

Chapter 8A Clearing by OTC Clear in respect of Original Northbound Transactions

Acceptance for Registration of Original Northbound Transactions

- 8A01. Original Northbound Transactions must be entered into exclusively between a Clearing Member (or Designated Person on behalf of the relevant Clearing Member) or a Client on the one hand and a PRC dealer on the other hand on the CFETS Swap Connect trading platform. If one counterparty to an Original Northbound Transaction is a Clearing Member (or its Client), the other counterparty must be a PRC dealer.
- 8A02. Clearing Members (or Designated Person or Clients on behalf of the relevant Clearing Member) may from time to time submit Original Northbound Transactions to OTC Clear for registration in accordance with the Clearing Procedures. In order to qualify for registration, an Original Northbound Transaction must satisfy the Eligibility Requirements applicable to such Original Northbound Transaction. The Eligibility Requirements applicable to an Original Northbound Transaction are set out in the Clearing Procedures.
- 8A03. Without prejudice to Clearing Rule 8A02, OTC Clear may at any time reject any Original Northbound Transaction submitted for registration if, at the relevant time:
- (1) an Event of Default has occurred, or in OTC Clear's reasonable opinion, is likely to occur, in relation to the relevant Clearing Member;
 - (2) an SHCH Event of Default has occurred, or in OTC Clear's reasonable opinion, is likely to occur, in relation to the Special Clearing House Participant;
 - (3) the Original Northbound Transaction does not satisfy the applicable Eligibility Requirements;
 - (4) the Clearing Member in whose name such Original Northbound Transaction will be registered has not satisfied its Margin requirements;
 - (5) the Special Clearing House Participant has not satisfied its Margin requirements; or
 - (6) the Original Northbound Transaction has not been accepted for clearing by the Special Clearing House Participant.
- 8A04. If OTC Clear determines that an Original Northbound Transaction is acceptable for registration, such Original Northbound Transaction will be registered in accordance with Clearing Rule 8A07, provided that OTC Clear may apply any other conditions to the registration of such Original Northbound Transaction.
- 8A05. In the event that an Original Northbound Transaction fails to be accepted for registration pursuant to these Clearing Rules, OTC Clear shall, in accordance with the Clearing Procedures, notify the relevant Clearing Member of its decision.
- 8A06. Any Original Northbound Transaction that fails to be accepted for registration shall remain in full force and effect as between the two original parties to such Original Northbound Transaction pursuant to the terms therein.

Creation of Contracts through Submission of Original Northbound Transactions by Clearing Members or Clients

8A07. Any Original Northbound Transaction submitted for, and accepted by, OTC Clear for registration will result in the novation of the Original Northbound Transaction and the formation of two Contracts in its place with effect from the Registration Time, as follows:

- (1) if the Original Northbound Transaction is between a Clearing Member and a PRC dealer, then:
 - (a) one Contract is created between a Clearing Member ("**Clearing Member A**") who was party to the Original Northbound Transaction and OTC Clear (as principal), under which:
 - (A) the rights and obligations of OTC Clear arising from the Economic Terms of such Contract will be the same as those of the PRC dealer who was party to the Original Northbound Transaction under the economic terms of the Original Northbound Transaction; and
 - (B) the rights and obligations of Clearing Member A arising from the Economic Terms of such Contract will be the same as those it had under the economic terms of the Original Northbound Transaction against the PRC dealer, except that such rights and obligations are modified by the replacement of OTC Clear as the counterparty to Clearing Member A,

and are subject to any changes as a result of the operation of the Contract Terms (as supplemented by the Clearing Procedures) for that Contract;

- (b) another Contract is created between the Special Clearing House Participant with OTC Clear (as principal), under which:
 - (A) the rights and obligations of OTC Clear arising from the Economic Terms of such Contract will be the same as those of Clearing Member A under the economic terms of the Original Northbound Transaction; and
 - (B) the rights and obligations of the Special Clearing House Participant arising from the Economic Terms of such Contract will be the same as those of the relevant PRC dealer under the economic terms of the Original Northbound Transaction against Clearing Member A, except that such rights and obligations are modified by the replacement of OTC Clear as the counterparty to the Special Clearing House Participant,

and are subject to any changes as a result of the operation of the Contract Terms (as supplemented by the Clearing Procedures) for that Contract;

