

May 2017

OTC CLEARING HONG KONG LIMITED

MEMBERSHIP APPLICATION FORM

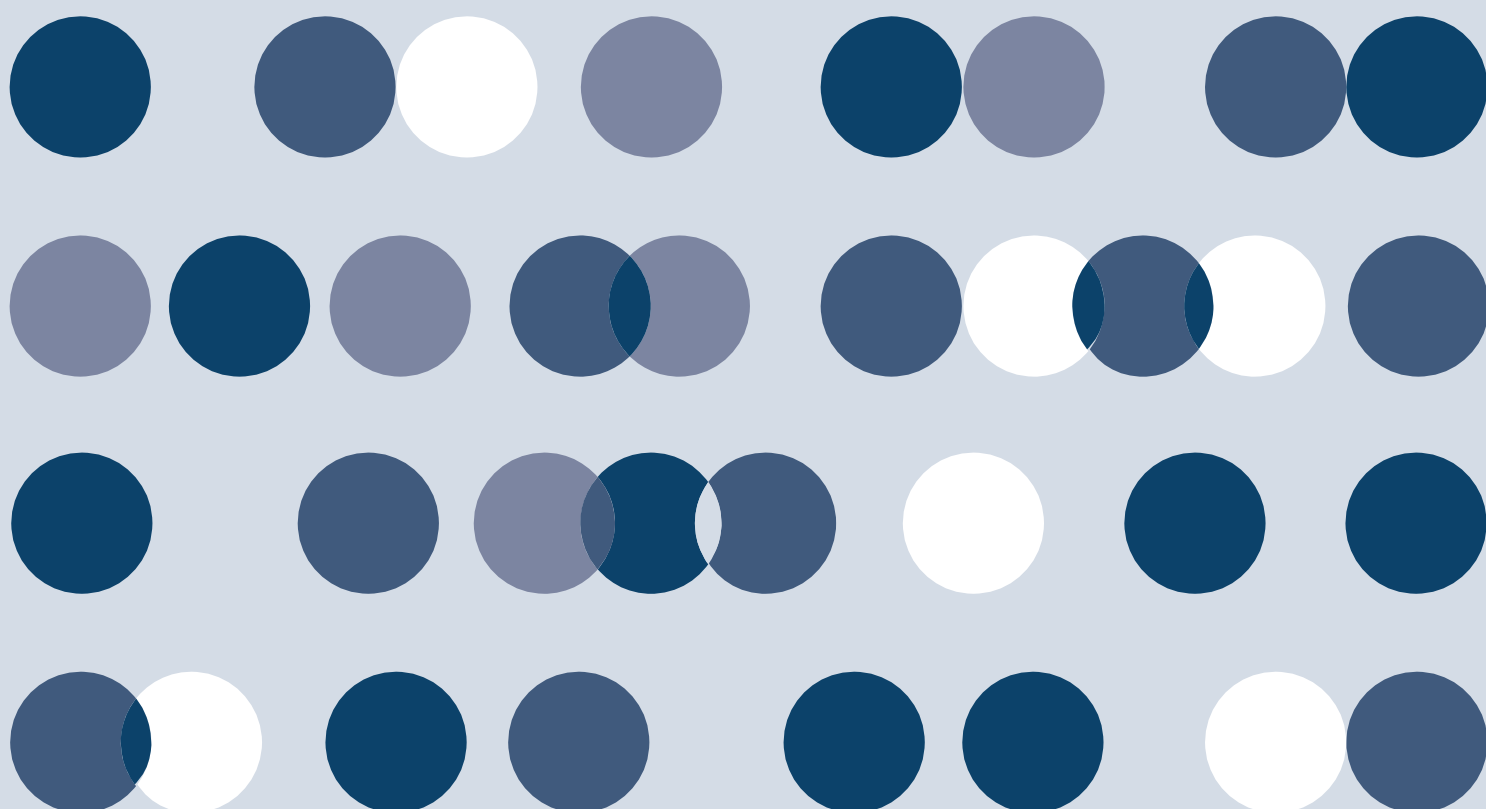


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Important Notes

Please read carefully all the information provided in this form and the document checklist before completing the application.

