

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

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

**Enquiry:** Clearing Operation team Hotline 2211 6508 / Email: [OTC\\_Operations@hkex.com.hk](mailto:OTC_Operations@hkex.com.hk)

Clearing Members of OTC Clear are requested to note that the Securities and Futures Commission has approved amendments to the Clearing Rules and the Clearing Procedures for the purposes of implementing the transition plan of USD discounting switch from Effective Federal Funds Rate to Secured Overnight Financing Rate (SOFR) and expanding the eligible payment lag for certain rates derivatives transactions.

The amendments, as set out in Schedules 1 and 2, will take immediate effect.

The marked-up version of the amendments can be downloaded from the following sections of the HKEX website:

- ["Rule Update - OTC Clear Clearing Rules"](#)
- ["Rule Update - OTC Clear Clearing Procedures"](#)

Florence Leung  
Head of Legal

**OTC Clear Clearing Rules**

**Chapter 10A Interest Rate Transition**

10A01. Without prejudice to any other provisions contained in these Clearing Rules, OTC Clear may switch the discounting rate and the PAI calculation reference rate in respect of all Affected FX and Rates Derivatives Contract from an existing rate used by OTC Clear for purposes of constructing OTC Clear's zero coupon yield curves under Section 5 of the Clearing Procedures (the "**Existing Discount Rate**") to an alternative rate formally recommended for use by a supervisor which is responsible for supervising the relevant interest rate for the relevant currency or the administrator of such rate (the "**New Discount Rate**") (each a "**Discounting Switch**") and in relation thereto, OTC Clear may, amongst other things:

- (1) create and register new Standard Rates Derivatives Contracts to reflect the change in risk profile of the Affected FX and Rates Derivatives Contracts (the "**Compensating Swaps**"); and
- (2) create new payment obligations to reflect the change in the net present value of one or more Affected FX and Rates Derivatives Contracts, and any associated costs arising from or in connection with the Discounting Switch,

in accordance with the relevant Discounting Switch Supplement.

10A02. Prior to a Discounting Switch taking effect, OTC Clear shall deliver the relevant Discounting Switch Notice to the Clearing Members, which will set out amongst other things:

- (1) the Existing Discount Rate subject to the Discounting Switch;
- (2) the New Discount Rate as a result of the Discounting Switch;
- (3) the Discounting Switch Transition Date;
- (4) the Discounting Switch Effective Date;
- (5) the Affected FX and Rates Derivatives;
- (6) the interest rate to be used for the purposes of calculating PAI in respect of an Affected FX and Rates Derivatives Contract from, and including, the Discounting Switch Effective Date under Section 4.3.2 of the Clearing Procedures;
- (7) the date by which Clearing Members can opt in or opt out of the Compensating Swaps in relation to such Discounting Switch;
- (8) the Discounting Switch Supplement that shall apply in relation to the change of the interest rate referred to above and any dates or information required to be communicated pursuant to such Discounting Switch Supplement; and
- (9) any other information as may be relevant to effect the Discounting Switch.

10A03. OTC Clear may, from time to time, amend, modify, supplement, replace, withdraw, or override the terms of the Discounting Switch Notice by issuing a Clearing Notice or such other method as OTC Clear shall determine is appropriate.

10A04. Following the publication of the Discounting Switch Supplement, each Clearing Member hereby appoints OTC Clear, with the full power and authority of that Clearing Member, to:

- (1) register in the name of that Clearing Member, one or more Standard Rates Derivatives Contracts as Compensating Swaps on terms as set out in the Discounting Switch Supplement; and
- (2) (A) execute in the Clearing Member's name and on the Clearing Member's behalf any document, contract, deed or other agreement, or (B) do, or cause to be done, any acts, in each case as OTC Clear determines necessary (acting in good faith and in a commercially reasonable manner) to give effect to the new Standard Rates Derivatives Contracts entered into pursuant to the foregoing,

provided however that, in all cases, the terms of each Standard Rates Derivatives Contract entered into and registered pursuant to the foregoing provisions and the accounts in which such Standard Rates Derivatives Contracts shall be registered shall be determined pursuant to the methodology set out in the Discounting Switch Supplement pursuant to which such powers are exercised.

10A05. Upon the publication of the Discounting Switch Supplement, there shall arise a standing instruction to OTC Clear for itself and on behalf of the Clearing Members authorising OTC Clear to take the steps set out in the Discounting Switch Supplement, including, if applicable under the terms of that Discounting Switch Supplement, to enter into and register certain Standard Rates Derivatives Contracts as Compensating Swaps on behalf of certain Clearing Members pursuant to Clearing Rule 10A04 and the Discounting Switch Supplement.

10A06. Any Standard Rates Derivatives Contract entered into pursuant to Clearing Rule 10A04 as a Compensating Swap shall be deemed to satisfy any registration requirements under the Clearing Rules, including but not limited to being deemed to be registered in accordance with Clearing Rule 806.

10A07. The Discounting Switch Supplement may give rise to one or more payment obligations being owed by OTC Clear to a Clearing Member or by a Clearing Member to OTC Clear (each, an **"Interest Rate Change Payment"**). The calculation of each Interest Rate Change Payment and the due date for payment of such Interest Rate Change Payment in each case shall be on the terms set out in the Discounting Switch Supplement.

10A08. For the purposes of this Chapter 10A:

**"Affected FX and Rates Derivatives Contracts"** means Contracts relating to Affected FX and Rates Derivatives to which the relevant Discounting Switch shall apply.

**"Affected FX and Rates Derivatives"** means the types of Standard Rates Derivatives, Non-Deliverable Rates Derivatives and FX Derivatives which are specified to be in-scope for the Discounting Switch in the relevant Discounting Switch Notice.

**"Compensating Swaps"** has the meaning given to it in Clearing Rule 10A01(2).

**"Discounting Switch"** has the meaning given to it in Clearing Rule 10A01.

**"Discounting Switch Effective Date"** means the date as identified in the Discounting Switch Notice on which the Discounting Switch shall take effect.

**“Discounting Switch Notice”** means a Clearing Notice delivered by OTC Clear to its Clearing Members setting out the details of the Discounting Switch.

**“Discounting Switch Supplement”** means the Supplement identified by OTC Clear in the Discounting Switch Notice as being applicable to the Discounting Switch, and as may be supplemented, modified, amended, replaced or withdrawn by OTC Clear from time to time in accordance with the terms of such Supplement.

**“Discounting Switch Transition Date”** means the date as identified in the Discounting Switch Supplement on which new Standard Rates Derivatives Contracts may be created and registered and Interest Rate Change Payments may be registered and recorded/booked.

**“Existing Discount Rate”** has the meaning given to it in Clearing Rule 10A01.

**“Interest Rate Change Payment”** has the meaning given to it in Clearing Rule 10A07.

**“New Discount Rate”** has the meaning given to it in Clearing Rule 10A01.

**“PAI”** has the meaning given to it in Section 4.3.2 of the Clearing Procedures.

## **SOFR DISCOUNTING SWITCH SUPPLEMENT**

### **1 Introduction**

- 1.1** This Supplement effects a “Discounting Switch” (as defined in Clearing Rule 10A01) so as to change the USD discounting rate and the PAI calculation reference rate in respect of all Affected Rates Derivatives Contracts from Fed Funds Rate to the Secured Overnight Financing Rate provided by the Federal Reserve Bank of New York, as administrator (or a successor administrator) (“**SOFR**”) (the “**SOFR Discounting Switch**”) (the “**SOFR Discounting Switch Supplement**”). This Supplement constitutes a “Discounting Switch Supplement” as defined in Clearing Rule 10A08, and supplements and forms part of Chapter 10A of the Clearing Rules.
- 1.2** The terms of this Supplement shall apply to all Affected Rates Derivatives Contracts that are registered with OTC Clear as of the end of day on the Transition Date (SOFR) except as expressly set out herein. For the avoidance of doubt, (i) no other Contract shall be subject to, or affected by, the terms of this Supplement and each Contract shall remain in full force and effect, and (ii) except as expressly set out herein, the Contract Terms shall not be amended by the terms of this Supplement.
- 1.3** Capitalised terms used but not otherwise defined in this Supplement have the meaning given to them in the Clearing Rules.

