

香港場外結算有限公司
(香港交易及結算所有限公司附屬公司)

OTC CLEARING HONG KONG LIMITED
(A subsidiary of Hong Kong Exchanges and Clearing Limited)

通告 CIRCULAR

Subject: Amendments to the Clearing Rules and Clearing Procedures of OTC Clearing Hong Kong Limited (“OTC Clear”)

Enquiry: Hotline 2211 6753

Clearing Members are requested to note that the Securities and Futures Commission has approved amendments to the Clearing Rules and Clearing Procedures for the purpose of:-

- (a) enhancing the recovery tool Voluntary Recapitalization by specifying the detailed recapitalization mechanism; and
- (b) expanding the circumstances when Contract Termination can be utilized to cover situations where OTC Clear is unable to re-establish a matched book after a Clearing Member default and an unsuccessful auction.

The amendments, as set out in the Appendix, will come into effect on Monday, 15 October 2018.

The marked-up version of the amendments can be downloaded from the “Rule Update – Rules and Procedures of OTC Clear” section of the HKEX website.

Florence Leung
Head of Legal

Amendments to OTC Clear's Clearing Rules and Clearing Procedures

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	values in respect of certain data fields, in each case, for the purpose of submission of an Original Transaction for registration as Contracts via such Approved Trade Registration System;
“Auction”	means the auction process operated in accordance with Chapter 19 of these Clearing Rules;
“Auction Book”	means, in respect of a Defaulting Clearing Member at any given time, all the Auction Positions relating to such Defaulting Clearing Member at such time, excluding any Auction Positions relating to Auction Contracts that have been registered to a Successful Bidder following the completion of Auction in accordance with Chapter 19 of these Clearing Rules;
“Auction Contract”	means each Contract entered into by OTC Clear with a Successful Bidder, on the same economic terms as the Auction Positions that such Successful Bidder has bid for, following the completion of an Auction;
<u>“Auction Failed Position”</u>	<u>means each Auction Position in an Auction Portfolio which is not the subject of a Successful Bid, and OTC Clear reasonably believes that further round(s) of Auction will not be successful in dealing with the Auction Positions in such Auction Portfolio within a reasonable timeframe as determined by OTC Clear in accordance with Clearing Rule 1918A;</u>
“Auction Losses”	means, with respect to an Auction Portfolio constructed as a result of the DMP Event with respect to a Defaulting Clearing Member, the losses (including <u>without limitation and without double-counting (i) any Auction Receivable payable by OTC Clear to the Successful Bidder, (ii) the Unsettled VM Amounts</u> in respect of the Auction Contracts comprised in such Auction Portfolio (to the extent that such Unsettled VM Amount is payable by the Defaulting Clearing Member to OTC Clear) and/or <u>(iii) any hedging costs relating to such Auction Portfolio</u>) suffered by OTC Clear as a result of such DMP Event attributable to such Auction Portfolio;
“Auction Payment”	means the amount a Successful Bidder must pay to OTC Clear for the registration of the relevant Auction Contracts to such Successful Bidder, <u>which shall be an amount equal to the absolute value of the difference between (i) the value attributed to such Auction Contract by the Bid of the Successful Bidder and (ii) the net present value in respect of such Auction Contract as determined by OTC Clear pursuant to Chapter 5 of the Clearing Procedures as of the date of the relevant Auction;</u>
“Auction Payment Date”	means, with respect to an Auction Portfolio and its Auction Payment, if any, the Currency Day relating to such Auction Payment immediately following the conclusion of the Auction for such Auction Portfolio;
“Auction Portfolio”	means a portfolio of Auction Positions from the Auction Book;
“Auction	means, in respect of a Defaulting Clearing Member, (1) each of the

Position	notional trades comprising the notional portfolio created on the Special Default Account relating to such Defaulting Clearing Member; and (2) any Hedging transactions executed as a result of the occurrence of the DMP Event with respect to such Defaulting Clearing Member;
“Auction Receivable”	means the amount a Successful Bidder must receive from OTC Clear in order to complete the registration of the relevant Auction Contract to such Successful Bidder, <u>which shall be an amount equal to the absolute value of the difference between (i) the value attributed to such Auction Contract by the Bid of the Successful Bidder and (ii) the net present value in respect of such Auction Contract as determined by OTC Clear pursuant to Chapter 5 of the Clearing Procedures as of the date of the relevant Auction;</u>
“Auction Receivable Payment Date”	means, with respect to an Auction Portfolio and its Auction Receivable, if any, the Currency Day relating to such Auction Receivable immediately following the conclusion of the Auction for such Auction Portfolio;
“Auction Transfer Costs(t)”	means, with respect to an OTC Clear Clearing Day t, the costs (converted, where applicable, into the Base Currency at the Latest Exchange Rate determined on such OTC Clear Clearing Day t) representing the total costs incurred by OTC Clear on such OTC Clear Clearing Day t for the purpose of transferring one or more Auction Portfolios constructed during such Loss Distribution Period to the relevant Successful Bidders of each such Auction Portfolio. For the avoidance of doubt, Auction Transfer Costs shall include, without limitation, any administrative costs incurred by OTC Clear for the purpose of liquidating Collateral in satisfaction of the Auction Receivables payable in respect of any such Auction Portfolio;
“Authorized Institution”	has the same meaning as in the Banking Ordinance;
“Automatic Early Termination Event”	has the meaning given to it in Clearing Rule 1303;
“Banking Ordinance”	means the Banking Ordinance (Laws of Hong Kong Cap. 155);
“Base Currency”	means Hong Kong dollars, or such other Eligible Currency as designated by OTC Clear and notified to the Clearing Members from time to time;
“Better Bidder”	means, with respect to an Auction Portfolio, a Bidder who has submitted a Bid to OTC Clear that has a higher value than the Bid of the Successful Bidder for such Auction Portfolio;
“Bid”	means a bid submitted to OTC Clear by a Bidder in an Auction, which for the purpose of determining whether the relevant Bidder is a Better Bidder, Equal Bidder, Lower Bidder or Poor Bidder, shall have (1) a negative value if it requires OTC Clear to pay such value to the Bidder

Category 2 Collateral Account	opened in the name of a Clearing Member for the purpose of providing Client Clearing Services to one or more Clients, an account shared by one or more Clients on an omnibus net basis opened in the books of OTC Clear for the purpose of recording the type(s) and amount of Collateral attributed by OTC Clear to such Client Clearing Category 2 Position Account in accordance with these Clearing Rules;
“Client Clearing Category 2 Position Account”	has the meaning given to it in Clearing Rule 902(3);
“Client Clearing Services”	means the clearing services provided by a Clearing Member to its Clients so as to enable the Clearing Member’s Clients to access the Rates and FX Clearing Services provided by OTC Clear;
“Client Clearing Services Notice”	means the notice which a Clearing Member shall deliver to its Client(s) prior to the provision of Client Clearing Services to such Client(s) in the form prescribed by OTC Clear;
“Client Collateral Account”	means a Client Clearing Category 1 Collateral Account or Client Clearing Category 2 Collateral Account;
“Client Entitlement”	means: (1) in respect of a Non-Porting Client of a Defaulting Clearing Member, the entitlement to Collateral and to any net sums payable by OTC Clear to that Defaulting Clearing Member in respect of the Affected Contracts relating to that Non-Porting Client, as determined by OTC Clear in accordance with Clearing Rule 1309; and (2) in respect of a Porting Client of a Defaulting Clearing Member, the entitlement to any net sums payable by OTC Clear to that Defaulting Clearing Member in respect of Contracts relating to that Porting Client, determined by OTC Clear in accordance with Clearing Rule 1309A;
“Client Position Account”	means a Client Clearing Category 1 Position Account or Client Clearing Category 2 Position Account;
“Close-out Variation Margin”	has the meaning given to it in section 10.1 of the Clearing Procedures;
“CM Branch”	means a branch of a Clearing Member;
“CM Funded Contribution Amount”	means, with respect to each Clearing Member, the amount determined for such Clearing Member in accordance with section 6.1.1 of the Clearing Procedures;
“CM Payable Balance”	has the meaning given to it in Clearing Rule 1324(4)(a);
“CM Unfunded Contribution”	means, with respect to each Clearing Member, its proportionate share of the Rates and FX Assessments;

Amount	
“CNY”	means the lawful currency of the People’s Republic of China excluding, for the purpose of this definition only, Hong Kong, Macau and Taiwan;
“CNY (offshore)”	means the currency denomination in respect of an amount payable in Renminbi under a transaction that will be settled solely by transfer to a Renminbi bank account maintained in an Offshore CNY Center;
“CNY (offshore) Disruption Provisions”	means the “Additional Disruption Event Provisions for an Offshore Deliverable CNY Transaction dated as of September 8, 2016” as published by ISDA;
“Collateral”	means money, securities and other property as may, from time to time, be so designated by OTC Clear as permissible for Margin or Rates and FX Contribution in respect of the Rates and FX Clearing Services, in each case in such form as may be required by OTC Clear;
“Collateral Account”	has the meaning given to it in Clearing Rule 903;
“Conditional Approval Breach Period”	has the meaning given to it in Clearing Rule 308(1);
“Contract”	means a contract between OTC Clear and a Clearing Member arising in accordance with these Clearing Rules, the terms and conditions of which are the relevant Contract Terms;
<u>“Contract Termination Event”</u>	<u>has the meaning given to it in Clearing Rule 1918A;</u>
<u>“Contract Termination Losses”</u>	<u>means, with respect to an Auction Portfolio constructed as a result of the DMP Event with respect to a Defaulting Clearing Member, the sum of (without double-counting): (i) the aggregate Contract Termination Net Payments payable by OTC Clear to Non-Defaulting Clearing Members as a result of a Contract Termination Event, (ii) the Unsettled VM Amounts in respect of the Auction Failed Positions comprised in such Auction Portfolio (to the extent that such Unsettled VM Amount is payable by the Defaulting Clearing Member to OTC Clear) and (iii) any hedging losses attributable to such Auction Failed Positions;</u>
<u>“Contract Termination Net Payment”</u>	<u>has the meaning given to it in Clearing Rule 1918B;</u>
“Contract Terms”	means any of the Standard Rates Derivatives Contract Terms, Standard Cross-currency Rates Derivatives Contract Terms, Non Deliverable Rates Derivatives Contract Terms, Non Deliverable FX Derivatives Contract Terms, Deliverable FX Forward Contract Terms and Deliverable FX Swap Contract Terms, as applicable;
“Contractual	means:

