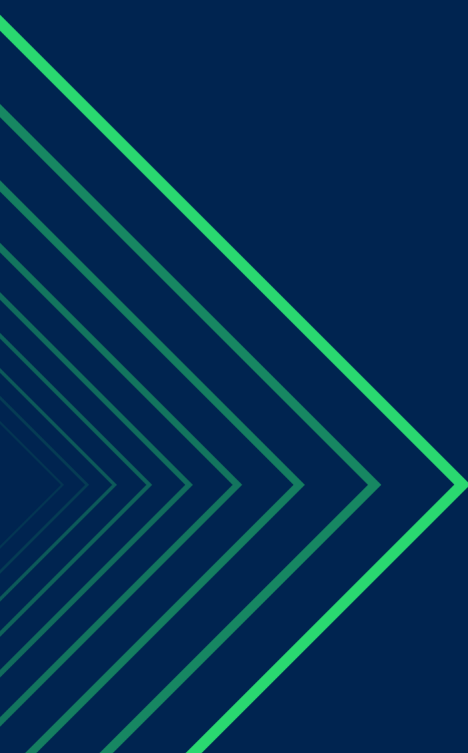
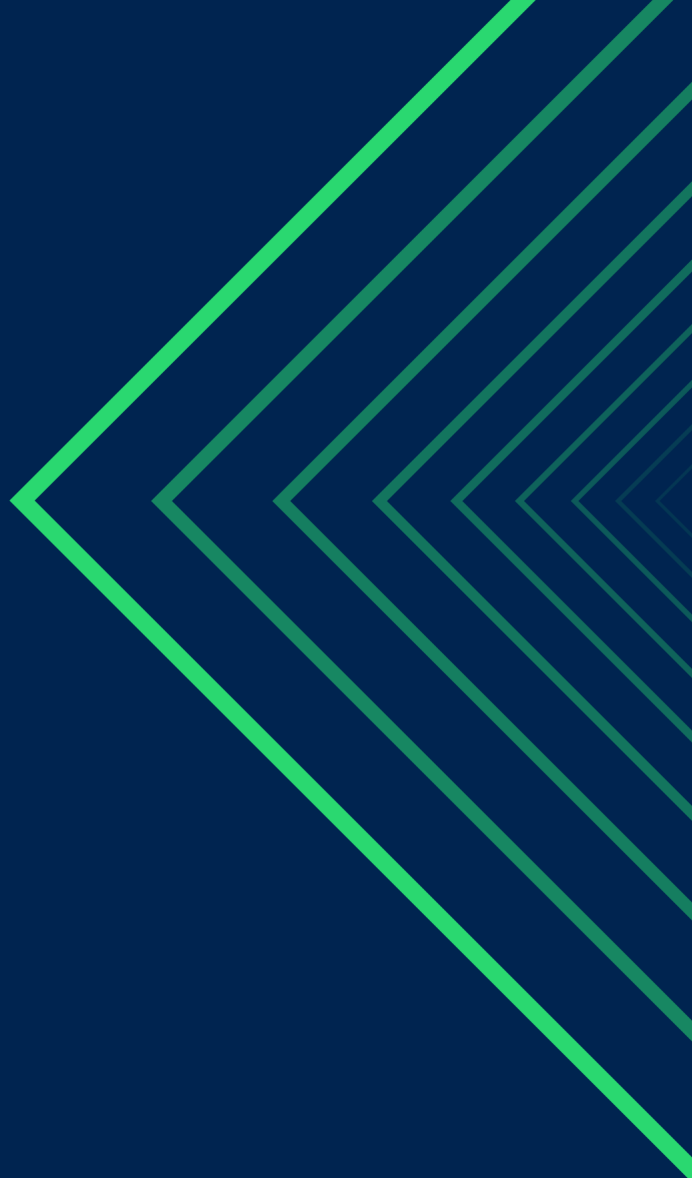




# Regulation Securities Default Handling



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# **1. General**

## **1.1 Regulation**

This Regulation Securities Default Handling is a Regulation as defined in the Clearing Rule Book.

## **1.2 Definitions**

Capitalised terms used in this Regulation, and not otherwise defined herein, have the meaning as set out in the Clearing Rule Book.

## **1.3 Effective date**

This Regulation comes into force on 1 May 2026 and replaces any prior version of Regulation Securities Default Handling.

## **1.4 Purpose**

This Regulation Securities Default Handling, describes the process that Cboe Clear will apply in relation to Securities Transactions and SFTs of a Defaulting Clearing Member.

# **2. Introduction**

The general purpose and principle of the Default handling process is to limit the impact of a Defaulting Clearing Member on Cboe Clear and to cover any losses incurred by Cboe Clear due to the Default of the Clearing Member.

For this purpose, Cboe Clear may continue, terminate or close out the Defaulting Clearing Member's Positions in accordance with this Regulation Securities Default Handling and, to the extent it needs to hedge or replace any terminated Positions or obligations, hold an auction, buy-in securities or otherwise source valuations in respect of the relevant Positions, rights or obligations. Cboe Clear may apply the various resources available to Cboe Clear in accordance with articles 7 and 14 of chapter 1 of the Clearing Rulebook to cover costs or losses incurred by Cboe Clear as part of the Defaulting handling process set out in this Regulation Securities Default Handling.

