

## **LONDON NOTICE No. 3104**

ISSUE DATE: 19 December 2008  
EFFECTIVE DATE: 22 December 2008

### **INTRODUCTION OF CREDIT DEFAULT SWAP INDEX CONTRACTS ON BCLEAR**

#### **Executive Summary**

Further to London Notice No. 3097, issued on 12 December 2008, this Notice confirms the launch date for Credit Default Swap Index Contracts as being 22 December 2008, provides further information about the reporting arrangements for such Contracts and highlights an update to the applicable reporting and clearing fees.

#### **1. Introduction**

- 1.1 London Notice No. 3097, issued on 12 December 2008, informed Members of the launch of Credit Default Swap Index Contracts ("CDS Contracts") on Bclear.
- 1.2 This Notice confirms to Members that the CDS Contracts will be made available via Bclear on and from Monday 22 December 2008. This Notice also provides Members with the following additional information in respect of the CDS Contracts:
  - (a) full Contract Specification and Summary Contract Specification;
  - (b) Minimum Volume Requirements;
  - (c) Trade Reporting and Confirmation;
  - (d) Credit Event and Succession Event Policy, the Adjudicator, the Market Advisory Group and the process for notifying the Exchange of a potential Credit Event or Succession Event;
  - (e) Exchange Guidance Document;
  - (f) non-Trading Days for CDS Contracts;
  - (g) Reporting and Clearing fees;
  - (h) statement in relation to the CDS Contracts;
  - (i) U.S. Regulatory Approval; and
  - (j) submission of Physical Settlement Requests to ISDA Auctions.

Web site: [www.nyx.com/liffe](http://www.nyx.com/liffe)

The **Euronext Derivatives Markets ("Liffe")** comprise the markets for derivatives operated by Euronext Amsterdam, Euronext Brussels, Euronext Lisbon, Euronext Paris and LIFFE Administration and Management, referred to respectively as the Amsterdam, Brussels, Lisbon, Paris and London markets. Euronext is part of the NYSE Euronext group.

## **2. Full Contract Specification and Summary Contract Specification**

- 2.1 On and from Monday 22 December 2008, CDS Contracts based on the Markit iTraxx Europe, Market iTraxx Crossover and Markit iTraxx Hi-Vol Indices shall be made available through Bclear under the terms of Exchange Contract No. 600. The full Contract Specification is attached to this Notice at Attachment 1 and will be made available in the London Market Handbook on the Liffe website ([www.nyx.com/londonhandbook](http://www.nyx.com/londonhandbook)) in due course.
- 2.2 The Summary Contract Specification is set out in Attachment 2 to this Notice.

## **3. Minimum Volume Requirements**

- 3.1 There are no minimum volume requirements in respect of CDS Contracts submitted via Bclear.

## **4. Trade Reporting and Confirmation**

- 4.1 OTC Trades in respect of CDS Contracts should be reported via Bclear using standard Bclear procedures. The Exchange will determine whether to confirm or decline to confirm a reported OTC Trade on the basis of the following criteria:
- (a) whether or not the OTC Trade conforms with the Exchange's full Contract Specification for CDS Contracts;
  - (b) the Exchange's determination as to whether the price of the OTC Trade represents a fair value for the trade; and
  - (c) overall financial risk management considerations of the Exchange and Clearing House.

## **5. Credit Event and Succession Event Policy, the Adjudicator and the Market Advisory Group and the process for notifying the Exchange of a potential Credit Event or Succession Event**

- 5.1 The Exchange's Credit Event and Succession Event Policy ("the Policy Document") is set out in Attachment 3 to this Notice. The Policy Document explains the manner in which Credit Events and Succession Events will be determined in respect of LIFFE's CDS Contracts, including the distinct roles of the Credit Event and Succession Event Adjudicator and the Market Advisory Group.
- 5.2 A Member of the Exchange who believes that a Credit Event or Succession Event has occurred in relation to a Reference Entity should submit an "Exchange Credit Event Notice" or "Exchange Succession Event Notice" to the Exchange describing the potential Credit Event or Succession Event and citing Publicly Available Information or Best Available Information, as appropriate, as stipulated in the full Contract Specification and Policy Document.
- 5.3 The templates for submitting an Exchange Credit Event Notice and Exchange Succession Event Notice are set out in Attachments 4 and 5 respectively to this Notice.
- 5.4 The Adjudicator will be selected from a panel of Adjudicators appointed by the Exchange. The panel of Adjudicators is currently comprised of:
- (a) Robin Dicker QC;

- (b) Gabriel Moss QC; and
- (c) William Trower QC.

5.5 Members will be informed of changes to the panel by way of Notice.

5.6 Clearing Members with reporting rights in respect of CDS Contracts are requested to provide details of a contact or contacts at their firms who can be contacted in the event that a Market Advisory Group conference call is to be held. Such contact(s) will receive the details of the conference call and will be invited to participate as part of the Market Advisory Group. The Exchange requests that such Clearing Members submit name(s), email addresses and contact numbers of individuals who will participate in the Market Advisory Group to their account manager at Liffe.

## 6. Exchange Guidance Document

6.1 The Exchange Guidance Document highlights key areas where the Exchange's Contract Terms and Administrative Procedures and the Policy Document differ from certain ISDA Definitions and OTC conventions for iTraxx credit derivatives.

6.2 The Exchange Guidance Document is set out in Attachment 6 to this Notice.

## 7. Non-Trading Days

7.1 CDS Contracts will be available for reporting from Monday to Friday throughout 2008/2009, except on the following days:

25 December 2008  
 26 December 2008  
 1 January 2009  
 10 April 2009  
 13 April 2009  
 1 May 2009  
 25 December 2009

## 8. Reporting and Clearing Fees

8.1 Fees will be charged on a per lot, per side basis, subject to a fee cap per transaction. Details of reporting and clearing fees are set out in the table below (they replace those contained in London Notice No. 3097):

Fee per lot	Fee Caps	
	Proprietary Business	Client Business
<i>Reporting and Clearing</i>	<i>Reporting and Clearing</i>	<i>Reporting and Clearing</i>
€1.00	€100	€400

## 9. Statement in relation to the CDS Contracts

9.1 The Exchange draws the following statement to the attention of potential users of its CDS Contracts. Members should ensure that their clients are made aware of the following statement:

“Potential users of the LIFFE Credit Default Swap Index Contracts should familiarise themselves with the terms of these contracts and with the Index compilation and calculation procedures of International Index Company Limited / Markit Group Limited. Potential users should also familiarise themselves with the details of the Exchange’s policy in relation to Credit Events and Succession Events and should be aware of the circumstances leading to the issuance of Event Protection Contracts. It is important for potential users of the LIFFE Credit Default Swap Index Contracts to familiarise themselves with the applicable ISDA Definitions and for the definition of each type of Credit Event and Succession Event to be fully understood by users of the LIFFE Credit Default Swap Index Contracts, so that holders of positions in the LIFFE Credit Default Swap Index Contracts are not taking on greater risks than they intend. Potential users of the LIFFE Credit Default Swap Index Contracts should also familiarise themselves with the ISDA Auction methodology for the determination of the Final Price (being the price for obligations which are deliverable under an ISDA documented credit derivative transaction) because this is used by the Exchange in the calculation of the Exchange Final Settlement Price in respect of any Event Protection Contracts that are issued. In circumstances where no Final Price is determined by an ISDA Auction, the Exchange will use a fixed recovery rate in the calculation of the Exchange Final Settlement Price for the cash settlement of any such Event Protection Contracts unless the Board has determined that a physical delivery mechanism should replace fixed recovery rates as the appropriate means of settlement and has confirmed such a change by Notice and incorporated it into the Contract Terms.

Potential users of the LIFFE Credit Default Swap Index Contracts should be aware that the Exchange’s Contract Terms reflect applicable definitions and provisions contained in the 2003 ISDA Credit Derivatives Definitions as supplemented by the May 2003 Supplement to the 2003 ISDA Credit Derivatives Definitions, each as published by ISDA (the “ISDA Definitions”). **The Exchange’s Contract Terms are governed by the applicable ISDA Definitions, and by any subsequent amendments to and replacement of these definitions as published by ISDA from time to time.** It is important that, before entering into a transaction in respect of LIFFE Credit Default Swap Index Contracts, potential users understand any risk, including any changes to the value of their position, that may be associated with opening a position under Contract Terms reflecting the current set of ISDA Definitions, which may result in a position governed by Contract Terms reflecting a subsequent set of ISDA Definitions.”

## **10. U.S. Regulatory Approval**

- 10.1 Members should note that U.S. persons are not permitted to engage in CDS Contracts on Bclear, pending achievement of the appropriate regulatory status with the relevant U.S. regulatory authorities. The Exchange will advise Members in due course if and when such status is achieved.

## **11. Submission of Physical Settlement Requests to ISDA Auctions**

- 11.1 LIFFE understands that permission has been granted by ISDA for holders of a LIFFE Credit Default Swap Index Contract to submit Physical Settlement Requests to ISDA credit event auctions via a Participating Bidder, if the Participating Bidder is willing to provide that service to the holder in question. It is the responsibility of holders of LIFFE Credit Default Swap Index Contracts wishing to submit Physical Settlement Requests to enter into any necessary arrangements with a Participating Bidder in order to do so. For the avoidance of doubt, neither the Exchange or ISDA will make provisions on behalf of LIFFE Members or their clients to allow the submission of Physical Settlement requests. It is entirely the responsibility of holders of LIFFE Credit Default Swap Index Contracts to make the necessary arrangements with appropriate Participating Bidders, including, if necessary, updates to existing agreements to bring LIFFE contracts into the scope of those agreements, and putting in place enabling documentation to deal with the settlement of Physical

Settlement Requests. LIFFE Members and their clients should ensure that appropriate arrangements with a Participating Bidder are in place in advance of any announcement of an auction, as there is unlikely to be sufficient time to conclude arrangements once an auction has been announced.

For further information in relation to this Notice, Members should contact:

Fixed Income derivatives	+44 (0)20 7379 2222	<a href="mailto:cds@liffe.com">cds@liffe.com</a>
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EXCHANGE CONTRACT NO. 600  
IN RESPECT OF  
CREDIT DEFAULT SWAP INDEX CONTRACTS

(A) CONTRACT TERMS  
(Issue Date: 19 December 2008)

(B) CONTRACT DETAILS SPECIFIED BY THE BOARD  
(Issue Date: 19 December 2008)

(C) CONTRACT DETAILS SPECIFIED BY THE BOARD  
FOR EVENT PROTECTION CONTRACTS  
(Issue Date: 19 December 2008)

(D) ADMINISTRATIVE PROCEDURES  
(Issue Date: 19 December 2008)

(E) ADMINISTRATIVE PROCEDURES  
FOR EVENT PROTECTION CONTRACTS  
(Issue Date: 19 December 2008)

Contract Maturities

December 2010 onwards

Please refer to London Notice No. 3104 issued on 19 December 2008.

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Markit iTraxx<sup>®</sup> derivatives products are derived from a source considered reliable, but neither International Index Company Limited / Markit Group Limited nor any of its employees, suppliers, subcontractors and agents (together Markit iTraxx<sup>®</sup> Associates) guarantees the veracity, completeness or accuracy of Markit iTraxx<sup>®</sup> derivatives products or other information furnished in connection with Markit iTraxx<sup>®</sup> derivatives products. No representation, warranty or condition, express or implied, statutory or otherwise, as to condition, satisfactory quality, performance, or fitness for purpose is given or assumed by International Index Company Limited or any of the Markit iTraxx<sup>®</sup> Associates in respect of Markit iTraxx<sup>®</sup> derivatives products or any data included in such Markit iTraxx<sup>®</sup> derivatives products or the use by any person or entity of Markit iTraxx<sup>®</sup> derivatives products or that data and all those representations, warranties and conditions are excluded save to the extent that such exclusion is prohibited by law.

