

**OTC Clear Clearing Rules**

**PART I GENERAL PROVISIONS**

**Chapter 1 Definitions and Interpretation**

**Definitions**

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

<p><b>“Lower Bidder”</b></p>	<p>means, with respect to an Auction Portfolio, any Bidder, other than any Better Bidder, Equal Bidder or Successful Bidder, who has submitted a Bid the value of which is equal to or greater than (1) the value of the Successful Bid less (2) the value determined by OTC Clear to be the riskiness of such Auction Portfolio, calculated by reference to the hypothetical Initial Margin of such Auction Portfolio <u>determined by OTC Clear in its sole and absolute discretion as at the latest practicable time before</u> <del>at the Portfolio Novation Cycle immediately preceding</del> the commencement of the Auction for such Auction Portfolio assuming that the Contracts forming part of such Auction Portfolio were all booked into a single separate hypothetical position account;</p>
<p><b>“Poor Bidder”</b></p>	<p>means, with respect to an Auction Portfolio, any Bidder who submitted a Bid the value of which is lower than (1) the value of the Successful Bid less (2) the value determined by OTC Clear to be the riskiness of such Auction Portfolio, calculated by reference to the hypothetical Initial Margin of such Auction Portfolio <u>determined by OTC Clear in its sole and absolute discretion as at the latest practicable time before</u> <del>at the Portfolio Novation Cycle immediately preceding</del> the commencement of the Auction for such Auction Portfolio assuming that the Contracts forming part of such Auction Portfolio were all booked into a single separate hypothetical position account;</p>
<p><b>“Portfolio Novation Cycle”</b></p>	<p><del>has the meaning given to it in section 4.6.3 of the Clearing Procedures;</del></p>

## PART IV RISK MANAGEMENT AND DEFAULT PROCEDURES

### Chapter 12 Margin

#### Position Limits and Notional Exchange Risk Limits

1223. If a Clearing Member exceeds any Position Limits or Notional Exchange Risk Limits imposed, that Clearing Member must immediately notify OTC Clear and take appropriate steps to ensure that, within such period as OTC Clear may specify, it is in compliance with such Position Limits or Notional Exchange Risk Limits, as the case may be. In addition, OTC Clear may, at its discretion:

- (1) require a Clearing Member to ~~de-clear certain Contracts and/or~~ enter into risk-reducing Contracts, including, without limitation, the measures described in section 3.20 of the Clearing Procedures with respect to any exceedance of a Notional Exchange Risk Limit;
- (2) demand such Additional Margin as OTC Clear in its discretion determines including, without limitation, Additional Margin be provided in specific settlement currency(ies) with respect to any exceedance of a Notional Exchange Risk Limit; and/or
- (3) take such other action as OTC Clear in its discretion determines.

As further described in section 4.6.1 of the Clearing Procedures, OTC Clear will not register any Original Transactions submitted by a Clearing Member (or by a Designated Person on its behalf) if registration of any such Original Transactions will result in a breach of any Position Limits applicable to such Clearing Member.

### Chapter 13 Default Procedures

#### Calculations of Net Payment following a Clearing Member Event of Default

1309. OTC Clear will determine the Client Entitlement in respect of each Non-Porting Client in accordance with the following:

- (1) the Client Entitlement relating to each Client Clearing Category 1 Position Account to which Contracts relating to a Non-Porting Client are recorded shall be an amount equal to (i) the Non-Porting Client Credit in respect of such Client Position Account to which Contracts relating to such Non-Porting Client is recorded (if any) as determined in accordance with Clearing Rule 1306A or (ii) (following the occurrence of a Rates and FX Clearing Termination Event) the Limited Recourse Applicable Percentage of the Limited Recourse CM Receivable in respect of such Client Position Account as determined in accordance with Clearing Rule 1538.
- (1A) the Client Entitlement relating to each Client Clearing Category 2 Position Account to which Contracts relating to a Non-Porting Client are recorded shall be the greater of zero and an amount equal to the product of:
  - (a) the hypothetical Initial Margin with respect to the Affected Contracts of such Non-Porting Client (calculated on a portfolio margining basis assuming that all Affected