This Regulation Securities Default Handling sets out the specific processes Cboe Clear may follow in the case of a Default in respect of Securities Transactions and SFTs. It is subject to (and does not place any limitation on) the various rights and powers available to Cboe Clear following the Default of a Clearing Member in accordance with the Clearing Rule Book (in particular article 14.4 of chapter 1) and Cboe Clear's discretion as to how it uses such powers.

# **3. Cboe Clear actions in relation to the SFTs of a Defaulting Clearing Member**

This article 3 sets out certain processes Cboe Clear may elect (in its discretion) to follow after the Default of a Clearing Member in respect of any of its obligations in respect of the Closing Leg of an SFT. For the avoidance of doubt, if a Clearing Member fails to perform in respect of the Opening Leg of an SFT, Cboe Clear may take the steps available to it in accordance with article 7.3 of chapter 3 of the Clearing Rule Book and such failure shall not

be a Breach for the purposes of the Clearing Rules (or give rise to a Default under the Clearing Rules).

### **3.1 Default of a Borrower**

Following the Default of a Standard Clearing Member that acts as Borrower in respect of one or more SFTs, all rights and obligations of the Defaulting Clearing Member and Cboe Clear under each SFT to which the Standard Clearing Member is party as Borrower will be accelerated so as to require performance thereof on the Liquidation Date specified by Cboe Clear in accordance with article 14.6 of chapter 1 of the Clearing Rule Book. Such delivery and payment obligations shall be subject to close-out and netting and settled by payment of the Liquidation Amount by Cboe Clear or the Defaulting Clearing Member, such amount to be calculated in respect of the Position Account to which such SFTs are recorded (after applying the value of any related Margin) in accordance with article 14.6 of chapter 1 of the Clearing Rule Book.

For the purposes of determining the Liquidation Amount, Cboe Clear may (in its discretion) determine its gain or loss in respect of each SFT in respect of which the Defaulting Clearing Member acts as Borrower recorded to the relevant Position Account (the "Borrower Default Relevant Value"):

- a) by means of an auction of rights and obligations equivalent to the outstanding rights and obligations of the Defaulting Clearing Member under each SFT (as if such rights and obligations had not been terminated); or
- b) by determining (inter alia) a market value for securities Equivalent to the Loaned Securities transferred to the Defaulting Clearing Member under each SFT.

#### **3.1.1 Auction**

Cboe Clear shall auction each auction portfolio to non-defaulting Standard Clearing Members in accordance with the process set out in article 5 below in order to:

- a) seek to re-establish with those non-defaulting Standard Clearing Members the rights and obligations Cboe Clear had with the Defaulting Clearing Member under the relevant SFTs; and
- b) seek to determine the Borrower Default Relevant Value of those SFTs for the purposes of determining the Liquidation Amount owed by the Defaulting Clearing Member to Cboe Clear or by Cboe Clear to the Defaulting Clearing Member.

Cboe Clear may (in its discretion): (i) split the SFTs (or rights and obligations thereunder) to be auctioned into several auction portfolios or (ii) combine such Positions (or rights and obligations thereunder) with the Securities Transactions of such Defaulting Clearing Member to be auctioned in one or more auction portfolios, in each case with the aim of facilitating the efficiency of, and reducing the risk associated with, the auction process.

Each Standard Clearing Member will be required to participate in the auction.

From (and including) the time at which the auction is completed, the auction winner will assume the outstanding rights and obligations of the Defaulting Clearing Member in respect of each SFT forming part of the relevant auction portfolio. On the Settlement Date in respect of the Closing Leg of the SFT, the auction winner will be required to deliver Equivalent Loaned Securities to Cboe Clear in return for Cboe Clear delivering Equivalent RQV Assets to the auction winner (such settlement to be effected in accordance with Regulation SFT Settlement). If the auction winner assumes the outstanding rights and obligations of the Defaulting Clearing Member prior to the Settlement Date in respect of the Closing Leg of the SFT, it may also need to deliver RQV Assets equal to any RQV Shortfall in respect of such SFTs to Cboe Clear on any Clearing Day or may receive Equivalent RQV

Assets equal to any RQV Excess from Cboe Clear on any Clearing Day, each such transfer to be settled in accordance with Regulation SFT Settlement. The auction winner will also be required to contribute Margin and DF Contribution in respect of each SFT.

Each auction bidder acknowledges that, if it is the auction winner in respect of a specific SFT, it may not be able to deliver Equivalent Loaned Securities in respect of such auctioned SFT on the Settlement Date of the Closing Leg in respect of such SFT. Such failure to perform on the Settlement Date will be a Fail and the auction winner will be liable for any losses incurred by Cboe Clear and costs, fees and penalties in accordance with article 10.2 of chapter 3 of the Clearing Rule Book and Regulation Fees and Penalties. Each auction bidder may take such costs, fees and penalties into account in any bid it submits in the auction.