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ISDA is a registered trademark of the International Swaps and Derivatives Association, Inc. References to ISDA or ISDA terms herein shall not constitute legal advice or an endorsement by ISDA of any LIFFE product. Nothing contained herein is intended to create any obligation on ISDA including, without limitation, as regards the administration or arrangement of credit event auctions. ISDA does not approve, endorse or recommend LIFFE Credit Default Swap Index Contracts. The ISDA credit derivatives definitions appearing in these terms and related documents appear in the 2003 ISDA Credit Derivatives Definitions (© 2003 International Swaps and Derivatives Association, Inc. “ISDA®”) as may be amended from time to time and are reproduced with its permission. These Definitions may not be reproduced without the express written permission of ISDA. It should also be noted that ISDA provides no warranty or assurance as to the accuracy of data or valuations generated by ISDA credit event auctions or the fitness of such auctions for any particularly purpose.

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THE LONDON INTERNATIONAL FINANCIAL FUTURES AND OPTIONS  
EXCHANGE

(A) CONTRACT TERMS

1. Interpretation

1.01 Save as otherwise specified herein, words and phrases defined in the Rules shall have the same meanings in these terms and in the Administrative Procedures.

1.02 In these terms and in the Administrative Procedures:

“Administrative Procedures” means all procedures from time to time implemented by the Exchange pursuant to the Rules for the purposes of this Exchange Contract.

“Annex” means, in respect of an Index and a Contract Maturity, the list for the relevant Index on the First Trading Day for that Contract Maturity, as published by the Index Publisher (subject to any update to reflect a name change).

“Bankruptcy” has the meaning assigned to it in the ISDA Definitions.

“Business Day” means a day on which commercial banks and foreign exchange markets are generally open to settle payments in London and on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) System is open. “Clearing House Business Day” means a Business Day on which the market and the Clearing House are open for business.

“Business Day Convention” means the convention for adjusting any relevant date if it would otherwise fall on a day that is not a Business Day or Clearing House Business Day, as appropriate. “Following Business Day Convention” means that the relevant date will be the first following day that is a Business Day or Clearing House Business Day, as appropriate. “Preceding Business Day Convention” means that the relevant date will be the first preceding day that is a Business Day or Clearing House Business Day, as appropriate.

“Buyer” means the protection buyer in a Credit Default Swap Index Contract, the Fixed Rate Payer.

“Contract Maturity” means each maturity specified in Table 1.

“Credit Default Swap Index Contract” means a contract made expressly or implicitly in the terms of this Exchange Contract for the sale and purchase of one or more lots in respect of an Index, and “registered Contract” means a Credit Default Swap Index Contract registered by the Clearing House.

“Credit Event” has the meaning attributed to it in term 7.

“Credit Event Determination Extension Period” has the meaning attributed to it in term 4.02.

“Credit Event Notification Period” has the meaning assigned to it in the Exchange's policy relating to Credit Events as published by the Exchange from time to time, and is the period during which a member may notify the Exchange, or it otherwise comes to the attention of the Exchange, that there has been a possible Credit Event in relation to a Reference Entity which has occurred within the Protection Period.

“EFSP” and “Exchange Final Settlement Price” means the price expressed as a percentage which will be used to determine the Floating Rate Payment payable on settlement of an Event Protection Contract, and shall be calculated in accordance with the terms set out in Table 2.

“euro” and “€” denote the single currency of the European Union introduced in participating Member States pursuant to their participation in Economic and Monetary Union in the European Union.

“Event Protection Contract” means a contract issued to the holder of a registered Contract following the issue by the Exchange of a Notice confirming that a Credit Event has occurred. The Event Protection Contract is the mechanism through which the Floating Rate Payer makes a payment as determined by the EFSP.

“Exchange Confirmation Date” means the Clearing House Business Day on which the parties enter into a contract in the terms of this Exchange Contract.

“Exchange Credit Event Determination Date” means the date on which the Exchange issues a Notice in accordance with the Exchange's policy relating to Credit Events confirming that a Credit Event has occurred.

“Failure to Pay” has the meaning assigned to it in the ISDA Definitions, provided that, for the purposes of determining any applicable Grace Period thereunder, the words “the later of the Trade Date and” shall be deleted from paragraph (i) and paragraph (iii) of Section 1.12(a) of the ISDA Definitions.

“Final Price” means the price for obligations of a Reference Entity which are deliverable under or the price which is used for settlement of an ISDA documented credit derivative transaction, expressed as a percentage, as determined pursuant to an ISDA Auction which the Exchange determines includes the Reference Obligation or obligations which rank equally with the Reference Obligation.

“Final Settlement Day” means, in respect of an Event Protection Contract, the day on which the EFSP is determined.

“First Trading Day” means, in respect of an Index and a Contract Maturity, the first day on which that Contract Maturity is available for trading.

“Fixed Payment Amount” means, for an Accrual Period specified in the Administrative Procedures, the amount per lot payable by the Fixed Rate Payer.

“Fixed Rate” means the rate, quoted in terms of basis points per annum of Notional Principal as specified in the relevant Annex, which determines the Fixed Payment Amount.

“Fixed Rate Payer” means the Buyer, the party obliged to make one or more payments of a Fixed Payment Amount.

“Fixed Rate Payer Period End Date” means the 20<sup>th</sup> calendar day in each quarterly month (March, June, September and December) during the lifetime of a particular Contract Maturity provided that if that day is not a Business Day then the Fixed Rate Payer Period End Date shall be determined according to the Following Business Day Convention.

“Fixed Rate Payer Payment Date” means a Fixed Rate Payer Period End Date provided that if that day is not a Clearing House Business Day then the Fixed Rate Payer Payment Date shall be determined according to the Following Business Day Convention.

“Floating Rate Payer” means the Seller, the party obliged to make a payment should a position in an Event Protection Contract be created.

“Floating Rate Payment” means the amount payable by the Seller to the Buyer on settlement of an Event Protection Contract.

“Index” means, a specific series as determined by the Exchange from time to time of an Index specified in Table 1 applicable to a Credit Default Swap Index Contract.

“Index Publisher” means Markit Group Limited, or any successor thereto or any replacement therefor appointed by the Index Sponsor for purposes of officially publishing the relevant Index.

“Index Rules” means at any time the then most recently published version of the Markit iTraxx Europe Index Rules, or any replacement therefor.

“Index Sponsor” means International Index Company Limited, or any successor thereto.

“Initial Payment Amount” means the upfront payment agreed between the Buyer and Seller of a Credit Default Swap Index Contract.

“Initial Payment Date” means the Clearing House Business Day following the Exchange Confirmation Date.

“ISDA” means the International Swaps and Derivatives Association, Inc. and any successor thereto.

“ISDA Auction” means with respect to a particular Reference Entity, an auction which is held for the purpose of establishing a price for obligations which are deliverable under, or providing a method for settlement of, an ISDA documented credit derivative transaction and which is subject to rules or procedures published by ISDA from time to time (or any other market settlement mechanism identified by the Exchange from time to time and confirmed by a Notice issued by the Exchange).

“ISDA Definitions” means the definitions and provisions contained in the 2003 ISDA Credit Derivatives Definitions as supplemented by the May 2003 Supplement to the 2003 ISDA Credit Derivatives Definitions, each as published by ISDA, and any subsequent amendments to or replacement of these definitions as published by ISDA from time to time.

“Last Notification Day” means the last day of the Credit Event Notification Period.

“Last Notification Time” means the time on the Last Notification Day specified in the Administrative Procedures as being the time by which the Exchange will accept notification from a member that there has been a possible Credit Event.

“Last Protection Day” means, in respect of a Contract Maturity, the 20<sup>th</sup> calendar day in the month in which the Contract Maturity falls.

“Last Trading Day” means, in respect of a Contract Maturity, the 20<sup>th</sup> calendar day in the month in which the Contract Maturity falls provided that if that day is not a Clearing House Business Day then the Last Trading Day shall be determined according to the Preceding Business Day Convention (subject in all cases to term 4).

“lot” means the unit of trading in respect of a Credit Default Swap Index Contract.

“Notional Principal” means the contract size of one lot of a Credit Default Swap Index Contract as set out in Table 1. Notional Principal will be reduced by the Exchange to cater for the reduction to zero of the Weighting of a particular Reference Entity in an Index due to a Credit Event in relation to that Reference Entity. “Original Notional Principal” is the Notional Principal of one lot of a Credit Default Swap Index Contract on an Index assuming no Reference Entity has undergone a Credit Event.

“Obligation” means an obligation of a Reference Entity (either directly or as provider of a Qualifying Guarantee, as defined in the ISDA Definition) that is Borrowed Money, as defined in the ISDA Definitions, and each Reference Obligation.

“Protection Period” means, in respect of a Contract Maturity, the period from 00.01 hours Greenwich Mean Time (“GMT”) on the First Trading Day to 23.59 hours GMT on the Last Protection Day provided that the Protection Period for a Successor to a Reference Entity (which is not the same entity as the original Reference Entity) shall commence on the day a Notice is published by the Exchange identifying that Successor.

“Reference Entity” means, in respect of an Index, a Reference Entity listed in the relevant Annex of the Index, and any Successor(s) thereto.

“Reference Obligation” means, in respect of an Index and a Reference Entity, the Reference Obligation set out opposite the relevant Reference Entity in the relevant Annex, provided that if the Index Sponsor or Index Publisher publishes a replacement Reference Obligation for a Reference Entity (or one

or more Reference Obligations(s) for a Reference Entity in connection with a Successor) such Reference Obligation (the “Substitute Reference Obligation”) shall be the Reference Obligation(s) under the Credit Default Swap Index Contract for such Reference Entity.

“Regulations” means the General Regulations and Default Rules from time to time in force of the Clearing House.

“Restructuring” has the meaning assigned to it in the ISDA Definitions, provided that (a) the words “the later of the Trade Date and” shall be deleted from Section 4.7(a) of the ISDA Definitions and (b) the words “as provider of a Qualifying Affiliate Guarantee or, if All Guarantees is specified as applicable in the related Confirmation, ” shall be deleted from Section 4.7(c) of the ISDA Definitions.

“Seller” means the seller of protection in a Credit Default Swap Index Contract, the Floating Rate Payer.

“Succession Event” has the meaning assigned to it in the ISDA Definitions.

“Successor” means, in respect of a Reference Entity, any entity or entities identified as a Successor by the Exchange following a determination by the Exchange that a Succession Event has occurred. The Exchange's policy relating to Succession Events will be published from time to time by means of one or more Notices and shall have such effect with regard to existing and/or new Credit Default Swap Index Contracts as the Exchange may determine.

“Table 1” means the Contract Details specified by the Board for Credit Default Swap Index Contracts.

“Table 2” means the Contract Details specified by the Board for Event Protection Contracts.

“unit” means a unit of an Event Protection Contract and a unit has the contract size as set out in Table 2.

“Weighting” means the percentage of Original Notional Principal for which a Reference Entity accounts, as specified in the relevant Annex. If a Credit Event occurs in relation to a Reference Entity, the Weighting of that Reference Entity shall reduce to zero on the Exchange Credit Event Determination Date. If a Succession Event occurs and more than one Successor to the Reference Entity is identified, the Weighting attributable to each Successor will be published by the Exchange in a Notice.

1.03 In these terms references to “lawful currency” shall be construed to include units of value of the euro which may be used validly to discharge payment obligations pursuant to the law of a jurisdiction which has introduced the euro as its lawful currency pursuant to EMU legislation and notwithstanding that such units of value of the euro may not at all material times following the Conversion Date constitute legal tender in such jurisdiction.

1.04 Reference to a “term” refers to a term hereof and reference to a “Rule” and the “Articles” refer to the Exchange’s Rules and Articles respectively. Save

where the context otherwise requires references herein to the singular include the plural, and vice versa.