### **2 Powers of OTC Clear**

- 2.1** In exercising its powers under Chapter 10A of the Clearing Rules in connection with the change from the Fed Funds Rate to SOFR, OTC Clear sets out in this Supplement the method by which it will:
- (a) for each Clearing Member’s Position Account (including any Client Position Account(s), if applicable), calculate the Cash Compensation Amount (which shall be an “Interest Rate Change Payment” as defined in Clearing Rule 10A07) payable by OTC Clear to the Clearing Members and/or by Clearing Members to OTC Clear in relation to each such account and the date on which such amount shall be paid. The payment of Cash Compensation Amounts is intended to address the impact on valuation when switching from Fed Funds Rate to SOFR;
  - (b) for each Swap Opt-in Position Account, determine how certain Compensating Swaps (SOFR) (including any Pre-assigned SOFR Compensating Swaps, Net Auction Swap, Assigned Net Auction Swap, Assigned Net Auction Swap (Client) and Final Compensating Swaps (SOFR)) shall, as applicable, be identified, allocated, registered, recorded/booked and/or entered into between OTC Clear and the relevant Clearing Member in respect of such account pursuant to Chapter 10A of the Clearing Rules and the terms of those Compensating Swaps (SOFR);
  - (c) for each Auction Winner, calculate the CAP Amount (which shall also be an “Interest Rate Change Payment” as defined in Clearing Rule 10A07) payable by OTC Clear to the relevant Clearing Member or by that Auction Winner to OTC Clear in respect of the Winning Account; and

- (d) for each Cash Only Position Account, calculate the Adjusted CAP Amount(s), if any (which shall also be an “Interest Rate Change Payment” as defined in Clearing Rule 10A07) payable by OTC Clear to the relevant Clearing Member or by that Clearing Member to OTC Clear in respect of the relevant Cash Only Position Account (as applicable).

### **3 Opt-in / Opt-out Elections**

- 3.1** Subject to Paragraphs 3.2 and 3.3 of this Supplement, with respect to all Affected Rates Derivative Contracts in each of its Position Accounts registered with OTC Clear as of the Transition Date (SOFR), a Clearing Member shall be entitled to elect to opt in or opt out of the portfolio of Pre-Assigned SOFR Compensating Swaps identified in respect of such Position Account to be registered and entered into between OTC Clear and such Clearing Member by delivering a duly completed Swap Election Notice in respect of each such Position Account to OTC Clear at any time up to, and including, the Swap Election Cut-Off Date. All Swap Election Notices must be delivered to OTC Clear via email and shall be irrevocable following its delivery to OTC Clear (unless otherwise agreed by OTC Clear in writing).
- 3.2** A Clearing Member shall be entitled to deliver one Swap Election Notice in respect of each of its Position Accounts, provided that:
  - (a) a Clearing Member shall only be entitled to deliver a Swap Election Opt-in Notice in respect of one or more of its Client Position Accounts if the Clearing Member has also delivered a duly completed Swap Election Opt-in Notice in respect of its House Position Account, and if a Clearing Member delivers a Swap Election Opt-out Notice in respect of its House Position Account, all of its Position Accounts (including its Client Position Accounts) will be automatically deemed to be Cash Only Position Accounts; and
  - (b) subject to Paragraph 3.2(a) of this Supplement, in relation to a Client Clearing Category 2 Position Account, a Clearing Member shall only be entitled to deliver a Swap Election Opt-in Notice if it is indicated in the Swap Election Opt-in Notice that all Clients sharing such account have opted in for the relevant portfolio of Pre-Assigned SOFR Compensating Swaps identified in respect of such Position Account to be recorded/booked to such Client.
- 3.3** OTC Clear reserves the right at its absolute discretion to accept or reject any Swap Election Notice received by OTC Clear after the Swap Election Cut-Off Date. In the event that OTC Clear exercises its discretion to accept a Swap Election Notice received after the Swap Election Cut-off Date pursuant to this Paragraph 3.3, the Clearing Member shall be deemed to have validly delivered such Swap Election Notice in accordance with Paragraph 3.1 of this Supplement, notwithstanding that such Swap Election Notice may have been received by OTC Clear after the Swap Election Cut-off Date.
- 3.4** Subject to Paragraph 3.2 of this Supplement, if in respect of any Position Account:
  - (a) a Clearing Member delivers (or is deemed to have delivered) a duly completed Swap Election Opt-in Notice in respect of a Position Account in accordance with Paragraph 3.1 of this Supplement, then that shall be deemed, as of the end of day on the Swap

Election Cut-Off Date to be an irrevocable instruction of that Clearing Member to OTC Clear to:

- (i) determine the Cash Compensation Amount payable to or by that Clearing Member in respect of such Position Account and to record/book and register such amount in the relevant Swap Opt-in Position Account in accordance with this Supplement;
  - (ii) determine, allocate, record/book and/or register the portfolio of Pre-assigned SOFR Compensating Swaps identified in respect of such Position Account, the Net Auction Swap, the Assigned Net Auction Swaps, the Assigned Net Auction Swaps (Clients) and/or the Final Compensating Swaps (SOFR), as applicable, in accordance with this Supplement in the relevant Swap Opt-in Position Account; and
  - (iii) where applicable, determine the CAP Amount(s) payable to or by that Clearing Member in respect of the relevant Swap Opt-in Position Account and to record/book and register such amount in the relevant Swap Opt-in Position Account in accordance with this Supplement; or
- (b) a Clearing Member delivers (or is deemed to have delivered) a duly completed Swap Election Opt-out Notice, or fails to deliver a duly completed Swap Election Notice, in accordance with Paragraph 3.1 of this Supplement, then that shall be deemed, as of the end of day on the Swap Election Cut-Off Date, to be an irrevocable instruction of that Clearing Member to OTC Clear to:
- (i) determine the Cash Compensation Amount payable to or by that Clearing Member in respect of such Position Account and to record/book and register such amount in the relevant Cash Only Position Account in accordance with this Supplement; and
  - (ii) where applicable, determine the Adjusted CAP Amount(s) payable to or by that Clearing Member in respect of the relevant Cash Only Position Account in accordance with this Supplement and to record/book and register such amount in the relevant Cash Only Position Account in accordance with this Supplement.

#### **4 Portfolio of Compensating Swaps (SOFR)**

**4.1** At the end of day on the Swap Portfolio Calculation Date, OTC Clear shall, in respect of the Affected Rates Derivatives Contracts described in Paragraph 4.3 below, determine a portfolio of Compensating Swaps (SOFR) for each Maturity Bucket which is designated to, in OTC Clear's sole and absolute discretion and to the extent practicable, replicate the Fed Funds Rate discounting risk profile in relation to such Contracts. For the avoidance of doubt, the determination by OTC Clear pursuant to this Paragraph 4 may be different from a Clearing Member's models or methodologies.

**4.2** Each Compensating Swap (SOFR) will:

- (a) have a maturity of two years, five years or ten years from the date of registration;

- (b) when registered, be deemed to comprise a Standard Rate Derivatives Contract whereby OTC Clear or the Clearing Member (“**Party X**”) will receive SOFR plus or minus a spread which shall be equal to the relevant Mid-Price determined pursuant to this Supplement and pay to the other party (“**Party Y**”) the Fed Funds Rate with no spread;
- (c) have a notional amount in USD that is determined by OTC Clear, in its sole and absolute discretion, where such notional amount shall be rounded to the nearest multiple of USD500,000 (regardless of the Maturity Bucket); and
- (d) have such other specifications as set out in Appendix 4 to this Supplement.

