

# OTC Clearing Hong Kong Limited Clearing Procedures

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## **Glossary**

## **Preface**

### **Objective**

These Clearing Procedures seek to provide information for Clearing Members in relation to the operations of the Rates and FX Clearing Services.

### **Other Documentation**

The ATRS Guide sets out each data field on an Approved Trade Registration System accepted by OTC Clear, and the application of values in respect of certain data fields, in each case, for the purpose of submission of an Original Transaction for registration as Contracts via the relevant Approved Trade Registration System.

The Report Usage Guide details the specification of each report published by OTC Clear, the guidance for interpreting the contents therein, and the frequency of publication of each such report.

The Web Portal User Manual intends to give Clearing Members guidance on the functionalities and operational features of the Web Portal. Core features of the Web Portal illustrated in the Web Portal User Manual include, but are not limited to, report retrieval, collateral management (for example, progress update relating to any request for depositing or withdrawing Collateral) and the what-if margin simulator.

### **Readership**

All Clearing Members and their staff involved in using the Rates and FX Clearing Services provided by OTC Clear should ensure that they are familiar with these Clearing Procedures.

### **Copyright**

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## Chapter 1

### Introduction to Clearing Procedures

#### 1.1 Interpretation

These Clearing Procedures form part of the Clearing Rules. The information contained herein must be read in conjunction with the Clearing Rules. Unless otherwise specified, definitions and terminologies set forth in these Clearing Procedures carry the same meanings as defined in the Clearing Rules. All other definitions and terminologies set forth in these Clearing Procedures which are not defined in the Clearing Rules shall have the same meanings as defined herein. The Glossary included at the end of these Clearing Procedures provides the page reference of which each of these terms is defined.

#### 1.2 Amendments

Subject to the SFO and the Articles of Association of OTC Clear:

- (i) the OTC Clear Board, after consultation with the Risk Management Committee, shall have the power to amend this section 1.2 and add to, vary or waive any of these Clearing Procedures set out in Chapter 2, Chapter 4, Chapter 5, Chapter 6, Chapter 8 and Chapter 10 of these Clearing Procedures; and
- (ii) the OTC Clear Board shall have the power to amend, add to, vary or waive any of the remaining Clearing Procedures which are not referred to in sub-paragraph (i) above without first consulting the Risk Management Committee.

Without prejudice to the foregoing, OTC Clear recognizes that circumstances may arise which may require it to make ad hoc or urgent decisions on a case specific basis or where a meeting of the OTC Clear Board and/or the Risk Management Committee cannot be convened in a timely manner. Accordingly, the OTC Clear Board may delegate its powers under sub-paragraphs (i) and (ii) above to the chief executive or such other senior executives of OTC Clear as it considers appropriate provided that in respect of matters referred to in sub-paragraph (i) above, the chairman of the Risk Management Committee shall be consulted before a decision is made.

#### 1.3 Operations of the Rates and FX Clearing Services

The “Margin Process” described in section 4.6 of these Clearing Procedures and related curve construction or calculations will be performed during 08:30 – 18:00 hours Hong Kong time on each OTC Clear Clearing Day (the “**Margin Process Hours**”).

The product eligibility requirements check described in section 3.4 of these Clearing Procedures will be performed during 08:30 – 19:00 hours Hong Kong time on each OTC Clear Clearing Day.

## Chapter 2

### Membership

#### 2.1 Membership Application Process

##### 2.1.1 Application Form

An Applicant must complete OTC Clear's membership application form (the "**Application Form**"), which can be found on the HKEX website or obtained directly from OTC Clear's office. The Application Form together with the supplementary documents (please see section 2.1.2) should be submitted to OTC Clear for its review.

OTC Clear reserves the right to amend the form of the Application Form from time to time.

For further information, please contact OTC Clear at:

OTCMembership@hkex.com.hk

##### 2.1.2 Document Checklist for Membership Assessment (One-Off)

Each Applicant is required to submit the documents listed in the Application Form to OTC Clear for membership assessment purpose. Applicants should contact OTC Clear at OTCMembership@hkex.com.hk in case of any queries relating to the nature or contents of the documents required to be submitted to OTC Clear for membership assessment purpose.

In respect of any documents to be submitted to OTC Clear that are not written in the English language, Applicants shall provide OTC Clear with copies of English translations for the same, with any translation costs to be borne by the relevant Applicant. All English translation shall be prepared by translators acceptable to OTC Clear and certified by such translators to the effect that the English translation accurately and completely reflects the contents of the document in its original language.

##### 2.1.3 Inspection and Site Visit

An on-site inspection may be required for membership assessment purpose. An on-site inspection will be mandatory for any Applicant that has not been a clearing member of any over-the-counter central clearing counterparty of international repute for a continuous period of 5 years before the date of its application to OTC Clear. Applicants should make themselves available for inspection provided that OTC Clear has given 28 calendar days' written notice prior to the proposed inspection date, or such other notice period as OTC Clear and the relevant Applicant may otherwise agree.

OTC Clear will provide an Applicant with details of the area to be inspected in the inspection notice, for example, OTC Clear may inspect an Applicant's risk management systems and other systems.

##### 2.1.4 Review and Assessment Process

OTC Clear will collect and review information provided by each Applicant for the purpose of assessing its membership eligibility. The processing of an application will vary from case to case, but it is expected that the application review process should generally be completed within two months from the date OTC Clear is in receipt of all required documents and information.

##### 2.1.5 Approval of Application

Once the application review process has been completed by OTC Clear, the application will be approved or rejected by the OTC Clear Board, in consultation with the Risk Management Committee (provided that such committee has been constituted).

Pursuant to Clearing Rule 308, the OTC Clear Board may, in consultation with the Risk Management Committee (provided that such committee has been constituted), also approve an application in principle subject to the Applicant's fulfilment of conditions set by the OTC Clear Board. Upon receipt of the conditional approval, the Clearing Member may submit Original Transactions for registration by OTC Clear, provided that Clearing Rule 308 shall apply if a Clearing Member fails to fulfil the conditions within the specific time.

The OTC Clear Board's decision will be final and Applicants will be given written notice of approval or rejection. A failed Applicant may request OTC Clear to provide reasons for rejection of its application for Membership.

In accordance with Clearing Rule 405, Membership may not be assigned, transferred or sold without the prior written approval of OTC Clear Board.

#### **2.1.6 Execution of Membership Agreement and Initial Contribution to the Rates and Guarantee Fund**

An Applicant's Membership will only become effective if OTC Clear has received the following:

- (i) two copies of the Membership Agreement signed by the authorized signatory(ies) of the Applicant; and
- (ii) such Applicant's initial contribution to the Rates and FX Guarantee Fund, as determined pursuant to section 6.1.1 of these Clearing Procedures, to be delivered to OTC Clear within the time period set out in Clearing Rule 1504.

#### **2.1.7 Designated Person**

A Designated Person may submit Original Transactions for registration on behalf, and in the name, of its Clearing Member pursuant to the provisions of Chapter 7 of the Clearing Rules.

#### **2.1.8 Additional Documents Required in respect of Non-Hong Kong Incorporated Persons**

Where a Licensed Corporation or an Authorized Institution with jurisdiction of incorporation outside Hong Kong, or a Remotely Regulated Entity (a "**Non-Hong Kong Incorporated Person**") applies to become a Clearing Member, OTC Clear may require such Non-Hong Kong Incorporated Person to demonstrate in its application the ability to satisfy the obligations of a Clearing Member (including but not limited to those set out in Clearing Rule 401(4)), and to provide legal opinions on, among others, the enforceability of OTC Clear's rights under the Clearing Documentation against such Non-Hong Kong Incorporated Person if it were a Clearing Member in respect of the jurisdiction of incorporation of such Non-Hong Kong Incorporated Person.\*

### **2.2 Future Categories of Membership**

Pursuant to Clearing Rule 301, OTC Clear may, after consultation with the Risk Management Committee, establish one or more categories of membership in the future. OTC Clear will notify the Clearing Members of any new category(ies) of membership established, and provide details of the same.

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\* Note: Introduction of remote membership is being considered by HKEX at the moment and is not intended to be available during the initial phase of establishment of OTC Clear.

## **2.3 Clearing Members' On-going Requirements and Obligations**

OTC Clear's requirements in respect of Clearing Members are designed to ensure Clearing Members have sufficient financial resources and the relevant infrastructure for submission of Original Transactions for registration as Contracts with OTC Clear.

### **2.3.1 Capital Requirement**

With respect to each Clearing Member, in addition to maintaining Capital in an amount not less than the Minimum Capital Requirement applicable to it set out in Clearing Rules 403 and 404, it shall also:

- (i) maintain Capital in an amount not less than its Rates and FX Liability;
- (ii) maintain Capital in an amount not less than its Expected Uncollateralized Loss as determined in accordance with section 6.1.1 of these Clearing Procedures; and
- (iii) on any day, maintain Capital in an amount such that the value of its CM Funded Contribution Amount (determined on such day as if it was a Rates and FX Contribution Determination Date) is less than 20% of the then total amount of its Capital.

### **2.3.2 Operational Requirement**

OTC Clear requires each Clearing Member to have operational capabilities to perform trade affirmation, contract settlement, portfolio valuation, portfolio reporting and system linkage with an Approved Trade Registration System. Please refer to section 3.2 of these Clearing Procedures for general information relating to such Approved Trade Registration System.

### **2.3.3 Risk Management Requirement**

Pursuant to Clearing Rule 401(9)(c), OTC Clear requires all Clearing Members to have established adequate risk management systems that are applied appropriately. This will include having risk management policies and procedures in place to ensure different aspects of risk are properly managed. Each Clearing Member's risk management systems, policies and procedures shall include, without limitation, the following:

#### **(i) Market and Credit Risk Management**

Each Clearing Member must have adequate risk policies and procedures in place to manage market and credit risk exposures of its trading portfolios submitted for registration with OTC Clear. Unless with the prior written approval from OTC Clear, a Clearing Member shall, as part of its risk management policies and procedures, set appropriate limits on the aggregate risk exposure of its House Position Account and (if it provides Client Clearing Services) on the risk exposure of each of its Client Position Accounts by utilizing the House Account Limit and/or Client Account Limit as described further in section 4.6.1 of these Clearing Procedures.

#### **(ii) Default Management Process Participation**

Clearing Members shall cooperate with OTC Clear in implementing the Default Management Process, including but not limited to:

- (a) participating in regular drills/tests (as set out in Clearing Rule 401(19));
- (b) providing market access for Hedging (as set out in Chapter 18 of the Clearing Rules and sections 8.2 and 8.5 of these Clearing Procedures); and
- (c) bidding in one or more Auctions during the Default Management Process (as set out in Chapter 19 of the Clearing Rules and section 8.6 of these Clearing Procedures).

- (iii) Client Risk Management (only applicable to Clearing Members who provide Client Clearing Services)

A Clearing Member that provides Client Clearing Services must have adequate risk policies and procedures to mitigate, monitor and control client credit risk as well as fulfil the requirements as stipulated in the Membership Application Form.

- (iv) Margin

A Clearing Member must deliver Collateral to satisfy its Margin requirements. Please refer to Chapter 12 of the Clearing Rules and Chapter 4 of these Clearing Procedures for details.

- (v) Rates and FX Guarantee Fund and Rates and FX Assessments

A Clearing Member must deliver Collateral to OTC Clear in respect of its CM 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. A request by OTC Clear to deliver additional Collateral in respect of a Clearing Member's CM Funded Contribution Amount shall be satisfied by the relevant Clearing Member within 1 OTC Clear Business Day from the date such request is delivered to the Clearing Member.

In addition to the CM Funded Contribution Amount, a Clearing Member may be required to pay in cash its CM Unfunded Contribution Amount. More details can be found in Clearing Rules 1506 and 1507 and Chapter 6 of these Clearing Procedures.

#### **2.3.4 Outsourcing**

Each Clearing Member must have the ability to perform its operational and risk management functions (including participating in fire drills and in the Default Management Process) as required under the Clearing Documentation. To the extent that a Clearing Member wishes to have part or all of its operational and risk management functions performed by one or more of its Affiliates, such Clearing Member must have received written approval from OTC Clear to that effect prior to outsourcing or delegating such functions to the relevant Affiliate(s). OTC Clear will withhold its approval if a Clearing Member is seeking to outsource all of its risk management functions to its Affiliate who is also its Client. A Clearing Member who has outsourced part or all of its operational and risk management functions to its Affiliate(s) shall remain responsible to OTC Clear for the performance of all such functions pursuant to the Clearing Documentation. OTC Clear may revoke any approval in relation to the outsourcing or delegation of operational and risk management functions of a Clearing Member by providing such Clearing Member with written notice revoking the relevant approval. For the avoidance of doubt, a Clearing Member may not outsource its operational and risk management functions to any person other than its Affiliates.

#### **2.3.5 On-going Reporting Requirement**

A Clearing Member shall satisfy its obligations to provide OTC Clear with all relevant information as set out in Clearing Rules 401(13), 501, 503 and 504.

### **2.4 Client Clearing**

A Clearing Member may apply to provide Client Clearing Services by completing part B of the Application Form.

## 2.5 Changes to conditions of Membership

Any request to change any condition(s) of Membership, including but not limited to the type(s) of Contracts that a Clearing Member may submit for registration or whether it may provide Client Clearing Services, must be submitted to OTC Clear in writing.

Upon receipt of such request, OTC Clear may, at its discretion, require additional information or documents from such Clearing Member, conduct on-site inspection of such Clearing Member, or require such Clearing Member to submit a new Application Form. After assessing such request, OTC Clear will notify the Clearing Member in writing whether any requested change to condition(s) of Membership is approved or rejected.

## 2.6 Notification

- (i) In accordance with Clearing Rule 501(3), each Clearing Member is required to provide notification to OTC Clear for the events and changes specified below, within the periods specified herein:

Subject to OTC Clear's approval	any addition or removal of a Designated Person attached to a Clearing Member
At least 10 OTC Clear Business Days prior to the relevant event	any change in the settlement instructions by a Clearing Member
At least two OTC Clear Business Days prior to the relevant event	any of the following: (i) where practicable, any registration of new Contracts, or de-registration of existing Contracts from the House Position Account or any Client Position Account(s) of a Clearing Member that will or is expected to result in the Initial Margin requirement relating to such House Position Account or Client Position Account(s) meeting or exceeding a certain percentage threshold designated, and notified, by OTC Clear from time to time. The initial percentage threshold relevant for this purpose is set as 20%; or (ii) any change in the names or contact details of the persons designated by the Clearing Member in the Application Form as responsible officers for handling operational and risk matters.
Immediate notice by telephone and followed by notice in writing as soon as reasonably practicable	(i) any transfer, change or cessation of a Clearing Member's business which has a material effect on the Clearing Member's over-the-counter derivatives trading business. A "material effect" on the Clearing Member's OTC derivatives trading business will be deemed to have occurred if any transfer, change or cessation of a Clearing Member's business leads to: (ii) - the Initial Margin requirement relating to the House Position Account or the Client Position Account(s) of such Clearing Member meeting or exceeding a certain percentage threshold designated and notified by OTC

	<p>Clear from time to time. The initial percentage threshold relevant for this purpose is 20%; and</p> <p>- the value of such change is in excess of the Rates and FX Minimum Contribution Amount; or</p> <p>(iii) de-registration of all Contracts recorded in the name of the Clearing Member (please refer to section 3.6 of these Clearing Procedures).</p>
<p>Within 7 OTC Clear Business Days after the occurrence of the relevant event</p>	<p>any change in any of the following in relation to the Clearing Member:</p> <p>(i) the legal or business name;</p> <p>(ii) the registered office address provided by the Clearing Member and stated on the Application Form;</p> <p>(iii) any chief executive or equivalent;</p> <p>(iv) share capital; or</p> <p>(v) auditor.</p>

- (ii) In addition to the matters set out in sub-paragraph (i) above, each Clearing Member is also required to provide notification to OTC Clear for the events and changes specified below, within the periods specified herein:

<p>As soon as the relevant event is identified</p>	<p>(i) any action, proceeding or investigation instituted against the Clearing Member by or on behalf of any Governmental Authority, self-regulatory organization, other regulatory authority exercising any disciplinary functions to which the Clearing Member is subject or any Clearing Organization to which the Clearing Member is a member; or</p> <p>(ii) any action, proceeding or investigation instituted against any member of the board of directors, chief executive officer, chief financial officer or chief operations officer (or its equivalent) of the Clearing Member by or on behalf of any Governmental Authority, self-regulatory organization, other regulatory authority exercising any disciplinary functions to which the Clearing Member is subject or any Clearing Organization to which the Clearing Member is a member.</p>
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The above lists are not intended to be exhaustive and a Clearing Member is expected to notify OTC Clear of any matter set out in Clearing Rule 501 in writing without delay, provided that any materially adverse or time sensitive changes that may affect a Clearing Member's eligibility to continue as a Clearing Member shall be notified to OTC Clear by telephone promptly and followed by notice in writing as soon as reasonably practicable.

## 2.7 Audit, Inspection or System Tests

Pursuant to Clearing Rule 401(18), officers or employees of OTC Clear or such persons appointed by OTC Clear may:

- (i) from time to time inspect and copy the statements, books, records, accounts and other documents maintained by a Clearing Member relating to Contracts; and/or
- (ii) conduct audits or system tests of each Clearing Member's operations related to its business with OTC Clear. Audit and system tests shall be conducted during business hours, and it is expected that, under normal circumstances, there will not be more than two audits being conducted within the same year with respect to a Clearing Member.

In addition, OTC Clear will conduct an on-site inspection of each Clearing Member at least once every 3 years.

A Clearing Member shall provide or allow relevant officers or employees or appointed persons of OTC Clear access to its premises, systems, statements, books, records, accounts and other documents necessary to discharging their duty for the purpose of carrying out the audit or system tests. A Clearing Member shall be entitled to deny entry to a representative of OTC Clear for the purpose of audit or system tests if it has reasonable grounds to believe any such representatives are conflicted in their role as an inspector or auditor, and has, in OTC Clear's reasonable determination, provided sufficient evidence to OTC Clear to substantiate such alleged conflict of interest.

Any costs and expenses reasonably incurred as a result of an inspection (including an on-site inspection) or audit or system test directed by OTC Clear under Clearing Rule 401(18) shall be borne by the Clearing Member concerned. OTC Clear will obtain at least two independent quotes for any such inspection or audit or system test.

If, upon the completion of an inspection or audit, OTC Clear is of the view that modifications are necessary to a Clearing Member's business activities, in whole or in part, such Clearing Member shall enter into good faith discussions with OTC Clear as to the necessary extent of any modifications and the timescale within which such Clearing Member will make such modifications.

## **2.8 Suspension, Termination and Resignation**

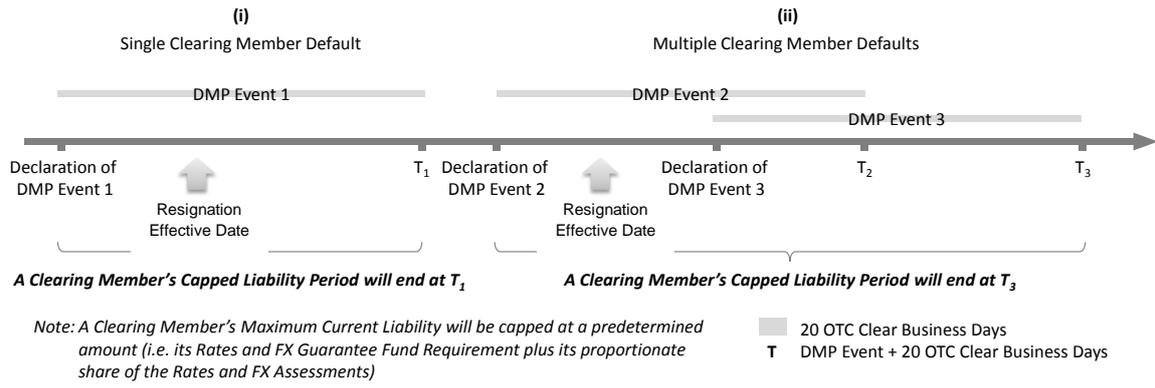
Membership may be suspended by OTC Clear in accordance with Chapter 6 of the Clearing Rules or terminated by OTC Clear in accordance with Clearing Rule 1311 or 1405.

A Clearing Member may resign from its Membership by giving written notice to OTC Clear in accordance with Clearing Rules 604 to 612.

## **2.9 Capped Liability Period**

In connection with Clearing Rules 609 and 1544, the following diagram illustrates how a Clearing Member's Maximum Current Liability is determined in respect of each Capped Liability Period:

- (i) if there is a single DMP Event (i.e. no other DMP Event has occurred in the period 20 OTC Clear Business Days prior or after such DMP Event), then the Capped Liability Period is the period from the declaration of such DMP Event to the 20th OTC Clear Business Day after such declaration; or
- (ii) if there are multiple DMP Events occurring in close succession and each of them occurred within 20 OTC Clear Business Days of another DMP Event, then the Capped Liability Period is the period from declaration of the DMP Event of the first Defaulting Clearing Member (i.e. no other DMP Event has occurred within 20 OTC Clear Business Days prior to such DMP Event) to the 20th OTC Clear Business Day after the last of such declared DMP Event.



## Chapter 3

### Rates and FX Clearing Services

#### 3.1 Overview

Upon execution of an Original Transaction, Clearing Members or Clients who are parties to such Original Transaction and who wish to submit such Original Transaction for registration with OTC Clear shall submit or, in the case of a Client, request the relevant Clearing Member to submit such instructions to the same Approved Trade Registration System. Upon receipt of the instructions from the Clearing Members, the Approved Trade Registration System will perform matching of the instructions. As described in section 3.2, each Approved Trade Registration System is a system provided by a third-party vendor and as such, OTC Clear will not be responsible or liable for any such trade matching performed by any such Approved Trade Registration System.

After an Original Transaction is matched by an Approved Trade Registration System, Clearing Members can submit an Original Transaction to OTC Clear for registration via an Approved Trade Registration System. Any Original Transaction which is submitted for registration is required to fulfil the applicable product eligibility requirements set out in section 3.4 and “Margin Process” as described in section 4.6 of these Clearing Procedures. The results of the registration will be communicated to the relevant Approved Trade Registration System and/or indicated in the “OTC Clear Trade Report (Report Number TDRP01, TDRP02, TDRP03, TDRP04, TDRP05, TDRP06, TDRP11, TDRP12 or TDRP13)” in relation to any House Position Account or “OTC Clear Trade Report for Client (Report Number TDRP01\_C, TDRP02\_C, TDRP03\_C, TDRP04\_C, TDRP05\_C, TDRP06\_C, TDRP11\_C, TDRP12\_C or TDRP13\_C)” in relation to any Client Position Account. Both “OTC Clear Trade Report (Report Number TDRP01, TDRP02, TDRP03, TDRP04, TDRP05, TDRP06, TDRP11, TDRP12 or TDRP13)” and “OTC Clear Trade Report for Client (Report Number TDRP01\_C, TDRP02\_C, TDRP03\_C, TDRP04\_C, TDRP05\_C, TDRP06\_C, TDRP11\_C, TDRP12\_C or TDRP13\_C)” are available to the Clearing Members on the Web Portal.

The ISDA Definitions and FX Definitions are incorporated by reference into this Chapter 3. References to “Business Day(s)” as used in this Chapter 3 shall have the meaning given to it in the ISDA Definitions. For the avoidance of doubt, the meaning of “Business Day” incorporated by reference in Chapter 23, Chapter 24 and Chapter 26 of the Clearing Rules shall not be applicable in this Chapter 3.

#### 3.2 Approved Trade Registration System

OTC Clear does not discriminate or distinguish between Original Transactions based upon execution method or venue. However, Original Transactions will be accepted only if they are submitted through an approved matching and confirmation service for over-the-counter derivatives transactions designated by OTC Clear from time to time and notified to Clearing Members via Clearing Notice (each an “**Approved Trade Registration System**”). Any Original Transaction submitted to OTC Clear through an Approved Trade Registration System shall be deemed to be submitted for or by the relevant Clearing Member. Please refer to the ATRS Guide which sets out each data field on an Approved Trade Registration System accepted by OTC Clear for the purpose of submission of an Original Transaction for registration as Contracts. The ATRS Guide will also provide the relevant values applied by OTC Clear in respect of certain data fields. Each Clearing Member agrees and acknowledges that it shall be bound by the ATRS Guide.

Each of the Approved Trade Registration Systems is a system provided by a third-party vendor. OTC Clear has no involvement in and does not guarantee the level of performance, integrity or efficiency in relation to any services provided by the providers of such Approved Trade Registration Systems. The

service level agreements entered into between the provider of the relevant Approved Trade Registration System and the Clearing Members govern the terms and conditions of the provision of services by the provider of such Approved Trade Registration System to the relevant Clearing Members. OTC Clear accepts no liability arising from the usage of any Approved Trade Registration System by any Clearing Member.

It is the responsibility of a Clearing Member to ensure that all Original Transactions are submitted by its authorized personnel. A Clearing Member should ensure that it complies with the security and access procedures of the relevant Approved Trade Registration System. OTC Clear has no obligation to verify if the trade details are genuine and/or correctly reflect the trade which has been entered by the Clearing Member. OTC Clear is not liable for any losses suffered by any Clearing Member or Client which are incurred by any unauthorized input of trade into the Approved Trade Registration System.

OTC Clear does not make any representation as to the accuracy of any data sent via an Approved Trade Registration System (whether by Clearing Members to OTC Clear, or by OTC Clear to Clearing Members, in each case, via an Approved Trade Registration System). A Clearing Member shall be bound by the terms and conditions of a Contract on the basis of the data sent by an Approved Trade Registration System to OTC Clear notwithstanding the existence of any incorrect or corrupted data being sent by such Approved Trade Registration System to OTC Clear. OTC Clear is not required to perform any rectification or re-registration of such Contract, and shall have no liability for any loss relating to registration of such Contract.

### **3.3 Process of Registration and Rejection**

#### **3.3.1 Creation of Contracts through Submission of Original Transactions by Clearing Members - Status of Registration of a Transaction and Notification of Results**

Any Original Transaction submitted by a Clearing Member (or by a Designated Person on its behalf) to OTC Clear for registration is required to satisfy the Eligibility Requirements.

In respect of an Original Transaction submitted for registration before 18:00 hours Hong Kong time on an OTC Clear Clearing Day, OTC Clear will, on such OTC Clear Clearing Day, perform both product eligibility requirement checks set out in section 3.4 and the "Margin Process" set out in section 4.6 of these Clearing Procedures on such Original Transaction.

In respect of an Original Transaction submitted to OTC Clear for registration between 18:00 hours Hong Kong time and 19:00 hours Hong Kong time on an OTC Clear Clearing Day, OTC Clear will perform product eligibility requirements checks set out in section 3.4 on such Original Transaction on the same day. The "Margin Process" on such Original Transaction will only be performed during the Margin Process Hours, and as such, such Original Transaction will not be registered by OTC Clear until the immediately following OTC Clear Clearing Day assuming the Original Transaction satisfies the "Margin Process" set out in section 4.6 of these Clearing Procedures.

In respect of an Original Transaction submitted to OTC Clear for registration 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, OTC Clear will perform product eligibility requirements checks set out in section 3.4 and the "Margin Process" set out in section 4.6 of these Clearing Procedures on such Original Transaction on the immediately following OTC Clear Clearing Day.

If an Original Transaction does not satisfy the applicable product eligibility requirements as set out in section 3.4, or if it contains any invalid or incomplete trade data, such Original Transaction 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 the relevant Approved Trade Registration System.

If an Original Transaction satisfies the applicable product eligibility requirements set out in section 3.4, but does not satisfy the “Margin Process” as set out in section 4.6 of these Clearing Procedures, such Original Transaction will be put on “pending” status in the Rates and FX Clearing System. The result will be communicated to the relevant Approved Trade Registration System. The transaction will be flagged as “WAIT\_MARGIN”, “LIMIT\_FAILED” or “PROCESSING” 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.

Any Original Transaction that is submitted to OTC Clear for registration between 18:00 hours Hong Kong time and 19:00 hours Hong Kong time on an OTC Clear Clearing Day and put on “pending” status in the Rates and FX Clearing System will be rejected by OTC Clear if it is not accepted for registration by the commencement of the End-of-Day Settlement Process on the immediately following OTC Clear Clearing Day. Otherwise any “pending” Original Transaction that is not accepted for registration by the commencement of the End-of-Day Settlement Process on the OTC Clear Clearing Day on which such “pending” Original Transaction satisfies the applicable product eligibility requirements set out in section 3.4 will be rejected by OTC Clear.

The result of rejection will be communicated to the relevant Approved Trade Registration System. The transaction will be flagged as “REJECTED” in the “OTC Clear Trade Report (Report Number TDRP05, TDRP06 or TDRP13)” in relation to any House Position Account or “OTC Clear Trade Report for Client (Report Number TDRP05\_C, TDRP06\_C or TDRP13\_C)” in relation to any Client Position Account. Both “OTC Clear Trade Report (Report Number TDRP05, TDRP06 or TDRP13)” and “OTC Clear Trade Report for Client (Report Number TDRP05\_C, TDRP06\_C or TDRP13\_C)” are available to the Clearing Members on the Web Portal.

If an Original Transaction satisfies all applicable Eligibility Requirements, such Original Transaction will be registered by OTC Clear as two Contracts. The result will be communicated to the relevant Approved Trade Registration System. A unique trade identification number will be assigned to each such Contract, and such trade identification number will be published in the “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. Both “OTC Clear Trade Report (Report Number TDRP01, TDRP02 or TDRP11)” and “OTC Clear Trade Report for Client (Report Number TDRP01\_C, TDRP02\_C or TDRP11\_C)” are available to the Clearing Members on the Web Portal. In addition, the Original Transaction submitted for registration will be flagged as “CLEARED” in such “OTC Clear Trade Report (Report Number TDRP01, TDRP02 or TDRP11)” or “OTC Clear Trade Report for Client (Report Number TDRP01\_C, TDRP02\_C or TDRP11\_C)”.

### **3.3.2 Creation of Contracts other than through Submission of Original Transactions by Clearing Members**

- (i) Pursuant to Clearing Rule 813, Contracts may also be created by OTC Clear registering a Contract on its system. In doing so, OTC Clear may waive any required checks for assessing whether or not the applicable Eligibility Requirements have been satisfied; or
- (ii) Pursuant to Clearing Rule 825, Contracts may also be created by OTC Clear registering a Contract on its system in accordance with sections 3.17 and 3.18 of these Clearing Procedures.

### 3.4 Product Eligibility Requirements

#### 3.4.1 General Requirements for an Original Non Deliverable Rates Derivatives Transaction and Original Non Deliverable FX Derivatives Transaction

OTC Clear will accept an Original Transaction for registration only if:

- (i) to the extent that a particular subject matter or data field appearing in an Original Non Deliverable Rates Derivatives Transaction is prescribed for in the ND IRS Template, the election made with respect to such subject matter or data field in the Original Non Deliverable Rates Derivatives Transaction is consistent with that prescribed for in the relevant ND IRS Template; and
- (ii) to the extent that a particular subject matter or data field appearing in an Original Non Deliverable FX Derivatives Transaction is prescribed for in the EMTA Template, the election made with respect to such subject matter or data field in the Original Non Deliverable FX Derivatives Transaction is consistent with that prescribed for in the relevant EMTA Template.

#### 3.4.2 Specific Requirements for an Original Standard Rates Derivatives Transaction, an Original Standard Cross-currency Rates Derivatives Transaction, and an Original Non Deliverable Rates Derivatives Transaction

3.4.2.1 OTC Clear will only accept the types of Original Standard Rates Derivatives Transaction, Original Standard Cross-currency Rates Derivatives Transaction and Original Non Deliverable Rates Derivatives Transaction for registration as set out in the table as follows:

Instrument		Currencies / Currency Pairs (swap and FX)	Floating Rate Option	Maximum Residual Term	Designated Maturity
Original Standard Rates Derivatives Transactions	Single currency interest rate swaps	USD	USD-LIBOR-BBA	10 years (3,660 days)	One month, three months, six months and one year
		EUR	EUR-EURIBOR-Reuters EUR-LIBOR-BBA	10 years (3,660 days)	One month, three months, six months and one year
		HK\$	HKD-HIBOR-HKAB	15 years (5,490 days)	One month, three months, six months and one year
		CNY (offshore)	CNY-SHIBOR-Reuters	10 years (3,660 days)	One month, three months, six months and one year
	CNH-HIBOR-TMA				
Single currency basis swaps	USD	USD-LIBOR-BBA	10 years (3,660 days)	One month, three months, six months and one year	

Instrument		Currencies / Currency Pairs (swap and FX)	Floating Rate Option	Maximum Residual Term	Designated Maturity
		EUR	EUR-EURIBOR-Reuters	10 years (3,660 days)	One month, three months, six months and one year
			EUR-LIBOR-BBA		
		HK\$	HKD-HIBOR-HKAB	15 years (5,490 days)	One month, three months, six months and one year
Original Standard Cross-currency Rates Derivatives Transactions	Cross-currency interest rate swaps and Cross-currency basis swaps	CNY (offshore) and USD	CNY (offshore): CNH-HIBOR-TMA CNY-SHIBOR-Reuters	10 years (3,660 days)	One month, three months, six months and one year
			USD: USD-LIBOR-BBA		
		HK\$ and USD	HK\$: HKD-HIBOR-HKAB	10 years (3,660 days)	One month, three months, six months and one year
			USD: USD-LIBOR-BBA		
Original Non Deliverable Rates Derivatives Transactions	Non-deliverable interest rate swaps	CNY	CNY-CNREPOFIX=CFX S-Reuters	5 years (1,830 days)	Not Applicable
		INR	INR-MIBOR-OIS-COMPOUND	10 years (3,660 days)	Not Applicable
			INR-FBIL-MIBOR-OIS-COMPOUND		
		KRW	KRW-CD-KSDA-Bloomberg	10 years (3,660 days)	Three months
			KRW-CD-3220		
		MYR	MYR-KLIBOR-BNM	10 years (3,660 days)	Three months
		THB	THB-THBFIX-Reuters	10 years (3,660 days)	Six months
TWD	TWD-TAIBOR-Reuters	10 years (3,660 days)	Three months		

### 3.4.2.2 Day Count Fraction

OTC Clear will only accept the Floating Rate Day Count Fractions as follows:

Instrument		Currencies	Floating Rate Day Count Fraction
Original Standard Rates Derivatives Transactions	Single currency interest rate swaps	USD	Actual/360
		EUR	Actual/360
		HK\$	Actual/365 (Fixed)
		CNY (offshore)	Actual/360 and Actual/365 (Fixed)
	Single currency basis swaps	USD	Actual/360
		EUR	Actual/360
HK\$		Actual/365 (Fixed)	
Original Standard Cross-currency Rates Derivatives Transactions	Cross-currency interest rate swaps	USD	Actual/360
		CNY (offshore)	Actual/360 and Actual/365 (Fixed)
		HK\$	Actual/365 (Fixed)
	Cross-currency basis swaps	USD	Actual/360
		CNY (offshore)	Actual/360 and Actual/365 (Fixed)
		HK\$	Actual/365 (Fixed)
Original Non Deliverable Rates Derivatives Transactions	Non-deliverable interest rate swaps	CNY	Actual/365 (Fixed)
		INR	Actual/365 (Fixed)
		KRW	Actual/365 (Fixed)
		MYR	Actual/365 (Fixed)
		THB	Actual/365 (Fixed)
		TWD	Actual/365 (Fixed)

OTC Clear will accept any of the following Fixed Rate Day Count Fractions:

- (i) Actual/Actual;
- (ii) Actual/365 (Fixed);
- (iii) Actual/360;
- (iv) 30/360;
- (v) 30E/360; and
- (vi) 30E/360 (ISDA).