The amount bid by the auction winner (or the relevant portion thereof allocable to the relevant terminated SFT with the Defaulting Clearing Member), whether such amount is payable by the auction winner to Cboe Clear or by Cboe Clear to the auction winner, shall be the Borrower Default Relevant Value of such SFT. If such amount is owed to Cboe Clear, it will be expressed as a negative number and, if it is owed to Clearing Member, it will be expressed as a positive number.

### **3.1.2 Establishing a market value for the Equivalent Loaned Securities**

Cboe Clear may establish a market value for such Equivalent Loaned Securities using whichever pricing sources or models it elects in its discretion, including effecting a buy-in of the Equivalent Loaned Securities.

If Cboe Clear establishes the market value of the Equivalent Loaned Securities via a buy-in, it will buy Equivalent Loaned Securities in respect of the SFT to which the Defaulting Clearing Member was party from a buy-in broker. Any costs incurred by Cboe Clear in funding such buy-in will be factored into the calculation of the Liquidation Amount in accordance with article 14.6 of chapter 1 of the Clearing Rule Book.

If Cboe Clear fails to buy-in Equivalent Loaned Securities in a sufficiently timely manner to settle its obligation to deliver Equivalent Loaned Securities under a Related SFT on the Settlement Date of the Closing Leg in respect of such Related SFT, Cboe Clear may be subject to certain fees and costs resulting from such late performance. Any such fees and costs will be factored into the calculation of the Liquidation Amount in accordance with article 14.6 of chapter 1 of the Clearing Rule Book.

The Borrower Default Relevant Value in respect of each SFT will be the market value of the Equivalent Loaned Securities (established in accordance with this article) less the Value of the Equivalent RQV Assets that Cboe Clear would (absent the application of article 14.6 a) of chapter 1 of the Clearing Rule Book) be required to transfer to the Borrower under the SFT. If such amount is owed to Cboe Clear, it will be expressed as a negative number and, if it is owed to Clearing Member, it will be expressed as a positive number.

## **3.2 Default of a Lender that is a Standard Clearing Member**

Following the Default of a Standard Clearing Member that acts as Lender in respect of one or more SFTs, all rights and obligations of the Defaulting Clearing Member and Cboe Clear under each SFT to which the Standard Clearing Member is party as Lender will be accelerated so as to require performance thereof on the Liquidation Date specified by Cboe Clear in accordance with article 14.6 of chapter 1 of the Clearing Rule Book. Such delivery and payment obligations shall be subject to close-out and netting and settled by payment of the Liquidation Amount by Cboe Clear or the Defaulting Clearing Member, such amount to be calculated in respect of the Position Account to which such SFTs are recorded (after

applying the value of any related Margin) in accordance with article 14.6 of chapter 1 of the Clearing Rule Book.

For the purposes of determining the Liquidation Amount, Cboe Clear may (in its discretion) determine its gain or loss in respect of each SFT in respect of which the Defaulting Clearing Member acts as Lender recorded to the relevant Position Account (the "Standard Lender Relevant Value"):

- a) by means of an auction of rights and obligations that are equivalent to the outstanding rights and obligations of the Defaulting Clearing Member under each SFT (as if such rights and obligations had not been terminated); or
- b) by determining (inter alia) a market value for securities Equivalent to the RQV Assets transferred to the Defaulting Clearing Member under each SFT.

### **3.2.1 Auction**

Cboe Clear shall auction each auction portfolio to non-defaulting Standard Clearing Members in accordance with the process set out in article 5 below in order to:

- a) seek to re-establish with those non-defaulting Standard Clearing Members the rights and obligations Cboe Clear had with the Defaulting Clearing Member under the relevant SFTs; and
- b) seek to determine the Standard Lender Relevant Value of those SFTs for the purposes of determining the Liquidation Amount owed by the Defaulting Clearing Member to Cboe Clear or by Cboe Clear to the Defaulting Clearing Member.

Cboe Clear may (in its discretion): (i) split the SFTs (or rights and obligations thereunder) to be auctioned into several auction portfolios or (ii) combine such Positions (or rights and obligations thereunder) with the Securities Transactions of such Defaulting Clearing Member to be auctioned in one or more auction portfolios, in each case with the aim of facilitating the efficiency of, and reducing the risk associated with, the auction process.

Each Standard Clearing Member will be required to participate in the auction.

From (and including) the time at which the auction is completed, the auction winner will assume the outstanding rights and obligations of the Defaulting Clearing Member in respect of each SFT forming part of the relevant auction portfolio. On the Settlement Date in respect of the Closing Leg of the SFT, the auction winner will be required to deliver Equivalent RQV Assets to Cboe Clear in return for Cboe Clear delivering Equivalent Loaned Securities to the auction winner (such settlement to be effected in accordance with Regulation SFT Settlement). If the auction winner assumes the outstanding rights and obligations of the Defaulting Clearing Member prior to the Settlement Date in respect of the Closing Leg of the SFT, it may also need to deliver Equivalent RQV Assets equal to any RQV Excess in respect of such SFTs to Cboe Clear on any Clearing Day or may receive RQV Assets equal to any RQV Shortfall from Cboe Clear on any Clearing Day, each such transfer to be settled in accordance with Regulation SFT Settlement. The auction winner will also be required to contribute Margin and DF Contribution in respect of each SFT.

