

## **20. SEOCH FAILURE TO PAY EVENT AND SEOCH INSOLVENCY EVENT**

### **20.1 Calculations of Net Payments under a SEOCH Failure to Pay Event or a SEOCH Insolvency Event**

Upon the designation of an Early Termination Date pursuant to either Clearing Rule 723F(3) or 723F(4) in respect of a SEOCH Failure to Pay Event or pursuant to Clearing Rule 723G in respect of a SEOCH Insolvency Event, SEOCH shall, without prejudice to any other rights under the Clearing Rules, terminate the OCH Contract between SEOCH and the relevant SEOCH Participant in accordance with Clearing Rules 723H to 723I.

#### **20.1.1 Calculation of termination value**

The termination value for each OCH Contract shall be determined based on the fixing price determined in accordance with Section 9.2.1 of the Operational Clearing Procedures on the Early Termination Date, or if such fixing price is not available, the price shall be such price as SEOCH may reasonably determine. SEOCH may also take into account any unpaid amounts that have become due and payable in respect of any OCH Contract on or prior to the designation of the Early Termination Date.

SEOCH shall on, or as soon as reasonably practicable after, the Early Termination Date, with respect to each clearing account registered in the name of each relevant SEOCH Participant, calculate a net sum payable by or to such SEOCH Participant. In calculating such net sum, SEOCH will take into account the termination value determined for each OCH Contract pursuant to Clearing Rule 723H and this Section of the Operational Clearing Procedures, and the value of all other amounts which are payable to SEOCH from the SEOCH Participant under the Clearing Rules or which are payable to the SEOCH Participant from SEOCH (other than any amounts arising from the obligation of SEOCH to pay an amount equal to (i) the Margin Balance (ii) any income and redemption proceeds on any non-cash collateral that have not already been paid to or withdrawn by the SEOCH Participant and/or (iii) the Reserve Fund Contributions Balance to the relevant SEOCH Participant or Former SEOCH Participant), whether such amounts are presently payable or not and whether they are liquidated or unliquidated, actual or contingent. Any net sum calculated to be payable by SEOCH is subject to adjustment in accordance with Section 20.1.2.2 below. There shall be no combining or set-off between any house clearing account (including any clearing account which is not of a client nature) and client clearing accounts (including any clearing account which is of a client nature). SEOCH will determine any such net sum payable by, or to, a SEOCH Participant in the Base Currency. For the purpose of the determination under this Section of the Operational Clearing Procedures, SEOCH may convert any amounts denominated in any other currency into the Base Currency at such exchange rate determined by SEOCH from such source and on such basis as it shall consider appropriate.

#### **20.1.2 Payment of SEOCH Default Interim CP Payable, SEOCH Default Final CP Payable and SEOCH Default CP Receivable**

##### **20.1.2.1 SEOCH Default Interim CP Payable and SEOCH Default Final CP Payable**

- i If, pursuant to Section 20.1.1 above, a net sum is determined to be payable by a SEOCH Participant to SEOCH with respect to one of its clearing accounts, SEOCH shall deduct all or part of such sum from the Margin Balance consisting of cash in the Base Currency, if any, relating to the relevant clearing account. If, after applying such Margin Balance relating to the relevant clearing account, there remains an amount payable by the SEOCH Participant to SEOCH for such

clearing account (the “SEOCH Default Interim CP Payable”), SEOCH will, as soon as reasonably practicable, notify the relevant SEOCH Participant of the SEOCH Default Interim CP Payable, and the relevant SEOCH Participant shall pay SEOCH the SEOCH Default Interim CP Payable within one Business Day following receipt of such notification or within such other time period as may be specified by SEOCH.

- ii If the SEOCH Participant fails to pay the SEOCH Default Interim CP Payable within the time frame set out in sub-paragraph i above, SEOCH may declare such SEOCH Participant as a Defaulter. SEOCH may, in satisfaction of any due but unpaid SEOCH Default Interim CP Payable, apply any remaining Margin Balance including any cash in other currencies and the cash proceeds of any non-cash collateral which SEOCH shall be entitled to liquidate relating to the relevant clearing account, and if the SEOCH Default Interim CP Payable of any clearing account of such SEOCH Participant is not satisfied in full following such application, regardless of whether such SEOCH Default Interim CP Payable arises out of a house clearing account or client clearing account belonging to such SEOCH Participant, SEOCH may set-off the Reserve Fund Contributions Balance in respect of such SEOCH Participant against the unpaid SEOCH Default Interim CP Payable. For the avoidance of doubt, if the unpaid SEOCH Default Interim CP Payable arises out of both a house clearing account (or any clearing account which is not of a client nature) and client clearing accounts (or any clearing account which is of a client nature), SEOCH will set-off the Reserve Fund Contributions Balance in respect of such SEOCH Participant against these clearing accounts on a pro-rata basis.
- iii Following the application by way of set off of any remaining Margin Balance and any Reserve Fund Contributions Balance as described in sub-paragraph ii above, SEOCH shall determine and notify each relevant SEOCH Participant of the final net sum payable by the SEOCH Participant in respect of its SEOCH Default Interim CP Payable, if any (“SEOCH Default Final CP Payable”) with respect to each clearing account. Each SEOCH Participant that receives a notice to pay any SEOCH Default Final CP Payable shall pay each such amount to SEOCH in full within one Business Day or within such other time period as may be specified by SEOCH.
- iv In the event that SEOCH does not receive any part of the SEOCH Default Final CP Payable from a SEOCH Participant, SEOCH shall take reasonable steps to recover such amount. Such SEOCH Participant shall be responsible for any costs SEOCH reasonably incurs in attempting to recover such amounts and accordingly the SEOCH Default Final CP Payable actually received from such SEOCH Participant shall be deemed to be decreased by an amount equal to such costs, unless such costs are paid by such SEOCH Participant.