“Currency VM Flow(t)”	means, with respect to each OTC Clear Clearing Day t during the Loss Distribution Period and a currency, an amount equal to the net Currency Payment in such currency for that OTC Clear Clearing Day after taking into account the additional amount payable to OTC Clear or the amount received from OTC Clear pursuant to Clearing Rule 1524(2) or 1524(3);
“Custodian”	means any custodian appointed by OTC Clear from time to time;
“Daily GF Value”	has the meaning given to it in section 6.1.1(6) of the Clearing Procedures;
“Damage”	means any damage, loss, cost or expense of whatsoever nature;
“DCM GF Shortfall”	means, with respect to an Auction Portfolio constructed as a result of the occurrence of a DMP Event with respect to a Defaulting Clearing Member, the amount by which (1) the remaining Auction <u>Losses or Contract Termination</u> Losses relating to such Auction Portfolio after all applications pursuant to Clearing Rule 1914(1) exceeds (2) the product of RAP relating to such Auction Portfolio and the Rates and FX Contribution of such Defaulting Clearing Member;
“DCM GF Surplus”	means, with respect to an Auction Portfolio constructed as a result of the occurrence of a DMP Event with respect to a Defaulting Clearing Member, the amount by which (1) the product of RAP relating to such Auction Portfolio and the Rates and FX Contribution of such Defaulting Clearing Member exceeds (2) the remaining Auction <u>Losses or Contract Termination Losses</u> relating to such Auction Portfolio after utilization of the Initial House Resources in full;
“DCM Margin”	has the meaning given to it in Clearing Rule 1913(A)(1);
“Deed of Charge”	means a deed of charge between a Clearing Member and OTC Clear in respect of non-cash Collateral;
“Default Interest Rate”	means, with respect to an Eligible Currency, the higher of (i) best lending rate obtained by OTC Clear from its banker plus 2% per annum and (ii) the relevant interbank offered rate for such Eligible Currency plus 2% per annum as set out in the Fees Schedule;
“Default Management Group”	means the default management group established by OTC Clear in accordance with Clearing Rule 1605;
“Default Management Process”	has the meaning given to it in Clearing Rule 1601;
“Defaulting Clearing Member”	means any Clearing Member in respect of which a DMP Event has occurred;
“Deliverable FX Derivatives”	means both Deliverable FX Forwards and Deliverable FX Swaps;
“Deliverable FX”	means a Contract relating to Deliverable FX Derivatives;

	in the world with competent jurisdiction;
“Hedging”	means the process of mitigating or reducing the market risk associated with the occurrence of a DMP Event with respect to a Clearing Member, as described in Chapter 18 of these Clearing Rules;
“HKEX”	means Hong Kong Exchanges and Clearing Limited, a recognized exchange controller under the SFO which is the controller of OTC Clear;
“HKEX website”	means the official website of HKEX at http://www.hkex.com.hk or at such other website address specified by HKEX or OTC Clear from time to time;
“HKMA”	means the Hong Kong Monetary Authority;
“Hong Kong”	means the Hong Kong Special Administrative Region;
“Hong Kong dollars” or “HK\$”	means the lawful currency of Hong Kong;
“House Account”	means a House Position Account or House Collateral Account;
“House Auction Portfolio”	has the meaning given to it in Clearing Rule 1913A;
“House Business”	means Contracts recorded in the House Position Account of a Clearing Member;
“House Collateral Account”	means, in respect of a House Position Account opened in the name of a Clearing Member, an account opened in the books of OTC Clear for the purposes of recording the type(s) and amount of Collateral attributed by OTC Clear to such House Position Account in accordance with these Clearing Rules;
“House Credit”	has the meaning given to it in Clearing Rule 1306A(3);
“House Position Account”	has the meaning given to it in Clearing Rule 902(1);
“Hypothetical IM Percentage”	has the meaning given to it in Clearing Rule 1914(1)(c);
<u>“Identified Contract”</u>	<u>has the meaning given to it in Clearing Rule 1918A;</u>
“Illegality”	means due to the adoption of, or any change in, any Applicable Laws after the date on which a Contract is registered by OTC Clear, or due to the promulgation of, or any change in, the interpretation by any court, tribunal or Regulatory Authority with competent jurisdiction of any Applicable Laws after such date, it becomes unlawful for a Clearing Member and/or OTC Clear who are a party to the Contract to perform any absolute or contingent obligation to make a payment or delivery or to receive a payment or delivery in respect of such Contract or to comply with other material provision of the Clearing Documentation and/or Contract Terms;

Recourse Applicable Percentage	
“Limited Recourse Final CM Payable”	has the meaning given to it in Clearing Rule 1537(4);
“Limited Recourse Interim CM Payable”	has the meaning given to it in Clearing Rule 1537(1);
“Limited Recourse CM Receivable”	has the meaning given to it in Clearing Rule 1537(1);
“Loser VM Flow Adjustment(t)”	means the Loser VM Flow Adjustment Base Currency(t) converted into the currency in which the relevant Currency Payment is denominated in at the Latest Exchange Rate determined on OTC Clear Clearing Day t;
“Loser VM Flow Adjustment Base Currency(t)”	means an amount determined in the Base Currency on the relevant OTC Clear Clearing Day t for each Currency Payment relating to a Position Account as follows: Currency MTM Chg(t) – (Currency Cum MTM(t) – Currency Cum VM Flow(t-1))
“Loss Distribution Period”	means the period from (and including) the DMP Day to (but excluding) the OTC Clear Clearing Day on which all Auction Portfolios constructed for the relevant DMP Event have <u>either</u> been successfully auctioned <u>or the subject of a Contract Termination Event</u> , and all Auction Receivables and/or Auction Payments <u>and/or Contract Termination Net Payments (as applicable)</u> in respect of each such Auction Portfolio has been discharged in full by the relevant party on or prior to the Auction Receivable Payment Date or Auction Payment Date, respectively <u>relevant date of payment</u> ; or if one or more subsequent DMP Events occur prior to the end of a Loss Distribution Period, such Loss Distribution Period shall be extended and will end on the day on which all Auction Portfolios constructed for each such subsequent DMP Event have <u>either</u> been successfully auctioned <u>or the subject of a Contract Termination Event</u> and the related Auction Receivables and/or Auction Payments <u>and/or Contract Termination Net Payments (as applicable)</u> have been discharged in full by the relevant party on or prior to the Auction Receivable Payment Date or Auction Payment Date, respectively <u>relevant date of payment</u> ;
“Loss Distribution Process”	has the meaning given to it in Clearing Rule 1523;
“Lower Bidder”	means, with respect to an Auction Portfolio, any Bidder, other than any Better Bidder, Equal Bidder or Successful Bidder, who has submitted a

	<p>incorporated overseas*, or a Remotely Regulated Entity, the higher of:</p> <p>(a) HK\$10 billion; and</p> <p>(b) an amount equal to the product of (i) 5% and (ii) the average of the aggregate Initial Margin requirements in respect of all Position Accounts (including the House Position Account and all Client Position Accounts) of the Clearing Member for each day falling in the immediately preceding calendar month;</p> <p>(2) with respect to any Clearing Member who is an Authorized Institution that is a DTC or RLB incorporated in Hong Kong, the higher of:</p> <p>(a) HK\$ 390 million;</p> <p>(b) the capital requirement applicable to such Clearing Member set forth in the Seventh Schedule to the Banking Ordinance; and</p> <p>(c) an amount equal to the product of (i) 5% and (ii) the average of the aggregate Initial Margin requirements in respect of all Position Accounts (including the House Position Account and all Client Position Accounts) of the Clearing Member for each day falling in the immediately preceding calendar month; and</p> <p>(3) with respect to any Clearing Member who is a Licensed Corporation, the higher of:</p> <p>(a) HK\$ 390 million;</p> <p>(b) the “required liquid capital” set forth by the Financial Resources Rule; and</p> <p>(c) an amount equal to the product of (i) 5% and (ii) the average of the aggregate Initial Margin requirements in respect of all Position Accounts (including the House Position Account and all Client Position Accounts) of the Clearing Member for each day falling in the immediately preceding calendar month;</p>
“ Minimum Capital Requirement Breach Period ”	has the meaning given to it in Clearing Rule 404(1);
“ Mitigating Measures ”	means the measures set out in sub-paragraphs (ii)(b), (ii)(c) and (ii)(d)(B) of section 3.19 of the Clearing Procedures;
“ MYR ”	means the lawful currency of the Federation of Malaysia;
“ NDCM GF ”	has the meaning given to it in Clearing Rule 1913A(4);
“ NDCM GF Auction Shortfall ”	means, with respect to an Auction Portfolio, the amount by which (1) the remaining Auction <u>Losses or Contract Termination</u> Losses relating to such Auction Portfolio after utilization of the OTC Clear First Contribution in full pursuant to Clearing Rule 1914(3) exceeds (2) the

	product of RAP and NDCM GF (each relating to such Auction Portfolio);
“NDCM GF Auction Surplus”	means, with respect to an Auction Portfolio, the amount by which (1) the product of RAP and NDCM GF (each relating to such Auction Portfolio) exceeds (2) the remaining Auction Losses <u>or Contract Termination Losses</u> relating to such Auction Portfolio after utilization of the OTC Clear First Contribution in full pursuant to Clearing Rule 1914(3);
“ND IRS Amendment”	has the meaning given to it in Clearing Rule 2308;
“ND IRS Definitions”	has the meaning given to it in Clearing Rule 2303;
“ND IRS Template”	has the meaning given to it in Clearing Rule 2304;
“No Position NDCM”	means, with respect to an Auction Portfolio, a Non-Defaulting Clearing Member who does not, on any day during the 20 OTC Clear Business Day-period immediately preceding the Auction of such Auction Portfolio, have any Contract registered in its name of a Transaction Category which is the same as any Auction Positions within such Auction Portfolio and who chooses not to bid for such Auction Portfolio;
“Non-Bidder”	means a Non-Defaulting Clearing Member who is required to bid for an Auction Portfolio but fails to do so;
“Non-Defaulting Clearing Member”	means at any time, any Clearing Member who is not a Defaulting Clearing Member at such time;
“Non-Default Unwind”	means, in relation to a Clearing Member, the process by which the Clearing Member unwinds its Contracts through a liquidation or other form of close-out of its Contracts as part of the resignation of a Clearing Member’s Membership;
“Non Deliverable FX Derivatives”	means the types of derivative transactions satisfying the Product Eligibility Requirements for Non Deliverable FX Derivatives set out in section 3.4 of the Clearing Procedures;
“Non Deliverable FX Derivatives Contract”	means a Contract relating to Non Deliverable FX Derivatives;
“Non Deliverable FX Derivatives Contract Terms”	has the meaning given to it in Clearing Rule 2401;
“Non Deliverable Rates	means the types of derivative transactions satisfying the Product Eligibility Requirements for Non Deliverable Rates Derivatives set out