Please answer all the questions in English and do not leave any questions blank. If the question is not applicable, please state “NA”. Upon completion, please sign and date the form. The form may be typewritten or legibly handwritten.

If there is insufficient space to answer, please continue on a separate sheet, specify the question to which the sheet relates and sign on it.

Please attach the relevant document(s) including those stated in the document checklist when submitting the application.

Please submit the completed application and required supplementary documents to OTC Clearing Hong Kong Limited (“OTC Clear”) by BOTH email and post to the following:

Email: OTCMembership@HKEX.COM.HK

Postal address:

As notified by OTC Clear from time to time

For enquiry, please contact OTC Clearing Hong Kong Limited

Telephone: +852 2211 6062 or +852 2211 6501

Email: OTCMembership@hkex.com.hk

Capitalised terms not defined herein shall have the meaning given to them in the rules of OTC Clear (the “**Rules**”).

Note:

- For applicants that will clear for their own house account only, please complete Part A
- For applicants that will offer client clearing services, please complete Part A and Part B*

* Client clearing services will only be available at a later stage

PART A

1. Application Details

Complete this section as appropriate:

Q1. Name of Applicant

Q2. Type of license held by Applicant (Please check the appropriate box below)

☐ Authorized Institution which is a bank regulated by the Hong Kong Monetary Authority ("HKMA")

☐ Authorized Institution which is a Deposit Taking Company ("DTC") or Restricted License Bank ("RLB") regulated by the HKMA

☐ Licensed Corporation regulated by the SFC (such as Type 1, 2 or 3)

Please indicate license type(s):

☐ Other equivalent overseas license holder

Please indicate name of regulator and category of licensing / registration:

Q3. Registered office address

Q4. Location of back office facilities for OTC derivatives clearing (if different from registered office address)

Q5. Website

Q6. Date of incorporation

Q7. Country of incorporation

Q8. Business registration number or equivalent

Q9. Name of auditor and date of appointment

Q10. Auditor contact details

Q11. Principal business activities of Applicant

Q12. Organizational structure

Is the Applicant part of a group of companies?

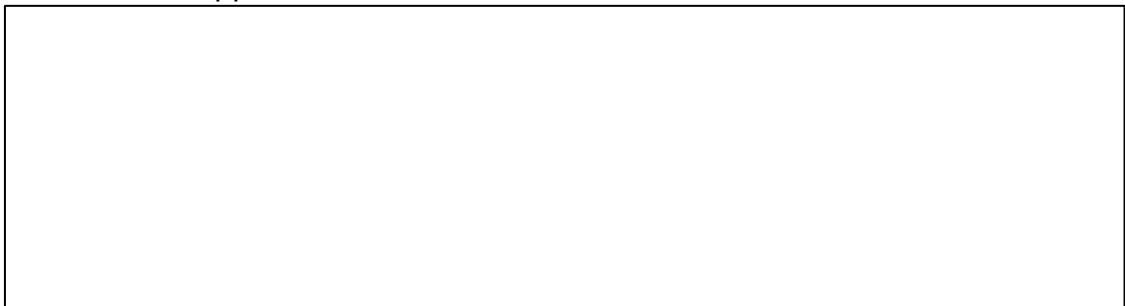
No ☐ > complete Q15 and then go to Section 2,