Contracts of such Non-Porting Client were booked into a single separate hypothetical position account assigned solely to such Non-Porting Client) divided by the aggregate of the hypothetical Initial Margin with respect to the Affected Contracts relating to all Non-Porting Clients of such Client Clearing Category 2 Position Account (each such hypothetical Initial Margin for each individual Non-Porting Client being calculated on a portfolio margining basis assuming that the Affected Contracts of each individual Non-Porting Client were booked into a single separate hypothetical position account assigned solely to such individual Non-Porting Client), in each case, such Initial Margin being calculated by OTC Clear in its sole and absolute discretion as at the latest practicable time immediately calculated during the Portfolio Novation Cycle immediately preceding the occurrence of the relevant DMP Event; and

- (b) (i) the Non-Porting Client Credit in respect of such Client Position Account to which Contracts relating to such Non-Porting Clients are recorded (if any) as determined in accordance with Clearing Rule 1306A or (ii) (following the occurrence of a Rates and FX Clearing Termination Event) the Limited Recourse Applicable Percentage of the Limited Recourse CM Receivable in respect of such Client Position Account as determined in accordance with Clearing Rule 1538.
- (2) OTC Clear will make any determination pursuant to Clearing Rules 1308A and 1309 using its own records based on the information provided to it by the Defaulting Clearing Member. OTC Clear shall be entitled to rely on such records without conducting any independent verification in respect of the same. Notwithstanding the immediately foregoing, OTC Clear may, in its absolute discretion (i) adjust such records to reflect any factors reasonably taken into consideration when performing such valuation and/or (ii) withhold delivery of any Client Entitlement until such time as the Defaulting Clearing Member or its representative provides to OTC Clear any information requested by OTC Clear.
- (3) Following the calculation of a Client Entitlement, where the relevant Client instructs OTC Clear to pay an amount to it equal to the Client Entitlement due to be returned in respect of it to the Defaulting Clearing Member, then subject to entering into relevant documentation between OTC Clear and the relevant Client (which may, without limitation, include an indemnity (secured or otherwise) to OTC Clear in respect of any loss or liability arising from the legal invalidity of any payment of the Client Entitlement to the Client), OTC Clear shall determine in its sole and absolute discretion, the period of time during which it will give effect to instructions received from its Client pursuant to Clearing Rule 1309(3) and, within such period of time, pay the Client Entitlement directly to the Client instead of returning the same to the Defaulting Clearing Member.

If the relevant Client fails to enter into relevant documentation with OTC Clear and/or, if applicable, provide OTC Clear with appropriate documentation, each as required under this Clearing Rule 1309(3), OTC Clear shall reserve the right to withhold the delivery of any Client Entitlement until such time such relevant documentation has been properly

entered into with OTC Clear and/or, if applicable, such appropriate documentation has been properly provided to OTC Clear.

1309A. OTC Clear will determine the Client Entitlement in respect of each Porting Client in accordance with the following:

- (1) if the relevant DMP Event with respect to the Defaulting Clearing Member is not an Automatic Early Termination Event:
  - (a) the Client Entitlement relating to each Client Clearing Category 1 Position Account to which Contracts (including, for the avoidance of doubt, any Non-Porting Contracts) relating to a Porting Client are (or, immediately prior to the relevant scheduled Termination Date or Settlement Date, as the case may be, were) recorded shall be the aggregate of all amounts that have become due and payable by OTC Clear to the Defaulting Clearing Member on or after the date the relevant DMP Event in respect of any Contracts (including, for the avoidance of doubt, any Non-Porting Contracts) recorded in the relevant Client Position Account which have not already been paid (without prejudice to, and after giving effect to, any rights of set-off, netting and/or currency conversion under the Clearing Rules); and
  - (b) the Client Entitlement relating to each Client Clearing Category 2 Position Account to which Contracts (including, for the avoidance of doubt, any Non-Porting Contracts) relating to a Porting Client are (or, immediately prior to the relevant scheduled Termination Date or Settlement Date, as the case may be, were) recorded shall be the greater of zero and an amount equal to the product of:
    - (i) an amount equal to:
      - (A) the hypothetical net amount payable by OTC Clear to the Defaulting Clearing Member in respect of all amounts that have become due and payable by OTC Clear to the Defaulting Clearing Member or by the Defaulting Clearing Member to OTC Clear, in each case on or after the date the relevant DMP Event occurs in respect of any Contracts (including, for the avoidance of doubt, any Non-Porting Contracts) relating to such Porting Client recorded in the relevant Client Position Account which have not already been paid (calculated on a hypothetical basis after giving effect to any rights of set-off or netting under the Clearing Rules and after converting any amounts denominated in other currencies into the Base Currency at such rate prevailing at the time of the calculation as OTC Clear shall reasonably select) (to the extent such hypothetical net sum is a positive number, such amount a **“Porting Client Hypothetical Net Receivable”**); divided by
      - (B) the sum of all Porting Client Hypothetical Net Receivables for each of the Porting Clients sharing the relevant Client Clearing Category 2 Position Account; and