Member	
"Transferee Clearing Member"	has the meaning given to it in Clearing Rule 825;
"TWD"	means the lawful currency of the Republic of China;
"U.S. Person"	has the same meaning as is given to that term by the CFTC;
"USD"	means the lawful currency of the United States of America;
"Unpaid Amounts"	any amounts that became payable in respect of Contracts recorded in a Defaulting Clearing Member's House Position Account or Client Position Accounts on or prior to such DMP Event and which remain unpaid as at the completion of the a successful Auction <u>or the occurrence of a Contract Termination Event (as applicable) in respect</u> of all Auction Portfolios relating to such DMP Event (excluding, for the avoidance of doubt, any Unsettled VM Amounts);
"Unsettled VM Amount"	means, in respect of a Position Account <u>and:</u> <u>(a) in respect of , the aggregate sum of the following amount calculated for</u> each Auction Contract relating to that Position Account: (1) the net present value of that Auction Contract <u>as determined by OTC Clear pursuant to Chapter 5 of the Clearing Procedures</u> on the date on which that Auction Contract is registered to a Successful Bidder; minus (2) the aggregate net Variation Margin settled by or with the relevant Defaulting Clearing Member in respect of the Contract with the relevant Defaulting Clearing Member corresponding to that Auction Contract up to but excluding the date on which that Auction Contract is registered to a Successful Bidder; <u>and</u> <u>(b) in respect of each Auction Failed Position relating to that Position Account:</u> (1) <u>the net present value of that Auction Failed Position as determined by OTC Clear pursuant to Chapter 5 of the Clearing Procedures as of the last End-of Day Settlement Process immediately preceding the relevant Final Settlement Cycle Determination Date; minus</u> (2) <u>the aggregate net Variation Margin settled by or with the relevant Defaulting Clearing Member in respect of the Contract with the relevant Defaulting Clearing Member corresponding to that Auction Failed Position as of the last End-of Day Settlement Process immediately preceding the relevant Final Settlement Cycle Determination Date;</u>
"Variation Margin"	means, in respect of each House Position Account and each Client Position Account of a Clearing Member, the aggregate amount (including any Intra-day Variation Margin) determined by OTC Clear in

winding-up or liquidation against the relevant Clearing Member(s) (the “**Insolvent Clearing Member**”).

814B. If Contracts corresponding to an Original Transaction are avoided pursuant to Clearing Rule 814A, OTC Clear shall as soon as practicable notify the affected Clearing Members and upon such notification:

- (1) the affected Contracts corresponding to the relevant Original Transaction shall be void ab initio from the time the Contracts are created;
- (2) save for subparagraphs (3), (4) and (5) below, OTC Clear and the affected Clearing Members shall not have any rights, liabilities and obligations under the affected Contracts;
- (3) any payments made by OTC Clear to an affected Clearing Member, including, without limitation, for purposes of satisfying any end-of-day Variation Margin requirements, in connection with an affected Contract corresponding to the relevant Original Transaction shall as soon as practicable be returned by such affected Clearing Member (the “**Paying Clearing Member**”) to OTC Clear without interest;
- (4) if the relevant affected Contract corresponding to the Original Transaction is registered to the House Position Account, any payments made by an affected Clearing Member to OTC Clear, including, without limitation, for purposes of satisfying any end-of-day Variation Margin requirements (but excluding Initial Margin, Additional Margin, Ad Hoc Intra-day Variation Margin or Routine Intra-day Variation Margin which, for the avoidance of doubt, shall form part of the Margin Balance), in connection with such affected Contract shall as soon as practicable be returned by OTC Clear to such affected Clearing Member without interest, provided that the payment obligations of OTC Clear under this subparagraph (4) shall be limited to such amount OTC Clear has actually received from the Paying Clearing Member under subparagraph (3) above;
- (5) if the relevant affected Contract corresponding to the Original Transaction is registered to a Client Position Account of an affected Clearing Member that is not the Insolvent Clearing Member, any payments made by such affected Clearing Member to OTC Clear, including, without limitation, for purposes of satisfying any end-of-day Variation Margin requirements (but excluding Initial Margin, Additional Margin, Ad Hoc Intra-day Variation Margin or Routine Intra-day Variation Margin which, for the avoidance of doubt, shall form part of the Margin Balance), in connection with such affected Contract shall as soon as practicable be returned by OTC Clear to such affected Clearing Member without interest, provided that the payment obligations of OTC Clear under this subparagraph (5) shall be limited to such amount OTC Clear has actually received from the Paying Clearing Member under subparagraph (3) above;
- (6) if the relevant Contract corresponding to the Original Transaction is registered to a Client Position Account of the Insolvent Clearing Member, any payments made by the Insolvent Clearing Member to OTC Clear,

- (b) to apply any Collateral in the form of cash, and arranging for the liquidation of any non-cash Collateral and applying the proceeds of the realization of non-cash Collateral, for the absorption of losses incurred by OTC Clear as a result of the default of the Defaulting Clearing Member;
- (c) to obtain any advice or assistance from the Defaulting Clearing Member and/or any third party as OTC Clear may deem necessary for any matter arising out of or in connection with an Event of Default and at the expense of the Defaulting Clearing Member, and/or
- (d) to complete the process set out in Clearing Rules 1306, 1306A, 1306B, 1306C and 1307 in relation to such Defaulting Clearing Member,

in each case, acting in consultation with the Default Management Group and in accordance with the Default Management Process. Subject to Applicable Laws, OTC Clear agrees to exercise its default powers in such a manner as to comply with its obligations under the Security Assignment Deed.

Upon the occurrence of an Automatic Early Termination Event or delivery of a Notice of Default in respect of a Clearing Member, OTC Clear shall not be obliged to: (a) pay any Notional Exchange Failure Adjustment Amount payable by it in respect of such Clearing Member; or (b) make any further payments or deliveries in respect of any Contract registered in the name of such Clearing Member, in either case which would otherwise have fallen due on or after such time, and upon the occurrence of an Early Termination Date in respect of such Contracts, any obligations to pay such Notional Exchange Failure Adjustment Amount or to make such further payments or deliveries and any amounts that are due but unpaid in respect of such Contracts shall be satisfied by the payment by, or to, the Defaulting Clearing Member of a single net sum to be determined in accordance with Clearing Rules 1306, 1306A, 1306B, 1306C and 1307, provided that if a Rates and FX Clearing Termination Event occurs at any time prior to the completion of the Default Management Process with respect to a Defaulting Clearing Member, no net sum shall be payable in accordance with Clearing Rules 1306, 1306A, 1306B, 1306C and 1307 and the applicable termination amounts shall instead be determined in accordance with Clearing Rules 1531 to 1540.

Calculations of Net Payment following a Clearing Member Event of Default

1306. Where the Defaulting Clearing Member has one House Position Account and one or more Client Position Account(s), each Position Account of the Defaulting Clearing Member shall constitute a separate "capacity" pursuant to Part 5 of Schedule 3 to the SFO so that no Client Position Account of the Defaulting Clearing Member shall be combined with any other Position Account of the Defaulting Clearing Member, and the process set out in Clearing Rules 1306A, 1306B, 1306C and 1307 shall be applied to each such capacity separately.
- 1306A Subject to Clearing Rules 1530 to 1540, subsequent to the completion of the Default Management Process with respect to a Defaulting Clearing Member (including, for the avoidance of doubt, the processes described in Clearing Rules

1516(1), 1516(2) and 1914) and the occurrence of an Early Termination Date in respect of all of the Defaulting Clearing Member's Contracts, for the purposes of Part 5 of Schedule 3 to the SFO, the single net sum payable by OTC Clear to such Defaulting Clearing Member, or by such Defaulting Clearing Member to OTC Clear, in respect of each capacity of the Defaulting Clearing Member relating to the House Account(s) and the Client Accounts of Non-Porting Clients shall be determined as follows:

- (1) OTC Clear will determine the aggregate trade value in respect of all of the Contracts in the relevant Position Account in accordance with Clearing Rule 1307. Such aggregate trade value may be zero, positive or negative. A positive aggregate trade value indicates an overall sum being payable by OTC Clear to the Defaulting Clearing Member in respect of such capacity; and a negative aggregate trade value indicates an overall sum being payable by the Defaulting Clearing Member to OTC Clear in respect of such capacity;
- (2) if the aggregate trade value determined pursuant to sub-paragraph (1) above is a negative number, such value shall be netted against the value (expressed as a positive number) of all Collateral (including the proceeds of the realization of such Collateral) held by OTC Clear in respect of such capacity as Initial Margin, Additional Margin, Routine Intra-day Variation Margin and Ad Hoc Intra-day Variation Margin in respect of the relevant Position Account and comprising the Margin Balance of the corresponding Collateral Account and any income and redemption proceeds on any non-cash Collateral that have not already been paid to or withdrawn by the Defaulting Clearing Member, each as at the Early Termination Date, reflecting the application of such resources towards (i) Unpaid Amounts in respect of the relevant Position Account pursuant to Clearing Rules 1516(1)(a) or 1516(2)(a), as applicable, (ii) the Auction Losses and/or Contract Termination Losses relating to the relevant Position Account pursuant to Clearing Rule 1914(1) and (iii) in the case of the House Position Account, General Losses pursuant to Clearing Rule 1516(1)(a). If the aggregate trade value determined pursuant to sub-paragraph (1) above is zero or a positive number, such value shall be aggregated with the value (expressed as a positive number) of all Collateral (including any proceeds of the realization of such Collateral) held by OTC Clear in respect of such capacity as Initial Margin, Additional Margin, Routine Intra-day Variation Margin and Ad Hoc Intra-day Variation Margin in respect of the relevant Position Account and comprising the Margin Balance of the corresponding Collateral Account and any income and redemption proceeds on any non-cash Collateral that have not already been paid to or withdrawn by the Defaulting Clearing Member, each as at the Early Termination Date;
- (3) if the net sum determined pursuant to sub-paragraph (2) above in respect of the House Position Account is a positive number (a "**House Credit**"), such House Credit shall be used to set off against each negative net sum determined pursuant to sub-paragraph (2) above for a Client Account of Non-Porting Client(s) (a "**Non-Porting Client Deficit**"), by applying such House Credit to each Non-Porting Client Deficit in the

number, then OTC Clear shall pay such net sum to the Defaulting Clearing Member, and if the further net sum determined is a negative number, then the Defaulting Clearing Member shall pay such net sum to OTC Clear;

- (3) any property which has been provided by the Defaulting Clearing Member as market collateral shall cease to be market collateral (for the purpose of this sub-paragraph, the term “market collateral” bears the meaning set out in section 18 of the SFO); and
- (4) OTC Clear shall certify the net sum referred to in this Clearing Rule 1306B as being payable by OTC Clear to the Defaulting Clearing Member or by the Defaulting Clearing Member to OTC Clear, or, if there is no such net sum, OTC Clear shall certify that fact.

