

Rule 6: Settlement, Settlement Failures and Close-Outs

6.1 Requirement for Timely Settlement. For each Participant to meet its Settlement Obligations, which may be net obligations or gross obligations as defined in Rule 1, as applicable, each Participant must, through Cash Digitization and Securities Digitization, have the required Eligible Securities or Operating Cash in its Participant Account on the Settlement Date by the Daily Settlement Cut-Off Time. Provided that each Participant has sufficient Operating Cash and/or Eligible Securities in its Participant Account, the Company will automatically settle the Settlement Obligations, on the Settlement Date, between Participants by causing Cash and Eligible Securities, as applicable, to be simultaneously transferred between the Participant Accounts of the relevant Participants. The Company will begin such settlement at 12:00 a.m. on each given Settlement Date.

6.1.1 Daily Settlement of Settlement Obligations. Settlement Obligations for a given Counterparty Pair will be due for settlement on the applicable Settlement Date by the Daily Settlement Cut-Off Time. In the event that a Participant has Settlement Obligations to multiple Counterparty Pairs, the Company will settle the relevant Settlement Obligations using Operating Cash or Eligible Securities credited to the Participant Account of the Participant in the settlement priority order described below in Rule 6.1.2.

6.1.2 Settlement Priority Framework.

6.1.2.1 Close-Out Liability Obligations. The Company will first settle any Close-Out Liability Obligations as provided in Rule 6.7 below.

6.1.2.2 Settlement Failures. After all Close-Out Liability Obligations have been settled, the Company will next settle in the order specified in Rule 6.1.2.4 all Settlement Obligations regarding Cash or a particular Eligible Security that represent Settlement Failures. Settlement Failures will be prioritized for settlement in descending order from oldest age to youngest based on the original settlement date.

6.1.2.3 Settlement Obligations That Do Not Represent Close-Out Liability Obligations or Settlement Failures. After all outstanding Close-Out Liability Obligations and Settlement Failures have been settled in accordance with Rules 6.1.2.1 and 6.1.2.2 using available Cash or the applicable Eligible Securities in a Participant's Participant Account, the Company will next, in the order specified in Rule 6.1.2.4, settle all Settlement Obligations that are not Close-Out Liability Obligations or Settlement Failures. For the avoidance of doubt, if no Close-Out Liability Obligation or Settlement Failure exists for a Participant regarding a Settlement Obligation, Rules 6.1.2.1 and 6.1.2.2 will not apply and the Settlement Obligation will be processed under this Rule 6.1.2.3.

6.1.2.4 Order of Settlement. When settling Settlement Obligations that represent Settlement Failures in Rule 6.1.2.2 for which the priority of the Settlement Failure

cannot be determined solely based on its age or when settling Settlement Obligations that do not represent Close-Out Liability Obligations or Settlement Failures in Rule 6.1.2.3, the Company will use available Cash or Eligible Securities, as applicable, in the Participant's Participant Account in the following order:

(a) Partial Settlements. Any Settlement Obligation that the Company has started to settle but that remains partially settled will be completed before settlement of any Settlement Obligations that have not been partially settled;

(b) Size of Exposures. If the order of priority for settlement cannot be determined based on whether the Settlement Obligations have been partially settled, then priority for settlement will be according to the largest remaining exposure by dollar value regarding delivery of Eligible Securities that is associated with each Settlement Obligation and ranked in descending order; and

(c) Random Ordering. If the order of priority for settlement cannot be determined based on whether the Settlement Obligations have been partially settled and based on the size of the exposures by dollar value regarding delivery of Eligible Securities that is associated with each Settlement Obligation and ranked in descending order, then the priority for settlement will be according to a random ordering determined in lexicographical order using an identifier that is assigned by the Company to each Settlement Obligation at the time it is recorded on the Company's books and records.