Each auction bidder acknowledges that, following a failure by a Defaulting Clearing Member to perform the final exchange in respect of the Closing Leg of an SFT, if they are the auction winner in respect of such SFT (and assume the outstanding obligations of the Defaulting Clearing Member), they may not be able to deliver Equivalent RQV Assets in respect of such auctioned SFT on the Settlement Date in respect of such SFT. Such failure to perform on the Settlement Date will be a Fail and the auction winner will be liable for any losses incurred by Cboe Clear and costs, fees and penalties in accordance with article 10.2 of chapter 3 of the Clearing Rule Book and Regulation Fees and Penalties. Each auction

bidder may take such costs, fees and penalties into account in any bid it submits in the auction.

The amount bid by the auction winner (or the relevant portion thereof allocable to the relevant terminated SFT with the Defaulting Clearing Member), whether such amount is payable by the auction winner to Cboe Clear or by Cboe Clear to the auction winner, shall be the Standard Lender Relevant Value of such SFT. If such amount is owed to Cboe Clear, it will be expressed as a negative number and, if it is owed to Clearing Member, it will be expressed as a positive number.

### **3.2.2 Establishing a market value for the Equivalent RQV Assets**

Cboe Clear may establish a market value for such Equivalent RQV Assets using whichever pricing sources or models it elects in its discretion, including effecting a buy-in of the Equivalent RQV Assets.

If Cboe Clear establishes the market value of the Equivalent RQV Assets via a buy-in, it will buy Equivalent RQV Assets in respect of the SFT to which the Defaulting Clearing Member was party from a buy-in broker. Any costs incurred by Cboe Clear in funding such buy-in will be factored into the calculation of the Liquidation Amount in accordance with article 14.6 of chapter 1 of the Clearing Rule Book.

If Cboe Clear fails to buy-in Equivalent RQV Assets in a sufficiently timely manner to settle its obligation to deliver Equivalent RQV Assets under a Related SFT on the Settlement Date of the Closing Leg in respect of such Related SFT, Cboe Clear may be subject to certain fees and costs resulting from such late performance. Any such fees and costs will be factored into the calculation of the Liquidation Amount in accordance with article 14.6 of chapter 1 of the Clearing Rule Book.

The Standard Lender Relevant Value in respect of each SFT will be the market value of the Equivalent RQV Assets (established in accordance with this article) less the Value of the Equivalent Loaned Securities that Cboe Clear would (absent the application of article 14.6 a) of chapter 1 of the Clearing Rule Book) be required to transfer to the Lender under the SFT. If such amount is owed to Cboe Clear, it will be expressed as a negative number and, if it is owed to Clearing Member, it will be expressed as a positive number.

## **3.3 Default of a Pledge-Back Lender**

### **3.3.1 Return and Recall**

Following the Default of a Special Clearing Member which acts as a Pledge-Back Lender in respect of an SFT (it being acknowledged that Pledge-Back Lenders may only clear Open Term SFTs), Cboe Clear may instruct:

- i. a Recall in respect of the Related SFT by way of notice to the Borrower, such notice to include the Settlement Date and settlement instructions for such Recall; and
- ii. a Return in respect of the SFT by way of notice to the Lender, such notice to include the Settlement Date and settlement instructions for such Return.

Following the delivery of notices by Cboe Clear in accordance with (i) and (ii) above, the Closing Leg of the SFT and Related SFT will be settled on the Settlement Date specified by Cboe Clear in accordance with Regulation SFT Settlement in the order set out below:

- a) the Borrower under the Related SFT shall deliver, by title transfer, Equivalent Loaned Securities to Cboe Clear's account;

- b) the RQV Assets in the Depository RQV Account related to the SFT shall be released from the pledge in favour of Cboe Clear and the Lender (or the TPCA) shall deliver Equivalent RQV Assets to Cboe Clear's account;
- c) Cboe Clear shall transfer Equivalent Loaned Securities by way of title transfer to the relevant account of the Lender under the SFT; and
- d) Cboe Clear shall transfer Equivalent RQV Assets to the Borrower under the Related SFT.

A failure by the Borrower to deliver Equivalent Loaned Securities under the Related SFT on the Settlement Date in accordance with sub-paragraph (a) above will be a Fail and Cboe Clear may take the steps available to it under the Clearing Rule Book and Regulation Buy-in Procedure in respect of such Fail.

If the Pledge-Back Lender does not accept (for any reason) the transfer of Equivalent Loaned Securities by Cboe Clear to it or agree to the release of the pledge over the RQV Assets in the Depository RQV Account related to the SFT (in accordance with sub-paragraphs (b) and (c) above), Cboe Clear may enforce its pledge over the RQV Assets and take any steps available to it pursuant to the terms of such pledge (including, but not limited to, appropriating the RQV Assets by instructing the TPCA (by way of notice) to transfer Equivalent RQV Assets from the Depository RQV Account of the Pledge-Back Lender to Cboe Clear's account). Following enforcement of such pledge and appropriation of Equivalent RQV Assets, Cboe Clear shall transfer Equivalent RQV Assets to the account of the Borrower under the Related SFT in accordance with sub-paragraph (d) above.