1306C. If the net sum determined pursuant to Clearing Rule 1306A(2) in respect of the House Position Account is zero, if there is a House Credit and no Non-Porting Client Deficits or, if there is a surplus after applying the House Credit to each Non-Porting Client Deficit pursuant to Clearing Rule 1306A(3), then:

- (1) such amount shall then be aggregated with the value (expressed as a positive number) of all Collateral (including the proceeds of the realization of such Collateral) held by OTC Clear as,
 - (a) the Rates and FX Contribution Balance recorded in such Defaulting Clearing Member’s GF Account as at the Early Termination Date to the extent that any Rates and FX Losses are allocated to such Defaulting Clearing Member in accordance with Clearing Rules 1516(1)(b), 1516(2)(b), 1914(2) and 1916(2), and in the amount of such Rates and FX Losses allocated; and
 - (b) any remaining Rates and FX Contribution Balance relating to such Defaulting Clearing Member that is not allocated pursuant to sub-paragraph (1)(a) above after taking into account any application of such remaining Rates and FX Contribution Balance by OTC Clear pursuant to Clearing Rule 1548,

so as to produce a single net sum (if any) payable to the Defaulting Clearing Member.

Any property which has been provided by the Defaulting Clearing Member as market collateral shall cease to be market collateral (for the purpose of this sub-paragraph, the term “market collateral” bears the meaning set out in section 18 of the SFO); and

- (2) OTC Clear shall certify the net sum referred to in this Clearing Rule 1306C as being payable by OTC Clear to the Defaulting Clearing Member or, if there is no such net sum, OTC Clear shall certify that fact.

1307. Subject to Clearing Rules 1914(1)(c) and 1914(1)(d), the aggregate trade value in respect of all Contracts in a Position Account for the purposes of Clearing Rule 1306A(1) above shall be an amount equal to the aggregate of the following (without double-counting): (i) the aggregate Auction Payments relating to that Position Account (if any), (ii) minus the aggregate Auction Losses relating to that

Position Account (if any), (iii) plus the Unpaid Amounts due from OTC Clear to the Defaulting Clearing Member in respect of all Contracts in that Position Account (if any), (iv) minus the Unpaid Amounts due from the Defaulting Clearing Member to OTC Clear in respect of all Contracts in that Position Account (if any), (v) plus the Unsettled VM Amount in respect of the Auction Contracts and Auction Failed Positions of that Position Account (to the extent that such Unsettled VM Amount is payable by OTC Clear to the Defaulting Clearing Member (if any)), ~~and~~ (vi) plus the aggregate Contract Termination Net Payments payable by Non-Defaulting Clearing Members to OTC Clear as a result of a Contract Termination Event relating to that Position Account (if any), (vii) minus the aggregate Contract Termination Losses as a result of a Contract Termination Event relating to that Position Account (if any), and (viii) in the case of the House Position Account only, minus the aggregate General Losses relating to that Position Account (if any).

OTC Clear will determine such aggregate trade value in the Base Currency, and for the purpose of the calculations under Clearing Rule 1306 to Clearing Rule 1309, OTC Clear may convert any amounts denominated in other currencies into the Base Currency at such rate prevailing at the time of the calculation as it shall reasonably select.

A certificate issued by OTC Clear under Clearing Rules 1306A, 1306B and 1306C in respect of a separate capacity of the Defaulting Clearing Member shall be conclusive as to the discharge of the Defaulting Clearing Member's rights and liabilities in respect of the Contracts registered in its name in such capacity, and OTC Clear and the Defaulting Clearing Member shall duly pay any net sums certified under Clearing Rules 1306A, 1306B and 1306C to each other at the time and in such manner prescribed in these Clearing Rules. If OTC Clear does not have sufficient Base Currency to satisfy any net sum payable under Clearing Rules 1306A, 1306B and 1306C, OTC Clear may satisfy such net sum payable to the Defaulting Clearing Member in any other Eligible Currency such that the overall payment made by OTC Clear to the Defaulting Clearing Member will be equal to the Base Currency value determined pursuant to Clearing Rules 1306A, 1306B and 1306C. Pursuant to Clearing Rule 823(2) and section 3(c) of Part 5 of Schedule 3 to the SFO, a Clearing Member's House Credit may be applied by OTC Clear to set-off any liabilities of that Clearing Member to OTC Clear, including such Clearing Member's Non-Porting Client Deficits.

The process described in Clearing Rules 1306A, 1306B and 1306C with respect to each Defaulting Clearing Member and each of their capacities will only be performed upon the expiry of the Capped Liability Period relating to the relevant DMP Event. Upon the completion of the process in Clearing Rules 1306A, 1306B and 1306C, OTC Clear will make a report as required by section 47(1)(a) of the SFO.

1308. [DELETED]

1308A. In respect of each Non-Porting Client of a Defaulting Clearing Member, OTC Clear will determine the Client Entitlement in accordance with Clearing Rule 1309. In respect of a Rule-Based Clearing Member, OTC Clear recognises that

(including, for the avoidance of doubt, any Non-Porting Contracts) recorded in the relevant Client Position Account which have not already been paid (without prejudice to, and after giving effect to, any rights of set-off, netting and/or currency conversion under the Clearing Rules).

- (2) OTC Clear will make any determination pursuant to Clearing Rules 1308B and 1309A using its own records based on the information provided to it by the Defaulting Clearing Member. OTC Clear shall be entitled to rely on such records without conducting any independent verification in respect of the same. Notwithstanding the immediately foregoing, OTC Clear may, in its absolute discretion (i) adjust such records to reflect any factors reasonably taken into consideration when performing such valuation and/or (ii) withhold delivery of any Client Entitlement until such time as the Defaulting Clearing Member or its representative provides to OTC Clear any information requested by OTC Clear.
- (3) Following the calculation of a Client Entitlement, where the relevant Client instructs OTC Clear to pay an amount to it equal to the Client Entitlement due to be returned in respect of it to the Defaulting Clearing Member, then subject to entering into relevant documentation between OTC Clear and the relevant Client (which may, without limitation, include an indemnity (secured or otherwise) to OTC Clear in respect of any loss or liability arising from the legal invalidity of any payment of the Client Entitlement to the Client), OTC Clear shall:
 - (a) in the case of a Clearing Member who is a Rule-Based Clearing Member, determine in the sole and absolute discretion of OTC Clear the period of time during which it will give effect to instructions received from its Client pursuant to Clearing Rule 1309A(3) and within such period of time pay the Client Entitlement directly to the Client instead of returning the same to the Defaulting Clearing Member; or
 - (b) in the case of a Clearing Member who is a Non Rule-Based Clearing Member, pay the Client Entitlement directly to the Client instead of returning the same to the Defaulting Clearing Member pursuant to the terms of the Security Assignment Deed between the Defaulting Clearing Member and such Client.

If the relevant Client fails to enter into relevant documentation with OTC Clear and/or, if applicable, provide OTC Clear with appropriate documentation, each as required under this Clearing Rule 1309A(3), OTC Clear shall reserve the right to withhold the delivery of any Client Entitlement until such time such relevant documentation has been properly entered into with OTC Clear and/or, if applicable, such appropriate documentation has been properly provided to OTC Clear.

1310. -For the purpose of the processes set out in Clearing Rule 1306 to 1309, OTC Clear may take into account any Client's interest in any Collateral or proceeds

1323. In the event that a Non-Defaulting Clearing Member delivers a notice to OTC Clear to terminate all of its Contracts then registered with OTC Clear pursuant to Clearing Rule 1322 as a result of the occurrence of an OTC Clear Insolvency Event, then all Contracts of all Clearing Members will be terminated with effect from (and including) the day that falls on the second OTC Clear Clearing Day following the date of delivery of such notice by the Non-Defaulting Clearing Member (such day being the “**Early Termination Date**” for the purpose of this Clearing Rule 1323) and Clearing Rule 1324 will apply to each Clearing Member. Upon receipt of a notice from a Non-Defaulting Clearing Member declaring the occurrence of an OTC Clear Insolvency Event, OTC Clear will notify all Clearing Members of (1) the occurrence of such event and (2) the Early Termination Date with respect to all outstanding Contracts registered in the name of all Clearing Members.

Calculations of Net Payment following OTC Clear Default

1324. Upon the designation of an Early Termination Date with respect to all Contracts then registered in the name of a Clearing Member pursuant to Clearing Rule 1320(1), 1321(1) or 1323:

- (1) all obligations of OTC Clear and such Clearing Member in respect of any such Contract between them shall cease to exist and be replaced with the obligation to pay the termination amounts determined under sub-paragraph (3) below. The close-out value for each Contract shall be determined in accordance with section 10.1(iii) of the Clearing Procedures, provided that OTC Clear may also take into account any unpaid amounts that have become due and payable in respect of any Contract on or prior to the designation of the Early Termination Date;
- (2) any unused Margin Balance and any income and redemption proceeds on any non-cash Collateral that have not already been paid to or withdrawn by the Clearing Member(s) then held by OTC Clear in respect of one or more Clearing Members shall be returned to the relevant Clearing Members in accordance with sub-paragraph (6) below; and any unused Rates and FX Contribution Balance then held by OTC Clear in respect of one or more Clearing Members shall be returned to the relevant Clearing Members in accordance with sub-paragraph (8)(d) below;
- (3) OTC Clear shall on, or as soon as reasonably practicable after, the Early Termination Date, calculate a net sum payable by or to each Clearing Member separately in relation to each Position Account registered in the name of such Clearing Member. In determining such net sum, OTC Clear will take into account the close-out values established for each Contract pursuant to sub-paragraph (1) above, and the value of all other amounts which is due to OTC Clear from the Clearing Member under these Clearing Rules or which is due to it from OTC Clear (other than OTC Clear's obligation to return any unused Margin Balance, any income and redemption proceeds on any non-cash Collateral that have not already been paid to or withdrawn by the relevant Clearing Member or Former Clearing Member and/or Rates and FX Contribution Balance to the relevant Clearing Member or Former Clearing Member), in each case, whether future, liquidated or unliquidated, actual or contingent. There shall be no combining or set-off between any House Position Account and Client

- (2) for the purposes described in Clearing Rules 1520 and 1521.

Reduction of Losses on a DMP Event and Application of the Rates and FX Guarantee Resources

1515. The total losses suffered by OTC Clear as a result of the occurrence of a DMP Event relating to a Defaulting Clearing Member (the “**Rates and FX Loss**”) are:

- (1) all Auction Losses or Contract Termination Losses relating to each Auction Portfolio constructed as a result of such DMP Event;
- (2) any other general losses suffered by OTC Clear as a result of such DMP Event which is not attributable to a specific Auction Portfolio or Contract Termination Losses (the “**General Losses**”), including but not limited to any costs involved in entering into Hedging instruments pursuant to Rule 1803 which do not form part of the Auction Portfolio, porting Affected Contracts registered in the name of such Defaulting Clearing Member to the Replacement Clearing Member, the losses or costs incurred by OTC Clear in liquidating any non-cash Collateral, for purchasing equivalent assets for the redelivery of the Rates and FX Contribution Balance to a Clearing Member to the extent utilised pursuant to Clearing Rule 1516, for currency conversion, or as a result of payment of any interest on liquidity facilities, in each case, with respect to the Default Management Process relating to such DMP Event; and
- (3) Unpaid Amounts due from such Defaulting Clearing Member to OTC Clear, excluding, for the avoidance of doubt, losses in respect of Contracts relating to Porting Clients.

