

Swap Connect is a new derivatives market access programme that will allow offshore investors to trade and clear onshore RMB interest rate swaps without changing their existing trading and settlement practices. The programme is run in partnership by China Foreign Exchange Trade System (CFETS), Shanghai Clearing House (SHCH) and HKEX through its clearing subsidiary OTC Clearing Hong Kong Limited (OTC Clear). Swap clearing is performed by SHCH and OTC Clear.

Who is eligible to trade?

- **Onshore Investors:** Onshore Swap Connect Dealers.
- **Offshore Investors:** Offshore investors who are participants in the China Interbank Bond Market (CIBM) Direct or Bond Connect.

Product types

CNY Fixed-to-Floating Interest Rate Swap (“IRS”)

Floating Rate Options*:

- 7-day Repo (FR007)
- SHIBOR 3-Month (Shibor3M)
- SHIBOR Overnight (ShiborO/N)

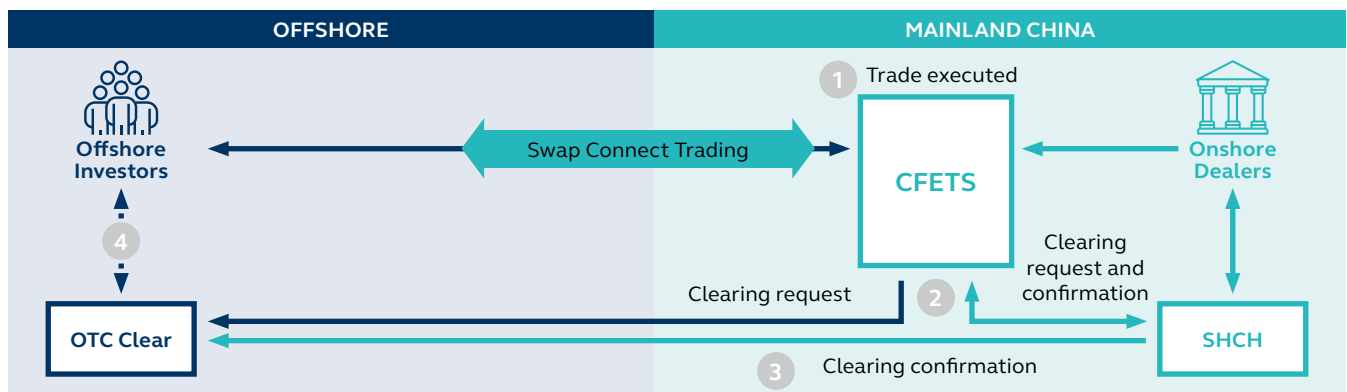
Support product features including forward starts, backdated trade, IMM roll dates and upfront payment.

*Identical to CFETS & SHCH eligibility

Clearing acceptance flow

Overview

- Offshore investors and onshore dealers execute trades and match on CFETS.
- OTC Clear provides clearing services to offshore investors while SHCH provides clearing services to onshore investors.
- Offshore investors will face OTC Clear without onshore obligations to SHCH.
- Swap Connect shares the same operational model with existing OTC Clear products.



- 1 Offshore investors and onshore dealers execute trades and match on CFETS.
- 2 CFETS sends the clearing request to both OTC Clear and SHCH.

- 3 SHCH provides the final clearing status confirmation to both OTC Clear and CFETS.
- 4 Offshore investors will face OTC Clear once the trade is cleared.

Who is eligible to clear?

- Offshore investors need to be qualified Clearing Members of OTC Clear (either as direct Clearing Members or clients who have appointed a direct Clearing Member as clearing agent).

Risk management framework and holiday arrangements

- An inter-CCP margin will be introduced to Swap Connect to provide adequate protection against clearing house default and to mitigate spill-over effects.
- Both OTC Clear and SHCH follow the valuation and holiday arrangements of the onshore interbank derivatives market to carry out daily settlement and risk management activities; the net exposure facing each other is subject to each clearing house's own daily risk monitoring and risk management framework.
- The trading calendar will follow the onshore interbank derivatives market operating calendar.

Offshore netted cross-border settlement

- OTC Clear will perform cross-border settlement with SHCH for offshore investors on a daily netted basis that includes coupons, variation margin etc.
- All payments between OTC Clear and offshore investors are transferred by the RTGS system operated by Hong Kong Interbank Clearing Limited (HKICL).



Eligible Collateral under Swap Connect

- Initial Margin: OTC Clear accepts cash (in USD, HKD, RMB (offshore) and EUR) and non-cash instruments (US Treasury Bills/Notes, Hong Kong Exchange Fund Bills/Notes, Bonds issued by the Ministry of Finance of the People's Republic of China denominated in CNH, and China Government Bonds and Policy Financial Bonds held through Bond Connect).
- Participating Margin: OTC Clear accepts cash in USD, HKD and RMB (offshore).
- End-of-Day Variation Margin: OTC Clear accepts cash in RMB.



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