- (ii) the aggregate of all amounts that have become due and payable by OTC Clear to the Defaulting Clearing Member on or after the date the relevant DMP Event occurs in respect of any Contracts (including, for the avoidance of doubt, any Non-Porting Contracts) recorded in the relevant Client Position Account which have not already been paid (without prejudice to, and after giving effect to, any rights of set-off, netting and/or currency conversion under the Clearing Rules).
- (1A) if the relevant DMP Event with respect to the Defaulting Clearing Member is an Automatic Early Termination Event:
  - (a) the Client Entitlement relating to relating to a Porting Client which is a Client Clearing Category 1 Client shall be the positive net sum (if any) determined in accordance with Clearing Rule 1703(1A)(a)(ii) in respect of that Porting Client; and
  - (b) the Client Entitlement relating to a Porting Client which is a Client Clearing Category 2 Client shall be the greater of zero and an amount equal to the product of:
    - (i) the hypothetical Initial Margin with respect to the Non-Porting AET Contracts of such Porting Client (calculated on a portfolio margining basis assuming that all Non-Porting AET Contracts of such Porting Client had not terminated and were booked into a single separate hypothetical position account assigned solely to such Porting Client) divided by the aggregate of the hypothetical Initial Margin with respect to the Non-Porting AET Contracts relating to all Porting Clients of the relevant Client Clearing Category 2 Position Account (each such hypothetical Initial Margin for each individual Porting Client being calculated on a portfolio margining basis assuming that the Non-Porting AET Contracts of each individual Porting Client were not terminated and were booked into a single separate hypothetical position account assigned solely to such individual Porting Client), in each case, such Initial Margin being calculated by OTC Clear in its sole and absolute discretion as at the latest practicable time immediately ~~calculated during the Portfolio Novation Cycle immediately~~ preceding the occurrence of the relevant DMP Event; and
    - (ii) the positive net sum (if any) determined in accordance with Clearing Rule 1704(1A)(a)(ii) in respect of the relevant Client Clearing Category 2 Position Account.
- (2) OTC Clear will make any determination pursuant to Clearing Rules 1308B and 1309A using its own records based on the information provided to it by the Defaulting Clearing Member. OTC Clear shall be entitled to rely on such records without conducting any independent verification in respect of the same. Notwithstanding the immediately foregoing, OTC Clear may, in its absolute discretion (i) adjust such records to reflect any factors reasonably taken into consideration when performing such valuation and/or (ii) withhold delivery of any Client Entitlement until such time as the Defaulting Clearing

Member or its representative provides to OTC Clear any information requested by OTC Clear.

- (3) Following the calculation of a Client Entitlement, where the relevant Client instructs OTC Clear to pay an amount to it equal to the Client Entitlement due to be returned in respect of it to the Defaulting Clearing Member, then subject to entering into relevant documentation between OTC Clear and the relevant Client (which may, without limitation, include an indemnity (secured or otherwise) to OTC Clear in respect of any loss or liability arising from the legal invalidity of any payment of the Client Entitlement to the Client), OTC Clear shall determine in its sole and absolute discretion, the period of time during which it will give effect to instructions received from its Client pursuant to Clearing Rule 1309A(3) and, within such period of time, pay the Client Entitlement directly to the Client instead of returning the same to the Defaulting Clearing Member.

If the relevant Client fails to enter into relevant documentation with OTC Clear and/or, if applicable, provide OTC Clear with appropriate documentation, each as required under this Clearing Rule 1309A(3), OTC Clear shall reserve the right to withhold the delivery of any Client Entitlement until such time such relevant documentation has been properly entered into with OTC Clear and/or, if applicable, such appropriate documentation has been properly provided to OTC Clear.