1516. 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 Rates and FX Loss during a Default Management Process invoked as a result of the occurrence of a DMP Event with respect to a Defaulting Clearing Member, provided that upon completion of the a successful Auction or the occurrence of a Contract Termination Event (as applicable) in respect of all Auction Portfolios relating to such DMP Event, it shall perform the loss allocation process set out below:

- (1) OTC Clear shall first determine the General Losses suffered by it as a result of the DMP Event and the extent to which there are any Unpaid Amounts due from such Defaulting Clearing Member to OTC Clear in respect of Contracts recorded in such Defaulting Clearing Member’s House Position Account, and reduce or bear such General Losses and Unpaid Amounts by application of the following resources in descending order as follows:
 - (a) first, the aggregate of (i) all Auction Payments (if any) received by OTC Clear with respect to one or more House Auction Portfolios constructed as a result of such DMP Event, (ii) any Unpaid Amounts due from OTC Clear to such Defaulting Clearing Member in respect of Contracts recorded in such Defaulting Clearing Member’s House Position Account, (iii) the Unsettled VM Amount in respect of the Auction Contracts and/or Auction Failed Positions comprised in House Auction Portfolio(s) (to the extent that such Unsettled VM

Amount is payable by OTC Clear to the relevant Defaulting Clearing Member) (if any), ~~and~~ (iv) 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 and (v) the aggregate Contract Termination Net Payments payable by Non-Defaulting Clearing Members to OTC Clear as a result of a Contract Termination Event;

- (b) second, the Rates and FX Contribution Balance of the Defaulting Clearing Member (by application in the manner set out in Clearing Rule 1548);
 - (c) third, the OTC Clear First Contribution;
 - (d) fourth, the aggregate value of the Rates and FX Contribution Balance in respect of the CM Funded Contribution Amount of each Non-Defaulting Clearing Member (by application in the manner set out in Clearing Rule 1517);
 - (e) fifth, the OTC Clear Second Contribution; and
 - (f) sixth, the aggregate value of the Rates and FX Contribution Balance in respect of the CM Unfunded Contribution Amount of each Non-Defaulting Clearing Member (by application in the manner set out in Clearing Rule 1517);
- (2) To the extent that there are any Unpaid Amounts due from such Defaulting Clearing Member to OTC Clear in respect of Contracts recorded in such Defaulting Clearing Member's Client Position Account(s), OTC Clear shall reduce or bear each such Unpaid Amounts by application of the following resources in descending order as follows. In respect of such Unpaid Amounts due in respect of a Client Position Account:
- (a) first, the aggregate of (i) all Auction Payments (if any) received by OTC Clear with respect to one or more Client Auction Portfolios constructed as a result of such DMP Event which relate to such Client Position Account, (ii) any Unpaid Amounts due from OTC Clear to such Defaulting Clearing Member in respect of Contracts recorded in such Client Position Account, (iii) the Unsettled VM Amount in respect of the Auction Contracts and/or Auction Failed Positions comprised in Client Auction Portfolio(s) which relate to Contracts recorded in such Client Position Account (to the extent that such net amount is payable by OTC Clear to the relevant Defaulting Clearing Member) (if any), (iv) the Margin Balance recorded to the Client Collateral Account attributed to such Client Position Account, (v) any income and redemption proceeds on any non-cash Collateral recorded to the Client Collateral Account attributed to such Client Position 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 and (vi) the aggregate Contract Termination Net Payments payable by

Non-Defaulting Clearing Members to OTC Clear as a result of a Contract Termination Event relating to Contracts recorded in such Client Position Account;

- (b) second, the Rates and FX Contribution Balance of the Defaulting Clearing Member (by application in the manner set out in Clearing Rule 1548);
 - (c) third, the OTC Clear First Contribution;
 - (d) fourth, the aggregate value of the Rates and FX Contribution Balance in respect of the CM Funded Contribution Amount of each Non-Defaulting Clearing Member (by application in the manner set out in Clearing Rule 1517);
 - (e) fifth, the OTC Clear Second Contribution; and
 - (f) sixth, the aggregate value of the Rates and FX Contribution Balance in respect of the CM Unfunded Contribution Amount of each Non-Defaulting Clearing Member (by application in the manner set out in Clearing Rule 1517);
- (3) for the purposes of sub-paragraph (2)(a) above, the amount of Auction 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 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 during the Portfolio Novation Cycle immediately preceding the occurrence of the relevant DMP Event; and
 - (B) the amount of Auction Payments in the form of risk concessions relating to the relevant Auction Portfolio referred to in sub-paragraph (3)(A) above; and

- (4) upon completion of the process described in sub-paragraphs (1) and (2) above, OTC Clear shall determine the Auction Losses or Contract Termination Losses with respect to each Auction Portfolio constructed as a result of the DMP Event, and shall reduce or bear such losses in accordance with Clearing Rules 1914 to 1916, and

with respect to each DMP Event, the aggregate value of the resources described in sub-paragraphs (1)(a) to (1)(f) and (2)(a) to (2)(f) above is the “**Total Available Resources**” with respect to such DMP Event. The Total Available Resources, together with any Gainer VM Flow Adjustment and/or Voluntary Recap Amount received by OTC Clear pursuant to Clearing Rules 1524(2) and 1542, respectively, shall be the sole source of funds for satisfaction of the Rates and FX Loss arising out of the relevant DMP Event.

1517. OTC Clear will satisfy its claim under the indemnities given by each Non-Defaulting Clearing Member pursuant to Clearing Rule 1316(2) in respect of the Rates and FX Loss, by setting off the amount of loss calculated under Clearing Rules 1516(1)(d), 1516(1)(f), 1516(2)(d), 1516(2)(f), 1913A(4), 1913A(6), 1913B(4) and 1913B(6) against OTC Clear’s obligation to pay the amount specified in Clearing Rule 1549.
1518. OTC Clear will notify the affected Clearing Members of any amounts applied pursuant to Clearing Rule 1516 and, where applicable, notify Clearing Members of any obligations to deliver additional Collateral in respect of their respective Rates and FX Liability pursuant to Clearing Rule 1509.

Accounts of Rates and FX Guarantee Resources

1519. OTC Clear shall maintain a separate record of all amounts of the Rates and FX Guarantee Resources from time to time, clearly identifying the amount and type(s) of Collateral provided by each Clearing Member in respect of their respective Rates and FX Liability in the relevant GF Account. In addition, OTC Clear shall maintain a separate account in respect of all the Rates and FX Contribution made (and not reinvested by OTC Clear under Clearing Rule 1520) or required to be made by each Clearing Member to the Rates and FX Guarantee Resources. OTC Clear undertakes to all Clearing Members from time to time to maintain amounts equal to the OTC Clear Contribution in a separate account from its other assets and to use such amounts only for the purposes of investment under Clearing Rule 1520, or meeting shortfalls arising directly or indirectly from Events of Default or a Rates and FX Clearing Termination Event in accordance with this Chapter 15. Simultaneously, with the annual audit of its accounts, OTC Clear shall request its auditors to prepare a report on the Rates and FX Guarantee Resources for circulation to the SFC and, upon request, to Clearing Members.
1520. OTC Clear has the power to invest any cash amount contributed to the Rates and FX Guarantee Resources in accordance with its investment policy. OTC Clear may perform any such investment itself as it sees fit, or it may engage an independent third party to perform such investment. OTC Clear’s power to invest any cash amount contributed to the Rates and FX Guarantee Resources shall be suspended in case of occurrence of an OTC Clear Failure to Pay Event or OTC Clear Insolvency Event. OTC Clear may not exercise its power of investment under this Clearing Rule 1520 in respect of any non-cash asset contributed to the Rates and FX Guarantee Resources, provided that in the case of any DMP Event, OTC Clear may sell, liquidate, transfer or create any security or other third party right or

interest in or over any non-cash asset contributed to the Rates and FX Guarantee Resources for the purpose of ensuring that OTC Clear shall in its determination have sufficient liquid resources available to meet its payment obligations in a timely manner as they fall due. For the avoidance of doubt, notwithstanding any such sale, liquidation, transfer or creation of right or interest, OTC Clear shall remain liable to redeliver Rates and FX Contribution in equivalent form and currency to the relevant Clearing Member at the time and to the extent required under Clearing Rules 1546 and 1547.

1521. OTC Clear may apply any amounts contributed to the Rates and FX Guarantee Resources which are in the opinion of OTC Clear surplus to the Rates and FX Guarantee Fund (the reference to “surplus” in the immediately preceding sentence shall mean any gains arising out of the investment of the Rates and FX Guarantee Fund) in such manner as OTC Clear thinks fit. OTC Clear may appropriate such monies out of the Rates and FX Guarantee Resources temporarily or permanently for the following purposes including, but not limited to:

- (1) payment of any amount representing interest or money obligations as may be determined from time to time by OTC Clear in respect of Rates and FX Contribution; and
- (2) payment for costs and expenses incurred in establishing, maintaining, managing, administering and terminating any arrangements such as bank facilities and policies of insurance as OTC Clear may from time to time consider appropriate for the purpose of providing additional resources to the Rates and FX Guarantee Fund.

Recoveries

1522. If any amount paid out of the Rates and FX Guarantee Fund pursuant to Clearing Rule 1516 is subsequently recovered by OTC Clear, OTC Clear may use such amount (less any costs and expenses of recovery) to refund the relevant Clearing Members or itself in the reverse order of application under Clearing Rule 1516.

Loss Distribution Process

1523. On each OTC Clear Clearing Day during the Loss Distribution Period, OTC Clear will determine whether the Rates and FX Loss resulting from a DMP Event will exceed the Total Available Resources and any relevant Voluntary Recap Amount received or to be received under Clearing Rule 1541 relating to such DMP Event. If it does, then OTC Clear will consult with the SFC and will either invoke the “**Loss Distribution Process**” set out in this Clearing Rule 1523 to Clearing Rule 1528 or invoke the limited recourse wind down with respect to OTC Clear as set out in Clearing Rules 1529 to 1539.