### 3.4.2.3 Business Day for Payment Dates

- (i) with regard to an Original Standard Rates Derivatives Transaction, OTC Clear will accept such Original Standard Rates Derivatives Transaction for registration only if the financial center(s) as shown in the table below in the column entitled “Mandatory Financial Center” and marked against the relevant Contractual Currency has/have been elected for such Original Standard Rates Derivatives Transaction for the purpose of determining Payment Dates:

<b>Contractual Currencies</b>	<b>Mandatory Financial Center</b>
USD	New York
EUR	TARGET
HK\$	Hong Kong
CNY (offshore)	Beijing and Hong Kong

Additional financial center(s) (as set out in Appendix II to these Clearing Procedures) may also be elected (irrespective of the Contractual Currency of the Original Standard Rates Derivatives Transaction) for such Original Standard Rates Derivatives Transaction for the purpose of determining Payment Dates (other than Payment Dates in respect of Additional Payments which are set out in section 3.4.2.17) with no limitation in number;

- (ii) with regard to an Original Non Deliverable Rates Derivatives Transaction, OTC Clear will accept an Original Non Deliverable Rates Derivatives Transaction for registration only if the “Relevant City(ies) for Business Day for Settlement Date(s)” specified in the ND IRS Template relating to such Original Non Deliverable Rates Derivatives Transaction has/have been elected for the purpose of determining the Payment Dates;
- (iii) with regard to both an Original Standard Rates Derivatives Transaction and Original Non Deliverable Rates Derivatives Transaction, OTC Clear will accept such Original Transaction for registration only if:
- (a) with respect to the Floating Rate Payer (or if a Fixed Rate Payer is not applicable to that Original Transaction, then with respect to each Floating Rate Payer), the same financial center(s) or “Relevant City(ies) for Business Days for Settlement Date(s)” (as applicable) has/have been elected for purposes of determining the Payment Date and the Calculation Period (if applicable) for each Floating Amount payable by such Floating Rate Payer; and
- (b) the same financial center(s) or “Relevant City(ies) for Business Days for Settlement Date(s)” (as applicable) has/have been elected for purposes of determining the Payment Date and the Calculation Period (if applicable) for each Fixed Amount (if applicable);
- (iv) with regard to an Original Standard Cross-currency Rates Derivatives Transaction, OTC Clear will accept such Original Standard Cross-currency Rates Derivatives Transaction for registration only if the financial centers as shown in the table below in the column entitled “Mandatory Financial Center” and marked against the relevant Currency Pair (swap) have been elected for such Original Standard Cross-currency Rates Derivatives Transaction for the purpose of determining Payment Dates (other than Payment Dates in respect of Additional Payments which are set out in section 3.4.2.17):

<b>Currency Pairs (swap)</b>	<b>Mandatory Financial Center</b>
USD and CNY (offshore)	New York, Beijing and Hong Kong
USD and HK\$	New York and Hong Kong

Additional financial center(s) (as set out in Appendix II to these Clearing Procedures) may also be elected (irrespective of the Currency Pair (swap and FX) of the Original Standard Cross-currency Rates Derivatives Transaction) for such Original Standard Cross-currency Rates Derivatives Transaction for the purpose of determining Payment Dates (other than Payment Dates in respect of Additional Payments which are set out in section 3.4.2.17) with no limitation in number; and

- (v) with regard to an Original Standard Cross-currency Rates Derivatives Transaction, OTC Clear will accept an Original Standard Cross-currency Rates Derivatives Transaction for registration only if the same financial centers have been elected for the purposes of determining (a) the Payment Date and the Calculation Period (if applicable) for each Floating Amount, (b) the Payment Date and the Calculation Period (if applicable) for each Fixed Amount (if applicable), (c) the Initial Exchange Date (if applicable), and (d) the Final Exchange Date (if applicable).

#### **3.4.2.4 Business Day Convention**

In respect of any Payment Date (other than Payment Dates in respect of Additional Payments which are set out in section 3.4.2.17), OTC Clear will accept:

- (i) an Original Standard Rates Derivatives Transaction, an Original Standard Cross-currency Rates Derivatives Transaction and an Original Non Deliverable Rates Derivatives Transaction for registration only if the Business Day Convention is specified as one of the following:

<b>Business Day Convention</b>
Following
Modified Following
Preceding

- (ii) with regard to both an Original Standard Rates Derivatives Transaction and Original Non Deliverable Rates Derivatives Transaction, OTC Clear will accept such Original Transaction for registration only if:
  - (a) with respect to the Floating Rate Payer (or if a Fixed Rate Payer is not applicable to that Original Transaction, then with respect to each Floating Rate Payer), the same Business Day Convention has been elected for purposes of determining the Payment Date and the Calculation Period (if applicable) for each Floating Amount payable by such Floating Rate Payer; and
  - (b) the same Business Day Convention has been elected for purposes of determining the Payment Date and the Calculation Period (if applicable) for each Fixed Amount (if applicable); and
- (iii) with regard to an Original Standard Cross-currency Rates Derivatives Transaction, OTC Clear will accept an Original Standard Cross-currency Rates Derivatives Transaction for registration only if the same Business Day Convention has been elected for purposes of determining (a)

the Payment Date and the Calculation Period (if applicable) for each Floating Amount, (b) the Payment Date and the Calculation Period (if applicable) for each Fixed Amount (if applicable), (c) the Initial Exchange Date (if applicable), and (d) the Final Exchange Date (if applicable).

#### **3.4.2.5 Residual Term**

The residual term of an Original Standard Rates Derivatives Transaction, an Original Standard Cross-currency Rates Derivatives Transaction, or an Original Non Deliverable Rates Derivatives Transaction is the period from (but excluding) the date on which OTC Clear performs the product eligibility requirements checks set out in this section 3.4 on such Original Transaction to (and including) the Termination Date of such Original Transaction.

OTC Clear will accept an Original Standard Rates Derivatives Transaction, an Original Standard Cross-currency Rates Derivatives Transaction and an Original Non Deliverable Rates Derivatives Transaction for registration only if the residual term of that particular Original Transaction is less than or equal to the relevant maximum residual term as set out in section 3.4.2.1.

#### **3.4.2.6 Notional Amount**

OTC Clear will accept an Original Standard Rates Derivatives Transaction and an Original Non Deliverable Rates Derivatives Transaction for registration only if the Notional Amount of that particular Original Transaction is:

- (i) greater than or equal to one unit of the relevant currency;
- (ii) an integer if the relevant Notional Amount is denominated in KRW, or an integer or a number rounded up to two or less decimal points if the relevant Notional Amount is denominated in USD, EUR, HK\$, CNY (offshore), CNY, INR, MYR, THB or TWD; and
- (iii) the same for each Calculation Period during the term of that particular Original Transaction.

#### **3.4.2.7 Effective Date**

OTC Clear will accept an Original Standard Rates Derivatives Transaction, an Original Standard Cross-currency Rates Derivatives Transaction and an Original Non Deliverable Rates Derivatives Transaction for registration only if:

- (i) only one Effective Date is applicable to that particular Original Transaction; and
- (ii) such an Effective Date is not subject to any adjustment (in accordance with any Business Day Convention).

For the avoidance of doubt, the Effective Date specified for an Original Standard Rates Derivatives Transaction, an Original Standard Cross-currency Rates Derivatives Transaction and an Original Non Deliverable Rates Derivatives Transaction may fall prior to, after, or on the same date as the date on which such Original Transaction is submitted for registration.

#### **3.4.2.8 Calculation Period**

- (i) The period of time between one Period End Date to the next following Period End Date is known as the “interval” for the purpose of this section 3.4.2.8, section 3.4.2.9 and section 3.4.2.12. For example, if the Period End Dates fall on 1 January 2013, 1 April 2013, 1 July 2013 and 1 October 2013 of calendar year 2013, then the interval will be quarterly;
- (ii) the period of time between one Payment Date to the next following Payment Date is known as the “frequency of payment” for the purpose of this section 3.4.2.8 and section 3.4.2.12. For example, if the term of an Original Transaction is one year, and the Payment Dates fall on 30

June and 30 December of that calendar year, the “frequency of payment” for that particular Original Transaction is 6 months;

(iii) for the purpose of this section 3.4.2.8, section 3.4.2.9, section 3.4.2.10, section 3.4.2.12 and section 3.4.2.19:

(a) with regard to a Floating Rate Payer of an Original Transaction:

(A) “stub” will be applicable to the initial Calculation Period in respect of such Floating Rate Payer provided that the initial Calculation Period (prior to any adjustment being made in accordance with the applicable Business Day Convention to the relevant Calculation Period) has a different interval than the subsequent Calculation Period(s) in respect of such Floating Rate Payer and:

(1) if there are only two Floating Amounts payable by such Floating Rate Payer during the term of that particular Original Transaction, the interval of the subsequent Calculation Period is the same as the frequency of payment of Floating Amounts payable by such Floating Rate Payer during the term of that particular Original Transaction as designated by the Clearing Members; or

(2) if there are more than two Floating Amounts payable by such Floating Rate Payer during the term of that particular Original Transaction, the interval of each subsequent Calculation Period is the same as the frequency of payment of Floating Amounts payable by such Floating Rate Payer during the term of that particular Original Transaction as designated by the Clearing Members; and

(B) “stub” will be applicable to the final Calculation Period in respect of such Floating Rate Payer provided that the final Calculation Period (prior to any adjustment being made in accordance with the applicable Business Day Convention to the relevant Calculation Period) has a different interval as compared to the preceding Calculation Period(s) in respect of such Floating Rate Payer and:

(1) if there are only two Floating Amounts payable by such Floating Rate Payer during the term of that particular Original Transaction, the interval of the preceding Calculation Period is the same as the frequency of payment of Floating Amounts payable by such Floating Rate Payer during the term of that particular Original Transaction as designated by the Clearing Members; or

(2) if there are more than two Floating Amounts payable by such Floating Rate Payer during the term of that particular Original Transaction, the interval of each preceding Calculation Period is the same as the frequency of payment of Floating Amounts payable by such Floating Rate Payer during the term of that particular Original Transaction as designated by the Clearing Members; and

(b) with regard to a Fixed Rate Payer of an Original Transaction:

(A) “stub” will be applicable to the initial Calculation Period in respect of such Fixed Rate Payer provided that the initial Calculation Period (prior to any

adjustment being made in accordance with the applicable Business Day Convention to the relevant Calculation Period) has a different interval as compared to the subsequent Calculation Period(s) in respect of such Fixed Rate Payer and:

- (1) if there are only two Fixed Amounts payable by such Fixed Rate Payer during the term of that particular Original Transaction, the interval of the subsequent Calculation Period is the same as the frequency of payment of Fixed Amounts payable by such Fixed Rate Payer during the term of that particular Original Transaction as designated by the Clearing Members; or
- (2) if there are more than two Fixed Amounts payable by such Fixed Rate Payer during the term of that particular Original Transaction, the interval of each subsequent Calculation Period is the same as the frequency of payment of Fixed Amounts payable by such Fixed Rate Payer during the term of that particular Original Transaction as designated by the Clearing Members; and

(B) “stub” will be applicable to the final Calculation Period in respect of such Fixed Rate Payer provided that the final Calculation Period (prior to any adjustment being made in accordance with the applicable Business Day Convention to the relevant Calculation Period) has a different interval as compared to the preceding Calculation Period(s) in respect of such Fixed Rate Payer and:

- (1) if there are only two Fixed Amounts payable by such Fixed Rate Payer during the term of that particular Original Transaction, the interval of the preceding Calculation Period is the same as the frequency of payment of Fixed Amounts payable by such Fixed Rate Payer during the term of that particular Original Transaction as designated by the Clearing Members; or
- (2) if there are more than two Fixed Amounts payable by such Fixed Rate Payer during the term of that particular Original Transaction, the interval of each preceding Calculation Period is the same as the frequency of payment of Fixed Amounts payable by such Fixed Rate Payer during the term of that particular Original Transaction as designated by the Clearing Members;

(iv) Floating Amount

with regard to an Original Standard Rates Derivatives Transaction, an Original Standard Cross-currency Rates Derivatives Transaction or an Original Non Deliverable Rates Derivatives Transaction and the Floating Rate Payer for that particular Original Transaction (or if a Fixed Rate Payer is not applicable to that particular Original Transaction, then each Floating Rate Payer):

- (a) if there is only one Floating Amount payable by such Floating Rate Payer during the term of that particular Original Transaction, OTC Clear will accept that particular Original Transaction for registration provided that:

- (A) the frequency of payment of such Floating Amount is the same as the interval of the Calculation Period of such Floating Amount as designated by the Clearing Members; and
  - (B) the Clearing Members specify in the relevant Approved Trade Registration System that stub is inapplicable to any Calculation Period in respect of such Floating Rate Payer when submitting such Original Transaction for registration; or
- (b) if there are two or more Floating Amounts payable by such Floating Rate Payer during the term of that particular Original Transaction, OTC Clear will accept that particular Original Transaction for registration provided that:
- (A)
    - (1) (I) stub is applicable only to the initial Calculation Period in respect of such Floating Rate Payer; and (II) the Clearing Members specify in the relevant Approved Trade Registration System that stub is applicable only to the initial Calculation Period in respect of such Floating Rate Payer when submitting such Original Transaction for registration; or
    - (2) (I) stub is applicable only to the final Calculation Period in respect of such Floating Rate Payer; and (II) the Clearing Members specify in the relevant Approved Trade Registration System that stub is applicable only to the final Calculation Period in respect of such Floating Rate Payer when submitting such Original Transaction for registration; or
  - (B)
    - (1) the intervals for the initial Calculation Period, the final Calculation Period and all other Calculation Periods (if applicable) in respect of the Floating Amounts payable by the Floating Rate Payer during the term of the Original Transaction are the same;
    - (2) the frequency of payment of each Floating Amount is the same as the interval of the Calculation Period of each Floating Amount as designated by the Clearing Members; and
    - (3) the Clearing Members specify in the relevant Approved Trade Registration System that stub is inapplicable to any Calculation Period in respect of such Floating Rate Payer when submitting such Original Transaction for registration;
- (v) Fixed Amount
- with regard to an Original Standard Rates Derivatives Transaction, an Original Standard Cross-currency Rates Derivatives Transaction or an Original Non Deliverable Rates Derivatives Transaction and the Fixed Rate Payer for that particular Original Transaction:
- (a) if there is only one Fixed Amount payable by the Fixed Rate Payer during the term of that particular Original Transaction, OTC Clear will accept that particular Original Transaction for registration provided that:

- (A) the frequency of payment of such Fixed Amount is the same as the interval of the Calculation Period of such Fixed Amount as designated by the Clearing Members; and
  - (B) the Clearing Members specify in the relevant Approved Trade Registration System that stub is inapplicable to any Calculation Period in respect of such Fixed Rate Payer when submitting such Original Transaction for registration; or
- (b) if there are two or more Fixed Amounts payable by the Fixed Rate Payer during the term of that particular Original Transaction, OTC Clear will accept that particular Original Transaction for registration provided that:
- (A)
    - (1) (I) stub is applicable only to the initial Calculation Period in respect of such Fixed Rate Payer; and (II) the Clearing Members specify in the relevant Approved Trade Registration System that stub is applicable only to the initial Calculation Period in respect of such Fixed Rate Payer when submitting such Original Transaction for registration; or
    - (2) (I) stub is applicable only to the final Calculation Period in respect of such Fixed Rate Payer; and (II) the Clearing Members specify in the relevant Approved Trade Registration System that stub is applicable only to the final Calculation Period in respect of such Fixed Rate Payer when submitting such Original Transaction for registration; or
  - (B)
    - (1) the intervals for the initial Calculation Period, the final Calculation Period and all other Calculation Periods (if applicable) in respect of the Fixed Amounts being payable during the term of the Original Transaction are the same;
    - (2) the frequency of payment of each Fixed Amount is the same as the interval of the Calculation Period of each Fixed Amount as designated by the Clearing Members; and
    - (3) the Clearing Members specify in the relevant Approved Trade Registration System that stub is inapplicable to any Calculation Period in respect of such Fixed Rate Payer when submitting such Original Transaction for registration; and
- (vi) Floating Rate Payer and Fixed Rate Payer
- with regard to an Original Standard Rates Derivatives Transaction, an Original Standard Cross-currency Rates Derivatives Transaction or an Original Non Deliverable Rates Derivatives Transaction, OTC Clear will accept such Original Transaction for registration provided that:
- (a) if a Fixed Rate Payer is applicable to such Original Transaction:
    - (A) stub is inapplicable to any Calculation Period in respect of the Floating Rate Payer of that particular Original Transaction and:

- (1) stub is inapplicable to any Calculation Period in respect of the Fixed Rate Payer of that particular Original Transaction; or
  - (2) stub is applicable to the initial Calculation Period or the final Calculation Period (as the case may be) in respect of the Fixed Rate Payer of that particular Original Transaction;
- (B) stub is applicable to the initial Calculation Period in respect of the Floating Rate Payer of that particular Original Transaction and:
- (1) stub is inapplicable to any Calculation Period in respect of the Fixed Rate Payer of that particular Original Transaction; or
  - (2) stub is applicable to the initial Calculation Period in respect of the Fixed Rate Payer of that particular Original Transaction; or
- (C) stub is applicable to the final Calculation Period in respect of the Floating Rate Payer of that particular Original Transaction and:
- (1) stub is inapplicable to any Calculation Period in respect of the Fixed Rate Payer of that particular Original Transaction; or
  - (2) stub is applicable to the final Calculation Period in respect of the Fixed Rate Payer of that particular Original Transaction; or
- (b) if a Fixed Rate Payer is inapplicable to such Original Transaction:
- (A) stub is inapplicable to any Calculation Period in respect of one of the Floating Rate Payers of that particular Original Transaction and:
- (1) stub is inapplicable to any Calculation Period in respect of another Floating Rate Payer of that particular Original Transaction; or
  - (2) stub is applicable to the initial Calculation Period or the final Calculation Period (as the case may be) in respect of another Floating Rate Payer of that particular Original Transaction;
- (B) stub is applicable to the initial Calculation Period in respect of one of the Floating Rate Payers of that particular Original Transaction and:
- (1) stub is inapplicable to any Calculation Period in respect of another Floating Rate Payer of that particular Original Transaction; or
  - (2) stub is applicable to the initial Calculation Period in respect of another Floating Rate Payer of that particular Original Transaction; or
- (C) stub is applicable to the final Calculation Period in respect of one of the Floating Rate Payers of that particular Original Transaction and:
- (1) stub is inapplicable to any Calculation Period in respect of another Floating Rate Payer of that particular Original Transaction; or
  - (2) stub is applicable to the final Calculation Period in respect of another Floating Rate Payer of that particular Original Transaction.

### 3.4.2.9 Interpolation

- (i) OTC Clear will accept an Original Standard Rates Derivatives Transaction, an Original Standard Cross-currency Rates Derivatives Transaction or an Original Non Deliverable Rates Derivatives Transaction which is denominated in MYR, THB or TWD for registration regardless of whether interpolation is applicable or not.

In the case that interpolation is applicable to an Original Standard Rates Derivatives Transaction, an Original Standard Cross-currency Rates Derivatives Transaction or an Original Non Deliverable Rates Derivatives Transaction which is denominated in MYR, THB or TWD, OTC Clear will accept that particular Original Transaction for registration provided that:

- (a) linear interpolation is elected for the initial Calculation Period or the final Calculation Period (as the case may be) in respect of the Floating Rate Payer to which stub is applicable; and
- (b) in respect of the Designated Maturities elected for interpolation:
  - (A) both Designated Maturities are available for the relevant Floating Rate Option as shown in Appendix V to these Clearing Procedures; and
  - (B) prior to any adjustment being made in accordance with the applicable Business Day Convention to the relevant Calculation Period to which stub applies, one of the Designated Maturities is shorter than the interval of the Calculation Period to which stub applies and another Designated Maturity is longer than the interval of the Calculation Period to which stub applies; or
- (ii) in respect of an Original Non Deliverable Rates Derivatives Transaction which is denominated in CNY, INR or KRW, OTC Clear will accept that particular Original Transaction for registration only if interpolation is inapplicable.

### 3.4.2.10 Period End Date

- (i) OTC Clear will accept an Original Standard Rates Derivatives Transaction, an Original Standard Cross-currency Rates Derivatives Transaction and an Original Non Deliverable Rates Derivatives Transaction which is denominated in CNY, KRW, MYR, THB or TWD for registration only if:
  - (a) with respect to the Floating Rate Payer (or if a Fixed Rate Payer is not applicable to that Original Transaction, then with respect to each Floating Rate Payer) of that particular Original Transaction:
    - (A) the Termination Date (or the Period End Date in respect of the final Calculation Period) for determination of the final Calculation Period and the Period End Date for determination of each Calculation Period (other than the final Calculation Period) relating to such Floating Rate Payer are subject to adjustment; or
    - (B) the Termination Date (or the Period End Date in respect of the final Calculation Period) for determination of the final Calculation Period and the Period End Date for determination of each Calculation Period (other than the final Calculation Period) relating to such Floating Rate Payer are subject to no adjustment; and
  - (b) with respect to the Fixed Rate Payer of that particular Original Transaction (if applicable):

- (A) the Termination Date (or the Period End Date in respect of the final Calculation Period) for determination of the final Calculation Period and the Period End Date for determination of each Calculation Period (other than the final Calculation Period) relating to such Fixed Rate Payer are subject to adjustment; or
  - (B) the Termination Date (or the Period End Date in respect of the final Calculation Period) for determination of the final Calculation Period and the Period End Date for determination of each Calculation Period (other than the final Calculation Period) relating to such Fixed Rate Payer are subject to no adjustment;
- (ii) in respect of an Original Non Deliverable Rates Derivatives Transaction which is denominated in INR, OTC Clear will accept such Original Transaction for registration only if:
  - (a) with respect to the Floating Rate Payer of that particular Original Transaction, the Termination Date (or the Period End Date in respect of the final Calculation Period) for determination of the final Calculation Period and the Period End Date for determination of each Calculation Period (other than the final Calculation Period) relating to such Floating Rate Payer are subject to adjustment; and
  - (b) with respect to the Fixed Rate Payer of that particular Original Transaction:
    - (A) the Termination Date (or the Period End Date in respect of the final Calculation Period) for determination of the final Calculation Period and the Period End Date for determination of each Calculation Period (other than the final Calculation Period) relating to such Fixed Rate Payer are subject to adjustment; or
    - (B) the Termination Date (or the Period End Date in respect of the final Calculation Period) for determination of the final Calculation Period and the Period End Date for determination of each Calculation Period (other than the final Calculation Period) relating to such Fixed Rate Payer are subject to no adjustment; and
- (iii) if the Period End Date(s) or Payment Date(s) is/are designated to be the last calendar day of a calendar month during the term of an Original Standard Rates Derivatives Transaction, an Original Standard Cross-currency Rates Derivatives Transaction and an Original Non Deliverable Rates Derivatives Transaction regardless of the currency in which such Original Non Deliverable Rates Derivatives Transaction is denominated, OTC Clear will accept such Original Transaction for registration provided that:
  - (a) both the Effective Date and Termination Date of that particular Original Transaction fall on the last calendar day of a relevant calendar month and stub is inapplicable to any Calculation Period in respect of:
    - (A) the Floating Rate Payer and/or the Fixed Rate Payer of that particular Original Transaction; or
    - (B) one of or both of the Floating Rate Payers of that particular Original Transaction if a Fixed Rate Payer is not applicable to that particular Original Transaction;

- (b) the Termination Date of that particular Original Transaction falls on the last calendar day of a relevant calendar month and stub is applicable to the initial Calculation Period in respect of:
  - (A) the Floating Rate Payer and the Fixed Rate Payer of that particular Original Transaction; or
  - (B) both of the Floating Rate Payers of that particular Original Transaction if a Fixed Rate Payer is not applicable to that particular Original Transaction; or
- (c) the Effective Date of that particular Original Transaction falls on the last calendar day of a relevant calendar month and stub is applicable to the final Calculation Period in respect of:
  - (A) the Floating Rate Payer and the Fixed Rate Payer of that particular Original Transaction; or
  - (B) both of the Floating Rate Payers of that particular Original Transaction if a Fixed Rate Payer is not applicable to that particular Original Transaction; or
- (d) the Effective Date of that particular Original Transaction falls on the last Currency Day (relating to the Contractual Currency of that particular Original Transaction) of a relevant calendar month, the Termination Date of that particular Original Transaction falls on the last calendar day of the relevant month and stub is inapplicable to any Calculation Period in respect of:
  - (A) the Floating Rate Payer and the Fixed Rate Payer of that particular Original Transaction; or
  - (B) both of the Floating Rate Payers of that particular Original Transaction if a Fixed Rate Payer is not applicable to that particular Original Transaction; or
- (e) the Effective Date of that particular Original Transaction falls on the last Currency Day (relating to the Contractual Currency of that particular Original Transaction) of a relevant calendar month, the Termination Date of that particular Original Transaction falls on the last calendar day of a relevant calendar month and stub is applicable to the final Calculation Period in respect of:
  - (A) the Floating Rate Payer and the Fixed Rate Payer of that particular Original Transaction; or
  - (B) both of the Floating Rate Payers of that particular Original Transaction if a Fixed Rate Payer is not applicable to that particular Original Transaction; or
- (f) the Effective Date of that particular Original Transaction falls on the last Currency Day (relating to the Contractual Currency of that particular Original Transaction) of a relevant calendar month, the Termination Date of that particular Original Transaction falls on the last calendar day of a relevant calendar month and stub is applicable to the initial Calculation Period in respect of:
  - (A) the Floating Rate Payer and the Fixed Rate Payer of that particular Original Transaction; or
  - (B) both of the Floating Rate Payers of that particular Original Transaction if a Fixed Rate Payer is not applicable to that particular Original Transaction.

### 3.4.2.11 Payment Lag

In respect of each Original Transaction, payment lag is the number of the relevant Business Days by which the Payment Date precedes or follows the Period End Date of the relevant Calculation Period of that particular Original Transaction.

OTC Clear will accept an Original Standard Rates Derivatives Transaction, an Original Standard Cross-currency Rates Derivatives Transaction and an Original Non Deliverable Rates Derivatives Transaction for registration only if the payment lag is zero.

### 3.4.2.12 Payment Date

- (i) Original Standard Rates Derivatives Transaction and Original Standard Cross-currency Rates Derivatives Transaction

With regard to both an Original Standard Rates Derivatives Transaction and Original Standard Cross-currency Rates Derivatives Transaction, OTC Clear will accept such Original Transaction for registration only if:

- (a) with respect to the Floating Rate Payer (or if a Fixed Rate Payer is not applicable to that Original Standard Rates Derivatives Transaction or Original Standard Cross-currency Rates Derivatives Transaction, then with respect to each Floating Rate Payer), the frequency of payment of each Floating Amount payable by such Floating Rate Payer during the term of that particular Original Standard Rates Derivatives Transaction or Original Standard Cross-currency Rates Derivatives Transaction as designated by the Clearing Members is:

- (A)

- (1) the same as the interval of the Calculation Period of the Floating Amount payable by such Floating Rate Payer during the term of that particular Original Standard Rates Derivatives Transaction or Original Standard Cross-currency Rates Derivatives Transaction as designated by the Clearing Members if stub is inapplicable to any Calculation Period in respect of such Floating Rate Payer; or
- (2) the same as the interval of the Calculation Period of the Floating Amount payable by such Floating Rate Payer during the term of that particular Original Standard Rates Derivatives Transaction or Original Standard Cross-currency Rates Derivatives Transaction as designated by the Clearing Members other than the interval of the initial Calculation Period or the final Calculation Period (as the case may be) in respect of such Floating Rate Payer to which stub is applicable;

- (B)

- (1) the same as the Designated Maturity elected for the relevant Floating Rate Option applicable to each Calculation Period in respect of such Floating Rate Payer if stub is inapplicable to any Calculation Period in respect of such Floating Rate Payer; or
- (2) the same as the Designated Maturity elected for the relevant Floating Rate Option applicable to each Calculation Period (other than the initial Calculation Period or the final Calculation Period (as

the case may be) to which stub is applicable) in respect of such Floating Rate Payer;

- (C) one month, three months, six months or one year if IMM Settlement Dates are inapplicable; and
  - (D) three months if IMM Settlement Dates are applicable; and
- (b) the frequency of payment of each Fixed Amount (if applicable) being payable during the term of that particular Original Standard Rates Derivatives Transaction or Original Standard Cross-currency Rates Derivatives Transaction as designated by the Clearing Members is:
- (A)
    - (1) the same as the interval of the Calculation Period of the Fixed Amount being payable during the term of that particular Original Standard Rates Derivatives Transaction or Original Standard Cross-currency Rates Derivatives Transaction as designated by the Clearing Members if stub is inapplicable to any Calculation Period in respect of the Fixed Rate Payer; or
    - (2) the same as the interval of the Calculation Period of the Fixed Amount being payable during the term of that particular Original Standard Rates Derivatives Transaction or Original Standard Cross-currency Rates Derivatives Transaction as designated by the Clearing Members other than the interval of the initial Calculation Period or the final Calculation Period (as the case may be) in respect of the Fixed Rate Payer to which stub is applicable;
  - (B) one month, three months, six months or one year if IMM Settlement Dates are inapplicable; and
  - (C) three months if IMM Settlement Dates are applicable;
- (ii) Original Non Deliverable Rates Derivatives Transaction

With regard to an Original Non Deliverable Rates Derivatives Transaction, OTC Clear will accept such Original Non Deliverable Rates Derivatives Transaction for registration only if:

- (a) in respect of an Original Non Deliverable Rates Derivatives Transaction which is denominated in CNY or INR, the frequency of payment of each Floating Amount being payable during the term of that particular Original Non Deliverable Rates Derivatives Transaction as designated by the Clearing Members is:
  - (A)
    - (1) the same as the interval of the Calculation Period of the Floating Amount being payable during the term of that particular Original Non Deliverable Rates Derivatives Transaction as designated by the Clearing Members if stub is inapplicable to any Calculation Period in respect of the Floating Rate Payer; or
    - (2) the same as the interval of the Calculation Period of the Floating Amount being payable during the term of that particular Original Non Deliverable Rates Derivatives Transaction as designated by

the Clearing Members other than the interval of the initial Calculation Period or the final Calculation Period (as the case may be) in respect of the Floating Rate Payer to which stub is applicable;

- (B) one month, three months, six months or one year if IMM Settlement Dates are inapplicable; and
  - (C) three months if IMM Settlement Dates are applicable;
- (b1) in respect of an Original Non Deliverable Rates Derivatives Transaction which is denominated in KRW, the frequency of payment of each Floating Amount being payable during the term of that particular Original Non Deliverable Rates Derivatives Transaction as designated by the Clearing Members is:
- (A)
    - (1) the same as the interval of the Calculation Period of the Floating Amount being payable during the term of that particular Original Non Deliverable Rates Derivatives Transaction as designated by the Clearing Members if stub is inapplicable to any Calculation Period in respect of the Floating Rate Payer; or
    - (2) the same as the interval of the Calculation Period of the Floating Amount being payable during the term of that particular Original Non Deliverable Rates Derivatives Transaction as designated by the Clearing Members other than the interval of the initial Calculation Period or the final Calculation Period (as the case may be) in respect of the Floating Rate Payer to which stub is applicable;
  - (B) the same as the Designated Maturity elected for the relevant Floating Rate Option applicable to the Floating Amount payable by the Floating Rate Payer; and
  - (C) three months only;
- (b2) in respect of an Original Non Deliverable Rates Derivatives Transaction which is denominated in MYR or TWD, the frequency of payment of each Floating Amount being payable during the term of that particular Original Non Deliverable Rates Derivatives Transaction as designated by the Clearing Members is:
- (A)
    - (1) the same as the interval of the Calculation Period of the Floating Amount being payable during the term of that particular Original Non Deliverable Rates Derivatives Transaction as designated by the Clearing Members if stub is inapplicable to any Calculation Period in respect of the Floating Rate Payer; or
    - (2) the same as the interval of the Calculation Period of the Floating Amount being payable during the term of that particular Original Non Deliverable Rates Derivatives Transaction as designated by the Clearing Members other than the interval of the initial Calculation Period or the final Calculation Period (as the case may be) in respect of the Floating Rate Payer to which stub is applicable;
  - (B)

- (1) the same as the Designated Maturity elected for the relevant Floating Rate Option applicable to each Calculation Period in respect of the Floating Rate Payer if stub is inapplicable to any Calculation Period in respect of the Floating Rate Payer; or
  - (2) the same as the Designated Maturity elected for the relevant Floating Rate Option applicable to each Calculation Period (other than the initial Calculation Period or the final Calculation Period (as the case may be) to which stub is applicable) in respect of the Floating Rate Payer; and
- (C) three months only;
- (c) in respect of an Original Non Deliverable Rates Derivatives Transaction which is denominated in THB, the frequency of payment of each Floating Amount being payable during the term of that particular Original Non Deliverable Rates Derivatives Transaction as designated by the Clearing Members is:
- (A)
- (1) the same as the interval of the Calculation Period of the Floating Amount being payable during the term of that particular Original Non Deliverable Rates Derivatives Transaction as designated by the Clearing Members if stub is inapplicable to any Calculation Period in respect of the Floating Rate Payer; or
  - (2) the same as the interval of the Calculation Period of the Floating Amount being payable during the term of that particular Original Non Deliverable Rates Derivatives Transaction as designated by the Clearing Members other than the interval of the initial Calculation Period or the final Calculation Period (as the case may be) in respect of the Floating Rate Payer to which stub is applicable;
- (B)
- (1) the same as the Designated Maturity elected for the relevant Floating Rate Option applicable to each Calculation Period in respect of the Floating Rate Payer if stub is inapplicable to any Calculation Period in respect of the Floating Rate Payer; or
  - (2) the same as the Designated Maturity elected for the relevant Floating Rate Option applicable to each Calculation Period (other than the initial Calculation Period or the final Calculation Period (as the case may be) to which stub is applicable) in respect of the Floating Rate Payer; and
- (C) six months only;
- (d) in respect of an Original Non Deliverable Rates Derivatives Transaction which is denominated in CNY, INR, KRW, MYR or TWD, the frequency of payment of each Fixed Amount being payable during the term of that particular Original Non Deliverable Rates Derivatives Transaction as designated by the Clearing Members is:
- (A)

- (1) the same as the interval of the Calculation Period of the Fixed Amount being payable during the term of that particular Original Non Deliverable Rates Derivatives Transaction as designated by the Clearing Members if stub is inapplicable to any Calculation Period in respect of the Fixed Rate Payer; or
    - (2) the same as the interval of the Calculation Period of the Fixed Amount being payable during the term of that particular Original Non Deliverable Rates Derivatives Transaction as designated by the Clearing Members other than the interval of the initial Calculation Period or the final Calculation Period (as the case may be) in respect of the Fixed Rate Payer to which stub is applicable;
  - (B) one month, three months, six months or one year if IMM Settlement Dates are inapplicable; and
  - (C) three months if IMM Settlement Dates are applicable; and
- (e) in respect of an Original Non Deliverable Rates Derivatives Transaction which is denominated in THB, the frequency of payment of each Fixed Amount being payable during the term of that particular Original Non Deliverable Rates Derivatives Transaction as designated by the Clearing Members is:
  - (A)
    - (1) the same as the interval of the Calculation Period of the Fixed Amount being payable during the term of that particular Original Non Deliverable Rates Derivatives Transaction as designated by the Clearing Members if stub is inapplicable to any Calculation Period in respect of the Fixed Rate Payer; or
    - (2) the same as the interval of the Calculation Period of the Fixed Amount being payable during the term of that particular Original Non Deliverable Rates Derivatives Transaction as designated by the Clearing Members other than the interval of the initial Calculation Period or the final Calculation Period (as the case may be) in respect of the Fixed Rate Payer to which stub is applicable; and
  - (B) one month, three months, six months or one year;
- (iii) Original Standard Rates Derivatives Transaction and Original Non Deliverable Rates Derivatives Transaction
 

With regard to both an Original Standard Rates Derivatives Transaction and Original Non Deliverable Rates Derivatives Transaction, OTC Clear will accept such Original Transaction for registration only if such Original Transaction is submitted to OTC Clear for registration:

  - (a) prior to 18:00 hours Hong Kong time on an OTC Clearing Day that falls at least two OTC Clearing Days prior to any forthcoming Payment Date of that Original Transaction; or
  - (b) between 18:00 hours Hong Kong time to 19:00 hours Hong Kong time on an OTC Clearing Day that falls at least three OTC Clearing Days prior to any forthcoming Payment Date of that Original Transaction; and
- (iv) Original Standard Cross-currency Rates Derivatives Transaction

With regard to an Original Standard Cross-currency Rates Derivatives Transaction, OTC Clear will accept such Original Transaction for registration only if such Original Transaction is submitted to OTC Clear for registration:

- (a) prior to 18:00 hours Hong Kong time on an OTC Clearing Day (other than Initial Exchange Date in respect of Initial Exchange Amount (if applicable) which is set out in section 3.4.2.28 and Payment Dates) that falls at least two OTC Clearing Days prior to any forthcoming Payment Date of that Original Transaction; or
- (b) between 18:00 hours Hong Kong time to 19:00 hours Hong Kong time on an OTC Clearing Day that falls at least three OTC Clearing Days prior to any forthcoming Payment Date of that Original Transaction.