**4.3** The portfolio of Compensating Swaps (SOFR) as described in Paragraph 4.1 of this Supplement shall be determined as of the Swap Portfolio Calculation Date in relation to each of the following:

- (a) the Affected Rates Derivatives Contracts then registered in each Clearing Member’s House Position Account as of the Swap Portfolio Calculation Date;
- (b) the Affected Rates Derivatives Contracts then registered in each Clearing Members’ Client Clearing Category 1 Position Account as of the Swap Portfolio Calculation Date;
- (c) the Affected Rates Derivatives Contracts then registered in respect of each Client sharing each Client Member’s Client Clearing Category 2 Position Account as of the Swap Portfolio Calculation Date (with the determination taking place on the basis of Contracts being recorded/booked on a gross basis in respect of such account).

**4.4** OTC Clear shall promptly notify each Clearing Member of the portfolio of Compensating Swaps (SOFR) it has determined pursuant to this Paragraph 4 in respect of each Position Account held by such Clearing Member (each such Compensating Swap, a “**Pre-Assigned SOFR Compensating Swap**”).

## **5 SOFR Discounting Auction**

**5.1** On the Transition Date (SOFR), unless OTC Clear has received a duly completed Swap Election Opt-in Notice in respect of less than three Position Accounts by the Swap Election Cut-off Date, whether delivered or deemed to be delivered in accordance with Paragraph 3.1 of this Supplement, OTC Clear shall conduct one or more auctions (each, a “**SOFR Discounting Auction**”) in accordance with this Supplement.

**5.2** Each Clearing Member shall be required to participate in the SOFR Discounting Auction in respect of each of its Swap Opt-in Position Accounts in accordance with this Supplement.

**5.3** All Final Compensating Swaps (SOFR) registered pursuant to Paragraph 11.1 of this Supplement shall, when registered, constitute Contracts between OTC Clear and the relevant Clearing Member.

## **6 Auctioned Portfolios**

**6.1** To conduct a SOFR Discounting Auction, OTC Clear shall determine a Net Auction Swap separately for each Maturity Bucket as follows:



- (a) first, OTC Clear shall determine the portfolio of Pre-Assigned SOFR Compensating Swaps identified for each Maturity Bucket pursuant to Paragraph 4 of this Supplement in respect of each Cash Only Position Account; and
- (b) second, OTC Clear shall aggregate all of the above Pre-Assigned SOFR Compensating Swaps for each Maturity Bucket to determine a single Compensating Swap (SOFR) for each Maturity Bucket, and each such single Compensating Swap (SOFR) shall be the “**Net Auction Swap**” for that Maturity Bucket. For the avoidance of doubt, each Net Auction Swap shall be a Compensating Swap (SOFR).

**6.2** In respect of each Maturity Bucket, the Net Auction Swap shall comprise a Compensating Swap (SOFR) pursuant to which, OTC Clear or Clearing Member (“**Party X**”) will receive SOFR plus or minus a spread which shall be equal to the relevant Mid-Price and pay to the other (“**Party Y**”) the Fed Funds Rate with no spread.

**6.3** For the avoidance of doubt, the above determinations are made solely for the purposes of determining the Net Auction Swaps that shall be subject to the SOFR Discounting Auction.

## **7 Price Submissions**

**7.1** All Auction Participants must submit two-way (bid and ask) price quotes for the Net Auction Swap of each Maturity Bucket for each of the items listed below:

- (a) its House Position Account which is a Swap Opt-in Position Account;
- (b) each of its Client Clearing Category 1 Accounts which is a Swap Opt-in Position Account; and
- (c) each of the Clients sharing each of its Client Clearing Category 2 Accounts which is a Swap Opt-in Position Account.

**7.2** OTC Clear will also impose auction criteria, including but not limited to, bidding format and maximum bid-ask spread based on historical market data, as will be separately notified to the Clearing Member by way of notice.

**7.3** Each time an Auction Participant submits price quotes, it shall indicate the relevant House Position Account, Client Clearing Category 1 Position Account, Client Clearing Category 2 Position Account and/or Client of Client Clearing Category 2 Position Account (as applicable) in respect of which it is submitting such price quotes.

**7.4** Each time an Auction Participant submits price quotes, it shall be deemed to represent and warrant that it has all necessary approvals, authority and risk permissions in place to submit such price quotes, pay any amounts and be bound to the Net Auction Swap registered in the relevant Position Account in connection with the SOFR Discounting Auction.

**7.5** Each price quote submitted by an Auction Participant constitutes an offer to OTC Clear to enter into the relevant Net Auction Swap and shall be treated for all purposes as an irrevocable firm, executable price.

**7.6** OTC Clear will oversee the bidding process and ensure that prices represent the fair value of the relevant Net Auction Swaps 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 identifying any Auction Winner (including the Winning Account), but OTC Clear will notify the Risk Management Committee regarding the outcome of the auction.

## 8 Determining the Mid-Price and Constructing the SOFR Discounting Curve

8.1 For the purposes of determining the Mid-Price in relation to each Maturity Bucket through the SOFR Discounting Auction, OTC Clear shall take the following steps separately in relation to all bids and asks submitted for each Maturity Bucket:

- (a) firstly, it shall order the bid prices, starting from the highest, in descending order (the highest bid price being referred to as the **"Highest Bid"**);
- (b) secondly, it shall order the ask prices, starting from the lowest, in ascending order (the lowest ask price being referred to as the **"Lowest Ask"**);
- (c) thirdly, it shall remove any pair of crossing bid price and ask price (i.e. if any ranked, ordered, individual bid price exceeds any ranked, ordered, individual ask price, both such bid and ask price shall be removed);
- (d) fourthly, it should determine the average of the remaining bid prices (the **"Average Bid"**) and the average of the remaining ask prices (the **"Average Ask"**) after removing any pair of crossing bid price and ask price in Paragraph 8.1(c); and
- (e) finally, it shall determine the average of the Average Bid and the Average Ask, which shall be the **"Auction Mid-Price"** of the relevant Maturity Bucket.

8.2 On the determination of the Auction Mid-Price as described above, OTC Clear shall construct a SOFR pricing curve as of end of day on the Transition Date (SOFR) on the basis of such Auction Mid-Price by:

- (a) in relation to tenors for which there is a corresponding Maturity Bucket, adding the relevant Auction Mid-Price to the regular Fed Funds Rate curve as of the Transition Date (SOFR); and
- (b) in relation to tenors for which there is no corresponding Maturity Bucket, using the observable market data points and applying linear interpolation as determined by OTC Clear in its sole and absolute discretion.

8.3 In the event that OTC Clear determines (in its sole and absolute discretion) that less than three valid bid and ask prices have been received in relation to any Maturity Bucket by the end of the relevant bidding window as prescribed by OTC Clear, or OTC Clear otherwise determines, in its sole and absolute discretion, that it would be appropriate to do so, OTC Clear may hold one or more further SOFR Discounting Auctions on the Transition Date (SOFR) (each a **"Subsequent Auction"**).

## 9 Successful Auction and Auction-related Payments

9.1 Immediately following the conclusion of the SOFR Discounting Auction or a Subsequent Auction where more than three valid bid and ask prices have been received in relation to the Net Auction Swap of each Maturity Bucket (each, a **"Successful Auction"**), on the Transition Date (SOFR), OTC Clear shall:

- (a) notify the Auction Winner of each Net Auction Swap and the Swap Opt-in Position Account which is a Winning Account (and in the case the Winning Account is a Client Clearing Category 2 Account, the Client sharing such account and in respect of whom the Net Auction Swap shall be recorded/booked against) and the related CAP Amount that is payable to or by that Auction Winner to OTC Clear in respect of such Net Auction Swap;
- (b) with respect to each Net Auction Swap, notify the relevant Clearing Members of the Adjusted CAP Amounts (if any) that are payable to or by that Clearing Member to OTC Clear in respect of each of their Cash Only Position Accounts in relation to such Net Auction Swap; and
- (c) notify each Auction Participant who has submitted a two-way (bid and ask) price quotes but who is not an Auction Winner that it has not been successful in the SOFR Discounting Auction.