6.2 Settlement Failure. In the event a Participant fails to make sufficient Operating Cash or Eligible Securities available in its Participant Account on a Settlement Date to settle any of its Settlement Obligations by the Daily Settlement Cut-Off Time, such failure will constitute a Settlement Failure. A Failing Participant's Settlement Failures will be allocated to the relevant Non-Failing Participant(s) in the affected Counterparty Pair(s) following the Daily Settlement Cut-Off Time on the relevant Settlement Date for each Eligible Security in which such Failing Participant is unable to timely settle its Settlement Obligations. The Company will make available to each Participant a report which reflects the existence of any of its Settlement Failures to Counterparty Pairs and any Settlement Failures by Counterparty Pairs to the Participant, and each Participant will have the obligation to monitor any updates to these reports.

6.2.1 Settlement Failure Resolution. In the event of a Settlement Failure, the Company, except as provided in Rule 6.4.1 below, will continue to attempt to settle any outstanding Settlement Failure using Operating Cash or Eligible Securities that become available in the Participant's Participant Account until the Settlement Obligation has been settled or closed out through a buy-in or sell-out, as applicable, in accordance with this Rule. For a Settlement Failure regarding a Settlement Obligation of a Participant to deliver Operating

Cash where there is not any corresponding Settlement Obligation of a Counterparty Pair to deliver Eligible Securities to the Failing Participant (which may arise in connection with the Enhanced Netting Process pursuant to Rule 4.2A), any such Settlement Failure will not be governed by the close-out requirements in Rules 6.3, 6.4 or 6.5. Instead, the Settlement Failure will be a Close-Out Liability Obligation governed by Rules 6.6 and 6.7.

6.2.2 Settlement Failure Fees and Penalties. Fees and surcharges for Settlement Failures will be imposed in accordance with the Fee Schedule.

6.2.3 Settlement Failure Margin Charges. In the event that a Participant has a Settlement Failure, margin charges will be imposed in accordance with Rule 5.4B.

6.3 Close-Out Requirements. The Company's close-out requirements for Settlement Failures are set out in this section and are designed to require Participants to responsibly manage Settlement Failures. A close-out may either be a buy-in (in the case of a Settlement Failure regarding Eligible Securities) or a sell-out (in the case of a Settlement Failure regarding Operating Cash).

6.3.1 Discretionary Close-Out Execution. Unless and until a Settlement Failure is settled pursuant to Rule 6.2.1., a Non-Failing Participant may close-out the Settlement Failure of the Failing Participant that is its Counterparty Pair after delivering to the Company the required Notice of Intent to Close-Out under Rule 6.4.1.

6.3.2 Mandatory Close-Out Execution. A Non-Failing Participant must close-out a Settlement Failure of a Failing Participant where the Non-Failing Participant receives notice from the Company pursuant to Rule 5.5C that the Failing Participant has failed to satisfy a margin requirement. In such a case, the Non-Failing Participant must deliver to the Company and the Failing Participant the required Notice of Intent to Close-Out under Rule 6.4.1 and thereafter close-out the Settlement Failure not later than the Daily Settlement Cut-Off Time on the second Business Day after the notice pursuant to Rule 5.5C is provided by the Company that the Failing Participant has failed to satisfy a margin requirement.

6.4 Close-Out Notices.

6.4.1 Notice of Intent to Close-Out. In connection with any Discretionary Close-Out Execution or Mandatory Close-Out Execution as described in Rules 6.3.1 and 6.3.2, the Non-Failing Participant must provide notice to the Company and the Failing Participant of its intent to close-out the Settlement Failure, referred to as a Notice of Intent to Close-Out. In connection with a Notice of Intent to Close-Out regarding a Discretionary Close-Out Execution or Mandatory Close-Out Execution, the Company will as soon as technologically practicable at the time the Non-Failing Participant delivers the Notice of Intent to Close-Out cease to attempt to use Operating Cash or Eligible Securities that become available in the Participant Account of the Failing Participant pursuant to Rule

6.2.1 to settle any outstanding Settlement Failure specified in the Notice of Intent to Close-Out.

