset Derivatives Clearing Rules and in particular Article 4.5.2.9 of the Digital Asset Derivatives Clearing Rule Book) against the Defaulting Clearing Member, any other creditors of the Defaulting Clearing Member and/or the trustee in bankruptcy, without having to notify, or secure any consent from the Defaulting Clearing Member or any other person, and without having to obtain any court approval (see article 8 of the Law of 15 December 2004 implementing the Directive 2002/47/EC on financial collateral arrangements under Belgian law as amended from time to time).

Article 59 Enforcement by appropriation for the purposes of transferring Client Collateral to an alternate Clearing Member

In the event:

- (i) LCH SA has requested the Defaulting Clearing Member to transfer the Collateral provided by way of a Belgian law security interest in accordance with Article 57(i) above;
- (ii) the Defaulting Clearing Member fails to transfer the Collateral provided by way of a Belgian law security interest and recorded in its Client Pledged Account(s) (if any) to LCH SA within such period as LCH SA has specified in its request pursuant to Article 57 above; and
- (iii) it has been determined that some or all of such Collateral is to be transferred to an alternate Clearing Member in accordance with Chapter 2 of this Instruction,

then LCH SA shall enforce the security interest granted to it under, and in accordance with, the Pledge Agreement by appropriation of the Defaulting Clearing Member's Collateral provided by way of a Belgian law security interest and recorded in its relevant Client Pledged Account(s) (if any) in respect of Client Open Positions to be transferred to an alternate Clearing Member in accordance with Chapter 2 of this Instruction.

Article 60 Transfer to an alternate Clearing Member

Where the Collateral in respect of Client Open Positions to be transferred under Chapter 2 of this Instruction includes or is comprised of Collateral provided by way of a Belgian law security interest and recorded in its Client Pledged Account(s) (if any) and the alternate Clearing Member wishes to have such Collateral provided to LCH SA by way of a Belgian law security interest rather than on a full title transfer basis, the transfer of such Collateral shall be conditional upon the alternate Clearing Member having:

- (i) entered into a Pledge Agreement with LCH SA; and

- (ii) opened with LCH SA the relevant Client Pledged Account at Euroclear Bank for the purpose of holding the relevant Collateral in respect of such Client Open Positions and for the relevant Product Group(s).

Article 61 Transfer to LCH SA

In order to transfer Collateral provided by way of a Belgian law security interest and recorded in its Client Pledged Account(s) (if any) to LCH SA in order to satisfy a request made in accordance with Article 57(i) above, the Defaulting Clearing Member must provide LCH SA with its consent to debit such Collateral from its Client Pledged Account(s) by Euroclear Bank, pursuant to an instruction of LCH SA. The Defaulting Clearing Member must evidence its consent by submitting written confirmation by any means or form specified by LCH SA.

Following the receipt of the consent of the Defaulting Clearing Member, LCH SA will submit instructions via Euroclear Bank. When LCH SA receives the confirmation of transfer from Euroclear Bank, LCH SA shall update the relevant Client Collateral Account(s) of the Defaulting Clearing Member to reflect that such Collateral has been transferred with full title to LCH SA.

In the event LCH SA has requested the Defaulting Clearing Member to transfer the Collateral provided by way of a Belgian law security interest in accordance with Article 57(i) above and the Defaulting Clearing Member has not sent its consent within the timeframe specified by LCH SA, LCH SA shall be entitled to enforce the security interest granted to it under, and in accordance with, the Pledge Agreement and, in accordance with the Digital Asset Derivatives Clearing Rules, by appropriation of the Collateral provided by way of a Belgian law security interest and recorded in its Client Pledged Account(s) (if any).

Chapter 9 Provisions relating to Collateral provided by way of the triparty Collateral solution

Article 62 Default notification

Upon the occurrence of an Event of Default, LCH SA shall issue a notice of default to the Defaulting Clearing Member in accordance with the Clearing Rules as well as, where the Defaulting Clearing Member has posted Collateral using the triparty Collateral solution, to the relevant triparty agent, pursuant to and in accordance with the terms of the Triparty Documentation.