**9.2** On the conclusion of a Successful Auction:

- (a) on the SOFR Discounting Effective Date, each CAP Amount and each Adjusted CAP Amount shall be registered, recorded/booked as an amount which is payable to or by the relevant Clearing Member to OTC Clear in the relevant Position Account; and
- (b) on the Interest Rate Change Payment Date (SOFR):
  - (i) in relation to the Net Auction Swap of each Maturity Bucket, OTC Clear shall pay to the Auction Winner (in respect of its Winning Account), or the Auction Winner (in respect of its Winning Account) shall pay to OTC Clear the relevant CAP Amount, as applicable; and
  - (ii) in relation to the Net Auction Swap of each Maturity Bucket and with respect to each Cash Only Position Account, OTC Clear shall pay to the Clearing Member or the Clearing Member shall pay to OTC Clear the corresponding Adjusted CAP Amount, as applicable.

**10 Unsuccessful Auction or No Auction**

**10.1** In the event that (i) OTC Clear has not received a duly completed Swap Election Opt-in Notice for three or more Position Accounts (whether delivered or deemed to be delivered in accordance with Paragraph 3.1 of this Supplement) by the Swap Election Cut-off Date such that no SOFR Discounting Auction is held or (ii) OTC Clear determines (in its sole and absolute discretion) that less than three valid bid and ask prices have been received in relation to one or more of the Maturity Buckets in any Subsequent Auction and that no further SOFR Discounting Auctions shall take place (each "**No Auction Event**"), on the Transition Date (SOFR), OTC Clear shall:

- (a) (in its sole and absolute discretion) determine the mid-price in respect of each Maturity Bucket using observable market data as at 4 p.m. (Hong Kong time) on the Transition Date (SOFR) (such mid-price being a "**OTC Clear Mid-Price**");
- (b) construct a SOFR pricing curve as of the end of day on the Transition Date (SOFR) as described in Paragraph 8.2 above on the basis of the OTC Clear Mid-Price instead of the Auction Mid-Price; and

- (c) in relation to each Maturity Bucket, determine the Net Auction Swap (if any) to be allocated the Swap Opt-in Position Accounts on a pro rata basis such that (i) the relevant Assigned Net Auction Swap shall be allocated to each Swap Opt-in Position Account (other than a Client Clearing Category 2 Position Account), and (ii) in the case of a Swap Opt-in Position Account which is a Client Clearing Category 2 Position Account, each relevant Assigned Net Auction Swap (Client) shall be allocated to such account and be recorded/booked in respect of the relevant Client sharing such account.

## **11 Registration of Final Compensating Swaps (SOFR)**

**11.1** On the Transition Date (SOFR) and whether on the conclusion of a Successful Auction or otherwise, OTC Clear shall make the following determinations:

- (a) in the case of each of the Swap Opt-in Position Accounts which is a House Position Account or a Client Clearing Category 1 Position Account and in respect of each Maturity Bucket, the aggregate of:
  - (i) the portfolio of Pre-assigned SOFR Compensating Swaps in respect of such Swap Opt-in Position Account determined by OTC Clear as of the Swap Portfolio Calculation Date pursuant to Paragraph 4.1 of this Supplement; and
  - (ii) the Net Auction Swap in respect of which such Swap Opt-in Position Account is a Winning Account (in the event there is a Successful Auction), or the Assigned Net Auction Swap in respect of such Swap Opt-in Position Account (in the event there is a No Auction Event), as applicable; and
- (b) in the case of each of the Swap Opt-in Position Accounts which is a Client Clearing Category 2 Position Account, in respect of each Maturity Bucket and each Client sharing such account, the aggregate of:
  - (i) the portfolio of Pre-assigned SOFR Compensating Swaps in respect of such Client sharing such account determined by OTC Clear as of the Swap Portfolio Calculation Date pursuant to Paragraph 4.1 of this Supplement; and
  - (ii) the Net Auction Swap in respect of which such Swap Opt-in Position Account is a Winning Account and which is to be recorded/booked against such Client sharing such account (in the event there is a Successful Auction), or the Assigned Net Auction Swap (Client) which is to be recorded/booked against such Client sharing such account (in the event there is a No Auction Event), as applicable.

**11.2** Each single Compensating Swap (SOFR) determined pursuant to Paragraph 11.1 above shall be referred to as a "**Final Compensating Swap (SOFR)**". For the avoidance of doubt, in the case of a Swap Opt-in Position Account which is a House Position Account or Client Clearing Category 1 Position Account, there will be a Final Compensating Swap (SOFR) for each Maturity Bucket and in the case of a Swap Opt-in Position Account which is a Client Clearing Category 2 Position Account, there will be a Final Compensating Swap (SOFR) for each Client sharing such account for each Maturity Bucket.

**11.3** On the SOFR Discounting Effective Date, OTC Clear shall:

- (a) in respect of each Swap Opt-in Position Account which is a House Position Account or a Client Clearing Category 1 Position Account, register and record/book the relevant Final Compensating Swaps (SOFR) to such account, whereupon the relevant Clearing Member and OTC Clear shall become party to such Final Compensating Swaps (SOFR); and
- (b) in respect of each Swap Opt-in Position Account which is a Client Clearing Category 2 Position Account, register and record/book the relevant Final Compensating Swaps (SOFR) to such account and each relevant Client sharing such account, whereupon the relevant Clearing Member and OTC Clear shall become party to such Final Compensating Swaps (SOFR).

## **12 Cash Compensation Amounts**

**12.1** Subject to Paragraph 12.2 below, as soon as reasonably practicable following the conclusion of the SOFR Discounting Auction (or determination by OTC Clear that no further SOFR Discounting Auction shall be conducted) on the Transition Date (SOFR), OTC Clear shall calculate the Cash Compensation Amount in respect of each Position Account as of the Transition Date (SOFR) as follows:

- (a) OTC Clear shall calculate the aggregate Fed Funds Discounted Value and the aggregate SOFR Discounted Value in relation to each Affected Rates Derivatives Contracts registered in each Position Account;
- (b) if the aggregate SOFR Discounted Value in relation to all Affected Rates Derivatives Contracts registered in a Position Account exceeds the aggregate Fed Funds Discounted Value in relation to all such Affected Rates Derivatives Contracts then an amount equal to the excess shall be payable in USD by the Clearing Member in whose name such Position Account is held to OTC Clear; and
- (c) if the aggregate SOFR Discounted Value in relation to all Affected Rates Derivatives Contracts registered in a Position Account is less than the aggregate Fed Funds Discounted Value in relation to all such Affected Rates Derivatives Contracts then an amount equal to the absolute value of the difference shall be payable in USD by OTC Clear to the Clearing Member in whose name such Position Account is held.

**12.2** In the case of Affected Rates Derivatives Contracts that are Non Deliverable Rates Derivatives Contracts, for the purposes of determining a Cash Compensation Amount, the value of the constant future cash flows not denominated in USD shall be first converted into USD by applying the relevant rate of exchange as determined by OTC Clear in accordance with its usual procedures and the Cash Compensation Amount in relation to such Contracts shall be payable in USD.

**12.3** With respect to the Cash Compensation Amounts determined under this Paragraph 12:

- (a) each Cash Compensation Amount shall be registered and recorded/booked in the relevant Position Account by OTC Clear on the SOFR Discounting Effective Date as an amount that is payable by OTC Clear or the Clearing Member, as applicable; and
- (b) each Cash Compensation Amount shall be payable by OTC Clear or the Clearing Member, as applicable, on the Interest Rate Change Payment Date (SOFR).

## 13 Determinations Binding

Subject to Paragraph 16 of this Supplement, all determinations and calculations made by OTC Clear pursuant to this Supplement and the Appendices shall be final, conclusive and binding, and may not be called into question by any person in any circumstances.

