

SCHEDULE

Regulations 19, 22 and 27

DEFAULT RULES

1.—(1) A listed person must have default rules which, in the event of a person appearing to be unable to meet his obligations in respect of one or more money market contracts or related contracts, enable action to be taken in respect of all unsettled money market contracts and all related contracts to which he is a party.

(2) The rules may authorise the taking of the same or similar action where a person appears to be likely to become unable to meet his obligations in respect of any one or more money market contracts or related contracts.

CONTENTS OF RULES

2.—(1) The rules of a listed person must provide for all rights and liabilities of the defaulter under or in respect of unsettled money market contracts and related contracts to be discharged and for there to be paid by or to the defaulter such sum of money (if any) as may be determined in accordance with the rules.

(2) The rules must further provide—

(a) for the sums so payable to be aggregated or set off so as to produce a net sum;

(b) for that sum—

(i) if payable by the defaulter to the listed person, to be set off against any property (or the proceeds of realisation of property) provided by or on behalf of the defaulter as cover for margin or otherwise provided by the defaulter for the purposes of or in connection with the provision of settlement services in relation to money market contracts and related contracts, and

(ii) if payable by the listed person to the defaulter to be aggregated with any property (or the proceeds of realisation of property) provided by or on behalf of the defaulter as cover for margin or otherwise provided by the defaulter for the purposes of or in connection with the provision of settlement services in relation to money market contracts and related contracts; and

(c) for the certification by or on behalf of the listed person of the sum finally payable or, as the case may be, of the fact that no sum is payable.

3.—(1) The reference in paragraph 2 of this Schedule to the rights and liabilities of a defaulter under or in respect of an unsettled money market contract or a related contract includes (without prejudice to the generality of that provision) rights and liabilities arising in consequence of action taken under the provisions of the rules authorising the effecting by the listed person of replacement contracts.

(2) In this Schedule, a “replacement contract” means a contract effected by a listed person in order to replace the defaulter’s positions under unsettled money market contracts or related contracts to which the defaulter is a party.

(3) The reference in this paragraph to the rights and liabilities of a defaulter under or in respect of unsettled money market contracts or related contracts does not include, where he acts as agent, rights and liabilities of his arising out of the relationship of principal and agent.

4.—(1) The rules of a listed person must provide that where a person other than a defaulter is a party to one or more related contracts for all rights and liabilities of that person under or in respect of all related contracts to which he is a party to be discharged and for there to be paid by or to that person such sum of money (if any) as may be determined in accordance with the rules.

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- (2) The rules must further provide—
- (a) for the sums so payable to be aggregated or set off so as to produce a net sum; and
 - (b) for the certification by or on behalf of the listed person of the sum payable or, as the case may be, of the fact that no sum is payable.

NOTIFICATION TO OTHER PARTIES AFFECTED

5. A listed person must have adequate arrangements for securing that persons affected by a defaulter's failure to perform his obligations under unsettled money market contracts are notified as soon as reasonably practicable of the default and of any decision taken under the rules in relation to the defaulter which affects them.

DELEGATION OF FUNCTIONS IN CONNECTION WITH DEFAULT PROCEEDINGS

6. The rules may make provision for the whole or part of the functions mentioned in this Schedule to be performed by another body on behalf of the listed person.