

## OTC Clear Clearing Procedures

### Chapter 3

#### Rates and FX Clearing Services

#### 3.6 De-registration

##### 3.6.1 De-registration Conditions

A request to de-register a Contract will only be accepted by OTC Clear if the following conditions are met:

- (i) ~~[Deleted](a) the relevant Contract has not reached its scheduled Termination Date or Settlement Date, and has not been previously terminated and (b) the de-registration request is submitted by or on behalf of both parties to the Original Transaction corresponding to the Contract via any acceptable medium designated by OTC Clear from time to time and notified to Clearing Members via Clearing Notice (each an “Accepted Medium for De-registration”). OTC Clear is not responsible for, and shall not be under any obligation to, providing a Clearing Member or Client (“first Clearing Member or Client”) with the identity of the Clearing Member or Client who was counterparty to the first Clearing Member or Client under the relevant Original Transaction corresponding to the Contract requested to be de-registered. For the avoidance of doubt, de-registration of Contracts corresponding to an Original Transaction will be processed on an all-or-nothing basis. The Margin Process referred to in section 4.6.5 of the Clearing Procedures must be satisfied with respect to both Contracts (corresponding to an Original Transaction) being de-registered. If the Margin Process referred to in section 4.6.5 of the Clearing Procedures is satisfied with respect to one but not both of the Contracts, OTC Clear will not accept the de-registration request relating to either of such Contracts; or~~
- (ii) (a) the relevant Contract has not reached its scheduled Termination Date or Settlement Date, and has not been previously terminated and (b) the de-registration request is made in respect of more than one Contract and is submitted by or on behalf of only one of the two parties to the Original Transaction via ~~the relevant Approved Trade Registration System, the OASIS or email~~ an acceptable medium designated by OTC Clear from time to time and notified to Clearing Members via Clearing Notice. OTC Clear will accept such de-registration request only if the request identifies Contracts that (1) are registered to the same Position Account of such Clearing Member, (2) have substantially the same but opposite Economic Terms that offset each other, and (3) are grouped with the same batch ID as indicated in the “OTC Clear Compression Report (Report Number COMP01 and COMP01\_C)”. For the avoidance of doubt, de-registration of such Contracts will be processed on an all-or-nothing basis. The Margin Process referred to in section 4.6.5 of the Clearing Procedures must be satisfied with respect to the relevant Contracts being de-registered.

## 3.6.2 Process of De-registration

~~For de-registration requests which fulfil the conditions set out in section 3.6.1 (i), the following procedures shall apply:~~

- ~~(i) In respect of a de-registration request submitted to OTC Clear before 19:00 hours Hong Kong time on an OTC Clear Clearing Day such de-registration request will be processed by OTC Clear on the same day;~~
- ~~(ii) In respect of a de-registration request submitted to OTC Clear on a day which is not an OTC Clear Clearing Day, or at or after 19:00 hours Hong Kong time on an OTC Clear Clearing Day, such de-registration request will be processed by OTC Clear on the immediately following OTC Clear Clearing Day.~~

In respect of de-registration requests which fulfil the conditions set out in section 3.6.1 (ii), the following procedures shall apply:

- (i) prior to submitting the de-registration request to OTC Clear, the Clearing Member shall identify and select the relevant Contracts for de-registration from the “OTC Clear Compression Report (Report Number COMP01 and COMP01\_C)” published at or prior to 20:30 hours Hong Kong time on such OTC Clear Clearing Day available to the Clearing Members on the Web Portal;
- (ii) the Clearing Member shall submit a request for de-registration to OTC Clear before 10:30 hours Hong Kong time on an OTC Clear Clearing Day. Any request which is submitted (a) on a day other than an OTC Clear Clearing Day or (b) after 10:30 hours Hong Kong time on such OTC Clear Clearing Day will be rejected;
- (iii) Clearing Members are able to check the status of the de-registration requests through the Web Portal. The relevant information will be updated in “OTC Clear Compression Report (Report Number COMP02 and COMP02\_C)” available at the Web Portal by 13:30 hours Hong Kong time on each OTC Clear Clearing Day; and
- (iv) if such request is approved by OTC Clear, the de-registration request will be processed by OTC Clear on the same day.