- 1.05 References to a person (other than a Reference Entity) in these terms shall be construed to include references to its successors and its permitted assigns unless the Exchange otherwise notifies by Notice.
- 1.06 Unless stated otherwise, all times specified in these terms and Administrative Procedures are expressed in London time.
- 1.07 In the event of any inconsistency between the ISDA Definitions and these Contract Terms, these Contract Terms will govern. Any reference in the ISDA Definitions to (a) “relevant Confirmation” or “related Confirmation” shall be deemed to be references to these Contract Terms, (b) “Buyer” shall be deemed to references to Buyer under these Contract Terms and (c) “Seller” shall be deemed to be references to Seller under these Contract Terms.
- 1.08 If the Exchange determines that there could be uncertainty regarding the effect on these Contract Terms of any particular amendment to or replacement of the ISDA Definitions published by ISDA, then the Exchange shall determine, as soon as reasonably practicable in the circumstances, how that amendment to or replacement of the ISDA Definitions will be given effect in these Contract Terms and such determination shall be confirmed by Notice and incorporated into these Contract Terms.

## 2. Contract Specification

- 2.01 These terms shall apply to all Credit Default Swap Index Contracts.
- 2.02 Each Credit Default Swap Index Contract for a particular Index and Contract Maturity shall be for one or more lots.

## 3. Price

- 3.01 The Initial Payment Amount for a Credit Default Swap Index Contract shall be quoted in euro and shall have the minimum price movement as specified in Table 1.
- 3.02 The Fixed Rate in respect of one lot of a Credit Default Swap Index Contract shall be quoted in basis points per annum of Notional Principal and shall have a value as determined by the Index Sponsor and shall be fixed throughout the lifetime of a Contract Maturity. The Fixed Payment Amount in respect of one lot of a Credit Default Swap Index Contract shall be quoted in euro and shall have the minimum price increment as specified in Table 1.
- 3.03 If issued, following the declaration of a Credit Event, each Event Protection Contract shall be for one or more units.

## 4. Last Trading Day, Last Protection Day and Last Notification Day of Credit Default Swap Index Contracts

- 4.01 On the Last Trading Day, trading in Credit Default Swap Index Contracts for the relevant Contract Maturity month shall cease.

4.02 If, not later than the time on the last day of the Credit Event Notification Period specified in the Administrative Procedures, any member of the Exchange notifies the Exchange, or it otherwise comes to the attention of the Exchange, that there is a possible Credit Event in relation to a Reference Entity, the Exchange in its absolute discretion may declare a Credit Event Determination Extension Period for that particular Contract Maturity. The duration of the Credit Event Determination Extension Period will be determined by the Exchange and may be extended on one or more occasions. The Exchange will publish a Notice informing the market of such Credit Event Determination Extension Period. Such Notice shall be published not later than the Business Day immediately following the Last Notification Day. The Exchange will publish a Notice informing the market of any extension to the Credit Event Determination Extension Period. Such Notice shall be published not later than the last day of the then current Credit Event Determination Extension Period. The Last Trading Day, Last Protection Day and Fixed Rate Payer Payment Dates will remain unchanged. At any time prior to the expiry of such Credit Event Determination Extension Period, the Exchange may declare that an event giving rise to a Credit Event has occurred within the Protection Period and issue the appropriate Event Protection Contracts.

5. Settlement of Credit Default Swap Index Contracts

5.01 On the final Fixed Rate Payer Payment Date, the final payment will be made in respect of the Fixed Payment Amount and no further Fixed Payment Amounts will be made.

6. Settlement of Event Protection Contracts

6.01 The number of units in an Event Protection Contract issued per lot shall be determined according to the following formula:

$$\frac{\text{Reference Entity Weighting} \times \text{Original Notional Principal of one lot of Credit Default Swap Index Contract}}{\text{Contract Size of one unit of Event Protection Contract}}$$

6.02 The EFSP for Event Protection Contracts issued in respect of a particular Reference Entity shall be calculated by Exchange officials in accordance with the terms set out in Table 2.

6.03 The Exchange shall publish a provisional EFSP and the final EFSP as soon as is reasonably practicable on the Final Settlement Day. The final EFSP shall be final and binding for all purposes.

6.04 Subject to term 6.05, on the Clearing House Business Day immediately following the Final Settlement Day of an Event Protection Contract, positions in such Event Protection Contract will be closed and the Seller will make the Floating Rate Payment to the Buyer as specified in the Administrative Procedures.

6.05 In the event that the Board determines that a physical delivery mechanism shall, from a specified date, replace fixed recovery rates for the settlement of Event Protection Contracts in the absence of a Final Price being determined by an ISDA Auction, such a means of settlement shall apply to Event Protection Contracts arising from existing registered Contracts at such specified date.

Any such determination will be confirmed by Notice and incorporated into these Contract Terms.

6.06 For the avoidance of doubt, an Event Protection Contract is a market contract under the Rules.

7. Credit Events

7.01 In this term 7, “Credit Event” shall mean that the occurrence within the appropriate Protection Period of one of the following events:

- (i) Failure to Pay;
- (ii) Bankruptcy; and
- (iii) Restructuring

which has been confirmed by a Notice issued by the Exchange in accordance with the Exchange's policy relating to Credit Events as published by the Exchange from time to time.

7.02 Where any Credit Event occurs with respect to a Reference Entity and to a registered Contract, the Exchange shall alter the subject matter of each lot comprising such registered Contract to reflect such Credit Event by issuing the appropriate Event Protection Contract.

7.03 The Exchange's policy relating to Credit Events will be published from time to time by means of one or more Notices and shall have such effect with regard to existing and/or new Credit Default Swap Index Contracts as the Exchange may determine.

8. Initial Payment Amount

8.01 In respect of each lot comprised in a registered Contract, one of the following payments shall be made in respect of the Initial Payment Amount of a registered Contract on the Initial Payment Date by the time specified by the Exchange in the Administrative Procedures:

- (a) If the Initial Payment Amount has a positive value, payment by the Buyer to the Clearing House and payment by the Clearing House to the Seller; or
- (b) If the Initial Payment Amount has a negative value, payment by the Seller to the Clearing House and payment by the Clearing House to the Buyer.

9. Fixed Payment Amount

9.01 The Buyer shall pay the Fixed Payment Amount for an Accrual Period to the Clearing House on the Fixed Rate Payer Payment Date at or immediately following the expiry of that Accrual Period and the Clearing House shall pay each Fixed Payment Amount to the Seller on the same day.

9.02 The Fixed Payment Amount per lot will be calculated based on the following formula:

$$\frac{\text{Days in Accrual Period}}{360} \times \text{Notional Principal} \times \text{Fixed Rate}$$

If an Exchange Credit Event Determination Date occurs during an Accrual Period, the Fixed Payment Amount shall be calculated taking into account the reduction to the Notional Principal with effect from (but excluding) that Credit Event Determination Date.

10. Floating Rate Payment

10.01 In respect of each unit comprised in an Event Protection Contract, payment of the Floating Rate Payment shall be made, by the time specified in the Administrative Procedures, by the Seller to the Clearing House and payment by the Clearing House to the Buyer of an amount calculated by multiplying the EFSP by the contract size as specified in Table 2.

11. Default in Performance

11.01 A Buyer or a Seller shall be in default in performance where:

- (a) he fails to fulfil his obligations under a Credit Default Swap Index Contract or an Event Protection Contract where applicable, by the time and in the manner prescribed and in accordance with these terms, the Rules, the Administrative Procedures or the Regulations; or
- (b) he fails to pay any sum due to the Clearing House in respect of a registered Contract by the time specified in these terms or in the Administrative Procedures or under the Regulations; or
- (c) in the reasonable opinion of the Clearing House he is in default.

11.02 Subject to the default rules of the Clearing House, in the event of default in performance by a Buyer or a Seller in respect of a registered Contract or an Event Protection Contract, the Board shall, at the request of the Clearing House, forthwith fix a price for invoicing back and each lot or unit (as may be applicable) at issue shall be invoiced back at that price. Such price may at the Board's absolute discretion take account of any compensation the Board may consider should be paid by either party to the other.

12. Force Majeure

12.01 Subject to any steps taken at any time by the Board under emergency powers in the Rules and subject to the Default Rules of the Clearing House, a Seller or a Buyer shall be liable to perform his obligations in respect of a lot comprised in a Credit Default Swap Index Contract, including where appropriate a unit in an Event Protection Contract, by the due time therefor, notwithstanding that he may be or is likely to be prevented from so doing by any event beyond his reasonable control including, without limitation, any act of God, strike, lockout, war, armed conflict, use of force by authority of the United Nations, fire, riot or civil commotion, combination of workmen, act of terrorism, breakdown of machinery, unavailability or restriction of computer or data processing facilities or energy supplies or bank transfer systems.

13. Articles, Rules, Regulations etc.
- 13.01 Every Credit Default Swap Index Contract and Event Protection Contract shall be subject to the Articles and the Rules and the Regulations in so far as applicable notwithstanding that one or more parties to any such Credit Default Swap Index Contract or Event Protection Contract (as applicable) may not be members of the Exchange or of the Clearing House.
- 13.02 In case of any conflict between the Administrative Procedures and these terms or the Rules, the provisions of these terms and the Rules shall prevail and, in the event of any conflict between these terms and the Rules, the Rules shall prevail.
14. Arbitration
- 14.01 Subject to term 14.02 and the Rules, any dispute arising from or in relation to a Credit Default Swap Index Contract or Event Protection Contract (as applicable) shall be referred to arbitration under the Rules relating to arbitration and arbitration shall be held in accordance with the Rules in force at the time of such reference.
- 14.02 No dispute arising from or in relation to any invoicing back price fixed by the Exchange under these terms shall be referred to arbitration under the Rules.
15. Governing Law
- 15.01 Every Credit Default Swap Index Contract and Event Protection Contract shall be governed by and construed in accordance with English law.
16. Non-registered Contracts
- 16.01 In respect of a Credit Default Swap Index Contract which is not a registered Contract (“non-registered Contract”) these terms shall be modified by the parties thereto so as to require and allow that a Credit Default Swap Index Contract to be registered with the Clearing House under the Rules and the Regulations is capable of being so registered, and to facilitate performance of such registered Contract (and of any intermediate contract) in accordance with these terms, the Regulations and the Administrative Procedures. Modifications may also be made to the terms of a non-registered Contract to permit performance of such non-registered Contract if, without such modifications, it may not be possible to perform such non-registered Contract by the applicable times specified in these terms and the Administrative Procedures. Without prejudice to the generality of the foregoing, all references in these terms to payment or dealing between the Buyer or the Seller and the Clearing House shall be modified so as to require a similar payment or dealing directly between the Buyer and the Seller party to such non-registered Contract.
17. Statement in relation to the Credit Default Swap Index Contracts
- 17.01 The Exchange draws the following statement to the attention of potential users of its Credit Default Swap Index Contracts. Members should ensure that their clients are made aware of the following statement.

“Potential users of the LIFFE Credit Default Swap Index Contracts should familiarise themselves with the terms of these contracts and with the Index compilation and calculation procedures of International Index Company Limited / Markit Group Limited. Potential users should also familiarise themselves with the details of the Exchange’s policy in relation to Credit Events and Succession Events and should be aware of the circumstances leading to the issuance of Event Protection Contracts. It is important for potential users of the LIFFE Credit Default Swap Index Contracts to familiarise themselves with the applicable ISDA Definitions and for the definition of each type of Credit Event and Succession Event to be fully understood by users of the LIFFE Credit Default Swap Index Contracts, so that holders of positions in the LIFFE Credit Default Swap Index Contracts are not taking on greater risks than they intend. Potential users of the LIFFE Credit Default Swap Index Contracts should also familiarise themselves with the ISDA Auction methodology for the determination of the Final Price (being the price for obligations which are deliverable under an ISDA documented credit derivative transaction) because this is used by the Exchange in the calculation of the Exchange Final Settlement Price in respect of any Event Protection Contracts that are issued. In circumstances where no Final Price is determined by an ISDA Auction, the Exchange will use a fixed recovery rate in the calculation of the Exchange Final Settlement Price for the cash settlement of any such Event Protection Contracts unless the Board has determined that a physical delivery mechanism should replace fixed recovery rates as the appropriate means of settlement and has confirmed such a change by Notice and incorporated it into the Contract Terms.