Yes ☐ > complete Q13, Q14 and Q15 and then go to Section 2

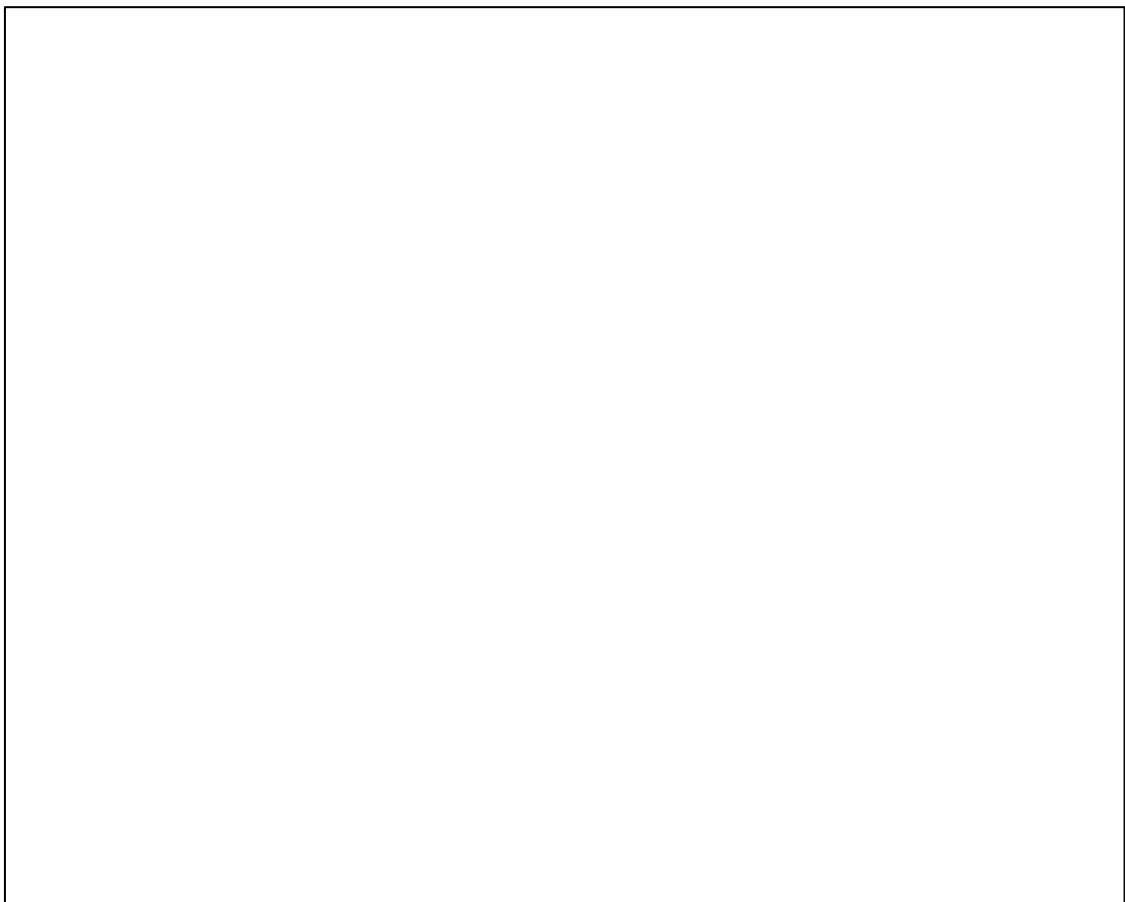
Q13. Please attach a group structure diagram that shows, at a minimum, the Applicant's direct and indirect holding companies, subsidiaries and branches and any other Affiliates that hold regulatory licenses or registrations and/or exchange or clearing house memberships.



Q14. Please list all entity(ies) / individual(s) that hold 10% or more of the voting shares in the Applicant.



Q15. Please list the members of the Applicant's board of directors



2. Key Contacts

Please list out all the contact details if more than one person oversees a particular area and please note that the following persons are expected to be contacted by OTC Clear on a routine basis in relation to the relevant matters. Please provide a name, phone number and e-mail address for each such person.

Q1. Compliance Specialist for OTC Derivatives and his/her deputy

--

Q2. Finance Specialist for OTC Derivatives and his/her deputy

--

Q3. Operations Specialist for OTC Derivatives and his/her deputy

--

Q4. Risk Specialist for OTC Derivatives and his/her deputy

--

Q5. Sales or Trading Specialist for OTC Derivatives and his/her deputy

--

Q6. Profile of Senior Traders and Risk Committee Members

Please provide details about the members of your risk management committee (or equivalent body) and your senior traders for OTC derivatives with supervisory or management responsibility.

Please note that you must designate one person as your “Designated Officer” and another person as your alternate “Designated Officer” (please refer to Rule 401(17) of the Rules for further details.)

