

## ICE CLEAR CREDIT EXERCISE PROCEDURES

These ICE Clear Credit Exercise Procedures (these “**Exercise Procedures**”) supplement the provisions of Subchapter 26R of the ICE Clear Credit Rules with respect to Index Swaptions.

### 1. DEFINITIONS

- (a) Capitalized terms used but not defined herein will have the meanings specified in the Rules or, if not specified therein, will have the meanings specified or incorporated in the Relevant Index Swaption Untranching Terms Supplement, as applicable.
- (b) The following terms shall have the meanings indicated:

The term “**Assignment Block**” has the meaning specified in paragraph 2.2.

The term “**Desk ID**” means the designation of a particular trading desk or other subaccount maintained by the Participant (or, if applicable, Non-Participant Party) with respect to its Index Swaptions and identified to ICE Clear Credit in a manner specified by ICE Clear Credit.

The term “**Electronic Notice**” is a kind of Preliminary Swaption Exercise Notice or Swaption Exercise Notice delivered pursuant to the Electronic Notice Process pursuant to paragraph 2.5.

The term “**Electronic Notice Process**” means the process for the electronic delivery and assignment of Preliminary Swaption Exercise Notices or Swaption Exercise Notices through the Exercise System pursuant to paragraph 2.5.

The term “**Exercise Period**” means the period on the Expiration Date of an Index Swaption during which the Swaption Buyer may deliver a Swaption Exercise Notice to ICE Clear Credit in order to exercise all or part of such Index Swaption in accordance with the Rules. Such period will start at the Swaption Exercise Start Time and end at the Swaption Exercise Cut-Off Time.

The term “**Exercise System**” has the meaning specified in paragraph 2.5.

The term “**Exercise System Failure**” means (i) any failure of the Exercise System to be fully in operation during the 45 minute period prior to the Swaption Exercise Cut-Off Time or (ii) any other circumstances in which ICE Clear Credit determines that it is unable to process all or a material portion of all Swaption Exercise Notices relating to an Index Swaption or Index Swaptions in a timely manner in respect of an Exercise Period, including because of an operational failure of the Exercise System.

The term “**Exercising Party**” means (i) with respect to an Index Swaption carried in the House Account of a Participant as Swaption Buyer, such Participant, and (ii) with respect to an Index Swaption carried in the Client Origin Account of a Participant for a Non-Participant Party as Swaption Buyer, such Non-Participant Party.

The term “**Party Communication Failure**” means, with respect to a particular Exercising Party, that such Exercising Party is affected by a significant communications or information technology failure (other than an Exercise System Failure) resulting in it being impossible or impractical for such Exercising Party to deliver all or substantially all of its Swaption Exercise Notices in accordance with the Electronic Notice Process during the Exercise Period.

The term “**Pre-Exercise Notification Period**” means the period commencing after ICE Clear Credit ceases to accept Trades in Index Swaptions and ending at the Swaption Exercise Start Time.

The term “**Swaption Exercise Start Time**” means (i) with respect to an Index Swaption referencing a CDX.NA index, 9:00 a.m., New York time; and (ii) with respect to an Index Swaption referencing an iTraxx Europe index, 9:00 a.m., London time.

The term “**Swaption Exercise Cut-Off Time**” means (i) with respect to an Index Swaption referencing a CDX.NA index, 11:00 a.m., New York time; and (ii) with respect to an Index Swaption referencing an iTraxx Europe index, 4:00 p.m., London time.

## **2. EXERCISE AND ASSIGNMENT PROCESS**

### **2.1 General**

- (a) Swaption Exercise Notices by a Participant (or Non-Participant Party) that is a Swaption Buyer shall be delivered only in accordance with the Rules and these Exercise Procedures, notwithstanding anything to the contrary in any Relevant Index Swaption Untranching Terms Supplement.
- (b) Subchapter 26R of the Rules and these Exercise Procedures shall prevail over the general timing and process for notices set out in the Rules with respect to Swaption Exercise Notices and assignments thereof.