Potential users of the LIFFE Credit Default Swap Index Contracts should be aware that the Exchange’s Contract Terms reflect applicable definitions and provisions contained in the 2003 ISDA Credit Derivatives Definitions as supplemented by the May 2003 Supplement to the 2003 ISDA Credit Derivatives Definitions, each as published by ISDA (the “ISDA Definitions”). **The Exchange’s Contract Terms are governed by the applicable ISDA Definitions, and by any subsequent amendments to and replacement of these definitions as published by ISDA from time to time.** It is important that, before entering into a transaction in respect of LIFFE Credit Default Swap Index Contracts, potential users understand any risk, including any changes to the value of their position, that may be associated with opening a position under Contract Terms reflecting the current set of ISDA Definitions, which may result in a position governed by Contract Terms reflecting a subsequent set of ISDA Definitions.”

18. Additional Representations and Agreements

18.01 At the time a Credit Default Swap Index Contract is entered into, Buyer and Seller shall each be deemed to agree with the other that, so long as either party has or may have any obligation under such Credit Default Swap Index Contract, the parties will be obligated to perform, subject to the settlement of Event Protection Contracts, irrespective of the existence or amount of the parties’ credit exposure to a Reference Entity, and Buyer need not suffer any loss nor provide evidence of any loss as a result of the occurrence of a Credit Event.

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Exchange Contract No. 600

**(B) CONTRACT DETAILS SPECIFIED BY THE BOARD FOR CREDIT DEFAULT  
SWAP INDEX CONTRACTS (“TABLE 1”)**

Index	Markit iTraxx Europe	Markit iTraxx Crossover	Markit iTraxx Hi-Vol
<b>Known as Exchange Contract No.</b>	76	77	78
<b>Currency specified by the Board</b>	euro €	euro €	euro €
<b>Contract size of one lot</b>	Credit Event Protection on €100,000 Notional Principal	Credit Event Protection on €100,000 Notional Principal	Credit Event Protection on €100,000 Notional Principal
<b>Minimum Price Movement in respect of Initial Payment Amount</b>	€0.01	€0.01	€0.01
<b>Minimum Price Movement in respect of Fixed Payment Amount</b>	€0.01	€0.01	€0.01
<b>Contract Maturities</b>	June or December at 3¼, 5¼, 7¼ and 10¼ year maturities	June or December at 3¼, 5¼, 7¼ and 10¼ year maturities	June or December at 3¼, 5¼, 7¼ and 10¼ year maturities
<b>Final Valuation</b>	€0.00	€0.00	€0.00

**(C) CONTRACT DETAILS SPECIFIED BY THE BOARD  
FOR EVENT PROTECTION CONTRACTS (“TABLE 2”)**

<b>Currency specified by the Board</b>	euro €
<b>Contract size of one unit</b>	Default compensation on €10 notional principal of obligations subject to a Credit Event
<b>Final Settlement Day</b>	As determined by the Exchange.
<b>Exchange Final Settlement Price</b>	100% minus the Final Price or, where the Exchange determines that no Final Price is available, the EFSP shall be 100% minus a fixed recovery rate of 90% in the case of Restructuring and 40% for Bankruptcy and Failure to Pay <sup>1</sup> .

Issue Date: 19 December 2008

<sup>1</sup> If there is more than one of a Bankruptcy, Failure to Pay or Restructuring, the Credit Event and Succession Event Policy shall determine which shall prevail.

(D) Administrative Procedures

Initial Payment Amount

The minimum price movement shall be €0.01.

Initial Payment Date

By 09:00 hours  
(London time)

All payments required by term 8.01 to be made by the Buyer or the Seller shall have been completed.

Fixed Payment Amount

The minimum price movement shall be €0.01.  
Each Fixed Payment Amount is calculated by taking the rounded (to the nearest cent) total of remaining Fixed Payment Amounts from the next Fixed Rate Payer Payment Date and subtracting this from the rounded (to the nearest cent) total of remaining Fixed Payment Amounts as at the previous Fixed Rate Payer Payment Date.

Fixed Rate Payer Payment Dates

By 09:00 hours  
(London time)

All payments required by term 9.01 to be made by the Buyer shall have been completed.

Accrual Periods

For the avoidance of doubt, the accrual periods used to calculate the Fixed Payment Amount will be determined as follows:

(i) First Accrual Period

From the 20<sup>th</sup> day of the quarterly month preceding the Exchange Confirmation Date, or such amended date, as published by the Exchange from time to time, to the day preceding the next Fixed Rate Payer Period End Date (inclusive).

(ii) Last Accrual Period

From the Fixed Rate Payer Period End Date to the 20<sup>th</sup> day of the next quarterly month (inclusive).

(iii) All other Accrual Periods

From the Fixed Rate Payer Period End Date to the day preceding the next Fixed Rate Payer Period End Date (inclusive)

Last Trading Day

By 18:00 hours  
(London time)

Trading for Credit Default Swap Index Contracts in the current Contract Maturity will cease.

Last Notification Day

By 16:00 hours  
(London time)

Last time for a member to notify the Exchange, pursuant to term 4.02, that there has been a possible Credit Event.

Exchange Contract No. 600

(E) Administrative Procedures for Event Protection Contracts

Exchange Credit Event Determination Date

On the Clearing House Business Day following the Exchange Credit Event Determination Date, units in Event Protection Contracts will be issued to holders of Credit Default Swap Index Contracts.

Floating Rate Payment

The minimum price increment shall be €0.01.

Final Settlement Day

The Exchange shall publish a provisional EFSP and then a final EFSP as soon as reasonably practicable.

Clearing House Business Day following Final Settlement Day

By 09:00 hours  
(London time)

All payments required by term 10.01 to be made by the Seller shall have been completed.

Issue Date: 19 December 2008

**LIFFE Credit Default Swap Index Contracts – Summary Contract Specification<sup>1</sup>**

Indices	iTraxx Europe Index iTraxx Europe Crossover Index iTraxx Europe Hi-Vol Index
Contract Size	Credit Event Protection on €100,000 Notional Principal
Contract Maturity	3¼ year, 5¼ year, 7¼ year and 10¼ year maturities on each index series with June or December maturity as appropriate
Protection Period	In respect of a Contract Maturity, the period from 00.01 hours Greenwich Mean Time (“GMT”) on the First Trading Day to 23.59 hours GMT on the Last Protection Day provided that the Protection Period for a Successor to a Reference Entity (which is not the same entity as the original Reference Entity) shall commence on the day a Notice is published by the Exchange identifying that Successor.
Protection Coverage	Contract offers protection on Credit Events (Bankruptcy, Failure to Pay and Restructuring) for the Reference Entities
Initial Payment	<ul style="list-style-type: none"> <li>• Upfront amount paid by the Buyer to the Seller, or by the Seller to the Buyer, reflecting any difference between the Fixed Rate and rate agreed between the parties to the transaction.</li> <li>• Valued in €per lot</li> <li>• €0.01 minimum price movement</li> <li>• Paid in full on the Clearing House Business Day following the Exchange Confirmation Date</li> </ul>
Fixed Payments (‘Coupon’)	<ul style="list-style-type: none"> <li>• Amount paid by the Fixed Rate Payer (the Buyer of the CDS Index Contract) to the Floating Rate Payer (the Seller of the CDS Index Contract) over the life of the Contract Maturity. Based on the Fixed Rate expressed in basis points per annum of Notional Principal</li> <li>• A pre-defined single Fixed Rate will be established by the Index Sponsor for each Contract Maturity</li> <li>• The Fixed Payment Amount per lot will be calculated based on the following formula:   <math display="block">\frac{\text{Days in Accrual Period}}{360} \times \text{Notional Principal} \times \text{Fixed Rate}</math> </li> <li>• Fixed Payments are calculated in Euro and paid in arrears on a quarterly basis on the Fixed Payment Dates</li> </ul>
Fixed Payment Dates	20 <sup>th</sup> calendar day in each quarterly month (March, June, September and December) during the lifetime of a particular Contract, or the following Business Day if the 20 <sup>th</sup> is not a Business Day

<sup>1</sup> This document is only a summary of the full Contract Specification. Potential users should familiarise themselves with the full Contract Specification before entering into transactions in respect of LIFFE Credit Default Swap Index Contracts.

Accrual Periods	<p>The accrual periods used to calculate the Fixed Payment Amount will be determined as follows:</p> <p>(i) First Accrual Period - From the 20<sup>th</sup> day of the quarterly month preceding the Exchange Confirmation Date, or such amended date, as published by the Exchange from time to time, to the day preceding the next Fixed Payment Date (inclusive).</p> <p>(ii) Last Accrual Period - From the Fixed Payment Date to the 20<sup>th</sup> day of the next quarterly month (inclusive).</p> <p>(iii) All other Accrual Periods - From the Fixed Payment Date to the day preceding the next Fixed Payment Date (inclusive)</p>
Reporting Hours	08:00 – 18:00 hours (London time)
Daily Valuation	<ul style="list-style-type: none"> <li>• Value established at 16:00 hours (London time) for margin purposes</li> <li>• Valuations quoted in €per lot</li> <li>• Value represents net liquidating value of each position – can be positive or negative</li> </ul>
Last Trading Day	20 <sup>th</sup> calendar day of Contract Maturity month, or preceding Business Day if that day is not a Clearing House Business Day
Credit Event: Settlement arrangements	<ul style="list-style-type: none"> <li>• Delivery of ‘Event Protection Contracts’ in affected Contract Maturities</li> <li>• EPCs are delivered in sufficient number to maintain the notional value of the combined CDS and EPC position</li> <li>• The number of units in an Event Protection Contract issued per CDS lot is determined according to the following formula:   <math display="block">\frac{\text{Reference Entity Weighting} \times \text{Original Notional Principal of the life of CDS}}{\text{Contract Size of one unit of EPC}}</math> </li> <li>• Payment of Fixed Payments continues at lower pro rata amount based on reduced Surviving Notional Principal</li> <li>• Exchange Final Settlement Price for Event Protection Contracts:   100% minus the Final Price or, where the Exchange determines that no Final Price is available, the EFSP shall be 100% minus a fixed recovery rate of 90% in the case of Restructuring and 40% for Bankruptcy and Failure to Pay<sup>2</sup>. </li> </ul>

<sup>2</sup> If there is more than one of a Bankruptcy, Failure to Pay or Restructuring, the Credit Event and Succession Event Policy shall determine which shall prevail.

**LIFFE CREDIT DEFAULT SWAP INDEX CONTRACTS**

**CREDIT EVENT AND SUCCESSION EVENT POLICY**

Issue Date: 19 December 2008

Please refer to London Notice No. 3104 issued on 19 December 2008.