Name	Position / Title	License(s) held (please list issuer and category of license)	Qualification / Background (please briefly describe each person's relevant experience)	Risk Appetites (e.g., the risk taken or not taken, level of risk tolerance – averse, moderate, and high, etc.)
<i>Designated Officer</i>				
<i>Alternate Designated Officer</i>				

Note: Attach additional pages if needed.

3. OTC Derivatives Clearing Products for Clearing*

Please check the appropriate box(es) below for the products you wish to clear through OTC Clear. You may check more than one box.

☐ Interest Rates Swap (“IRS”)

Single Currency IRS	Single Currency Basis Swaps	Non Deliverable IRS (CNY 7 day Repo)	Non Deliverable IRS (Asian Currency)^
☐ CNH	☐ USD	☐ CNY	☐ INR
☐ USD	☐ EUR		☐ KRW
☐ EUR	☐ HKD^		☐ MYR
☐ HKD			☐ THB
			☐ TWD

☐ Cross Currency Swap (“CCS”)

- ☐ USD / CNH
☐ USD / HKD^

☐ Deliverable Foreign Exchange (“Deliverable FX”)^

- ☐ USD/ CNH
☐ USD/ HKD

☐ Non-deliverable Forward (“NDF”)

- ☐ USD / CNY
☐ USD / TWD
☐ USD / KRW
☐ USD / INR

^ Selection for clearing these products is applicable only when relevant clearing service commences

Note to Applicants:

OTC Clear may in future offer additional products for clearing, such as FX options (vanilla or exotic) or other types of FX derivatives or credit, equity, energy and commodity derivatives. Please indicate below the products which you would be interested in clearing through OTC Clear:

Will you provide client clearing services?

☐ Yes

☐ No (please leave Part B blank)

4. Memberships with other Exchanges or Clearing Houses

Does the Applicant or any of its Affiliates hold any membership on any exchange(s) and or clearing house(s)?

No ☐ > go to section 5, Yes ☐ > complete this part as appropriate

Name of entity	Name of exchange or clearing house	Types of products cleared	Category of membership and date of approval	Provides client clearing? If yes, please describe types of clients served

Note: Attach additional pages if needed

5. Membership Requirements

The following questions will allow us to better understand the Applicant's internal risk control system. We do not expect comprehensive details; however, basic key information is required.

5.1. Capital Requirements

- Q1. Please complete this if you are an Authorized Institution which is a bank, a Deposit Taking Company or a Restricted License Bank:

Do you have Minimum Capital Requirement as required under the Rules¹?

☐ Yes ☐ No

Please complete this if you are a Licensed Corporation:

Do you have Minimum Capital Requirement as required under the Rules²?

☐ Yes ☐ No

Please complete this if you are not regulated or licensed in Hong Kong:

Do you have capital as determined by your relevant regulator of at least HKD 10 billion (or its equivalent)? Please provide us with the name of the relevant regulator. In the event that more than one regulators are applicable to you, OTC Clear shall have the sole right and discretion to select the applicable regulator for the present purposes and will notify you of such selection.

☐ Yes ☐ No

- Q2. Are you in compliance with all regulatory capital requirements applicable to you? Please provide reports or evidence.

☐ Yes ☐ No

¹ Please note that for banks, the proposed minimum capital requirement is HKD10 billion; for Deposit Taking Companies and Restricted License Banks, the proposed minimum capital requirement is the greatest of (i) HKD390 million, (ii) 5% of overall margin requirement and (iii) other regulatory capital requirement required by the HKMA.

² Please note that for Licensed Corporations, the proposed minimum capital requirement is the greatest of (i) HKD390 million, (ii) 5% of overall margin requirement and (iii) other financial resource required by the SFC.

Q3. Please briefly describe the systems and controls you have in place to monitor your ongoing compliance with relevant capital requirements.

Please note that all Clearing Members must maintain sufficient capital to meet any contingent assessment or capital replenishment requirements, as required by the Rules.

5.2. Operational Requirements

Q4. Do you have any middleware linkage to use HKMA – Trade Repository?

☐ Yes

☐ No

Q5. Do you subscribe to trade matching services being provided by accredited trade affirmation platforms such as Markitwire or DSMatch?

☐ Yes

☐ No

Please note that tests will be performed in a user acceptance test environment to affirm those linkages.