## **Chapter 15 Rates and FX Guarantee Resources**

### **Reduction of Losses on a DMP Event and Application of the Rates and FX Guarantee Resources**

1516. OTC Clear shall be entitled to apply its resources, in any manner or order including for the avoidance of doubt in an order which is different from the order described hereunder, for satisfaction of the Rates and FX Loss during a Default Management Process invoked as a result of the occurrence of a DMP Event with respect to a Defaulting Clearing Member, provided that upon completion of a successful Auction or the occurrence of a Contract Termination Event (as applicable) in respect of all Auction Portfolios relating to such DMP Event, it shall perform the loss allocation process set out below:

- (1) OTC Clear shall first determine the General Losses suffered by it as a result of the DMP Event and the extent to which there are any Unpaid Amounts due from such Defaulting Clearing Member to OTC Clear in respect of Contracts recorded in such Defaulting Clearing Member's House Position Account, and reduce or bear such General Losses and Unpaid Amounts by application of the following resources in descending order as follows:
- (a) first, the aggregate of (i) all Auction Payments (if any) received by OTC Clear with respect to one or more House Auction Portfolios constructed as a result of such DMP Event, (ii) any Unpaid Amounts due from OTC Clear to such Defaulting Clearing Member in respect of Contracts recorded in such Defaulting Clearing Member's House Position Account, (iii) the Unsettled VM Amount in respect of the Auction Contracts and/or Auction Failed Positions comprised in House Auction

- Portfolio(s) (to the extent that such Unsettled VM Amount is payable by OTC Clear to the relevant Defaulting Clearing Member) (if any), (iv) the Margin Balance recorded to the House Collateral Account, any income and redemption proceeds on any non-cash Collateral recorded to the House Collateral Account and any proceeds of realization of any such non-cash Collateral that have not already been paid to or withdrawn by the Defaulting Clearing Member and (v) the aggregate Contract Termination Net Payments payable by Non-Defaulting Clearing Members to OTC Clear as a result of a Contract Termination Event;
- (b) second, the Rates and FX Contribution Balance of the Defaulting Clearing Member (by application in the manner set out in Clearing Rule 1548);
  - (c) third, the OTC Clear First Contribution;
  - (d) fourth, the aggregate value of the Rates and FX Contribution Balance in respect of the CM Funded Contribution Amount of each Non-Defaulting Clearing Member (by application in the manner set out in Clearing Rule 1517);
  - (e) fifth, the OTC Clear Second Contribution; and
  - (f) sixth, the aggregate value of the Rates and FX Contribution Balance in respect of the CM Unfunded Contribution Amount of each Non-Defaulting Clearing Member (by application in the manner set out in Clearing Rule 1517);
- (2) To the extent that there are any Unpaid Amounts due from such Defaulting Clearing Member to OTC Clear in respect of Contracts recorded in such Defaulting Clearing Member's Client Position Account(s), OTC Clear shall reduce or bear each such Unpaid Amounts by application of the following resources in descending order as follows. In respect of such Unpaid Amounts due in respect of a Client Position Account:
- (a) first, the aggregate of (i) all Auction Payments (if any) received by OTC Clear with respect to one or more Client Auction Portfolios constructed as a result of such DMP Event which relate to such Client Position Account, (ii) any Unpaid Amounts due from OTC Clear to such Defaulting Clearing Member in respect of Contracts recorded in such Client Position Account, (iii) the Unsettled VM Amount in respect of the Auction Contracts and/or Auction Failed Positions comprised in Client Auction Portfolio(s) which relate to Contracts recorded in such Client Position Account (to the extent that such net amount is payable by OTC Clear to the relevant Defaulting Clearing Member) (if any), (iv) the Margin Balance recorded to the Client Collateral Account attributed to such Client Position Account, (v) any income and redemption proceeds on any non-cash Collateral recorded to the Client Collateral Account attributed to such Client Position Account and any proceeds of realization of any such non-cash Collateral that have not already been paid to or withdrawn by the Defaulting Clearing Member and (vi) the aggregate Contract Termination Net Payments payable by Non-Defaulting Clearing Members to OTC Clear as a result of a Contract Termination Event relating to Contracts recorded in such Client Position Account;