### **2.2 Exercise and Assignment**

- (a) ICE Clear Credit shall, after the time ICE Clear Credit ceases to accept additional Trades in Index Swaptions for clearing on the Business Day prior to the Expiration Date of an Index Swaption, net

all Open Positions in the House Account of such Participant with the same Desk ID in such expiring Index Swaption.

- (b) ICE Clear Credit shall, after the time ICE Clear Credit ceases to accept additional Trades in Index Swaptions for clearing on the Business Day prior to the Expiration Date of an Index Swaption, net all Open Positions in the Client Origin Account of a Participant with the same Desk ID of an individual Non-Participant Party in such expiring Index Swaption.
- (c) An Open Position in an Index Option may be exercised by the Exercising Party during the Exercise Period in whole or in part, in one or more exercises. ICE Clear Credit may require any partial exercise to be in a specified notional amount (such amount, an “**Exercise Block**”) or an integral multiple thereof. If not specified, the Exercise Block will be 0.01 in the currency of denomination.
- (d) In order to exercise an Index Swaption, the Exercising Party must deliver (or be deemed to have delivered) a Swaption Exercise Notice to ICE Clear Credit during the Exercise Period, in the manner specified in these Exercise Procedures, specifying the notional amount being exercised (the “**Exercised Notional Amount**”).
- (e) ICE Clear Credit may establish a Pre-Exercise Notification Period in respect of expiring Index Swaptions for a particular Expiration Date. During a Pre-Exercise Notification Period, an Exercising Party may submit to ICE Clear Credit preliminary Swaption Exercise Notices, and modify or withdraw previously submitted Preliminary Swaption Exercise Notices (such notices, as modified or withdrawn, “**Preliminary Swaption Exercise Notices**”). Except under the circumstances described in subparagraph 2.2(i) below, Preliminary Swaption Exercise Notices will not be binding on the Exercising Party or ICE Clear Credit. Preliminary Swaption Exercise Notices are subject to validation as provided in subparagraph (f) below.
- (f) Submission by an Exercising Party of a Swaption Exercise Notice during the Exercise Period will be irrevocable and binding on the Exercising Party; provided that ICE Clear Credit may reject any Swaption Exercise Notice that is not validated in accordance with this paragraph. ICE Clear Credit will validate the Swaption Exercise Notice based on the Exercise Block (if applicable), Exercised Notional Amount, and any previous Swaption Exercise Notice submitted for the Index Swaption. ICE Clear Credit considers the following Swaption Exercise Notices to be invalid: a) Swaption Exercise Notices having Exercised Notional Amounts of less than zero, b) Swaption Exercise Notices having Exercised Notional Amounts greater than the notional amount of the Index Swaption,

and c) Swaption Exercise Notices for which the Exercised Notional Amount is less than the notional amount of the Index Swaption and is not an integer multiple of the Exercise Block. Once validated by ICE Clear Credit, a Swaption Exercise Notice will be deemed accepted by ICE Clear Credit and binding on ICE Clear Credit and the Exercising Party (and, in the case of a Non-Participant Party, its Participant). ICE Clear Credit will confirm valid Swaption Exercise Notices to the submitting Exercising Party. A Swaption Exercise Notice that is rejected as not valid will be of no effect for purposes of the Rules and these Exercise Procedures. ICE Clear Credit will inform the submitting Exercising Party of invalid Swaption Exercise Notices that have been rejected. For the avoidance of doubt, following rejection of an invalid notice, an Exercising Party may resubmit a corrected Swaption Exercise Notice within the Exercise Period, subject to compliance with the provisions hereof.