Q6. All Clearing Members must have back office computer systems that are compatible with and adequate to support their clearing activities with OTC Clear. Please briefly describe your back office systems.

Q7. Please note that all Clearing Members must be capable of settling its payment obligations. Are you a member of the Real Time Gross Settlement ("RTGS") system or do you have any settlement bank arrangement in place for settlement via the RTGS system?

☐ Yes

☐ No

Q8. How do you keep track of the operational flow of cash and collateral movement (including cash and collateral movements of clients) among accounts? Please provide details.

Q9. How do you maintain your trade records? Please provide details

Q10. Do you have a dedicated compliance team in HK?

☐ Yes

☐ No

Q11. What are the roles and responsibilities of your compliance department?

Q12. How will you or your compliance department perform checks and reviews to ensure compliance with the Clearing Documentation?

5.3. Risk Management Requirements

5.3.1. Market and Credit Risk Management

Q13. How frequently do you mark your positions to markets and what methodology do you use to validate your valuation?

Q14. How do you calculate the potential loss exposures such as VaR or other similar measures for your positions?

Q15. What internal policy do you have to govern your positions at trader, book and desk level respectively?

Q16. How do you review your portfolio performance and risk appetite?

Q17. Do you impose limits based on the notional exposure, the risk components and/or other parameters?

Q18. How frequently do you conduct stress tests based on historical data and synthetic scenarios? Please outline how you conduct these tests.

Q19. How do you handle and cover shortfalls in the stress tests? What action will you take if you discover a shortfall in a particular scenario?

Q20. How do you manage your liquidity position for extreme scenarios? Do you have any capital reserves and/or credit liquidity facility?

Q21. What is the risk control mechanism on your traders? Please provide details.

Q22. Do you set limits for your traders? If so, how do you determine these limits? How do you prevent rogue trading in your trading books?

Q23. Who is authorized to close out / liquidate positions and stop your traders from executing trades / submitting trades to your trade affirmation platform instantaneously?

5.3.2. Default Management

Q24. Please describe any experience you have in liquidating large portfolios. What is the maximum capacity that you can handle for your daily flow of trades?

Q25. Please describe your ability to comply with the requirements in the default management process as set out in the Rules including bidding requirements in auction(s).

5.3.3. Designated Persons

Q26. Do you intend to have a Designated Person who may submit Original Transactions on behalf of you? (Please note that a Designated Person will be subject to OTC Clear's approval.)

☐ Yes

☐ No

If yes, please provide details of the Designated Person(s) in the table below (e.g. whether the Designated Person is a branch or affiliate, and the jurisdiction of place of incorporation and place of business of the Designated Person).

Name of the Designated Person	Branch / Affiliate	Approved Trade Registration System	Identification Code	Place of Incorporation	Place of Business
		HKMA - Trade Repository			
		MarkitWire			
		DSMatch			

5.3.4. Tax

Q27. Please confirm that you have the ability to handle tax issues for each jurisdiction where you may have a tax liability. If you answer no, please provide details of how you intend to comply with your taxation obligations in the relevant jurisdictions.

☐ Yes

☐ No

5.3.5. Operational Risk Management

Q28. Please provide a brief description of the structure of your trading desk (e.g. number of traders, their reporting lines, the products that they trade, peak and average flow).

Q29. Please describe your systems and controls to identify and halt unauthorized trading activity.

Q30. Please describe the volume of trades that you expect to clear through OTC Clear and explain how your trading and clearing infrastructure is sufficient to handle this volume.

Q31. Do you have any business continuity plan in place? If yes, please provide details.

6. Disciplinary Actions and Investigations

Has the Applicant or any of the companies in the Applicant's group been denied authorization, recognition, licensing, or membership by the HKMA, the SFC or any equivalent regulatory or self-regulatory body in any jurisdiction?

☐ Yes ☐ No

For the past 10 years, has the Applicant or any of the companies in the Applicant's group been censured, disciplined, disqualified, or subject to any regulatory investigation by the HKMA, the SFC or any equivalent regulatory or self-regulatory body in any jurisdiction?

