

OTC Clear Rates and FX Derivatives Clearing Rules

Preface

General

This preface is intended to give a general explanation of the purpose of the Clearing Rules of OTC Clearing Hong Kong Limited (“**OTC Clear**”) in respect of the clearing and settling of certain interest rate derivatives and FX derivatives in the over-the-counter derivatives market. This preface does not form part of the Clearing Rules and does not affect the construction of the Clearing Rules.

OTC Clear has been established to operate a clearing house for the purpose of clearing and settling any types of over-the-counter derivatives transactions that OTC Clear has been approved by the SFC to clear (such transactions, the “**OTC Derivatives Contracts**”). OTC Clear has been recognized by the SFC as a recognized clearing house pursuant to the SFO.

OTC Clear may from time to time clear and settle OTC Derivatives Contracts other than interest rate derivatives or FX derivatives. In such case, OTC Clear may decide to amend or expand the Clearing Rules such that they may operate to govern the terms and conditions of clearing such other types of OTC Derivatives Contracts, or to introduce separate rules and documentation to govern the terms and conditions of clearing such other types of OTC Derivatives Contracts.

In its provision of the clearing services and implementation of the Clearing Rules^{*}, OTC Clear will comply with its statutory duties under the SFO and will seek to ensure general compliance with the relevant principles set out in the “Principles for financial market infrastructures” issued by the Committee on Payment and Settlement Systems and Technical Committee of the International Organization of Securities Commissions dated April 2012.

Membership

Clearing Members of OTC Clear may be admitted to clear interest rate derivatives and/or FX derivatives. In addition, with the prior written approval of OTC Clear, designated branches of a Clearing Member and/or designated affiliates of such Clearing Member may submit interest rate derivatives and/or FX derivatives for registration in the name of such Clearing Member. OTC Clear may introduce new membership categories if it decides to clear other types of OTC Derivatives Contracts.

^{*} Client clearing service will not be available during the initial phase of establishment of OTC Clear.

Chapter 1 Definitions and Interpretation

Definitions

101. In these Clearing Rules, unless the context otherwise requires:

<p>“Base Currency”</p>	<p>means Hong Kong dollars, or such other Eligible Currency as designated by OTC Clear and notified to the Clearing Members from time to time;</p>
<p>“Capital”</p>	<p>means, (1) in respect of an entity that is an Authorized Institution incorporated in Hong Kong, “Tier 1 capital” as defined in the Banking (Capital) Rules (Cap. 155L); (2) in respect of an entity that is a Licensed Corporation, “liquid capital” as defined in the Financial Resources Rules; (3) in respect of an entity that is a futures commission merchant registered with the U.S. Commodities Futures Trading Commission, “adjusted net capital” as defined in CFTC Regulation 1.17; (4) in respect of an entity that is a broker-dealer registered with the U.S. Securities and Exchange Commission, “net capital” as defined in SEC Rule 15c3-1; (5) in respect of an entity that is a firm registered with the U.K. Financial Services Authority, “tier one capital” as calculated under the General Prudential sourcebook; (6) in respect of an entity that is an institution licensed by the German Federal Financial Supervisory Authority, “tier one capital” as defined in section 10(2a) of the German Banking Act and as calculated under section 10 of the German Banking Act and the rules stipulated under the Solvency Regulation (Solvabilitätsverordnung); and (7) in respect of an entity that is not subject to any of the aforementioned rules, such other classes, categories or description of capital as set out in the Clearing Procedures or as otherwise may be determined by OTC Clear in its discretion. In the event that an entity falls within more than one category referred to in the immediately foregoing, then OTC Clear shall have the sole right and discretion to select one of the above categories as applicable to such entity for the purposes of the Clearing Documentation and will notify the relevant Clearing Member of such selection;</p>
<p>“Clearing Notice”</p>	<p>means any notice, announcement, circular, guidance or practice note issued by OTC Clear under these Clearing Rules and stated to be a clearing notice which relates to the interpretation, application or implementation of these Clearing Rules or the operation or facilities of OTC Clear;</p>

<p>“Early Termination Date”</p>	<p>means, in respect of a Contract registered in the name of a Clearing Member, the date determined as an Early Termination Date for such Contract in accordance with Clearing Rule 210(1), 1303, 1305, 1320(1), 1321, or 1322, as the case may be. A Contract shall be terminated with effect from the Early Termination Date relating to it;</p>
<p>“Eligibility Requirements”</p>	<p>means, with respect to an Original Transaction submitted for registration with OTC Clear, the eligibility requirements applicable to such Original Transaction as set out in sections 3.4 and 4.6 of the Clearing Procedures;</p>
<p>“OTC Derivatives Contract”</p>	<p>has the meaning given to it in the Preface to the Clearing Rules;</p>

Interpretation

110. These Clearing Rules are in the English language.

Chapter 2 General Provisions

Disclosure of Information

212. Each Clearing Member agrees that OTC Clear has the power to publish aggregated trade information in respect of Contracts cleared and settled through OTC Clear, whether relating to data on open positions, trade volumes, types of Contracts cleared and settled by OTC Clear, provided that the identity of Clearing Members or Clients cannot reasonably be determined from the data, statistics or other materials so published.

Chapter 3 General Provisions

Clearing Members

302. OTC Clear may admit Clearing Members for the clearing of FX Derivatives and/or Rates Derivatives and/or such other types of OTC Derivatives Contracts as OTC Clear may determine from time to time. OTC Clear will only register an Original Transaction if such transaction satisfies the Eligibility Requirements applicable to the Original Transaction at the time of its submission to OTC Clear for registration, through to the Registration Time. Clearing Members may register Contracts to their House Account and, if approved by OTC Clear, to one or more Client Clearing Category 1 Accounts.

