

## Chapter 19 Auction

### Auction Portfolios

1901. The purpose of the Auction process described in this Chapter 19 is to identify replacement (i) Clearing Members, who will enter into Contracts with OTC Clear, or (ii) participants of the Special Clearing House Participant who participate in the Auction process relating to Standard Northbound Rates Derivatives Contracts on a voluntary basis (each, a “**PRC Bidder**”) and who will enter into cleared contracts with the Special Clearing House Participant under the SHCH Clearing Rules and the SHCH Clearing Guidelines (and the corresponding Inter-CCP Rates Derivatives Contracts relating to Contracts registered in the name of the Defaulting Clearing Member between OTC Clear and the Special Clearing House Participant will terminate), in each case, with the same economic terms as Contracts registered in the name of the Defaulting Clearing Member (other than any Affected Contract that has been successfully ported pursuant to Chapter 17 of these Clearing Rules). The Auction process intends for OTC Clear to remain risk-neutral following the occurrence of a DMP Event, and to assist OTC Clear in determining the termination value of the portfolio of Contracts registered in the name of the Defaulting Clearing Member immediately prior to their termination (other than any Affected Contract that has been successfully ported pursuant to Chapter 17 of these Clearing Rules), which will be used in the calculations performed under Clearing Rules 1306, 1306A, 1306B, 1306C and 1307.
1902. OTC Clear will, in consultation with the Default Management Group, construct one or more Auction Portfolio(s) in respect of the Auction Positions on the Auction Book.
1903. OTC Clear and the Default Management Group will exercise their discretion in constructing Auction Portfolios consisting of Auction Positions with similar risk profile, with the aim to maximize the likelihood of achieving Successful Bids at a commercially reasonable price, provided that Contracts registered to a Defaulting Clearing Member’s House Position Account shall not be included in the same Auction Portfolio as Contracts registered to a Defaulting Clearing Member’s Client Position Accounts in respect of Non-Porting Clients.
1904. The construction of Auction Portfolios will be determined by OTC Clear, in consultation with the Default Management Group, separately in respect of each DMP Event and therefore may vary from one DMP Event to another.

### Auction for Multiple Auction Portfolios

1905. Each Auction Portfolio shall be subject to its own Auction.

### Conduct of Auction

1906. A Non-Defaulting Clearing Member must participate in the Auction for an Auction Portfolio if it has, on any day during the 20 OTC Clear Business Day-period immediately prior to such Auction, any Contract of a Transaction Category which is the same as any Contracts registered in the name of a Defaulting Clearing Member within that Auction Portfolio. Each Bidder (that is not a PRC Bidder) agrees to enter into Contracts with OTC Clear on the same terms as the Auction Positions upon acceptance by OTC Clear of its Bid. For the avoidance of doubt, PRC Bidders shall be entitled, but are not obliged, to participate in the Auction for any Auction Portfolio of Standard Northbound Rates Derivatives Contracts.
1907. A Non-Defaulting Clearing Member who, on any day during the 20 OTC Clear Business Day-period immediately prior to the Auction of an Auction Portfolio, does not have a

Contract of a Transaction Category which is the same as any Contracts registered in the name of a Defaulting Clearing Member within such Auction Portfolio shall be entitled, but is not obliged, to participate in the Auction for such Auction Portfolio.

1908. Notwithstanding Clearing Rules 1906 and 1907, a resigning Clearing Member is not required to participate in the Auction if each of:
- (1) the Initial Margin requirements (in respect of each of its House Position Account and Client Position Accounts (if any)) shown on the end-of-day Margin report published on an OTC Clear Clearing Day; and
  - (2) the net notional of all Contracts recorded to such resigning Clearing Member, becomes zero prior to the commencement of the Auction process, provided that such resigning Clearing Member shall notify OTC Clear of the same no later than 5 OTC Clear Business Days prior to the commencement of the Auction.
1909. Each Bidder shall comply with the bidding process set out in these Clearing Rules.