- (b) second, the Rates and FX Contribution Balance of the Defaulting Clearing Member (by application in the manner set out in Clearing Rule 1548);
  - (c) third, the OTC Clear First Contribution;
  - (d) fourth, the aggregate value of the Rates and FX Contribution Balance in respect of the CM Funded Contribution Amount of each Non-Defaulting Clearing Member (by application in the manner set out in Clearing Rule 1517);
  - (e) fifth, the OTC Clear Second Contribution; and
  - (f) sixth, the aggregate value of the Rates and FX Contribution Balance in respect of the CM Unfunded Contribution Amount of each Non-Defaulting Clearing Member (by application in the manner set out in Clearing Rule 1517);
- (3) for the purposes of sub-paragraph (2)(a) above, the amount of Auction Payments in the form of risk concessions that shall be treated as “relating to” a Client Position Account shall be an amount equal to the product of:
- (A) with respect to an Auction Portfolio, the hypothetical Initial Margin with respect to the Contracts of that Client Position Account comprised in the relevant Auction Portfolio (calculated on a portfolio margining basis assuming that such Contracts were booked into a single separate hypothetical Client Position Account) divided by the aggregate of the hypothetical Initial Margin of all Client Position Accounts comprised in such Auction Portfolio (where such Auction Portfolio comprises Contracts originally booked to more than one Client Position Account, but the entire Client Position Account is not comprised in such Auction Portfolio, the hypothetical Initial Margin for each such partial Client Position Account shall be calculated on a portfolio margining basis disregarding the fact that such Client Position Account is not whole; for the avoidance of doubt, where such Auction Portfolio comprises Contracts originally booked to more than one Client Position Account and each entire Client Position Account is comprised in such Auction Portfolio, the Initial Margin of such Client Position Accounts shall be aggregated), in each case, such Initial Margin being calculated by OTC Clear in its sole and absolute discretion as at the latest practicable time immediately during the Portfolio Novation Cycle immediately preceding the occurrence of the relevant DMP Event; and
  - (B) the amount of Auction Payments in the form of risk concessions relating to the relevant Auction Portfolio referred to in sub-paragraph (3)(A) above; and
- (4) upon completion of the process described in sub-paragraphs (1) and (2) above, OTC Clear shall determine the Auction Losses or Contract Termination Losses with respect to each Auction Portfolio constructed as a result of the DMP Event, and shall reduce or bear such losses in accordance with Clearing Rules 1914 to 1916, and

with respect to each DMP Event, the aggregate value of the resources described in sub-paragraphs (1)(a) to (1)(f) and (2)(a) to (2)(f) above is the “**Total Available Resources**” with



respect to such DMP Event. The Total Available Resources, together with any Gainer VM Flow Adjustment and/or Voluntary Recap Amount received by OTC Clear pursuant to Clearing Rules 1524(2) and 1542, respectively, shall be the sole source of funds for satisfaction of the Rates and FX Loss arising out of the relevant DMP Event.

## PART V DEFAULT MANAGEMENT PROCESS

### Chapter 17 Porting

#### Porting

1706. It is the obligation of a Clearing Member to duly advise and inform its Clients that:

- (1) if no Replacement Clearing Member has been appointed (or, in the case of a Client Clearing Category 2 Position Account, if all of the Clients identified as sharing such Client Clearing Category 2 Position Account have not appointed the same Replacement Clearing Member or if that Replacement Clearing Member does not accept porting of all of the Clients identified as sharing such Client Clearing Category 2 Position Account), then following designation of such Clearing Member as a Defaulting Clearing Member, any Affected Contracts registered in the name of such Clearing Member will not be ported; and
- (2) if a Replacement Clearing Member has been appointed in respect of all Affected Contracts registered in the name of such Clearing Member in respect of a Client Position Account, subsequent to such Clearing Member becoming a Defaulting Clearing Member, whilst OTC Clear will, in accordance with Clearing Rule 1703, arrange for all such Affected Contracts to be ported, whether or not such Affected Contracts will be successfully ported is dependant on whether the Replacement Clearing Member will accept the porting of all such Affected Contracts, or, in the case of a Client Clearing Category 2 Position Account, whether all of the Clients identified as sharing such Client Clearing Category 2 Position Account have appointed the same Replacement Clearing Member or whether the Replacement Clearing Member will accept porting of all of the Clients identified as sharing such Client Clearing Category 2 Position Account. OTC Clear may deem the purported porting of any Affected Contract to the relevant Replacement Clearing Member as having failed if such porting cannot be completed for any reason on or before ~~the last Portfolio Novation Cycle~~ 19:00 hours Hong Kong Time on the second OTC Clear Clearing Day following the occurrence of such DMP Event. Any Affected Contract that has not been successfully ported will form part of the Auction Book.

OTC Clear shall not have any liability including, but not limited to, any civil liability, whether arising in contract, tort, defamation, equity or otherwise for any Damage suffered or incurred directly or indirectly by a Client or any other Person as a result of a failure to port an Affected Contract registered in the name of the Defaulting Clearing Member.