#### **3.4.2.13 Fixed Amount**

OTC Clear will accept for registration an Original Standard Rates Derivatives Transaction, an Original Standard Cross-currency Rates Derivatives Transaction and an Original Non Deliverable Rates Derivatives Transaction to which Fixed Amount is applicable only if a Fixed Rate is specified and such rate is:

- (i) greater than or equal to zero;
- (ii) the same for each Calculation Period; and
- (iii) an integer or a number rounded up to seven or less decimal points.

For the avoidance of doubt, no amount should be specified as the Fixed Amount.

#### **3.4.2.14 Floating Rate Option**

OTC Clear will accept an Original Standard Rates Derivatives Transaction, an Original Standard Cross-currency Rates Derivatives Transaction and an Original Non Deliverable Rates Derivatives Transaction for registration only if the Floating Rate Option elected for the Floating Amounts payable by the Floating Rate Payer (or if a Fixed Rate Payer is not applicable to that particular Original Transaction, then each Floating Rate Payer) is:

- (i) consistent with Floating Rate Options as set out in section 3.4.2.1; and
- (ii) with respect to the Floating Rate Payer (or if a Fixed Rate Payer is not applicable to that Original Transaction, then with respect to each Floating Rate Payer), the same for all the relevant Calculation Periods of the Floating Amounts payable by such Floating Rate Payer.

#### **3.4.2.15 Reset Date**

OTC Clear will accept an Original Transaction for registration only if:

- (i) with regard to an Original Non Deliverable Rates Derivatives Transaction which is denominated in CNY, any Reset Date is the first day of each Compounding Period;
- (ii) with regard to an Original Non Deliverable Rates Derivatives Transaction which is denominated in INR, any Reset Date is the last day of each relevant Calculation Period;
- (iii) with regard to an Original Non Deliverable Rates Derivatives Transaction which is denominated in KRW, MYR, THB or TWD, any Reset Date is the first day of each relevant Calculation Period;

- (iv) with regard to both an Original Standard Rates Derivatives Transaction and an Original Standard Cross-currency Rates Derivatives Transaction, any Reset Date is the first day of each relevant Calculation Period;
- (v) with regard to the initial Calculation Period in respect of the Floating Rate Payer (or if a Fixed Rate Payer is not applicable to that particular Original Transaction, then in respect of each Floating Rate Payer) of an Original Standard Rates Derivatives Transaction which is denominated in CNY (offshore) or USD, an Original Standard Cross-currency Rates Derivatives Transaction and an Original Non Deliverable Rates Derivatives Transaction which is denominated in MYR or TWD, the determination of the rate for the Reset Date for such Calculation Period is consistent with that prescribed for in Article 7 of the ISDA Definitions except that a different Fixing Days Offset can be elected by the Clearing Members for the respective Floating Rate Option, provided that such Fixing Days Offset is:
- (a) zero; or
- (b) any number of day(s) preceding the Reset Date, provided that each of such day is a Business Day in respect of:
- (A) a financial center as shown in the table below in the column entitled "Mandatory Financial Center" and marked against the relevant Floating Rate Option; and

<b>Floating Rate Option</b>	<b>Mandatory Financial Center</b>
CNH-HIBOR-TMA	Hong Kong
HKD-HIBOR-HKAB	Hong Kong
CNY-SHIBOR-Reuters	Beijing
MYR-KLIBOR-BNM	Kuala Lumpur
TWD-TAIBOR-Reuters	Taipei
USD-LIBOR-BBA	London

- (B) any additional financial center(s) (as set out in Appendix II to these Clearing Procedures) being elected by the Clearing Members with no limitation in number;
- (vi) with regard to the initial Compounding Period in respect of the Floating Rate Payer of an Original Non Deliverable Rates Derivatives Transaction which is denominated in CNY, the determination of the rate for the Reset Date for such Compounding Period is consistent with that prescribed for in Article 7 of the ISDA Definitions except that a different Fixing Days Offset can be elected by the Clearing Members for the respective Floating Rate Option, provided that such Fixing Days Offset is:
- (a) zero; or
- (b) any number of day(s) preceding the Reset Date, provided that each of such day is a Business Day in respect of:
- (A) Beijing; and

- (B) any additional financial center(s) (as set out in Appendix II to these Clearing Procedures) being elected by the Clearing Members with no limitation in number;
- (vii) with regard to any Calculation Period (save and except the initial Calculation Period) in respect of the Floating Rate Payer (or if a Fixed Rate Payer is not applicable to that particular Original Transaction, then in respect of each Floating Rate Payer) of an Original Standard Rates Derivatives Transaction which is denominated in CNY (offshore) or USD, an Original Standard Cross-currency Rates Derivatives Transaction and an Original Non Deliverable Rates Derivatives Transaction which is denominated in MYR or TWD, the determination of the rate for the Reset Date for such Calculation Period is consistent with that prescribed for in Article 7 of the ISDA Definitions;
- (viii) with regard to any Compounding Period (save and except the initial Compounding Period) in respect of the Floating Rate Payer of an Original Non Deliverable Rates Derivatives Transaction which is denominated in CNY, the determination of the rate for the Reset Date for such Compounding Period is consistent with that prescribed for in Article 7 of the ISDA Definitions; and
- (ix) with regard to any Calculation Period in respect of the Floating Rate Payer (or if a Fixed Rate Payer is not applicable to that particular Original Transaction, then in respect of each Floating Rate Payer) of an Original Standard Rates Derivatives Transaction which is denominated in EUR or HK\$ and an Original Non Deliverable Rates Derivatives Transaction which is denominated in INR, KRW or THB, the determination of the rate for the Reset Date for such Calculation Period is consistent with that prescribed for in Article 7 of the ISDA Definitions.

**“Fixing Days Offset”** (as set out in this section 3.4.2.15, section 3.4.2.30 and section 3.8.1.1.3) means in respect of a Floating Rate Option, the number of days by which the Reset Date precedes or follows the day on which the relevant rate relating to a Designated Maturity for a Reset Date appears on the specific rate source (including the fallback rate source) at the designated time which are stipulated in Article 7 of the ISDA Definitions. For the avoidance of doubt, if the relevant rate relating to a Designated Maturity for a Reset Date is the rate which appears on the specific rate source (including the fallback rate source) at the designated time on the Reset Date, the Fixing Days Offset will be zero.

#### **3.4.2.16 Spread**

OTC Clear will accept an Original Standard Rates Derivatives Transaction, an Original Standard Cross-currency Rates Derivatives Transaction and an Original Non Deliverable Rates Derivatives Transaction for registration regardless of whether Spread is applicable or not.

If Spread is applicable to an Original Standard Rates Derivatives Transaction, an Original Standard Cross-currency Rates Derivatives Transaction and an Original Non Deliverable Rates Derivatives Transaction, however, OTC Clear will accept that particular Original Transaction for registration only if the Spread is:

- (i) an integer or a number rounded up to seven or less decimal points; and
- (ii) the same for each Calculation Period.

#### **3.4.2.17 Additional Payment**

**“Additional Payment”** as used in this Chapter 3 means any additional payment specified in an Original Standard Rates Derivatives Transaction, an Original Standard Cross-currency Rates Derivatives Transaction and an Original Non Deliverable Rates Derivatives Transaction as being

payable by the relevant Clearing Member(s) pursuant to the terms therein, and forming part of the Contract Terms upon registration of the Original Transaction.

OTC Clear will only accept an Original Non Deliverable Rates Derivatives Transaction for registration if no Additional Payment is specified in the terms of such Original Non Deliverable Rates Derivatives Transaction.

OTC Clear will accept for registration an Original Standard Rates Derivatives Transaction and an Original Standard Cross-currency Rates Derivatives Transaction regardless of whether Additional Payment is applicable or not.

If Additional Payment is applicable to an Original Standard Rates Derivatives Transaction and an Original Standard Cross-currency Rates Derivatives Transaction, however, OTC Clear will accept that particular Original Transaction for registration only if:

- (i) the financial center(s) elected for the purpose of determining the Payment Date(s) for Additional Payment(s) are as follows:

<b>Currencies for settlement for Additional Payments</b>	<b>Financial center</b>
USD	New York
EUR	TARGET
HKD	Hong Kong
CNY (offshore)	Beijing and Hong Kong

- (ii) the Business Day Convention elected for the purpose of determining the Payment Date(s) for Additional Payment(s) is Following;
- (iii) the currency for settlement of an Additional Payment is (a) the same as the Contractual Currency for such Original Standard Rates Derivatives Transaction or (b) one of the Contractual Currencies for such Original Standard Cross-currency Rates Derivatives Transaction;
- (iv) the Payment Date of any Additional Payment designated by the Clearing Members is preceded by the date on which OTC Clear performs the product eligibility requirements checks (set out in this section 3.4) on that particular Original Standard Rates Derivatives Transaction or Original Standard Cross-currency Rates Derivatives Transaction for a minimum of two days, where each of these two days is:
  - (a) a Currency Day for the Contractual Currency of that particular Original Standard Rates Derivatives Transaction; or
  - (b) a Currency Day for the Contractual Currency in which the Additional Payment is to be made under that particular Original Standard Cross-currency Rates Derivatives Transaction
 and in each case is an OTC Clear Clearing Day;
- (v) the Payment Date for any Additional Payment falls on any day from and including the Effective Date to and including the Termination Date; and

- (vi) the payer and receiver of any Additional Payment payable under an Original Standard Rates Derivatives Transaction or an Original Standard Cross-currency Rates Derivatives Transaction are the Clearing Members who are counterparties to such Original Transaction.

For the avoidance of doubt, there is no limitation on the number of Additional Payments.

#### **3.4.2.18 Compounding**

In respect of an Original Standard Rates Derivatives Transaction or an Original Standard Cross-currency Rates Derivatives Transaction, OTC Clear will accept such Original Transaction for registration only if Compounding is elected to be inapplicable to such Original Transaction.

In respect of an Original Non Deliverable Rates Derivatives Transaction which is denominated in CNY, OTC Clear will accept such Original Non Deliverable Rates Derivatives Transaction for registration only if:

- (i) Compounding is elected to be applicable; and
- (ii) Straight Compounding is applicable.

In respect of an Original Non Deliverable Rates Derivatives Transaction which is denominated in INR, KRW, MYR, THB or TWD, OTC Clear will accept such Original Non Deliverable Rates Derivatives Transaction for registration only if Compounding is elected to be inapplicable to such Original Non Deliverable Rates Derivatives Transaction.

#### **3.4.2.19 Designated Maturity**

- (i) In respect of an Original Standard Rates Derivatives Transaction, an Original Standard Cross-currency Rates Derivatives Transaction and an Original Non Deliverable Rates Derivatives Transaction which is denominated in MYR, THB or TWD and the Floating Rate Payer (or if a Fixed Rate Payer is not applicable to that Original Transaction, then in respect of each Floating Rate Payer) of that particular Original Transaction, OTC Clear will accept such Original Transaction for registration only if:
  - (a) provided that stub is inapplicable to any Calculation Period in respect of such Floating Rate Payer, the Designated Maturity elected for the relevant Floating Rate Option in respect of the Floating Amounts payable by such Floating Rate Payer of that particular Original Transaction is:
    - (A) consistent with the period stipulated in section 3.4.2.1; and
    - (B) the same for all relevant Calculation Periods of the Floating Amounts payable by such Floating Rate Payer; or
  - (b) provided that stub is applicable to the initial Calculation Period or the final Calculation Period (as the case may be) in respect of such Floating Rate Payer and:
    - (A) interpolation is applicable to the Calculation Period to which stub applies:
      - (1) the Designated Maturity elected for the relevant Floating Rate Option for each Calculation Period (other than the Calculation Period to which interpolation applies) in respect of such Floating Rate Payer of that particular Original Transaction is (I) consistent with the period stipulated in section 3.4.2.1 and (II) the same; and

- (2) the Designated Maturities elected for the relevant Floating Rate Option for the Calculation Period to which interpolation applies are consistent with the requirements stipulated in section 3.4.2.9; or
  - (B) interpolation is inapplicable to the Calculation Period to which stub applies:
    - (1) the Designated Maturity elected for the relevant Floating Rate Option for each Calculation Period (other than the Calculation Period to which stub applies) in respect of such Floating Rate Payer of that particular Original Transaction is (I) consistent with the period stipulated in section 3.4.2.1 and (II) the same; and
    - (2) the Designated Maturity elected for the relevant Floating Rate Option for the Calculation Period to which stub applies is consistent with the period stipulated in Appendix V; or
- (ii) OTC Clear will accept an Original Non Deliverable Rates Derivatives Transaction which is denominated in CNY, INR or KRW for registration only if the Designated Maturity elected for the relevant Floating Rate Option in respect of the Floating Amounts payable by the Floating Rate Payer of that particular Original Transaction is:
  - (a) consistent with the period stipulated in section 3.4.2.1; and
  - (b) the same for all relevant Calculation Periods of the Floating Amounts payable by the Floating Rate Payer.

#### **3.4.2.20 Settlement Currency**

This is applicable to an Original Non Deliverable Rates Derivatives Transaction only.

OTC Clear will accept an Original Non Deliverable Rates Derivatives Transaction for registration only if the Settlement Currency of that particular Original Non Deliverable Rates Derivatives Transaction is USD.

#### **3.4.2.21 Optional Early Termination and Mandatory Early Termination**

OTC Clear will accept an Original Standard Rates Derivatives Transaction, an Original Standard Cross-currency Rates Derivatives Transaction and an Original Non Deliverable Rates Derivatives Transaction for registration regardless of whether Optional Early Termination of such Original Transaction is applicable or not.

If Optional Early Termination is applicable to an Original Standard Rates Derivatives Transaction, an Original Standard Cross-currency Rates Derivatives Transaction and an Original Non Deliverable Rates Derivatives Transaction, however, OTC Clear will accept that particular Original Transaction for registration only if both parties have the right to early terminate the Original Transaction.

If Optional Early Termination is provided for under the terms of an Original Standard Rates Derivatives Transaction, an Original Standard Cross-currency Rates Derivatives Transaction and an Original Non Deliverable Rates Derivatives Transaction:

- (i) OTC Clear will not maintain or record the feature of Optional Early Termination within its Rates and FX Clearing System when registering such Original Transaction;
- (ii) the Optional Early Termination feature, and its related provisions, will not form part of the Contract Terms of the Contracts created as a result of registration of such Original Transaction; and

- (iii) Clearing Members who become parties to the Contracts created as a result of registration of such Original Transaction may not exercise the right to early terminate such Contracts.

OTC Clear will not accept an Original Standard Rates Derivatives Transaction, an Original Standard Cross-currency Rates Derivatives Transaction and an Original Non Deliverable Rates Derivatives Transaction for registration if such Original Transaction contains provisions permitting Mandatory Early Termination.

#### **3.4.2.22 IMM Settlement Dates**

- (i) OTC Clear will accept an Original Standard Rates Derivatives Transaction, an Original Standard Cross-currency Rates Derivatives Transaction and an Original Non Deliverable Rates Derivatives Transaction which is denominated in CNY, INR, KRW, MYR or TWD for registration regardless of whether IMM Settlement Dates are applicable or not.
- (ii) If IMM Settlement Dates are applicable to an Original Standard Rates Derivatives Transaction, an Original Standard Cross-currency Rates Derivatives Transaction and an Original Non Deliverable Rates Derivatives Transaction which is denominated in CNY, INR, KRW, MYR or TWD, OTC Clear will accept that particular Original Transaction for registration only if
  - (a) such IMM Settlement Dates are limited to the third Wednesday of March, June, September and December of each calendar year; and
  - (b) both the Effective Date and Termination Date of that particular Original Transaction fall on a day which is the third Wednesday of March, June, September or December of a calendar year.
- (iii) OTC Clear will accept an Original Non Deliverable Rates Derivatives Transaction which is denominated in THB for registration only if IMM Settlement Dates are inapplicable.

#### **3.4.2.23 Unweighted Average and Weighted Average**

OTC Clear will accept an Original Standard Rates Derivatives Transaction, an Original Standard Cross-currency Rates Derivatives Transaction and an Original Non Deliverable Rates Derivatives Transaction for registration only if neither Unweighted Average nor Weighted Average is elected as applicable.

#### **3.4.2.24 Termination Date**

OTC Clear will accept an Original Standard Rates Derivatives Transaction, an Original Standard Cross-currency Rates Derivatives Transaction and an Original Non Deliverable Rates Derivatives Transaction for registration only if only one Termination Date is applicable to that particular Original Transaction.

If both the Effective Date and Termination Date of an Original Standard Rates Derivatives Transaction, an Original Standard Cross-currency Rates Derivatives Transaction and an Original Non Deliverable Rates Derivatives Transaction fall on the last calendar day in the relevant calendar month, OTC Clear will accept that particular Original Transaction for registration only if the Period End Date(s) or Payment Date(s) is/are designated to be the last calendar day in any calendar month(s) during the term of such Original Transaction.

#### **3.4.2.25 Novation Transaction**

OTC Clear will accept an Original Standard Rates Derivatives Transaction, an Original Standard Cross-currency Rates Derivatives Transaction and an Original Non Deliverable Rates Derivatives

Transaction for registration regardless of whether such Original Transaction is a “**Novation Transaction**” (as defined in the 2004 ISDA Novation Definitions, as published by ISDA) or not.

#### **3.4.2.26 Trade Date**

OTC Clear will accept an Original Standard Rates Derivatives Transaction, an Original Standard Cross-currency Rates Derivatives Transaction and an Original Non Deliverable Rates Derivatives Transaction for registration only if the Trade Date of such Original Transaction falls on or prior to the date on which such Original Transaction is submitted for registration.

#### **3.4.2.27 Initial Exchange Amount and Final Exchange Amount**

This is applicable to an Original Standard Cross-currency Rates Derivatives Transaction only.

- (i) OTC Clear will accept an Original Standard Cross-currency Rates Derivatives Transaction for registration regardless of whether Initial Exchange Amount or Final Exchange Amount is applicable or not.
- (ii) If either Initial Exchange Amount or Final Exchange Amount is applicable to an Original Standard Cross-currency Rates Derivatives Transaction, OTC Clear will accept that particular Original Transaction for registration only if:
  - (a) each Initial Exchange Amount (if applicable) or each Final Exchange Amount (if applicable) is the same as the Currency Amount of the relevant currency;
  - (b) Initial Exchange Date is specified for each Initial Exchange Amount (if applicable) and Final Exchange Date is specified for each Final Exchange Amount (if applicable); and
  - (c) the receiver of the Initial Exchange Amount (if applicable) or the payer of the Final Exchange Amount (if applicable) in a particular currency is the Fixed Rate Payer (if applicable) or the Floating Rate Payer in such currency.
- (iii) If both Initial Exchange Amount and Final Exchange Amount are applicable to an Original Standard Cross-currency Rates Derivatives Transaction, OTC Clear will accept that particular Original Transaction for registration only if:
  - (a) each Initial Exchange Amount and each Final Exchange Amount is the same as the Currency Amount of the relevant currency;
  - (b) both Initial Exchange Date and Final Exchange Date are specified for each Initial Exchange Amount and Final Exchange Amount respectively;
  - (c) the receiver of the Initial Exchange Amount and the payer of the Final Exchange Amount in a particular currency is the Fixed Rate Payer (if applicable) or the Floating Rate Payer in such currency; and
  - (d) the receiver of the Initial Exchange Amount in a particular currency is the payer of the Final Exchange Amount in such currency.
- (iv) If neither Initial Exchange Amount nor Final Exchange Amount is applicable to an Original Standard Cross-currency Rates Derivatives Transaction, OTC Clear will accept that particular Original Transaction for registration only if both Initial Exchange Date and Final Exchange Date are not applicable.

For the avoidance of doubt, OTC Clear will not accept an Original Standard Cross-currency Rates Derivatives Transaction for registration if Interim Exchange Amount is applicable.

#### **3.4.2.28 Initial Exchange Date and Final Exchange Date**

This is applicable to an Original Standard Cross-currency Rates Derivatives Transaction only.

- (i) If Final Exchange Date is applicable, OTC Clear will accept an Original Standard Cross-currency Rates Derivatives Transaction for registration only if, prior to any adjustment being made to the Final Exchange Date in accordance with the applicable Business Day Convention, it is the same as the Termination Date.
- (ii) If Initial Exchange Date is applicable, OTC Clear will accept an Original Standard Cross-currency Rates Derivatives Transaction for registration only if:
  - (a) prior to any adjustment being made to the Initial Exchange Date in accordance with the applicable Business Day Convention, it is the same as the Effective Date; and
  - (b) such Original Transaction is submitted to OTC Clear for registration:
    - (A) prior to 18:00 hours Hong Kong time on the OTC Clear Clearing Day immediately preceding any forthcoming Initial Exchange Date of that particular Original Transaction; or
    - (B) after the Initial Exchange Date of that particular Original Transaction.

#### **3.4.2.29 Currency Amount**

This is applicable to an Original Standard Cross-currency Rates Derivatives Transaction only.

OTC Clear will accept an Original Standard Cross-currency Rates Derivatives Transaction for registration only if each Currency Amount in respect of a Fixed Rate Payer or Floating Rate Payer (or if a Fixed Rate Payer is not applicable to that particular Original Transaction, then each Floating Rate Payer) of that particular Original Transaction is:

- (i) greater than or equal to one unit of the relevant currency;
- (ii) an integer or a number rounded up to two or less decimal points; and
- (iii) the same for each Calculation Period during the term of that particular Original Transaction.

#### **3.4.2.30 Floating Rate**

OTC Clear will accept:

- (i) an Original Standard Rates Derivatives Transaction or an Original Standard Cross-currency Rates Derivatives Transaction for registration if:
  - (a) in respect of the initial Calculation Period of such Original Transaction:
    - (A) no Floating Rate has been designated by the Clearing Members for such Calculation Period; or
    - (B) the Floating Rate has been designated by the Clearing Members for such Calculation Period and such Floating Rate is any numerical value which is an integer or a number rounded up to seven or less decimal points; and
  - (b) in respect of any Calculation Period other than the initial Calculation Period of such Original Transaction, no Floating Rate has been designated by the Clearing Members for such Calculation Period;
- (ii) an Original Non Deliverable Rates Derivatives Transaction which is denominated in KRW, MYR, THB or TWD for registration if:

- (a) in respect of the initial Calculation Period of such Original Transaction:
    - (A) no Floating Rate has been designated by the Clearing Members for such Calculation Period; or
    - (B) the Floating Rate has been designated by the Clearing Members for such Calculation Period and such Floating Rate is any numerical value which is an integer or a number rounded up to seven or less decimal points; and
  - (b) in respect of any Calculation Period other than the initial Calculation Period of such Original Transaction, no Floating Rate has been designated by the Clearing Members for such Calculation Period;
- (iii) an Original Non Deliverable Rates Derivatives Transaction which is denominated in CNY for registration if:
- (a) in respect of the initial Compounding Period of such Original Transaction:
    - (A) no Floating Rate has been designated by the Clearing Members for such Compounding Period; or
    - (B) the Floating Rate has been designated by the Clearing Members for such Compounding Period and such Floating Rate is any numerical value which is an integer or a number rounded up to seven or less decimal points; and
  - (b) in respect of any Compounding Period other than the initial Compounding Period of such Original Transaction, no Floating Rate has been designated by the Clearing Members for such Compounding Period; and
- (iv) an Original Non Deliverable Rates Derivatives Transaction which is denominated in INR for registration only if no Floating Rate has been designated by the Clearing Members for any Calculation Period of such Original Transaction.

For the avoidance of doubt, if the Clearing Members designate the Floating Rate for the initial Calculation Period or initial Compounding Period (as the case may be) of an Original Transaction and elect the Fixing Days Offset which is inconsistent with that prescribed for in Article 7 of the ISDA Definitions for the respective Floating Rate Option in the determination of the rate for the Reset Date for the initial Calculation Period or initial Compounding Period (as the case may be) of such Original Transaction, such Original Transaction will not be accepted by OTC Clear for registration.

### 3.4.3 Specific Requirements for an Original Non Deliverable FX Derivatives Transaction

3.4.3.1 OTC Clear will only accept the types of Original Non Deliverable FX Derivatives Transaction as set out in the table below:

Reference Currency	Settlement Currency	Maximum Residual Term	Valuation Days Offset
CNY	USD	2 years (740 days)	2 Beijing Business Days
INR		2 years (740 days)	2 Mumbai Business Days
KRW		2 years (740 days)	2 Seoul Business Days
TWD		2 years	2 Taipei Business Days

Reference Currency	Settlement Currency	Maximum Residual Term	Valuation Days Offset
		(740 days)	

#### 3.4.3.2 Residual Term

The residual term of an Original Non Deliverable FX Derivatives Transaction is the period from (but excluding) the date on which OTC Clear performs the product eligibility requirements checks (set out in this section 3.4) on that particular Original Non Deliverable FX Derivatives Transaction to (and including) the Settlement Date of that particular Original Non Deliverable FX Derivatives Transaction.

OTC Clear will accept an Original Non Deliverable FX Derivatives Transaction for registration only if the residual term of that particular Original Non Deliverable FX Derivatives Transaction is:

- (i) greater than or equal to two days where each of these two days is (a) a Currency Day relating to the Contractual Currency of that particular Original Non Deliverable FX Derivatives Transaction and (b) an OTC Clear Clearing Day; and
- (ii) less than or equal to the relevant maximum residual term as set out in section 3.4.3.1.

#### 3.4.3.3 Reference Currency Notional Amount

OTC Clear will accept an Original Non Deliverable FX Derivatives Transaction for registration only if the Reference Currency Notional Amount of that particular Original Non Deliverable FX Derivatives Transaction is:

- (i) greater than or equal to one unit of the Reference Currency; and
- (ii) an integer of the Reference Currency if the relevant Reference Currency is KRW; or an integer or a number rounded up to two or less decimal places of the Reference Currency if the relevant Reference Currency is CNY, INR or TWD.

#### 3.4.3.4 Forward Rate

OTC Clear will accept an Original Non Deliverable FX Derivatives Transaction for registration only if the Forward Rate of that particular Original Non Deliverable FX Derivatives Transaction is:

- (i) greater than or equal to one;
- (ii) an integer or a number rounded up to four or less decimal places; and
- (iii) quoted in terms of the amount of Reference Currency per one unit of Settlement Currency.

For the avoidance of doubt, OTC Clear will only accept an Original Non Deliverable FX Derivatives Transaction for registration if both the Forward Rate and at least one of (a) Notional Amount or (b) Reference Currency Notional Amount are specified in such Original Non Deliverable FX Derivatives Transaction.

#### 3.4.3.5 Valuation Date and Settlement Date

OTC Clear will accept an Original Non Deliverable FX Derivatives Transaction for registration only if:

- (i) both Settlement Date and Valuation Date are specified in that particular Original Non Deliverable FX Derivatives Transaction;

- (ii) the Settlement Date specified in that particular Original Non Deliverable FX Derivatives Transaction is a Currency Day for the Contractual Currency of that particular Original Non Deliverable FX Derivatives Transaction; and
- (iii) the relevant Valuation Days Offset is applied to that particular Original Non Deliverable FX Derivatives Transaction.

“**Valuation Days Offset**” (as set out in section 3.4.3.1) is the number of relevant Business Days by which the Valuation Date precedes the Settlement Date, subject to the Reference Currency of the Original Non Deliverable FX Derivatives Transaction.

#### 3.4.3.6 Notional Amount

OTC Clear will accept an Original Non Deliverable FX Derivatives Transaction for registration only if:

- (i) the Notional Amount of that particular Original Non Deliverable FX Derivatives Transaction is greater than or equal to one unit of USD;
- (ii) the Notional Amount of that particular Original Non Deliverable FX Derivatives Transaction is an integer or a number rounded up to two or less decimal places; and
- (iii) the product of Forward Rate and Notional Amount is equivalent to the Reference Currency Notional Amount.

#### 3.4.3.7 Valuation Date

OTC Clear will accept an Original Non Deliverable FX Derivatives Transaction for registration only if the Valuation Date falls on or after the Trade Date of such Original Non Deliverable FX Derivatives Transaction.

#### 3.4.3.8 Trade Date

OTC Clear will accept an Original Non Deliverable FX Derivatives Transaction for registration only if the Trade Date of such Original Transaction falls on or prior to the date on which such Original Transaction is submitted for registration.

### 3.4.4 Specific Requirements for an Original Deliverable FX Forward Transaction and Original Deliverable FX Swap Transaction

3.4.4.1 OTC Clear will only accept the types of Original Deliverable FX Forward Transaction and Original Deliverable FX Swap Transaction as set out in the table as follows:

<b>Instrument</b>	<b>Currency Pair (swap and FX)</b>	<b>Maximum Residual Term</b>
Original Deliverable FX Forward Transactions	USD and CNY (offshore)	3 years (1,100 days)
	USD and HK\$	
Original Deliverable FX Swap Transactions	USD and CNY (offshore)	3 years (1,100 days)
	USD and HK\$	

#### **3.4.4.2 Residual Term**

In respect of an Original Deliverable FX Forward Transaction, the residual term of that particular Original Transaction is the period from (but excluding) the date on which OTC Clear performs the product eligibility requirements checks (set out in this section 3.4) on that particular Original Transaction to (and including) the Settlement Date of that particular Original Transaction.

In respect of an Original Deliverable FX Swap Transaction, the residual term of that particular Original Transaction is the period from (but excluding) the date on which OTC Clear performs the product eligibility requirements checks (set out in this section 3.4) on that particular Original Transaction to (and including) the Settlement Date of the far leg of that particular Original Transaction.

OTC Clear will accept an Original Deliverable FX Forward Transaction or Original Deliverable FX Swap Transaction for registration only if the residual term of that particular Original Transaction is:

- (i) greater than or equal to one day where each such day is (a) a Currency Day for each Contractual Currency of that particular Original Deliverable FX Forward Transaction or Original Deliverable FX Swap Transaction, as the case may be, and (b) an OTC Clear Clearing Day; and
- (ii) less than or equal to the relevant maximum residual term as set out in section 3.4.4.1.