If a de-registration request does not satisfy the conditions set out in section 3.6.1, or if it contains any invalid or incomplete trade data, such de-registration request will be rejected and will not go through the “Margin Process” as set out in section 4.6 of these Clearing Procedures. The result will be communicated to Clearing Members or via an acceptable medium designated by OTC Clear from time to time and notified to Clearing Members via Clearing Notice ~~the relevant Accepted Medium for De-registration~~ but will not be made available to the Clearing Members on the Web Portal.

~~If a de-registration request satisfies the conditions set out in section 3.6.1, but does not satisfy the “Margin Process” as set out in section 4.6 of these Clearing Procedures, such de-registration request will be put on “pending” status in the Rates and FX Clearing System. The result will be communicated to the relevant Accepted Medium for De-registration. The relevant Contracts will be flagged as “PEND\_TRF/TRM/DCL” in the “OTC Clear Trade Report (Report Number TDRP03,~~

~~TDRP04 or TDRP12)” in relation to any House Position Account or “OTC Clear Trade Report for Client (Report Number TDRP03\_C, TDRP04\_C or TDRP12\_C)” in relation to any Client Position Account. Both “OTC Clear Trade Report (Report Number TDRP03, TDRP04 or TDRP12)” and “OTC Clear Trade Report for Client (Report Number TDRP03\_C, TDRP04\_C or TDRP12\_C)” are available to the Clearing Members on the Web Portal.~~

~~OTC Clear will reject any “pending” de-registration request which fails to satisfy the “Margin Process” as set out in section 4.6 of these Clearing Procedures by the commencement of the End-of-Day Settlement Process on the OTC Clear Clearing Day on which all conditions set out in section 3.6.1 have been satisfied. The result will be communicated to or via the relevant Accepted Medium for De-registration and the relevant Contracts will remain registered with OTC Clear.~~

If a de-registration request satisfies all conditions set out in section 3.6.1 and “Margin Process” as set out in section 4.6 of these Clearing Procedures, such Contracts will be de-registered by OTC Clear. The result will be communicated to Clearing Members via an acceptable medium designated by OTC Clear from time to time and notified to Clearing Members via Clearing Notice~~or via the relevant Accepted Medium for De-registration~~ but will not be made available to Clearing Members on the Web Portal. In addition, the relevant Contracts submitted for de-registration will be flagged as “DECLARED” in such “OTC Clear Trade Report (Report Number TDRP01, TDRP02 or TDRP11)” in relation to any House Position Account or “OTC Clear Trade Report for Client (Report Number TDRP01\_C, TDRP02\_C or TDRP11\_C)” in relation to any Client Position Account.

Save and except for the operation of section 3.8.1 and any fees due but unpaid by the relevant Clearing Member to OTC Clear (including the de-registration fee):

- (i) any Contract that has been de-registered shall have no further force or effect thereafter; and
- (ii) the rights and obligations of each of OTC Clear and the relevant Clearing Member under the Contract being de-registered shall be fully relinquished and discharged with effect from the time such Contract is de-registered.

Any de-registered transaction can be submitted for registration again, and subject to the Eligibility Requirements applicable to the relevant transaction.

Cancellation, novation or any other fees which have been agreed between the relevant Clearing Members who are counterparties to the particular Contract in connection with a de-registration request shall not be processed by OTC Clear.

### **3.17 Porting of Client Contracts and Collateral to a Transferee Clearing Member**

#### **3.17.1 Full Portfolio Porting**

##### **Requirements**

Each full portfolio porting request will only be accepted and processed by OTC Clear if all of the following conditions are satisfied:

- (i) the Transferee Clearing Member submits to OTC Clear an original completed and signed form for portfolio porting\*. The form must indicate whether the Collateral held on behalf of the relevant Client by the Transferor Clearing Member needs to be ported together with the corresponding Contracts;
- (ii) Contracts and Collateral are being ported from a Client Position Account and corresponding Client Collateral Account identified as being held by the relevant Transferor Clearing Member for a particular Client to a Client Position Account and corresponding Client Collateral Account identified as being held by the Transferee Clearing Member for the same Client;
- (iii) details of the particular Client and the Contracts and Collateral identified as being held by the Transferor Clearing Member for such Client as set out in the porting request match OTC Clear's records of such Client's holdings in the relevant Transferor Clearing Member's relevant Client Position Account and corresponding Client Collateral Account;
- (iv) If Collateral is not being ported, the Transferee Clearing Member must ensure that there is sufficient Collateral comprising the Margin Balance of the relevant Client Collateral Account no later than 19:00 hours Hong Kong time prior to the last Portfolio Novation Cycle on the third OTC Clear Business Day following the submission of the porting request;
- (v) no DMP Event has occurred with respect to the Transferee Clearing Member and the relevant Transferor Clearing Member;
- (vi) the relevant Transferor Clearing Member has consented to the porting;
- (vii) the Transferor Clearing Member and the Transferee Clearing Member submit to OTC Clear an original completed and executed BAU Porting Supplemental Assignment Letter;
- (viii) the Transferee Clearing Member's standard settlement instruction for each relevant Contractual Currency of the Contracts being ported is in place;
- (ix) the Transferee Clearing Member's standard settlement instruction for each relevant Eligible Currency of cash Collateral being ported is in place;
- (x) the Transferee Clearing Member's standard delivery instruction for each relevant non-cash Collateral being ported is in place; and
- (xi) the Transferee Clearing Member's standard settlement instruction for the relevant currency of denomination of the coupon (interest) of each relevant non-cash Collateral is in place.

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\* Available on request from OTC Clear

## 3.18 Porting of Contracts and Collateral amongst Client Accounts of a Clearing Member

### 3.18.1 Requirements

Each porting request submitted pursuant to section 3.18 will only be accepted and processed by OTC Clear if all of the following conditions are satisfied:

- (i) the Clearing Member submits to OTC Clear an original completed and signed form for portfolio porting between Client Accounts at the same Clearing Member\*;
- (ii) Contracts and Collateral are being ported from a Client Position Account and corresponding Client Collateral Account identified as being held by the Clearing Member relating to a particular Client to a Client Position Account and corresponding Client Collateral Account identified as being held by the Clearing Member relating to the same Client;
- (iii) details of the particular Client and the Contracts and Collateral identified as being held by the Clearing Member relating to such Client as set out in the porting request match OTC Clear's records of such Client's holdings in the Clearing Member's relevant Client Position Account and corresponding Client Collateral Account;
- (iv) the Clearing Member must ensure that there is sufficient Collateral<sup>†</sup> comprising the Margin Balance of the relevant Client Collateral Account corresponding to the Client Position Account into which Contracts are being ported no later than 19:00 hours Hong Kong time prior to the last Portfolio Novation Cycle on the fourth OTC Clear Business Day following the submission of the porting request; and
- (v) no DMP Event has occurred with respect to the Clearing Member.

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\* Available on request from OTC Clear

<sup>†</sup> It is likely that the Margin requirements are likely to increase for example where a Client wishes to port Contracts and Collateral from a Client Clearing Category 2 Position Account identified as relating to such Client to a Client Clearing Category 1 Position Account identified as relating to such Client.

## Chapter 4

### Margin and Valuation

#### 4.6 Margin Process

##### 4.6.2 Margin and Credit Check – Real-Time Novation Process

During the Margin Process Hours on each OTC Clear Clearing Day, but excluding ~~any period when a Portfolio Novation Cycle is in progress or~~ any ~~other~~ period specified by OTC Clear, OTC Clear will repeatedly perform “**Real-Time Novation**”, which is the process set out in this section 4.6.2.

When an Original Transaction is submitted to OTC Clear for registration, OTC Clear will determine the incremental Margin required to cover such Original Transaction together with the Margin requirements in respect of the Position Account(s) to which such Original Transaction will be recorded (for such purpose, each Client Position Accounts shall be treated separately).

Once the Margin requirement in respect of such Original Transaction and the relevant Position Account(s) is determined, OTC Clear will perform the Position Limits check, and check if the Margin Balance in respect of the relevant Position Account(s) is sufficient to cover the incremental Margin requirement.