### **Bidding**

1910. Each Bidder (other than a PRC Bidder) shall specify the account to which any Auction Contract should be registered if the Bid is successful. If the Bid of a PRC Bidder is successful:
- (1) the Special Clearing House Participant shall enter into a corresponding contract on the same economic terms as the Auction Positions of the Standard Northbound Rates Derivatives Contracts that the Successful Bidder who is a PRC Bidder has won with such Successful Bidder under the SHCH Clearing Rules and the SHCH Clearing Guidelines, and any Inter-CCP Rates Derivatives Contracts between OTC Clear and the Special Clearing House Participant relating to such Auction Positions shall be terminated; and
  - (2) in addition, to the extent that there are Auction Positions that are Hedging transactions, the Inter-CCP Rates Derivatives Contracts relating to such Auction Positions shall be created between OTC Clear and the Special Clearing House Participant on the same economic terms as the Auction Positions that the Successful Bidder who is a PRC Bidder has won.
1911. A DMG Member shall not submit Bids for and on behalf of the Bidder of which it is representative and the identity of each Bidder shall be kept anonymous from the DMG Members.
1912. OTC Clear will oversee the bidding process and ensure that Bids represent fair value of the relevant Auction Portfolio on the basis of such factors as OTC Clear considers appropriate. OTC Clear may, but is not obliged, to consult with the Risk Management Committee prior to accepting any Bids, but OTC Clear will inform the Risk Management Committee regarding the progress of the Default Management Process.

### **Initial Allocation of Resources**

1913. In respect of each Auction Portfolio, OTC Clear will, in consultation with the Default Management Group, determine the RAP and the Margin Allocation Percentage(s) for such Auction Portfolio. OTC Clear will, prior to the commencement of Auction, notify all Non-Defaulting Clearing Members of the RAP for each Auction Portfolio. On the basis of the RAP and the Margin Allocation Percentage(s) determined for an Auction Portfolio, OTC

Clear will allocate a pool of resources for such Auction Portfolio (the “**Preliminary Available Resources**”).

1913A. In respect of an Auction Portfolio in relation to Contracts registered to a Defaulting Clearing Member’s House Position Account (a “**House Auction Portfolio**”), the resources set out in sub-paragraphs (1) to (7) below, to the extent not already applied in accordance with Clearing Rules 1516(1) and 1516(2), shall together constitute the Preliminary Available Resources allocated to such House Auction Portfolio for the purpose of satisfying any Auction Losses or Contract Termination Losses arising from such Auction Portfolio. 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 Auction Losses or Contract Termination Losses arising from such House Auction Portfolio, 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 a DMP Event, it shall perform the loss allocation process set out in Clearing Rules 1914 to 1916:

- (1) a pool of assets comprising the following (the “**Initial House Resources**”):
  - (a) all Auction Payments and Contract Termination Net Payments (if any) received by OTC Clear with respect to such House Auction Portfolio constructed as a result of such DMP Event;
  - (b) any Unpaid Amounts due from OTC Clear to the Defaulting Clearing Member in respect of Contracts recorded in such Defaulting Clearing Member’s House Position Account;
  - (c) the Unsettled VM Amount in respect of the Auction Contracts and/or Auction Failed Positions comprised in such House Auction Portfolio (to the extent that such Unsettled VM Amount is payable by OTC Clear to the Defaulting Clearing Member) (if any); and
  - (d) a pool of assets the value of which represents the Margin Allocation Percentage for such House Auction Portfolio applied to 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 in respect of the Defaulting Clearing Member (the “**DCM Margin**”);
- (2) a pool of assets the value of which represents the RAP (assigned to such House Auction Portfolio) of the Participating Margin Balance recorded to the Participating Margin Collateral Account of the Defaulting Clearing Member (by application in the manner set out in Clearing Rule 1548);
- (3) a pool of assets the value of which represents the RAP (assigned to such House Auction Portfolio) of the Rates and FX Contribution Balance recorded to the GF Account of the Defaulting Clearing Member (by application in the manner set out in Clearing Rule 1548);
- (4) a pool of assets the value of which represents the RAP (assigned to such House Auction Portfolio) of the OTC Clear First Contribution;

- (5) a pool of assets the value of which represents the RAP (assigned to such House Auction Portfolio) of the aggregate Rates and FX Contribution Balance in respect of the CM Funded Contribution Amount of each Non-Defaulting Clearing Member and recorded to the GF Account of each such Non-Defaulting Clearing Member (by application in the manner set out in Clearing Rule 1517) (the aggregate value of the CM Funded Contribution Amount of all Non-Defaulting Clearing Members is referred to as the “**NDCM GF**”);
- (6) a pool of assets the value of which represents the RAP (assigned to such House Auction Portfolio) of the OTC Clear Second Contribution; and
- (7) a pool of assets the value of which represents the RAP (assigned to such House Auction Portfolio) of the aggregate value of the Rates and FX Contribution Balance in respect of the CM Unfunded Contribution Amount of each Non-Defaulting Clearing Member and recorded to the GF Account of each such Non-Defaulting Clearing Member (by application in the manner set out in Clearing Rule 1517).

