

OTC Clear Clearing Rules

PART III CLEARING OPERATIONS

Chapter 10A Interest Rate Transition

Interest Rate Transition

10A08. For the purposes of this Chapter 10A:

“Affected FX and Rates Derivatives Contracts” means Contracts relating to Affected FX and Rates Derivatives to which the relevant Discounting Switch shall apply.

“Affected FX and Rates Derivatives” means the types of Standard Rates Derivatives, Non-Deliverable Rates Derivatives, ~~and~~ FX Derivatives and Standard Cross-currency Rates Derivatives which are specified to be in-scope for the Discounting Switch in the relevant Discounting Switch Notice.

“Compensating Swaps” has the meaning given to it in Clearing Rule 10A01(2).

“Discounting Switch” has the meaning given to it in Clearing Rule 10A01.

“Discounting Switch Effective Date” means the date as identified in the Discounting Switch Notice on which the Discounting Switch shall take effect.

“Discounting Switch Notice” means a Clearing Notice delivered by OTC Clear to its Clearing Members setting out the details of the Discounting Switch.

“Discounting Switch Supplement” means the Supplement identified by OTC Clear in the Discounting Switch Notice as being applicable to the Discounting Switch, and as may be supplemented, modified, amended, replaced or withdrawn by OTC Clear from time to time in accordance with the terms of such Supplement.

“Discounting Switch Transition Date” means the date as identified in the Discounting Switch Supplement on which new Standard Rates Derivatives Contracts may be created and registered and Interest Rate Change Payments may be registered and recorded/booked.

“Existing Discount Rate” has the meaning given to it in Clearing Rule 10A01.

“Interest Rate Change Payment” has the meaning given to it in Clearing Rule 10A07.

“New Discount Rate” has the meaning given to it in Clearing Rule 10A01.

“PAI” has the meaning given to it in Section 4.3.2 of the Clearing Procedures.

Supplement I

SOFR DISCOUNTING SWITCH SUPPLEMENT

1 Introduction

- 1.1 This Supplement effects a “Discounting Switch” (as defined in Clearing Rule 10A01) so as to change the USD discounting rate and the PAI calculation reference rate in respect of all ~~Affected Rates Derivatives~~Affected Derivatives Contracts from Fed Funds Rate to the Secured Overnight Financing Rate provided by the Federal Reserve Bank of New York, as administrator (or a successor administrator) (“SOFR”) (the “SOFR Discounting Switch”) (the “SOFR Discounting Switch Supplement”). This Supplement constitutes a “Discounting Switch Supplement” as defined in Clearing Rule 10A08, and supplements and forms part of Chapter 10A of the Clearing Rules.
- 1.2 The terms of this Supplement shall apply to all ~~Affected Rates Derivatives~~Affected Derivatives Contracts that are registered with OTC Clear as of the end of day on the Transition Date (SOFR) except as expressly set out herein. For the avoidance of doubt, (i) no other Contract shall be subject to, or affected by, the terms of this Supplement and each Contract shall remain in full force and effect, and (ii) except as expressly set out herein, the Contract Terms shall not be amended by the terms of this Supplement.

4 Portfolio of Compensating Swaps (SOFR)

- 4.1 At the end of day on the Swap Portfolio Calculation Date, OTC Clear shall, in respect of the ~~Affected Rates Derivatives~~Affected Derivatives Contracts described in Paragraph 4.3 below, determine a portfolio of Compensating Swaps (SOFR) for each Maturity Bucket which is designated to, in OTC Clear's sole and absolute discretion and to the extent practicable, replicate the Fed Funds Rate discounting risk profile in relation to such Contracts. For the avoidance of doubt, the determination by OTC Clear pursuant to this Paragraph 4 may be different from a Clearing Member's models or methodologies.
- 4.2 Each Compensating Swap (SOFR) will:
- (a) have a maturity of two years, five years, ~~or~~ ten years or fifteen years from the date of registration;
- 4.3 The portfolio of Compensating Swaps (SOFR) as described in Paragraph 4.1 of this Supplement shall be determined as of the Swap Portfolio Calculation Date in relation to each of the following:
- (a) the ~~Affected Rates Derivatives~~Affected Derivatives Contracts then registered in each Clearing Member's House Position Account as of the Swap Portfolio Calculation Date;
 - (b) the ~~Affected Rates Derivatives~~Affected Derivatives Contracts then registered in each Clearing Members' Client Clearing Category 1 Position Account as of the Swap Portfolio Calculation Date;
 - (c) the ~~Affected Rates Derivatives~~Affected Derivatives Contracts then registered in respect of each Client sharing each Client Member's Client Clearing Category 2 Position Account as

of the Swap Portfolio Calculation Date (with the determination taking place on the basis of Contracts being recorded/booked on a gross basis in respect of such account).