## 14 Clearing Member Obligations

### 14.1 Each Clearing Member:

- (a) agrees that it is obliged to pay to OTC Clear, or entitled to receive from OTC Clear, the amounts determined under this Supplement, including but not limited to the Adjusted CAP Amounts, CAP Amounts and Cash Compensation Amounts;
- (b) agrees that it shall be bound by the terms of any Compensating Swaps (SOFR) (including without limitation the Final Compensating Swaps (SOFR)) and all payment obligations registered in its name pursuant to this Supplement;
- (c) acknowledges that the Cash Compensation Amounts, the CAP Amounts, the Adjusted CAP Amounts and the spread on the SOFR leg of the Compensating Swaps (SOFR) shall be determined by reference to the Auction Mid-Price determined through the SOFR Discounting Auction (and, in the case of a No Auction Event, the Cash Compensation Amounts and the spread on the SOFR leg of the Compensating Swaps (SOFR) shall be determined by reference to the OTC Clear Mid-Price determined by OTC Clear in accordance with Paragraph 10.1(a) of this Supplement), and agrees to be bound by the results of such SOFR Discounting Auction (or such determination by OTC Clear) and the terms of this Supplement;
- (d) that has delivered (or is deemed to have delivered) a Swap Election Opt-out Notice in respect of its House Position Account or has failed to deliver a Swap Election Notice in respect of its House Position Account, in accordance with Paragraph 3.1 of this Supplement, undertakes to notify the relevant Client(s) that the Client Position Account(s) would automatically be deemed to be Cash Only Position Account(s) and to explain the consequences thereof pursuant to the terms of this Supplement;
- (e) that has delivered (or is deemed to have delivered) a Swap Election Opt-in Notice in respect of its House Position Account in accordance with Paragraph 3.1 of this Supplement, undertakes to provide its Clients with the option to opt in or opt out of the portfolio of Pre-Assigned SOFR Compensating Swaps pursuant to the Swap Election Notice, and to explain the consequences thereof pursuant to the terms of this Supplement;
- (f) agrees to perform all obligations and exercise all rights under this Supplement in accordance with applicable laws; and
- (g) agrees to use all reasonable endeavors to fully inform its Clients of the terms of this Supplement and to provide to its Clients any information which it has received from, or is made available by, OTC Clear in connection with this Supplement in OTC Clear's sole and absolute discretion, including the SOFR Discounting Switch Notice as amended and published by OTC Clear on its website from time to time.

- 14.2** Regardless of whether a Clearing Member delivers (or is deemed to have delivered) a Swap Election Notice, or fails to deliver a Swap Election Notice, in accordance with Paragraph 3.1 of this Supplement, each Clearing Member shall be deemed to represent and warrant to OTC Clear as of the Swap Election Cut-off Date that:
- (a) by either delivering (or being deemed to have delivered) a Swap Election Opt-out Notice or failing to deliver a Swap Election Notice in accordance with Paragraph 3.1 of this Supplement, it has agreed that the relevant Position Account shall be a Cash Only Position Account under this Supplement and in respect of each such Position Account, it shall be obliged to pay or entitled to receive the Cash Compensation Amounts and/or Adjusted CAP Amounts, as applicable;
  - (b) subject to Paragraph 3.2 of this Supplement, by delivering (or being deemed to have delivered) a Swap Election Opt-in Notice in accordance with Paragraph 3.1 of this Supplement, it has agreed that the relevant Position Account shall be a Swap Opt-in Position Account under this Supplement, and the Compensating Swaps (SOFR) (including Final Compensating Swaps (SOFR)) will be recorded to each of such Position Accounts, and it shall be obliged to pay or entitled to receive the applicable Cash Compensation Amount and CAP Amount;
  - (c) with respect to each Client Clearing Category 1 Position Account:
    - (i) each relevant Client in respect of which it has delivered a Swap Election Opt-in Election has instructed the Clearing Member to deliver the Swap Election Opt-in Election on its behalf in respect of such Client Position Account, and has expressly agreed that by electing for such Position Account to be a Swap Opt-in Position Account under this Supplement, the Compensating Swaps (SOFR) (including Final Compensating Swaps (SOFR)), and the applicable Cash Compensation Amount and CAP Amount will be recorded to such Position Account; and
    - (ii) each relevant Client in respect of which it has delivered a Swap Election Opt-out Election has instructed the Clearing Member to deliver the Swap Election Opt-out Election on its behalf in respect of such Client Position Account, and has expressly agreed that by electing for such Position Account to be a Cash Only Position Account, there shall be no Compensating Swaps (SOFR) (including Final Compensating Swaps (SOFR)) recorded to such Position Account, and instead the applicable Cash Compensation Amount and Adjusted CAP Amount(s) will be recorded to such Position Account;
  - (d) with respect to each Client Clearing Category 2 Position Account:
    - (i) where the Clearing Member has delivered a Swap Election Opt-in Notice in respect of such Client Position Account, the Clearing Member has also delivered a Swap Election Opt-in Notice in respect of the House Position Account in accordance with Paragraph 3.1 of the Supplement, and each relevant Client sharing the same account has instructed the Clearing Member to deliver the Swap Election Opt-in Notice on its behalf in respect of such Position Account, and has expressly agreed that by electing for such Position Account to be a Swap Opt-in Position Account, Compensating Swaps (SOFR) (including Final Compensating Swaps (SOFR)), and the

applicable Cash Compensation Amount and CAP Amount will be recorded to such Position Account; and

- (ii) where the Clearing Member has delivered a Swap Election Opt-out Notice in respect of such Client Position Account, each relevant Client sharing the same account has instructed the Clearing Member to deliver the Swap Election Opt-out Notice on its behalf in respect of such Position Account, and has expressly agreed that by electing for such Position Account to be a Cash Only Position Account, there shall be no Compensating Swaps (SOFR) (including Final Compensating Swaps (SOFR) recorded to such Position Account, and instead the applicable Cash Compensation Amount and Adjusted CAP Amount(s) will be recorded to such Position Account; and
- (e) represents and warrants on the date it delivers a Swap Election Notice that it has the full power and authority to deliver the Swap Election Notice on behalf of the relevant Client.

## **15 OTC Clear Obligations**

- 15.1** The obligations of OTC Clear to each Clearing Member shall be to perform its obligations as principal to such Clearing Member in accordance with the Clearing Rules, but subject to the restrictions on OTC Clear's obligations and liabilities contained in the Clearing Rules and Paragraph 16 of this Supplement.
- 15.2** The terms of this Supplement are without prejudice to OTC Clear's rights under the Clearing Procedures to change the rate used for the purposes of (i) calculating PAI, and (ii) Section 5.1.4 of the Clearing Procedures from time to time, and such terms shall not be relevant or binding on OTC Clear in respect of any such changes.
- 15.3** The performance by OTC Clear of its obligations hereunder shall always be subject to the provisions of the Clearing Rules. A person who is not OTC Clear or a Clearing Member has no right under the Contracts (Rights of Third Parties) Ordinance (Cap. 623) to enforce or to enjoy the benefit of any term of this Supplement.
- 15.4** OTC Clear shall update its books and records to reflect the Compensating Swaps (SOFR), Cash Compensation Amounts, CAP Amounts and Adjusted CAP Amounts resulting from the operation of this Supplement. The obligation to pay, or the right to receive, any amounts determined under this Supplement may be reflected in the books and records of OTC Clear in such manner as OTC Clear determines is necessary to meet its operational requirements.

## **16 Limitation of Liability**

- 16.1** Without prejudice to the generality of Clearing Rule 203, each Clearing Member agrees:
  - (a) that OTC Clear, its Affiliates, a recognized exchange controller which is the controller of OTC Clear, or any of their respective Representatives shall not be liable to any Clearing Member or to any other Person in respect of anything done or omitted to be done by it in good faith in connection with this Supplement, including but not limited to any civil liability, whether arising in contract, tort, defamation, equity or otherwise for any Damage suffered or incurred directly or indirectly by a Clearing



Member or any other Person (including any Client) as a result of or in connection with OTC Clear;

- (b) to waive any claim against OTC Clear, its Affiliates, a recognized exchange controller which is the controller of OTC Clear, or any of their respective Representatives arising or that may arise in connection with:
  - (i) any determination, calculation, notification, registration, publication, exercise of discretion, or decision, taken or not taken by OTC Clear, its Affiliates, a recognized exchange controller which is the controller of OTC Clear, or any of their respective Representatives in connection with this Supplement; or
  - (ii) the determination or publication of any price, curve, data, quote or other information arising from, or in connection with, this Supplement,

except in the case of fraud or wilful misconduct on the part of OTC Clear, its Affiliates, a recognized exchange controller which is the controller of OTC Clear or any of their respective Representatives.