☐ Yes ☐ No

Has the Applicant or any of the companies in the Applicant's group been in breach of the rules of any exchange or clearing house, been subject to any disciplinary proceeding of any exchange or clearing house, been asked to withdraw or resign, or been expelled from any exchange or clearing house?

☐ Yes ☐ No

Has the Applicant or any of the companies in the Applicant's group been charged with or convicted of a criminal offense or been subject to an order of a court or other competent authority for fraud, dishonesty or misfeasance?

☐ Yes ☐ No

If your answer is "yes" to any of the above questions, please provide further details below.

7. Additional Information

Is there any other information which may be material to your application and should be taken into account by OTC Clear when considering your application?

8. Declaration by Applicant

We,

Name of Applicant

- (a) represent that we have approved this application and agree to be bound by the Clearing Documentation, upon this application being approved;
- (b) agree that OTC Clear may use and rely on the information stated in this application and documents submitted to OTC Clear to consider this application;
- (c) declare that all personal data provided in this application has been collected from the relevant individuals in accordance with the requirements of the Privacy Policy Statement and that the individuals concerned have been notified that their personal data may be provided to OTC Clear and other recipients as described in this application, and undertake that other additional personal data we may provide in relation to this application and our membership in future will be collected from the relevant individuals in accordance with the requirements of the Privacy Policy Statement and that the individuals concerned will be notified that their personal data may be provided to OTC Clear and other recipients as described in this application;
- (d) represent that the information provided in this application (including all other supporting documents) is complete, true and correct and that we have not made or omitted to make any statements or omissions which would render such information untrue or misleading;
- (e) acknowledge that OTC Clear may take disciplinary proceedings against a Clearing Member which has made a false or misleading representation in relation to its application for membership;
- (f) undertake that we shall comply and we shall ensure that the designated persons and other related persons shall comply with all applicable rules, regulations and procedures of OTC Clear from time to time in force, any conditions stated in the letter of approval for membership, and any other Clearing Documentation; and agree that any non-compliance shall render us liable to disciplinary proceedings;
- (g) agree that the information stated in our application and documents submitted to OTC Clear may be provided to the board of directors of OTC Clear, the OTC Clear Risk Management Committee, other committees of OTC Clear, any recognized exchanged controller which is the controller of OTC Clear and/or any company of which a recognized exchange controller which is controller of OTC Clear is a controller;
- (h) agree that OTC Clear, any recognized exchange controller which is the controller of OTC Clear and/or any company of which a recognized exchange controller which is controller of OTC Clear is a controller may disclose information relating to us to the SFC, the HKMA and/or any exchange, regulatory, judicial or governmental authority (whether within or outside Hong Kong); and
- (i) represent that none of we, any of our Affiliates or a director, officer or employee of such person are currently subject to any U.S. sanctions administered by the Office of Foreign Assets Control of the U.S. or any sanctions promulgated by the United Nations or the European Union (collectively, the "**Sanctions**") and we have adequate procedures to monitor and ensure compliance by us, any of our Affiliates or a director, officer or employee of such person with any applicable requirements relating to the Sanctions.

Signature with Company Chop

Name of Authorized Signatory:

Title: _____

Date: _____

Signature with Company Chop

Name of Authorized Signatory:

Title: _____

Date: _____

9. Document Checklist

You must submit the following documents along with your application. Check ☒ each box for the documents submitted. If you do not submit all the following documents, the processing of your application will be delayed until they have been submitted.