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Appendix 1 – Credit Event and Succession Event Adjudicator – Terms of Reference

## **1. Introduction**

- 1.1 This Policy Document details the Exchange's policy for determining Credit Events and Succession Events in respect of LIFFE Credit Default Swap Index Contracts. It is issued pursuant to, and should be read in conjunction with, the formal Contract Terms for LIFFE Credit Default Swap Index Contracts and the Rules relating to the Bclear Service (LIFFE Rules Book II, Section 12).
- 1.2 In the OTC market, it is the counterparties to the trade who effectively determine whether or not either a Credit Event or a Succession Event has occurred. Whilst third parties may provide market participants with information to facilitate that decision making process, there is currently no single mechanism for declaring that either a Credit Event or a Succession Event is deemed to have occurred. Instead, in respect of each Credit Event it would be usual for the parties to accept that a Credit Event had occurred as a matter of fact, and have recourse to litigation if this is disputed. Conversely, Succession Events would usually be determined unilaterally by the calculation agent (who may also be a party to the relevant Contract). However, LIFFE's Credit Default Swap Index Contracts, as centrally cleared products, require there to be a formal declaration of both Credit Events and Succession Events and it is imperative that any such declaration must be final and binding for the purposes of all LIFFE Credit Default Swap Index Contracts.
- 1.3 The publication of this Policy Document is intended:
  - (a) to minimise the level of uncertainty around the circumstances in which Credit Events and Succession Events will or will not be deemed to have occurred for the purposes of LIFFE Credit Default Swap Index Contracts; and
  - (b) to minimise any risk of formal declarations of events made for the purposes of LIFFE Credit Default Swap Index Contracts being inadvertently different from any general market opinion as to whether or not such events have, or should be determined to have, occurred.
- 1.4 To meet these twin objectives, the terms of this Policy Document and the relevant LIFFE Contract Terms replicate, or are closely aligned to, the corresponding provisions of the ISDA Definitions (i.e. the 2003 ISDA Credit Derivatives Definitions as supplemented by the May 2003 Supplement to the 2003 ISDA Credit Derivatives Definitions, each as published by ISDA, and any subsequent amendments to or replacement of these definitions as published by ISDA from time to time). This Policy Document is intended to reflect the conventions for the determination of Credit Events and Succession Events in the OTC market, including future developments. In addition, the Adjudicator appointed for the purpose of making a determination as to whether a Credit Event or a Succession Event has occurred shall consult with market participants by way of a conference call with the CDS Market Advisory Group (see sections 5.2 and 7.3) and any other relevant experts and shall gauge the market's opinion as to whether or not an event has occurred. Attached at Appendix 1 are the Terms of Reference for the Adjudicator.

- 1.5 Where practicable, the timing of any determination by the Adjudicator, to be made under the terms of the Policy Document, should follow any corresponding actions which may have been taken by industry bodies or index providers in respect of relevant Reference Entities, in order that such factors are taken fully into account as part of his or her deliberations and thus to minimise the risk of any divergence of interpretation. Nevertheless, this may be impracticable in some scenarios and so, in order to maintain the integrity of the LIFFE Contract and any dealings therein, such determinations cannot be delayed indefinitely and must be made in a timely manner in accordance with this Policy Document and the Terms of Reference.
- 1.6 To the extent that this Policy Document reflects the ISDA Definitions in place when this Policy Document was first issued, the Exchange reserves the right to amend this Policy Document (or to replace this Policy Document in its entirety) to reflect subsequent amendments to and replacements of the ISDA Definitions, as published by ISDA from time to time, and to reflect other developments in the OTC market.
- 1.7 The Exchange will issue Notices in respect of each Credit Event which the Adjudicator determines has occurred. The Exchange will also issue Notices to inform of Succession Events which affect LIFFE Credit Default Swap Index Contracts.

## **2. Interpretation**

- 2.1 The following provisions apply to, or should be noted in connection with, the interpretation of this Policy Document.

“Adjudicator” means the adjudicator appointed by the Exchange to determine whether a Credit Event has taken place and whether a Succession Event has occurred, in each case, in relation to a Reference Entity which is a constituent of one or more of the Indices on which a Credit Default Swap Index Contract is available.

“Best Available Information” means:

- (i) in the case of a Reference Entity which files information with its primary securities regulator or primary stock exchange that includes unconsolidated, pro forma financial information which assumes that the relevant Succession Event has occurred or which provides such information to its shareholders, creditors or other persons whose approval of the Succession Event is required, that unconsolidated, pro forma financial information and, if provided subsequently to the provision of unconsolidated, pro forma financial information but before the Adjudicator makes his determination as described in this Policy Document, other relevant information that is contained in any written communication provided by the Reference Entity to its primary securities regulator, primary stock exchange, shareholders, creditors or other persons whose approval of the Succession Event is required; or

- (ii) in the case of a Reference Entity which does not file with its primary securities regulators or primary stock exchange, and which does not provide to shareholders, creditors or other persons whose approval of the Succession Event is required, the information contemplated in (i) above, the best publicly available information at the disposal of the Member submitting the Exchange Succession Event Notice to allow the Adjudicator to make a determination as described in this Policy Document.

Information which is made available more than fourteen calendar days after the legally effective date of the Succession Event shall not constitute Best Available Information.

“Credit Event Notification Period” means the Protection Period (as specified in the Credit Default Swap Index Contract) and the fourteen calendar days following the Last Protection Day (as specified in the Credit Default Swap Index Contract) being the period during which a Member of the Exchange may notify the Exchange, or it otherwise comes to the attention of the Exchange, that there has been a possible Credit Event in relation to a Reference Entity which has occurred within the Protection Period provided that if that final fourteenth calendar day is not a Business Day, the Credit Event Notification Period shall end on the next day which is a Business Day.

“Exchange Credit Event Notice” means a Notice submitted to the Exchange by a Member holding an open position in a Credit Default Swap Index Contract whereby the Member describes a potential Credit Event<sup>1</sup> on a Reference Entity which is a constituent of one or more of the Indices on which a Credit Default Swap Index Contract is available that occurred during the appropriate Protection Period. An Exchange Credit Event Notice must be submitted by the time on the last day of the Credit Event Notification Period which is specified in the Administrative Procedures. An Exchange Credit Event Notice must contain a description in reasonable detail of the facts relevant to the determination that a Credit Event has occurred, must cite Publicly Available Information confirming the occurrence of the Credit Event and must contain a copy, or a description in reasonable detail of the relevant Publicly Available Information.

“Exchange Succession Event Notice” means a Notice submitted to the Exchange by a Member holding an open position in a Credit Default Swap Index Contract whereby the Member describes a potential Succession Event with respect to a Reference Entity which is a constituent of one or more of the Indices on which a Credit Default Swap Index Contract is available. An Exchange Succession Event Notice must contain a description in reasonable detail of the facts relevant to the determination that a Succession Event has occurred, must describe the Best Available Information relating to the Succession Event and must contain a copy, or a description in reasonable detail of the relevant Best Available Information.

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<sup>1</sup> For the purposes of the LIFFE Contract, a Credit Event is not deemed to have taken place until such time as the Exchange has issued a Notice confirming that a Credit Event has occurred.

“ISDA” means the International Swaps and Derivatives Association, Inc. and any successor thereto.

“ISDA Definitions” means the definitions and provisions contained in the 2003 ISDA Credit Derivatives Definitions as supplemented by the May 2003 Supplement to the 2003 ISDA Credit Derivatives Definitions, each as published by ISDA, and any subsequent amendments to or replacement of those definitions, as published by ISDA from time to time.

“Public Source” has the meaning assigned to it in the ISDA Definitions.

“Publicly Available Information” means information that reasonably confirms any of the facts relevant to the determination that the potential Credit Event subject to review by the Adjudicator has occurred and which (i) has been published in or on not less than two Public Sources, regardless of whether the reader or user thereof pays a fee to obtain such information; provided that if the relevant Member or any of its respective affiliates is cited as the sole source of such information, then such information shall not be deemed to be Publicly Available Information unless such Member or its affiliate is acting in its capacity as trustee, fiscal agent, administrative agent, clearing agent or paying agent for an Obligation or (ii) is information received from or published by (A) a Reference Entity that is not the Member submitting the Exchange Credit Event Notice or (B) a trustee, fiscal agent, administrative agent, clearing agent or paying agent for an Obligation, or (iii) is information contained in any petition or filing instituting a proceeding in relation to Bankruptcy against or by a Reference Entity or (iv) is information contained in any order, decree, notice or filing, however described, of or filed with a court, tribunal, exchange, regulatory authority or similar administrative, regulatory or judicial body.

Publicly Available Information need not state (i) the percentage of Voting Shares (as defined in the ISDA Definitions) owned, directly or indirectly, by the Reference Entity and (ii) that such occurrence (A) has met the Payment Requirement or Default Requirement (each as defined in the ISDA Definitions), (B) is the result of exceeding any applicable Grace Period (as defined in the ISDA Definitions) or (C) has met the subjective criteria specified in certain Credit Events.

“Succession Event” has the meaning ascribed to it in the ISDA Definitions.

- 2.2 A Member submitting an Exchange Credit Event Notice or an Exchange Succession Event Notice will be deemed to represent to the Exchange that the Member is not in breach of any private obligation or public law duty in disclosing that information to the Exchange.
- 2.3 The provisions in this Policy Document should also be read in conjunction with the definitions contained in the ‘Interpretation’ section of the formal Contract Terms for LIFFE Credit Default Swap Index Contracts.

### **3. Credit Event Definitions**

- 3.1 “Credit Event” means, in relation to a Credit Default Swap Index Contract, one of Bankruptcy, Failure to Pay or Restructuring which is confirmed by a Notice issued by the Exchange in accordance with this Policy Document.
- 3.2 “Bankruptcy” has the meaning assigned to it in the ISDA Definitions.
- 3.3 “Failure to Pay” has the meaning assigned to it in the ISDA Definitions, provided that, for the purposes of determining any applicable Grace Period, the words “the later of the Trade Date and” shall be deleted from paragraph (i) and paragraph (iii) of Section 1.12(a) of the ISDA Definitions.
- 3.4 “Restructuring” has the meaning assigned to it in the ISDA Definitions, provided that (a) the words “the later of the Trade Date and” shall be deleted from Section 4.7(a) of the ISDA Definitions and (b) the words “as provider of a Qualifying Affiliate Guarantee or, if All Guarantees is specified as applicable in the related Confirmation,” shall be deleted from Section 4.7(c) of the ISDA Definitions.
- 3.5 The provisions of Section 4.1 (*Credit Event*) of the ISDA Definitions shall apply in determining if an occurrence will constitute a Credit Event.

### **4. Updates to ISDA Definitions**

- 4.1 The definitions and provisions of “Bankruptcy”, “Failure to Pay” and “Restructuring” contained in the ISDA Definitions form the basis of the Exchange’s definition of a Credit Event. The definition of “Succession Event” and the provisions for determining a successor contained in the ISDA Definitions form the basis for the identification of any Successor to a Reference Entity under a Credit Default Swap Index Contract. It is important to note that for all LIFFE Credit Default Swap Index Contracts, the Contract Terms are governed by the applicable ISDA Definitions in place when the Credit Default Swap Index Contract is first entered into as well as subsequent amendments to or replacements of these definitions as published by ISDA from time to time. Any amendments to or replacements of the applicable ISDA definitions will be reflected in existing open positions in the LIFFE Credit Default Swap Index Contracts.<sup>2</sup>

### **5. Determination of a Credit Event**

- 5.1 The Adjudicator will determine whether one or more Credit Events have occurred, the nature of any Credit Event i.e. Bankruptcy, Failure to Pay or Restructuring and the date on which any event which is the subject of a Credit

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<sup>2</sup> If the Exchange determines that there could be uncertainty regarding the effect on the Contract Terms of any particular amendment to or replacement of the ISDA Definitions published by ISDA, then the Exchange shall determine, as soon as reasonably practicable in the circumstances, how that amendment to or replacement of the ISDA Definitions will be given effect in the Contract Terms and such determination shall be confirmed by Notice and incorporated into the Contract Terms.

Event occurred. The Adjudicator will not determine that an event is a Credit Event unless he determines it is confirmed by Publicly Available Information.