**16.2** Without prejudice to the generality of Clearing Rule 203 and Paragraph 16.1 of this Supplement, each Clearing Member further agrees:

- (a) that OTC Clear, its Affiliates, a recognized exchange controller which is the controller of OTC Clear, or any of their respective Representatives shall not be liable to any Clearing Member or any other Person (including any Client) in tort (including, without limitation, negligence), trust, as a fiduciary or under any other non-contractual cause of action, or under any implied contractual term, and whether in respect of any damages, loss or gain, cost or expense (whether direct, indirect, general, special, consequential, punitive or otherwise); and
- (b) to waive any non-contractual claim or claim under any implied contractual term against OTC Clear, its Affiliates, a recognized exchange controller which is the controller of OTC Clear, or any of their respective Representatives, arising or that may arise in connection with OTC Clear's performance of its contractual duties or obligations under this Supplement, except in the case of fraud or wilful misconduct on the part of OTC Clear, its Affiliates, a recognized exchange controller which is the controller of OTC Clear, or any of their respective Representatives.

**16.3** Each Clearing Member agrees that OTC Clear, its Affiliates, a recognized exchange controller which is the controller of OTC Clear, or any of their respective Representatives do not:

- (a) owe any duty of care to any person in connection with the performance of OTC Clear's duties or obligations or exercise of its rights under this Supplement, save for the express contractual duties set forth in this Supplement;
- (b) have any obligation to research, investigate, supplement, or verify the veracity of, any price, data, quote or other information received from a Clearing Member in connection with this Supplement;
- (c) act as a fiduciary for, or as an advisor to, any Clearing Member or Client in connection with this Supplement or any Contract registered as a result of the matters specified in this Supplement;

- (d) have any requirement to consult with, or individually notify (other than as expressly set out in this Supplement), a Clearing Member in connection with making its determinations, exercising its discretions or performing its duties or obligations or exercising its rights, each under this Supplement; or
- (e) make any representation, express or implied, in relation to this Supplement, and each Clearing Member acknowledges that it has not relied on any representations made by OTC Clear, its Affiliates, a recognized exchange controller which is the controller of OTC Clear, or any of their respective Representatives in relation to this Supplement.

**16.4** For the avoidance of doubt, OTC Clear, its Affiliates, a recognized exchange controller which is the controller of OTC Clear, or any of their respective Representatives shall not be liable for any obligations of, or to any person who is not, a Clearing Member.

## **17 Definitions**

For the purposes of this Supplement:

**“Adjusted CAP Amount”** means, with respect to the Net Auction Swap of each Maturity Bucket and in relation to each Cash Only Position Account, an amount in USD determined by OTC Clear in accordance with Appendix 2 to this Supplement.

**“Affected Rates Derivatives Contracts”** means Contracts relating to the types of Standard Rates Derivatives and Non-deliverable Rates Derivatives which are specified to be in-scope for SOFR Discounting Switch in the SOFR Discounting Switch Notice.

**“Appendices”** means each appendix and such other document as may be identified by OTC Clear to the Clearing Member which supplements and forms part of this Supplement.

**“Assigned Net Auction Swap”** means the Compensating Swap (SOFR) in respect of the relevant Swap Opt-in Position Account, as determined by OTC Clear in accordance with Appendix 3 of this Supplement.

**“Assigned Net Auction Swap (Client)”** means the Compensating Swap (SOFR) in respect of each Client sharing the same Client Clearing Category 2 Position Account which is a Swap Opt-in Position Account, as determined by OTC Clear in accordance with Appendix 3 of this Supplement.

**“Auction Mid-Price”** has the meaning given to it in Paragraph 8.1(e) of this Supplement.

**“Auction Participants”** means the Clearing Members in respect of all the Swap Opt-in Position Accounts.

**“Auction Winner”** means, with respect to the Net Auction Swap of each Maturity Bucket, the Auction Participant that has submitted the winning price for such Net Auction Swap and in respect its Winning Account, as determined by OTC Clear in accordance with Appendix 1 to this Supplement.

**“Average Ask”** has the meaning given to it in Paragraph 8.1(d) of this Supplement.

**“Average Bid”** has the meaning given to it in Paragraph 8.1(d) of this Supplement.

“**Business Day**” has the meaning given to it in the Clearing Rules, save that in respect of all payments in USD, it shall refer to a Business Day in New York.

“**CAP Amount**” means, with respect to the Net Auction Swap of each Maturity Bucket and an Auction Winner, an amount in USD determined by OTC Clear in accordance with Appendix 2 to this Supplement.

“**Cash Compensation Amount**” means each amount in USD determined in accordance with Paragraph 12 of this Supplement.

“**Cash Only Position Account**” means each Position Account in respect of which: (i) a duly completed Swap Election Opt-out Notice has been delivered (or has been deemed to be delivered) in accordance with Paragraph 3.1 of this Supplement; or (ii) a duly completed Swap Election Notice was not delivered by the Swap Election Cut-Off Date.

“**Compensating Swaps (SOFR)**” means the Contracts determined, identified and notified by OTC Clear in accordance with this Supplement and/or entered into and registered between OTC Clear and a Clearing Member pursuant to Chapter 10A of the Clearing Rules, as applicable, including the Pre-Assigned SOFR Compensating Swaps, Net Auction Swaps, the Assigned Net Auction Swaps, the Assigned Net Auction Swaps (Client) and the Final Compensating Swaps (SOFR).

“**Fed Funds Discounted Value**” means, in relation to an Affected Rates Derivatives Contract, the net present value, as of the end of day on the Transition Date (SOFR), of all future cash flows under that Affected Rates Derivatives Contract using the Fed Funds Rate as the discounting rate for the purposes of such calculation.

“**Fed Funds Rate**” is the target interest rate set by the Federal Market Open Committee (FOMC) at which commercial banks borrow and lend their excess reserves to each other overnight.

“**Final Compensating Swap (SOFR)**” has the meaning given to it in Paragraph 11.2 of this Supplement.

“**Highest Bid**” has the meaning given to it in Paragraph 8.1(a) of this Supplement.

“**Interest Rate Change Payment Date (SOFR)**” means the date falling 2 Business Days after the Transition Date (SOFR), being the day on which the Cash Compensation Amount, CAP Amount and/or Adjusted CAP Amount (as applicable) shall be payable by OTC Clear to the Clearing Member, or by the Clearing Member to OTC Clear in accordance with this Supplement.

“**Lowest Ask**” has the meaning given to it in Paragraph 8.1(b) of this Supplement.

“**Maturity Bucket**” means, in relation to the Compensating Swaps (SOFR), the Net Auction Swaps the Assigned Net Auction Swaps and the Assigned Net Auction Swaps (Clients), a group of contracts all of which have the same maturity, being either two years, five years or ten years from the date of registration.

“**Mid-Price**” means, in relation to a Maturity Bucket, the Auction Mid-Price or the OTC Clear Mid-Price, as applicable.

“**Net Auction Swap**” has the meaning given to it in Paragraph 6.1(b) of this Supplement.

“**No Auction Event**” has the meaning given to it in Paragraph 10.1 of this Supplement.

“**OTC Clear Mid-Price**” has the meaning given to it in Paragraph 10.1(a) of this Supplement.

“**Pre-Assigned SOFR Compensating Swap**” has the meaning given to it in Paragraph 4.4 of this Supplement.

“**SOFR**” has the meaning given to it in Paragraph 1.1 of this Supplement.