If OTC Clear is satisfied that the Margin Balance in respect of the relevant Position Account(s) is sufficient to cover the incremental Margin requirement in respect of each Contract to be created upon registration of such Original Transaction, and provided that the Position Limits of each relevant Position Account(s) would not be breached as a result of the registration of such Original Transaction, OTC Clear will accept for registration such Original Transaction and two Contracts will be created pursuant to Clearing Rule 806.

In respect of each Original Transaction, if OTC Clear determines that either the incremental Margin requirement in respect of each Contract to be created upon registration of such Original Transaction is not satisfied, or the Position Limits of the relevant Position Account(s) would be breached, in each case, as a result of the registration of such Original Transaction, such Original Transaction will be put on “pending” status in the Rates and FX Clearing System. “Pending” Original Transactions ~~that are not accepted for registration during a Real-Time Novation process may be accepted for registration later during a Portfolio Novation Cycle as set out in section 4.6.3 or at a later Real-Time Novation until it is rejected by OTC Clear pursuant to section 3.3 of these Clearing Procedures~~ as at the end of the Margin Process Hours on an OTC Clear Clearing Day will be rejected by OTC Clear pursuant to section 3.3 of these Clearing Procedures.

##### 4.6.3 ~~[Deleted]~~ Margin and Credit Check – Portfolio Novation Cycle

~~OTC Clear will run various Portfolio Novation Cycles on each OTC Clear Clearing Day, at the times notified by OTC Clear to the Clearing Members. A “Portfolio Novation Cycle” is the process set out in this section 4.6.3.~~

~~During a Portfolio Novation Cycle, OTC Clear calculates the net amount of Collateral required to cover all “pending” Original Transactions submitted by a Clearing Member (or by a Designated~~

~~Person on its behalf) in respect of a particular Position Account in bulk together with the Margin requirements in respect of the existing portfolio of Contracts recorded to such Position Account (for such purpose, each Client Position Accounts shall be treated separately). Once the amount of Collateral in respect of all such “pending” Original Transactions and the Margin requirements in respect of the existing Contracts then recorded to the relevant Position Account is determined, OTC Clear will perform the Position Limits check and check if the Margin Balance in respect of such Position Account is sufficient to cover the Margin requirement.~~

~~If OTC Clear is satisfied that the Margin Balance in respect of such Position Account is sufficient to meet the amount of Collateral required for all “pending” Original Transactions together with the Margin requirements in respect of the existing portfolio of Contracts then recorded to the relevant Position Account, then provided that the Margin requirements in respect of each Contract to be created upon registration of each such Original Transaction are satisfied, and provided further that the Position Limits of the relevant Position Account(s) would not be breached as a result of the registration of each such Original Transaction, OTC Clear will accept for registration each such Original Transaction.~~

~~In respect of each Original Transaction, if OTC Clear determines that either the Margin requirement or Position Limits checks described above is not satisfied, all the relevant “pending” Original Transactions will continue to be shown with “pending” status in the Rates and FX Clearing System until both the Margin requirement and Position Limits checks are satisfied at the next Portfolio Novation Cycle or Real-Time Novation or such Original Transactions are rejected by OTC Clear pursuant to section 3.3 of these Clearing Procedures.~~

#### **4.6.4 Pending Trades**

In respect of any “pending” Original Transactions to be registered in the name of a Clearing Member as Contracts, the Clearing Member will be notified, via the relevant Approved Trade Registration System, or report via the web portal, of the amount of Collateral required from it in order for all such “pending” Original Transactions to satisfy the Margin Process and be registered as Contracts.