#### **3.4.4.3 Forward Rate**

OTC Clear will accept an Original Deliverable FX Forward Transaction or Original Deliverable FX Swap Transaction for registration regardless of whether any Forward Rate of that particular Original Transaction is specified or not.

For the avoidance of doubt, if Forward Rate is specified under the terms of an Original Deliverable FX Forward Transaction or Original Deliverable FX Swap Transaction:

- (i) OTC Clear will not maintain or record the Forward Rate within its Rates and FX Clearing System when registering such Original Transaction; and
- (ii) the Forward Rate will not form part of the Contract Terms of the Contracts created as a result of registration of such Original Transaction.

#### **3.4.4.4 Settlement Date**

- (i) with regard to an Original Deliverable FX Forward Transaction, OTC Clear will accept that particular Original Transaction for registration only if:
  - (a) the Settlement Date of that particular Original Transaction follows the Trade Date of that particular Original Transaction by a minimum of two days, where each of those two days is a Currency Day for each Contractual Currency of that particular Original Deliverable FX Forward Transaction; and
  - (b) the Settlement Date specified in that particular Original Transaction is a Currency Day for each Contractual Currency of that particular Original Transaction;
- (ii) with regard to an Original Deliverable FX Swap Transaction, OTC Clear will accept that particular Original Transaction for registration only if:
  - (a) any Settlement Date specified in that particular Original Transaction that falls after the date on which such Original Transaction is submitted for registration is a Currency Day for each Contractual Currency of that particular Original Transaction; and

- (b) the Settlement Dates of the near leg and far leg of that particular Original Transaction are different; and
- (iii) with regard to both an Original Deliverable FX Forward Transaction and an Original Deliverable FX Swap Transaction, OTC Clear will accept that particular Original Transaction for registration only if such Original Transaction is submitted to OTC Clear for registration prior to 18:00 hours Hong Kong time on the OTC Clear Clearing Day immediately preceding any forthcoming Settlement Date of that particular Original Transactions.

#### **3.4.4.5 Notional Amount**

- (i) with regard to an Original Deliverable FX Swap Transaction, OTC Clear will accept that particular Original Transaction for registration only if at least one payer of a Notional Amount in the near leg of that particular Original Transaction receives the same Notional Amount denominated in the same currency in the far leg of that particular Original Transaction; and
- (ii) with regard to both an Original Deliverable FX Forward Transaction and an Original Deliverable FX Swap Transaction, OTC Clear will accept that particular Original Transaction for registration only if each Notional Amount of such Original Transaction is:
  - (a) greater than or equal to one unit of the relevant currency; and
  - (b) an integer or a number rounded up to two or less decimal places.

#### **3.4.4.6 Currency**

This is applicable to an Original Deliverable FX Swap Transaction only.

OTC Clear will accept an Original Deliverable FX Swap Transaction for registration only if:

- (i) the payer of a particular currency in the near leg of such Original Transaction is the receiver of such currency in the far leg of such Original Transaction;
- (ii) the receiver of a particular currency in the near leg of such Original Transaction is the payer of such currency in the far leg of such Original Transaction; and
- (iii) such Original Transaction is denominated in the same Currency Pair (swap and FX) in both near leg and far leg of that particular Original Transaction.

#### **3.4.4.7 Trade Date**

OTC Clear will accept an Original FX Forward Transaction or Original Deliverable FX Swap Transaction for registration only if the Trade Date of such Original Transaction falls on or prior to the date on which such Original Transaction is submitted for registration.

### **3.4A Suspension of Product**

OTC Clear may from time to time, in its sole discretion and with prior consultation with the SFC, suspend clearing of a product or class of products (a "**Product Suspension Event**"). In the event of the occurrence of a Product Suspension Event of a product, no Original Transactions in such product will be accepted for registration and instead they will be rejected. OTC Clear may also, with prior consultation with the SFC, require Clearing Members to unwind any Contracts in a product which is subject to a Product Suspension Event which were registered before the effective date of Product Suspension Event. If Clearing Members fail to do so, OTC Clear, at its sole discretion, will be entitled to

terminate any such Contracts, and all prevailing obligations of OTC Clear and the relevant Clearing Member in respect of such Contracts shall cease and be replaced with the obligation of OTC Clear or the relevant Clearing Member, as the case may be, to pay the close-out value determined in accordance with section 10.1(iv) of these Clearing Procedures. OTC Clear may, with prior consultation with the SFC, lift the suspension at any time.

Prior written notice of a Product Suspension Event or a resumption of clearing of a product previously subject to a Product Suspension Event shall be given to Clearing Members and the SFC. OTC Clear shall give notice to Clearing Members by means of a Clearing Notice.

### **3.5 Error Contract**

Pursuant to Clearing Rule 814, in the event OTC Clear terminates an Error Contract, the relevant Clearing Members who were parties to the Error Contract being terminated will be notified through the “OTC Clear Trade Report (Report Number TDRP01, TDRP02 or TDRP11)” in respect of an Error Contract which has been registered in a House Position Account or “OTC Clear Trade Report for Client (Report Number TDRP01\_C, TDRP02\_C or TDRP11\_C)” in respect of an Error Contract which has been registered in a Client Position Account. Both “OTC Clear Trade Report (Report Number TDRP01, TDRP02 or TDRP11)” and “OTC Clear Trade Report for Client (Report Number TDRP01\_C, TDRP02\_C or TDRP11\_C)” are available to the Clearing Members on the Web Portal. The status of any terminated Error Contract will be indicated in the “OTC Clear Trade Report (Report Number TDRP01, TDRP02 or TDRP11)” or “OTC Clear Trade Report for Client (Report Number TDRP01\_C, TDRP02\_C or TDRP11\_C)” as a rejected transaction. The status will be flagged as “DECLARED”, “TERMINATED” or “TRANSFERED”.

If OTC Clear determines that the value of the Error Contract has changed in between the time when the Variation Margin was last calculated and when such Error Contract was terminated, then OTC Clear will communicate to the relevant Clearing Members an amount representing such difference. The Clearing Members in whose names the Error Contracts were registered will then settle such difference between themselves without further involvement of OTC Clear.

OTC Clear will liaise with both the relevant Approved Trade Registration System and the relevant Clearing Members to facilitate the latest trade status of the Error Contract being updated in such Approved Trade Registration System.

### **3.6 De-registration**

Subsequent to the registration of an Original Transaction as two Contracts with OTC Clear, any proposed amendments to the terms of such Contracts, or termination or novation of such Contracts other than any transfer of Contracts relating to Clients in accordance with Clearing Rule 825, may only be effected by first de-registering the Contracts through submission of a de-registration request to OTC Clear.

OTC Clear will perform the de-registration process described in this section 3.6 and the “Margin Process” as described in section 4.6 of these Clearing Procedures with respect to any Contract which is the subject of a de-registration request.

#### **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) the relevant Contract has not reached its scheduled Termination Date or Settlement Date, and has not been previously terminated; and

- (ii) 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”**). If a de-registration request is submitted by or on behalf of only one of the two parties to the Original Transaction, OTC Clear will not accept such de-registration request. 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.

### 3.6.2 Process of De-registration

In respect of a de-registration request submitted to OTC Clear before 18:00 hours Hong Kong time on an OTC Clear Clearing Day such de-registration request will be processed by OTC Clear on the same day.

In respect of a de-registration request submitted to OTC Clear between 18:00 hours Hong Kong time and 19:00 hours Hong Kong time on an OTC Clear Clearing Day, OTC Clear will perform the de-registration process described in this section 3.6 on the same day. The “Margin Process” will only be performed during the Margin Process Hours, and as such, the relevant Contract will not be de-registered by OTC Clear until the immediately following OTC Clear Clearing Day assuming the “Margin Process” set out in section 4.6 of these Clearing Procedures are satisfied.

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.

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 or via 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.

Any de-registration request that is submitted to OTC Clear between 18:00 hours Hong Kong time and 19:00 hours Hong Kong time on an OTC Clear Clearing Day and put on “pending” status in the Rates and FX Clearing System will be rejected by OTC Clear if it fails to satisfy the “Margin Process” as set out in section 4.6 of these Clearing Procedure by the commencement of the End-of-Day Settlement Process on the immediately following OTC Clearing Day. Otherwise, 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 or via the relevant Accepted Medium for De-registration. 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.

### **3.7 Accounts**

Pursuant to Chapter 9 of the Clearing Rules, the following accounts may be opened for a Clearing Member on the OTC Clear’s books and records: (i) one House Position Account and one or more Client Position Accounts may be established for a Clearing Member, (ii) one House Collateral Account and one or more Client Collateral Accounts may be established for a Clearing Member, (iii) but only one GF Account will be established for a Clearing Member. Each Clearing Member will be individually identified in OTC Clear Rates and FX Clearing System by way of designation of a bank identifier code (BIC) for each such Clearing Member. In addition, a unique identifier will be assigned to each Clearing Member and mapped to each of the accounts.

### **3.8 Settlement Components**

A “**Settlement Component**” consists of daily settlement components (as set out in section 3.8.1) and fees and interest (as set out in section 3.8.2).

Pursuant to Clearing Rule 226, the calculations made by OTC Clear shall be conclusive and binding on all Clearing Members. If a Clearing Member notifies OTC Clear of any alleged error in any calculations performed by OTC Clear pursuant to Clearing Rule 226, such Clearing Member is still obligated to settle the full amounts as stated in the “OTC Clear Settlement Reports” and “OTC Clear Settlement

Reports for Client” (if applicable) on the payment due date pending investigation, resolution or (if applicable) rectification of the alleged error by OTC Clear.

For the avoidance of doubt, OTC Clear will only be responsible for settlement of any Settlement Component of a Contract if the Payment Date of such Settlement Component is in compliance with the terms set out in sections 3.4.2.12 and 3.4.4.4.

The terms and provisions included in an ISDA Credit Support Annex published by ISDA will not form part of the Contract Terms of a Contract. As such, the Independent Amount (as defined in paragraph 10 of the ISDA Credit Support Annex (Bilateral Form-Transfer) published by ISDA) is not, and does not form part of the Settlement Component. OTC Clear is not responsible for, and will not be processing any transfer of Independent Amount and Clearing Member shall be responsible to put in place any relevant Collateral management procedures for processing any Independent Amount.

### **3.8.1 Daily Settlement Components**

OTC Clear will determine the daily settlement components on each OTC Clear Clearing Day. Daily settlement components consist of (i) coupon payment for a Standard Rates Derivatives Contract, Standard Cross-currency Rates Derivatives Contract and Non Deliverable Rates Derivatives Contract, (ii) settlement amount for a Non Deliverable FX Derivatives Contract, (iii) Additional Payment, (iv) Additional Amount, (v) Initial Margin, (vi) Additional Margin, (vii) Variation Margin, (viii) Rates and FX Contribution, (ix) Initial Exchange Amount and Final Exchange Amount for a Standard Cross-currency Rates Derivatives Contract, (x) Notional Amounts for a Deliverable FX Forward Contract and Deliverable FX Swap Contract and any other components which may be specified by OTC Clear from time to time.

Market data (such as non-business days for different financial centers, any interest rate, exchange rate or price) which are applied to determine the daily settlement components will be published in the “OTC Clear Market Data Reports (Report Number MKDR01, MKDR02 and MKDR03)”. The amount of daily settlement components to be settled by a Clearing Member will be published in the “OTC Clear Settlement Report (Report Number STRP01)” in respect of any payment relevant to a House Account or “OTC Clear Settlement Report for Client (Report Number STRP01\_C)” in respect of any payment relevant to a Client Account. Such reports are available to the Clearing Members on the Web Portal. The daily settlement components published in the “OTC Clear Settlement Report (Report Number STRP01)” and “OTC Clear Settlement Report for Client (Report Number STRP01\_C)” shall be final and conclusive, and shall be settled on the relevant “Value Date” as stipulated in the “OTC Clear Settlement Report (Report Number STRP01)” and “OTC Clear Settlement Report for Client (Report Number STRP01\_C)” in accordance with section 3.12. Any de-registration request that is accepted by OTC Clear after the publication of the “OTC Clear Settlement Report (Report Number STRP01)” or “OTC Clear Settlement Report for Client (Report Number STRP01\_C)” for any relevant “Value Date” shall not have any effect on the payment obligation of a Clearing Member to settle the daily settlement components set out in the relevant “OTC Clear Settlement Report (Report Number STRP01)” or “OTC Clear Settlement Report for Client (Report Number STRP01\_C)” for such “Value Date”.

#### **3.8.1.1 Coupon Payment for a Standard Rates Derivatives Contract, a Standard Cross-currency Rates Derivatives Contract and a Non Deliverable Rates Derivatives Contract**

With respect to each of section 3.8.1.1.1 and section 3.8.1.1.2, if the Payment Date or Period End Date of a Standard Rates Derivatives Contract, Standard Cross-currency Rates Derivatives Contract or Non Deliverable Rates Derivatives Contract is specified to be the 29<sup>th</sup>, 30<sup>th</sup> or 31<sup>st</sup> of a calendar month but there is not any such numerically corresponding day in the calendar month in which the Payment Date or Period End Date would otherwise fall, then the relevant Payment Date or Period End Date shall be deemed to fall on the last calendar day of the relevant calendar month, and be subject to adjustment in

accordance with the Business Day Convention specified in the Contract Terms relating to such Standard Rates Derivatives Contract, Standard Cross-currency Rates Derivatives Contract or Non Deliverable Rates Derivatives Contract.

#### **3.8.1.1.1 Calculation of the Fixed Amount**

Calculation of the Fixed Amount is based on the methodologies stipulated in Sections 5.1(b) and 5.2 of the ISDA Definitions and the Economic Terms specified in the relevant Contract.

For the avoidance of doubt, irrespective of the Registration Time of a Contract, the Calculation Period of a Fixed Amount of such Contract is the period from and including the immediately preceding Period End Date (or the Effective Date if such Calculation Period is the initial Calculation Period of that particular Contract) to but excluding the Period End Date of the relevant Calculation Period (or the Termination Date if such Calculation Period is the final Calculation Period of that particular Contract).

#### **3.8.1.1.2 Calculation of the Floating Amount**

- (i) In respect of a Standard Rates Derivatives Contract, calculation of the Floating Amount is based on the methodologies stipulated in Section 6.1 of the ISDA Definitions and the Economic Terms specified in the relevant Standard Rates Derivatives Contract;
- (ii) in respect of a Non Deliverable Rates Derivatives Contract which is denominated in CNY, calculation of the Floating Amount is based on the methodologies stipulated in Section 6.3(c) of the ISDA Definitions and the Economic Terms specified in the relevant Non Deliverable Rates Derivatives Contract and the Compounding Date is deemed to be each relevant CNY 7-Repo Compounding Date in accordance with Section 7.1(ah)(ii) of the ISDA Definitions;
- (iii) in respect of a Non Deliverable Rates Derivatives Contract which is denominated in INR, KRW, MYR, THB or TWD, calculation of the Floating Amount is based on the methodologies stipulated in Section 6.1 of the ISDA Definitions and the Economic Terms specified in the relevant Non Deliverable Rates Derivatives Contract; and
- (iv) in respect of a Standard Cross-currency Rates Derivatives Contract, calculation of the Floating Amount is based on the methodologies stipulated in Section 6.1 of the ISDA Definitions and the Economic Terms specified in the relevant Standard Cross-currency Rates Derivatives Contract.

For the avoidance of doubt, irrespective of the Registration Time of a Contract, the Calculation Period of a Floating Amount of such Contract is the period from and including the immediately preceding Period End Date (or the Effective Date if such Calculation Period is the initial Calculation Period of that particular Contract) to but excluding the Period End Date of the relevant Calculation Period (or the Termination Date if such Calculation Period is the final Calculation Period of that particular Contract).

A Clearing Member should note the provisions set out in Clearing Rules 2222, 2319 and 2518 in relation to the applicability of the "Negative Interest Rate Method" to a Standard Rates Derivatives Contract, Standard Cross-currency Rates Derivatives Contract or Non Deliverable Rates Derivatives Contract, as applicable.

#### **3.8.1.1.3 Determination of the Rate for a Reset Date**

- (i) In respect of a Standard Rates Derivatives Contract which is denominated in CNY (offshore) or USD, Standard Cross-currency Rates Derivatives Contract and Non Deliverable Rates Derivatives Contract which is denominated in MYR or TWD, the rate for a Reset Date, including the source and the time at which such source is obtained from the relevant provider, is determined by reference to Article 7 of the ISDA Definitions except that if a different Fixing

Days Offset is elected by the Clearing Members for the initial Calculation Period in respect of a Floating Rate Payer than that prescribed in Article 7 of the ISDA Definitions it shall be amended to make reference to the Fixing Days Offset elected by the Clearing Members;

- (ii) in respect of a Non Deliverable Rates Derivatives Contract which is denominated in CNY, the rate for a Reset Date, including the source and the time at which such source is obtained from the relevant provider, is determined by reference to Article 7 of the ISDA Definitions except that if a different Fixing Days Offset is elected by the Clearing Members for the initial Compounding Period in respect of a Floating Rate Payer than that prescribed in Article 7 of the ISDA Definitions it shall be amended to make reference to the Fixing Days Offset elected by the Clearing Members; or
- (iii) in respect of a Standard Rates Derivatives Contract which is denominated in EUR or HK\$ and a Non Deliverable Rates Derivatives Contract which is denominated in INR, KRW or THB, the rate for a Reset Date, including the source and the time at which such source is obtained from the relevant provider, is determined by reference to Article 7 of the ISDA Definitions.

For the avoidance of doubt, (a) if linear interpolation is elected to be applicable to a Calculation Period, the relevant rate for the Reset Date in respect of that Calculation Period will be calculated by OTC Clear in accordance with Section 8.3 of the ISDA Definitions; and (b) if the Floating Rate has been designated by the Clearing Members for the initial Calculation Period or initial Compounding Period, as the case may be, in respect of a Floating Rate Payer of a Contract, such Floating Rate is deemed to be the rate for the Reset Date for the initial Calculation Period or initial Compounding Period, as the case may be, in respect of the relevant Floating Rate Payer of such Contract.

#### **3.8.1.1.4 Adjustment to the Initial Exchange Date, the Final Exchange Date, the Payment Date and the Period End Date**

OTC Clear uses Copp Clark as the data provider for information on holiday observances affecting world financial markets. OTC Clear will provide Clearing Members with regular updates of holidays affecting Currency Days and Business Days through the "OTC Clear Market Data Report (Report Number MKDR03)". Any ad-hoc update of such holidays will be notified to the Clearing Members.

- (i) In respect of a Standard Rates Derivatives Contract or a Non Deliverable Rates Derivatives Contract:

If a holiday declaration affects a scheduled Payment Date and/or a Period End Date (if applicable) of the relevant Calculation Period of a Contract, an adjustment to the Payment Date and/or the amount of the settlement (if applicable) shall be made in accordance with the Contract Terms, provided that, in the event of a holiday declaration in respect of a particular day which would otherwise have been a Currency Day or a Business Day after 18:00 hours Hong Kong time on the OTC Clear Clearing Day immediately preceding such Currency Day or Business Day on which a Payment Date and/or Period End Date is scheduled to fall, no adjustment shall be made to such Payment Date and/or Period End Date of any Contract unless such declaration or curtailment affects the financial center or the foreign exchange market of the Contractual Currency of that Contract.

- (ii) In respect of a Standard Cross-currency Rates Derivatives Contract:

If a holiday declaration affects a scheduled Initial Exchange Date (if applicable), a Final Exchange Date (if applicable), a Payment Date and/or a Period End Date (if applicable) of the relevant Calculation Period of a Contract, an adjustment to the Initial Exchange Date (if applicable), the Final Exchange Date (if applicable), the Payment Date and/or the amount of the settlement (if applicable) shall be made in accordance with the Contract Terms, provided

that, in the event of a holiday declaration in respect of a particular day which would otherwise have been a Currency Day or a Business Day after 18:00 hours Hong Kong time on the OTC Clear Clearing Day immediately preceding such Currency Day or Business Day on which an Initial Exchange Date (if applicable), a Final Exchange Date (if applicable), a Payment Date and/or Period End Date (if applicable) is scheduled to fall, no adjustment shall be made to such Initial Exchange Date, Final Exchange Date, Payment Date and/or Period End Date of any Contract unless such declaration or curtailment affects the financial center or the foreign exchange market of any one of the Contractual Currencies of that Contract.

Any update to the Payment Date and/or amount of the settlement of a forthcoming payment is reflected in the “OTC Clear Settlement Report (Report Number STRP04, STRP06 or STRP09)” in respect of any payment relevant to a House Position Account or “OTC Clear Settlement Report for Client (Report Number STRP04\_C, STRP06\_C or STRP09\_C)” in respect of any payment relevant to a Client Position Account. Both “OTC Clear Settlement Report (Report Number STRP04, STRP06 or STRP09)” and “OTC Clear Settlement Report for Client (Report Number STRP04\_C, STRP06\_C or STRP09\_C)” will be made available to the Clearing Members on the Web Portal.

OTC Clear has no involvement in Copp Clark’s business and therefore does not guarantee and is not responsible for the accuracy of any data provided by Copp Clark.

#### **3.8.1.1.5 Calculation of the Settlement Currency Amount for a Non Deliverable Rates Derivatives Contract**

The methodology stipulated in Section 2.2(b)(ii) of the FX Definitions for calculation of the Settlement Currency Amount for a Non Deliverable Rates Derivatives Contract shall be deemed to be replaced by the methodology stipulated in the ND IRS Template under the section entitled “Settlement Currency Amount”.

#### **3.8.1.1.6 Disruption Event and Disruption Fallback**

In respect of a Standard Rates Derivatives Contract or a Standard Cross-currency Rates Derivatives Contract which is denominated in CNY (offshore), in the event of the occurrence of a Disruption Event, the CNY (offshore) Disruption Provisions shall apply.

In respect of a Non Deliverable Rates Derivatives Contract, in the event of the occurrence of a Disruption Event, the relevant Disruption Fallback provisions stipulated in the ND IRS Template shall apply.

#### **3.8.1.2 Settlement Amount for a Non Deliverable FX Derivatives Contract**

##### **3.8.1.2.1 Calculation of the Settlement Currency Amount**

Calculation of the Settlement Currency Amount is based on the methodologies stipulated in Article 2 of the FX Definitions and the Economic Terms specified in the relevant Contract.

##### **3.8.1.2.2 Determination of the Settlement Rate**

The Settlement Rate, including the source and the time at which such source is obtained from the relevant provider, is determined in accordance with the FX Definitions and the EMTA Template.

##### **3.8.1.2.3 Adjustment to the Valuation Date and the Settlement Date**

OTC Clear uses Copp Clark as the data provider for information on holiday observances affecting world financial markets. OTC Clear will provide Clearing Members with regular updates of holidays affecting Currency Days and Business Days through the “OTC Clear Market Data Report (Report Number MKDR03)”. Any ad-hoc update of such holidays will be notified to the Clearing Members.

If a holiday declaration affects a scheduled Valuation Date and/or Settlement Date of a Contract, an adjustment will be made in accordance with the Contract Terms and the EMTA Template which is applicable to the relevant Currency Pair, even if such holiday declaration in respect of a particular day which would otherwise have been a Currency Day occurs after 18:00 hours Hong Kong time on the OTC Clear Clearing Day immediately preceding such Currency Day on which a Valuation Date or Settlement Date is scheduled to fall.

Any update in the Settlement Date and/or the Settlement Currency Amount is reflected in the “OTC Clear Settlement Report (Report Number STRP05)” in respect of any payment relevant to a House Position Account or “OTC Clear Settlement Report for Client (Report Number STRP05\_C)” in respect of any payment relevant to a Client Position Account. Both “OTC Clear Settlement Report (Report Number STRP05)” and “OTC Clear Settlement Report for Client (Report Number STRP05\_C)” will be made available to the Clearing Members on the Web Portal.

OTC Clear has no involvement in Copp Clark’s business and therefore does not guarantee and is not responsible for the accuracy of any data provided by Copp Clark.

#### **3.8.1.2.4 Disruption Event and Disruption Fallback**

In the event of the occurrence of a Disruption Event, the relevant Disruption Fallback provisions stipulated in the EMTA Template shall apply.

#### **3.8.1.3 Notional Amount Settlement for a Deliverable FX Forward Contract and a Deliverable FX Swap Contract**

##### **3.8.1.3.1 Adjustment to the Settlement Date**

OTC Clear uses Copp Clark as the data provider of non-business days for different financial centers. OTC Clear will provide Clearing Members with regular updates of such non-business days through the “OTC Clear Market Data Report (Report Number MKDR03)”. Any ad-hoc update of such non-business days will be notified to the Clearing Members.

In respect of a Deliverable FX Derivatives Contract if an update of a Currency Day results in a Settlement Date falling on a non-Currency Day for any Contractual Currency of that particular Contract, such Settlement Date shall be adjusted to the immediately following day which is a Currency Day for each Contractual Currency of that particular Contract.

Any update in the Settlement Date is reflected in the “OTC Clear Settlement Report (Report Number STRP12)” in respect of any payment relevant to a House Position Account or “OTC Clear Settlement Report for Client (Report Number STRP12\_C)” in respect of any payment relevant to a Client Position Account. Both “OTC Clear Settlement Report (Report Number STRP12)” and “OTC Clear Settlement Report for Client (Report Number STRP12\_C)” will be made available to the Clearing Members on the Web Portal.

OTC Clear has no involvement in Copp Clark’s business and therefore does not guarantee and is not responsible for the accuracy of any data provided by Copp Clark.

##### **3.8.1.3.2 Disruption Event and Disruption Fallback**

In respect of a Deliverable FX Forward Contract or a Deliverable FX Swap Contract with one of the Notional Amounts denominated in CNY (offshore), in the event of the occurrence of a Disruption Event, the CNY (offshore) Disruption Provisions shall apply.

### 3.8.2 Fees and Interest

OTC Clear has the right to charge fees or interest for its services at such rates as prescribed from time to time. A Clearing Member shall pay the fees and interest within the prescribed timeframe as indicated by OTC Clear.

Details of fees and interest are monitored throughout each calendar month. The “OTC Clear Settlement Reports (Report Number STRP07 and STRP08)” in respect of any fees and interest relevant to a House Account or “OTC Clear Settlement Reports for Client (Report Number STRP07\_C and STRP08\_C)” in respect of any fees and interest relevant to a Client Account which are published at the beginning of each calendar month stipulates the fees and interest to be paid by each Clearing Member for the immediately preceding calendar month.

The amount of fees and interest to be settled by a Clearing Member will be published in the “OTC Clear Settlement Report (Report Number STRP01)” in respect of any payment relevant to a House Account or “OTC Clear Settlement Report for Client (Report Number STRP01\_C)” in respect of any payment relevant to a Client Account. Such reports are available to the Clearing Members on the Web Portal. The fees and interest calculated by OTC Clear pursuant to the Clearing Rules and published in the “OTC Clear Settlement Report (Report Number STRP01)” and “OTC Clear Settlement Report for Client (Report Number STRP01\_C)” shall be conclusive and binding, and shall be settled on the relevant “Value Date” as stipulated in the “OTC Clear Settlement Report (Report Number STRP01)” and “OTC Clear Settlement Report for Client (Report Number STRP01\_C)” in accordance with section 3.12.

#### 3.8.2.1 Fees

Types of fees which are applicable to a Clearing Member will be notified by OTC Clear to its Clearing Members from time to time and include, but are not limited to, the following:

- (i) annual fees, which are fees payable by each Clearing Member on an annual basis for the use of Rates and FX Clearing Services;
- (ii) registration fees, which are fees payable by each Clearing Member for registration of a Contract in its House Position Account or Client Position Account (if Client Clearing Services are provided by such Clearing Member). For the avoidance of doubt, registration fees relevant to a Contract are incurred at the time when such Contract is registered in the relevant Position Account;
- (iii) maintenance fees, which are fees payable by each Clearing Member on a monthly basis in respect of each Contract registered in its House Position Account or its Client Position Account (if Client Clearing Services are provided by such Clearing Member) until its maturity. For the avoidance of doubt, maintenance fees are incurred on a monthly basis to a Contract which remains registered in the relevant Position Account on the last OTC Clear Clearing Day in each calendar month;
- (iv) de-registration fees, which are fees payable by each Clearing Member in respect of each Contract previously registered in its name that has been de-registered in its House Position Account or its Client Position Account (if Client Clearing Services are provided by such Clearing Member). For the avoidance of doubt, de-registration fees in respect of a Contract are incurred at the time when such Contract is de-registered from the relevant Position Account;
- (v) costs of conducting an investigation or audit on a Clearing Member. Unless otherwise agreed by OTC Clear, such amounts should be borne by that Clearing Member;

- (vi) fees for resuming user access or resetting password for access to the Web Portal, which are fees payable by a Clearing Member who requests to have its designated password to be reset or retrieved by OTC Clear for the purpose of accessing the Web Portal. For the avoidance of doubt, the designated password for accessing the Web Portal will be provided by OTC Clear for free for first-time log-on. Such fees will be charged during the month of submission of the request for such reset or retrieval of password;
- (vii) fees for retrieval of reports subsequent to the same being removed from the Web Portal in accordance with section 3.16; and/or fees for delivery of print-out reports as requested by any Clearing Member. For the list of reports available on the Web Portal, please refer to the “**Report Usage Guide**” (which is a user manual detailing the specification of each report published by OTC Clear, the guidance for interpreting the contents therein, and the frequency of publication of each such report). Such fees will be charged during the month of submission of the request for such retrieval of reports or delivery of print-out reports;
- (viii) fees for processing each request for porting of Contracts from a Transferor Clearing Member’s Client Position Account to a Transferee Clearing Member’s Client Position Account. For the avoidance of doubt, such fees are payable by the Transferee Clearing Member irrespective of whether each request results in successful porting;
- (ix) fees for processing each request for porting of Contracts between Client Position Accounts of the same Clearing Member. For the avoidance of doubt, such fees are payable by a Clearing Member irrespective of whether each request results in successful porting;
- (x) fees for processing each request for deposit, porting or withdrawal of non-cash Collateral by a Clearing Member. For the avoidance of doubt, such fees are payable by such Clearing Member irrespective of whether each request is successful; and
- (xi) accommodation charges, administrative fees and/or commitment fees for credit lines in respect of any non-cash Collateral delivered by a Clearing Member for purposes of satisfying its Initial Margin requirements and/or its Additional Margin requirements in respect of its House Position Account and/or its Client Position Account (if Client Clearing Services are provided by such Clearing Member).

Fees itemised in this section 3.8.2.1 are stipulated in the Fees Schedule (see Appendix I to these Clearing Procedures). OTC Clear shall be entitled to make any changes to the Fees Schedule, in addition, OTC Clear reserves the right to charge any additional fee prescribed by it from time to time.

For the avoidance of doubt, no fees will be charged for the porting of Contracts and Collateral held by a Defaulting Clearing Member to a Replacement Clearing Member upon the occurrence of a DMP Event.

### **3.8.2.2 Interest to be Paid / Received by Clearing Members in respect of Collateral Delivered to OTC Clear**

Please refer to Chapter 7 of these Clearing Procedures for details.

### **3.9 Procedures for Voluntary Deposit of Cash Collateral, porting of Cash Collateral representing Excess Margin and Withdrawal of Cash Collateral representing Excess Margin and Rates and FX Contribution Excess**

This section 3.9 sets out the arrangement for any voluntary withdrawal, porting or deposit of cash Collateral by a Clearing Member. The arrangement for satisfying a Margin demand by a Clearing

Member is governed by Chapter 4 and, in particular, section 4.7 of these Clearing Procedures. In respect of any cash settlement as a result of voluntary withdrawal or deposit of cash Collateral for satisfaction of Margin requirements or Rates and FX Liability, such cash settlement must be made via RTGS system as further described in section 3.11.1.

### **3.9.1 Procedure for Voluntary Withdrawal of Cash Collateral representing Excess Margin and Rates and FX Contribution Excess**

The following procedures apply to voluntary withdrawal of cash Collateral by a Clearing Member in respect of its Excess Margin, and its Rates and FX Contribution Excess:

- (i) prior to requesting withdrawal of any cash Collateral then deposited with OTC Clear for the purpose of satisfying its Margin requirements, the Clearing Member should check and ensure there is a positive cash balance (after taking into account any Collateral Concentration Limit(s) set out in section 7.4 of these Clearing Procedures) standing to the credit of its relevant House Collateral Account or Client Collateral Account, as the case may be, representing Excess Margin;
- (ii) prior to requesting withdrawal of any cash Collateral then deposited with OTC Clear for the purpose of satisfying its Rates and FX Liability, the Clearing Member should check and ensure there is a positive cash balance standing to the credit of its GF Account representing Rates and FX Contribution Excess;
- (iii) the Clearing Member shall input a request for withdrawal via the collateral management window of the Web Portal before 11:00 hours Hong Kong time on a day that is both a Currency Day relating to the relevant cash Collateral and an OTC Clear Business Day. Any request which is submitted (a) on a day other than a day that is both a Currency Day relating to the relevant cash Collateral and an OTC Clear Business Day or (b) after 11:00 hours Hong Kong time on such day will be rejected; and
- (iv) if such withdrawal is approved by OTC Clear:
  - (a) the amount of withdrawal will be deducted from the cash balance of the House Collateral Account, Client Collateral Account or the GF Account, as the case may be, relating to the Clearing Member once such request is processed by OTC Clear; and
  - (b) OTC Clear will make the payment for value on the same day by the cash settlement method described in section 3.11.1.

For the avoidance of doubt, any request for withdrawal of cash Collateral which is designated with a value date for settlement other than the date on which such request is made will not be accepted or processed by OTC Clear.

Clearing Members are able to monitor the progress of their withdrawal requests on a daily basis through the Web Portal. The relevant information will be updated on the Web Portal by 18:00 hours Hong Kong time on each OTC Clear Business Day.

