

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: **Reminder on Payment Obligations of Clearing Members**

Enquiry: **Hotline 2211-6753**

OTC Clearing Hong Kong Limited (OTC Clear) considers it appropriate to remind members of the importance of having proper risk management and robust funding arrangements in place to adequately monitor their exposure and fulfill their OTC Clear payment obligations on time to ensure the smooth operation of the OTC market.

Clearing Members must adhere to the settlement timelines stipulated by OTC Clear. Failure to do so constitutes an **Event of Default** under OTC Clear Clearing Rule 1301, the consequence of which includes disciplinary proceedings and/or disciplinary actions against the member concerned pursuant to OTC Clear Clearing Rules 1401(3) and/or 1405 which may lead to suspension of Membership and/or imposition of penalties. Members are strongly advised to review their existing operational and monitoring arrangements and introduce enhancement measures where appropriate. Below are examples of areas that should be covered in the review:

1. Operational capabilities to perform trade affirmation, contract settlement, portfolio valuation, portfolio reporting and system linkage with an Approved Trade Registration System;
2. Pursuant to Clearing Rule 401(9)(c), OTC Clear requires all Clearing Members to have established adequate risk management systems that are applied appropriately;
3. Contingency and business continuity plan (e.g. back up sites, system connection resilience and remote working arrangement); and
4. Back-up staff arrangement (e.g. sick leave, holiday cover and split team arrangement during pandemic).

As the best practice, for instance, members should have established procedures to project the amount of payment obligations to OTC Clear and arrange sufficient funding to meet such

requirements in a timely manner. Clearing Members should refer to Clearing Procedures 4.7.2 for the relevant payment obligations of their Margin requirements and Clearing Procedures 2.3.3(v) for the relevant payment obligations of their Rates and FX Guarantee Fund requirements. A summary of payment obligations is also set out in the Appendix for reference.

Irene Lee
Senior Vice President
Clearing Risk Management

Appendix

Margin requirements / payment obligations	Demand made by OTC Clear	Latest time in which Margin requirements / payment obligations shall be satisfied
End-of-day Initial Margin	At 08:30 hours Hong Kong time on an OTC Clear Clearing Day via Margin call issued on the Web Portal	09:30 hours Hong Kong time on the OTC Clear Clearing Day on which the Margin call is made
Ad hoc intra-day Initial Margin	At any time between 08:30 hours Hong Kong time and 15:00 hours Hong Kong time determined by OTC Clear on an OTC Clear Clearing Day via Margin call on the Web Portal	Within an hour following demand made by OTC Clear
End-of-day Variation Margin	On an OTC Clear Clearing Day by publication in the OTC Clear Settlement Report (Report Number STRP01) or "OTC Clear Settlement Report for Client ((Report Number STRP01_C)"	11:00 hours Hong Kong time on the OTC Clear Clearing Day immediately following the publication of the end-of-day Margin report, provided that such day is a Currency Day for the currency in which the end-of-day Variation Margin is denominated
Routine Intra-day VM Call	At the Routine VM Call Time on an OTC Clear Business Day via Margin call on the Web Portal	Within an hour following the Routine Intra-day VM Call
Ad Hoc Intra-day VM Call	At any time determined by OTC Clear on an OTC Clear Clearing Day via Margin call on the Web Portal	Within an hour following demand made by OTC Clear
Holiday Margin	At 08:30 hours Hong Kong time on the OTC Clear Business Day immediately preceding the start of a holiday period via Margin call on the Web Portal	By 09:30 hours Hong Kong time on the OTC Clear Business Day immediately

Margin requirements / payment obligations	Demand made by OTC Clear	Latest time in which Margin requirements / payment obligations shall be satisfied
		preceding the start of a holiday period
Notional Exchange Failure Margin	At any time determined by OTC Clear on an OTC Clear Business Day via Margin call on the Web Portal or Email	Within 90 minutes following demand made by OTC Clear
Other Additional Margin	Up to three times on each OTC Clear Clearing Day: At (1) 08:30 hours Hong Kong time; (2) 14:15 hours Hong Kong time and (3) at any other time between 08:30 hours Hong Kong time and 15:00 hours Hong Kong time determined by OTC Clear, in each case, on an OTC Clear Clearing Day via Margin call on the Web Portal	Within an hour following demand made by OTC Clear
Rates and FX Guarantee Fund and Rates and FX Assessments	A Clearing Member must deliver Collateral to OTC Clear in respect of its Clearing Member Funded Contribution Amount, as calculated and demanded by OTC Clear, taking into account any applicable Collateral Haircuts on a monthly basis or at such other times as required pursuant to Clearing Rule 1503	By 17:00 hours Hong Kong time on the Business Day following demand made by OTC Clear ¹

¹ Clearing Members are advised to deliver the additional collateral to OTC Clear, if any, by 16:00 hours Hong Kong time on the Business Day following the demand made by OTC Clear. Any unfulfilled amount will be demanded via Guarantee Fund call at 16:00 hours Hong Kong time, and the concerned Clearing Member(s) shall meet it within one hour (i.e. 17:00 hours Hong Kong time).