### **3.3.2 Close-out netting**

If Cboe Clear decides not to instruct a Return or Recall in accordance with article 3.3.1 above, Cboe Clear may elect to instruct that all SFTs in respect of which the Special Clearing Member acts as Pledge-Back Lender will be closed-out and netted. If Cboe Clear so elects, all rights and obligations of the Defaulting Clearing Member and Cboe Clear under each SFT to which the Special Clearing Member is party as Pledge-Back Lender will be accelerated so as to require performance thereof on the Liquidation Date specified by Cboe Clear in accordance with article 14.6 of chapter 1 of the Clearing Rule Book. Such delivery and payment obligations shall be subject to close-out and netting and settled by payment of the Liquidation Amount by Cboe Clear or the Defaulting Clearing Member, such amount to be calculated in respect of the Position Account to which such SFTs are recorded in accordance with article 14.6 of chapter 1 of the Clearing Rule Book.

For the purposes of determining the Liquidation Amount, Cboe Clear may (in its discretion) determine its gain or loss in respect of each SFT in respect of which the Defaulting Clearing Member acts as Pledge-Back Lender recorded to the relevant Position Account (the "Pledge Back Lender Relevant Value"):

- a) by means of an auction of rights and obligations that are equivalent to the outstanding rights and obligations of the Defaulting Clearing Member under each SFT (as if such rights and obligations had not been terminated); or
- b) by determining (inter alia) a market value for securities Equivalent to the RQV Assets transferred to the Defaulting Clearing Member under each SFT.

#### **3.3.2.1 Auction**

Cboe Clear shall auction each auction portfolio to non-defaulting Standard Clearing Members in accordance with the process set out in article 5 below in order to:

- (i) seek to re-establish with those non-defaulting Standard Clearing Members the rights and obligations Cboe Clear had with the Defaulting Clearing Member under the relevant SFTs; and
- (ii) seek to determine the Pledge Back Lender Relevant Value of those SFTs for the purposes of determining the Liquidation Amount owed by the Defaulting Clearing Member to Cboe Clear or by Cboe Clear to the Defaulting Clearing Member.

Cboe Clear may (in its discretion) split the SFTs (or rights and obligations thereunder) to be auctioned into several auction portfolios with the aim of facilitating the efficiency of, and reducing the risk associated with, the auction process.

Each Standard Clearing Member will be required to participate in the auction.

From (and including) the time at which the auction is completed, the auction winner will assume the outstanding rights and obligations of the Defaulting Clearing Member in respect of each SFT forming part of the relevant auction portfolio. On the Settlement Date in respect of the Closing Leg of the SFT, the auction winner will be required to deliver Equivalent RQV Assets to Cboe Clear in return for Cboe Clear delivering Equivalent Loaned Securities to the auction winner (such settlement to be effected in accordance with Regulation SFT Settlement). If the auction winner assumes the outstanding rights and obligations of the Defaulting Clearing Member prior to the Settlement Date in respect of the Closing Leg of the SFT, it may also need to deliver Equivalent RQV Assets equal to any RQV Excess in respect of such SFTs to Cboe Clear on any Clearing Day or may receive RQV Assets equal to any RQV Shortfall from Cboe Clear on any Clearing Day, each such transfer to be settled in accordance with Regulation SFT Settlement.

Each auction bidder acknowledges that, following a failure by a Defaulting Clearing Member to perform the final exchange in respect of the Closing Leg of an SFT, if they are the auction winner in respect of such SFT (and assume the outstanding obligations of the Defaulting Clearing Member), they may not be able to deliver Equivalent RQV Assets in respect of such auctioned SFT on the Settlement Date in respect of such SFT. Such failure to perform on the Settlement Date will be a Fail and the auction winner will be liable for any Losses incurred by Cboe Clear and costs, fees and penalties in accordance with article 10.2 of chapter 3 of the Clearing Rule Book and Regulation Fees and Penalties. Each auction bidder may take such costs, fees and penalties into account in any bid it submits in the auction.

The amount bid by the auction winner (or the relevant portion thereof allocable to the relevant terminated SFT with the Defaulting Clearing Member), whether such amount is payable by the auction winner to Cboe Clear or by Cboe Clear to the auction winner, shall be the Pledge Back Lender Relevant Value of such SFT. If such amount is owed to Cboe Clear, it will be expressed as a negative number and, if it is owed to Clearing Member, it will be expressed as a positive number.

### **3.3.2.2 Establishing a market value for the Equivalent RQV Assets**

Cboe Clear may establish a market value for such Equivalent RQV Assets using reputable pricing sources or models chosen by Cboe Clear (acting reasonably), including effecting a buy-in of the Equivalent RQV Assets.