#### **4.6.5 Margin Process in respect of a de-registration request and a porting of Client Contracts**

- (i) In respect of a de-registration request for a Contract, OTC Clear will process such de-registration request only if, in respect of the Position Account to which the relevant Contract is recorded, subsequent to the de-registration of such Contract:
  - (a) there remains sufficient Margin Balance in the corresponding Collateral Account to satisfy the Margin requirement relating to Contracts remaining in such Position Account; and
  - (b) the Position Limits of such Position Account would not be breached
- (ii) In respect of (a) any porting of Client Contracts following a DMP Event or (b) the porting of Contracts relating to Clients pursuant to Clearing Rule 825, OTC Clear will process such porting request only if:
  - (a) (in the case where not all the Contracts recorded in the same Position Account are to be ported) there is sufficient Margin Balance in the corresponding Collateral

Account to satisfy the Margin requirement relating to Contracts remaining in such Position Account;

- (b) in respect of the Position Account to which the relevant Contract is recorded, subsequent to the porting of such Contract, there is or will be sufficient Margin Balance in the corresponding Collateral Account to satisfy the revised Margin requirement relating to such Position Account; and
- (c) the Position Limits of the relevant Position Accounts of the Clearing Member, Transferor Clearing Member, the Transferee Clearing Member and/or the Replacement Clearing Member as applicable would not be breached.



## Chapter 8

### Default Management

#### 8.11 Porting of Affected Contracts and Collateral to a Replacement Clearing Member

OTC Clear will facilitate porting of Affected Contracts in a Client Position Account (and Collateral in its corresponding Client Collateral Account) of a Defaulting Clearing Member if all of the following conditions are satisfied:

- (i) original valid and complete Porting Instructions\* are received by 17:00 hours Hong Kong Time on the OTC Clear Clearing Day immediately following the occurrence of the relevant DMP Event;
- (ii) no DMP Event has occurred with respect to the relevant Replacement Clearing Member;
- (iii) in respect of each Client Position Account, the relevant Replacement Clearing Member has consented (in writing) to accepting the porting of all Affected Contracts and Collateral in the corresponding Client Collateral Account by 17:00 hours Hong Kong Time on the OTC Clear Clearing Day immediately following the occurrence of the relevant DMP Event;
- (iv) the relevant Replacement Clearing Member's standard settlement instruction for each relevant Contractual Currency of the Affected Contracts being ported is in place;
- (v) the Replacement Clearing Member's standard settlement instruction for each relevant Eligible Currency of cash Collateral being ported is in place;
- (vi) the Replacement Clearing Member's standard delivery instruction for each relevant non-cash Collateral being ported is in place;
- (vii) the Replacement Clearing Member's standard settlement instruction for the relevant currency of denomination of the coupon (interest) of each relevant non-cash Collateral is in place;
- (viii) the Replacement Clearing Member fulfills its revised Margin requirements and successfully passes its margin and credit checks ~~on or before the last Portfolio Novation Cycle~~ at 19:00 hours Hong Kong Time on the second OTC Clear Clearing Day following the occurrence of the relevant DMP Event;
- (ix) all amounts that have become due and payable by the relevant Defaulting Clearing Member to OTC Clear in respect of Contracts recorded in the relevant Client Position Account (including, for the avoidance of doubt, any Non-Porting Contracts recorded in that Client Position Account) have been paid or otherwise fully and finally discharged to the satisfaction of OTC Clear; and
- (x) no Rates and FX Clearing Termination Event has occurred.

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\* Forms are provided to Clearing Members as part of their onboarding process and thereafter are available from OTC Clear upon request.

In respect of each Porting Instruction, each Defaulting Clearing Member and the Replacement Clearing Member named therein are deemed to acknowledge, represent and undertake that:

- (a) they are jointly responsible for the accuracy and completeness of the information contained in such Porting Instruction;
- (b) OTC Clear is entitled to rely conclusively on the instructions and information provided in such Porting Instruction without further enquiry; and
- (c) OTC Clear shall incur no liability for any delay, rejection, loss, cost, claim, action, demand or expense in the processing of such Porting Instruction and in effecting the porting of Affected Contracts and Collateral in reliance on the information contained in such Porting Instruction.

If any information and/or instructions provided by the relevant Client in a Porting Instruction is incomplete, inaccurate or inconsistent with its records, OTC Clear may, in its sole and absolute discretion, reject such Porting Instruction or liaise with the Defaulting Clearing Member and/or the Replacement Clearing Member to rectify the relevant information/instruction.

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