Annex

Confidentiality, non-disclosure and participation in the Digital Asset Derivatives Default Management Group

General obligations of the Clearing Member

1. Confidentiality

- 1.1 The Clearing Member agrees that, in consideration of being given Confidential Material, it will keep all such Confidential Material in the strictest confidence, adhere to the provisions of the Digital Asset Derivatives Default Management Process in respect thereof and, subject to paragraph 1.3, will not disclose it to any person without the prior written permission of the managing director of the LCH SA risk management department, providing always that the Clearing Member shall be relieved of such an obligation of confidentiality in respect of any Confidential Material if:
 - 1.1.1 it comes into the public domain other than through a breach by the Clearing Member of the Digital Asset Derivatives Default Management Process; or
 - 1.1.2 the Clearing Member is expressly obliged to do so by order of a court of competent jurisdiction upon the application of a third party, or as a result of any request to disclose such part or parts of the Confidential Material in connection with any inquiry or other request by a regulatory authority or self-regulatory authority asserting jurisdiction over the Clearing Member.
- 1.2 The Clearing Member further agrees that it will not use any Confidential Material for any purpose other than the Permitted Purpose. In this regard the Clearing Member expressly acknowledges and agrees that the Confidential Material may contain commercially sensitive information which if used inappropriately or otherwise than in accordance with the Digital Asset Derivatives Default Management Process might result in the gaining of an unfair commercial advantage by the Clearing Member over other Clearing Members.
- 1.3 Subject to paragraph 1.5, the Clearing Member may disclose any Confidential Material to any of its employees, representatives, associated companies and advisers on a "strictly need to know" basis, in the event that any such person needs that Confidential Material for the Permitted Purpose (and to that extent only), provided that the Clearing Member notifies the vice-chairman of the Digital Asset Derivatives Default Management Committee prior to such disclosure.
- 1.4 The Clearing Member agrees to, and, as applicable, shall procure that its Affiliate, establish and adhere to adequate procedures (including, without limitation, the establishment of appropriate Information Barriers) to ensure that any employee or representative to whom any Confidential Material is disclosed shall not use any part or all of that Confidential Material for any proprietary purpose outside the scope of the Permitted Purpose.
- 1.5 This paragraph and the duties hereunder shall survive the termination of the Digital Asset Derivatives Default Management Process and, in relation to any Confidential Material, shall expire on the second anniversary of the date the Confidential Material was first provided to the Clearing Member, without prejudice to confidentiality obligations under any applicable laws and regulations which would prevent the Clearing Member from disclosing or using any Confidential Material otherwise than pursuant to and in accordance with paragraphs 1.1 to 1.4 above.

2. Secrecy

- 2.1 Except in accordance with the terms of this Annex, the Clearing Member agrees that it shall treat as strictly confidential and shall not disclose or allow to be divulged to any person:
 - 2.1.1 Confidential Material;
 - 2.1.2 the fact that it has received any Confidential Material;
 - 2.1.3 the existence of any discussions or negotiations between the parties in this matter.
 - 2.1.4 details of the Permitted Purpose and any of the proposals, terms, conditions, facts or other matters relating to any of the foregoing. Subject only to the Clearing Member being relieved of such an obligation because of the circumstances covered in paragraphs 1.1.1 and 1.1.2.
- 2.2 LCH SA undertakes to ensure that the Clearing Member is fully appraised of information on the Digital Asset Derivatives Default Management Process that it makes public and which is accordingly of relevance to the Clearing Member's obligations.

3. Property

The parties acknowledge that the property in the Confidential Material (or any part of it) shall not pass to the Clearing Member or any Clearing Member, and the property in the media on which it is conveyed to the receiving party shall not pass to the Clearing Member or any Clearing Member unless expressly so agreed by LCH SA in writing.

4. Return of Confidential Material

Upon request by LCH SA, and in any event upon fulfilment of the Permitted Purpose, the Clearing Member shall promptly return to LCH SA by a secure method of transportation all or any part of the Confidential Material and all copies thereof in its possession or control or that of its employees or representatives, including all other papers, programs and records incorporating any of that Confidential Material, or shall destroy such information and shall certify to LCH SA in writing that it has done so provided that the Clearing Member is permitted to retain copies of any Confidential Material which it requires as part of its portfolio management or otherwise for legal or regulatory reasons.