### **3.9.2 Procedure for Voluntary Deposit of Cash Collateral**

The following procedures apply to voluntary deposit of cash Collateral by a Clearing Member in respect of its Margin requirements and its Rates and FX Liability:

- (i) the Clearing Member shall input a request for deposit via the collateral management window of the Web Portal before 16:00 hours Hong Kong time on a day that is both a Currency Day relating to the relevant cash Collateral and an OTC Clear Clearing Day. Any request which is submitted (a) on a day other than a day that is both a Currency Day relating to the relevant

cash Collateral and an OTC Clear Clearing Day or (b) after 16:00 hours Hong Kong time on such day will be rejected;

- (ii) the amount of deposit will be settled by the cash settlement method described in section 3.11.1;
- (iii) the Clearing Member should ensure that the amount of deposit can be credited to OTC Clear by 17:00 hours Hong Kong time on the day such request is submitted. Otherwise such request will be deemed to be rejected by OTC Clear; and
- (iv) upon receipt of confirmation by OTC Clear from its settlement bank that the amount of deposit has been credited to OTC Clear, it will be reflected in the cash balance of the House Collateral Account, Client Collateral Account or the GF Account, as the case may be, relating to the Clearing Member.

For the avoidance of doubt, any request for deposit of cash Collateral which is designated with a value date for settlement other than the date on which such request is made will not be accepted or processed by OTC Clear.

Clearing Members are able to monitor the progress of their deposit requests on a daily basis through the Web Portal. The relevant information will be updated on the Web Portal by 18:00 hours Hong Kong time on each OTC Clear Clearing Day.

### **3.9.3 Procedure for porting of Cash Collateral representing Excess Margin**

The following procedures apply to porting of cash Collateral by a Clearing Member representing Excess Margin in its House Collateral Account to any of its Client Collateral Accounts. For the avoidance of doubt, porting of Excess Margin in a Client Collateral Account at a Clearing Member to satisfy Margin requirements in respect of another Client Position Account of that Clearing Member and porting of Excess Margin amongst Client Collateral Accounts of that Clearing Member is prohibited:

- (i) prior to requesting porting of any cash Collateral then deposited with OTC Clear for the purpose of satisfying its Margin requirements from its House Collateral Account to any of its Client Collateral Accounts, a Clearing Member should check and ensure that there is a positive cash balance (after taking into account any Collateral Concentration Limit(s) set out in section 7.4 of these Clearing Procedures) standing to the credit of its House Collateral Account representing Excess Margin;
- (ii) a Clearing Member with cash Collateral representing Excess Margin in its House Collateral Account may input a request for porting of such Excess Margin to any of its Client Collateral Accounts via the collateral management window of the Web Portal before 11:00 hours Hong Kong time on a day that is both a Currency Day for the currency of the relevant cash Collateral and an OTC Clear Business Day. Any request which is submitted after 11:00 hours Hong Kong time will be rejected and must be re-submitted on the next day that is both a Currency Day for the currency of the relevant cash Collateral and an OTC Clear Business Day. For the avoidance of doubt, any request for porting of cash Collateral with a value date for settlement other than the date on which such request is made will not be accepted or processed by OTC Clear;
- (iii) if such porting is approved by OTC Clear, the amount to be ported will be deducted from the cash balance of the relevant Clearing Member's House Collateral Account once such request has been processed by OTC Clear;
- (iv) OTC Clear will endeavour to effect the porting for value on the same day; and

- (v) upon receipt of confirmation by OTC Clear from its settlement bank that the transfer has been completed, OTC Clear will reflect the cash increase in the balance of the relevant Client Collateral Account of the relevant Clearing Member.

Porting of cash Collateral: (a) from the GF Account to the House Collateral Account or any Client Collateral Account, (b) from any Client Collateral Account to the House Collateral Account or the GF Account, (c) from the House Collateral Account to the GF Account or (d) amongst Client Collateral Accounts, is not allowed.

Cash Collateral representing Excess Margin ported from a Clearing Member's House Collateral Account to a Client Collateral Account on a particular OTC Clear Clearing Day will not be available in time to satisfy Margin calls made in respect of the corresponding Client Position Account on that OTC Clear Clearing Day.

Clearing Members are able to monitor the progress of their transfer requests on a daily basis through the Web Portal. The relevant information will be updated on the Web Portal by 18:00 hours Hong Kong time on each OTC Clear Business Day.

#### **3.9.4 Black Rainstorm Warning or Typhoon Signal Number 8**

If a level "black" of the rainstorm warning system (a "**Black Rainstorm Warning**") or a number 8 tropical cyclone warning signal (a "**Typhoon Signal Number 8**") or above is issued by The Hong Kong Observatory, the special arrangement as set out in section 9.5 of these Clearing Procedures will apply and the operation of the procedures set out in this section 3.9 shall be construed accordingly.

#### **3.10 Types of Securities Acceptable as Non-cash Collateral and Procedures for Voluntary Deposit of Non-Cash Collateral, porting of Non-Cash Collateral representing Excess Margin and Withdrawal of Non-Cash Collateral representing Excess Margin**

OTC Clear only accepts non-cash Collateral delivered to it at its account at the relevant Custodian specified for the relevant type of eligible non-cash Collateral. Non-cash Collateral deposited for the purpose of satisfying Margin requirements in respect of a particular Position Account will not form part of the Margin Balance recorded to the corresponding Collateral Account until such non-cash Collateral is received by OTC Clear at its account at such relevant Custodian. OTC Clear publishes the Custodian and its standard delivery instruction for each type of eligible non-cash Collateral on the HKEX website and updates it from time to time.

Delivery of non-cash Collateral to OTC Clear must be executed free of payment.

Clearing Members are each required to open 2 accounts with their respective custodian(s) for the relevant type of eligible non-cash Collateral – one account for settlement of non-cash Collateral relating to House Business and the other account for settlement of non-cash Collateral relating to Contracts recorded in the Client Position Account of a Clearing Member ("**Client Business**"). Clearing Members must specify only one standard delivery instruction for House Business and only one standard delivery instruction for Client Business.

The relevant Custodian matches the details submitted by each Clearing Member via the Web Portal before accepting delivery of the relevant non-cash Collateral to OTC Clear's account with it. In the event of a discrepancy, delivery will fail. Each Clearing Member must also indicate in the relevant payment message that the settlement mode is real time.

In respect of each request for withdrawal of non-cash Collateral which has been accepted by OTC Clear, OTC Clear will instruct the relevant Custodian to deliver the relevant non-cash Collateral to each Clearing Member in accordance with the standard delivery instructions provided by such Clearing Member.

If a Clearing Member wishes to change its standard delivery instruction in respect of settlement in relation to its House Collateral Account and/or its Client Collateral Accounts (if applicable), it must provide at least 10 OTC Clear Business Days' advance notice to OTC Clear pursuant to section 2.6 of these Clearing Procedures prior to effecting such change.

OTC Clear will not be liable for any failure, hindrance or delay in the performance (in whole or in part) of any of its obligations to Clearing Members relating to the deposit, withdrawal or porting of non-cash Collateral where such failure, hindrance or delay arises from causes beyond the control of OTC Clear, such as, but not limited to, the failure (whether partial or total), interruption or suspension of any depository, Custodian or other depository service that OTC Clear uses, the termination or suspension of OTC Clear's membership or use of a Custodian or any variation of a Custodian's operational timetable, whether or not occasioned by the action of the Custodian or other party, or any embargo, unavailability or restriction of bank transfer systems or wires, malfunction or overload of the depository or any other emergency.

### 3.10.1 Types of Securities Acceptable as Non-cash Collateral

Clearing Members are requested to note that OTC Clear accepts the following securities as non-cash Collateral delivered to it at the relevant account at Central Moneymarkets Unit ("CMU") of the Hong Kong Monetary Authority specified for the relevant type of securities:

Type of securities acceptable as non-cash Collateral	Custodian	Minimum delivery amount
US Treasury Bills	CMU	USD100 and integral multiples of USD100 in excess thereof
US Treasury Notes		USD100 and integral multiples of USD100 in excess thereof
Hong Kong Exchange Fund Bills	CMU	HKD500,000 and integral multiples of HKD500,000 in excess thereof
Hong Kong Exchange Fund Notes		HKD50,000 and integral multiples of HKD50,000 in excess thereof
Bonds issued by the Ministry of Finance of the People's Republic of China denominated in CNY(offshore)	CMU	CNY (offshore)500,000 and integral multiples of CNY (offshore)500,000 in excess thereof

Collateral Haircuts for the relevant asset type are published on the HKEX website and will be updated from time to time:

<http://www.hkex.com.hk/eng/prod/clr/otcllrsett/chaircut.htm>

### 3.10.2 Procedures for Voluntary Withdrawal of Non-Cash Collateral representing Excess Margin

The following procedures apply to voluntary withdrawal of non-cash Collateral by a Clearing Member representing Excess Margin:

- (i) prior to requesting withdrawal of any non-cash Collateral then deposited with OTC Clear, the Clearing Member should ensure that there is a positive balance of the relevant security represented by the relevant international securities identification number assigned by the

International Securities Identification Numbers Organization (“**ISIN code**”) standing to the credit of its House Collateral Account or relevant Client Collateral Account, as the case may be, and that such Collateral represents Excess Margin;

- (ii) the Clearing Member shall input a request for withdrawal of the relevant security via the collateral management window of the Web Portal before 11:00 hours Hong Kong time on an OTC Clear Clearing Day. Each withdrawal request must specify: (a) the ISIN code of each relevant non-cash Collateral that it is seeking to withdraw, (b) the notional amount of each such Collateral that it is seeking to withdraw and (c) the value date for settlement;
- (iii) in addition, each withdrawal request must comply with the following parameters:

<b>Type of non-cash Collateral to be withdrawn</b>	<b>Value Date for Settlement to be specified in each withdrawal request</b>	<b>Minimum withdrawal amount</b>
US Treasury Bills	one New York Business Day following the day on which such request is submitted, provided that such value date shall not fall on or after the maturity date of the relevant security.	USD100 and integral multiples of USD100 in excess thereof
US Treasury Notes	Where, “ <b>New York Business Day</b> ” means a day (other than Saturday and Sunday) on which commercial banks in New York City are open for general business.	USD100 and integral multiples of USD100 in excess thereof
Hong Kong Exchange Fund Bills	one Hong Kong Business Day following the day on which such request is submitted, provided that such value date shall not fall on or after the maturity date of the relevant security.	HKD500,000 and integral multiples of HKD500,000 in excess thereof
Hong Kong Exchange Fund Notes	Where, “ <b>Hong Kong Business Day</b> ” means a day (other than Saturday and Sunday) on which commercial banks in Hong Kong are open for general business.	HKD50,000 and integral multiples of HKD50,000 in excess thereof
Bonds issued by the Ministry of Finance of the People’s Republic of China denominated in CNY(offshore)	one day (which is both a Hong Kong Business Day and a Beijing Business Day) following the day on which such request is submitted, provided that such value date shall not fall on or after the maturity date of the relevant security.	CNY (offshore)500,000 and integral multiples of CNY (offshore)500,000 in excess thereof
	Where, “ <b>Beijing Business Day</b> ” means a day (other than Saturday and Sunday) on which commercial banks in Beijing are open for general business.	

- (iv) a withdrawal request which does not comply with the above parameters or which is submitted after 11:00 hours Hong Kong time on an OTC Clear Clearing Day will be rejected and must be re-submitted on the next OTC Clear Clearing Day with the necessary amendments;
- (v) if such withdrawal request is approved and processed by OTC Clear:
  - (a) the Margin Balance of the Clearing Member’s House Collateral Account or relevant Client Collateral Account, as the case may be, will be reduced to reflect the notional amount of securities withdrawn;

- (b) OTC Clear will instruct CMU to deliver the relevant securities free of payment on the relevant value date for settlement specified in such withdrawal request in accordance with the latest standard delivery instructions (provided by the Clearing Member as set out in this section 3.10) in relation to its House Collateral Account or Client Collateral Accounts, as the case may be; and
- (c) the Clearing Member should ensure that the information submitted to OTC Clear in the withdrawal request matches the details it submits to its receiving custodian. In the event of a discrepancy, delivery will fail; and
- (vi) if such withdrawal request is rejected by OTC Clear, it will inform the Clearing Member via the Web Portal.

### 3.10.3 Procedures for Voluntary Deposit of Non-Cash Collateral

The following procedures apply to voluntary deposit of non-cash Collateral by a Clearing Member to satisfy the Margin requirements relating to its House Position Account and Client Position Account(s):

- (i) prior to requesting deposit of any security as non-cash Collateral, the Clearing Member should ensure that any Collateral Concentration Limits imposed on it would not be exceeded upon the acceptance of such security as Collateral;
- (ii) if the ISIN code of such security stipulated in section 3.10.1 is not currently listed in the collateral management window of the Web Portal, prior to submitting a deposit request via the collateral management window of the Web Portal, the Clearing Member must give OTC Clear nine OTC Clear Business Days advance notice of the security that it wishes to deposit, providing OTC Clear with the ISIN code of the relevant security, subsequent to such notice, OTC Clear will list the ISIN code of such security in the collateral management window of the Web Portal;
- (iii) the Clearing Member shall input a deposit request via the collateral management window of the Web Portal before 16:00 hours Hong Kong time on an OTC Clear Clearing Day. Such deposit request must specify: (a) the ISIN code of each relevant security that it is seeking to deposit as Collateral, (b) the notional amount of each such security that it is seeking to deposit as Collateral and (c) the value date for settlement;
- (iv) in addition, each deposit request must comply with the following parameters:

Type of security to be deposited as non-cash Collateral	Value Date for Settlement to be specified in each deposit request	Minimum deposit amount
US Treasury Bills	one New York Business Day following the day on which such request is submitted, provided that such value date shall not fall on or after the maturity date of the relevant security.	USD100 and integral multiples of USD100 in excess thereof
US Treasury Notes	Where, “ <b>New York Business Day</b> ” means a day (other than Saturday and Sunday) on which commercial banks in New York City are open for general business.	USD100 and integral multiples of USD100 in excess thereof

Type of security to be deposited as non-cash Collateral	Value Date for Settlement to be specified in each deposit request	Minimum deposit amount
Hong Kong Exchange Fund Bills	one Hong Kong Business Day following the day on which such request is submitted, provided that such value date shall not fall on or after the maturity date of the relevant security.	HKD500,000 and integral multiples of HKD500,000 in excess thereof
Hong Kong Exchange Fund Notes	Where, " <b>Hong Kong Business Day</b> " means a day (other than Saturday and Sunday) on which commercial banks in Hong Kong are open for general business.	HKD50,000 and integral multiples of HKD50,000 in excess thereof
Bonds issued by the Ministry of Finance of the People's Republic of China denominated in CNY(offshore)	<p>one day (which is both a Hong Kong Business Day and a Beijing Business Day) following the day on which such request is submitted, provided that such value date shall not fall on or after the maturity date of the relevant security.</p> <p>Where, "<b>Beijing Business Day</b>" means a day (other than Saturday and Sunday) on which commercial banks in Beijing are open for general business.</p>	CNY (offshore) 500,000 and integral multiples of CNY (offshore) 500,000 in excess thereof

- (v) a deposit request which seeks to request the deposit of a security whose ISIN code is not currently listed as eligible Collateral in the collateral management window of the Web Portal will be rejected;
- (vi) a deposit request which if processed would result in the Clearing Member breaching a Concentration Limit imposed on it will be rejected;
- (vii) a deposit request which does not comply with the above parameters or which is submitted after 16:00 hours Hong Kong time on an OTC Clear Clearing Day will be rejected and must be re-submitted on the next OTC Clear Clearing Day with the necessary amendments;
- (viii) if such deposit request is rejected by OTC Clear, it will inform the Clearing Member via the Web Portal; and
- (ix) upon confirmation from CMU that the relevant securities have been received in OTC Clear's relevant account(s), OTC Clear will update the Margin Balance of the Clearing Member's House Collateral Account or Client Collateral Account(s), as the case may be, provided that, if CMU notifies OTC Clear that the relevant securities have been received in OTC Clear's relevant account(s) after 19:00 hours Hong Kong time on an OTC Clear Clearing Day, OTC Clear will only update the Margin Balance of the Clearing Member's House Collateral Account or Client Collateral Account(s), as the case may be, at 11:00 hours Hong Kong time on the next OTC Clear Clearing Day. For the avoidance of doubt, the Clearing Member will continue to be responsible for complying with any Margin calls until the Margin Balance of the relevant Collateral Account has been updated, regardless of the value date on which such securities are delivered.

### 3.10.4 Procedures for Porting of Non-Cash Collateral representing Excess Margin

The following procedures apply to porting of non-cash Collateral by a Clearing Member representing Excess Margin in its House Collateral Account to any of its Client Collateral Accounts. For the avoidance of doubt, porting of Excess Margin amongst Client Collateral Accounts of a Clearing Member and porting of Excess Margin from a Client Collateral Account of a Clearing Member to the House Collateral Account of that Clearing Member is prohibited:

- (i) prior to requesting porting of any non-cash Collateral then deposited with OTC Clear, the Clearing Member should ensure that:
  - (a) there is a positive balance of the relevant security represented by the relevant ISIN code standing to the credit of its House Collateral Account, and that such Collateral represents Excess Margin; and
  - (b) any Collateral Concentration Limits imposed on it would not be exceeded upon the completion of such porting request;
- (ii) the Clearing Member shall input a request for porting of such Excess Margin to any of its Client Collateral Accounts via the collateral management window of the Web Portal before 11:00 hours Hong Kong time on an OTC Clear Clearing Day. Each porting request must specify: (a) the ISIN code of each relevant non-cash Collateral that it is seeking to port, (b) the notional amount of each such Collateral that it is seeking to port, (c) the value date for settlement and (d) the Client Collateral Account into which such Collateral is to be ported;
- (iii) in addition, each porting request must comply with the following parameters:

Type of non-cash Collateral to be ported	Value Date for Settlement to be specified in each porting request	Minimum porting amount
US Treasury Bills	one New York Business Day following the day on which such request is submitted, provided that such value date shall not fall on or after the maturity date of the relevant security.	USD100 and integral multiples of USD100 in excess thereof
US Treasury Notes	Where, " <b>New York Business Day</b> " means a day (other than Saturday and Sunday) on which commercial banks in New York City are open for general business.	USD100 and integral multiples of USD100 in excess thereof
Hong Kong Exchange Fund Bills	one Hong Kong Business Day following the day on which such request is submitted, provided that such value date shall not fall on or after the maturity date of the relevant security.	HKD500,000 and integral multiples of HKD500,000 in excess thereof
Hong Kong Exchange Fund Notes	Where, " <b>Hong Kong Business Day</b> " means a day (other than Saturday and Sunday) on which commercial banks in Hong Kong are open for general business.	HKD50,000 and integral multiples of HKD50,000 in excess thereof

Type of non-cash Collateral to be ported	Value Date for Settlement to be specified in each porting request	Minimum porting amount
Bonds issued by the Ministry of Finance of the People's Republic of China denominated in CNY(offshore)	<p>one day (which is both a Hong Kong Business Day and a Beijing Business Day) following the day on which such request is submitted, provided that such value date shall not fall on or after the maturity date of the relevant security.</p> <p>Where, "<b>Beijing Business Day</b>" means a day (other than Saturday and Sunday) on which commercial banks in Beijing are open for general business.</p>	CNY (offshore) 500,000 and integral multiples of CNY (offshore) 500,000 in excess thereof

- (iv) a porting request which does not comply with the above parameters or which is submitted after 11:00 hours Hong Kong time on an OTC Clear Clearing Day will be rejected and must be re-submitted on the next OTC Clear Clearing Day with the necessary amendments;
- (v) a porting request which if processed would result in the Clearing Member breaching a Concentration Limit imposed on it will be rejected;
- (vi) if such porting request is rejected by OTC Clear, it will inform the Clearing Member via the Web Portal; and
- (vii) if such porting request is approved by OTC Clear, upon confirmation from CMU that the relevant securities have been transferred from OTC Clear's CMU account in which Collateral for Clearing Members' House Business is held to OTC Clear's CMU account in which Collateral for Clearing Members' Client Business is held, OTC Clear will update the Margin Balance of the Clearing Member's House Collateral Account and its relevant Client Collateral Account to reflect such porting. For the avoidance of doubt, the Clearing Member will continue to be responsible for complying with any Margin calls until the Margin Balance of the relevant Client Collateral Account has been updated, regardless of the value date on which such securities are transferred at CMU.

Clearing Members should be aware that non-cash Collateral representing Excess Margin ported from a Clearing Member's House Collateral Account to its Client Collateral Account on a particular OTC Clear Clearing Day will not be available in time to satisfy Margin calls made in respect of the corresponding Client Position Account on that OTC Clear Clearing Day.

### 3.11 Cash Settlement Method

- (i) In respect of a particular payment date, payments in respect of Initial Margin and Additional Margin will be settled separately from and will not be netted with any other payments.
- (ii) In respect of a particular payment date, payments in respect of Rates and FX Contribution will be settled separately from and will not be netted with any other payments.
- (iii) In respect of a particular payment date, settlements of coupon payments of a Standard Rates Derivatives Contract, a Standard Cross-currency Rates Derivatives Contract and a Non Deliverable Rates Derivatives Contract, settlement of amounts due in respect of an FX Derivatives Contract, Additional Payments and Variation Margin in the same currency:
  - (a) in respect of a Clearing Member's House Business will be netted together;
  - (b) in respect of a Clearing Member's Client Business will be netted together (for the avoidance of doubt, payments of such amounts in respect of Client Business will not be netted with amounts due in respect of House Business).

- (iv) In respect of a particular payment date, settlements of Additional Amount, fees due to OTC Clear, interest payable by OTC Clear in respect of cash Collateral and any other components in the same currency:
  - (a) in respect of a Clearing Member's House Business will be netted together;
  - (b) in respect of a Clearing Member's Client Business will be netted together (for the avoidance of doubt, payments of such amounts in respect of Client Business will not be netted with amounts due in respect of House Business).
- (v) In respect of a particular payment date, settlements of Initial Exchange Amount and/or Final Exchange Amount of any Standard Cross-currency Rates Derivatives Contract and Notional Amounts of any Deliverable FX Forward Contract and Deliverable FX Swap Contract in the same Currency Pair (swap and FX):
  - (a) in respect of a Clearing Member's House Business will be netted together;
  - (b) in respect of a Clearing Member's Client Business will be netted together (for the avoidance of doubt, payments of such amounts in respect of Client Business will not be netted with amounts due in respect of House Business).

Clearing Members are required to maintain different settlement accounts for payments in respect of House Business and Client Business.

All cash settlements must be made in accordance with section 3.11.

In relation to its House Business, each Clearing Member is allowed to elect only one settlement account for each Contractual Currency in respect of each of the payment categories specified in sections 3.11(i) to (v) above.

In relation to its Client Business, each Clearing Member is allowed to elect only one settlement account for each Contractual Currency in respect of each of the payment categories specified in sections 3.11(i) to (v) above.

For the avoidance of doubt, with regard to each Contractual Currency, the settlement account which is elected by the Clearing Member in relation to its House Business must be different from the settlement account which is elected by such Clearing Member in relation to its Client Business.

If there is any change to the standard settlement instruction used by OTC Clear, such change will be notified to the Clearing Members. If a Clearing Member wishes to change its standard settlement instruction in respect of cash payments relevant to its House Position Account and House Collateral Account and/or its Client Position Accounts and Client Collateral Accounts (if applicable), it must provide at least 10 OTC Clear Business Days' advance notice to OTC Clear pursuant to section 2.6 of these Clearing Procedures prior to effecting such change.

#### **3.11.1 RTGS**

Except for the situation described in the immediately following paragraph and subject to section 3.11.2 below, all cash payments must be settled through the Real Time Gross Settlement system, where "**Real Time Gross Settlement**" (or "**RTGS**") means the settlement services provided by Hong Kong Interbank Clearing Limited. For a Clearing Member who is not a member of RTGS system, for cash settlement purpose, it should maintain an account with a member of RTGS system. If a Clearing Member is a member of RTGS system, it must settle directly with the settlement bank of OTC Clear via RTGS system. The list of the settlement banks appointed by OTC Clear for settlement will be notified by OTC Clear to Clearing Members from time to time.

Cash payments may not be settled through the RTGS system if the Clearing Member and OTC Clear use the same member of the RTGS system for settlement of the relevant currency, and in such case, cash payments will be settled through intra-bank transfer within the relevant settlement bank.

Any payment made through RTGS system will be irrevocable at the point in time set out in the relevant operating rules of the RTGS system.

Under RTGS system, the settlement of any amount shall be initiated by the payer of such amounts.

### 3.11.2 PVP

In respect to the cash payments relevant to the settlements of Initial Exchange Amount and/or Final Exchange Amount of any Standard Cross-currency Rates Derivatives Contract and Notional Amounts of any Deliverable FX Forward Contract and Deliverable FX Swap Contract relevant to a Currency Pair (swap and FX) for a particular Clearing Member, if the netted amounts of both currencies of a Currency Pair (swap and FX) derived in accordance with section 3.11 (v) are greater than zero and the amount in one currency is payable by OTC Clear while the amount in the other currency of the Currency Pair (swap) is receivable by OTC Clear, they must be settled through the payment-versus-payment mechanism, where “**payment-versus-payment**” (or “**PVP**”) means the settlement services linked with RTGS system which is provided by Hong Kong Interbank Clearing Limited. For a Clearing Member who is not a member of RTGS system, for cash settlement purpose, it should maintain an account with a member of RTGS system. If a Clearing Member is a member of RTGS system, it must settle directly with the settlement bank of OTC Clear via RTGS system. The list of the settlement banks appointed by OTC Clear for settlement will be notified by OTC Clear to Clearing Members from time to time.

Any payment made through PVP mechanism will be irrevocable at the point in time set out in the relevant operating rules of the RTGS system.

### 3.12 Cash Settlement Time

- (i) Save and except the Initial Exchange Amount and the Final Exchange Amount of any Standard Cross-currency Rates Derivatives Contract and the Notional Amounts of any Deliverable FX Derivatives Contract, any cash settlement to be payable by a Clearing Member on a particular payment date must be settled by the Clearing Member:
  - (a) no later than 11:00 hours Hong Kong time on the relevant payment due date if the “OTC Clear Settlement Report (Report Number STRP01)” and/or “OTC Clear Settlement Report for Client (Report Number STRP01\_C)” (if applicable) relating to that particular payment date is published at or prior to 08:30 hours Hong Kong time on such day; or
  - (b) in all other cases, within two hours following the “OTC Clear Settlement Report (Report Number STRP01)” and/or “OTC Clear Settlement Report for Client (Report Number STRP01\_C)” (if applicable) relating to that particular payment date is published or information equivalent to that which would be set out in such reports is communicated to Clearing Member by OTC Clear, subject to the availability of RTGS services.
- (ii) In respect of the Initial Exchange Amount and the Final Exchange Amount of any Standard Cross-currency Rates Derivatives Contract and Notional Amounts of any Deliverable FX Derivatives Contract:
  - (a) the Clearing Member must be operationally ready to settle the relevant cash settlement on a particular payment date by providing the relevant instruction to Hong Kong Interbank Clearing Limited and reserving sufficient funding for the relevant cash settlement no later than 12:00 hours Hong Kong time on the relevant payment due date regardless of whether the “OTC Clear Settlement Report (Report Number STRP01)” and/or “OTC Clear

Settlement Report for Client (Report Number STRP01\_C)" (if applicable) relating to that particular payment date is published at or prior to 08:30 hours Hong Kong time on such day or not; and

- (b) the cash settlement process for the Initial Exchange Amount and the Final Exchange Amount of any Standard Cross-currency Rates Derivatives Contract and Notional Amounts of any Deliverable FX Derivatives Contract must be completed by both Clearing Member and OTC Clear no later than 13:30 hours Hong Kong time on the relevant payment due date regardless of whether the "OTC Clear Settlement Report (Report Number STRP01)" and/or "OTC Clear Settlement Report for Client (Report Number STRP01\_C)" (if applicable) relating to that particular payment date is published at or prior to 08:30 hours Hong Kong time on such day or not but provided that if such reports are not published information equivalent to that which would be set out in such reports is communicated to Clearing Member by OTC Clear no later than 12:00 hours Hong Kong time; and
- (iii) Save and except the Initial Exchange Amount and the Final Exchange Amount of any Standard Cross-currency Rates Derivatives Contract and Notional Amounts of any Deliverable FX Derivatives Contract and the interest amount (coupon) received from OTC Clear's Custodian in respect of the relevant non-cash Collateral and payable to the relevant Clearing Member, any cash settlement to be payable by OTC Clear on a particular payment date must be settled by OTC Clear:
  - (a) no later than 14:30 hours Hong Kong time on the relevant payment due date if the "OTC Clear Settlement Report (Report Number STRP01)" and/or "OTC Clear Settlement Report for Client (Report Number STRP01\_C)" (if applicable) relating to that particular payment date is published at or prior to 08:30 hours Hong Kong time on such day or information equivalent to that which would be set out in the reports is available to OTC Clear no later than 12:00 hours Hong Kong time; or
  - (b) in all other cases within two hours following the "OTC Clear Settlement Report (Report Number STRP01)" and/or "OTC Clear Settlement Report for Client (Report Number STRP01\_C)" (if applicable) relating to that particular payment date is published, or information equivalent to that which would be set out in such reports is available to OTC Clear, subject to the availability of RTGS services.

Any Margin requirements must be satisfied in accordance with the timing set out in section 4.7.2 of these Clearing Procedures; and a Clearing Member's request for voluntary withdrawal, porting or deposit of cash Collateral will be governed by section 3.9.

For the avoidance of doubt, OTC Clear will pay the interest amount (coupon) in respect of the relevant non-cash Collateral to the Clearing Member on the appropriate value date only after OTC Clear has been credited with such interest amount (coupon) by its Custodian.

### **3.13 Interest received on Non-Cash Collateral**

Interest received by OTC Clear in respect of each Clearing Member's non-cash Collateral will be reflected in the "OTC Clear Settlement Report (Report Number STRP10)" or "OTC Clear Settlement Report for Client (Report Number STRP10\_C)", which is made available to each Clearing Member on the Web Portal.

### 3.14 Maturity of Non-Cash Collateral

Clearing Members must substitute any non-cash Collateral deposited with OTC Clear no later than five business days prior to the scheduled maturity date of the relevant security (calculated by reference to the definition of business days in the terms and conditions of the relevant security). OTC Clear does not process the redemption of securities held by it as non-cash Collateral.

Notwithstanding section 7.5.1, any non-cash Collateral which is not withdrawn on or before the cut off date set out in the foregoing will be treated as having an applicable Collateral Haircut of 100 per cent. with effect from that cut off date. On maturity, redemption proceeds of such non-cash Collateral will be:

- (i) held by the Custodian and form part of the security interest created under the relevant Deed of Charge; and
- (ii) treated as having an applicable Collateral Haircut of 100 per cent., but otherwise treated for the purposes of the Clearing Documentation as proceeds of the realization of such non-cash Collateral.

No interest will be paid by OTC Clear in respect of such redemption proceeds and a request must be made by the relevant Clearing Member to effect withdrawal of such proceeds.

The scheduled maturity date of each security comprising each Clearing Member's non-cash Collateral is reflected in the "OTC Clear Risk Management Report (Report Number RMRP05)", which is made available to each Clearing Member on the Web Portal.

### 3.15 Tax

Any Additional Amount payable by a Clearing Member in respect of tax will be recorded in the "OTC Clear Settlement Report (Report Number STRP08)" in respect of any Additional Amount relevant to a House Account or "OTC Clear Settlement Report for Client (Report Number STRP08\_C)" in respect of any Additional Amount relevant to a Client Account. The Clearing Member shall settle such Additional Amount within the prescribed timeframe set out in the "OTC Clear Settlement Report (Report Number STRP08)" and "OTC Clear Settlement Report for Client (Report Number STRP08\_C)". Please refer to sections 3.11 and 3.12 for settlement method and settlement time.

### 3.16 Reporting

All reports published by OTC Clear will be made available to Clearing Members on the Web Portal. Please refer to the "**Web Portal User Manual**" (which is a user manual detailing the process of raising a request for movement of Collateral or retrieving a report via Web Portal) and the Report Usage Guide for details. Clearing Member can print the reports locally or download the reports in a machine-readable data-file format.

All reports reflect the latest record of OTC Clear. Reports will remain available for download by Clearing Member for 12 OTC Clear Clearing Days from the date it is first made available on the Web Portal. Subsequent to the removal of the reports from the Web Portal, a Clearing Member may request OTC Clear to provide such reports either by delivery in print-out form, or by providing such Clearing Member with access to retrieve such reports electronically, in each case, subject to a fee as set out in section 3.8.2.1.

The relevant identification number, publication frequency, report name and guidance for interpreting the contents of each report are set out in the Report Usage Guide. Please refer to the Report Usage Guide for further details.

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

Upon receipt of valid instructions from a Client, a Transferee Clearing Member may request that OTC Clear port some or all of the Contracts which are registered on behalf of such Client from a Transferor Clearing Member's Client Position Account to a Client Position Account identified as being held by such Transferee Clearing Member for such Client and, if applicable, to also port all of the Collateral held on behalf of such Client from a Transferor Clearing Member's Client Collateral Account to such Transferee Clearing Member's Client Collateral Account.

Contracts eligible for porting must not have reached their scheduled Termination Date or Settlement Date on or prior to the scheduled Porting Completion Time, and must remain outstanding as of the date of the submission of the porting request.

A Transferee Clearing Member must submit a separate porting request for each Client. In respect of each porting request, each Transferee Clearing Member is deemed to acknowledge, represent and undertake that:

- (a) it has received proper Client authorization for the instructions contained in such porting request;
- (b) it is solely responsible for the accuracy and completeness of the information contained in such porting request;
- (c) OTC Clear is entitled to rely conclusively on the instructions and information provided in such porting request without further enquiry; and
- (d) OTC Clear shall incur no liability for any delay, rejection, loss, cost, claim, action, demand or expense in the processing of such porting request and in effecting the porting of Contracts and Collateral in reliance on the information contained in such porting request.

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

#### **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;

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\* Available on request from OTC Clear

- (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 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.

**3.17.2 Procedures for Full Portfolio Porting where Collateral being ported from a Client Collateral Account of a Transferor Clearing Member to a Client Collateral Account of a Transferee Clearing Member comprises Non-Cash Collateral**

The following procedures apply to each full portfolio porting request where Collateral being ported from a Client Collateral Account of a Transferor Clearing Member identified as being held by the relevant Transferor Clearing Member for a particular Client to a Client Collateral Account identified as being held by the Transferee Clearing Member for the same Client comprises non-cash Collateral:

- (i) non-cash Collateral may only be ported if they are not scheduled to mature within four OTC Clear Business Days from the date of submission of the porting request; and
- (ii) any full portfolio porting request comprising non-cash Collateral which does not satisfy this condition will be rejected and should be amended to remove such non-cash Collateral and re-submitted.