## Chapter 19 Auction

### Loss Allocation

1914. Upon completion of a successful Auction or the occurrence of a Contract Termination Event (as applicable) with respect to all Auction Portfolios constructed as a result of the occurrence of a DMP Event with respect to the Defaulting Clearing Member, and provided that the process described in Clearing Rules 1516(1) and 1516(2) is completed, OTC Clear, in consultation with the Default Management Group, will perform the following loss allocation process with respect to each such Auction Portfolio:

- (1) first:
  - (a) the Initial House Resources allocated to a House Auction Portfolio pursuant to Rule 1913A will be applied towards the Auction Losses or Contract Termination Losses relating to such House Auction Portfolio provided that:
    - (A) to the extent that the Initial House Resources allocated to such House Auction Portfolio exceed the Auction Losses or Contract Termination Losses relating to such Auction Portfolio, such excess shall be applied to satisfy any Auction Losses or Contract Termination Losses relating to other House Auction Portfolio(s) constructed as a result of the occurrence of a DMP Event with respect to such Defaulting Clearing Member, if any, on a pro-rata basis by reference to the amount of such remaining Auction Losses or Contract Termination Losses;
    - (B) to the extent that there are (i) any excess Initial House Resources of a Defaulting Clearing Member subsequent to the application of the same pursuant to sub-paragraph (A) above and (ii) any Auction Losses or Contract Termination Losses relating to Client Auction Portfolio(s) constructed as a result of the occurrence of a DMP Event with respect to such Defaulting Clearing Member after the application of the relevant Initial House Resources pursuant to subparagraph 1914(1)(b)(A) below, such excess Initial House Resources shall be applied to satisfy such Auction Losses or Contract Termination Losses relating to the Client Auction Portfolio(s) on a pro-rata basis by reference to the amount of such remaining Auction Losses or Contract Termination Losses; and
    - (C) to the extent that there is any excess DCM Margin of a Defaulting Clearing Member subsequent to the application of the same pursuant to sub-paragraph (A) and (B) above, such excess DCM Margin shall constitute Excess Margin of such Defaulting Clearing Member pursuant to Clearing Rule 1218;

For the avoidance of doubt, the Initial House Resources of a Defaulting Clearing Member shall not be applied towards any Auction Losses or Contract Termination Losses relating to Auction Portfolio(s) constructed as a result of the occurrence of a DMP Event with respect to any other Defaulting Clearing Member;

- (b) the Initial Non-Porting Client Resources allocated to a Client Auction Portfolio pursuant to Clearing Rule 1913B will be applied towards the Auction Losses or Contract Termination Losses relating to such Client Auction Portfolio to the extent that such Auction Losses or Contract Termination Losses relate to the Client Position Account to which the Unsettled VM Amount or Unpaid Amount relates, or in the case of Non-Porting Client Margin, the Client Position Account attributed to the Client Collateral Account in which such Non-Porting Client Margin is recorded, provided that:
  - (A) subsequent to that application process, to the extent that there are any Initial Non-Porting Client Resources allocated to such Client Auction Portfolio pursuant to Clearing Rule 1913B which are not applied to the Auction Losses or Contract Termination Losses relating to such Auction Portfolio, such excess shall be applied to satisfy any Auction Losses or Contract Termination Losses relating to other Client Auction Portfolio(s) constructed as a result of the occurrence of a DMP Event in respect of the same corresponding Client Position Account(s), if any, on a pro-rata basis by reference to the amount of such remaining Auction Losses or Contract Termination Losses (to the extent that such remaining Auction Losses or Contract Termination Losses relate to the Client Position Account to which the Unsettled VM Amount or Unpaid Amount relates, or in the case of Non-Porting Client Margin, the Client Position Account attributed to the Client Collateral Account in which such excess Non-Porting Client Margin is recorded); and
  - (B) to the extent that there are any excess Initial Non-Porting Client Resources subsequent to the application of the same pursuant to sub-paragraph (A) above, such excess Initial Non-Porting Client Resources would form part of the Non-Porting Client Credit and, hence, the Client Entitlement of the relevant Client(s);

For the avoidance of doubt, any excess Initial Non-Porting Client Resources shall only form part of the Client Entitlement of the Client(s) to which such Initial Non-Porting Client Resources relate and shall not form part of the Client Entitlement of other Client(s);