Chapter 4 Legal Obligations

Continuing Obligations

401. Each Clearing Member shall at all times:

- (21) (a) comply with all Applicable Laws relating to its status, the conduct of its business and the performance of its obligations as a Clearing Member, including, for the avoidance of doubt, all Applicable Laws relating to the prevention of bribery, money laundering, financial crimes and terrorist financing and (b) not be subject to any sanctions promulgated or imposed by the United Nations or any Governmental Authority relevant to it or its

clearing activities; and

- (22) be able to demonstrate, to the satisfaction of OTC Clear, the ability to comply with the above.

Chapter 8 Clearing by OTC Clear

Acceptance for Registration of Original Transactions

801. Clearing Members (or Designated Person on behalf of the relevant Clearing Member) and Clients may from time to time submit Original Transactions to OTC Clear for registration in accordance with the Clearing Procedures. In order to qualify for registration, an Original Transaction must satisfy the Eligibility Requirements applicable to such Original Transaction. The Eligibility Requirements applicable to an Original Transaction are determined by OTC Clear and will be set out in the Clearing Procedures.

Chapter 13 Default Procedures

Termination following a Clearing Member Event of Default

1305. Upon the occurrence of an Automatic Early Termination Event or delivery of a Notice of Default with respect to a Defaulting Clearing Member, OTC Clear may take such steps with respect to such Defaulting Clearing Member as in the circumstances appear to it, in its absolute discretion, best calculated:

- (3) without the need for any prior notice to or consent of such Defaulting Clearing Member:
- (a) (where an Automatic Early Termination Event has not occurred) to terminate any Contract of the Defaulting Clearing Member by designating an Early Termination Date in respect of such Contract;
 - (b) to apply any Collateral in the form of cash, and arranging for the liquidation of any non-cash Collateral and applying the liquidation proceeds, for the absorption of losses incurred by OTC Clear as a result of the default of the Defaulting Clearing Member;
 - (c) to obtain any advice or assistance from the Defaulting Clearing Member and/or any third party as OTC Clear may deem necessary for any matter arising out of or in connection with an Event of Default and at the expense of the Defaulting Clearing Member, and/or
 - (d) to complete the process set out in Clearing Rule 1306 in relation to such Defaulting Clearing Member,

in each case, acting in consultation with the Default Management Group and in accordance with the Default Management Process.

Calculations of Net Payment following a Clearing Member Event of Default

1306. In determining the trade values in relation to each Position Account under subparagraph (1) above, OTC Clear will calculate an amount that it determines to be the losses and costs that it would incur (expressed as a negative number) or gains that it would realise (expressed as a positive number) under the prevailing circumstances in replacing, or providing itself with the economic equivalent of, the

Contracts in such Position Account, taking into account its losses, costs and gains under the porting, Hedging and Auction processes. OTC Clear will determine each such trade value in the Base Currency, and for the purpose of the calculations under this Clearing Rule 1306 to Clearing Rule 1308, OTC Clear may convert any amounts denominated in other currency into the Base Currency at such rate prevailing at the time of the calculation as it shall reasonably select.

Chapter 15 Rates and FX Guarantee Resources

Winding Down of the Rates and FX Clearing Services

1534. If, pursuant to Clearing Rule 1533, a net sum is determined to be payable by a Clearing Member to OTC Clear with respect to one or more of its Position Accounts, OTC Clear shall reduce each such sum by application of the Outright Transfer Margin Balance, if any, relating to the relevant Position Account. With respect to each Clearing Member and each of its Position Account(s), after application of the Outright Transfer Margin Balance relating to the relevant Position Account:

- (2) if the Clearing Member fails to pay the Remaining Balance within the time frame set out in sub-paragraph (1) above, OTC Clear may declare an Event of Default in respect of such Clearing Member. OTC Clear may, in satisfaction of any due but unpaid Remaining Balance in respect of a Position Account, apply the proceeds of enforcement of any non-cash Collateral comprising the Margin Balance of the corresponding Collateral Account, and if any of the Remaining Balance remains unsatisfied following such application, the unsatisfied amount shall form part of the Limited Recourse Interim CM Payable with respect to the relevant Position Account.

Chapter 19 Auction

Registration of Auction Contracts

1921. Following the completion of the Auction process with respect to all Auction Portfolios constructed for a DMP Event, all Successful Bidders will be notified of their Successful Bids and the Auction Payment or Auction Receivable (as applicable) payable in connection the registration of Auction Contracts relating to such Successful Bids. OTC Clear will register the Auction Contracts to the account specified by each Successful Bidder. Auction Contracts will be registered in the name of the Successful Bidder by OTC Clear entering into the Auction Contracts with the Successful Bidder.

Chapter 20 Confidentiality Obligations relating to Receipt of DMP Information

Confidentiality

2004. Nothing in these Clearing Rules shall prohibit disclosure or use of the DMP Information if and to the extent:

- (3) the Clearing Member is required or requested to do so by any Regulatory Authority asserting jurisdiction over the Clearing Member; or

Appendix I
Chapter XVII of the rules of the Exchange

(Repeal)

OTC Clearing Hong Kong Limited Clearing Procedures

**Chapter 6
Rates and FX Guarantee Resources**

6.4 OTC Clear Contribution

OTC Clear has two tranches of capital reserves specifically designated to cover Rates and FX Loss suffered by it as a result of its provision of the Rates and FX Clearing Services.

OTC Clear First Contribution will initially have a value of HK\$ 150 million. OTC Clear Second Contribution will start with a value of HK\$ 6 million and be built up to a maximum value of HK\$ 650 million using the investment income generated from investing the Rates and FX Guarantee Resources in the form of cash, less any administrative costs, hedging costs, commitment fees for credit lines, bid-offer on currency conversion, and/or other investment related expenses.