- (c) a cleared contract is created between the relevant PRC dealer and the Special Clearing House Participant in its capacity as a central clearing counterparty in the PRC, governed by and subject to the terms of the clearing rules of the Special Clearing House Participant; and
 - (d) in respect of the Original Northbound Transaction between a Clearing Member and a PRC dealer, upon the creation of the two Contracts under sub-paragraphs (a) and (b) above and the cleared contract under sub-paragraph (c) above, the rights and obligations of the parties to the corresponding Original Northbound Transaction will be automatically and completely discharged and of no further force or effect, save and except for any amounts which are due and payable (or deliverable) by one party to the other prior to the Registration Time pursuant to the terms of such Original Northbound Transaction and which remain unpaid (or undelivered); and
- (2) if the Original Northbound Transaction is between a Client (the “**Relevant Client**”) and a PRC dealer, then:
- (a) one Contract is created between the Clearing Member who provides Client Clearing Services to the Relevant Client (“**Clearing Member B**”) (in respect of its Client Position Account relating to the Relevant Client) and OTC Clear (as principal), under which:
 - (A) the rights and obligations of OTC Clear arising from the Economic Terms of such Contract will be the same as those of the relevant PRC dealer who was party to the Original Northbound Transaction with the Relevant Client under the economic terms of the Original Northbound Transaction; and
 - (B) the rights and obligations of Clearing Member B (in respect of its Client Position Account relating to the Relevant Client) arising from the Economic Terms of such Contract will be the same as those the Relevant Client had under the economic terms of the Original Northbound Transaction against the relevant PRC dealer, except that such rights and obligations are modified by the replacement of OTC Clear as counterparty to Clearing Member B (in respect of its Client Position Account relating to the Relevant Client),

and are subject to any changes as a result of the operation of the Contract Terms (as supplemented by the Clearing Procedures) for that Contract;
 - (b) one Contract is created between the Special Clearing House Participant and OTC Clear (as principal), under which:
 - (A) the rights and obligations of OTC Clear arising from the Economic Terms of such Contract will be the same as

those of the Relevant Client under the economic terms of the Original Northbound Transaction; and

- (B) the rights and obligations of the Special Clearing House Participant arising from the Economic Terms of such Contract will be the same as those the relevant PRC dealer had under the economic terms of the Original Northbound Transaction against the Relevant Client, except that such rights and obligations are modified by the replacement of OTC Clear as the counterparty to the Special Clearing House Participant,

and are subject to any changes as a result of the operation of the Contract Terms (as supplemented by the Clearing Procedures) for that Contract;

- (c) a cleared contract is created between the relevant PRC dealer and the Special Clearing House Participant in its capacity as a central clearing counterparty in the PRC, governed by and subject to the terms of the clearing rules of the Special Clearing House Participant; and
- (d) in respect of the Original Northbound Transaction between the Relevant Client and the relevant PRC dealer, upon the creation of the two Contracts under sub-paragraphs (a) and (b) above and the cleared contract under sub-paragraph (c) above, the rights and obligations of the parties to the corresponding Original Northbound Transaction will be automatically and completely discharged and of no further force or effect, save and except for any amounts which are due and payable (or deliverable) by one party to the other prior to the Registration Time pursuant to the terms of such Original Northbound Transaction and which remain unpaid (or undelivered).

8A08. When an Original Northbound Transaction is submitted for registration, the relevant party shall specify (i) whether such Original Northbound Transaction is being submitted for registration as part of a Clearing Member's Client Clearing Services and (ii) to which of the relevant Clearing Member's Position Account the corresponding Contract(s) should be booked, in accordance with the following:

- (1) each Contract created under Clearing Rule 8A07(1)(a) should be booked to the House Position Account of the Clearing Member who was party to the corresponding Original Northbound Transaction; and
- (2) each Contract created under Clearing Rule 8A07(2)(a) should be booked to a Client Position Account relating to the relevant Client.

Any Contract arising as a result of submission of an Original Northbound Transaction by a Designated Person on behalf, and in the name, of a Clearing Member shall be recorded to such Clearing Member's House Position Account.

8A09. Each Contract created under Clearing Rule 8A07 shall be governed by the applicable Contract Terms for that Contract. OTC Clear's obligations and

liabilities under any Contract shall be limited to those pursuant to the Clearing Documentation.