Transferee Clearing Members and Clients should be aware that interest due in respect of non-cash Collateral which is successfully ported at a Porting Completion Time which falls after the record date for the payment of interest in respect of the relevant security will be paid to the Transferor Clearing Member.

**3.17.3 Partial Portfolio Porting Requirements**

Each partial 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<sup>\*</sup>. The form should contain complete details of the Contracts that the Transferee Clearing Member wishes to port. Please note that OTC Clear is unable to facilitate any porting of Collateral together with the corresponding Contracts as part of the partial portfolio porting process;
- (ii) the relevant Contracts are being ported from a Client Position Account identified as being held by the relevant Transferor Clearing Member for a particular Client to a Client Position Account identified as being held by the Transferee Clearing Member for the same Client;
- (iii) details of the particular Client and the Contracts identified as being registered 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;
- (iv) since Collateral cannot be ported concurrently with the relevant Contracts, the Transferee Clearing Member must ensure that there is sufficient Collateral comprising the Margin Balance of the relevant Client Collateral Account prior to 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; and
- (vii) the Transferee Clearing Member's standard settlement instruction for each relevant Contractual Currency of the Contracts being ported is in place.

#### **3.17.4 No porting of Collateral in a partial portfolio porting**

Please note that OTC Clear is unable to facilitate any porting of Collateral together with the corresponding Contracts as part of the partial portfolio porting process. The Transferee Clearing Member must therefore ensure that there is sufficient Collateral comprising the Margin Balance of the relevant Client Collateral Account prior to the submission of the porting request, otherwise porting will fail.

#### **3.17.5 Consent from Transferor Clearing Member**

Upon receipt of a porting request from a Transferee Clearing Member on a particular day, OTC Clear will, no later than 18:00 hours Hong Kong time on such day notify the relevant Transferor Clearing Member and request that the Transferor Clearing Member complete and return an original signed Transferor Clearing Member reply form<sup>†</sup> no later than 09:00 hours Hong Kong time two (2) OTC Clear Business Days after receipt of such porting request, indicating either:

- (i) its consent to such porting request; or
- (ii) its objection to such porting request, together with its reasons for such objection.

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<sup>\*</sup> Available on request from OTC Clear

<sup>†</sup> Available on request from OTC Clear

For the avoidance of doubt, OTC Clear is not in a position to adjudicate on the merits of a Transferor Clearing Member's objection or override a Transferor Clearing Member's objection in favour of its Client. In the event that the Transferor Clearing Member objects to such porting request or fails to submit the original signed Transferor Clearing Member reply form within the deadline specified in the foregoing, OTC Clear will reject such porting request and the Transferee Clearing Member must re-submit a fresh request.

### **3.17.6 Timing**

A porting request satisfying, in the opinion of OTC Clear, the requirements set out in sections 3.17.1 or 3.17.3 above, as applicable, and the conditions set out in the Clearing Rules which is received by OTC Clear by 13:00 hours Hong Kong time on an OTC Clear Business Day will be processed by OTC Clear and OTC Clear will use its reasonable endeavours to complete such porting request by 19:30 hours Hong Kong time on the third OTC Clear Business Day following the date of receipt of such request. Porting requests received by OTC Clear on a day which is not an OTC Clear Business Day or after 13:00 hours Hong Kong time on an OTC Clear Business Day, will be deemed to be received on the next OTC Clear Business Day. OTC Clear will notify the Transferor Clearing Member and the Transferee Clearing Member through their web portal of the date and time on which each porting request has been successfully effected (the "**Porting Completion Time**").

Please refer to sections 9.5.1.3, 9.5.1.4, 9.5.2.3 and 9.5.2.4 for porting requests received under adverse weather conditions.

OTC Clear shall not be liable to any person in any way whatsoever for any delay of or failure/rejection of a porting request.

### **3.17.7 Update of Records**

At the Porting Completion Time:

- (i) each relevant Contract registered in the relevant Transferor Clearing Member's relevant Client Position Account will be de-registered and flagged as "TRANSFERED" in the "OTC Clear Trade Report for Client (Report Number TDRP01\_C, TDRP02\_C or TDRP11\_C)";
- (ii) the status of each relevant Contract successfully ported to and registered in the Transferee Clearing Member's relevant Client Position Account will be flagged as "CLEARED" in the "OTC Clear Trade Report for Client (Report Number TDRP01\_C, TDRP02\_C or TDRP11\_C)"; and
- (iii) Collateral records (where applicable) in the relevant Transferor Clearing Member's relevant Client Collateral Account and the Transferee Clearing Member's relevant Client Collateral Account will be updated accordingly and reflected in the "OTC Clear Risk Management Report (Report Number RMRP05)".

### **3.17.8 Payments and obligations due from the relevant Transferor Clearing Member**

Notwithstanding the submission of a porting request in respect of the Contracts in a Client Position Account and the Collateral in its corresponding Client Collateral Account, payment and other obligations due in respect of that Client Position Account and its corresponding Client Collateral Account prior to the relevant Porting Completion Time of such porting request will continue to be obligations of the relevant Transferor Clearing Member.

For the avoidance of doubt, if a porting request is rejected by OTC Clear or cannot be completed successfully, payment and other obligations due in respect that Client Position Account and its

corresponding Client Collateral Account will continue to be obligations of the relevant Transferor Clearing Member.

### **3.17.9 Payments and obligations due from the Transferee Clearing Member**

Payment and other obligations due in respect of the Contracts in a Client Position Account and the Collateral in its corresponding Client Collateral Account on and after the relevant Porting Completion Time of a porting request will be obligations of the Transferee Clearing Member.

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

Upon receipt of valid instructions from a Client wishing to change the segregation arrangements applicable to all the Contracts and Collateral identified as being held on its behalf by its Clearing Member, a Clearing Member may submit a request to port all of such Contracts and Collateral:

- (i) from the Client Clearing Category 1 Position Account and corresponding Client Clearing Category 1 Collateral Account identified as relating to such Client to a Client Clearing Category 2 Position Account and corresponding Client Clearing Category 2 Collateral Account identified as relating to such Client;
- (ii) from the Client Clearing Category 2 Position Account and corresponding Client Clearing Category 2 Collateral Account identified as relating to such Client to the Client Clearing Category 1 Position Account and corresponding Client Clearing Category 1 Collateral Account identified as relating to such Client; or
- (iii) from the Client Clearing Category 2 Position Account and corresponding Client Clearing Category 2 Collateral Account identified as relating to such Client to another Client Clearing Category 2 Position Account and corresponding Client Clearing Category 2 Collateral Account identified as relating to such Client.

Each Client must be allocated to one single Client Clearing Category at any given time. If any Contract or Collateral cannot be ported successfully, the entire porting request will be deemed unsuccessful and must be corrected and resubmitted.

Contracts eligible for porting must not have reached their scheduled Termination Date or Settlement Date, and must remain outstanding as of the date of the submission of the porting request.

A Clearing Member must submit a separate porting request for each Client.

In respect of each porting request, each Clearing Member is deemed to acknowledge, represent and undertake that:

- (a) it has duly informed its Client of the difference in rights, obligations and risk between the Client Clearing Category that such Client is currently allocated to and the Client Clearing Category that such Client is electing to change to;
- (b) it has received proper Client authorization for the instructions contained in such porting request;
- (c) it is solely responsible for the accuracy and completeness of the information contained in such porting request;
- (d) OTC Clear is entitled to rely conclusively on the instructions and information provided in such porting request without further enquiry; and

- (e) OTC Clear shall incur no liability for any delay, rejection, loss, cost, claim, action, demand or expense in the processing of such porting request and in effecting the porting of Contracts and Collateral in reliance on the information contained in such porting request.

### 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<sup>\*</sup>;
- (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 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.

### 3.18.2 Timing

A porting request satisfying the requirements set out in section 3.18.1 above which is received by OTC Clear by 13:00 hours Hong Kong time on an OTC Clear Business Day will be processed by OTC Clear and OTC Clear will use its reasonable endeavours to complete such porting request by 19:30 hours Hong Kong time on the fourth OTC Clear Business Day following the date of receipt of such request. Porting requests received by OTC Clear on a day which is not an OTC Clear Business Day or after 13:00 hours Hong Kong time on an OTC Clear Business Day, will be deemed to be received on the next OTC Clear Business Day. OTC Clear will notify the Clearing Member through the web portal of the date and time on which each porting request has been successfully effected.

Please refer to sections 9.5.1.3, 9.5.1.4, 9.5.2.3 and 9.5.2.4 for porting requests received under adverse weather conditions.

OTC Clear shall not be liable to any person in any way whatsoever for any delay of or failure/rejection of a porting request.

### 3.18.3 Update of Records and closing of existing Client Accounts

In respect of each porting request that has been successfully effected:

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<sup>\*</sup> 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.

- (i) where such porting request relates to a scenario described in section 3.18 above, OTC Clear will close the existing Client Clearing Category 1 Position Account and its corresponding Client Clearing Category 1 Collateral Account identified as relating to the relevant Client and earmark the relevant existing Client Clearing Category 2 Position Account and its corresponding Client Clearing Category 2 Collateral Account as relating to the relevant Client;
- (ii) where such porting request relates to a scenario described in section 3.18 above, OTC Clear will open a new Client Clearing Category 1 Position Account and corresponding Client Clearing Category 1 Collateral Account under the relevant Clearing Member and earmark such Client Accounts as relating to the relevant Client;
- (iii) where such porting request relates to a scenario described in section 3.18 above, OTC Clear will earmark the relevant existing Client Clearing Category 2 Position Account and its corresponding Client Clearing Category 2 Collateral Account as relating to the relevant Client;
- (iv) each Contract registered on behalf of the relevant Client in the existing Client Position Account identified as relating to such Client will be de-registered and flagged as “TRANSFERED” in the “OTC Clear Trade Report for Client (Report Number TDRP01\_C, TDRP02\_C or TDRP11\_C)”;
- (v) the status of each Contract successfully ported to and registered in the new Client Position Account identified as relating to such Client will be flagged as “CLEARED” in the “OTC Clear Trade Report for Client (Report Number TDRP01\_C, TDRP02\_C or TDRP11\_C)”;
- (vi) Collateral records in the relevant Clearing Member’s relevant Client Collateral Accounts will be updated accordingly and reflected in the “OTC Clear Risk Management Report (Report Number RMRP05)”.

### 3.19 Notional Exchange Failure Handling Procedures

Following the occurrence of a Notional Exchange Failure:

- (i) OTC Clear may, on the basis of the Notional Exchange Failure, determine that the Non-delivering Clearing Member is or appears to be unable, or likely to become unable, to meet its obligations in respect of the Clearing Documentation and/or one or more Contracts to which it is party, such that an Event of Default occurs with respect to the Non-delivering Clearing Member pursuant to Clearing Rule 1301 (an “**Event of Default Determination**”); and
- (ii) irrespective of whether OTC Clear makes an Event of Default Determination in respect of that Notional Exchange Failure:
  - (a) subject to sub-paragraph (d) below, OTC Clear will continue the settlement of Initial Exchange Amounts and Final Exchange Amounts of Standard Cross-currency Rates Derivatives Contracts and the settlement of Notional Amounts of Deliverable FX Derivatives Contracts with other Clearing Members;
  - (b) OTC Clear may, in its sole discretion, obtain one or more short term loans and/or enter into one or more FX Transactions in order to fulfil OTC Clear’s outstanding obligations with other Clearing Members under Standard Cross-currency Rates Derivatives Contracts or Deliverable FX Derivatives Contracts;
  - (c) if the relevant Initial Exchange Amount or Final Exchange Amount under a Standard Cross-currency Rates Derivatives Contract or the relevant Notional Amount under a Deliverable FX Derivatives Contract, as the case may be (the “**Unpaid Exchange Amount**”), remains unpaid at 13:30 hours Hong Kong time on the relevant Initial Exchange Date or Final Exchange Date or Settlement Date, as the case may be, OTC

Clear may, in its sole discretion, elect to satisfy its obligation to pay the Corresponding Exchange Amount in the following manner;

- (A) the obligation of the Non-delivering Clearing Member to pay the Unpaid Exchange Amount shall be replaced by an obligation to pay an amount (the “**Substitute Exchange Amount**”) equal to (and payable in the same currency and on the same date as) the Corresponding Exchange Amount. The obligation of OTC Clear to pay the Corresponding Exchange Amount shall be immediately and automatically set-off against the obligation of Non-delivering Clearing Member to pay the Substitute Exchange Amount such that each such obligation is discharged in full;
  - (B) OTC Clear shall determine the Notional Exchange Failure Adjustment Amount in respect of the Unpaid Exchange Amount; and
  - (C) if that Notional Exchange Failure Adjustment Amount is a positive number, the Non-delivering Clearing Member shall pay it to OTC Clear immediately upon demand and if that Notional Exchange Failure Adjustment Amount is a negative number, OTC Clear shall pay the absolute value of such amount to the Non-delivering Clearing Member as soon as practicable (subject to any rights of set-off against amounts owed by the Non-delivering Clearing Member to OTC Clear, including, without limitation, amounts owed by the Non-delivering Clearing Member pursuant to Clearing Rule 1002A);
- (d) in the event that OTC Clear is unable, as a result of that Notional Exchange Failure, to satisfy its obligation to pay an Initial Exchange Amount or Final Exchange Amount under a Standard Cross-currency Rates Derivatives Contract and/ or a Notional Amount under a Deliverable FX Derivatives Contract (each such amount the “**Affected Amount**”) with any other Clearing Member (the “**Affected Clearing Member**”) in the currency in which the Affected Amount is denominated by 16:00 hours Hong Kong time on the relevant Initial Exchange Date or Final Exchange Date or Settlement Date, as the case may be:
- (A) OTC Clear shall promptly notify the Affected Clearing Member of OTC Clear’s inability to do so; and
  - (B) OTC Clear may, in its sole discretion, elect to satisfy its obligation to pay that Affected Amount in the following manner:
    - (i) the obligation of OTC Clear to pay the Affected Amount shall be replaced by an obligation to pay an amount (the “**Substitute Affected Amount**”) equal to (and payable in the same currency and on the same date as) the Corresponding Affected Amount. The obligation of the Affected Clearing Member to pay the Corresponding Affected Amount shall be immediately and automatically set-off against the obligation of OTC Clear to pay the Substitute Affected Amount such that each such obligation is discharged in full;
    - (ii) OTC Clear shall determine the Notional Exchange Failure Adjustment Amount in respect of the Unpaid Exchange Amount (if not already calculated pursuant to sub-paragraph (c) above); and
    - (iii) if that Notional Exchange Failure Adjustment Amount is a positive number, OTC Clear shall pay an amount equal to that amount to the

Affected Clearing Member and if it is a negative number, the Affected Clearing Member shall pay an amount equal to the absolute value of such amount to OTC Clear, in each case as soon as practicable, but in no event later than 2 OTC Clear Business Days after the relevant Initial Exchange Date or Final Exchange Date or Settlement Date, as the case may be; and

- (e) unless and until the Non-delivering Clearing Member fails to pay or deliver any amounts (excluding Notional Amounts of Deliverable FX Derivatives Contracts and/or Initial Exchange Amounts and Final Exchange Amounts of Standard Cross-currency Rates Derivatives Contracts) when due under the Clearing Documentation or an Event of Default occurs with respect to the Non-delivering Clearing Member, OTC Clear will continue the settlement of cash settlements (other than Notional Amounts of Deliverable FX Derivatives Contracts and/or Initial Exchange Amounts and Final Exchange Amounts of Standard Cross-currency Rates Derivatives Contracts) with the Non-defaulting Clearing Member in accordance with section 3.11 of these Clearing Procedures.

For the purpose of this section 3.19:

**“Corresponding Affected Amount”** means, in respect of an Affected Amount, the corresponding Notional Amount of a Deliverable FX Derivatives Contract and/or Initial Exchange Amount or Final Exchange Amount of a Standard Cross-currency Rates Derivatives Contract (as the case may be) payable by the relevant Affected Clearing Member to OTC Clear on the Settlement Date and/or on the Initial Exchange Date or Final Exchange Date (as the case may be) for that Affected Amount;

**“Corresponding Exchange Amount”** means, in respect of an Unpaid Exchange Amount, the corresponding Notional Amount of a Deliverable FX Derivatives Contract and/or Initial Exchange Amount or Final Exchange Amount of a Standard Cross-currency Rates Derivatives Contract (as the case may be) payable by OTC Clear to the Non-delivering Clearing Member on the Settlement Date and/or the Initial Exchange Date or Final Exchange Date (as the case may be) for that Unpaid Exchange Amount;

**“Market Quotation”** means, in respect of an Unpaid Exchange Amount, an amount that would be payable by OTC Clear in the currency of the Corresponding Exchange Amount in consideration for receiving an amount equal to (and in the same currency as) that Unpaid Exchange Amount based on the relevant spot foreign exchange rate published by the Treasury Markets Association on the relevant Initial Exchange Date or Final Exchange Date or Settlement Date, as the case may be; and

**“Notional Exchange Failure Adjustment Amount”** means, in respect of an Unpaid Exchange Amount, an amount equal to the Market Quotation in respect of that Unpaid Exchange Amount minus the Corresponding Exchange Amount, provided that if such Market Quotation cannot be determined, OTC Clear will determine the Notional Exchange Failure Adjustment Amount (or a method for determining the Notional Exchange Failure Adjustment Amount), taking into consideration all available information that in good faith it deems relevant.

## Chapter 4

### Margin and Valuation

#### 4.1 Margin Requirement

A Clearing Member must at all times satisfy its Margin requirements calculated by OTC Clear in respect of all Contracts registered in its name. The Margin requirements in respect of Contracts recorded to a Clearing Member's House Position Account may be netted against each other, and the Margin requirement in respect of Contracts recorded to a Clearing Member's Client Position Account may be netted against each other, but not against Contracts recorded to such Clearing Member's House Position Account or other Client Position Account(s).

The types of Margin that may be demanded by OTC Clear in respect of each Clearing Member are summarised below:

- (i) Initial Margin (see section 4.2) – which in most circumstances is calculated during the End-of-Day Settlement Process in respect of each Position Account. Initial Margin will be calculated and presented in the Base Currency, and a Clearing Member may satisfy its Initial Margin requirements either in cash in any Eligible Currency or, subject to any Collateral Concentration Limit imposed by OTC Clear, any non-cash assets specified pursuant to section 7.3 of these Clearing Procedures. OTC Clear may, at any time during an OTC Clear Clearing Day, demand ad hoc intra-day Initial Margin from each Clearing Member if it determines that the then market conditions warrant this. Ad hoc intra-day Initial Margin requirement will apply to each Clearing Member with respect to each Position Account then registered in its name (including both its House Position Account and Client Position Account(s), if any). With respect to each such Position Account, ad hoc intra-day Initial Margin will be determined and presented in the Base Currency, and the Clearing Member may satisfy such demand either in cash in any Eligible Currency or any non-cash assets specified in section 7.3 of these Clearing Procedures;
- (ii) Variation Margin
  - (a) End-of-day Variation Margin (see section 4.3) – which is calculated during the End-of-Day Settlement Process in respect of each Contract. End-of-day Variation Margin will be calculated and presented in the Contractual Currency of the Contract, and a Clearing Member shall satisfy the end-of-day Variation Margin requirements in cash in the relevant Contractual Currency;
  - (b) Routine Intra-day VM Call (see section 4.4.2) – which may be made by OTC Clear at the Routine VM Call Time during an OTC Clear Business Day. At regular intervals during an OTC Clear Clearing Day, OTC Clear will determine the aggregate Initial Margin and Additional Margin requirements in respect of all the Contracts then recorded to a Clearing Member's House Position Account, taking into consideration any Variation Margin requirements reflecting intra-day market movements, and compare the same with the then Margin Balance relating to such Clearing Member's House Position Account. If the Initial Margin and Additional Margin requirements relating to a Clearing Member's House Position Account, taking into consideration any intra-day market movements, exceed the then Margin Balance relating to such Clearing Member's House Position Account by an amount equal to or greater than the Intra-day VM Limit set for such Clearing Member, then OTC Clear will make a Routine Intra-day VM Call with respect to such Clearing Member.

Routine Intra-day VM Call will be determined and presented in the Base Currency, and a Clearing Member may satisfy the Routine Intra-day VM Call either in cash in any Eligible Currency, or any non-cash assets specified pursuant to section 7.3 of these Clearing Procedures under the circumstances described in Clearing Rule 1211.

References to “intra-day market movements” as used in this section 4.1(ii)(b) means, with respect to an OTC Clear Clearing Day, any mark-to-market movements during the period from the completion of the End-of-Day Settlement Process on the immediately preceding OTC Clear Clearing Day to the time preceding the Routine VM Call Time, taking into account the latest market data then available, on such OTC Clear Clearing Day; and

- (c) Ad Hoc Intra-day VM Call (see section 4.4.3) – which may be made by OTC Clear at anytime on an OTC Clear Clearing Day if it determines that the then market conditions warrant an Ad Hoc Intra-day VM Call. The imposition of an Ad Hoc Intra-day VM Call, if applicable, will apply to each Clearing Member with respect to each Contract then registered in its name (including both House Position Account and Client Position Account, if any). With respect to each such Contract, Ad Hoc Intra-day VM Call will be determined and presented in the Contractual Currency of the relevant Contract, and the Clearing Member shall satisfy the Ad Hoc Intra-day VM Call in cash in any Eligible Currency and non-cash assets eligible as Collateral.
- (iii) Additional Margin
- (a) Holiday Margin (see section 4.5.1) – OTC Clear may impose Holiday Margin in the circumstances described in section 4.5.1. Holiday Margin will be determined and presented in the Base Currency, and a Clearing Member may satisfy its Holiday Margin requirements either in cash in any Eligible Currency or any non-cash assets specified pursuant to section 7.3 of these Clearing Procedures;
  - (b) Others (see section 4.5.2) – OTC Clear may also impose additional Margin in the circumstances described in section 4.5.2. Each of Holiday Margin, Notional Exchange Failure Margin and any additional Margin imposed by OTC Clear in the circumstances described in section 4.5.2 shall be “**Additional Margin**”. Additional Margin will be determined and presented in the Base Currency, and a Clearing Member may satisfy its Additional Margin requirements either in cash in any Eligible Currency or any non-cash assets specified pursuant to section 7.3 of these Clearing Procedures. OTC Clear may demand Additional Margin on each OTC Clear Clearing Day: at 08:30 hours Hong Kong time, at 14:15 hours Hong Kong time and at any other time determined by OTC Clear between 08:30 hours Hong Kong time and 15:00 hours Hong Kong time; and
  - (c) Notional Exchange Failure Margin (see section 4.5.3) – OTC Clear may also demand Notional Exchange Failure Margin in the circumstances described in section 4.5.3.

Pricing and market data for calculating Margin (including construction of curves used in such calculations) will be obtained by OTC Clear from external quotes and third party sources throughout an OTC Clear Clearing Day. Details of the relevant pricing and market data, as well as curve construction methodology, for Rates Derivatives Contracts and FX Derivatives Contracts are set out in sections 5.1 and 5.2 of these Clearing Procedures, respectively.

In respect of any Margin requirements determined and presented in the Base Currency that may be satisfied by a Clearing Member in an Eligible Currency other than the Base Currency or non-cash

assets denominated in a currency other than the Base Currency, satisfaction of such Margin requirements will be determined by OTC Clear by reference to relevant exchange rate(s) using third party data sources available on the latest practicable Currency Day. The relevant exchange rate(s) will be notified to the Clearing Members.

## **4.2 Initial Margin**

Initial Margin in respect of a Position Account covers the potential future exposure that OTC Clear could face in normal market conditions in the interval between its last Variation Margin collection in respect of such Position Account and the close-out of all Contracts recorded to such Position Account following the occurrence of a DMP Event with respect to the relevant Clearing Member. Pursuant to Clearing Rule 1205, OTC Clear may, at any time during an OTC Clear Clearing Day, demand ad hoc intra-day Initial Margin from each Clearing Member if it determines that the then market conditions warrant this. OTC Clear will, to the extent reasonably practicable, consult with the Risk Management Committee prior to determining whether the market conditions at the relevant time warrant a demand for ad hoc intra-day Initial Margin. If OTC Clear is unable to consult with the Risk Management Committee sufficiently promptly in the circumstances, OTC Clear will consult with the chief executive of OTC Clear. In the event that the chief executive of OTC Clear is unavailable at the time for any reason, OTC Clear will consult with any Representative of OTC Clear designated by the OTC Clear Board from time to time for purposes of the applicable consultation. In determining the amount of Collateral required with respect to each Position Account as a result of a demand for ad hoc intra-day Initial Margin, OTC Clear will perform a process substantially similar to the End-of-Day Settlement Process that relates to the determination of end-of-day Initial Margin. In addition to issuing the relevant call for ad hoc intra-day Initial Margin, OTC Clear will also use reasonable endeavours to notify each Clearing Member of such demand by telephone call or electronic mail.

### **4.2.1 Initial Margin Calculation Parameters and Methodology**

Initial Margin is calculated with respect to each Clearing Member's portfolio of Contracts recorded in each of such Clearing Member's Position Account (for the avoidance of doubt, each Client Position Account shall be treated separately) using an internally-built value-at-risk margin model based on simulation of historical data. Stress scenarios will be calibrated using historical volatility for yield and FX curves. Please contact OTC Clear for details.

Initial Margin is calculated in a different manner with respect to a Clearing Member's House Position Account and Client Position Account(s):

- (i) in respect of a House Position Account, the Initial Margin calculation will meet single-tailed confidence level of at least 99.0% with respect to a 5-OTC Clear Clearing Day close-out period; and
- (ii) in respect of a Client Position Account, the Initial Margin calculation will meet single-tailed confidence level of at least 99.0% with respect to a 7-OTC Clear Clearing Day close-out period.

### **4.2.2 Alteration to Initial Margin Calculation Parameters and Methodology**

The Initial Margin calculation parameters and methodology are back-tested and reviewed regularly by the OTC Clear. OTC Clear may alter the Initial Margin calculation parameters and methodology where appropriate. Please contact OTC Clear for details.

### **4.2.3 Risk Multiplier**

Save and except for the Liquidity Risk Multiplier described in section 4.2.3.1 which OTC Clear may decide to impose in its sole discretion, OTC Clear may, in consultation with the Risk Management

Committee, include different risk multipliers as part of the Initial Margin calculation where appropriate. The applicability of risk multipliers and the relevant thresholds will be reviewed regularly by OTC Clear. OTC Clear will notify Clearing Members if it decides to adopt a risk multiplier.

#### **4.2.3.1 Liquidity Risk Multiplier**

Liquidity risk multiplier (the “**Liquidity Risk Multiplier**”) is one type of risk multipliers that may be imposed by OTC Clear. OTC Clear will apply the Liquidity Risk Multiplier to the Initial Margin calculation of a Clearing Member’s Position Account if a Clearing Member’s portfolio of Contracts in its House Position Account or any of its Client Position Accounts have exposures above set thresholds in a particular parameter, including but without limitation to currency, curve or underlying rate or in respect of the aggregate portfolio risk.

In order to determine the calibration of the levels of Liquidity Risk Multiplier to be applied to the Initial Margin calculations of a Clearing Member’s Position Account, OTC Clear may solicit bid/ask spread data or request other information from Clearing Members. The level of the Liquidity Risk Multiplier may vary from time to time, and OTC Clear will notify the Clearing Members of the updated level of the Liquidity Risk Multiplier.

As a result of the application of a Liquidity Risk Multiplier to the Initial Margin calculation with respect to a Position Account, additional Initial Margin will be required in respect of such Position Account.

#### **4.2.3.2 Notional Exchange Risk Multiplier**

The notional exchange risk multiplier (the “**Notional Exchange Risk Multiplier**”) is one type of risk multiplier that may be imposed by OTC Clear. OTC Clear will apply the Notional Exchange Risk Multiplier to the Initial Margin calculation of a Clearing Member’s Position Account based on the aggregate of the Initial Exchange Amounts and/or Final Exchange Amounts of the Standard Cross-currency Rates Derivatives Contracts and Notional Amounts of the Deliverable FX Derivatives Contracts in a Clearing Member’s House Position Account and its Client Position Accounts.

To calibrate the Notional Exchange Risk Multiplier, OTC Clear may solicit bid/ask spread data or request other information from Clearing Members (including but not limited to market volatility or market liquidity of different currency pair(s) over different time horizons). The level of the Notional Exchange Risk Multiplier may vary from time to time, and OTC Clear will notify the Clearing Members of the revised Notional Exchange Risk Multiplier.

After the application of the Notional Exchange Risk Multiplier, OTC Clear may request additional Collateral from Clearing Members.

### **4.3 Variation Margin**

Variation Margin covers OTC Clear’s calculation of the amount that is required to settle the daily or intra-day diminution in the net present value (if any) of the Contracts in each Position Account. Collection of Variation Margin helps to ensure that the risk exposure assumed by OTC Clear is constantly monitored and that OTC Clear remains risk neutral.

#### **4.3.1 Calculation and Valuation Process**

OTC Clear will calculate, regularly, during the Margin Process Hours, the net present value and market price movements of each Contract using zero coupon curves constructed in accordance with Chapter 5 of these Clearing Procedures based on the latest market prices available from market sources. The latest market prices utilised in such calculations will be published on the Web Portal on each OTC Clear Clearing Day.

### 4.3.2 Price Alignment Interest

Variation Margin will be adjusted by application of price alignment interest (“**PAI**”). Without a PAI, the pricing of a Contract registered with OTC Clear would be distorted from that of equivalent transactions which are not registered with OTC Clear. PAI is intended to settle the internal rate of return on the cumulative Variation Margin payments transferred in respect of each OTC Clear Clearing Day.

In respect of each Clearing Member and its House Position Account and Client Position Account(s) (for such purpose, each Client Position Account shall be treated separately), PAI will be calculated separately in respect of all Contracts with the same Contractual Currency in each such Position Account during the End-of-Day Settlement Process on each OTC Clear Business Day from (and including) the first OTC Clear Business Day after the trade date of the relevant Contract to (and including) the OTC Clear Business Day prior to the settlement date of the relevant Contract (each, “**T<sub>0</sub>**”). PAI is calculated by OTC Clear in accordance with the following formula:

$$\text{PAI}_{T_0} = \text{NPV}_{T_{-1}} \times \text{PAI Rate}_{T_{\text{PAI}}} \times \text{Accrual Factor}$$

where,

- (i)  $\text{NPV}_{T_{-1}}$  is the net present value determined as at 18:00 hours Hong Kong time on  $T_{-1}$  or such other time on  $T_{-1}$  as OTC Clear considers appropriate and notifies to the Clearing Members from time to time, where “**T<sub>0</sub>**” is an OTC Clear Business Day and “**T<sub>-1</sub>**” is the OTC Clear Business Day immediately preceding  $T_0$ ;
- (ii) PAI Rate means the annual percentage rate is determined by OTC Clear by reference to the relevant end-of-day overnight index swap (“**OIS**”) curves calculated on  $T_{\text{PAI}}$ , where “**T<sub>PAI</sub>**” is the Currency Day (for the relevant Contractual Currency) immediately preceding  $T_0$  if the relevant OIS curves are available on such day ( $T_{-1}$ ), or if the relevant OIS curves are not available on  $T_{-1}$ , the last relevant OIS curves available (for the avoidance of doubt, if  $T_{\text{PAI}}$  falls on a day other than a Currency Day, the relevant OIS curves the nearest immediately preceding Currency Day will be used); and
- (iii) Accrual Factor means the day count fraction that is used by OTC Clear to convert the PAI Rate from an annual rate to a daily rate, on a basis of a year with a number of days equal to:
  - (a) 360 calendar days; or
  - (b) 365 calendar days,as OTC Clear may, from time to time, determine to be appropriate in accordance with the then market convention for the conversion of the PAI Rate.

PAI will be notified to each Clearing Member and will be paid or received by such Clearing Member, as the case may be, as part of its Variation Margin requirement.

## 4.4 Intra-day Variation Margin

### 4.4.1 Intra-day Variation Margin Call and Calculation

There are two types of intra-day Variation Margin calls:

- (i) Routine Intra-day VM Call as set out in section 4.4.2; and
- (ii) Ad Hoc Intra-day VM Call as set out in section 4.4.3.

#### 4.4.2 Routine Intra-day VM Call

Each Clearing Member has its intra-day Variation Margin limit (“**Intra-day VM Limit**”) which is the threshold level at which a Routine Intra-day VM Call will be triggered in respect of such Clearing Member’s Contracts recorded to its House Position Account only (for the avoidance of doubt, no Routine Intra-day VM Call shall be made in respect of any Client Position Account(s)). OTC Clear will set an Intra-day VM Limit for each Clearing Member based on, including without limitation, the following factors:

- (i) OTC Clear’s determination of the relative change in Margin requirements in respect of such Clearing Member’s House Position Account;
- (ii) prevailing market conditions;
- (iii) OTC Clear’s evaluation of the financial condition of such Clearing Member and its Affiliates; and
- (iv) OTC Clear’s evaluation of the operational capability of such Clearing Member and its Affiliates.

Each Clearing Member will be notified of the Intra-day VM Limit applicable to it, and such Intra-day VM Limit will be reviewed by OTC Clear on a regular basis.

Between the hours of 08:30 hours Hong Kong time and 14:00 hours Hong Kong time on each OTC Clear Business Day, OTC Clear may, at regular intervals, calculate the aggregate Initial Margin and Additional Margin requirements in respect of each Clearing Member’s House Position Account, taking into consideration any Variation Margin requirements reflecting intra-day market movements. In the event that the aggregate Initial Margin and Additional Margin requirement in respect of such House Position Account, taking into account any Variation Margin requirements reflecting intra-day market movements, exceeds the aggregate value of the Margin Balance relating to such Clearing Member’s House Position Account by an amount equal to or greater than the Intra-day VM Limit in respect of such Clearing Member, OTC Clear will make a routine intra-day Variation Margin call (a “**Routine Intra-day VM Call**”) with respect to such Clearing Member on such OTC Clear Business Day. The time of the Routine Intra-day VM Call will be the same on any OTC Clear Business Day and will be published on the HKEX website (the “**Routine VM Call Time**”). References to “intra-day market movements” as used in this section 4.4.2 means, with respect to an OTC Clear Clearing Day, any mark-to-market movements during the period from the completion of the End-of-Day Settlement Process on the immediately preceding OTC Clear Clearing Day to the time preceding the Routine VM Call Time, taking into account the latest market data then available, on such OTC Clear Clearing Day.

