

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

編號 Ref. No.:	OTCO/003/2023
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Subject: Floating Rate Conversion Notice
Enquiry: OTC Clear Operations Team (OTC_Operations@hkex.com.hk)

OTC Clearing Hong Kong Limited (**OTC Clear**) sets out in this circular (the **Floating Rate Conversion Notice**) the details of the transition from USD-LIBOR to SOFR to be implemented under the SOFR Floating Rate Conversion Supplement. All capitalized terms not otherwise defined herein shall have the meanings given to them in the OTC Clear Rates and FX Derivatives Clearing Rules, the Clearing Procedures and the SOFR Floating Rate Conversion Supplement. The SOFR Floating Rate Conversion Supplement constitutes a "Floating Rate Conversion Supplement" as defined in Chapter 10B of the Clearing Rules.

Floating Rate Conversion

On the Conversion Date, OTC Clear will convert the Affected Derivatives Contracts such that each Affected Derivatives Contract which currently references USD-LIBOR will be amended to reference USD-SOFR-OIS Compound instead. For the avoidance of doubt, the "In-Scope USD-LIBOR Contracts" as defined in the SOFR Floating Rate Conversion Supplement constitutes the "Affected Derivatives Contracts" as defined in Chapter 10B of the Clearing Rules.

In connection with the Floating Rate Conversion, OTC Clear will put in place certain arrangements relating to Cash Compensation Amounts and Operational Bookings as described below. In addition, OTC Clear will cease to accept certain products for clearing or registration from and including the OTC Clear Business Day following the Conversion Date as further described below.

(a) Cash Compensation Amounts

The transition from USD-LIBOR to SOFR will result in a valuation change and a risk profile change to the portfolios with in-scope products. OTC Clear will use Cash Compensation Amounts to address these changes in accordance with, and pursuant to the SOFR Floating Rate Conversion Supplement.

On the Floating Rate Conversion Date, in order to neutralize the valuation changes attributable to the use of the New Floating Rate Option in connection with the Floating Rate Conversion, OTC Clear will make a cash adjustment that is equal and opposite to the resultant change in the net present value of each Affected Derivatives Contract as part of a special end-of-day valuation cycle.

(b) Operational bookings

In order to facilitate and/or reflect the legal amendments made to each Affected Derivatives Contract pursuant to the SOFR Floating Rate Conversion Supplement, OTC Clear will:

- (1) terminate the operational booking relating to each Affected Derivatives Contract and replace such booking with an operational booking that is on the same terms as the Affected Derivatives Contract, except that the Existing Floating Rate Option shall be replaced by the New Floating Rate Option, as further described in the SOFR Floating Rate Conversion Supplement; and
- (2) at its sole discretion, elect to create certain Operational Outright Swap Bookings or Operational Basis Swap Booking (as applicable), which are intended to preserve LIBOR coupons in respect of Affected Derivatives Contracts with fixing date before the Index Cessation Effective Date (USD-LIBOR).

(c) Cessation of New Contracts

From and including the OTC Clear Business Day following the Conversion Date, OTC Clear shall not accept for clearing or registration any of the following products:

- Single currency interest rate swaps referencing the Existing Floating Rate Option;
- Single currency basis swaps referencing the Existing Floating Rate Option;
- Cross-currency interest rate swaps referencing the Existing Floating Rate Option;
- Cross-currency basis swaps referencing the Existing Floating Rate Option;
- and
- Non-deliverable interest rate swaps referencing THB-THBFIX.

1. Rates

For the purposes of the SOFR Floating Rate Conversion Supplement read with Clearing Rule 10B12:

“Existing Floating Rate Option” means USD-LIBOR.

“New Floating Rate Option” means USD-SOFR-OIS Compound.

2. Timing

“Floating Rate Conversion Date” means 19 May 2023.

3. Scope of Affected Derivatives

For the purposes of the SOFR Floating Rate Conversion Supplement, the following are Affected Derivatives:

- (a) Single currency interest rate swaps referencing the Existing Floating Rate Option;
- (b) Cross-currency interest rate swaps referencing the Existing Floating Rate Option; and
- (c) Cross-currency basis swaps referencing the Existing Floating Rate Option.