12 Cash Compensation Amounts

12.1 Subject to Paragraph 12.2 below, as soon as reasonably practicable following the conclusion of the SOFR Discounting Auction (or determination by OTC Clear that no further SOFR Discounting Auction shall be conducted) on the Transition Date (SOFR), OTC Clear shall calculate the Cash Compensation Amount in respect of each Position Account as of the Transition Date (SOFR) as follows:

- (a) OTC Clear shall calculate the aggregate Fed Funds Discounted Value and the aggregate SOFR Discounted Value in relation to each ~~Affected Rates Derivatives~~Affected Derivatives Contracts registered in each Position Account;
- (b) if the aggregate SOFR Discounted Value in relation to all ~~Affected Rates Derivatives~~Affected Derivatives Contracts registered in a Position Account exceeds the aggregate Fed Funds Discounted Value in relation to all such ~~Affected Rates Derivatives~~Affected Derivatives Contracts then an amount equal to the excess shall be payable in USD by the Clearing Member in whose name such Position Account is held to OTC Clear; and
- (c) if the aggregate SOFR Discounted Value in relation to all ~~Affected Rates Derivatives~~Affected Derivatives Contracts registered in a Position Account is less than the aggregate Fed Funds Discounted Value in relation to all such ~~Affected Rates Derivatives~~Affected Derivatives Contracts then an amount equal to the absolute value of the difference shall be payable in USD by OTC Clear to the Clearing Member in whose name such Position Account is held.

12.2 In the case of ~~Affected Rates Derivatives~~Affected Derivatives Contracts that are Non Deliverable Rates Derivatives Contracts, FX Derivatives and Standard Cross-currency Rates Derivatives Contracts, for the purposes of determining a Cash Compensation Amount, the value of the constant future cash flows not denominated in USD shall be first converted into USD by applying the relevant rate of exchange as determined by OTC Clear in accordance with its usual procedures and the Cash Compensation Amount in relation to such Contracts shall be payable in USD.

17 Definitions

For the purposes of this Supplement:

~~Affected Rates Derivatives~~Affected Derivatives Contracts” means Contracts relating to the types of Standard Rates Derivatives, ~~and Non-deliverable Rates Derivatives~~, FX Derivatives and Standard Cross-currency Rates Derivatives which are specified to be in-scope for SOFR Discounting Switch in the SOFR Discounting Switch Notice.

“Fed Funds Discounted Value” means, in relation to an ~~Affected Rates Derivatives~~Affected Derivatives Contract, the net present value, as of the end of day on the Transition Date (SOFR), of

all future cash flows under that ~~Affected Rates Derivatives~~Affected Derivatives Contract using the Fed Funds Rate as the discounting rate for the purposes of such calculation.

“**SOFR Discounted Value**” means, in relation to an ~~Affected Rates Derivatives~~Affected Derivatives Contract, the net present value, as of the end of day on the Transition Date (SOFR), of all future cash flows under that ~~Affected Rates Derivatives~~Affected Derivatives Contract using the SOFR Discounting Curve for the purposes of such calculation (with the future cash flows calculated in the same manner as for the determination of the Fed Funds Discounted Value).

“**Swap Portfolio Calculation Date**” is the date specified as such by OTC Clear in the SOFR Discounting Switch Notice, being a day which is two OTC Clear Business Day before the Transition Date (SOFR) and the date on which OTC Clear shall pre-determine the portfolios of Compensating Swaps (SOFR) in relation to all ~~Affected Rates Derivatives~~Affected Derivatives Contracts registered with OTC Clear as of the Transition Date (SOFR).

Appendix 4
Compensating Swap (SOFR) Specifications

	USD Basis Swap
	SOFR vs. FedFund (Float vs. Float)
Tenor	2-year, 5-year, and 10-year <u>and 15-year</u>
Currency	USD
Floating Leg Option	<ul style="list-style-type: none"> • USD-SOFR-COMPOUND • USD-Federal Funds-H.15-OIS-COMPOUND
Floating Leg Day Count Fraction	Actual/360
Business Day Convention	Modified Following
Payment Lag	2 Days
Payment Frequency	Annual