5. No Representations or Warranties; No Conflict of Interest

- 5.1 Subject to references made in paragraph 6, the Confidential Material is disclosed by LCH SA without any representation or warranty whatsoever as to its accuracy or completeness or otherwise.
- 5.2 LCH SA acknowledges and agrees that, subject to compliance with the terms of this Annex by the Clearing Member and any of its employees or representatives to whom Confidential Material is provided in accordance with this Annex, the Clearing Member's participation in the Digital Asset Derivatives Default Management Process shall not prevent the Clearing Member from carrying out any transaction, or otherwise providing investment services in respect of, investments that the Clearing Member may subsequently learn are the subject of Confidential Material and, furthermore, LCH SA agrees that it shall not be able to assert that the Clearing Member has a conflict of interest in doing so nor shall LCH SA have a claim or action in respect of the foregoing against the Clearing Member or any of its directors, employees or other representatives.

6. Remedies

Without affecting any other rights or remedies that LCH SA may have, the Clearing Member acknowledges that LCH SA may be irreparably harmed by any breach of the terms of the Digital Asset Derivatives Default Management Process and that damages alone may not necessarily be an adequate remedy. Accordingly, LCH SA will be entitled to the remedies of injunction, specific performance and other equitable relief, or any combination of these remedies, for any threatened or actual breach of its terms, and not proof of special damages will be necessary to enforce the Digital Asset Derivatives Default Management Process.

General Terms of Participation in the Digital Asset Derivatives Default Management Group

7. Conflict of interest

The Clearing Member shall procure that, in the event that a DMG Member takes the view that a possible conflict of interest may arise with regard to any matter forming part of the business of the Digital Asset Derivatives Default Management Group, it shall promptly report its view to the Chairman of the Digital Asset Derivatives Default Management Group, who shall act accordingly, taking the advice of other DMG Members as appropriate.

8. Confidentiality

- 8.1 Subject to paragraph 8.3 below, the Clearing Member shall procure that the DMG Member shall keep all Confidential Material strictly confidential to itself and will not disclose it to any person who is not a DMG Member (including, for the avoidance of doubt, the Clearing Member who recommended its appointment to the Digital Asset Derivatives Default Management Group or its employer (if different) or any other employee, adviser, officer or fellow worker of that Clearing Member or its employer) without the prior written permission of the managing director of LCH SA's risk management department or its properly authorised delegate, providing always that the DMG Member shall be relieved of such an obligation of confidentiality in respect of any Confidential Material if it comes into the public domain in the circumstances covered in paragraphs 1.1.1 and 1.1.2.
- 8.2 Subject to paragraph 8.3 below, the Clearing Member shall procure that the DMG Member shall not use any Confidential Material for any purpose other than the proper fulfilment of its duties as a DMG Member.
- 8.3 The parties acknowledge that, where LCH SA has declared an Event of Default in accordance with Article 4.5.1.1 of the Digital Asset Derivatives Clearing Rule Book, the DMG Member may be required by a Clearing Member and/or its employer (if different) to provide certain services to LCH SA in the management of the default. In such event, and only in such event, the parties acknowledge that the DMG Member shall be entitled to disclose any part or parts of the Confidential Material as may be agreed by LCH SA, in such manner and form and in accordance with such procedures as may be prescribed by LCH SA and/or the Digital Asset Derivatives Default Management Group with regard to the management of that default.
- 8.4 Upon request by LCH SA, and in any event upon termination of the membership of the DMG Member of the Digital Asset Derivatives Default Management Group, the Clearing Member shall procure that the DMG Member shall promptly return to LCH SA by a secure method of transportation all or any part of the Confidential Material and all copies thereof in its possession or control, including all abstracts, notes, drawings and other papers, programs and records incorporating any of that Confidential Material, or shall destroy such information and shall certify to LCH SA in writing that it has done so, provided that the

DMG Member is permitted to retain a copy thereof to comply with applicable legal or regulatory requirements.

9. Warranty and representation

The Clearing Member represents and warrants that it will procure that:

- 9.1 the Clearing Member and the DMG Member's employer (if different) are aware of the obligations of confidentiality arising out of the Digital Asset Derivatives Default Management Process; and
- 9.2 nothing in the Digital Asset Derivatives Default Management Process will cause the DMG Member to breach any duty or obligation (whether arising pursuant to contract or otherwise) which it owes to the Clearing Member or to its employer, if different, or any other contract counterparty of the DMG Member.