1524. If the Loss Distribution Process applies, then on each OTC Clear Clearing Day during the Loss Distribution Period:

- (1) OTC Clear will determine whether a Position Account registered in the name of a Non-Defaulting Clearing Member is a Position Account Gainer or a Position Account Loser;
- (2) if the Position Account registered in the name of a Non-Defaulting Clearing Member is a Position Account Gainer, and the Gainer VM Flow Adjustment calculated for a Currency Payment in respect of that Position Account for

Member(s) and Former Clearing Member(s), then the unpaid balance of any Limited Recourse CM Receivable and/or unused Rates and FX Contribution Balance shall thereafter be extinguished and the relevant Clearing Member(s) and Former Clearing Member(s) shall have no further recourse to OTC Clear (its Affiliates, a recognized exchange controller which is the controller of OTC Clear, or any of their respective Representatives) in respect thereof.

Voluntary Recapitalisation

1541. If OTC Clear determines at any stage that the Rates and FX Loss resulting from a DMP Event will exceed the Total Available Resources relating to such DMP Event determined under Clearing Rule 1516, it has absolute discretion in determining whether to declare a Rates and FX Clearing Termination Event or to issue a written notice (the “**Voluntary Recap Request Notice**”) requesting each Non-Defaulting Clearing Member to make a payment of funds (each a “**Voluntary Recap Amount**”) to OTC Clear.
1542. Upon receipt of the Voluntary Recap Request Notice, each Non-Defaulting Clearing Member may, but is not obliged to, provide its Voluntary Recap Amount to OTC Clear within one OTC Clear Business Day following receipt of the Voluntary Recap Request Notice. Any Voluntary Recap Amount made by a Non-Defaulting Clearing Member to OTC Clear may not be withdrawn.
1543. Any Voluntary Recap Amount received by OTC Clear from a Non-Defaulting Clearing Member shall form part of the Rates and FX Contribution Balance relating to such Non-Defaulting Clearing Member, and the usage of the same will be subject to Clearing Rule 1514.

1543A. If, on any OTC Clear Business Day, OTC Clear in its sole discretion determines that any Voluntary Recap Amount that OTC Clear expects to receive from a Non-Defaulting Clearing Member, when aggregated with the Total Available Resources and any Voluntary Recap Amounts that OTC Clear expects to receive from other Non-Defaulting Clearing Members, is insufficient to meet any outstanding obligations and liabilities in relation to the DMP Event, that Voluntary Recap Amount (i) shall not form part of the Rates and FX Contribution Balance relating to that Non-Defaulting Clearing Member, (ii) shall be refunded to the relevant Clearing Member on the next OTC Clear Business Day and (iii) shall in no circumstances be available to pay any other creditor of OTC Clear.

Multiple DMP Events

1544. In respect of one or more DMP Event(s) occurring within a Capped Liability Period, the maximum current liability of a Non-Defaulting Clearing Member to contribute to the Rates and FX Guarantee Resources in respect of such Capped Liability Period shall be capped at the aggregate of the CM Funded Contribution Amount and the CM Unfunded Contribution Amount allocated to such Non-Defaulting Clearing Member on the immediately preceding Rates and FX Contribution Determination Date falling prior to the start of such Capped Liability Period (the “**Maximum Current Liability**”).
1545. In the event of multiple DMP Events occurring within a Capped Liability Period, then:
- (1) the loss allocation process described in Clearing Rule 1516 will only commence upon completion of the Default Management Processes with respect to all such DMP Events;
 - (2) multiple Default Management Processes will be invoked as a result of multiple DMP Events occurring within the same Capped Liability Period. Notwithstanding the

Chapter 18 Hedging

Hedging

1801. Following the occurrence of the relevant DMP Event in respect of a Defaulting Clearing Member, and subsequent to the completion of porting with respect to all Affected Contracts registered in the name of the Defaulting Clearing Member, provided that the Hedging strategies presented by the Default Management Group have been approved by OTC Clear, the Default Management Group will, on behalf of OTC Clear, conduct Hedging to mitigate, to the extent commercially practicable, any risk or economic exposure which arises as a result of the occurrence of the relevant DMP Event. Notwithstanding the immediately foregoing, OTC Clear has no obligation to conduct Hedging following the occurrence of a DMP Event. Neither OTC Clear nor the Default Management Group shall owe any fiduciary duty to any Clearing Member or any other Person in approving Hedging strategies or executing any such Hedging strategy.
1802. In executing Hedging transactions as part of the Default Management Process, the Default Management Group will take into account the risks introduced by the DMP Event to OTC Clear, other Non-Defaulting Clearing Members and the investing public, and shall at all times endeavour to obtain the best prevailing price and terms available, taking into account any constraints on the time available for execution of such Hedging.
1803. All Hedging shall be undertaken by OTC Clear for its own account. In respect of any Hedging transaction executed between OTC Clear and a Non-Defaulting Clearing Member as a hedge provider pursuant to this Chapter 18 which is intended to form part of an Auction Portfolio, OTC Clear shall register such Hedging transaction as a Contract. Upon completion of the Auction process, OTC Clear shall create and register a Contract between OTC Clear and the Successful Bidder, with equal but opposite terms to the relevant Hedging transaction referred to in this Clearing Rule 1803. In addition, for Hedging of Standard Cross-currency Rates Derivatives Contracts, other Hedging instruments may be considered by OTC Clear at its discretion for liquidity management and Hedging purposes. Such Hedging instruments shall be entered into by OTC Clear for its own account and may be entered into with entities that are not Clearing Members.
1804. For the avoidance of doubt, a single Hedging transaction cannot be split into more than one Auction Portfolio. In addition, any Hedging transactions with entities that are not Clearing Members should not be included in Auction Portfolios. Any losses or costs incurred as a result of the entering into of a Hedging transaction shall be allocated as part of the Auction Losses or Contract Termination Losses relating to the relevant Auction Portfolio.

(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 shall specify the account to which any Auction Contract should be registered if the Bid is successful.

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 (6) 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 ~~the 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 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);
 - (3) a pool of assets the value of which represents the RAP (assigned to such House Auction Portfolio) of the OTC Clear First Contribution;
 - (4) 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**”);
 - (5) a pool of assets the value of which represents the RAP (assigned to such House Auction Portfolio) of the OTC Clear Second Contribution; and
 - (6) 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 (6) 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 ~~the~~ 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 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);
- (3) a pool of assets the value of which represents the RAP (assigned to such Client Auction Portfolio) of the OTC Clear First Contribution;
- (4) 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);
- (5) a pool of assets the value of which represents the RAP (assigned to such Client Auction Portfolio) of the OTC Clear Second Contribution; and
- (6) 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 ~~the 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 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 during the Portfolio Novation Cycle immediately preceding the occurrence of the relevant DMP Event (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 Rates and FX Contribution Balance of the Defaulting Clearing Member allocated to such Auction Portfolio pursuant to 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.

- (3) third, subsequent to the utilization of the 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 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;
- (4) 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**”.

In the event that there is an NDCM GF ~~Auction~~-Shortfall relating to an Auction Portfolio, any NDCM GF ~~Auction~~-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 ~~Auction~~ Shortfall (in the case of Auction Losses, in accordance with the Tranching

Methodology for the Auction Portfolio to which that NDCM GF ~~Auction~~ 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 ~~Auction~~ Shortfall by reference to the amount of such NDCM GF ~~Auction~~ 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;
- (5) 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 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
- (6) 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 (4) 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 Rates and FX Contribution of such Defaulting Clearing Member, any remaining 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 Rates and FX Contribution of a Defaulting Clearing Member will be applied on a pro-rata basis based on the share of Rates and FX Contribution contributed by the relevant Defaulting Clearing Member; and
- (c) OTC Clear will always ensure that the Rates and FX Contribution of all Defaulting Clearing Members whose DMP Events occurred within the same Capped Liability 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, 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, OTC Clear may invoke the contract termination process as provided for in this Clearing Rule in consultation with the SFC. OTC Clear shall determine which Contracts will be terminated (“Identified Contracts”) under this Clearing Rule, shall notify the relevant Clearing Members of the details of the relevant Identified Contracts, and shall declare the occurrence of a termination event in respect of such Identified Contracts (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 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 which have equal but opposite terms 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 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 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.

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 in respect of each Identified Contract between them shall cease to exist and be replaced with the obligation of OTC Clear or the relevant Non-Defaulting Clearing Member, 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 11.00 hours Hong Kong time on the Final Settlement Cycle Determination Date, as determined by OTC Clear in accordance with this Clearing Rule and sections 10.1(iv) 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 of the Contract Termination Net Payment payable by it, and the relevant Non-Defaulting Clearing Member 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 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.

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 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 ~~and~~, 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 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

1921. Following the completion of ~~the~~ Auction process 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 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 required for the registration of the Auction Contracts, such Collateral must be delivered by the Successful Bidder on or prior 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

1923. If a Successful Bidder for an Auction Contract~~s~~ fails to pay in full to OTC Clear the corresponding Auction Payment or fails to provide in full the corresponding required 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 requirement on an ongoing basis; and
- (3) to the extent a demand for 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 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.

OTC Clearing Hong Kong Limited Clearing Procedures

- 8.2 Member Obligations
- 8.3 Scope and Responsibility of Default Management Group
- 8.4 Suspension of Activities
- 8.5 Hedging (Risk Neutralizing)
- 8.6 Auction
- 8.7 Portfolio Splitting and Re-composition
- 8.8 Cost of Default and Loss Attribution
- 8.9 Post Auction Communication
- 8.10 Review
- 8.11 Porting of Affected Contracts and Collateral to a Replacement Clearing Member

Chapter 9 Special Events / Business Continuity

- 9.1 Arrangement for Special Events
- 9.2 Primary Data Center
- 9.3 Service Outage
- 9.4 Special Arrangement for Valuation of a Standard Rates Derivatives Contract which is Denominated in HK\$ and a Standard Cross-currency Rates Derivatives Contract which has a Fixed Amount or Floating Amount Denominated in HK\$ under Adverse Weather Conditions
- 9.5 Special Arrangement of Voluntary Deposit of Cash Collateral, Porting of Excess Margin and Withdrawal of Excess Margin and Rates and FX Contribution Excess under Adverse Weather Conditions

Chapter 10 Determination of Close-out Value, Winding Down of the Rates and FX Clearing Service and OTC Clear Default

- 10.1 Close-out Value
- 10.2 Rates and FX Clearing Termination Event
- 10.3 [Emergency Close-Out and](#) OTC Clear Default
- 10.4 Product Suspension Event
- [10.5 Contract Termination Event](#)

Appendix I Fees Schedule

Appendix II Additional Financial Centers

Appendix III Template Hong Kong law Deed of Charge – House Collateral Account

Appendix IV Template Hong Kong law Deed of Charge – Client Collateral Accounts

Appendix V Floating Rate Options and Designated Maturities Accepted for a Calculation Period to which Stub or Interpolation is Applicable

Glossary

Transaction for registration only if each Notional Amount of such Original Transaction is:

- (a) greater than or equal to one unit of the relevant currency; and
- (b) an integer or a number rounded up to two or less decimal places.