If, prior to OTC Clear making a Routine Intra-day VM Call on an OTC Clear Business Day, the relevant Clearing Member has delivered additional Collateral such that the breach of the Intra-day VM Limit described in the immediately foregoing paragraph has been cured, no Routine Intra-day VM Call will be made on such OTC Clear Business Day.

#### 4.4.3 Ad Hoc Intra-day VM Call

In addition to the Routine Intra-day VM Call described in section 4.4.2, OTC Clear may make an ad hoc intra-day Variation Margin call (an “**Ad Hoc Intra-day VM Call**”) at any time on an OTC Clear Clearing Day if OTC Clear determines that the market conditions at the relevant time requires an Ad Hoc Intra-day VM Call. OTC Clear will, to the extent reasonably practicable, consult with the Risk Management Committee prior to determining whether the market conditions at the relevant time warrant this. If OTC Clear is unable to consult with the Risk Management Committee sufficiently promptly in the circumstances, OTC Clear will consult with the chief executive of OTC Clear. In the event that the chief executive of OTC Clear is unavailable at the time for any reason, OTC Clear will

consult with any Representative of OTC Clear designated by the OTC Clear Board from time to time for purposes of the applicable consultation.

Once OTC Clear determines that an Ad Hoc Intra-day VM Call shall be imposed, such imposition of Ad Hoc Intra-day VM Call shall apply to each Clearing Member with respect to each Contract then registered in its name (including its House Position Account and Client Position Account, if any). In determining the amount of Collateral required with respect to each Contract as a result of the Ad Hoc Intra-day VM Call, no PAI adjustment will be made in the determination of an Ad Hoc Intra-day VM Call. Upon imposition of an Ad Hoc Intra-day VM Call in respect of a Position Account, each Clearing Member must deposit Collateral to ensure that it has a Margin Balance on the corresponding Collateral Account that is equal to or greater than the Margin requirement on that Position Account.

In addition to issuing the relevant Ad Hoc Intra-day VM Call on the Web Portal, OTC Clear will also use reasonable endeavours to notify each Clearing Member of the Ad Hoc Intra-day VM Call by telephone call or electronic mail.

Please refer to the Web Portal User Manual for more details on the timing of an Ad Hoc Intra-day VM Call.

#### **4.4.4 Settlement of Intra-day Variation Margin**

Collateral for satisfaction of any intra-day Variation Margin call (including both the Routine Intra-day VM Call described in section 4.4.2 and Ad Hoc Intra-day VM Call described in section 4.4.3) must be received by OTC Clear within one hour after the call is made.

For the avoidance of doubt, notwithstanding section 4.7, if subsequent to an Ad Hoc Intra-day VM Call, and the delivery of Collateral by a Clearing Member to settle such call, the market price movements of the relevant Contract results in there being gains recorded to the relevant Collateral Account relating to the Clearing Member, the sum representing such gains will not be paid to the Clearing Member through the End-of-Day Settlement Process on the relevant day as part of the Variation Margin payable by OTC Clear to such Clearing Member, but will be reflected as Excess Margin in the relevant Collateral Account which can be withdrawn or transferred as set out in sections 3.9 and 3.10.

#### **4.5 Additional Margin**

Pursuant to Clearing Rules 1208 and 1510, OTC Clear may at its discretion impose Additional Margin requirements on any Clearing Member in the circumstances described in this section 4.5. Any delivery of Collateral for the purpose of satisfying an Additional Margin requirement pursuant to this section 4.5 will be recorded by OTC Clear in the relevant Collateral Account.

##### **4.5.1 Holiday Margin**

One such Additional Margin requirement is the temporary Margin adjustment on each Position Account to cover potential market volatility during days which are not OTC Clear Business Days ("**Holiday Margin**"). Such potential market volatility refers to the additional market risk that OTC Clear may have to bear arising from significant overseas market movements during such days. The calculation of Holiday Margin is based on an internally-built exponentially weighted moving average model with reference to the number of days in the relevant period. Details of the Holiday Margin levels will be notified to Clearing Members prior to the beginning of the relevant period. For example, if Monday is not an OTC Clear Business Day, Clearing Members will be notified of the level of Holiday Margin by 21:30 hours Hong Kong time on the second OTC Clear Business Day preceding such Monday (i.e. the immediately preceding Thursday). The relevant Holiday Margin call will be made by OTC Clear at 08:30 hours Hong Kong time on the OTC Clear Business Day preceding such Monday

(i.e. the immediately preceding Friday), and Clearing Members shall satisfy in full the Holiday Margin by 09:30 hours Hong Kong time on the same day.

#### **4.5.2 Others**

In addition to the Holiday Margin described in section 4.5.1 and Notional Exchange Failure Margin in section 4.5.3, OTC Clear may impose Additional Margin requirements on a Clearing Member at its sole discretion in the following situations:

- (i) if a Clearing Member fails to maintain Capital in an amount at least equal to the greater of its Expected Uncollateralized Loss and Minimum Capital Requirement;
- (ii) if a Clearing Member fails to maintain Capital in an amount required to ensure the value of its then CM Funded Contribution Amount (determined on an OTC Clear Clearing Day as if it was a Rates and FX Contribution Determination Date) is less than 20% of the then total amount of the Capital of such Clearing Member (please see section 2.3.1 of these Clearing Procedures);
- (iii) if a Clearing Member's Membership is being suspended by OTC Clear pursuant to Clearing Rule 601;
- (iv) in the circumstances described under Clearing Rule 1510;
- (v) if the Margin Balance of a Clearing Member decreases due to either market movement affecting the value of such Collateral or change in the applicable Collateral Haircut, or if OTC Clear determines there are wrong-way risk concerns on any of a Clearing Member's Position Account(s);
- (vi) if a Clearing Member has exceeded its Position Limit as described in Clearing Rule 1223(2);
- (vii) if a particular Standard Cross-currency Rates Derivatives Contract of a Clearing Member is registered by OTC Clear one day before any forthcoming Initial Exchange Date of that particular Standard Cross-currency Rates Derivatives Contract, where such day is (1) a Currency Day for each Contractual Currency of that particular Standard Cross-currency Rates Derivatives Contract and (2) an OTC Clear Clearing Day; or
- (viii) if a particular Deliverable FX Forward Contract or Deliverable FX Swap Contract of a Clearing Member is registered by OTC Clear one day before any forthcoming Settlement Date of that particular Deliverable FX Forward Contract or Deliverable FX Swap Contract, where such day is (1) a Currency Day for each Contractual Currency of that particular Deliverable FX Forward Contract or Deliverable FX Swap Contract and (2) an OTC Clear Clearing Day.

In all other situations not specifically provided for under section 4.5.1, this section 4.5.2 or section 4.5.3, OTC Clear may impose Additional Margin requirements on a Clearing Member provided that it has first consulted with the Risk Management Committee.

#### **4.5.3 Notional Exchange Failure Margin**

OTC Clear may also demand Notional Exchange Failure Margin in the circumstances described in Clearing Rule 1002A. A Clearing Member must satisfy its Notional Exchange Failure Margin requirements in such form, in such amount and at such time as may be requested by OTC Clear pursuant to Clearing Rule 1002A.

#### **4.6 Margin Process**

Margin Process will be performed in respect of submission of Original Transactions for registration, and a de-registration request (see section 3.6 of the Clearing Procedures).

Sections 4.6.1 to 4.6.4 relate to the Margin Process conducted in respect of submission of Original Transactions, and section 4.6.5 relates to the Margin Process conducted in respect of a de-registration request.

#### 4.6.1 Position Limits

Original Transactions submitted for registration must satisfy, without limitation, the following conditions:

- (i) Position Limits check as set out in this section 4.6.1; and
- (ii) Margin and credit check as set out in sections 4.6.2 and 4.6.3.

Pursuant to Clearing Rule 1222, OTC Clear may prescribe, amend or revoke Position Limits. In addition, unless with the prior written approval from OTC Clear, OTC Clear requires a Clearing Member to impose a House Account Limit or (if applicable) Client Account Limit in respect of its House Position Account and Client Position Account(s) in accordance with section 4.6.1.1. Each of the limits referred to in this section 4.6.1 is a Position Limit. OTC Clear will not register any Original Transaction if registering such Original Transaction will cause, among others, a Position Limit described herein to be breached. All Position Limits imposed by OTC Clear are subject to changes from time to time and OTC Clear will notify the relevant Clearing Member(s) in respect of any such changes.

##### 4.6.1.1 Account Limits

Unless with the prior written approval from OTC Clear, a Clearing Member shall, as part of its risk management policies and procedures pursuant to section 2.3.3 of these Clearing Procedures, set a limit for all of its House Position Account (“**House Account Limit**”) and/or (if it provides Client Clearing Services) for each of its Client Position Account(s) separately (each a “**Client Account Limit**”, and together with House Account Limit, the “**Account Limits**”) in the Rates and FX Clearing System by utilizing the risk limit functionality. A Clearing Member shall inform OTC Clear in writing prior to making any changes to any Account Limits.

Notwithstanding that a Clearing Member may set any Account Limits, OTC Clear reserves the right to change any Account Limits from time to time if OTC Clear determines in its sole discretion that such Account Limits are not appropriate or commercially reasonable. OTC Clear will provide the relevant Clearing Member with reasonable advance notice, and in any event no less than two OTC Clear Business Days, prior to effecting any changes to the Account Limits, provided that if any such changes are required by Applicable Laws or the rules, regulations or requests of a Regulatory Authority, then OTC Clear may implement such changes without prior notice to the Clearing Member. Under normal circumstances, OTC Clear will most likely only lower an Account Limit. However, OTC Clear may consider increasing such Account Limits during the Default Management Process (for example, to allow porting of Affected Contracts to a Replacement Clearing Member) or for backloading of historical portfolios.

##### 4.6.1.2 Absolute Risk Limit

OTC Clear may impose an absolute risk limit (the “**Absolute Risk Limit**”) in respect of any Position Account. OTC Clear will use reasonable endeavours to provide the relevant Clearing Member with reasonable advance notice prior to imposing any Absolute Risk Limit. The Absolute Risk Limit is essentially a cap on OTC Clear’s risk exposure to the relevant Position Account (for such purpose, each Client Position Account will be treated separately). An Absolute Risk Limit will be established based on Margin, position or risk sensitivities relating to each relevant Position Account.

#### 4.6.1.3 Notional Exchange Risk Limit

OTC Clear will impose a notional exchange risk limit (the “**Notional Exchange Risk Limit**”) to all Position Accounts of each Clearing Member. The Notional Exchange Risk Limit shall be set per Clearing Member rather than per Position Account. The Notional Exchange Risk Limit is established to limit OTC Clear’s risk exposure to the Initial Exchange Amounts and/or Final Exchange Amounts of Standard Cross-currency Rates Derivatives Contracts and Notional Amounts of Deliverable FX Derivatives Contracts in the Position Account. OTC Clear will use reasonable endeavours to provide Clearing Members with reasonable advance notice prior to imposing or amending the Notional Exchange Risk Limit. In the event that the Notional Exchange Risk Limit of a Clearing Member’s Position Account is fully utilised, Clearing Member may post additional cash Collateral in the same currency as the Notional Exchange Risk Limit to reduce the utilisation of the Notional Exchange Risk Limit and to accommodate more trades for registration.

#### 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 Margin requirement.

If OTC Clear is satisfied that the Margin Balance in respect of the relevant Position Account(s) is sufficient to cover the 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 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.

#### 4.6.3 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.

#### **4.7 End-of-Day Valuation and Settlement Process**

The end-of-day pricing and market data cut-off time is 16:00 hours Hong Kong time on each OTC Clear Clearing Day (the “**End-of-Day Cut Off Time**”). OTC Clear will use the market price at such time to determine the risk exposure and the Margin requirements in respect of each Position Account (together, the “**End-of-Day Margin Requirements**”) in its end-of-day valuation and settlement process, which commences at 18:00 hours Hong Kong time on each OTC Clear Clearing Day (the “**End-of-Day Settlement Process**”). The End-of-Day Settlement Process of an OTC Clear Clearing Day will end when the end-of-day Margin reports are made available to Clearing Members at or prior to 21:30 hours Hong Kong time on such OTC Clear Clearing Day pursuant to section 4.7.1.

The End-of-Day Settlement Process will capture the incremental risk exposure for a Clearing Member on any given OTC Clear Clearing Day. OTC Clear performs its regular Variation Margin calculation during the End-of-Day Settlement Process, and any Variation Margin gains determined in favour of a Clearing Member resulting from the market price movements of a Contract on such day will be redelivered to the relevant Clearing Member through the End-of-Day Settlement Process. If an OTC Clear Clearing Day is not a Currency Day for the Contractual Currency in which the Variation Margin is denominated, then OTC Clear will not make, or demand, a Variation Margin payment in respect of such Contract during the End-of-Day Settlement Process on such OTC Clear Clearing Day. The relevant Variation Margin will be made, or demanded, by OTC Clear on the immediately following Currency Day for the relevant Contractual Currency. For the avoidance of doubt, whilst any Variation Margin gains as a result of market price movements will be redelivered to a Clearing Member through the End-of-Day Settlement Process, any Collateral constituting the Excess Margin will only be redelivered to a Clearing Member upon its request pursuant to Clearing Rule 1218.

##### **4.7.1 Margin Reporting**

Clearing Members can obtain certain information relating to end-of-day settlement curves, market price movements, Initial Margin, Additional Margin, Variation Margin and net present value, in each case, relating to one or more of its Position Accounts on the Web Portal.

The detailed Margin reports will show the End-of-Day Margin Requirements of each Clearing Member in respect of each of its Position Accounts. For information relating to Margin reporting, please refer to section 3.16 of these Clearing Procedures.

The End-of-Day Margin Requirements as shown in such Margin reports reflect the risk exposure of each relevant Contract on the Rates and FX Clearing System at a cut-off time of 18:00 hours Hong Kong time on an OTC Clear Clearing Day. The final Margin reports would be made available to each Clearing Member by 21:30 hours Hong Kong time on each OTC Clear Clearing Day.

##### **4.7.2 Settlement of Margin Requirements**

The table below summarises the timing and manner in which relevant Margin requirements shall be satisfied by Clearing Members<sup>\*</sup>:

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<sup>\*</sup> Please see Chapter 7 of these Clearing Procedures for more information on the types of eligible cash and non-cash Collateral and any applicable Collateral Haircut.

<b>Margin requirements</b>	<b>Demand made by OTC Clear</b>	<b>Latest time in which Margin requirements shall be satisfied</b>	<b>Form of Collateral</b>
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	Cash in any Eligible Currency and any non-cash assets specified pursuant to section 7.3 of these Clearing Procedures
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	Cash in any Eligible Currency and any non-cash assets specified pursuant to section 7.3 of these Clearing Procedures
End-of-day Variation Margin	At 21:30 hours Hong Kong time 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	Cash only in the Contractual Currency of the relevant Contract
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	Cash in any Eligible Currency and non-cash assets specified pursuant to section 7.3 of these Clearing Procedures
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	Cash in any Eligible Currency and non-cash assets specified pursuant to section 7.3 of these Clearing Procedures
Holiday Margin	At 08:30 hours Hong Kong time on the OTC Clear Business Day immediately	By 09:30 hours Hong Kong time on the OTC Clear Business Day immediately	Cash in any Eligible Currency and non-cash assets specified pursuant to

<b>Margin requirements</b>	<b>Demand made by OTC Clear</b>	<b>Latest time in which Margin requirements shall be satisfied</b>	<b>Form of Collateral</b>
	preceding the start of a holiday period via Margin call on the Web Portal	preceding the start of a holiday period	section 7.3 of these Clearing Procedures
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	Cash only in the specified Eligible Currency required 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	Cash in any Eligible Currency and non-cash assets specified pursuant to section 7.3 of these Clearing Procedures

As provided for under section 4.1, in respect of any Margin requirements determined and presented in the Base Currency that may be satisfied by a Clearing Member in an Eligible Currency other than the Base Currency, the relevant exchange rate will be determined by OTC Clear using third party data sources. The relevant exchange rate will be notified to the Clearing Members.

#### **4.7.3 No Compression or Offsets**

Original Transactions with the same terms and conditions, as defined by the Eligibility Requirements, are economically equivalent within OTC Clear. However, notwithstanding the foregoing, even where a Clearing Member has Contracts registered to a Position Account which have substantially the same but opposite Economic Terms to other Contracts in the same Position Account, such Contracts shall not be compressed or offset one against one another. All Contracts registered to a Position Account shall remain in full force and effect, and shall continue to be binding upon Clearing Members, until terminated, novated, or de-registered pursuant to the Clearing Rules.

## Chapter 5

### Curve Construction

#### 5.1 Curve Construction for Rates Derivatives Contracts

##### 5.1.1 Zero Coupon Yield Curves

OTC Clear uses zero coupon yield curves to generate discount factors for calculating the net present value of a Rates Derivatives Contract in order to determine MTM movements and Margin requirements in respect of such Rates Derivatives Contract.

##### 5.1.2 Market Instrument

The zero coupon yield curves are constructed using benchmark instruments that represent the most liquid part of the relevant yield curves, subject to their availability among different markets. Such benchmark instruments include, but are not limited to, deposits, interest rate futures, forward rate agreements, swaps, OIS and basis swaps. Benchmark instruments used in settlement curve construction may include, but are not limited to, the following:

<b>Benchmark Instrument List</b>	<b>Type</b>
O/N Interbank Money Market	Yield
T/N Interbank Money Market	Yield
0 x 3 forward rate agreement	Yield
Front Month Quarterly forward rate agreement	Future
2nd forward rate agreement	Future
3rd forward rate agreement	Future
4th forward rate agreement	Future
5th forward rate agreement	Future
6th forward rate agreement	Future
2 Year Swap	Yield
3 Year Swap	Yield
4 Year Swap	Yield
5 Year Swap	Yield
6 Year Swap	Yield
7 Year Swap	Yield
8 Year Swap	Yield
9 Year Swap	Yield
10 Year Swap	Yield
12 Year Swap	Yield
15 Year Swap	Yield

<b>Benchmark Instrument List</b>	<b>Type</b>
20 Year Swap	Yield
25 Year Swap	Yield
30 Year Swap	Yield

### 5.1.3 Market Sources

OTC Clear obtains quotes for the relevant benchmark instrument used in zero coupon yield curves construction from direct data feeds of appropriate market sources selected by OTC Clear (“**Relevant Market Sources**”). Please contact OTC Clear for details of the Relevant Market Sources.

### 5.1.4 Construction of Zero Coupon Yield Curves

OTC Clear will construct zero coupon yield curves using bootstrapping methodology and apply interpolation techniques as OTC Clear may consider appropriate in its sole discretion. Please contact OTC Clear for details of the construction method and interpolation techniques used.

OTC Clear will update the relevant zero coupon yield curves using market prices of the relevant benchmark instruments obtained from the Relevant Market Sources at regular intervals during Margin Process Hours on each OTC Clear Clearing Day for purposes of determining the Margin requirements in respect of each Rates Derivatives Contract. In order to ensure accuracy of a zero coupon yield curve, OTC Clear will compare the updated zero coupon yield curve against the corresponding zero coupon yield curve determined during the End-of-Day Settlement Process on the immediately preceding OTC Clear Clearing Day. Subject to availability and liquidity of the relevant benchmark instruments, curves constructed for discounting and rate forecasting could be different to allow for OIS discounting.

As part of the End-of-Day Settlement Process, OTC Clear will construct the relevant zero coupon yield curves using the market price of the relevant benchmark instruments obtained at the End-of-Day Cut Off Time on each OTC Clear Clearing Day.

## 5.2 Curve Construction for FX Derivatives Contracts

### 5.2.1 FX Curves

OTC Clear builds for each Currency Pair an FX Curve (zero coupon/market rate curve) to calculate the net present value of a FX Derivatives Contract in order to determine the MTM movements and Margin requirements in respect of such FX Derivatives Contract.

OTC Clear calculates such FX curves using FX spot rates, FX swap points, and interest rate curves relating to the relevant Currency Pair and also internal interpolation techniques. Interest rate curves are used for discounting, while FX curves are used for capitalization of forward cash flows.

As part of the End-of-Day Settlement Process (as defined in section 4.7 of the Clearing Procedures), OTC Clear constructs the relevant FX curves using prices of the relevant market data obtained at End-of-Day Cut Off Time (as defined in section 4.7 of the Clearing Procedures) on each OTC Clear Clearing Day. Data relating to FX spot rates and FX swap points are used in the calculation of risk analytics during the End-of-Day Settlement Process.

OTC Clear will update the relevant FX curves using market prices of the relevant market data obtained from the Sources set out in section 5.2.2 regularly during Margin Process Hours (as defined in section 1.3 of the Clearing Procedures) on each OTC Clear Clearing Day.

In order to ensure accuracy of a FX curve, OTC Clear will compare the updated FX curve against the corresponding FX curve determined during the End-of-Day Settlement Process on the immediately preceding OTC Clear Clearing Day.

### 5.2.2 Market Data and Frequencies

OTC Clear obtains the prices for each of FX spot rates, FX swap points and interest rate curves from the source(s) (each, a **“Source”**) and at the frequency (**“Frequency”**) set out below:

- (i) FX spot rates:
  - (a) Source – received by OTC Clear through a live link from the external Relevant Market Source(s)
  - (b) Frequency – at regular intervals during the Margin Process Hours on each OTC Clear Clearing Day
- (ii) FX swap point:
  - (a) Source – received by OTC Clear through a live link from the external Relevant Market Source(s) for each Tenor set out below
  - (b) Tenor (**“Tenor”**) – may include, but are not limited to, the tenors shown in the list below:

Tenor
S/N
1 week
2 weeks
1 month
2 months
3 months
6 months
9 months
1 year
2 years
3 years
4 years
5 years

- (c) Frequency – at regular intervals during the Margin Process Hours on each OTC Clear Clearing Day
- (iii) Interest rate curve:
  - (a) Source – OTC Clear

- (b) Frequency – at regular intervals during the Margin Process Hours on each OTC Clear Clearing Day
- (iv) PAI rates:
  - (a) Source – OTC Clear
  - (b) Frequency – once daily during the End-of-Day Settlement Process on each OTC Clear Clearing Day

## Chapter 6

### Rates and FX Guarantee Resources

#### 6.1 Rates and FX Guarantee Resources

The Rates and FX Guarantee Resources comprise the Rates and FX Guarantee Fund, Rates and FX Assessments and OTC Clear Contribution. The amounts and type(s) of Collateral delivered by a Clearing Member as its Rates and FX Contribution will be recorded by OTC Clear in the GF Account relating to such Clearing Member.

##### 6.1.1 Rates and FX Guarantee Fund

The CM Funded Contribution Amount for each Clearing Member will be determined by OTC Clear on each Rates and FX Contribution Determination Date, being an amount equal to the greater of:

- (i) HK\$ 50 million or equivalent (after applying Collateral Haircuts on Collateral), being the Rates and FX Minimum Contribution Amount; and
- (ii) the product of:
  - (a) 110% of the highest Max EUL value amongst the Max EUL values determined on each OTC Clear Clearing Day falling within the GF Calculation Period relating to such Rates and FX Contribution Determination Date (Max EUL is defined and determined pursuant to section 6.1.1(6), as modified by section 6.1.1(8) if Client Clearing Services are provided by one or more Clearing Members on OTC Clear Clearing Days falling within the GF Calculation Period relating to such Rates and FX Contribution Determination Date); and
  - (b) the average of the relative pro-rata percentage shares relating to such Clearing Member determined in respect of each OTC Clear Clearing Day falling within the GF Calculation Period relating to such Rates and FX Contribution Determination Date, where:

**“GF Calculation Period”** means, with respect to a Rates and FX Contribution Determination Date occurring on the first or second OTC Clear Business Day of a calendar month pursuant to Clearing Rule 1503(1), each OTC Clear Clearing Day falling within the immediately preceding calendar month; and with respect to a Rates and FX Contribution Determination Date occurring on any other day pursuant to Clearing Rule 1503(2) or 1503(3), each OTC Clear Clearing Day falling within the calendar month in which such Rates and FX Contribution Determination Date falls up to (but excluding) such Rates and FX Contribution Determination Date.

While the resizing of the CM Funded Contribution Amount for each Clearing Member will only be performed on each Rates and FX Contribution Determination Date as defined in, and pursuant to, Clearing Rule 1503, OTC Clear will perform, for risk monitoring purposes, stress testing and calculation of the relevant pro-rata percentage share and the Daily GF Value with Reserve in respect of each Clearing Member on each OTC Clear Clearing Day.

Below is an illustrative example to show how the relative pro-rata percentage share and the Daily GF Value with Reserve are determined for each Clearing Member on OTC Clear Clearing Day “X”:

Clearing Member	Position Account STV <sup>(2)</sup>	Margin Balance <sup>(3)</sup> of Clearing Member	Expected Uncollateralized Loss <sup>(4)</sup>	Relative pro-rata percentage share <sup>(5)</sup>	Daily GF Value <sup>(6)</sup>	Daily GF Value with Reserve <sup>(7)</sup>
A	1,000	550	450	25.00%	125.00	137.50
B	300	100	200	11.11%	55.56	61.11
C	500	250	250	13.89%	69.44	76.39
D	800	300	500	27.78%	138.89	152.78
E	600	400	200	11.11%	55.56	61.11
F	400	200	200	11.11%	55.56	61.11
<b>Total</b>			1,800	100%	500	550

(1) Assumptions

There are six Clearing Members A, B, C, D, E, and F, and none of these six Clearing Members engage in Client Clearing Services. As such, in this illustrative example, in respect of each Clearing Member, OTC Clear will perform the calculations set out in parameters (2), (3) and (4) below on such Clearing Member's House Position Account.

Parameter (8) below explains how the Expected Uncollateralized Loss with respect to a Clearing Member may be different in case a Clearing Member engages in Client Clearing Services.

(2) Position Account STV

In respect of each Clearing Member and an OTC Clear Clearing Day, OTC Clear will determine, at the End-of-Day Cut Off Time on such OTC Clear Clearing Day:

- (i) the net present value of each Position Account of each Clearing Member (the "**Base NPV**"); and
- (ii) the net present value of each Position Account of each Clearing Member under each stress scenario prescribed by the stress test model prescribed by OTC Clear as described further in section 6.3. The stress test value derived for 6.3 (each a "**Stress NPV**").

In respect of each Position Account of a Clearing Member on an OTC Clear Clearing Day, the absolute value of the largest decrease in net present value (determined by comparing each Stress NPV against the Base NPV) for that Position Account on that day is referred to as the "**Position Account STV**".

(3) Margin Balance

In the illustrative example, Margin Balance excludes any additional Collateral provided under Clearing Rule 1510. It is assumed that there is no Excess Margin with respect to the Clearing Member's House Position Account.

(4) Expected Uncollateralized Loss

On each OTC Clear Clearing Day, OTC Clear will then determine the Position Account EUL for each Position Account of each Clearing Member, where:

“**Position Account EUL**” means, with respect to a Position Account of a Clearing Member and an OTC Clear Clearing Day, an amount equal to (A) the Position Account STV less (B) the Margin Balance (excluding any additional Collateral provided under Clearing Rule 1510) recorded to the Collateral Account relating to such Position Account, each determined as of the End-of-Day Cut Off Time on such OTC Clear Clearing Day.

In this illustrative example where none of the Clearing Members engage in Client Clearing Services, the “**Expected Uncollateralized Loss**” for each such Clearing Member is the Position Account EUL relating to its House Position Account.

(5) Relative pro-rata percentage share

The “**relative pro-rata percentage share**” means, with respect to a Clearing Member and an OTC Clear Clearing Day, the Expected Uncollateralized Loss with respect to such Clearing Member on such day divided by the total Expected Uncollateralized Loss with respect to all Clearing Members on such day. In the illustrative example, since the total Expected Uncollateralized Loss for all six Clearing Members is 1,800, the relative pro-rata percentage share of each Clearing Member will be a percentage equal to such Clearing Member’s Expected Uncollateralized Loss divided by the total Expected Uncollateralized Loss of 1,800. In the case of Clearing Member A, its relative pro-rata percentage share is 25% (being 450/1800) on OTC Clear Clearing Day “X”.

(6) Daily GF Value

In respect of each Clearing Member and an OTC Clear Clearing Day, OTC Clear will determine the “**Daily GF Value**” for such Clearing Member on such day to be the product of the Max EUL and such Clearing Member’s relative pro-rata percentage share on such day, where “**Max EUL**” means, on any given OTC Clear Clearing Day, an amount equal to the greater of:

- (i) the largest Expected Uncollateralized Loss amount amongst all the Expected Uncollateralized Loss amounts calculated with respect to all Clearing Members under the same stress scenario within the GF Calculation Period; and
- (ii) the largest Expected Uncollateralized Loss amount amongst all the Expected Uncollateralized Loss amounts calculated with respect to all Clearing Members under the same stress scenario within the GF Calculation Period, with the following modifications:
  - (a) the Expected Uncollateralized Loss amount of all Clearing Members who are Affiliates of one another shall be aggregated with the Expected Uncollateralized Loss amount of the largest Affiliate; and
  - (b) the selection of the largest Expected Uncollateralized Loss amount is made on a revised pool excluding the Expected Uncollateralized Loss amounts determined in respect of the smaller Affiliated Clearing Members.

(7) Daily GF Value with Reserve

The “**Daily GF Value with Reserve**” in respect of a Clearing Member will be calculated on each OTC Clear Clearing Day by multiplying the Daily GF Value of such Clearing Member determined on such day by 110%. In the case of Clearing Member A, its Daily GF Value with Reserve is 137.5 (being 125 X 110%) on OTC Clear Clearing Day “X”.

(8) Client Clearing Services

With respect to any Clearing Member who engages in Client Clearing Services:

- (i) OTC Clear will determine the Position Account STV, Margin Balance and Position Account EUL for each Client Position Account of such Clearing Member in exactly the same manner as described in parameters (2), (3) and (4) above;
- (ii) the “**Expected Uncollateralized Loss**” for such Clearing Member shall be the sum of:
  - (a) the Position Account EUL relating to its House Position Account;
  - (b) the greater of: (i) 50% of the aggregate Position Account EULs with positive values amongst all of such Clearing Member’s Client Accounts and (ii) the aggregate of the Position Account EULs of the two Client Accounts with the largest positive values amongst such Clearing Member’s Client Accounts identified as being held for Clients that are not Affiliates of such Clearing Member and which have either appointed a Replacement Clearing Member or (in the case of a Client Clearing Category 2 Position Account) where Clients identified as sharing the same Client Clearing Category 2 Position Account have all appointed the same Replacement Clearing Member; and
  - (c) the aggregate of the Position Account EULs with positive values amongst such Clearing Member’s Client Accounts satisfying the following characteristics:
    - (1) Client Accounts identified as being held for Affiliates of such Clearing Member; and
    - (2) Client Accounts identified as being held for Clients which have either not appointed a Replacement Clearing Member or (in the case of a Client Clearing Category 2 Position Account) where Clients identified as sharing the same Client Clearing Category 2 Position Account have not all appointed the same Replacement Clearing Member.

**6.1.2 Rates and FX Assessments**

On any given OTC Clear Clearing Day, the maximum CM Unfunded Contribution Amount of each Clearing Member will be two times (i.e. 2x) the value of its CM Funded Contribution Amount calculated on the last Rates and FX Contribution Determination Date pursuant to Clearing Rule 1503. The CM Unfunded Contribution Amount for each Clearing Member will be resized at the same time the CM Funded Contribution Amount for such Clearing Member is resized pursuant to Clearing Rule 1503. For risk monitoring purposes, OTC Clear will also calculate an estimated Rates and FX Assessments amount on each OTC Clear Clearing Day based on the aggregate of the Daily GF Value with Reserve calculated in respect of each Clearing Member on such OTC Clear Clearing Day. Based on the figures in the illustrative example, the estimated maximum proportionate share of the Rates and FX Assessments for each Clearing Member on OTC Clear Clearing Day “X” will be as follows:

Clearing Member	Daily GF Value with Reserve	Proportionate Share of the Rates and FX Assessments
A	137.50	275.00
B	61.11	122.22

Clearing Member	Daily GF Value with Reserve	Proportionate Share of the Rates and FX Assessments
C	76.39	152.78
D	152.78	305.56
E	61.11	122.22
F	61.11	122.22
<b>Total</b>	<b>550</b>	<b>1,100</b>

Pursuant to Clearing Rule 1506, each Clearing Member must satisfy its CM Unfunded Contribution Amount in cash.

## 6.2 Excess Margin and CM Funded Contribution Amount

Pursuant to section 6.1.1(4), with respect to each Clearing Member, its Margin Balance (excluding any additional Collateral provided under Clearing Rule 1510) will be used to determine its Position Account EUL and its relative pro rata percentage share and hence any Excess Margin provided by such Clearing Member will be taken into account by OTC Clear to reduce the CM Funded Contribution Amount applicable to that Clearing Member.

Assuming that, applying the calculations referred to in parameter (2) above, the House Position Account of Clearing Member A gives the highest Position Account STV, and assuming further that Clearing Member A now has Excess Margin of 150 on top of its Initial Margin recorded to the Collateral Account relating to the House Position Account, using the figures in the above illustrative example, the Margin Balance of Clearing Member A will be increased from 550 to 700.

Based on the same calculation methodology described in section 6.1, Clearing Member A's relative pro-rata percentage share and Daily GF Value on OTC Clear Clearing Day "X" will be reduced as shown in the table below:

Clearing Member	Position Account STV	Margin Balance* of Clearing Member	Expected Uncollateralized Loss	Relative pro-rata percentage share	Daily GF value	Daily GF Value with Reserve
A	1,000	550 → 700	300	18.18%	90.91	100.00
B	300	100	200	12.12%	60.61	66.67
C	500	250	250	15.15%	75.76	83.33
D	800	300	500	30.30%	151.52	166.67
E	600	400	200	12.12%	60.61	66.67
F	400	200	200	12.12%	60.61	66.67
Total			1,650	100%	500	550

\* In the illustrative example, Margin Balance excludes any additional Collateral provided under Clearing Rule 1510.