9.1	Copy of the certificate of incorporation (or equivalent) of the Applicant, certified by the company secretary to be a true and complete copy	☐
9.2	Copy of the memorandum and articles of association (or equivalent) of the Applicant, certified by the company secretary to be a true and complete copy	☐
9.3	Copy of a board resolution, power of attorney, or other similar documents authorizing the Applicant to apply for membership and evidencing the authority of the signatory to execute Membership Agreement and all other ancillary documents in connection with becoming a Clearing Member on behalf of the Applicant, each document certified by the company secretary to be a true and complete copy	☐
9.4	Copy of the business registration certificate (or equivalent), certified by an authorized signatory to be a true and complete copy	☐
9.5	Diagram of the group corporate structure with shareholding at each level.	☐
9.6	Copy of the list of authorized signatories and contact persons together with specimen signatures, certified by an authorized signatory to be a true and complete copy	☐
9.7	Copy of Applicant's audited and interim financial statements which comply with the requirements set out in the Rules	☐
9.8	Copy of Non-consolidated audited accounting reports (P/L, B/S)	☐
9.9	Internal OTC derivatives risk and management reports	
	- Up-to-date quote of benchmark tenors and customer positions	☐
	- Stress testing report for portfolios (forward-looking market risk)	☐
	- VaR and risk forecast report	☐
	- End of day valuations, mark-to-market reports	☐
9.10	Profile of your senior traders for OTC derivatives & risk committee members (the details required are set out in paragraph 2 of Q.6 under the Key Contacts section of this form)	☐

9.11	a) Where the Applicant is non-US entity, a completed Certificate of Status of Beneficial Owner for United States Tax Withholding and Reporting (Entities) (aka W-8BEN-E Form)*; or b) Where the Applicant is US entity, a completed Request for Taxpayer Identification Number and Certification (aka W-9 Form) * for the information on the Applicant's Foreign Account Tax Compliance Act (FATCA) status * Where you consider the above-described IRS form not applicable to you, please submit the IRS form appropriate under your facts and circumstances. OTC Clear may request additional FATCA documentation from you from time to time as OTC Clear considers appropriate.	☐
9.12	Consent Confirmation of Use and Disclosure of Personal Data for :	
	- contact persons as set out in Q.1 to Q.5 under the Key Contacts section of this form; and	☐
	- individual(s) as set out in Q.6 under the Key Contacts section of this form.	☐

NOTE:

1. An on-site inspection may be required for membership assessment and OTC Clear will notify the Applicant of such inspection in advance.
2. Completion of default management (bilateral) drill will be required.
3. Further documents and forms for operations setup will be provided by OTC Clear to the Applicant in due course.
4. The Applicant is expected to have the operational capability and sufficient liquidity to meet payment obligations.
5. The Applicant is expected to nominate two DMG Delegates (i.e. one Primary Delegate and one Alternate Delegate) for each product class and ensure that at least one of Delegate resides in Hong Kong. A DMG Delegate nominated by an Applicant may, at the same time, act as a DMG Delegate for different product classes. The Applicant should ensure the DMG Delegates nominated are the traders listed under section 2 (Key Contacts) in the Application Form.
6. The Applicant will be expected to provide copies of the most recent financial returns that they submit to their regulators for assessment purpose.
7. Any applicant not incorporated in Hong Kong will be required to provide a capacity opinion addressed to OTC Clear in respect of the capacity and authority of the Applicant to enter into the Membership Agreement and abide by and be bound by all the provisions of the Clearing Rules and the Clearing Procedures. The applicant can further contact OTC Clear Member Services team for the details of capacity opinion.

Part B (Only applicable to Client Clearing)

10. Clearing Risk Management / Operations

- Q1. Do you have the systems or middleware connections required for client clearing? Please provide details.

- Q2. Do you perform due diligence (e.g. KYC) on your clients? Please briefly describe your client due diligence process and the relevant factors you use to screen your clients.

- Q3. How do you manage the credit risk of your clients?

- Q4. What policies and controls do you have in place to monitor and manage the risk associated with your clients? How do you set and monitor limits for your clients, and what actions do you take if your clients breach the limits?

- Q5. How do you calculate requirements for initial margin? Under what circumstances would you call for additional margin from your clients?

- Q6. What procedures do you have in place to monitor client trading and, if necessary, suspend a client's trading if it disrupts the market or violates established parameters? Please identify the person(s) who have authority to approve the suspension of client trading and describe your escalation procedures in these situations.

- Q7. Do you have collateral agreements (for example, ISDA credit support documents) with your clients? What are the terms for such collateral agreements (e.g. margin frequency, thresholds, etc.)?

- Q8. What types of collateral would you accept and what haircut would you apply for different types of collateral?

- Q9. How do you perform stress tests for your clients' positions?

- Q10. Please describe your client account structure. In particular, do you maintain separate account for each client tracking its positions and collateral?