- (g) If an Exercising Party has submitted a Swaption Exercise Notice with an Exercised Notional Amount less than the notional amount of the Index Swaption (i.e., a partial exercise), it may submit during the Exercise Period a subsequent Swaption Exercise Notice increasing the Exercised Notional Amount. For the avoidance of doubt, an Exercising Party shall not be entitled to reduce the Exercised Notional Amount of a Swaption Exercise Notice once submitted.
- (h) At intervals within the Exercise Period, ICE Clear Credit may, but will not be obligated to, estimate the notional amount that it will assign to each Open Position in an Index Swaption of a Swaption Seller. Estimated assignments are based on the pro-rata portion of the notional amount of each Open Position in the Index Swaption of a Swaption Seller, relative to the total notional amount of all Open Positions of Swaption Sellers in the Index Swaption. Estimated assignments are made across all Open Positions of Participants that are Swaption Sellers in the relevant Index Swaption (across both the House Account and all Non-Participant Portfolios carried in the Client Origin Account of such Participants). Any such estimates are provided by ICE Clear Credit as a courtesy solely for informational purposes, will not necessarily be consistent with the final assignments made under the Rules and these Exercise Procedures and are not binding on ICE Clear Credit.
- (i) Notwithstanding paragraph (f) above, if an Exercising Party has submitted a Preliminary Swaption Exercise Notice in respect of an Index Swaption (and such notice remains in effect as of the end of the Pre-Exercise Notification Period), and did not submit a Swaption Exercise Notice in respect of that Index Swaption or withdraw the Preliminary Swaption Exercise Notice during the Exercise Period, the Exercising Party shall be deemed to have submitted a Swaption

Exercise Notice in respect of that Index Swaption with the Exercised Notional Amount specified under such Preliminary Swaption Exercise Notice.

- (j) After the Exercise Period ends, ICE Clear Credit shall determine final assignments to Open Positions in Index Swaptions of Swaption Sellers. Assignments are based on the pro-rata portion of the notional amount of each Open Position in the Index Swaption of a Swaption Seller, relative to the total notional amount of all Open Positions of Swaption Sellers in the Index Swaption. Assignments are made across all Open Positions of Participants that are Swaption Sellers in the relevant Index Swaption (across both the House Account and all Non-Participant Portfolios carried in the Client Origin Account of such Participants). Such pro rata portions may be adjusted up or down to maximize the number of assignments that are integer multiples of a notional amount chosen by ICE Clear Credit (such an amount, the “**Assignment Block**”). No assignment for Open Position in Index Swaptions of Swaption Sellers shall be adjusted from the pro rata level by more than one Assignment Block. For the avoidance of doubt, accepted Swaption Exercise Notices are not adjusted.
- (k) As provided in the Rules, each final assignment to a Participant in respect of its position as a Swaption Seller in an Index Swaption shall constitute the exercise by ICE Clear Credit, as swaption buyer, of such Index Swaption. ICE Clear Credit shall not be required to provide any other exercise notice in respect of such exercise.
- (l) Promptly following the final assignments, ICE Clear Credit will notify Participants thereof. For this purpose, by 6 p.m. on the Expiration Date, ICE Clear Credit will provide a report (an “**Exercise Report**”) to each Participant showing all Open Positions exercised by it in respect of its House Account and Client Origin Account and all final assignments to Open Positions in its House Account and Client Origin Accounts in respect of each Index Swaption expiring on such Expiration Date.

### **2.3 Exercise Limitations**

- (a) ICE Clear Credit may impose limitations as to the speed, frequency or notional amounts in which an Index Option may be exercised at particular times during the Exercise Period, and may provide for different levels or types of limitations at different times during the Exercise Period.
- (b) ICE Clear Credit shall not be responsible for any inability or failure of a Participant or Non-Participant Party to exercise any Index

Swaption, in whole or in part. Each Exercising Party is responsible for monitoring applicable submission requirements, exercise limitations and deadlines and for ensuring it has submitted valid Swaption Exercise Notices in sufficient time to effect all desired exercises of Index Swaptions.