- 5.2 The Adjudicator will consult Exchange officials and a CDS Market Advisory Group consisting of representatives from Clearing Members. The CDS Market Advisory Group may be asked to provide their opinion as to whether a Credit Event has occurred but the decision will be made by the Adjudicator. The Adjudicator's decision that a Credit Event has occurred will be final and binding for the purposes of all LIFFE Credit Default Swap Index Contracts.
- 5.3 Unless and until the Adjudicator has decided that a Credit Event has occurred, it shall be assumed, for the purposes of all LIFFE Credit Default Swap Index Contracts, that such Credit Event has not occurred.
- 5.4 The Exchange may choose to ask the Adjudicator to consider a potential Credit Event at its absolute discretion.
- 5.5 If the Adjudicator concludes that a Credit Event has not occurred or that there is insufficient evidence to conclude that a Credit Event has occurred, the Exchange, at its absolute discretion, may choose to ask the Adjudicator to reconsider that potential Credit Event on the basis of new evidence.
- 5.6 The Adjudicator will review supporting evidence in relation to the potential Credit Event. This supporting evidence must include Publicly Available Information and may also take the form of, but is not limited to, one or more of the following:
  - (a) the issuance by the Index Publisher of a new Annex in relation to a particular Index;
  - (b) the publication by ISDA of an ISDA Protocol in relation to a particular Reference Entity, or the announcement by ISDA of its intention to publish such an ISDA Protocol; and
  - (c) the announcement by ISDA of an ISDA Auction to determine a price for obligations of a particular Reference Entity which are deliverable under an ISDA documented credit derivative transaction.
- 5.7 Should the Adjudicator determine that a Credit Event has occurred, the Exchange will publish a Notice to the market announcing the Exchange Credit Event Determination Date and detailing the timings of the issuance of Event Protection Contracts and the Final Settlement Day (if known).
- 5.8 If the timings of the issuance of Event Protection Contracts and the Final Settlement Day are not then known, these will be detailed in a subsequent Notice to the market.

### *Multiple Credit Events*

- 5.9 It is possible that a Restructuring, Failure to Pay, or Bankruptcy in respect of a particular Reference Entity could occur either simultaneously, or in relatively quick succession prior to the establishment of an Exchange Final Settlement Price in relation to Event Protection Contracts. In such circumstances, the process for determining whether or not a Credit Event has occurred will be that set out in the Exchange Contract Terms and this Policy Document, albeit that the Adjudicator will consider whether there have been multiple Credit Events, rather than a single one.
- 5.10 If the Adjudicator determines that there has been more than one Credit Event, an Event Protection Contract will be issued, which will be cash settled by reference to the Final Price established in the relevant ISDA Auction. If there is no Final Price, the Exchange shall use a fixed recovery rate in order to cash settle the Event Protection Contract. In such circumstances, the Exchange shall apply the lower of the fixed recovery rates specified in the Exchange's Contract Terms (for example, if the Adjudicator determined that there had been a Restructuring (90% fixed recovery rate) and a Bankruptcy (40% fixed recovery rate), the Exchange would use a fixed recovery rate of 40% in order to determine the Exchange Final Settlement Price of the Event Protection Contract).
- 5.11 For the avoidance of doubt, once the Exchange has published the final Exchange Final Settlement Price, such Exchange Final Settlement Price is final and binding for all purposes. As such, any Restructuring, Failure to Pay or Bankruptcy which comes to the Exchange's attention after that point will not be taken into account.

## **6. Credit Event Determination Extension Period**

- 6.1 In accordance with term 4.02 of the formal Contract Terms for LIFFE Credit Default Swap Index Contracts, if, not later than 16:00 hours (London Time) on the last day of the Credit Event Notification Period, any Member notifies the Exchange, or it otherwise comes to the attention of the Exchange that there is a possible Credit Event during the Protection Period in relation to a Reference Entity, the Exchange may declare a Credit Event Determination Extension Period for that particular Contract Maturity. The extension period is to allow sufficient time for the Exchange to review the evidence in relation to the potential Credit Event and, where appropriate, ask the Adjudicator to determine whether a Credit Event which is confirmed by Publicly Available Information has occurred. The duration of the Credit Event Determination Extension Period will be determined by the Exchange and may be extended on one or more occasions.
- 6.2 The Exchange has no obligation to identify the existence of a possible Credit Event which would warrant the declaration of a Credit Event Determination Extension Period.

## **7. Determination of a Succession Event**

- 7.1 The Adjudicator will determine whether or not a Succession Event has occurred and whether or not there are one or more Successors in relation to a particular Reference Entity which is a constituent of one or more of the Indices on which a Credit Default Swap Index Contract is available, by reference to the corresponding provisions in the ISDA Definitions. The ISDA Definitions contain provisions for determining one or more successors to a credit derivative transaction and those provisions shall be applied by the Adjudicator *mutatis mutandis* to determine one or more Successors to the particular Reference Entity.
- 7.2 If a sole Successor is identified by the Adjudicator, that Successor will be deemed to replace the particular Reference Entity in the relevant Index for the purposes of all LIFFE Credit Default Swap Index Contracts. If more than one Successor is identified by the Adjudicator, each Successor will become a Reference Entity for the purposes of all LIFFE Credit Default Swap Index Contracts and the Weighting in the relevant Index attributable to each Successor will be the Weighting in the relevant Index attributable to the original Reference Entity divided by the number of Successors.
- 7.3 The Adjudicator will consult Exchange officials and a CDS Market Advisory Group consisting of representatives of Clearing Members. The CDS Market Advisory Group may be asked to provide their opinion as to whether a Succession Event has occurred but the decision will be made by the Adjudicator. The Adjudicator's decision that a Succession Event has occurred and on the identity of any Successors will be final and binding for the purposes of LIFFE Credit Default Swap Index Contracts.
- 7.4 Unless and until the Adjudicator has decided that a Succession Event has occurred and on the identity of any Successors, it shall be assumed for the purposes of all LIFFE Credit Default Swap Index Contracts, that no Succession Event has occurred (and that there are no Successors).
- 7.5 The Exchange may choose to ask the Adjudicator to consider a potential Succession Event at its absolute discretion.
- 7.6 If the Adjudicator considers that a Succession Event has not occurred or that there is insufficient evidence to conclude that a Succession Event has occurred or to identify whether or not there are any Successors, the Exchange, at its absolute discretion, may choose to ask the Adjudicator to reconsider that potential Succession Event on the basis of new evidence.
- 7.7 The Adjudicator will review supporting evidence in relation to the potential Succession Event.
- 7.8 To the extent that the ISDA Definitions specify information sources which are to be used in determining whether or not there are any successors, the Adjudicator will review only that information in making the corresponding

assessment in relation to LIFFE Credit Default Swap Index Contracts, notwithstanding that other information may be available.

- 7.9 Should the Adjudicator determine that a Succession Event has occurred, the Exchange will publish a Notice to the market announcing for LIFFE Credit Default Swap Index Contracts the Succession Event and any Successor and, if there is more than one Successor, the new Weightings attributable to each Successor.

## **DISCLAIMERS**

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Euronext N.V., PO Box 19163, 1000 GD Amsterdam, The Netherlands. T: +31 (0)20 550 4444

### **Credit Default Swap Index Contracts**

The Exchange draws the following statement to the attention of potential users of its Credit Default Swap Index Contracts. Members should ensure that their clients are made aware of the following statement.

“Potential users of the LIFFE Credit Default Swap Index Contracts should familiarise themselves with the terms of these Contracts and with the Index compilation and calculation procedures of International Index Company Limited / Markit Group Limited. Potential users should also familiarise themselves with the details of the

Exchange's policy in relation to Credit Events and Succession Events and should be aware of the circumstances leading to the issuance of Event Protection Contracts. It is important for potential users of the LIFFE Credit Default Swap Index Contracts to familiarise themselves with the applicable ISDA Definitions and for the definition of each type of Credit Event and Succession Event to be fully understood by users of the LIFFE Credit Default Swap Index Contracts, so that holders of positions in the LIFFE Credit Default Swap Index Contracts are not taking on greater risks than they intend. Potential users of the LIFFE Credit Default Swap Index Contracts should also familiarise themselves with the ISDA Auction methodology for the determination of the Final Price (being the price for obligations which are deliverable under an ISDA documented credit derivative transaction) because this is used by the Exchange in the calculation of the Exchange Final Settlement Price in respect of any Event Protection Contracts that are issued. In circumstances where no Final Price is determined by an ISDA Auction, the Exchange will use a fixed recovery rate in the calculation of the Exchange Final Settlement Price for the cash settlement of any such Event Protection Contracts unless the Board has determined that a physical delivery mechanism should replace fixed recovery rates as the appropriate means of settlement and has confirmed such a change by Notice and has incorporated it into the Contract Terms.

Potential users of the LIFFE Credit Default Swap Index Contracts should be aware that the Exchange's Contract Terms reflect the applicable definitions and provisions contained in the 2003 ISDA Credit Derivatives Definitions as supplemented by the May 2003 Supplement to the 2003 ISDA Credit Derivatives Definitions, each as published by ISDA (the "ISDA Definitions"). **The Exchange's Contract Terms are governed by the applicable ISDA Definitions, and by any subsequent amendments to and replacement of these definitions as published by ISDA from time to time.** It is important that, before entering into a transaction in respect of LIFFE Credit Default Swap Index Contracts, potential users understand any risk, including any changes to the value of their position, that may be associated with opening a position under Contract Terms reflecting the current set of ISDA Definitions, which may result in a position governed by Contract Terms reflecting a subsequent set of ISDA Definitions."

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**Credit Event and Succession Event Adjudicator  
Terms of Reference**

**1. Background and Interpretation**

- 1.1 In the OTC market, it is effectively the counterparties to the trade who determine whether or not either a Credit Event or a Succession Event has occurred. Whilst third parties may provide market participants with information to facilitate that decision making process, there is currently no single mechanism for declaring that either a Credit Event or a Succession Event is deemed to have occurred. Instead, in respect of each Credit Event it would be usual for parties to accept that a Credit Event had occurred as a matter of fact, and have recourse to litigation if this is disputed. Conversely, Succession Events would usually be determined unilaterally by the calculation agent (who may also be a party to the relevant Contract). However, LIFFE's Credit Default Swap Index Contracts, as centrally cleared products, require there to be a formal declaration of both Credit Events and Succession Events and it is imperative that any such declaration must be final and binding for the purposes of all LIFFE Credit Default Swap Index Contracts. Such declaration shall be made by a Credit Event and Succession Event Adjudicator (the "Adjudicator") appointed by the Exchange.
- 1.2 The Adjudicator shall refer to the Exchange's Policy Document in respect of Credit Events and Succession Events which has been designed:
- (a) to minimise the level of uncertainty around the circumstances in which Credit Events and Succession Events will or will not be deemed to have occurred for the purposes of LIFFE Credit Default Swap Index Contracts; and
  - (b) to minimise any risk of formal declarations of events made for the purposes of LIFFE Credit Default Swap Index Contracts being inadvertently different from any general market opinion as to whether or not such events have, or should be determined to have, occurred.
- 1.3 Where practicable, the timing of any determination by the Adjudicator should follow any corresponding actions which may have been taken by industry bodies or index providers in respect of relevant Reference Entities, in order that such factors are taken fully into account as part of his or her deliberations and thus to minimise the risk of any divergence of interpretation. Nevertheless, this may be impracticable in some scenarios and so, in order to maintain the integrity of the LIFFE Contract and any dealings therein, such determinations cannot be delayed indefinitely and must be made in a timely manner in accordance with this policy. The Adjudicator will use best endeavours to make a determination within ten business days of being requested by the Exchange to do so. If it is not possible to make a determination within the prescribed timeframe, the Adjudicator will serve a notice on the Exchange specifying why a determination is not possible and the Exchange shall inform Members by

Notice that the determination will be deferred. In such circumstances, the Adjudicator shall continue with his or her deliberations and shall reach a determination as soon as practicable.

- 1.4 Terms defined in, or incorporated by reference into, the Rules of the Exchange, the Exchange Credit Default Swap Index Contract and the Credit Event and Succession Event Policy shall have the same meanings in these Terms of Reference.

## **2. Selection**

- 2.1 The Exchange will appoint a panel of suitably qualified senior barristers from which it may select an individual who shall act as Credit Event and Succession Event Adjudicator (“the Adjudicator”) for the purposes of determining whether either a particular Reference Entity is the subject of one or more Credit Events or a particular Reference Entity is the subject of a Succession Event under the terms of the Exchange’s Credit Default Swap Index Contract.
- 2.2 The Board of LIFFE Administration & Management will delegate its authority to the appointed Adjudicator to make such a determination.