If Cboe Clear establishes the market value of the Equivalent RQV Assets via a buy-in, it will buy Equivalent RQV Assets in respect of the SFT to which the Defaulting Clearing Member was party from a buy-in broker. Any costs incurred by Cboe Clear in

funding such buy-in will be factored into the calculation of the Liquidation Amount in accordance with article 14.6 of chapter 1 of the Clearing Rule Book.

If Cboe Clear fails to buy-in Equivalent RQV Assets in a sufficiently timely manner to settle its obligation to deliver Equivalent RQV Assets under a Related SFT on the Settlement Date of the Closing Leg in respect of such Related SFT, Cboe Clear may be subject to certain fees and costs resulting from such late performance. Any such fees and costs will be factored into the calculation of the Liquidation Amount in accordance with article 14.6 of chapter 1 of the Clearing Rule Book.

The Pledge Back Lender Relevant Value in respect of each SFT will be the market value of the Equivalent RQV Assets (established in accordance with this article) less the Value of the Equivalent Loaned Securities that Cboe Clear is required to transfer to the Lender under the SFT. If such amount is owed to Cboe Clear, it will be expressed as a negative number and, if it is owed to Clearing Member, it will be expressed as a positive number.

### **3.3.2.3 Enforcement of Security**

If the Pledge Back Lender Relevant Value determined in accordance with this article 3.3.2.3 in respect of an SFT to which the Defaulting Clearing Member was party is negative (and is owed to Cboe Clear), Cboe Clear may enforce its pledge over the RQV Assets (or the portion of such RQV Assets equal to the Pledge Back Lender Relevant Value) and take any steps available to it pursuant to the terms of such pledge (including, but not limited to, appropriating the RQV Assets by instructing the TPCA (by way of notice) to transfer Equivalent RQV Assets from the Depository RQV Account of the Pledge-Back Lender to Cboe Clear's account).

## **3.4 Default of a Pledgee Lender**

### **3.4.1 Settlement on maturity**

Following the Default of a Special Clearing Member which acts as a Pledgee Lender in respect of an SFT, Cboe Clear may, in respect of a Fixed Term SFT or an Open Term SFT, decide not to take action in respect of such SFT, such that the SFT and the Related SFT continue until they are the subject of a Return or Recall by the Pledgee Lender or Borrower (as applicable) under the Clearing Rules. On the Settlement Date in respect of the Closing Legs under the SFT and Related SFT, Cboe Clear will instruct the settlement of the Closing Legs under the SFT and Related SFT in accordance with the Clearing Rule Book and Regulation SFT Settlement.

### **3.4.2 Return and Recall**

Following the Default of a Special Clearing Member which acts as a Pledgee Lender in respect of an Open Term SFT, Cboe Clear may instruct:

- i. a Recall in respect of the Related SFT by way of notice to the Borrower, such notice to include the Settlement Date and settlement instructions for such Recall; and
- ii. a Return in respect of the SFT by way of notice to the Lender, such notice to include the Settlement Date and settlement instructions for such Return.

Following the delivery of notices by Cboe Clear in accordance with (i) and (ii) above, the Closing Leg of the SFT and Related SFT will be settled on the Settlement Date specified by Cboe Clear in accordance with Regulation SFT Settlement in the order set out below:

- a) the Borrower under the Related SFT shall deliver, by title transfer, Equivalent Loaned Securities to Cboe Clear's account;
- b) Cboe Clear shall transfer Equivalent Loaned Securities by way of title transfer to the relevant account of the Pledgee Lender under the Related SFT;
- c) the RQV Assets in the Omnibus RQV Account related to the Related SFT shall be released from the pledge in favour of the Pledgee Lender (and the TPCA shall transfer Equivalent RQV Assets to the relevant Cboe Clear account); and
- d) Cboe Clear shall transfer Equivalent RQV Assets to the Borrower under the Related SFT.

A failure by the Borrower to deliver Equivalent Loaned Securities under the Related SFT on the Settlement Date in accordance with sub-paragraph (a) above will be a Fail and Cboe Clear may take the steps available to it under the Clearing Rule Book and Regulation Buy-in Procedure in respect of such Fail.

### **3.4.3 Close-out**

If Cboe Clear decides not to take any of the steps provided for in articles 3.4.1 and (if applicable) 3.4.2 above, Cboe Clear may elect that all rights and obligations of the Defaulting Clearing Member and Cboe Clear under each SFT to which the Special Clearing Member is party as Pledgee Lender will be accelerated so as to require performance thereof on the Liquidation Date specified by Cboe Clear in accordance with article 14.6 of chapter 1 of the Clearing Rule Book.

Cboe Clear's obligation to transfer Equivalent Loaned Securities to the Defaulting Clearing Member under each SFT on the Liquidation Date will be terminated and settled by payment of the Liquidation Amount by Cboe Clear or the Defaulting Clearing Member, such amount to be calculated in respect of the Position Account to which such SFTs are recorded in accordance with article 14.6 of chapter 1 of the Clearing Rule Book (for the avoidance of doubt, such calculation shall not include the value of the RQV Assets pledged in favour of the Defaulting Clearing Member).

On settlement of the Liquidation Amount, the pledge over the RQV Assets in respect of each SFT in favour of the Defaulting Clearing Member will be released.