#### **20.1.2.2 SEOCH Default CP Receivable**

Any net sum that is determined to be payable by SEOCH to a SEOCH Participant with respect to one of its clearing accounts pursuant to Section 20.1.1 above shall be known as the “Unadjusted SEOCH Default CP Receivable” and shall be subject to adjustment. The amount payable by SEOCH to each relevant SEOCH Participant with respect to each such clearing account (the “SEOCH Default CP Receivable”) shall be calculated by multiplying the Unadjusted SEOCH Default CP Receivable by a percentage (“SEOCH Default Applicable Percentage”) which is equal to the lesser of:

- (1) 100%; and
- (2) (A) the aggregate value of (I) the Reserve Fund Resources then held by SEOCH; (II) any Margin Balance in respect of all clearing accounts applied pursuant to Sections 20.1.2.1.i and 20.1.2.1.ii

above; and (III) all SEOCH Default Interim CP Payables and/or SEOCH Default Final CP Payables received by SEOCH, divided by

(B) the aggregate value representing the sum of (I) all Unadjusted SEOCH Default CP Receivables and (II) the Reserve Fund Contributions Balance in respect of all SEOCH Participants or Former SEOCH Participants taking into account the operation of Section 20.1.2.1.ii above;

SEOCH will notify each relevant SEOCH Participant of its SEOCH Default CP Receivable(s) upon determination.

### **20.1.2.3 Payment**

The amount of SEOCH Default Interim CP Payable, SEOCH Default Final CP Payable and SEOCH Default CP Receivable will be debited from or credited to (as the case may be) the relevant CCMS Collateral Account of the SEOCH Participant. To the extent that the collateral in the SEOCH Participant's relevant CCMS Collateral Account is insufficient, funds will be collected from the appropriate SEOCH Participant's account with the Designated Bank or Settlement Bank by Direct Debit Instructions. SEOCH Participants shall ensure that there are sufficient funds deposited in their Designated Bank or Settlement Bank accounts for debiting purpose.

All payments made under this Section of the Operational Clearing Procedures shall be made in the Base Currency. To the extent that SEOCH determines that it is not possible or reasonably practicable to make payment in the Base Currency, the obligations of SEOCH shall be to make payment, in full or in part, in such other currency or currencies and at such conversion rate(s) as SEOCH may in its absolute discretion determine to be fair and reasonable, taking into account all relevant circumstances as it may consider appropriate.

### **20.1.2.4 Liability of SEOCH**

Upon the designation of an Early Termination Date pursuant to either Clearing Rule 723F(3) or 723F(4) in respect of a SEOCH Failure to Pay Event or pursuant to Clearing Rule 723G in respect of a SEOCH Insolvency Event, every OCH Contract between SEOCH and the relevant SEOCH Participant shall be terminated and all prevailing obligations of SEOCH and such SEOCH Participant in respect of each such OCH Contract between them (including the obligation to deliver any underlying securities under such OCH Contract) shall cease and be replaced with the obligation of SEOCH or the relevant SEOCH Participant, as the case may be, to pay the other party with respect to each clearing account registered in the name of such SEOCH Participant a net sum which shall take into account the termination value and any unpaid amounts of each such OCH Contract registered in the relevant clearing account as determined by SEOCH and where applicable adjusted in accordance with this Section of the Operational Clearing Procedures.

### **20.1.3 Return of Margin Balance**

With respect to each relevant SEOCH Participant and each of its clearing account(s), taking into account (if applicable) the operation of Sections 20.1.2.1.i and 20.1.2.1.ii above, SEOCH shall pay an amount equal to the Margin Balance for such clearing account to such SEOCH Participant in accordance with the Clearing Rules.

#### **20.1.4 Return of Reserve Fund Contributions Balance**

With respect to each SEOCH Participant or Former SEOCH Participant which has a positive Reserve Fund Contributions Balance after payment of the SEOCH Default Interim CP Payable or after determination of the SEOCH Default CP Receivable for such clearing account, as the case may be, SEOCH shall pay to each relevant SEOCH Participant or Former SEOCH Participant an amount equal to its Reserve Fund Contributions Balance multiplied by the SEOCH Default Applicable Percentage provided that the aggregate sum payable by SEOCH in respect of the Reserve Fund Contributions Balance for all SEOCH Participants and Former SEOCH Participants shall not in any event exceed the value of the Reserve Fund Resources then held by SEOCH. SEOCH may deliver or return to a SEOCH Participant or Former SEOCH Participant assets in such form and in such amount, as SEOCH deems appropriate, equivalent to the assets recorded as part of its Reserve Fund Contributions Balance. Once the Reserve Fund Resources have been exhausted, the unpaid balance of the Reserve Fund Contributions Balance shall be extinguished and the relevant SEOCH Participant(s) and Former SEOCH Participant(s) shall have no further recourse to SEOCH (its affiliates, a recognized exchange controller which is the controller of SEOCH, or any of their respective Representatives) in respect thereof.