## **3. Responsibility**

- 3.1 When required to do so by the Exchange under the terms of the Exchange’s Credit Default Swap Index Contract, the Adjudicator is responsible for determining if, in relation to an Exchange Credit Default Swap Index Contract, and pursuant to the terms of the Credit Event and Succession Event Policy from time to time in place, either one or more Credit Events or a Succession Event has occurred. Accordingly, the Terms of Reference for the Adjudicator are as follows:-
- (a) to review evidence (provided by the Exchange) in relation to a potential Credit Event having occurred within the Protection Period of a particular Contract Maturity;
  - (b) to determine, without qualification, whether or not one or more Credit Events have occurred and to provide the Exchange with that determination in writing including details as to the nature of any Credit Event and the date on which any event which is the subject of a Credit Event occurred;
  - (c) to review evidence (provided by the Exchange) in relation to a potential Succession Event; and
  - (d) to determine, without qualification, whether or not a Succession Event has occurred and to provide the Exchange with that determination in writing. Where appropriate, such determination should include details of any Successor(s).

- 3.2 Where the Adjudicator determines that neither a Credit Event nor a Succession Event has occurred, the Adjudicator may subsequently, in the light of further, pertinent evidence being provided by the Exchange, reconsider the previous determination and, if appropriate, determine that either a Credit Event or a Succession Event has occurred.

**4. Circumstances in which an Adjudicator will be asked to make a determination**

- 4.1 When required to do so under the terms of the Credit Default Swap Index Contract and the Credit Event and Succession Event Policy, the Exchange will select one Adjudicator from the approved panel of senior barristers.
- 4.2 The Adjudicator will only be asked to consider whether one or more Credit Events has occurred when an Exchange Credit Event Notice has been received by the Exchange within the Credit Event Notification Period or if it has otherwise come to the attention of the Exchange that there has been a potential Credit Event in relation to a Reference Entity.
- 4.3 An Exchange Credit Event Notice must include a description, in reasonable detail, of the facts suggesting that it might reasonably be concluded that a Credit Event has occurred and must cite Publicly Available Information confirming the alleged occurrence of the Credit Event.
- 4.4 The Exchange shall declare a Credit Event Determination Extension Period in circumstances where the Adjudicator is unable to determine whether or not a Credit Event has occurred within the Credit Event Notification Period.
- 4.5 The Adjudicator will only be asked to consider whether a Succession Event has occurred when an Exchange Succession Event Notice has been received by the Exchange or if it has otherwise come to the attention of the Exchange that there has been a potential Succession Event in relation to a Reference Entity.
- 4.6 An Exchange Succession Event Notice must include a description, in reasonable detail, of the facts suggesting that it might reasonably be concluded that a Succession Event has occurred and must cite Best Available Information in relation to the Succession Event and providing details of the Successor(s).

**5. Assistance provided to the Adjudicator**

- 5.1 The Exchange shall appoint an Exchange Official to act as Secretary to the Adjudicator who shall be responsible for providing the Adjudicator with:
- (a) evidence of a potential Credit Event confirmed by Publicly Available Information e.g. an Exchange Credit Event Notice or evidence of a potential Succession Event and the related Best Available Information e.g. an Exchange Succession Event Notice;

- (b) relevant Contract documentation e.g. Contract Terms for Credit Default Swap Index Contracts, Credit Event and Succession Event Policy and relevant ISDA definitions;
  - (c) access to the Market Advisory Group (please see Section 6 below);
  - (d) access to Exchange Officials from the Legal Services Department and the Fixed Income Product team; and
  - (e) a written record of meetings with the Market Advisory Group.
- 5.2 The Adjudicator may call on third party resources to assist him / her in making a determination as to whether or not either one or more Credit Events or a Succession Event has occurred. The Adjudicator should provide the Exchange with prior notice that he / she intends to call on third party resources and should include an estimate of costs. The Exchange will be responsible for the payment of all reasonable costs associated with acquiring and retaining such third party resources whether or not such costs exceed the estimate provided to the Exchange.

## **6. The Market Advisory Group**

- 6.1 The Market Advisory Group shall consist of representatives from those LIFFE Clearing Members who hold CDS reporting rights.
- 6.2 Where a potential Credit Event or potential Succession Event has occurred the Secretary will consult the Adjudicator to arrange a suitable date and time for a conference call with the Market Advisory Group. The Secretary will invite the Market Advisory Group to put forward their views in respect of the potential Credit Event or Succession Event.
- 6.3 The Adjudicator may ask questions of the Market Advisory Group or any participant of the Market Advisory Group.
- 6.4 The Secretary shall provide the Adjudicator with a written summary of the conference call with the Market Advisory Group.

## **7. Decision of the Adjudicator**

- 7.1 Having considered the evidence provided by the Exchange and following the conference call with the Market Advisory Group, the Adjudicator shall provide the Exchange with his determination as to whether, on the balance of probabilities, one or more Credit Events or a Succession Event, as the case may be, has occurred. Such determination shall be provided in writing. Any determination in respect of a Credit Event shall include details as to the nature of the Credit Event and the date on which the event which is the subject of a Credit Event occurred.
- 7.2 Where appropriate, such determination in respect of a Succession Event should include details of any Successor(s).

- 7.3 The Adjudicator's decision shall be final and binding on the Exchange and all parties to contracts in the terms of an Exchange Credit Default Swap Index Contract.

**8. Conflict of Interest**

- 8.1 Having been requested by the Exchange to act as an Adjudicator in respect of a potential Credit Event or Succession Event, an individual should inform the Exchange of any potential conflict of interest as soon as he becomes aware of a potential cause for concern.
- 8.2 Where a potential conflict of interest is identified, the Exchange will call upon another individual from the approved panel of senior barristers to be the Adjudicator in respect of the potential Credit Event or Succession Event in question.

**9. Tenure**

- 9.1 Each individual will be appointed to the panel for a one year period, which can be renewed for a further one year period, but this shall be extended as necessary to enable an Adjudicator to complete either a Credit Event or Succession Event determination which he has commenced during his tenure.

<DD MMM YYYY>

Email to [cdsevents@nyx.com](mailto:cdsevents@nyx.com)

«Member Address and Contact Information»

**EXCHANGE CREDIT EVENT NOTICE  
AND NOTICE OF PUBLICLY AVAILABLE INFORMATION<sup>1</sup>**

**LIFFE Credit Default Swap Index (“CDS”) Contract Details:**

Affected Contract(s)

Affected Maturity/Maturities

Reference Entity

Reference is made to the Reference Entity of the LIFFE Credit Default Swap Index Contract described above.

This Credit Event Notice claims that a [insert Credit Event type] Credit Event occurred with respect to [insert Reference Entity name] on or about [insert date]. [Describe Credit Event.]

This notice also includes our Notice of Publicly Available Information with respect to this Credit Event. Accordingly, we provide the Publicly Available Information attached hereto.

[Insert name]

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Name:

Title:

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<sup>1</sup> Publicly Available Information must be specified with submission of this notice.

<DD MMM YYYY>

Email to [cdsevents@nyx.com](mailto:cdsevents@nyx.com)

«Member Address and Contact Information»

**EXCHANGE SUCCESSION EVENT NOTICE  
AND NOTICE OF BEST AVAILABLE INFORMATION<sup>1</sup>**

**LIFFE Credit Default Swap Index (“CDS”) Contract Details:**

Affected Contract(s)

Affected Maturity/Maturities

Reference Entity

Reference is made to the Reference Entity of the LIFFE Credit Default Swap Index Contract described above.

This Succession Event Notice claims that a [insert Succession Event type] Succession Event occurred with respect to [insert Reference Entity name] on or about [insert date]. [Describe Succession Event.]

This notice also includes our Notice of Best Available Information with respect to this Succession Event. Accordingly, we provide the Best Available Information attached hereto.

[Insert name]

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Name:

Title:

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<sup>1</sup> Best Available Information must be specified with submission of this notice.

**LIFFE CREDIT DEFAULT SWAP INDEX CONTRACTS**

**EXCHANGE GUIDANCE**

Issue Date: 19 December 2008

Please refer to London Notice No. 3104 issued on 19 December 2008.

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## **1. Introduction**

- 1.1 This Guidance Document highlights certain areas where the Exchange's Contract Terms and Administrative Procedures differ from certain ISDA definitions and OTC conventions for the trading and processing of iTraxx credit derivatives. It is issued pursuant to, and should be read in conjunction with, the terms of the formal Contract Terms for LIFFE Credit Default Swap Index Contracts, the Rules relating to the Bclear Service (LIFFE Rules, Book II, Section 12) and the Exchange's Credit Event and Succession Event Policy.
- 1.2 This Guidance Document is designed to provide potential users of the Exchange's Credit Default Swap Index Contracts and their clients with certain information to assist in consideration of the issues and identification of the risks involved in establishing a position in LIFFE Credit Default Swap Index Contracts under the Exchange's Contract Terms as compared to a position established under an ISDA documented iTraxx contract. It is not exhaustive and therefore is intended to provide general guidance only on the areas addressed in this Guidance Document.
- 1.3 LIFFE accepts no responsibility for any errors or omissions in this Guidance Document or for any loss occasioned to any person acting or refraining from action as a result of any material contained in this publication. LIFFE considers this Guidance Document is accurate at the time of the launch of the LIFFE Credit Default Swap Index Contracts, but LIFFE accepts no responsibility to update the information in it.

## **2. Interpretation**

- 2.1 The provisions in this Guidance Document should be read in conjunction with the definitions contained in the 'Interpretation' section of the formal Contract Terms for LIFFE Credit Default Swap Index Contracts and the 'Interpretation' section contained in the Credit Event and Succession Event Policy.

## **3. ISDA Definitions and iTraxx Standard Terms**

- 3.1 The definitions contained in the Exchange's formal Contract Terms are intended to replicate, or be as closely aligned as possible, to the corresponding definitions and provisions contained in the 2003 ISDA Credit Derivatives Definitions as supplemented by the May 2003 Supplement to the 2003 ISDA Credit Derivatives Definitions, each as published by ISDA (the "ISDA Definitions") and the iTraxx Europe Standard Terms Supplement and Form of Confirmation published on 19 September 2005 (the "iTraxx Standard Terms").
- 3.2 In respect of the definitions of possible Credit Events, the Exchange terms broadly replicate those of ISDA, identifying Bankruptcy, Failure to Pay and Restructuring as possible Credit Events. Obligation Acceleration, Obligation Default and Repudiation/Moratorium are not defined as possible Credit Events in the Exchange's Contract Terms. The Exchange definition of Bankruptcy refers to the ISDA Definition in its entirety, however, the Exchange definition of Failure to Pay and Restructuring have slight variations. These variations

reflect the fact that when identifying the relevant terms of an obligation, the Exchange's Contract Terms will always reference the terms in effect as of the date on which such obligation was issued or incurred regardless of the trade date of the contract in the terms of the Exchange Contract. Under the ISDA Definitions, the relevant terms are those in effect on the latter of the trade date of the contract and the date the obligation was issued or incurred and may therefore differ from contract to contract.

3.3 It is important to note that the Exchange's Contract Terms reflect the ISDA Definitions in place when the Credit Default Swap Index Contract is first entered into **as well as any subsequent amendments to and replacements of these definitions as published by ISDA from time to time**. Where ISDA issues amendments to or replacement of the ISDA Definitions, these will be applied to all existing LIFFE Credit Default Swap Index Contracts<sup>1</sup>. The Exchange recognises that this does not reflect current OTC market practice, where a transaction remains bound by the ISDA Definitions in force when the contract was entered into. However, this is necessary, from a standardization perspective, to avoid dual listings, with separate pools of open interest and liquidity for contracts governed by different sets of ISDA Definitions.

3.4 Amendments to and replacements of the iTraxx Standard Terms will not be applied to existing LIFFE Credit Default Swap Index Contracts except where these are applied as a result of an amendment to or replacement of the ISDA Definitions.