- 8A10. The Contracts created under Clearing Rules 8A07(1)(b) and 8A07(2)(b) shall also be governed by and subject to the terms of the SHCH Clearing Rules and the SHCH Clearing Guidelines.
- 8A11. Each Clearing Member agrees to be bound by each Contract pursuant to the particulars submitted by it or its Designated Person that is entered in such Clearing Member's name as principal and not as agent, and on the terms set out in the Clearing Documentation.
- 8A12. The Transaction Register, or such other record as OTC Clear shall accept in its sole discretion, shall constitute conclusive evidence of Contracts which have been validly made unless OTC Clear otherwise determines. The relevant reports published by OTC Clear in reliance or, on the basis, of the Transaction Register shall be final and conclusive in determining whether a Contract has been registered with, or de-registered by, OTC Clear.
- 8A13. Following the creation of a Contract with effect from the Registration Time of such Contract:
- (1) such Contract will be a "market contract" as defined in, and for purposes of, the SFO;
 - (2) each relevant Clearing Member shall, or shall procure its Designated Person, to the extent applicable, to update its books and records to reflect such registration;
 - (3) notwithstanding any non-performance of a party's obligations under the Original Northbound Transaction, or any invalidity, unenforceability, revocation or avoidance of the Original Northbound Transaction, the terms and validity of the corresponding Contracts shall remain in full force and effect; and
 - (4) notwithstanding the occurrence of any Insolvency Proceedings with respect to a Clearing Member or Special Clearing House Participant in whose name a Contract is registered during or prior to the Registration Time of such Contract, and regardless of whether OTC Clear is aware, or could reasonably be expected to be aware, of such occurrence of Insolvency Proceedings, the Contract, once created, shall remain in full force and effect.

Other amendments

- 8A14. Clearing Rules 812 to 814B, 816 and 821(7) shall apply *mutatis mutandis* to the Original Northbound Transactions, where:
- (1) references to "Original Transactions" shall include Original Northbound Transactions;
 - (2) references to "Clearing Member" in Clearing Rules 814, 814A and 814B (except 814B(5) and 814B(6)) shall include the Special Clearing House Participant;

- (3) payments made for the purposes of satisfying any end-of-day Variation Margin requirements in Clearing Rules 814(2) and 814B(4) shall exclude Participation Margin and Inter-CCP Margin Amount; and
- (4) payments made for the purposes of satisfying any end-of-day Variation Margin requirements in Clearing Rules 814B(5) and 814B(6) shall exclude Participation Margin.

8A15. Clearing Rules 815 to 837 shall apply *mutatis mutandis* to Contracts relating to Original Northbound Transactions.

8A16. If OTC Clear determines under Clearing Rule 814(3) that the value of an Error Contract has changed between the time when the Variation Margin was last calculated and when such Error Contract was terminated, then a payment representing such difference in value shall be made between the original swap counterparties to such relevant Original Northbound Transaction which was novated into the relevant Error Contract. Any payment made pursuant to the immediately foregoing sentence will be made outside of the Rates and FX Clearing System, and shall fully discharge a party's obligations under such Error Contract.

Suspension of the Participantship of the Special Clearing House Participant or Clearing Link Services

8A17. If the Clearing Link Services have been suspended due to any reason, including without limitation, the occurrence of an SHCH Event of Default, an OTC Clear Failure to Pay SHCH Event, an OTC Clear Insolvency Event, or a Force Majeure Event or Illegality with respect to OTC Clear or the Special Clearing House Participant:

- (1) no new Standard Northbound Rates Derivatives Contracts may be entered into between OTC Clear and the Clearing Members unless otherwise directed by, or with the consent of, OTC Clear;
- (2) any payment obligations OTC Clear has towards the Clearing Members under Contracts whose terms are equal but opposite to the Inter-CCP Rates Derivatives Contracts may be suspended by OTC Clear. Any suspension of payment obligations by OTC Clear pursuant to this subparagraph (2) shall not constitute failure to pay on the part of OTC Clear;
- (3) the suspension shall not in any way affect the validity or enforceability of any Contract or other agreement or arrangement in relation to the Clearing Link Services entered into prior to such suspension; and
- (4) notice of suspension of Participantship of the Special Clearing House Participant and the Clearing Link Services shall be given by OTC Clear as soon as reasonably practicable to all Clearing Members.

8A18. At any time during the suspension, OTC Clear may notify the Clearing Members of the resumption of the Participantship of the Special Clearing House Participant and the Clearing Link Services.

Termination of the Participantship of the Special Clearing House Participant or Clearing Link Services

8A19. If the Clearing Link Services are terminated, OTC Clear may declare the occurrence of a Contract Termination Event in respect of all Contracts between OTC Clear and all Non-Defaulting Clearing Members in whole as Identified Contracts and invoke the contract termination process as provided for in Clearing Rules 1918A and 1918AA respectively.