3.4.4.6 Currency

This is applicable to an Original Deliverable FX Swap Transaction only.

OTC Clear will accept an Original Deliverable FX Swap Transaction for registration only if:

- (i) the payer of a particular currency in the near leg of such Original Transaction is the receiver of such currency in the far leg of such Original Transaction;
- (ii) the receiver of a particular currency in the near leg of such Original Transaction is the payer of such currency in the far leg of such Original Transaction; and
- (iii) such Original Transaction is denominated in the same Currency Pair (swap and FX) in both near leg and far leg of that particular Original Transaction.

3.4.4.7 Trade Date

OTC Clear will accept an Original FX Forward Transaction or Original Deliverable FX Swap Transaction for registration only if the Trade Date of such Original Transaction falls on or prior to the date on which such Original Transaction is submitted for registration.

3.4A Suspension of Product

OTC Clear may from time to time, in its sole discretion and with prior consultation with the SFC, suspend clearing of a product or class of products (a “**Product Suspension Event**”). In the event of the occurrence of a Product Suspension Event of a product, no Original Transactions in such product will be accepted for registration and instead they will be rejected. OTC Clear may also, with prior consultation with the SFC, require Clearing Members to unwind any Contracts in a product which is subject to a Product Suspension Event which were registered before the effective date of Product Suspension Event. If Clearing Members fail to do so, OTC Clear, at its sole discretion, will be entitled to terminate any such Contracts, and all prevailing obligations of OTC Clear and the relevant Clearing Member in respect of such Contracts shall cease and be replaced with the obligation of OTC Clear or the relevant Clearing Member, as the case may be, to pay the close-out value determined in accordance with section 10.1~~(iv)~~(iii) of these Clearing Procedures. OTC Clear will, as soon as reasonably practicable on the Final Settlement Cycle Determination Date of such Product Suspension Event, notify the relevant Clearing Member of the close-out value determined in accordance with section 10.1(iii) of these Clearing Procedures payable by it, and the relevant Clearing Member shall pay OTC Clear such amount within one OTC Clear Business Day after the Final Settlement Cycle Determination Date. OTC Clear may, with prior consultation with the SFC, lift the suspension at any time.

Prior written notice of a Product Suspension Event or a resumption of clearing of a product previously subject to a Product Suspension Event shall be given to Clearing Members and the SFC. OTC Clear shall give notice to Clearing Members by means of a Clearing Notice.

3.5 Error Contract

Pursuant to Clearing Rule 814, in the event OTC Clear terminates an Error Contract, the relevant Clearing Members who were parties to the Error Contract being terminated will be notified through the

4.3.2 Price Alignment Interest

Variation Margin will be adjusted by application of price alignment interest (“PAI”). Without a PAI, the pricing of a Contract registered with OTC Clear would be distorted from that of equivalent transactions which are not registered with OTC Clear. PAI is intended to settle the internal rate of return on the cumulative Variation Margin payments transferred in respect of each OTC Clear Clearing Day.

In respect of each Clearing Member and its House Position Account and Client Position Account(s) (for such purpose, each Client Position Account shall be treated separately), PAI will be calculated separately in respect of all Contracts with the same Contractual Currency in each such Position Account during the End-of-Day Settlement Process on each OTC Clear Business Day from (and including) the first OTC Clear Business Day after the trade date of the relevant Contract to (and including) the OTC Clear Business Day prior to the settlement date of the relevant Contract (each, “T₀”). PAI is calculated by OTC Clear in accordance with the following formula:

$$PAI_{T_0} = NPV_{T_{-1}} \times PAI \text{ Rate}_{T_{PAI}} \times \text{Accrual Factor}$$

where,

- (i) NPV_{T₋₁} is the net present value determined as at 18:00 hours Hong Kong time on T₋₁ or such other time on T₋₁ as OTC Clear considers appropriate and notifies to the Clearing Members from time to time, where “T₀” is an OTC Clear Business Day and “T₋₁” is the OTC Clear Business Day immediately preceding T₀;
- (ii) **“PAI Rate”** means the annual percentage rate is determined by OTC Clear by reference to the relevant end-of-day overnight index swap (“OIS”) curves calculated on T_{PAI}, where “T_{PAI}” is the Currency Day (for the relevant Contractual Currency) immediately preceding T₀ if the relevant OIS curves are available on such day (T₋₁), or if the relevant OIS curves are not available on T₋₁, the last relevant OIS curves available (for the avoidance of doubt, if T_{PAI} falls on a day other than a Currency Day, the relevant OIS curves the nearest immediately preceding Currency Day will be used); and
- (iii) **“Accrual Factor”** means the day count fraction that is used by OTC Clear to convert the PAI Rate from an annual rate to a daily rate, on a basis of a year with a number of days equal to:
 - (a) 360 calendar days; or
 - (b) 365 calendar days,as OTC Clear may, from time to time, determine to be appropriate in accordance with the then market convention for the conversion of the PAI Rate.

PAI will be notified to each Clearing Member and will be paid or received by such Clearing Member, as the case may be, as part of its Variation Margin requirement.

4.4 Intra-day Variation Margin

4.4.1 Intra-day Variation Margin Call and Calculation

There are two types of intra-day Variation Margin calls:

- (i) Routine Intra-day VM Call as set out in section 4.4.2; and
- (ii) Ad Hoc Intra-day VM Call as set out in section 4.4.3.

Chapter 5

Curve Construction

5.1 Curve Construction for Rates Derivatives Contracts

5.1.1 Zero Coupon Yield Curves

OTC Clear uses zero coupon yield curves to generate discount factors for calculating the net present value of a Rates Derivatives Contract in order to determine **marked-to-market ("MTM")** movements and Margin requirements in respect of such Rates Derivatives Contract.

5.1.2 Market Instrument

The zero coupon yield curves are constructed using benchmark instruments that represent the most liquid part of the relevant yield curves, subject to their availability among different markets. Such benchmark instruments include, but are not limited to, deposits, interest rate futures, forward rate agreements, swaps, OIS and basis swaps. Benchmark instruments used in settlement curve construction may include, but are not limited to, the following:

Benchmark Instrument List	Type
O/N Interbank Money Market	Yield
T/N Interbank Money Market	Yield
0 x 3 forward rate agreement	Yield
Front Month Quarterly forward rate agreement	Future
2nd forward rate agreement	Future
3rd forward rate agreement	Future
4th forward rate agreement	Future
5th forward rate agreement	Future
6th forward rate agreement	Future
2 Year Swap	Yield
3 Year Swap	Yield
4 Year Swap	Yield
5 Year Swap	Yield
6 Year Swap	Yield
7 Year Swap	Yield
8 Year Swap	Yield
9 Year Swap	Yield
10 Year Swap	Yield
12 Year Swap	Yield
15 Year Swap	Yield

8.6.3 Bidding Process

8.6.3.1 Bids

In respect of each Auction, once the timeframe for submitting Bids as notified by OTC Clear to Bidders has drawn to a close, no further Bids will be accepted. OTC Clear will examine all Bids submitted as follows:

- (i) the highest Bid received by OTC Clear is expected to be the Successful Bid of the Auction, provided that OTC Clear will not accept a Bid if accepting such Bid can potentially, without limitation, (a) cause OTC Clear to breach any legal or regulatory requirement applicable to it, (b) lead to legal action or proceedings to be taken against OTC Clear or (c) be disadvantageous or have a material adverse effect on OTC Clear; and
- (ii) in the event that the two (or more) highest Bids received by OTC Clear are of exactly the same value, the relevant Bidders will be invited to submit revised Bids. If no revised Bids have been received by OTC Clear within 10 minutes following the invitation of Bid re-submission, the relevant Bidder who submitted its original Bid first is expected to be the Successful Bidder.

Once the Successful Bid has been confirmed, OTC Clear will verbally notify the Successful Bidder, followed by a written confirmation of the same.

In respect of each Auction, details of the Bids will be kept confidential so that a Bidder will not have knowledge of the Bid prices submitted by other Bidders.

For the avoidance of doubt, OTC Clear shall not be liable for any damages against it if a Bid fails to reach OTC Clear due to operational, technological or any other reasons.

8.6.3.2 Unsuccessful Auction

In the event of an unsuccessful Auction, further round(s) of Auction may be held until all the Auction Portfolios have been disposed of or have been the subject of a Contract Termination Event. OTC Clear will consult the Default Management Group prior to determining whether an Auction is unsuccessful. Without prejudice to the generality of the immediately foregoing, an Auction shall be deemed to be unsuccessful if:

- (i) no Bids have been received prior to the close of an Auction due to operational or technological issues, including but not limited to corruption of auction file data;
- (ii) any other operational issue which OTC Clear, in consultation with the Default Management Group, deems appropriate; or
- (iii) no Bids or insufficient number of Bids have been received prior to the close of an Auction as determined by OTC Clear, in consultation with the Default Management Group.

8.6.3.3 Registration of Auction Portfolios

Upon completion of a successful Auction, OTC Clear will register the relevant Auction Contracts to the Successful Bidder in accordance with Clearing Rule 1921. OTC Clear will liaise with both the relevant Approved Trade Registration System and the relevant Clearing Member to ensure the records relating to all Auction Contract(s) are updated on the Approved Trade Registration System. This update will automatically enable the recalculation of the Successful Bidder's Margin requirements and its CM Funded Contribution Amount, reflecting the impact of the acquisition of the Auction Contract(s) by the Successful Bidder.

OTC Clear will liaise with a Successful Bidder for booking relevant Auction Contract(s) into its systems so that the systems and records kept by such Successful Bidder will be aligned with those of OTC Clear.

The timing of transfer of any Auction Payment or Auction Receivable is set out in Clearing Rules 1922 and 1923, respectively.

8.6.4 Tranching Methodology

To incentivize competitive bidding during an Auction, and pursuant to Clearing Rules 1913 to 1916, OTC Clear will implement the Tranching Methodology which seeks to allocate the relevant proportion of the Rates and FX Contribution Balance of a Non-Defaulting Clearing Member in respect of its CM Funded Contribution Amount into one of three Tranches: the Senior Tranche, Middle Tranche and Junior Tranche. Pursuant to Clearing Rule 1919, upon the expiry of a Capped Liability Period, with respect to each Auction ~~portfolio~~ Portfolio constructed as a result of the occurrence of the DMP Events during such Capped Liability Period that was the subject of a successful Auction, OTC Clear will notify all relevant Bidders for each such Auction Portfolio the result of the application of the Tranching Methodology.