For the avoidance of doubt, this Clearing Rule 1913A does not apply to an Auction Portfolio in relation to Contracts registered to a Defaulting Clearing Member’s Client Position Account(s) with respect to its Non-Porting Client(s) (a “**Client Auction Portfolio**”). The Preliminary Available Resources for a Client Auction Portfolio are determined as set out in Clearing Rule 1913B.

1913B. In respect of a Client Auction Portfolio, the resources set out in sub-paragraphs (1) to (7) below, to the extent not already applied in accordance with Clearing Rules 1516(1) and 1516(2), shall together constitute the Preliminary Available Resources allocated to such Client Auction Portfolio for the purpose of satisfying any Auction Losses or Contract Termination Losses arising from such Client Auction Portfolio. 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 Auction Losses or Contract Termination Losses arising from such Client Auction Portfolio, 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 a DMP Event, it shall perform the loss allocation process set out in Clearing Rules 1914 to 1916:

- (1) a pool of assets comprising the following (the “**Initial Non-Porting Client Resources**”):
  - (a) all Auction Payments and Contract Termination Net Payments (if any) received by OTC Clear with respect to such Client Auction Portfolio constructed as a result of such DMP Event;
  - (b) any Unpaid Amounts due from OTC Clear to the Defaulting Clearing Member in respect of the Contracts corresponding to the Auction Contracts and/or Auction Failed Positions comprised in such Client Auction Portfolio;
  - (c) the Unsettled VM Amount in respect of the Auction Contracts and/or Auction Failed Positions comprised in such Client Auction Portfolio (to the extent that such Unsettled VM Amount is payable by OTC Clear to the Defaulting Clearing Member) (if any); and
  - (d) a pool of assets the value of which represents the aggregate of, for each Client Collateral Account corresponding to that Client Auction Portfolio, the Margin Allocation Percentage for that Client Collateral Account and Client

Auction Portfolio applied to the aggregate of the Margin Balance recorded to that Client Collateral Account, any income and redemption proceeds on any non-cash Collateral recorded to that Client 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 in respect of the Non-Porting Client(s) (the “**Non-Porting Client Margin**”);

- (2) a pool of assets the value of which represents the RAP (assigned to such Client Auction Portfolio) of the Participating Margin Balance recorded to the Participating Margin Collateral Account of the Defaulting Clearing Member (by application in the manner set out in Clearing Rule 1548);
- (3) a pool of assets the value of which represents the RAP (assigned to such Client Auction Portfolio) of the Rates and FX Contribution Balance recorded to the GF Account of the Defaulting Clearing Member (by application in the manner set out in Clearing Rule 1548);
- (4) a pool of assets the value of which represents the RAP (assigned to such Client Auction Portfolio) of the OTC Clear First Contribution;
- (5) a pool of assets the value of which represents the RAP (assigned to such Client Auction Portfolio) of the NDCM GF (by application in the manner set out in Clearing Rule 1517);
- (6) a pool of assets the value of which represents the RAP (assigned to such Client Auction Portfolio) of the OTC Clear Second Contribution; and
- (7) a pool of assets the value of which represents the RAP (assigned to such Client Auction Portfolio) of the aggregate value of the Rates and FX Contribution Balance in respect of the CM Unfunded Contribution Amount of each Non-Defaulting Clearing Member and recorded to the GF Account of each such Non-Defaulting Clearing Member (by application in the manner set out in Clearing Rule 1517).

1913C. With respect to each layer of Preliminary Available Resources set out in Clearing Rules 1913A and 1913B, to the extent that it comprises Collateral in more than one currency or form, OTC Clear has the sole discretion in allocating such Collateral, in any currency or form, or combination of currencies or forms and in whatever percentage, as part of the Preliminary Available Resources allocated to an Auction Portfolio. In performing the immediately foregoing, OTC Clear will consult the Default Management Group, and take into account factors such as risk correlation or foreign exchange risk relating to the Auction Positions comprising the Auction Portfolio.

### **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 Clearing 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 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 Participating Margin Balance of the Defaulting Clearing Member allocated to such Auction Portfolio pursuant to Clearing Rule 1913A or 1913B, as the case may be;
- (3) third, having utilized the RAP of the Participating Margin Balance 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 Clearing 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;

- (4) fourth, subsequent to the utilization of the Participating Margin Balance and 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 Clearing 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;
- (5) 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**”. For the avoidance of doubt, the Bids (if any) of PRC Bidders will be taken into account when applying the Tranching Methodology to determine the order in which the Rates and FX Guarantee Fund of each Non-Defaulting Clearing Member will be used, but the Tranching Methodology is otherwise not applicable to any PRC Bidder.