- (c) for the purposes of sub-paragraph (b)(A) above and Clearing Rule 1307, the amount of Auction Losses or Contract Termination Losses in the form of hedging costs or risk premia that shall be treated as “relating to” a Client Position Account shall be an amount equal to the product of:
  - (A) with respect to an Auction Portfolio, the hypothetical Initial Margin with respect to the Contracts of that Client Position Account comprised in the relevant Auction Portfolio (calculated on a portfolio margining basis assuming that such Contracts were booked into a single separate hypothetical Client Position Account) divided by the aggregate of the

hypothetical Initial Margin of all Client Position Accounts comprised in such Auction Portfolio (where such Auction Portfolio comprises Contracts originally booked to more than one Client Position Account, but the entire Client Position Account is not comprised in such Auction Portfolio, the hypothetical Initial Margin for each such partial Client Position Account shall be calculated on a portfolio margining basis disregarding the fact that such Client Position Account is not whole; for the avoidance of doubt, where such Auction Portfolio comprises Contracts originally booked to more than one Client Position Account and each entire Client Position Account is comprised in such Auction Portfolio, the Initial Margin of such Client Position Accounts shall be aggregated), in each case, such Initial Margin being calculated ~~during the Portfolio Novation Cycle immediately~~ as at the latest practicable time immediately preceding the occurrence of the relevant DMP Event as determined by OTC Clear in its sole and absolute discretion (the “**Hypothetical IM Percentage**”); and

- (B) the amount of Auction Losses or Contract Termination Losses in the form of hedging costs and risk premia relating to the relevant Auction Portfolio referred to in sub-paragraph (c)(A) above;
- (d) for the purposes of sub-paragraph (b)(A) above and Clearing Rule 1307, the amount of Auction Payments or Contract Termination Net Payments in the form of risk concessions that shall be treated as “relating to” a Client Position Account shall be an amount equal to the product of:
  - (A) with respect to an Auction Portfolio, the Hypothetical IM Percentage for that Client Position Account calculated pursuant to sub-paragraph (c)(A) above; and
  - (B) the amount of Auction Payments in the form of risk concessions relating to the relevant Auction Portfolio referred to in sub-paragraph (d)(A) above;

For the avoidance of doubt, the process in this sub-paragraph (b) shall be repeated until all the Auction Losses or Contract Termination Losses relating to such Client Auction Portfolio have been applied to the Client Collateral Account(s) comprising the Initial Non-Porting Client Resources allocated to such Client Auction Portfolio pursuant to Clearing Rule 1913B.

- (2) second, having utilized the Initial House Resources of the Defaulting Clearing Member in full, any remaining Auction Losses or Contract Termination Losses arising from such Auction Portfolio and attributable to such Defaulting Clearing Member will be satisfied using the RAP of the Rates and FX Contribution Balance of the Defaulting Clearing Member allocated to such Auction Portfolio pursuant to Rule 1913A or 1913B, as the case may be. In the event there is a DCM GF Surplus relating to an Auction Portfolio, such DCM GF Surplus will be applied towards any DCM GF Shortfall relating to other Auction Portfolios (constructed as a result of the occurrence of a DMP Event with respect to such Defaulting Clearing Member), on a pro-rata basis among all such Auction

Portfolios by reference to the amount of such DCM GF Shortfall, until the earlier to occur of:

- (a) the satisfaction in full of the Auction Losses or Contract Termination Losses with respect to all such Auction Portfolios; and
- (b) the utilization of the DCM GF in full.

The above shall be without prejudice to the operation of Clearing Rule 1916.