For the purposes of determining the Liquidation Amount, Cboe Clear may (in its discretion) determine the value of its obligation to transfer Equivalent Loaned Securities to the Defaulting Clearing Member (the "Relevant Equivalent Loaned Securities Value"):

- a) by means of an auction of a right equivalent to the right of the Defaulting Clearing Member under each SFT to receive Equivalent Loaned Securities on the Settlement Date of the Closing Leg of such SFT (as if such right had not been terminated); or
- b) by determining a market value for the Equivalent Loaned Securities.

#### **3.4.3.1 Auction**

Cboe Clear shall auction each auction portfolio to non-defaulting Standard Clearing Members in accordance with the process set out in article 5 below.

Cboe Clear may (in its discretion) split the rights to be auctioned under each SFT into several auction portfolios with the aim of facilitating the efficiency of, and reducing the risk associated with, the auction process.

Each Standard Clearing Member will be required to participate in the auction.

From (and including) the time at which the auction is completed, the auction winner will assume the Defaulting Clearing Member's right to receive Equivalent Loaned Securities on the Settlement Date of the Closing Leg of each SFT and will become the beneficiary of the pledge granted by Cboe Clear over any RQV Assets in respect of each SFT.

The amount bid by the auction winner (or the relevant portion thereof allocable to the relevant terminated SFT with the Defaulting Clearing Member) shall be the Relevant Equivalent Loaned Securities Value of such SFT and shall be expressed as a positive amount owed by Cboe Clear to the Defaulting Clearing Member.

#### **3.4.3.2 Establishing a market value for the Equivalent Loaned Securities**

Cboe Clear may establish a market value for the Equivalent Loaned Securities using reputable pricing sources or models chosen by Cboe Clear (acting reasonably). The market value of the Equivalent Loaned Securities will be the Relevant Equivalent Loaned Securities Value and shall be expressed as a positive amount owed by Cboe Clear to the Defaulting Clearing Member.

## **4. Cboe Clear actions in relation to the Securities Clearing Positions of a Defaulting Clearing Member**

Upon publication of the Notice of Default, Cboe Clear may organise one or more auctions to replace the Positions of the defaulting Clearing Member that have closed out by Cboe Clear.

Cboe Clear will invite all non-defaulting Standard Clearing Members to participate in the auction and are mandated to participate and provide a bid in such auction. The invitation will be sent to the Standard Clearing Members per email and followed up by phone.

Cboe Clear will distribute the auction pack, which includes the auction portfolio, auction control document (detailing the auction process) and bid submission document at latest 11.00 CET on the Clearing Day on which the Notice of Default has been published, notwithstanding market events that may require Cboe Clear to distribute the auction pack at a later stage.

On the day of the auction, Clearing Members will be able to submit bids between 11:30 CET and 11:45 CET.

Bids can be provided for the total auction portfolio or a part of the auction portfolio as determined by Cboe Clear. The required bid must be a single price (including a breakdown of the price per Position). for the determined auction portfolio. Cboe Clear will have full discretion in deciding whether or not to accept bids and may choose to partially accept bids - notwithstanding Cboe Clear's preference to assign the auction portfolio as a whole to one bidder.

In the event that two or more Clearing Members submit bids with the same price for the same (part of the) auction portfolio, Cboe Clear will either assign the auction portfolio to the Clearing Member that submitted the bid first or, subject to its discretion, split the relevant (part of the) auction portfolio between the Clearing Members who submitted the equal bids.

In the event that two or more Clearing Members submit bids with different prices for the same (part of the) auction portfolio, Cboe Clear may, subject to its discretion, split the relevant (part of the) auction portfolio between the Clearing Members who submitted the bids. In such case, the price payable or receivable by the Clearing Members will be the price of the bid that is most favourable for Cboe Clear.

Where bids require Cboe Clear to pay, Cboe Clear will transfer the respective amount in EUR to each assigned bidder's Margin Account. The respective amount remains blocked until the assigned bidder has fulfilled all settlement obligations in respect to the auction portfolio. Losses resulting from such bids will be covered in accordance with Cboe Clear's Clearing Rule Book.

Where bids require Cboe Clear to receive, Cboe Clear will deduct the respective amount in EUR from each assigned bidder's Margin Accounts. Any shortfall in Margin resulting from the deduction will be collected in accordance with Cboe Clear's Regulation Margin.

At 12:00 CET on the auction day, Cboe Clear will determine the winner or winners of the auction portfolio. Between 12:00 and 12:15 CET, Cboe Clear will inform non-winners of the auction outcome.

Upon assignment, Cboe Clear will release the settlement instructions for the Positions as provided in the auction portfolio, Clearing Members are mandated to ensure settlements are matched same-day. Positions resulting from the auction portfolio are subject to Cboe Clear's Regulation Buy-in. Upon settlement of all Positions resulting from the auction portfolio, Cboe Clear considers the auction to be concluded.

If Cboe Clear receives no bids from Clearing Members in the auction, or all bids in the auction are of such nature that accepting such bids may lead to financial losses in excess of the prefunded default waterfall of Cboe Clear, Cboe Clear will consider the auction to be a failed auction.