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;
- (6) 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 Clearing 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
- (7) 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 (5) 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.

1915. With respect to each layer of Preliminary Available Resources, to the extent that the Collateral of the same Clearing Member comprises more than one form of assets but all of which constitute the same layer of resources, OTC Clear shall have the discretion to utilize any form of such Clearing Member's Collateral within the same layer of resources in any order and manner as it sees fit.
1916. In the event that more than one DMP Event occurs within the same Capped Liability Period, Clearing Rule 1545 shall apply. In addition, with respect to the Auction Losses and/or Contract Termination Losses arising out of the DMP Events occurring within the same Capped Liability Period:

- (1) OTC Clear may make such adjustments as are necessary in determining the Preliminary Available Resources and the RAP and the Margin Allocation Percentage(s) for each Auction Portfolio constructed as a result of each DMP Event occurring within the same Capped Liability Period. In doing so, OTC Clear will review the aggregate sum of all resources it has then to satisfy the Rates and FX Loss arising out of each such DMP Event, namely, the then Margin Balance held in respect of the Defaulting Clearing Members, any Unsettled VM Amount (to the extent that such Unsettled VM Amount is payable by OTC Clear to the Defaulting Clearing Members) and any income and redemption proceeds on any non-cash Collateral that have not already been paid to or withdrawn by the Defaulting Clearing Members, the OTC Clear Contribution, and the Rates and FX Contribution Balance then held in respect of by all Non-Defaulting Clearing Members; and
- (2)
  - (a) to the extent that the Auction Losses and/or Contract Termination Losses arising from all Auction Portfolios constructed for one single Defaulting Clearing Member do not require utilization in full of the Participating Margin Balance and/or Rates and FX Contribution of such Defaulting Clearing Member, any remaining Participating Margin Balance and/or Rates and FX Contribution of such Defaulting Clearing Member shall be utilized to satisfy any Auction Losses and/or Contract Termination Losses arising from one or more Auction Portfolios constructed for another Default Management Process in respect of another Defaulting Clearing Member;
  - (b) any excess Participating Margin Balance and/or Rates and FX Contribution of a Defaulting Clearing Member will be applied on a pro-rata basis based on the share of Participating Margin and Rates and FX Contribution contributed by the relevant Defaulting Clearing Member; and
  - (c) OTC Clear will always ensure that the Participating Margin and Rates and FX Contribution of all Defaulting Clearing Members whose DMP Events occurred within the same Capped Liability Period have been utilized in full prior to utilizing the OTC Clear First Contribution.

1917. OTC Clear will at all times observe Clearing Rule 823 in carrying out the loss allocation process described in Clearing Rules 1914 to 1916, and Initial Non-Porting Client Resources allocated to a Client Auction Portfolio of a Defaulting Clearing Member shall never be utilized to meet any losses arising out of such or other Defaulting Clearing Members' House Account.

### **Successive Auction**

1918. If an Auction is unsuccessful in dealing with all Auction Positions in the relevant Auction Portfolio, further round(s) of Auction may be held. In order to facilitate the Auction process and/or if OTC Clear declares a Contract Termination Event affecting more than one Auction Portfolio, OTC Clear may, in consultation with the Default Management Group, decide to combine or sub-divide previously constructed Auction Portfolios for successive Auctions or for the purpose of allocating losses relating to a Contract Termination Event.

1918A. If:

- (1) pursuant to Clearing Rule 1918, an Auction is held and is unsuccessful, and if OTC Clear reasonably believes that further round(s) of Auction will not be successful in

dealing with all Auction Positions in one or more Auction Portfolio(s) within a reasonable time frame as determined by OTC Clear; or

- (2) an Early Termination Date has been designated by the Special Clearing House Participant pursuant to Clearing Rule 21J13 then without the need to hold any Auction,

OTC Clear may invoke the contract termination process as provided for in this Clearing Rule 1918A in consultation with the SFC and (in respect of item (1) above if any Inter-CCP Rates Derivatives Contract is involved) with the prior consent of the Special Clearing House Participant. OTC Clear shall determine which Contracts will be terminated, either in whole or in part ("**Identified Contracts**"), under this Clearing Rule 1918A, shall notify the relevant Clearing Members and the Special Clearing House Participant of the details of the relevant Identified Contracts, and shall declare the occurrence of a termination event in respect of such Identified Contracts, either in whole or in part (a "**Contract Termination Event**"). In making this determination, OTC Clear may:

- (i) select (a) those Contracts executed between OTC Clear and any Non-Defaulting Clearing Member and the Special Clearing House Participant for the purpose of Hedging the exposure of OTC Clear in relation to the Auction Failed Positions of the Defaulting Clearing Member and (b) those Contracts between OTC Clear and Non-Defaulting Clearing Members and the Special Clearing House Participant which have equal but opposite terms (other than notional amounts in the case of partial terminations) to the Auction Failed Positions in respect of the Defaulting Clearing Member; or
- (ii) select (a) those Contracts executed between OTC Clear and any Non-Defaulting Clearing Member and the Special Clearing House Participant for the purpose of Hedging the exposure of OTC Clear in relation to the Auction Failed Positions of the Defaulting Clearing Member and (b) all Contracts which are of the same Transaction Category as the Contracts described in Clearing Rule 1918A(i)(b), regardless of whether such Contracts are on the same or equal but opposite terms (other than notional amounts in the case of partial terminations) to those of the Auction Failed Positions in respect of the Defaulting Clearing Member; or
- (iii) select all Contracts registered at OTC Clear regardless of the Transaction Category of such Contracts.

The Identified Contracts shall be terminated as of the Final Settlement Cycle Determination Date for such Contract Termination Event as determined pursuant to section 10.5 of the Clearing Procedures.

1918AA.If OTC Clear has declared the Special Clearing House Participant as a Defaulting Special Clearing House Participant pursuant to Clearing Rule 21J02 then without the need to hold any Auction, OTC Clear may invoke the contract termination process as provided for in this Clearing Rule 1918AA with the prior consent of the SFC, the PBOC and the Special Clearing House Participant. The Identified Contracts in respect of the Defaulting Special Clearing House Participant shall be all Standard Northbound Rates Derivatives Contracts and Inter-CCP Rates Derivatives Contracts, OTC Clear shall notify the relevant Clearing Members of the details of Standard Northbound Rates Derivatives Contracts and shall declare the occurrence of a Contract Termination Event. The Identified Contracts shall be terminated as of the Final Settlement Cycle Determination Date for such Contract Termination Event as determined pursuant to section 10.5 of the Clearing Procedures.

- 1918B. On the Final Settlement Cycle Determination Date for a Contract Termination Event, all obligations of OTC Clear and the relevant Non-Defaulting Clearing Member or Special Clearing House Participant in respect of each Identified Contract (or, in respect of the Defaulting Special Clearing House Participant as provided under Clearing Rule 1918AA above, the Inter-CCP Rates Derivatives Contracts) between them shall cease to exist and be replaced with the obligation of OTC Clear or the relevant Non-Defaulting Clearing Member or Special Clearing House Participant, as the case may be, to pay a net sum in respect of all such Identified Contracts as between them (each a “**Contract Termination Net Payment**”) equal to the change in net present value for each such Identified Contract between the last End-of Day Settlement Process immediately preceding the relevant Final Settlement Cycle Determination Date and (a) for Contracts other than Standard Northbound Rates Derivatives Contracts and Inter-CCP Rates Derivatives Contracts, 11.00 hours Hong Kong time or (b) for Standard Northbound Rates Derivatives Contracts, 16.00 hours Hong Kong time, in each case, on the Final Settlement Cycle Determination Date, as determined by OTC Clear in accordance with this Clearing Rule 1918B and sections 10.1.1 and 10.5 of the Clearing Procedures. OTC Clear will, as soon as reasonably practicable on the Final Settlement Cycle Determination Date, notify the relevant Non-Defaulting Clearing Member or Special Clearing House Participant of the Contract Termination Net Payment payable by it, and the relevant Non-Defaulting Clearing Member or Special Clearing House Participant shall pay OTC Clear such amount within one OTC Clear Business Day after the Final Settlement Cycle Determination Date. Notwithstanding the above, if at any time during the Contract Termination Event process but prior to the effective date of termination of the relevant Identified Contracts, OTC Clear determines that the Contract Termination Net Payments would result in any of the events set out in Clearing Rule 1530(1), OTC Clear may, instead of proceeding with the Contract Termination Event, declare the occurrence of a Rates and FX Clearing Termination Event, and in such case the Identified Contracts shall not be terminated pursuant to this Clearing Rule 1918B but shall be terminated in accordance with Clearing Rule 1531 instead. Any Contract Termination Net Payment payable by OTC Clear to Non-Defaulting Clearing Members or the Special Clearing House Participant shall form part of the Contract Termination Losses payable in accordance with Clearing Rules 1515 and 1516 by application of the Total Available Resources of OTC Clear.
1919. Upon the expiry of a Capped Liability Period, with respect to each Auction Portfolio constructed for the DMP Event(s) occurring within such Capped Liability Period that was the subject of a successful Auction, OTC Clear will notify all relevant Bidders the result of the application of the Tranching Methodology with respect to each such Auction Portfolio. For the avoidance of doubt, the Tranching Methodology will not be applicable to the Special Clearing House Participant.