- (3) third, subsequent to the utilization of the Rates and FX Contribution Balance of the Defaulting Clearing Member in full (or, in the occurrence of multiple DMP Events within the same Capped Liability Period, taking into account the operation of Clearing Rule 1916, the utilization of the Rates and FX Contribution Balance of all Defaulting Clearing Members with respect to whom a DMP Event has occurred during the relevant Capped Liability Period), OTC Clear will satisfy the Auction Losses or Contract Termination Losses arising from such Auction Portfolio using the relevant proportion of the OTC Clear First Contribution allocated to such Auction Portfolio pursuant to Rule 1913A or 1913B, as the case may be. To the extent that the relevant proportion of the OTC Clear First Contribution allocated to such Auction Portfolio exceeds the Auction Losses or Contract Termination Losses relating to such Auction Portfolio, such excess shall be applied towards the Auction Losses or Contract Termination Losses relating to other Auction Portfolios (constructed as a result of the occurrence of a DMP Event with respect to such Defaulting Clearing Member) on a pro-rata basis by reference to the amount of such remaining Auction Losses or Contract Termination Losses, until the earlier to occur of:
  - (a) the satisfaction in full of the Auction Losses or Contract Termination Losses with respect to all such Auction Portfolios; and
  - (b) utilization of the OTC Clear First Contribution in full;
- (4) subsequent to the utilization of the OTC Clear First Contribution in full, with respect to each Auction Portfolio (constructed as a result of the occurrence of a DMP Event with respect to such Defaulting Clearing Member) with remaining Auction Losses or Contract Termination Losses, OTC Clear will (i) in the case of Contract Termination Losses, apply the NDCM GF towards such Contract Termination Losses or (ii) in the case of Auction Losses, apply the relevant proportion of the NDCM GF in the following order:
  - (a) first, the relevant proportion of the Rates and FX Guarantee Fund of each Non-Bidder and Poor Bidder will be applied (the “**Junior Tranche**”);
  - (b) second, the relevant proportion of the Rates and FX Guarantee Fund of each Lower Bidder will be applied (the “**Middle Tranche**”); and
  - (c) third, the relevant proportion of the Rates and FX Guarantee Fund of each Successful Bidder, Equal Bidder, Better Bidder and No Position NDCM will be applied (the “**Senior Tranche**”, and together with the Junior Tranche and Middle Tranche, the “**Tranches**” and each a “**Tranche**”),

in each case, the relevant proportion of the Rates and FX Guarantee Fund of each Bidder will be applied on a pro-rata basis among each other Bidder within the same Tranche.

The methodology described in item (ii) above shall be referred to as the “**Tranching Methodology**”.

In the event that there is an NDCM GF Shortfall relating to an Auction Portfolio, any NDCM GF Surplus relating to other Auction Portfolios (constructed as a result of the occurrence of a DMP Event with respect to such Defaulting Clearing Member) will be applied towards such NDCM GF Shortfall (in the case of Auction Losses, in accordance with the Tranching Methodology for the Auction Portfolio to which that NDCM GF Surplus relates), on a pro-rata basis among all other Auction Portfolios (constructed as a result of the occurrence of a DMP Event with respect to such Defaulting Clearing Member) with an NDCM GF Shortfall by reference to the amount of such NDCM GF Shortfall, until the earlier to occur of:

- (A) the satisfaction in full of the Auction Losses and Contract Termination Losses with respect to all such Auction Portfolios; and
  - (B) utilization of the NDCM GF in full;
- (5) subsequent to the utilization of the NDCM GF in full, with respect to each Auction Portfolio with remaining Auction Losses or Contract Termination Losses, OTC Clear will satisfy such Auction Losses or Contract Termination Losses using the relevant proportion of the OTC Clear Second Contribution allocated to such Auction Portfolio pursuant to Rule 1913A or 1913B, as the case may be. To the extent that the relevant proportion of the OTC Clear Second Contribution allocated to such Auction Portfolio exceeds the Auction Losses or Contract Termination Losses relating to such Auction Portfolio, such excess shall be applied towards the Auction Losses or Contract Termination Losses relating to other Auction Portfolios (constructed as a result of the occurrence of a DMP Event with respect to such Defaulting Clearing Member) on a pro-rata basis by reference to the amount of such remaining Auction Losses or Contract Termination Losses, until the earlier to occur of:
- (a) the satisfaction in full of the Auction Losses or Contract Termination Losses with respect to all such Auction Portfolios; and
  - (b) utilization of the OTC Clear Second Contribution in full; and
- (6) subsequent to the utilisation of OTC Clear Second Contribution in full, with respect to each Auction Portfolio with remaining Auction Losses or Contract Termination Losses, OTC Clear will apply the relevant proportion of the Rates and FX Assessments of each Non-Defaulting Clearing Member (using, in the case of Auction Losses, the Tranching Methodology as set out in sub-paragraph (4) above and any references to NDCM GF therein shall be construed to mean Rates and FX Assessments).

The loss allocation process set out in this Clearing Rule 1914 shall be conducted in manner consistent with that set out in Clearing Rule 1517.

For the purpose of this Clearing Rule 1914 but without prejudice to the operation of Clearing Rule 1916, with respect to each DMP Event, any reference to a “Non-Defaulting Clearing Member” shall mean any Clearing Member other than the Defaulting Clearing Member with respect to whom such DMP Event has occurred.