6.4.2 Close-Out Execution Notice. Any Non-Failing Participant effecting a Discretionary Close-Out or Mandatory Close-Out will provide notice to the Company and the Failing Participant immediately following, and in no event more than two (2) hours after, the relevant Close-Out Execution. The Close-Out Execution Notice must include:

- (a) counterparty;
- (b) quantity;
- (c) price;
- (d) net money paid/received;
- (e) trade date;
- (f) settlement date;
- (g) identification of Settlement Failure(s) to which the close out relate(s), including CUSIPs; and
- (h) money difference between the Settlement Failure(s) and the Close-Out Execution(s).

6.5 Close-Out by the Company. If the Non-Failing Participant does not complete the Mandatory Close-Out Execution pursuant to Rule 6.3 by the Daily Settlement Cut-Off Time on the second Business Day after such notice is provided by the Company pursuant to Rule 6.3.2, or if, for any reason, effecting such execution is not permitted (as may be the case if both Participants in a Counterparty Pair are Defaulting Participants), the Company, upon notice to the Failing Participant and Non-Failing Participant, will fix a Cash settlement value for the quantity of the securities not bought-in or sold-out through a Close-Out Execution in accordance with Rule 6.3. The value fixed by the Company will be final and not subject to review, and such value will be deemed the value obtained in the Mandatory Close-Out Execution pursuant to Rule 6.3. Among the factors that the Company may use to determine this value include the market practice for determining the value of securities, whether there is a generally recognized source for determining values, and whether there exists a recent closing bid quotation that would reflect the current market value.

After the time at which a buy-in or sell-out is executed pursuant to this paragraph, the Failing Participant will have no further obligation to deliver to the Non-Failing Participant, except as otherwise provided for in this Rule 6.

6.6. Close-Out Liability Obligation. Upon the Company receiving a Close-Out Execution Notice from a Non-Failing Participant and/or fixing a Cash settlement value pursuant to Rule 6.5, the

Company will create a Close-Out Liability Obligation due for settlement on the next Business Day. The Close-Out Liability Obligation will obligate the Failing Participant to pay the amount of the difference, if any, in favor of the Non-Failing Participant between the value of the Settlement Failure and the value, as applicable, of the Close-Out Execution or Cash settlement value fixed by the Company that is deemed to be the value obtained in a Mandatory Close-Out Execution. For the avoidance of doubt, if the difference is in favor of the Failing Participant, the Failing Participant will not be entitled to receive any amount related to such difference.

6.7 Settlement Order of Close-Out Liability Obligations. In the event that a Participant has unsettled Close-Out Liability Obligations, the Company will systematically prioritize the use of the Participant's available Operating Cash to settle the Close-Out Liability Obligations, prior to any other Settlement Obligations that will require Operating Cash. Any Close-Out Liability Obligation that the Company has started to settle but that remains partially settled will be completed before settlement of any Close-Out Liability Obligations that have not been partially settled. If the order of priority for settlement cannot be determined based on whether the Close-Out Liability Obligations have been partially settled, then priority for settlement will be according to the largest remaining Close-Out Liability Obligation ranked in descending order. If the order of priority for settlement cannot be determined based on whether the Close-Out Liability Obligations have been partially settled and based on the size of the exposures in descending order, then the priority for settlement will be according to a random ordering determined in lexicographical order using an identifier that is assigned by the Company to each Close-Out Liability Obligation at the time it is recorded on the Company's books and records.

In the event that a Participant incurs a Settlement Failure regarding a Close-Out Liability Obligation, the Participant will be considered a Defaulting Participant, and the Company will immediately use the Margin Assets of the Participant to settle any and all Close-Out Liability Obligations of the Participant. The Company will apply the Margin Assets on a pro rata basis across all Close-Out Liability Obligations of the Defaulting Participant in respect of all Counterparty Pairs across any and all applicable Non-Defaulting Participant counterparties to settle or partially settle open Close-Out Liability Obligations.

For any Close-Out Liability Obligations not fully settled after the Company has applied the Defaulting Participant's Margin Assets, the Company will generate a final value for any outstanding Close-Out Liability Obligation regarding each Counterparty Pair of the Defaulting Participant. Each such Counterparty Pair has discretion to pursue recovery of the amount of the final value against the Defaulting Participant; provided, however, that any such process will not be governed by the Rules.