#### **OTC Clear Financial Resources**

1920. Following the completion of each Auction, OTC Clear shall determine whether its Total Available Resources are sufficient to meet its obligations arising from such Auction, including but not limited to the ability to credit all Successful Bidders or the Special Clearing House Participant on behalf of any Successful Bidders who are PRC Bidders with the relevant Auction Receivables. OTC Clear may only perform its obligations pursuant to Clearing Rules 1921 and 1922 in respect of all Auction Contracts arising from such Auction if it has reasonably determined that its Total Available Resources are sufficient. If OTC Clear determines that, even after exhausting the Total Available Resources, invoking the Loss Distribution Process described in Clearing Rules 1523 to 1528, declaring one or more

Contract Termination Events, and/or taking into account any Voluntary Recap Amounts received from one or more Non-Defaulting Clearing Members, it will not be able to meet all the Successful Bids received in respect of all Auction Portfolios arising out of a completed Auction, then the procedure set out in Clearing Rules 1530 to 1540 shall take effect. In such event, OTC Clear shall notify all Bidders (including notify through the Special Clearing House Participant in respect of any PRC Bidders) of the failure of the Auction and the occurrence of a Rates and FX Clearing Termination Event in accordance with the Clearing Procedures and, for the avoidance of doubt, no Bidder shall be deemed to have a Successful Bid in respect of such Auction and OTC Clear shall not be permitted to register any Auction Contract with any Successful Bidder.

### **Registration of Auction Contracts (non-PRC Bidders)**

1921. Clearing Rules 1921 and 1922 apply to Successful Bidders who are not PRC Bidders. Following the completion of Auction or Contract Termination Event (as applicable) 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 with 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.
1922. Each Successful Bidder will be required to comply with such conditions as may be required by OTC Clear, after consultation with the Default Management Group, to effect the registration of the Auction Contracts. Upon the completion of the Auction(s):
- (1) each Successful Bidder shall provide OTC Clear with Collateral to satisfy the Margin and (if applicable) Participating Margin required for the registration of the Auction Contracts, such Collateral must be delivered by the Successful Bidder on or prior to the relevant Auction Payment Date;
  - (2) each Successful Bidder shall also pay to OTC Clear any Auction Payment on or prior to the Auction Payment Date; and
  - (3) OTC Clear will pay any Auction Receivable payable to the relevant Successful Bidder(s) on or prior to the Auction Receivable Payment Date.

### **Failed Registration (non-PRC Bidders)**

1923. Clearing Rules 1923 and 1924 apply to Successful Bidders who are not PRC Bidders. If a Successful Bidder for an Auction Contract fails to pay in full to OTC Clear the corresponding Auction Payment or fails to provide in full the corresponding required Margin or (if applicable) required Participating Margin to OTC Clear, in either case, on or prior to the relevant Auction Payment Date, such failure shall constitute an Event of Default with respect to the Successful Bidder pursuant to Clearing Rule 1301.
1924. (1) If OTC Clear fails to pay in full an Auction Receivable to a Successful Bidder on or prior to the relevant Auction Receivable Payment Date, such registration of the Auction Contract shall be deemed *void ab initio* and unenforceable against that Successful Bidder;
- (2) OTC Clear shall not take such Auction Contract into account for the purpose of calculating that Successful Bidder's Margin or (if applicable) Participating Margin requirement on an ongoing basis; and

- (3) to the extent a demand for Margin or (if applicable) Participating Margin has already been served upon that Successful Bidder, taking into account such Auction Contract, and the relevant Successful Bidder has transferred Collateral in satisfaction of such Margin or (if applicable) Participating Margin requirement, the amount of Collateral called in respect of such Auction Contract shall be returned to that Successful Bidder on the second Auction Receivable Payment Date following the completion of the relevant Auction.