#### **4. Credit Event and Succession Event Adjudicator**

4.1 In the OTC market, it is the counterparties to the trade who effectively determine whether or not either a Credit Event or a Succession Event has occurred. Whilst third parties may provide market participants with information to facilitate that decision making process, there is currently no single mechanism for declaring that either a Credit Event or a Succession Event is deemed to have occurred. Instead in respect of each Credit Event it would be usual for the parties to accept that a Credit Event had occurred as a matter of fact, and have recourse to litigation if this is disputed. Conversely, Succession Events would usually be determined unilaterally by the calculation agent (who may also be a party to the relevant Contract). However, LIFFE's Credit Default Swap Index Contracts, as centrally cleared products, require there to be a formal declaration of both Credit Events and Succession Events and it is imperative that any such declaration must be final and binding for the purposes of all LIFFE Credit Default Swap Index Contracts.

4.2 The Exchange shall appoint a Credit Event and Succession Event Adjudicator (the Adjudicator") to make such declarations as and when required under the Contract Terms and the Credit Event and Succession Event Policy. The

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<sup>1</sup> If the Exchange determines that there could be uncertainty regarding the effect on the Contract Terms of any particular amendment to or replacement of the ISDA Definitions published by ISDA, then the Exchange shall determine, as soon as reasonably practicable in the circumstances, how that amendment to or replacement of the ISDA Definitions will be given effect in the Contract Terms and such determination shall be confirmed by Notice and incorporated into the Contract Terms.

Adjudicator shall review the evidence of a potential Credit Event or Succession Event provided to him and shall consult with market participants and any other relevant experts to gauge the market's opinion as to whether or not an event has occurred. Where the Adjudicator determines that an event has occurred, that decision shall be final and binding on the Exchange and all parties to a contract in the terms of a LIFFE Credit Default Swap Index Contract.

- 4.3 The Exchange has endeavoured to ensure that the Terms of Reference of the Adjudicator minimise any risk of formal declarations of events made for the purposes of LIFFE Credit Default Swap Index Contracts being inadvertently different from any general market opinion as to whether or not such events have, or should be determined to have, occurred. However, it remains possible that the Adjudicator could make a determination which is inconsistent with general market opinion and hence the basis of OTC market activity and pricing. Should this occur, it should be noted that the quality of mark to market prices in relation to Exchange CDS Contracts may be materially impacted. The Terms of Reference of the Adjudicator have been developed in order to minimise the possibility of such a divergence.

## **5. Credit Event and Settlement Process**

- 5.1 The Adjudicator appointed by the Exchange will determine whether a Credit Event has taken place with reference to the relevant definitions described in paragraph 3 above. Under ISDA terms, settlement of a Credit Event is triggered by a Credit Event Notice and Notice of Publicly Available Information submitted by one of the parties to the OTC transaction. Similarly, holders of positions in LIFFE Credit Default Swap Index Contracts will be able to submit an Exchange Credit Event Notice; however, this alone will not trigger the Credit Event settlement process for that position. The Exchange will use any Exchange Credit Event Notices submitted to it as part of the supporting evidence to be reviewed by the Credit Event and Succession Event Adjudicator and a Credit Event will only be formally declared by the Exchange if the Adjudicator determines that such an event has occurred. Once such Credit Event is declared then the Credit Event process will be triggered for all positions in the relevant LIFFE Credit Default Swap Index Contracts, regardless of whether the holders of these positions have submitted an Exchange Credit Event Notice. The Adjudicator's decision will be final and binding for the purposes of all LIFFE Credit Default Swap Index Contracts.
- 5.2 The Exchange's Contract Terms define the date on which the Exchange issues a Notice confirming that a Credit Event has occurred as the "Exchange Credit Event Determination Date". This differs from the ISDA convention where the Credit Event Determination Date is the date on which the Credit Event Notice and Notice of Publicly Available Information are delivered by one party to the other (although if an ISDA Protocol is established this may well be defined retrospectively). For LIFFE Credit Default Swap Index Contracts, the Fixed Rate ceases to accrue with respect to a Reference Entity with effect from the Exchange Credit Event Determination Date. This may differ from the corresponding Credit Event Determination Date established in the OTC

market for ISDA documented transactions. It should be noted that ISDA provides no warranty or assurance as to the accuracy of data or valuations generated by ISDA credit event auctions or the fitness of such auctions for any particular purpose.

- 5.3 Whereas parties to an ISDA documented transaction may specify physical delivery or cash settlement, all Exchange Event Protection Contracts will be cash settled. The Event Protection Contract, a non-tradeable contract issued to holders of LIFFE Credit Default Swap Index Contracts following the Exchange's declaration of a Credit Event, forms the mechanism for settlement following a Credit Event. The cash settlement amount is calculated using the Exchange Final Settlement Price. In most cases this will be based on the Final Price determined by the relevant ISDA Auction. However, where the Exchange determines that no ISDA Final Price is available, the Exchange will apply a fixed recovery rate of 40% for Bankruptcy and Failure to Pay events and 90% for Restructuring events. In the event that the Board determines that a physical delivery mechanism shall, from a specified date, replace fixed recovery rates for the settlement of Event Protection Contracts in the absence of a Final Price being determined by an ISDA Auction, such a means of settlement shall apply to Event Protection Contracts arising from existing registered Contracts at such specified date. Any such determination will be confirmed by Notice and incorporated into the Contract Terms.
- 5.4 Parties to an ISDA documented transaction may deliver multiple Credit Event Notices with respect to a Restructuring Credit Event to settle that Credit Event in tranches. Holders of positions in LIFFE Credit Default Swap Index Contracts will not be able to elect for multiple settlement. Once a Credit Event is formally declared by the Exchange the Credit Event process will be triggered for all positions.

## **6. Last Trading Day and Last Protection Day**

- 6.1 OTC contracts governed by the ISDA Definitions include the concept of Scheduled Termination Date. In the Exchange's Contract Terms, Scheduled Termination Date is replaced by two elements: Last Trading Day and Last Protection Day. According to OTC convention, the Scheduled Termination Date is not adjusted if it falls on a day which is not a Business Day. The Exchange equivalent, Last Trading Day, must necessarily be adjusted for non-Business Days. To reflect OTC practice in relation to the period during which Credit Event protection is offered, the term Last Protection Day is contained within the Exchange's Contract Terms. This Last Protection Day is not adjusted if it falls on a non-Business Day.

## **7. Notices to the Exchange to be in Writing**

- 7.1 OTC contracts governed by the ISDA Definitions allow parties to deliver a Credit Event Notice by telephone. Whilst an Exchange Credit Event Notice can be given by a member holding an open position in a Credit Default Swap Index Contract up to the time on the Last Notification Date which is specified

in the Administrative Procedures, such Exchange Credit Event Notice must be in writing.

## **8. Initial Payment Date and Event Protection Contract payment date**

- 8.1 As defined in the Exchange's Contract Terms, the Initial Payment Date for LIFFE Credit Default Swap Index Contracts is the Clearing House Business Day following the Exchange Confirmation Date. This differs from current OTC market practice where the initial payment date is three business days following the trade date.
- 8.2 Similarly, the payment date in respect of an Event Protection Contract issued pursuant to the Exchange's Contract Terms shall be the Clearing House Business Day following the Final Settlement Day for such Event Protection Contract.

## **9. Successors**

- 9.1 Pursuant to the Exchange's policy for determining whether a Succession Event has occurred, the Adjudicator appointed by the Exchange will determine whether a Succession Event has occurred by reference to the corresponding provisions in the ISDA Definitions. The ISDA Definitions include an ability for the calculation agent to the OTC contract, where more than one Successor is identified, to make adjustments to preserve the economic effects of the original credit derivative transaction following the division of that contract between those successors. There is no corresponding provision in the Exchange's Contract Terms or in the Exchange's policy for determining a Succession Event.
- 9.2 It should also be noted that if a Successor is identified (which is not the original Reference Entity) the Protection Period shall commence on the day a Notice is published identifying that Successor.

## **10. Substitute Reference Obligation**

- 10.1 OTC contracts governed by the ISDA Definitions include provisions for the substitution or replacement of a Reference Obligation. In the Exchange's Contract Terms a Reference Obligation will only be substituted if the Index Sponsor publishes a replacement Reference Obligation for a Reference Entity. If the Index Sponsor does not publish a Reference Obligation for a Reference Entity (or a Successor) there will be no Reference Obligation.

## **11. Representations**

- 11.1 OTC contracts governed by the ISDA Definitions contain a number of representations given by the parties. The Exchange's Contract Terms do not contain such representations.

## **12. Submission of Physical Settlement Requests to ISDA Auctions**

- 12.1 LIFFE understands that permission has been granted by ISDA for holders of a LIFFE Credit Default Swap Index Contract to submit Physical Settlement Requests to ISDA credit event auctions via a Participating Bidder, if the Participating Bidder is willing to provide that service to the holder in question. It is the responsibility of holders of LIFFE Credit Default Swap Index Contracts wishing to submit Physical Settlement Requests to enter into any necessary arrangements with a Participating Bidder in order to do so. For the avoidance of doubt, neither the Exchange or ISDA will make provisions on behalf of LIFFE Members or their clients to allow the submission of Physical Settlement requests. It is entirely the responsibility of holders of LIFFE Credit Default Swap Index Contracts to make the necessary arrangements with appropriate Participating Bidders, including, if necessary, updates to existing agreements to bring LIFFE contracts into scope of those agreements, and putting in place enabling documentation to deal with the settlement of Physical Settlement Requests. LIFFE Members and their clients should ensure appropriate arrangements with a Participating Bidder are in place in advance of any announcement of an auction, as there is unlikely to be sufficient time to conclude arrangements once an auction has been announced.

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### **Credit Default Swap Index Contracts**

The Exchange draws the following statement to the attention of potential users of its Credit Default Swap Index Contracts. Members should ensure that their clients are made aware of the following statement.

“Potential users of the LIFFE Credit Default Swap Index Contracts should familiarise themselves with the terms of these Contracts and with the Index compilation and calculation procedures of International Index Company Limited / Markit Group Limited. Potential users should also familiarise themselves with the details of the

Exchange's policy in relation to Credit Events and Succession Events and should be aware of the circumstances leading to the issuance of Event Protection Contracts. It is important for potential users of the LIFFE Credit Default Swap Index Contracts to familiarise themselves with the applicable ISDA Definitions and for the definition of each type of Credit Event and Succession Event to be fully understood by users of the LIFFE Credit Default Swap Index Contracts, so that holders of positions in the LIFFE Credit Default Swap Index Contracts are not taking on greater risks than they intend. Potential users of the LIFFE Credit Default Swap Index Contracts should also familiarise themselves with the ISDA Auction methodology for the determination of the Final Price (being the price for obligations which are deliverable under an ISDA documented credit derivative transaction) because this is used by the Exchange in the calculation of the Exchange Final Settlement Price in respect of any Event Protection Contracts that are issued. In circumstances where no Final Price is determined by an ISDA Auction, the Exchange will use a fixed recovery rate in the calculation of the Exchange Final Settlement Price in respect of any such Event Protection Contracts unless the Board has determined that a physical delivery mechanism should replace fixed recovery rates as the appropriate means of settlement and has confirmed such a change by Notice and incorporated it into the Contract Terms.

Potential users of the LIFFE Credit Default Swap Index Contracts should be aware that the Exchange's Contract Terms reflect applicable definitions and provisions contained in the 2003 ISDA Credit Derivatives Definitions as supplemented by the May 2003 Supplement to the 2003 ISDA Credit Derivatives Definitions, each as published by ISDA (the "ISDA Definitions"). **The Exchange's Contract Terms are governed by the applicable ISDA Definitions, and by any subsequent amendments to and replacement of these definitions as published by ISDA from time to time.** It is important that, before entering into a transaction in respect of LIFFE Credit Default Swap Index Contracts, potential users understand any risk, including any changes to the value of their position, that may be associated with opening a position under Contract Terms reflecting the current set of ISDA Definitions, which may result in a position governed by Contract Terms reflecting a subsequent set of ISDA Definitions."

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