“**SOFR Discounted Value**” means, in relation to an Affected Rates Derivatives Contract, the net present value, as of the end of day on the Transition Date (SOFR), of all future cash flows under that Affected Rates Derivatives Contract using the SOFR Discounting Curve for the purposes of such calculation (with the future cash flows calculated in the same manner as for the determination of the Fed Funds Discounted Value).

“**SOFR Discounting Auction**” means the auction as described in Paragraph 5.1 of this Supplement.

“**SOFR Discounting Curve**” means the SOFR pricing curve constructed by OTC Clear using the Auction Mid-Price in accordance with Paragraph 8 of this Supplement or using the OTC Clear Mid-Price in accordance with Paragraph 10 of this Supplement.

“**SOFR Discounting Effective Date**” means the Discounting Switch Effective Date as identified in the SOFR Discounting Switch Notice which is an OTC Clear Business Day and the date on which the SOFR Discounting Switch shall take effect.

“**SOFR Discounting Switch**” has the meaning given to it in Paragraph 1.1 of this Supplement.

“**SOFR Discounting Switch Notice**” means a Discounting Switch Notice delivered by OTC Clear to its Clearing Members setting out the details of the SOFR Discounting Switch.

“**SOFR Discounting Switch Supplement**” has the meaning given to it in Paragraph 1.1 of this Supplement.

“**Subsequent Auction**” has the meaning given to it in Paragraph 8.3 of this Supplement.

“**Successful Auction**” has the meaning given to it in Paragraph 9.1 of this Supplement.

“**Swap Election Cut-Off Date**” refers to 23:59 Hong Kong time on the date that falls three calendar weeks before the Transition Date (SOFR) (or such other date as may be notified by OTC Clear).

“**Swap Election Notice**” means a written notice substantially in the form set out in Appendix 5 to this Supplement, or in such other form as notified to the Clearing Member from time to time, and delivered by a Clearing Member to OTC Clear in respect of each of its Position Accounts in accordance with this Supplement.

“**Swap Election Opt-in Notice**”, in respect of a Position Account, means a Swap Election Notice where the Clearing Member has opted in for the portfolio of Pre-Assigned SOFR Compensating Swaps to be registered and/or recorded/booked, as applicable, in respect of such Position Account in accordance with this Supplement on the SOFR Discounting Effective Date.

**“Swap Election Opt-out Notice”**, in respect of a Position Account, means a Swap Election Notice where the Clearing Member has opted out for the portfolio of Pre-Assigned SOFR Compensating Swaps to be registered and/or recorded/booked, as applicable, in respect of such Position Account in accordance with this Supplement on the SOFR Discounting Effecting Date.

**“Swap Opt-in Position Account”** means each Position Account in respect of which a Swap Election Opt-in Notice has, or has deemed to have, been duly completed and delivered pursuant to Paragraph 3.1 of this Supplement by the Swap Election Cut-off Time.

**“Swap Portfolio Calculation Date”** is the date specified as such by OTC Clear in the SOFR Discounting Switch Notice, being a day which is two OTC Clear Business Day before the Transition Date (SOFR) and the date on which OTC Clear shall pre-determine the portfolios of Compensating Swaps (SOFR) in relation to all Affected Rates Derivatives Contracts registered with OTC Clear as of the Transition Date (SOFR).

**“Transition Date (SOFR)”** means the Discounting Switch Transition Date specified as such by OTC Clear in the SOFR Discounting Switch Notice (or such other later date as may be notified to the Clearing Member by OTC Clear) being a date which is an OTC Clear Business Day and the date on which the SOFR Discounting Auction shall be held and certain amounts payable hereunder are calculated.

**“Winning Account”** means, in relation to an Auction Winner, the relevant House Position Account, Client Clearing Category 1 Position Account or Client Clearing Category 2 Position Account in respect of which the winning price was submitted.

**Appendix 1**  
**Auction Winner**

The Auction Winner in respect of the Net Auction Swap for each Maturity Bucket shall be determined by OTC Clear on the following basis:

- 1** Subject to paragraph 3 below, for a Net Auction Swap in respect of which OTC Clear will receive SOFR plus or minus a spread which shall be equal to the relevant Mid-Price, the Auction Winner will be the Auction Participant that has submitted the highest bid and in respect of the Winning Account.
- 2** Subject to paragraph 3 below, for a Net Auction Swap in respect of which OTC Clear will pay SOFR plus or minus a spread which shall be equal to the relevant Mid-Price, the Auction Winner will be the Auction Participant that has submitted the lowest ask and in respect of its Winning Account.
- 3** In the event there is more than one submission of the highest bid or highest ask as described above, the Auction Winner will be the Auction Participant that has submitted the highest bid or lowest ask (as applicable) in respect of its Winning Account, which is earliest in time.

**Appendix 2**  
**CAP Amount and Adjusted CAP Amount**

**1 CAP Amount**

- 1.1** The CAP Amount with respect to the Net Auction Swap for each Maturity Bucket and an Auction Winner where OTC Clear will receive SOFR plus or minus a spread (which shall be equal to the relevant Mid-Price) shall be a USD amount determined as follows:

$$CAP\ Amount = (Highest\ Bid - Auction\ Mid-Price) \times |SOFR\ Par\ Delta|$$

Where:

“**Highest Bid**” has the meaning given to it in Paragraph 8.1(a) of this Supplement;

“**Auction Mid-Price**” has the meaning given to it in Paragraph 8.1(e) of this Supplement; and

“**SOFR Par Delta**” means the SOFR delta risk sensitivity of such Net Auction Swap, as determined by OTC Clear in its sole and absolute discretion.

- 1.2** The CAP Amount with respect to the Net Auction Swap for each Maturity Bucket and an Auction Winner where OTC Clear will pay SOFR plus or minus a spread (which shall be equal to the relevant Mid-Price) shall be a USD amount determined as follows:

$$CAP\ Amount = (Auction\ Mid-Price - Lowest\ Ask) \times |SOFR\ Par\ Delta|$$

Where:

“**Lowest Ask**” has the meaning given to it in Paragraph 8.1(b) of this Supplement;

“**Auction Mid-Price**” has the meaning given to it in Paragraph 8.1(e) of this Supplement; and

“**SOFR Par Delta**” means the SOFR delta risk sensitivity of such Net Auction Swap, as determined by OTC Clear in its sole and absolute discretion.

- 1.3** In the event the CAP Amount as determined in accordance with this Appendix 2 is a positive number, the CAP Amount shall be payable by the Auction Winner in respect of its Winning Account to OTC Clear, and in the event the CAP Amount is a negative number, the absolute amount of the CAP Amount shall be payable by OTC Clear to the Auction Winner in respect of its Winning Account.

**2 Adjusted CAP Amount**

- 2.1** With respect to the Net Auction Swap of each Maturity Bucket, the Adjusted CAP Amount for each Cash Only Position Account shall be a USD amount equal to the following:

$$Adjusted\ CAP\ Amount_i = CAP\ Amount \times \frac{|OptOut\ Position\ Account_i\ Delta|}{\epsilon \times |OptOut\ Position\ Account\ Delta|}$$

Where:

“*i*” refers to the relevant Cash Only Position Account;

“**OptOut Position Account *i* Delta**” means, in relation to the relevant Cash Only Position Account, *i*, the SOFR delta risk sensitivity of its portfolio of Pre-Assigned SOFR Compensating Swaps.

- 2.2** In the event the Adjusted CAP Amount is a positive number, the Adjusted CAP Amount shall be payable by OTC Clear to the relevant Clearing Member in respect of the relevant Cash Only Position Account, and in the event the Adjusted CAP Amount is a negative number, the absolute amount of the relevant Adjusted CAP Amount shall be payable by the relevant Clearing Member in respect of the relevant Cash Only Position Account to OTC Clear.