## **2.4 Party Entitled to Exercise; Non-Participant Parties**

- (a) Only the Exercising Party with respect to an Index Swaption shall be entitled to provide Preliminary Swaption Exercise Notices or Swaption Exercise Notices to ICE Clear Credit in respect thereof. Accordingly, a Participant shall not be entitled to provide a Preliminary Swaption Exercise Notice or Swaption Exercise Notice on behalf of Non-Participant Parties for which it carries Index Swaptions. A Non-Participant Party will only be permitted to exercise an Index Swaption in a portfolio belonging to the Non-Participant Party. Each Non-Participant Party acknowledges and agrees that it will be responsible for submitting its own Preliminary Swaption Exercise Notices and Swaption Exercise Notices and will not be able to rely on its Participant or ICE Clear Credit to do so on its behalf.
- (b) Notwithstanding anything to the contrary in paragraph 2.4(a), a Participant may elect, in furtherance of its rights under Rule 304(c) as a result of a default or termination event with respect to a Non-Participant Party for which it carries an Index Swaption, (i) to exercise such Index Swaption on behalf of the Non-Participant Party for the purpose of liquidating or closing out such position or (ii) to convert such Index Swaption into a House Position.
- (c) In furtherance of (and without limiting) Rule 406(k), each Participant shall be required to obtain the agreement of each Non-Participant Party for which it carries an Open Position in Index Swaptions to the provisions of the Rules and Exercise Procedures applicable to Index Swaptions (including this paragraph 2.4) and hereby represents and warrants to ICE Clear Credit that it has obtained such agreement.
- (d) Without limiting the obligations of any Exercising Party under the Rules or these Exercise Procedures, ICE Clear Credit may require additional agreements or documentation from Exercising Parties in connection with the exercise of Index Swaptions.

## **2.5 Electronic Notice Process**

- (a) ICE Clear Credit will establish an electronic system (the “**Exercise System**”) pursuant to which Participants may electronically submit Preliminary Swaption Exercise Notices (including modifications and withdrawals thereof) and Swaption Exercise Notices and pursuant to

which Participants will receive from ICE Clear Credit estimated (if any) and final assignments of Swaption Exercise Notices to their Open Positions.

- (b) Unless otherwise determined by ICE Clear Credit pursuant to paragraph 2.6 below, Swaption Exercise Notices shall only be submitted through the Exercise System pursuant to the Electronic Notice Process. Notices sent through any other means shall be invalid and ineffective.
- (c) Electronic Notices will be effective when received in and processed by the Exercise System, pursuant to paragraph 2.2. ICE Clear Credit's records as to the receipt and processing (and time of receipt and processing) of any Electronic Notice shall be conclusive.

## **2.6 Exercise System Failure**

In the event of an Exercise System Failure affecting an Exercise Period, ICE Clear Credit shall give notice thereof to all Participants and shall, at ICE Clear Credit's election, (i) cancel and reschedule the Exercise Period, in which case any Swaption Exercise Notices submitted prior to such cancellation shall be of no effect and Exercising Parties will need to resubmit Swaption Exercise Notices during the rescheduled Exercise Period; (ii) determine that automatic exercise pursuant to paragraph 2.8 below will apply; and/or (iii) take such other action as ICE Clear Credit shall determine to be appropriate to permit Exercising Parties to effectively submit Swaption Exercise Notices and to permit ICE Clear Credit to effectively assign Swaption Exercise Notices to other Participants. This provision is without limitation of any other rights or powers of ICE Clear Credit under the Rules.

## **2.7 Party Communication Failure**

If an Exercising Party provides notice to ICE Clear Credit of a Party Communication Failure in respect of an Exercise Period, in circumstances in which paragraph 2.6 does not also apply, ICE Clear Credit shall either (i) follow paragraph 2.2 (including paragraph 2.2(i)) above notwithstanding such Party Communication Failure; or (ii) take such other action as ICE Clear Credit shall determine to be appropriate to permit such Exercising Party to effectively submit Swaption Exercise Notices and to permit ICE Clear Credit to effectively assign such Swaption Exercise Notices to other Participants. This provision is without limitation of any other rights or powers of ICE Clear Credit under the Rules.

## **2.8 Automatic Exercise for Exercise System Failure**

- (a) If automatic exercise applies pursuant to paragraph 2.6, ICE Clear Credit will automatically and without further notice or action by any Exercising Party exercise on the Expiration Date in whole each Open Position of all Exercising Parties in an Index Swaption that is determined by ICE Clear Credit to be “in the money” on such date. Whether an Index Swaption is in the money will be determined by ICE Clear Credit based on the average of the end-of-day price of the underlying CDS Contract on the preceding Business Day and the end-of-day price of the underlying CDS Contract on the Expiration Date. Upon such exercise, ICE Clear Credit shall allocate exercised Index Swaptions in accordance with paragraph 2.2(i).
- (b) Except as provided in this paragraph 2.8, Index Swaptions will not be automatically exercised on the Expiration Date.