J.P.Morgan

Tools typically used by CCPsLegal recourse for creditors

J.P. Morgan's recommendations: CCP financial safeguards and capital requirements

| | Default resources* | | | Non-default resources |
|--|--|---|---|---|
| | RESILIENCE | | | |
| | Defaulter's resources (initial margin and default fund) | | | |
| | Funded CCP "skin in the game" (SITG) ** | Minimum "Cover 2" for all CCPs | Right-sized SITG based on a thorough quantitative impact study conducted by regulators | CCP's own-funds, right-sized capital resources |
| | Clearing member default fund contributions ** | | | |
| | RECOVERY | | | |
| Zone of entry by resolution authority | Clearing member default fund assessments | One assessment equal to the default fund | | |
| | CCP remaining capital | Right-sized capital to cover both default and non-default losses | | |
| RESOLUTION *** | | | | |
| | Partial Tear-up (PTU) | | Affected CCP participants retain senior claims for compensation | Affected creditors retain claims with respect to losses |
| | Variation Margin Gains Haircutting (VMGH) | Limit VMGH to one day | | |
| | RECAPITALIZATION | | | |
| | Bail-in of senior claims from VMGH and PTU, if utilized, to cover remaining losses Bail-in of long-term debt for recapitalization | | | |
| | | | | |
| | Change in ownership - new CCP established | | | |
| | | | = J. | <u>KEY</u> P. Morgan recommendations |

^{*} Our recommendations reflect the full range of default resources and tools that we believe should be available to CCPs and/or their respective regulatory and/or resolution authorities.

^{**} Assuming that the CCP recovers, at the end of the default management process covering sequential defaults over a reasonable period, the CCP and non-defaulting members would be expected to replenish their respective SITG and default fund contributions.

^{***} Limited use of PTU may be permitted in recovery but only at the direction and control of the CCP's regulatory authority. However, use of VMGH should be permissible only in resolution, and only after CCP's remaining capital has been fully utilized.