### Appendix 3

#### Assigned Net Auction Swap and Assigned Net Auction Swap (Client)

##### 1 Assigned Net Auction Swap

- 1.1 With respect to each Swap Opt-in Position Account, the Assigned Net Auction Swap shall be determined as follows:

$$\begin{aligned} \text{Assigned Net Auction Swap}_i \\ = \text{Net Auction Swap} \times \frac{|\text{OptIn Position Account}_i \text{ Delta}|}{\Sigma |\text{OptIn Position Account Delta}|} \end{aligned}$$

Where:

“*i*” refers to the relevant Swap Opt-in Position Account; and

“**OptIn Position Account *i* Delta**” means, in relation to the relevant Swap Opt-in Position Account, *i*, the SOFR delta risk sensitivity of its portfolio of Pre-Assigned SOFR Compensating Swap.

##### 2 Assigned Net Auction Swap (Client)

- 2.1 With respect to each Client sharing a Client Clearing Category 2 Position Account which is a Swap Opt-in Position Account, the Assigned Net Auction Swap (Client) shall be determined as follows:

$$\begin{aligned} \text{Assigned Net Auction Swap (Client)}_c \\ = \text{Assigned Net Auction Swap}_{\text{CAT2}} \times \frac{|\text{OptIn Client}_c \text{ Delta}|}{\Sigma |\text{OptIn Client Delta}|} \end{aligned}$$

Where:

“*c*” refers to the relevant Client sharing such Client Clearing Category 2 Position Account;

“**Assigned Net Auction Swap<sub>CAT2</sub>**” refers to the Assigned Net Auction Swap of the relevant Client Clearing Category 2 Position Account; and

“**OptIn CM *c* Delta**” means, in relation to the relevant Client, *c*, the SOFR delta risk sensitivity of the portfolio of Pre-Assigned SOFR Compensating Swap with respect to such Client sharing the relevant Client Clearing Category 2 Position Account.

**Appendix 4  
Compensating Swap (SOFR) Specifications**

	<b>USD Basis Swap</b>
	<b>SOFR vs. FedFund (Float vs. Float)</b>
<b>Tenor</b>	2-year, 5-year and 10-year
<b>Currency</b>	USD
<b>Floating Leg Option</b>	<ul style="list-style-type: none"> <li>• USD-SOFR-COMPOUND</li> <li>• USD-Federal Funds-H.15-OIS-COMPOUND</li> </ul>
<b>Floating Leg Day Count Fraction</b>	Actual/360
<b>Business Day Convention</b>	Modified Following
<b>Payment Lag</b>	2 Days
<b>Payment Frequency</b>	Annual

**Appendix 5**  
**Swap Election Notice**

Date: [●]

To: OTC Clearing Hong Kong Limited (“**OTC Clear**”)

[Email address]

This Notice is provided by [*Name of Clearing Member*] in respect of its following accounts held with OTC Clear:

[*Account Numbers to be provided*] (the “**Position Account**”)

We, the undersigned, have read the SOFR Discounting Switch Supplement (the “**Supplement**”) and the SOFR Discounting Switch Notice dated [ ], and we acknowledge and understand fully the contents of the Supplement and the SOFR Discounting Switch Notice. Capitalised terms used but not defined in this Notice shall have the meanings given to them in the Supplement.

We hereby agree to opt in / opt out\* of the Pre-Assigned SOFR Compensating Swaps to be identified and registered in respect of the Position Account on the Transition Date (SOFR) in accordance with the Supplement.

[To the extent the Position Account is a Client Clearing Category 1 Position Account, we hereby represent and warrant that the Client with respect to the relevant Position Account has opted in / opted out\* of the relevant Pre-Assigned SOFR Compensating Swap to be identified and booked/recorded to such Client pursuant to the Supplement.]\*

[To the extent the Position Account is a Client Clearing Category 2 Position Account, we hereby represent and warrant that all the Clients with respect to the relevant Position Account have opted in / opted out\* of the relevant Pre-Assigned SOFR Compensating Swaps to be identified and booked/recorded to such Clients pursuant to the Supplement.]\*

\* Please delete as applicable

---

[Name of Clearing Member]

Date:

**OTC Clear Clearing Procedures**

**Chapter 3**

**Rates and FX Clearing Services**

**3.4.2.11 Payment Lag**

In respect of each Original Transaction, payment lag is the number of the relevant Business Days by which the Payment Date precedes or follows the Period End Date of the relevant Calculation Period of that particular Original Transaction.

OTC Clear will only accept Original Standard Rates Derivatives Transactions, Original Standard Cross-currency Rates Derivatives Transactions and Original Non Deliverable Rates Derivatives Transactions for registration if the payment lag specified for the relevant Floating Amount payments corresponds to the parameters specified below:

Instrument		Currencies / Currency Pairs (swap and FX)	Floating Rate Option	Payment Lag (number of relevant Business Days)
Original Standard Rates Derivatives Transactions	Single currency interest rate swaps	USD	USD-LIBOR-BBA	0, 1 or 2
			USD-SOFR-COMPOUND	2
			USD-Federal Funds-H.15-OIS-COMPOUND	
		EUR	EUR-EURIBOR-Reuters	0, 1 or 2
			EUR-LIBOR-BBA	
			EUR-EuroSTR-COMPOUND	1
	HK\$	HKD-HIBOR-HKAB	0, 1 or 2	
		HKD-HONIX-OIS-COMPOUND	2	
	CNY (offshore)	CNY-SHIBOR-Reuters	0, 1 or 2	
		CNH-HIBOR-TMA		
Single currency basis swaps	USD	USD-LIBOR-BBA	0, 1 or 2	
		(a) USD-SOFR-COMPOUND vs (b) USD-Federal Funds-H.15-OIS-COMPOUND	2 for each of the Floating Amounts	

Instrument		Currencies / Currency Pairs (swap and FX)	Floating Rate Option	Payment Lag (number of relevant Business Days)
			(a) USD-SOFR-COMPOUND vs (c) USD-LIBOR-BBA	2 for USD-SOFR-COMPOUND and any of 0, 1 or 2 for USD-LIBOR-BBA. For the avoidance of doubt, the payment lag specified for the two Floating Amounts may differ
		EUR	EUR-EURIBOR-Reuters	0, 1 or 2
			EUR-LIBOR-BBA	
			(a) EUR-EuroSTR-COMPOUND vs (b) EUR-EURIBOR-Reuters	1 for EUR-EuroSTR-COMPOUND and any of 0, 1 or 2 for the EUR-EURIBOR-Reuters. For the avoidance of doubt the payment lag specified for the two Floating Amounts may differ
			(b) EUR-EURIBOR-Reuters vs (c) EUR-LIBOR-BBA	Any of 0, 1 or 2 for each Floating Amount. For the avoidance of doubt, the payment lag specified for the two Floating Amounts may differ
		HK\$	HKD-HIBOR-HKAB	0, 1 or 2

Instrument		Currencies / Currency Pairs (swap and FX)	Floating Rate Option	Payment Lag (number of relevant Business Days)
			(a) HKD-HONIX-OIS-COMPOUND vs (b) HKD-HIBOR-HKAB	2 for HKD-HONIX-OIS-COMPOUND and any of 0, 1 or 2 for HKD-HIBOR-HKAB. For the avoidance of doubt the payment lag specified for the Floating Amounts may differ
Original Standard Cross-currency Rates Derivatives Transactions	Cross-currency interest rate swaps and Cross-currency basis swaps	CNY (offshore) and USD	CNY (offshore): CNH-HIBOR-TMA CNY-SHIBOR-Reuters	0
			USD: USD-LIBOR-BBA	
		HK\$ and USD	HK\$: HKD-HIBOR-HKAB	
			USD: USD-LIBOR-BBA	
Original Non Deliverable Rates Derivatives Transactions	Non-deliverable interest rate swaps	CNY	CNY-CNREPOFIX=CFXS-Reuters	0
		INR	INR-MIBOR-OIS-COMPOUND	
			INR-FBIL-MIBOR-OIS-COMPOUND	
		KRW	KRW-CD-KSDA-Bloomberg	
			KRW-CD-3220	
		MYR	MYR-KLIBOR-BNM	
		THB	THB-THBFIX-Reuters	
TWD	TWD-TAIBOR-Reuters			