## **5. SFT auction process**

After sending a Notice of Default to a Clearing Member who is party to one or more SFTs, Cboe Clear may (in its discretion) decide to hold an auction pursuant to article 3 above. Cboe Clear will inform Standard Clearing Members (via email and follow up by phone) whether or not it intends to hold an auction in respect of the Positions of the Defaulting Clearing Member promptly following such decision.

Non-defaulting Standard Clearing Members are mandated, through the Clearing Rules, to participate in the auction and bid on the auction portfolio.

Cboe Clear will distribute its auction pack, which includes details of the auction portfolio, auction control document (detailing the auction type and auction process) and bid submission documents at 11:00 CET on the Clearing Day on which it holds the auction, provided that, if (market) events require Cboe Clear to distribute the auction pack later or earlier, Cboe Clear may do so and the timings specified below will be amended accordingly by Cboe Clear and notified to Standard Clearing Members via the auction control document. In the event Cboe Clear will not be able to distribute its auction pack at or before 16:00 CET on the Clearing Day on which it holds the auction, Cboe Clear will delay the distribution of the auction pack until the following Clearing Day and the auction will be held on such following Clearing Day in accordance with the timings set out below. The auction pack will be distributed via email and followed up by phone immediately.

Standard Clearing Members will have forty-five (45) minutes to assess the auction pack after Cboe Clear has emailed the auction pack to them. Standard Clearing Members may direct questions to Cboe Clear Risk management through email. Cboe Clear will, on a best efforts basis, respond to those questions.

Cboe Clear will open its bid submission window, the timeframe in which Standard Clearing Members are obliged to submit their bids to Cboe Clear, from 11:45 CET until 12:00 CET. This timeframe may be amended in the event Cboe Clear has distributed its auction pack before or after 11:00 CET and will run from 45 minutes after Cboe Clear distributes its auction pack. The timeframes provided in the auction control document as part of the auction pack will be the timeframes on which Cboe Clear will execute the relevant auction.

During the bid submission window, Standard Clearing Members shall provide their sealed bids to Cboe Clear. A bid must be a single price but shall include a breakdown of the price per Position. Standard Clearing Members may revise their bid as long as the bid submission window is open. Cboe Clear will only consider the most recent bid provided by each Standard Clearing Member.

Cboe Clear shall determine the auction winner or winners between 12:00 CET and 12:15 CET (which timeframe will, if the timeframe for the submission of the auction pack has been amended, be adapted accordingly). The respective Standard Clearing Member or Standard Clearing Members shall promptly be informed via email and followed up by phone.

Standard Clearing Members who are not auction winners shall be informed of such fact between 12:00 CET and 12:15 CET by Cboe Clear (which timeframe will, if the timeframe for the submission of the auction pack has been amended, be adapted accordingly). Cboe Clear shall provide such Standard Clearing Members with information about the auction outcome. The respective information shall include at a least the difference, in both nominal value and percentage, between the bid submitted by the respective Standard Clearing Member and the bid submitted by the auction winner.

In the event Cboe Clear receives no bids from Standard Clearing Members or all bids are of such nature that accepting such bids may result in financial losses to Cboe Clear which exceed the value of the assets of Cboe Clear in the prefunded default waterfall, i.e., a failed auction, Cboe Clear will initiate a second auction one hour following the closing of the bid submission window and the respective timeframes will shift accordingly in the event Cboe Clear commenced its initial auction later than 12:00 CET. Standard Clearing Members will receive a revised auction pack.

If also in this second auction, Cboe Clear receives no bids from the Standard Clearing Members or all bids are of such nature that accepting such bids may lead to financial losses in excess of the prefunded default waterfall of Cboe Clear, Cboe Clear will utilise the financial resources available to it pursuant to article 14.10.1 of chapter 1 of the Clearing Rulebook and may subsequently take such other actions as it may determine as set out in articles 16 and 17 of chapter 1 of the Clearing Rulebook.

## **6. Default processes in respect of multiple roles or multiple Clearing Services**

### **6.1. Roles of the Defaulting Clearing Member in respect of SFTs**

A Clearing Member may act in different roles (i.e. as a Borrower or a Lender) in respect of different SFTs. Although the default processes set out in article 3 above will be applied according to the role in which the relevant Clearing Member acts in respect of the relevant SFT, a single Liquidation Amount will be calculated for all SFTs recorded to a single Position

Account of that Clearing Member. Such Liquidation Amount may therefore be calculated in respect of SFTs under which the Clearing Member has taken different roles.

## **6.2. Default process in respect of multiple Clearing Services**

Although articles 3 to 5 above set out separate Default handling processes in respect of SFTs and Securities Clearing Positions, Cboe Clear may (in its discretion) calculate a single net amount (or Liquidation Amount) in respect of Securities Clearing Positions and SFTs of a Defaulting Clearing Member and the related Margin.

Cboe Clear may also determine the composition of each auction portfolio in its discretion and may allocate Securities Clearing Positions and SFTs to a single auction portfolio or divide such Positions across multiple auction portfolios.