

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: **Revision of Liquidity Risk Multiplier in Initial Margin calculation**

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Pursuant to Chapter 4 of the OTC Clearing Hong Kong Limited Clearing Procedures, OTC Clear has recently completed its review and calibration of the Liquidity Risk Multiplier. The revised levels of Liquidity Risk Multiplier are determined based on the results from the poll conducted with Clearing Members in August 2024. The following tables summarize the revised levels of Liquidity Risk Multiplier which will be effective from 12 Nov 2024.

Portfolio Level Liquidity Risk Multiplier:

Portfolio Initial Margin (HKD mn)	≥0 & ≤1,500	>1,500 & ≤2,000	>2,000 & ≤2,500	>2,500 & ≤3,000	>3,000 & ≤3,500	>3,500 & ≤4,000	>4,000 & ≤4,500	>4,500 & ≤5,000	>5,000
Portfolio Liquidity Risk Multiplier	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00

Component Level Liquidity Risk Multiplier (for each clearable product type):

For interest rate swap (IRS) products:

Component Liquidity Risk Multiplier	USD IRS (SOFR)	USD IRS (Fed Fund)	EUR IRS (EURIBOR)	EUR IRS (ESTR)	HKD IRS (HIBOR)	HKD IRS (HONIA)	CNH IRS
<i>Component Initial Margin (HKD mn)</i>	<i>Multiplier</i>	<i>Multiplier</i>	<i>Multiplier</i>	<i>Multiplier</i>	<i>Multiplier</i>	<i>Multiplier</i>	<i>Multiplier</i>
≥0 & ≤125	1.00	1.00	1.00	1.00	1.00	1.00	1.00
>125 & ≤250	1.00	1.00	1.00	1.00	1.00	1.44	2.92
>250 & ≤500	1.00	1.00	1.11	1.13	1.14	1.64	4.42
>500 & ≤750	1.00	1.00	1.12	1.14	1.18	2.05	7.41
>750 & ≤1000	1.00	1.04	1.12	1.15	1.23	2.47	10.40
>1000 & ≤1,500	1.09	1.04	1.13	1.16	1.27	2.88	13.39
>1,500 & ≤2,000	1.09	1.04	1.15	1.17	1.37	3.70	19.37
>2,000 & ≤2,500	1.10	1.04	1.16	1.19	1.46	4.53	25.35
>2,500 & ≤3,000	1.10	1.04	1.17	1.21	1.55	5.35	31.33
>3,000 & ≤3,500	1.11	1.04	1.19	1.23	1.64	6.18	37.31
>3,500 & ≤4,000	1.11	1.04	1.20	1.24	1.73	7.00	43.29
>4,000 & ≤4,500	1.11	1.04	1.22	1.26	1.82	7.83	49.27
>4,500 & ≤5,000	1.12	1.04	1.23	1.28	1.91	8.65	55.25
>5,000	1.12	1.04	1.25	1.30	2.01	9.47	61.23

Component Liquidity Risk Multiplier	CNY IRS (FR007)	CNY IRS (SHIBOR 3M)	CNY IRS (SHIBOR O/N)
<i>Component Initial Margin (HKD mn)</i>	<i>Multiplier</i>	<i>Multiplier</i>	<i>Multiplier</i>
≥0 & ≤125	1.00	1.00	1.00
>125 & ≤250	1.00	1.36	1.81
>250 & ≤500	1.16	1.45	2.37
>500 & ≤750	1.24	1.64	3.49
>750 & ≤1000	1.32	1.83	4.60
>1000 & ≤1,500	1.40	2.01	5.72
>1,500 & ≤2,000	1.57	2.39	7.96
>2,000 & ≤2,500	1.73	2.76	10.20
>2,500 & ≤3,000	1.89	3.13	12.43
>3,000 & ≤3,500	2.05	3.51	14.67
>3,500 & ≤4,000	2.22	3.88	16.91
>4,000 & ≤4,500	2.38	4.26	19.14
>4,500 & ≤5,000	2.54	4.63	21.38
>5,000	2.70	5.00	23.62

For non-deliverable currency forward (NDF) and deliverable FX derivatives (FXD) products:

Component Liquidity Risk Multiplier	USDCNY NDF	USDINR NDF	USDKRW NDF	USDTWD NDF	USDCNH FXD	USDHKD FXD
<i>Component Initial Margin (HKD mn)</i>	<i>Multiplier</i>	<i>Multiplier</i>	<i>Multiplier</i>	<i>Multiplier</i>	<i>Multiplier</i>	<i>Multiplier</i>
≥0 & ≤125	1.00	1.00	1.00	1.00	1.00	1.00
>125 & ≤250	1.00	1.00	1.00	1.00	1.00	1.00
>250 & ≤500	1.12	1.00	1.00	1.00	1.00	1.00
>500 & ≤750	1.13	1.00	1.00	1.00	1.00	1.11
>750 & ≤1000	1.14	1.00	1.00	1.00	1.00	1.13
>1000 & ≤1,500	1.14	1.00	1.00	1.00	1.03	1.16
>1,500 & ≤2,000	1.16	1.02	1.00	1.02	1.04	1.21
>2,000 & ≤2,500	1.17	1.02	1.00	1.03	1.04	1.26
>2,500 & ≤3,000	1.19	1.02	1.00	1.03	1.04	1.31
>3,000 & ≤3,500	1.20	1.02	1.00	1.03	1.05	1.36
>3,500 & ≤4,000	1.22	1.02	1.00	1.04	1.05	1.41
>4,000 & ≤4,500	1.23	1.02	1.00	1.04	1.06	1.46
>4,500 & ≤5,000	1.25	1.02	1.00	1.04	1.06	1.51
>5,000	1.26	1.02	1.00	1.05	1.07	1.56

For non-deliverable interest rate swap (NDIRS) products:

Component Liquidity Risk Multiplier	CNY NDIRS	KRW NDIRS	TWD NDIRS	INR NDIRS
<i>Component Initial Margin (HKD mn)</i>	<i>Multiplier</i>	<i>Multiplier</i>	<i>Multiplier</i>	<i>Multiplier</i>
≥0 & ≤125	1.00	1.00	1.00	1.00
>125 & ≤250	1.00	1.00	1.44	1.00
>250 & ≤500	1.15	1.00	1.74	1.00
>500 & ≤750	1.25	1.12	2.36	1.31

>750 & ≤1000	1.34	1.15	2.97	1.36
>1000 & ≤1,500	1.44	1.18	3.58	1.40
>1,500 & ≤2,000	1.63	1.25	4.81	1.50
>2,000 & ≤2,500	1.82	1.32	6.03	1.60
>2,500 & ≤3,000	2.01	1.39	7.26	1.70
>3,000 & ≤3,500	2.20	1.46	8.48	1.80
>3,500 & ≤4,000	2.39	1.53	9.71	1.90
>4,000 & ≤4,500	2.58	1.60	10.94	2.00
>4,500 & ≤5,000	2.77	1.67	12.16	2.10
>5,000	2.97	1.74	13.39	2.19

For cross currency swap (CCS) products:

Component Liquidity Risk Multiplier	USDCNH CCS	USDHKD CCS
<i>Component Initial Margin (HKD mn)</i>	<i>Multiplier</i>	<i>Multiplier</i>
≥0 & ≤125	1.00	1.00
>125 & ≤250	1.00	1.00
>250 & ≤500	1.00	1.00
>500 & ≤750	1.06	1.11
>750 & ≤1000	1.06	1.13
>1000 & ≤1,500	1.07	1.14
>1,500 & ≤2,000	1.08	1.18
>2,000 & ≤2,500	1.09	1.22
>2,500 & ≤3,000	1.09	1.25
>3,000 & ≤3,500	1.10	1.29
>3,500 & ≤4,000	1.11	1.32
>4,000 & ≤4,500	1.12	1.36
>4,500 & ≤5,000	1.13	1.40
>5,000	1.14	1.43

Further explanation:

To mitigate the added risk associated with large cleared portfolios, OTC Clear imposes a margin add-on on portfolios that present material liquidation risk in the potential event of default. Based on the results from the poll, OTC Clear calibrates the required levels of margin add-on with respect to the different level of risks as reflected by the Initial Margin requirements (before margin add-on). OTC Clear will apply the relevant Liquidity Risk Multiplier to calculate a margin add-on for the entire cleared portfolio (Portfolio Level Add-on) and a margin add-on with reference to the product group within the cleared portfolio (Component Level Add-on). The higher between the Portfolio Level Add-on and the Component Level Add-on shall be the margin add-on to be imposed on the Clearing Member.

For example, if a Clearing Member's cleared portfolio consists of only USD SOFR IRS and HKD HIBOR IRS trades and the following attributes:

- Initial Margin for the portfolio is HKD 1,400 mn
- Initial Margin for USD SOFR IRS and HKD HIBOR IRS of HKD 1,100 mn and HKD 900 mn respectively

The margin add-on to be imposed would be HKD 306 mn, being the higher of i) Portfolio Level Add-on of $\text{HKD } 1,400 \text{ mn} \times (1 - 1) = \text{HKD } 0 \text{ mn}$ and ii) Component Level Add-on of $\text{HKD } 1,100 \text{ mn} \times (1.09 - 1) + \text{HKD } 900 \text{ mn} \times (1.23 - 1) = \text{HKD } 306 \text{ mn}$

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