The following provides an example to illustrate the working mechanisms around the Tranching Methodology:

Using the hypothetical RAP figures mentioned in sections 8.6.2(i) to (iii) and assuming OTC Clear does not combine CNY IRS and CNY NDF Auction Portfolios, if:

Tranching for CM-A based on its Bids for the three Auction Portfolios:

- (i) CM-A is the Successful Bidder for the CNY IRS Auction Portfolio, 50% of CM-A's CM Funded Contribution Amount will be allocated to the Senior Tranche;
- (ii) CM-A is a Lower Bidder for the CNY NDF Auction Portfolio 40% of CM-A's CM Funded Contribution Amount will be allocated to the Middle Tranche; and
- (iii) CM-A is a Poor Bidder for the HK\$ IRS Auction Portfolio, 10% of CM-A's CM Funded Contribution Amount will be allocated to the Junior Tranche.

Tranching for CM-B based on its Bids for the three Auction Portfolios:

- (i) CM-B is an Equal Bidder for the CNY IRS Auction Portfolio, 50% of CM-B's CM Funded Contribution Amount will be allocated to the Senior Tranche;
- (ii) CM-B is the Successful Bidder for the CNY NDF Auction Portfolio, 40% of CM-B's CM Funded Contribution Amount will be allocated to the Senior Tranche; and
- (iii) CM-B is the Successful Bidder for the HK\$ IRS Auction Portfolio, 10% of CM-B's CM Funded Contribution Amount will be allocated to the Senior Tranche.

Tranching for CM-C based on its Bids for the three Auction Portfolios:

- (i) CM-C is a Non-Bidder for the CNY IRS Auction Portfolio, 50% of CM-C's CM Funded Contribution Amount will be allocated to the Junior Tranche;
- (ii) CM-C is a No Position NDCM for the CNY NDF Auction Portfolio, 40% of CM-C's CM Funded Contribution Amount will be allocated to the Senior Tranche; and
- (iii) CM-C is a Better Bidder for the HK\$ IRS Auction Portfolio, 10% of CM-C's CM Funded Contribution Amount will be allocated to the Senior Tranche.

8.7 Portfolio Splitting and Re-composition

In case of an unsuccessful Auction, in order to enhance the likelihood of success of a subsequent Auction, OTC Clear has the flexibility to, in consultation with the Default Management Group, combine Auction Portfolios of different Transaction Categories or further sub-divide a previously constructed Auction Portfolio into multiple Auction Portfolios. The prime considerations for portfolio splitting and re-composition include, but are not limited to, the size of the Auction Portfolio(s).

8.8 Cost of Default and Loss Attribution

OTC Clear will assess its Rates and FX Loss incurred as a result of the occurrence of the DMP Event. Any Margin Balance of the Defaulting Clearing Member in excess of the full settlement of the default (but excluding any Client Entitlement which will be paid to the relevant Non-Porting Client of the Defaulting Clearing Member in accordance with Clearing Rule 1309) will be redelivered to the Defaulting Clearing Member as part of the net sum payable to the Defaulting Clearing Member pursuant to Clearing Rule 1307, or be returned in accordance with the relevant security document. Any Rates and FX Contribution Balance of the Defaulting Clearing Member in excess of the full settlement of the default will be redelivered to the Defaulting Clearing Member in accordance with Clearing Rule 1547.

In the event that the Rates and FX Loss exceeds the Defaulting Clearing Member's Rates and FX Contribution Balance, OTC Clear will satisfy the losses in accordance with Clearing Rule 1516.

8.9 Post Auction Communication

Upon disposal of all Auction Portfolios [by way of Auction or by the declaration of a Contract Termination Event](#) following the occurrence of a DMP Event with respect to the Defaulting Clearing Member, OTC Clear will announce the completion of the Default Management Process by notifying the Clearing Members and will provide a summary of the steps taken during the Default Management Process, such summary will be published on the HKEX website, a copy of which will also be provided to the SFC.

8.10 Review

Upon the completion of the Default Management Process in respect of each occurrence of DMP Event, OTC Clear will review the process and may put forward recommendations to change the process.

OTC Clear will also, at a minimum of once every year, conduct review of the process set out in this Chapter 8 to ensure it is adequate, practical and effective. In doing so, OTC Clear will involve Clearing Members by inviting them to participate in fire drills as referred to in Clearing Rule 1611. OTC Clear will provide the results of any fire drills of the Default Management Process to the Risk Management Committee. OTC Clear will also publish the results of the fire drills on the HKEX website.

8.11 Porting of Affected Contracts and Collateral to a Replacement Clearing Member

OTC Clear will facilitate porting of Affected Contracts in a Client Position Account (and Collateral in its corresponding Client Collateral Account) of a Defaulting Clearing Member if all of the following conditions are satisfied:

Chapter 10

Determination of Close-out Value, Winding Down of the Rates and FX Clearing Service and OTC Clear Default

10.1 Close-out Value

The close-out value for each Contract will be determined in the Base Currency, and shall be the difference between the aggregate net Variation Margin (but excluding Routine Intra-day Variation Margin) settled by the relevant Clearing Member up to and including the last End-of-Day Settlement Process immediately preceding the Final Settlement Cycle Determination Date in respect of such Contract and the Close-out Variation Margin relating to such Contract, where:

“**Close-out Variation Margin**” means, with respect to a Contract, the net present value relating to such Contract as determined by OTC Clear using calculation methodology similar to that used to determine Variation Margin in the End-of-Day Settlement Process, except that the relevant calculations will be determined on the basis of the curve(s) built and pricing input(s) and instrument quote(s) obtained as at 11:00 hours Hong Kong time on:

- (i) with respect to a Contract being terminated as a result of the occurrence of Rates and FX Clearing Termination Event, the Final Settlement Cycle Determination Date determined in accordance with section 10.2 of these Clearing Procedures;
- (ii) with respect to a Contract which is the subject of Emergency Close-Out, or which is being terminated during the OTC Clear Failure to Pay Grace Period or as a result of the occurrence of an OTC Clear Failure to Pay Event or OTC Clear Insolvency Event, the OTC Clear Business Day on which OTC Clear exercises such power the Final Settlement Cycle Determination Date determined in accordance with section 10.3 of these Clearing Procedures;
- ~~(iii) with respect to a Contract being terminated during the OTC Clear Failure to Pay Grace Period, or as a result of the occurrence of OTC Clear Failure to Pay Event or OTC Clear Insolvency Event, the OTC Clear Business Day on which such termination, OTC Clear Failure to Pay Event or OTC Clear Insolvency Event, as the case may be, occurs; and~~
- (iii) with respect to a Contract being terminated as a result of the occurrence of a Product Suspension Event, the Final Settlement Cycle Determination Date for such Product Suspension Event pursuant to section 10.4 of these Clearing Procedures; and-
- (iv) with respect to a Contract being terminated as a result of a Contract Termination Event, the Final Settlement Cycle Determination Date determined in accordance with section 10.5 of these Clearing Procedures.

The Close-out Variation Margin amount determined in any of the situations described in sub-paragraph (i), (ii), (iii) or (iv) above will not be adjusted by PAI.

10.2 Rates and FX Clearing Termination Event

In the case of a winding down of the Rates and FX Clearing Service pursuant to Clearing Rules 1530 to 1540, OTC Clear will determine the Close-out Variation Margin for all Contracts on the Final Settlement Cycle Determination Date, where the “**Final Settlement Cycle Determination Date**” shall fall on:

10.2 Rates and FX Clearing Termination Event

In the case of a winding down of the Rates and FX Clearing Service pursuant to Clearing Rules 1530 to 1540, OTC Clear will determine the Close-out Variation Margin for all Contracts on the Final Settlement Cycle Determination Date, where the “**Final Settlement Cycle Determination Date**” shall fall on:

- (i) if a Rates and FX Clearing Termination Event is declared by OTC Clear at or prior to 09:00 hours Hong Kong time on an OTC Clear Business Day, such OTC Clear Business Day; or
- (ii) if a Rates and FX Clearing Termination Event is declared after 09:00 hours Hong Kong time on an OTC Clear Business Day, the OTC Clear Business Day immediately following the day on which such Rates and FX Clearing Termination Event is declared.

OTC Clear will announce the decision to determine the Close-out Variation Margin with respect to all Contracts by 09:00 hours Hong Kong time on the relevant Final Settlement Cycle Determination Date.

10.3 Emergency Close-Out or OTC Clear Default

Upon the designation of an Early Termination Date pursuant to Clearing Rule 210, 1320(1), 1321(1) or 1323, OTC Clear will determine the Close-out Variation Margin for all applicable Contracts on the Final Settlement Cycle Determination Date, where the “**Final Settlement Cycle Determination Date**” shall fall on:

- (i) if an Early Termination Date is declared by OTC Clear at or prior to 09:00 hours Hong Kong time on an OTC Clear Business Day, such OTC Clear Business Day; or
- (ii) if Early Termination Date is declared after 09:00 hours Hong Kong time on an OTC Clear Business Day, the OTC Clear Business Day immediately following the day on which such Early Termination Date is declared.

OTC Clear will announce the decision to determine the Close-out Variation Margin with respect to all applicable Contracts by 09:00 hours Hong Kong time on the relevant Final Settlement Cycle Determination Date.

10.4 Product Suspension Event

In the case of a Product Suspension Event pursuant to section 3.4A of these Clearing Procedures, OTC Clear will determine the Close-out Variation Margin for all Contracts in respect of which a Product Suspension Event has occurred on the “**Final Settlement Cycle Determination Date**”, where the Final Settlement Cycle Determination Date shall fall on:

- (i) if a Product Suspension Event is effective at or prior to 09:00 hours Hong Kong time on an OTC Clear Business Day, such OTC Clear Business Day; or
- (ii) if a Product Suspension Event is effective after 09:00 hours Hong Kong time on an OTC Clear Business Day, the OTC Clear Business Day immediately following the day on which such Product Suspension Event is effective.

OTC Clear will announce the decision to determine the Close-out Variation Margin with respect to all applicable Contracts in respect of which a Product Suspension Event has occurred by 09:00 hours Hong Kong time on ~~a Final Settlement Cycle Determination Date~~ the relevant Final Settlement Cycle Determination Date.

10.5 Contract Termination Event

In case of a Contract Termination Event pursuant to Clearing Rule 1918A, OTC Clear will determine the Close-out Variation Margin for all Identified Contracts on the Final Settlement Cycle Determination Date, and for such purpose the “Final Settlement Cycle Determination Date” shall fall on:

- (i) if a Contract Termination Event is declared by OTC Clear at or prior to 09:00 hours Hong Kong time on an OTC Clear Business Day, such OTC Clear Business Day; or
- (ii) if a Contract Termination Event is declared after 09:00 hours Hong Kong time on an OTC Clear Business Day, the OTC Clear Business Day immediately following the day on which such Contract Termination Event is declared.

OTC Clear will announce the decision to determine the Close-out Variation Margin with respect to all Identified Contracts by 09:00 hours Hong Kong time on the relevant Final Settlement Cycle Determination Date.

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