The relative pro-rata percentage share calculated on OTC Clear Clearing Day "X" will be averaged with the relative pro-rata percentage share calculated on the OTC Clear Clearing Days in the relevant Calculation Period relating to the relevant Rates and FX Contribution Determination Date in

determining the CM Funded Contribution Amount of Clearing Member A on such Rates and FX Contribution Determination Date.

### **6.3 Stress Test**

The stress test model prescribed by OTC Clear will be calibrated to cover multi-day profit and loss moves from extreme, but plausible historic market moves and hypothetical scenarios.

Stress testing will be done daily. Some features which will be embedded in the stress testing model include, but are not limited to, the following:

- (i) 1987 stock crash
- (ii) 1998 Asian financial crisis
- (iii) 2003 SARS
- (iv) 2008 global financial crisis (including the default of Lehman Brothers)

### **6.4 OTC Clear Contribution**

OTC Clear has two tranches of capital reserves specifically designated to cover Rates and FX Loss suffered by it as a result of its provision of the Rates and FX Clearing Services.

OTC Clear First Contribution will initially have a value of HK\$ 150 million. OTC Clear Second Contribution will start with a value of HK\$ 6 million and be built up to a maximum value of HK\$ 650 million using the investment income generated from investing the Rates and FX Guarantee Resources in the form of cash, less any administrative costs, hedging costs, commitment fees for credit lines, bid-offer on currency conversion, and/or other investment related expenses.

Any amounts received by OTC Clear from a Clearing Member pursuant to Clearing Rule 1216A will form part of the OTC Clear Second Contribution.

## Chapter 7

### Collateral

#### 7.1 Acceptable Collateral

OTC Clear may, at its sole discretion, determine from time to time the types of assets which are acceptable as Collateral for purposes of Margin requirements and Rates and FX Contribution, and determine when any asset will cease to be acceptable as Collateral for such purposes. OTC Clear publishes the list of eligible Collateral on the HKEX website and updates it from time to time. OTC Clear reserves the right to change the list of eligible Collateral at its sole and absolute discretion. Assets previously posted to OTC Clear as Collateral but which no longer qualify as eligible Collateral will not be taken into account for the purposes of determining a Clearing Member's Margin Balance and CM Funded Contribution Amount and must be substituted with other eligible Collateral in order to meet a Clearing Member's Margin requirement and/or Rates and FX Liability. Assets previously posted to OTC Clear as Collateral but which no longer qualify as eligible Collateral will remain in each Clearing Member's relevant Collateral Account until they are withdrawn.

#### 7.2 Cash Collateral

Pursuant to Clearing Rules 1213 and 1502, Collateral in the form of cash delivered by a Clearing Member for the purpose of satisfying its Margin requirements or its Rates and FX Liability will be transferred outright to OTC Clear.

#### 7.3 Non-cash Collateral

OTC Clear currently accepts non-cash Collateral from Clearing Members only for the purposes of satisfying Margin requirements. OTC Clear currently does not accept non-cash Collateral for the purpose of satisfying a Clearing Member's Rates and FX Liability. Pursuant to Clearing Rule 1213, non-cash Collateral delivered by a Clearing Member to satisfy its Margin requirements will be transferred by way of security interest.

A Clearing Member who intends to post non-cash Collateral for the purposes of satisfying its Margin requirements must:

- (i) execute a valid Deed of Charge in OTC Clear's standard form<sup>\*</sup>; and
- (ii) complete all perfection requirements in all relevant jurisdictions to the satisfaction of OTC Clear.

OTC Clear only accepts non-cash Collateral delivered to it at its account at the relevant Custodian specified for the relevant type of eligible non-cash Collateral.

OTC Clear will not accept a Clearing Member's non-cash Collateral if the documents required by OTC Clear have not been duly executed and all necessary perfection requirements in all relevant jurisdictions have not been completed within the necessary timeframe. Non-cash Collateral credited to a Clearing Member's Collateral Account will not be allowed to be used except as provided for under the Clearing Rules or these Clearing Procedures, or transferred or withdrawn by the Clearing Member unless with the express permission of OTC Clear.

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<sup>\*</sup> The standard form Deed of Charge is available from OTC Clear upon request.

## 7.4 Collateral Concentration Limit

Pursuant to Clearing Rule 1214, OTC Clear may impose a limit on the aggregate value of any particular type of Collateral (each, a “**Collateral Concentration Limit**”) delivered by a Clearing Member for purposes of satisfying its Margin requirements for, among others, the following reasons:

- (i) to avoid undue concentration of Collateral in a particular asset class, type of security, obligor, etc. For example, OTC Clear may impose an upper limit on the aggregate value attributable by a particular type of Collateral to be no more than a specific percentage of the Margin Balance; or
- (ii) to restrict the maximum amount of non-cash Collateral a Clearing Member may provide to OTC Clear for its Margin requirements in respect of each of its Position Accounts.

OTC Clear will, from time to time, notify Clearing Member of the relevant Collateral Concentration Limit.

For the avoidance of doubt, application of sub-paragraph (i) above may extend to any Collateral delivered by a Clearing Member to OTC Clear. OTC Clear may impose a Collateral Concentration Limit to restrict the maximum amount of Collateral in a particular Eligible Currency or Collateral type that may be delivered by a Clearing Member for the purpose of satisfying the Margin requirements with respect to each of its Position Accounts.

The situations described in this section 7.4 are not exhaustive, and OTC Clear shall have the right to, after consultation with the Risk Management Committee, impose any new, or cancel any existing, Collateral Concentration Limit and will notify Clearing Members of any such change. OTC Clear does not intend to, and shall not be under any obligation to, consult with the Risk Management Committee in respect of any calibration changes to the existing Collateral Concentration Limits.

## 7.5 Collateral Valuation

### 7.5.1 Collateral Haircuts

When determining whether each Clearing Member’s Margin Balance and Rates and FX Contribution are sufficient to cover its Margin requirement and its Rates and FX Liability, respectively, OTC Clear will value the assets in such Clearing Member’s Collateral Accounts and GF Account at their market value less any applicable valuation discount or haircut stipulated by OTC Clear (“**Collateral Haircut**”). OTC Clear publishes the relevant Collateral Haircut for each asset type on the HKEX website and updates it from time to time.

The Collateral Haircut applicable to each type of asset will be determined by OTC Clear based on the calibration result and wrong-way risk back testing referred to in section 7.5.2, and subject to change from time to time pursuant to Clearing Rule 1214. For the avoidance of doubt, Collateral Haircut may apply on both cash and non-cash Collateral, but does not apply for the purpose of determining the value of any Collateral to be redelivered to Clearing Members pursuant to these Clearing Rules. In respect of any Collateral, OTC Clear will review the applicable Collateral Haircut on a monthly basis and will notify Clearing Members of any change of in Collateral Haircut.

### 7.5.2 Wrong-way Risk

#### 7.5.2.1 General Wrong-way risk

Wrong-way risk can be generally defined as the adverse effect that the inclusion of a particular transaction or asset might create on an existing portfolio. In this context, it refers to an aspect of risk that tends to increase the overall risk exposure of a portfolio or where collateral posted to mitigate the overall risk exposure of a portfolio does not decrease such risk on a dollar by dollar basis.

For example, wrong-way risk may arise in a situation where a Clearing Member who trades gold futures posts gold as collateral. Although OTC Clear currently does not provide clearing service for gold futures, the intention of the above example is to give some context as to how collateral may create wrong-way risk. OTC Clear will determine and measure any wrong-way risk by comparing the value-at-risk of the portfolio with and without the relevant Collateral. To manage any wrong-way risk concern for Collateral, OTC Clear may request additional and/or other form of Collateral from Clearing Members.

#### **7.5.2.2 Specific Wrong-way risk**

Specific wrong-way risk is the risk that Collateral would likely lose value in the event that a Clearing Member providing the Collateral defaults, OTC Clear will mitigate such risk through the imposition of, and/or adjustment to, Collateral Concentration Limit(s) and Collateral Haircut(s) as set out in sections 7.4 and 7.5.1, respectively.

#### **7.5.3 Valuation**

All Collateral will be valued or marked-to-market at least once a day using current market data and quotes, and any such valuation will take into account the application of Collateral Haircut referred to in section 7.5.1. At any given time:

- (i) any cash Collateral denominated in an Eligible Currency other than the Base Currency will be valued at the Base Currency equivalent at such rate prevailing at the time of the conversion as OTC Clear shall reasonably select;
- (ii) any non-cash Collateral will be valued by OTC Clear by reference to the latest market prices available for such non-cash Collateral obtained from external market sources. Once OTC Clear is in receipt of the latest market prices for the non-cash Collateral, it will generate the mid or mean price for the purpose of valuing such non-cash Collateral. On any given day, if the latest market prices for any non-cash Collateral is not available from the external market sources, OTC Clear will determine the valuation of any such non-cash Collateral based on, among others, the following methodologies:
  - (a) the last available traded price of the relevant asset; and/or
  - (b) the price performance of proxy instruments issued by the same issuer or its affiliates for the relevant asset; and
- (iii) in respect of any non-cash Collateral provided by a Clearing Member to OTC Clear as its Initial Margin or Additional Margin, subsequent to liquidation of any such non-cash Collateral during a Default Management Process, such non-cash Collateral will be given a value equal to the value obtained by OTC Clear during the liquidation process and attached to the Total Available Resources relating to such Default Management Process.

Pursuant to section 4.5.2 of these Clearing Procedures, a Clearing Member may be required to transfer additional Collateral to OTC Clear if the Margin Balance or the Rates and FX Contribution Balance, as applicable, decreases due to either market movement affecting the value of such Collateral or change in the applicable Collateral Haircut. OTC Clear may also require Clearing Members to post additional Collateral types due to wrong-way risk concerns.

## **7.6 Treatment of Collateral**

### **7.6.1 Cash Collateral**

#### **7.6.1.1 Margin**

OTC Clear may invest with a conservative policy in respect of any Initial Margin, Routine Intra-day Variation Margin, Ad Hoc Intra-day Variation Margin or Additional Margin delivered in the form of cash by Clearing Members. OTC Clear will, on a monthly basis, pay a return calculated on a daily basis to Clearing Members in respect of any Initial Margin, Routine Intra-day Variation Margin, Ad Hoc Intra-day Variation Margin or Additional Margin delivered in the form of cash and comprising the Margin Balance as at the end of each OTC Clear Clearing Day at a prevailing bank savings rate<sup>\*</sup>. For the avoidance of doubt, in the event that the average of such rates in respect of a particular Eligible Currency is a negative rate, Clearing Members shall be required to pay to OTC Clear an amount equal to the absolute value of such rate multiplied by the portion of their Margin Balance that comprises cash Collateral in such Eligible Currency. Any loss arising from the investment activities is for OTC Clear. The obligation of OTC Clear to redeliver Margin in cash will not be affected by the investment performance.

#### **7.6.1.2 Guarantee Fund**

OTC Clear may invest with a conservative policy in respect of any Rates and FX Contribution delivered in the form of cash by Clearing Members. Any positive returns from such investment will form part of OTC Clear Contribution pursuant to section 6.4 of these Clearing Procedures. For the avoidance of doubt, any loss arising from the investment activities is for OTC Clear except for any losses incurred due to charges, costs or negative interest rates. The obligation of OTC Clear to redeliver Rates and FX Contribution in cash will not be affected by the investment performance.

### **7.6.2 Non-Cash Collateral<sup>†</sup>**

Non-cash Collateral delivered to OTC Clear by a Clearing Member for purposes of satisfying its Margin requirements will be transferred to OTC Clear by way of security interest with no right of rehypothecation pursuant to Clearing Rule 1213.

Each Clearing Member will bear the risk for any loss and gain on the value of the non-cash Collateral, and pursuant to Clearing Rule 1006, OTC Clear will distribute an amount representing any income it has received in respect of any non-cash Collateral, taking into account the deduction required to reflect any accommodation charges, administration costs or commitment fees for credit lines incurred by OTC Clear in respect of such non-cash Collateral. Each of such fees will be set out in Appendix I to the Clearing Procedures.

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<sup>\*</sup> For the purposes of 7.6.1.1, prevailing bank savings rate is the average prevailing savings rate of the three note issuing banks. The prevailing savings rate of each note issuing bank will be determined by OTC Clear with reference to the savings rates published or the savings rates notified to depositors via other means by such note issuing bank as well as any costs or charges imposed by such note issuing bank with respect to the relevant Eligible Currency.

<sup>†</sup> OTC Clear currently accepts non-cash Collateral from Clearing Members only for the purposes of satisfying Margin requirements. OTC Clear currently does not accept non-cash Collateral for the purpose of satisfying a Clearing Member's Rates and FX Liability.

## Chapter 8

### Default Management

#### 8.1 Interpretation and Overview

The procedure set out in this Chapter 8 is aimed at reducing and neutralizing the overall risk arising out of the occurrence of a DMP Event with respect to one or more Defaulting Clearing Members.

#### 8.2 Member Obligations

Each Clearing Member has provided an undertaking to discharge its obligations in participating in the Default Management Process pursuant to Clearing Rule 1609.

Non-Defaulting Clearing Members shall provide market access for OTC Clear to execute Hedging pursuant to Clearing Rule 1801 and section 8.5. Each Non-Defaulting Clearing Member shall support the Hedging or risk neutralization process by promptly providing the Default Management Group with competitive pricing for hedging trades upon request. OTC Clear will consult with the Default Management Group in determining the range of competitive pricing for a Hedging transaction.

If a DMG Delegate is no longer an employee or a director of the Clearing Member that nominates the DMG Delegate or the Clearing Member becomes aware that its DMG Delegate's employment or directorship will be terminated, such Clearing Member shall notify OTC Clear in writing as soon as practicable and such DMG Delegate will be removed from the Default Management Group. Such Clearing Member shall then nominate another employee or director to be a DMG Delegate.

#### 8.3 Scope and Responsibility of Default Management Group

OTC Clear will convene a meeting of the Default Management Group in accordance with the Default Management Group's terms of reference.

The Default Management Group will, among others, provide advice to the OTC Clear on market conditions including liquidity and also on construction of separate Auction Portfolios. OTC Clear will oversee the Hedging and Auction processes.

#### 8.4 Suspension of Activities

Upon the occurrence of a DMP Event with respect to a Defaulting Clearing Member, the Defaulting Clearing Member's clearing activities with OTC Clear will be suspended.

#### 8.5 Hedging (Risk Neutralizing)

The objective of Hedging is to mitigate, to the extent commercially practicable, any risk or economic exposure which arises as a result of the occurrence of a DMP Event.

OTC Clear will apply a risk based approach to hedging i.e. neutralizing exposures most vulnerable to market risk. Market risk may be expressed and measured in deltas across all the available tenor points. In respect of each Default Management Process and the related Hedging, the Default Management Group will present proposed Hedging strategies to OTC Clear. Once the Hedging strategies have been approved by OTC Clear, the Default Management Group is primarily responsible for execution of the Hedging strategy for OTC Clear.

Hedging will continue until such time as OTC Clear, in consultation with the Default Management Group, is reasonably satisfied that the risk arising out of the relevant DMP Event has been suitably reduced. OTC Clear will use reasonable endeavours to limit erosion of Margin Balances.

## 8.6 Auction

### 8.6.1 Auction Protocol

The entire Auction process may take a number of days, but is expected to be completed as soon as reasonably practicable. Auction Portfolios may be auctioned at different times. Each Auction Portfolio shall be subject to its own Auction.

In respect of each Auction, DMP Information relating to such Auction will be provided to each Non-Defaulting Clearing Member participating in such Auction. The information provided will allow the Non-Defaulting Clearing Members to assess the risk in the Auction Portfolio and value the same.

### 8.6.2 Construction of Auction Portfolio

OTC Clear will, in consultation with the Default Management Group, construct various Auction Portfolios in respect of the Auction Book relating to a Defaulting Clearing Member. Clearing Rules 1902 to 1904 set out the general principle in constructing such Auction Portfolios, and OTC Clear, in consultation with the Default Management Group, will review the Transaction Categories that the Defaulting Clearing Member had registered with OTC Clear immediately before the occurrence of the DMP Event. An Auction Portfolio may contain Auction Positions belonging to more than one Transaction Category.

The following example illustrates how the Auction Portfolio construction process works:

Assuming OTC Clear has four Clearing Members: Clearing Member A "CM-A", Clearing Member B "CM-B", Clearing Member C "CM-C", and Clearing Member D "CM-D". Assuming further that CM-D is in default and immediately prior to default, it had registered Contracts with OTC Clear belonging to the following Transaction Categories: Rates Derivatives Contracts denominated in CNY (offshore) ("**CNY IRS**"), FX Derivatives Contracts denominated in CNY ("**CNY NDF**") and Rates Derivatives Contracts denominated in HK\$ ("**HK\$ IRS**").

In the example above, subsequent to the creation of the Auction Book relating to CM-D on the Special Default Account, three Auction Portfolios may be constructed for CM-D:

- (i) CNY IRS = 50%
- (ii) CNY NDF = 40%
- (iii) HK\$ IRS = 10%

In the event that OTC Clear, in consultation with the Default Management Group, determines that the likelihood of successfully disposing all Auction Positions on the Auction Book relating to CM-D will be increased by combining CNY IRS with CNY NDF, it may do so as follows:

- (a) CNY IRS + CNY NDF = 90%
- (b) HK\$ IRS = 10%

In either of the above examples, the percentages marked against each of the three Auction Portfolios is the RAP (please refer to Clearing Rule 1913) determined in respect of each such Auction Portfolio by OTC Clear in consultation with the Default Management Group.

### **8.6.3 Bidding Process**

#### **8.6.3.1 Bids**

In respect of each Auction, once the timeframe for submitting Bids as notified by OTC Clear to Bidders has drawn to a close, no further Bids will be accepted. OTC Clear will examine all Bids submitted as follows:

- (i) the highest Bid received by OTC Clear is expected to be the Successful Bid of the Auction, provided that OTC Clear will not accept a Bid if accepting such Bid can potentially, without limitation, (a) cause OTC Clear to breach any legal or regulatory requirement applicable to it, (b) lead to legal action or proceedings to be taken against OTC Clear or (c) be disadvantageous or have a material adverse effect on OTC Clear; and
- (ii) in the event that the two (or more) highest Bids received by OTC Clear are of exactly the same value, the relevant Bidders will be invited to submit revised Bids. If no revised Bids have been received by OTC Clear within 10 minutes following the invitation of Bid re-submission, the relevant Bidder who submitted its original Bid first is expected to be the Successful Bidder.

Once the Successful Bid has been confirmed, OTC Clear will verbally notify the Successful Bidder, followed by a written confirmation of the same.

In respect of each Auction, details of the Bids will be kept confidential so that a Bidder will not have knowledge of the Bid prices submitted by other Bidders.

For the avoidance of doubt, OTC Clear shall not be liable for any damages against it if a Bid fails to reach OTC Clear due to operational, technological or any other reasons.

#### **8.6.3.2 Unsuccessful Auction**

In the event of an unsuccessful Auction, further round(s) of Auction may be held until all the Auction Portfolios have been disposed of. OTC Clear will consult the Default Management Group prior to determining whether an Auction is unsuccessful. Without prejudice to the generality of the immediately foregoing, an Auction shall be deemed to be unsuccessful if:

- (i) no Bids have been received prior to the close of an Auction due to operational or technological issues, including but not limited to corruption of auction file data;
- (ii) any other operational issue which OTC Clear, in consultation with the Default Management Group, deems appropriate; or
- (iii) no Bids or insufficient number of Bids have been received prior to the close of an Auction as determined by OTC Clear, in consultation with the Default Management Group.

#### **8.6.3.3 Registration of Auction Portfolios**

Upon completion of a successful Auction, OTC Clear will register the relevant Auction Contracts to the Successful Bidder in accordance with Clearing Rule 1921. OTC Clear will liaise with both the relevant Approved Trade Registration System and the relevant Clearing Member to ensure the records relating to all Auction Contract(s) are updated on the Approved Trade Registration System. This update will automatically enable the recalculation of the Successful Bidder's Margin requirements and its CM Funded Contribution Amount, reflecting the impact of the acquisition of the Auction Contract(s) by the Successful Bidder.

OTC Clear will liaise with a Successful Bidder for booking relevant Auction Contract(s) into its systems so that the systems and records kept by such Successful Bidder will be aligned with those of OTC Clear.

The timing of transfer of any Auction Payment or Auction Receivable is set out in Clearing Rules 1922 and 1923, respectively.

#### 8.6.4 Tranching Methodology

To incentivize competitive bidding during an Auction, and pursuant to Clearing Rules 1913 to 1916, OTC Clear will implement the Tranching Methodology which seeks to allocate the relevant proportion of the Rates and FX Contribution Balance of a Non-Defaulting Clearing Member in respect of its CM Funded Contribution Amount into one of three Tranches: the Senior Tranche, Middle Tranche and Junior Tranche. Pursuant to Clearing Rule 1919, upon the expiry of a Capped Liability Period, with respect to each Auction portfolio constructed as a result of the occurrence of the DMP Events during such Capped Liability Period, OTC Clear will notify all relevant Bidders for each such Auction Portfolio the result of the application of the Tranching Methodology.

The following provides an example to illustrate the working mechanisms around the Tranching Methodology:

Using the hypothetical RAP figures mentioned in sections 8.6.2(i) to (iii) and assuming OTC Clear does not combine CNY IRS and CNY NDF Auction Portfolios, if:

##### Tranching for CM-A based on its Bids for the three Auction Portfolios:

- (i) CM-A is the Successful Bidder for the CNY IRS Auction Portfolio, 50% of CM-A's CM Funded Contribution Amount will be allocated to the Senior Tranche;
- (ii) CM-A is a Lower Bidder for the CNY NDF Auction Portfolio 40% of CM-A's CM Funded Contribution Amount will be allocated to the Middle Tranche; and
- (iii) CM-A is a Poor Bidder for the HK\$ IRS Auction Portfolio, 10% of CM-A's CM Funded Contribution Amount will be allocated to the Junior Tranche.

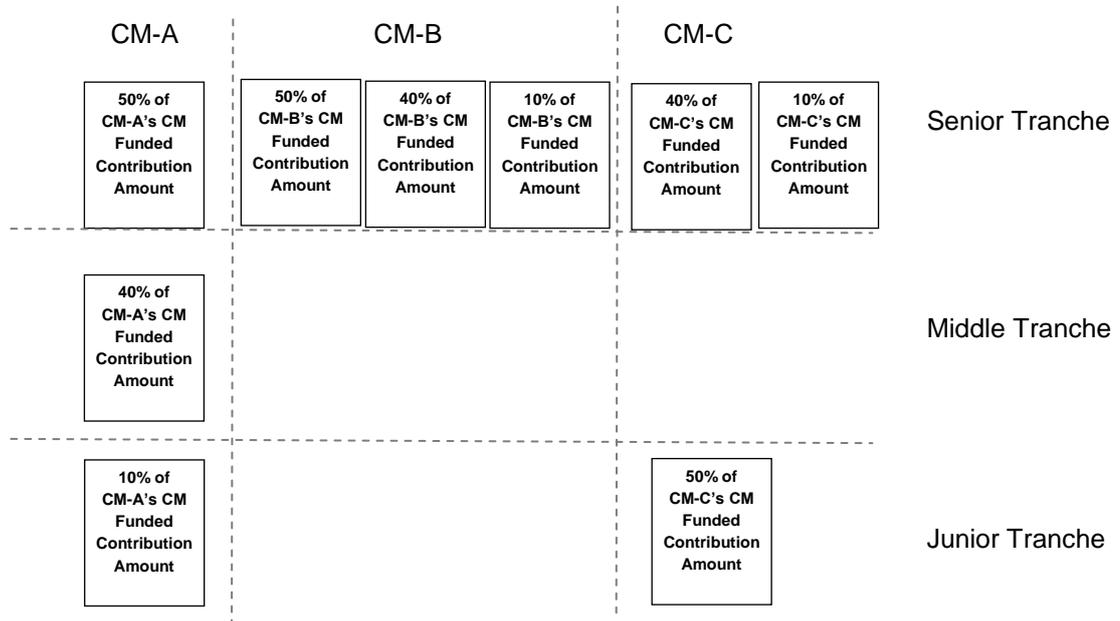
##### Tranching for CM-B based on its Bids for the three Auction Portfolios:

- (i) CM-B is an Equal Bidder for the CNY IRS Auction Portfolio, 50% of CM-B's CM Funded Contribution Amount will be allocated to the Senior Tranche;
- (ii) CM-B is the Successful Bidder for the CNY NDF Auction Portfolio, 40% of CM-B's CM Funded Contribution Amount will be allocated to the Senior Tranche; and
- (iii) CM-B is the Successful Bidder for the HK\$ IRS Auction Portfolio, 10% of CM-B's CM Funded Contribution Amount will be allocated to the Senior Tranche.

##### Tranching for CM-C based on its Bids for the three Auction Portfolios:

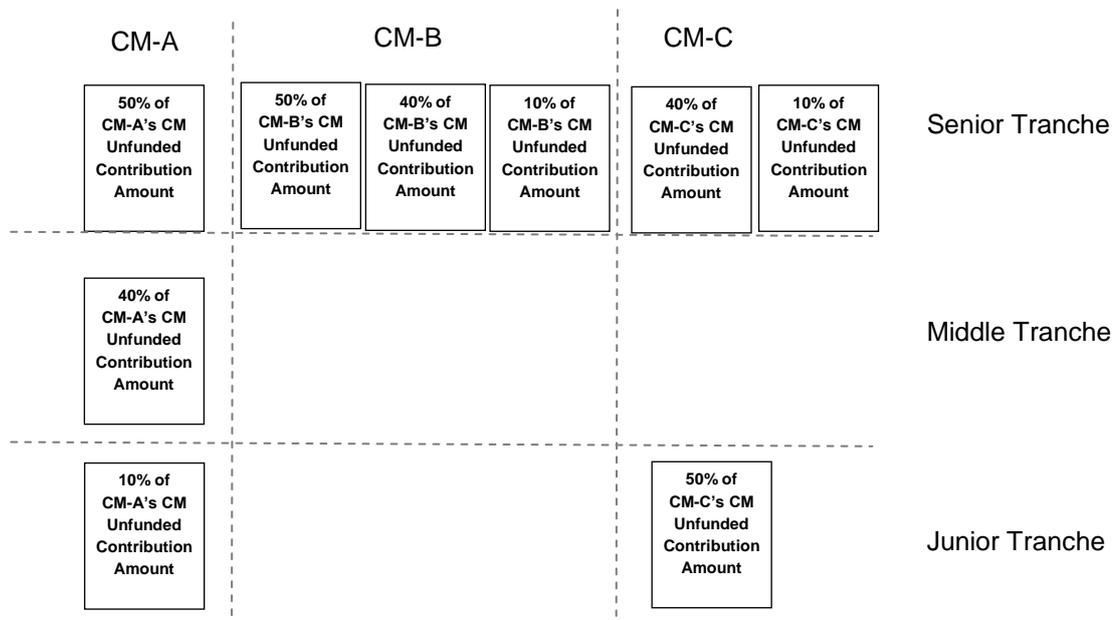
- (i) CM-C is a Non-Bidder for the CNY IRS Auction Portfolio, 50% of CM-C's CM Funded Contribution Amount will be allocated to the Junior Tranche;
- (ii) CM-C is a No Position NDCM for the CNY NDF Auction Portfolio, 40% of CM-C's CM Funded Contribution Amount will be allocated to the Senior Tranche; and
- (iii) CM-C is a Better Bidder for the HK\$ IRS Auction Portfolio, 10% of CM-C's CM Funded Contribution Amount will be allocated to the Senior Tranche.

The following diagram summarizes the Tranching Methodology described in the immediately foregoing:



#### 8.6.5 Tranching for Rates and FX Assessments

The utilization of each Non-Defaulting Clearing Member's Rates and FX Contribution Balance in respect of its CM Unfunded Contribution Amount will be applied using the same Tranching Methodology. Using the same figures provided in the example given in section 8.6.4, the following diagram summarizes the application of the Tranching Methodology as applied to the CM Unfunded Contribution Amount of each of CM-A, CM-B and CM-C:



In respect of an Auction, the allocation of Tranches in respect a Non-Defaulting Clearing Member's Rates and FX Liability will only apply to such Auction.

## **8.7 Portfolio Splitting and Re-composition**

In case of an unsuccessful Auction, in order to enhance the likelihood of success of a subsequent Auction, OTC Clear has the flexibility to, in consultation with the Default Management Group, combine Auction Portfolios of different Transaction Categories or further sub-divide a previously constructed Auction Portfolio into multiple Auction Portfolios. The prime considerations for portfolio splitting and re-composition include, but are not limited to, the size of the Auction Portfolio(s).

## **8.8 Cost of Default and Loss Attribution**

OTC Clear will assess its Rates and FX Loss incurred as a result of the occurrence of the DMP Event. Any Margin Balance of the Defaulting Clearing Member in excess of the full settlement of the default (but excluding any Client Entitlement which will be paid to the relevant Non-Porting Client of the Defaulting Clearing Member in accordance with Clearing Rule 1309) will be redelivered to the Defaulting Clearing Member as part of the net sum payable to the Defaulting Clearing Member pursuant to Clearing Rule 1307, or be returned in accordance with the relevant security document. Any Rates and FX Contribution Balance of the Defaulting Clearing Member in excess of the full settlement of the default will be redelivered to the Defaulting Clearing Member in accordance with Clearing Rule 1547.

In the event that the Rates and FX Loss exceeds the Defaulting Clearing Member's Rates and FX Contribution Balance, OTC Clear will satisfy the losses in accordance with Clearing Rule 1516.

## **8.9 Post Auction Communication**

Upon disposal of all Auction Portfolios following the occurrence of a DMP Event with respect to the Defaulting Clearing Member, OTC Clear will announce the completion of the Default Management Process by notifying the Clearing Members and will provide a summary of the steps taken during the Default Management Process, such summary will be published on the HKEX website, a copy of which will also be provided to the SFC.

## **8.10 Review**

Upon the completion of the Default Management Process in respect of each occurrence of DMP Event, OTC Clear will review the process and may put forward recommendations to change the process.

OTC Clear will also, at a minimum of once every year, conduct review of the process set out in this Chapter 8 to ensure it is adequate, practical and effective. In doing so, OTC Clear will involve Clearing Members by inviting them to participate in fire drills as referred to in Clearing Rule 1611. OTC Clear will provide the results of any fire drills of the Default Management Process to the Risk Management Committee. OTC Clear will also publish the results of the fire drills on the HKEX website.

## **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 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.

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

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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.

discretion, reject such Porting Instruction or liaise with the Defaulting Clearing Member and/or the Replacement Clearing Member to rectify the relevant information/instruction.

#### **8.11.1 Porting Instructions**

Requirements for valid and complete Porting Instructions:

- (i) Porting Instructions must contain:
  - (a) the name, address and contact details of the Client;
  - (b) the name, address, contact details of the Defaulting Clearing Member, and the reference number of the relevant Client Accounts held by the Defaulting Clearing Member on behalf of the Client or identified as being shared with the Client; and
  - (c) the name, address and contact details of the Replacement Clearing Member;
- (ii) Porting Instructions must be signed by the Client, the Defaulting Clearing Member and the relevant Replacement Clearing Member;
- (iii) Porting Instructions submitted by Client Clearing Category 2 Clients sharing the same Client Clearing Category 2 Accounts must nominate the same Replacement Clearing Member; and
- (iv) the relevant Replacement Clearing Member that has been nominated has been approved by OTC Clear to provide Client Clearing Services to the relevant Client(s).

#### **8.11.2 Update of Records**

The status of each relevant Contract successfully ported to and registered in the Replacement Clearing Member's relevant Client Position Account will be flagged as "CLEARED" in the "OTC Clear Trade Report for Client (Report Number TDRP01\_C, TDRP02\_C or TDRP11\_C)" and Collateral records in the relevant Replacement Clearing Member's relevant Client Collateral Account will be updated accordingly and reflected in the "OTC Clear Risk Management Report (Report Number RMRP05)".

#### **8.11.3 Unsuccessful Porting**

If porting cannot be completed successfully, the Affected Contracts of each Non-Porting Client will be subject to the Default Management Process relating to the relevant DMP Event.

## Chapter 9

### Special Events / Business Continuity

#### 9.1 Arrangement for Special Events

The procedures set out in this Chapter 9 provide an outline of steps that can be taken by OTC Clear in the event of a Force Majeure Event or other special events or OTC Clear being unable to access, or being evacuated from OTC Clear's premises.

The need for business recovery is driven by the uncertain nature of special events. Therefore, the steps set out herein are not intended to be exhaustive and OTC Clear reserves the right to modify or depart from the procedures set out in this Chapter 9 to meet the characteristics of the special events. The procedures set out in this Chapter 9 are without prejudice to the provisions of the Clearing Rules.

##### 9.1.1 Message Dissemination

When there is a need to communicate with Clearing Members in an emergency situation, including but not limited to, the evacuation of OTC Clear's premises and the invocation of business continuity plans, messages will be disseminated to Clearing Members by any of the following methods:

- (i) posting message on the HKEX website;
- (ii) electronic messages via SWIFT;
- (iii) electronic mails to Clearing Members' designated contact personnel; or
- (iv) facsimile transmissions to Clearing Members' designated fax machines.

Regardless of the message dissemination methods, the content of the message is expected to be substantially the same.

##### 9.1.2 Evacuation of OTC Clear's Premises

If it is necessary for OTC Clear to evacuate OTC Clear's premises, a message will be communicated to Clearing Members using the methods set out in section 9.1.1.

During this period, all activities normally carried out at OTC Clear's premises will cease. Clearing Members will be kept updated of the situation (using the methods set out in section 9.1.1) once further details are available.

##### 9.1.3 Invocation of Business Continuity Plans

Once OTC Clear has decided to invoke the business continuity plans, Clearing Members will be informed at the earliest possible time. A message will be communicated to Clearing Members using the methods set out in section 9.1.1.

OTC Clear expects that a maximum of two hours may elapse between the invocation of the business continuity plan and relocation of recovery teams. During that time, most of the usual activities carried out at OTC Clear's premises will cease. Any updates on the arrangements will be communicated to Clearing Members using the methods set out in section 9.1.1.

##### 9.1.4 Special Event Settlement Arrangement

A number of routine settlement procedures may be amended, deferred or suspended while business continuity plans apply. These changes may have an impact on, among others, the usual sequences or mechanisms surrounding the following:

- (i) the withdrawal, porting or deposit of Collateral;
- (ii) the conversion of currencies;
- (iii) the ability to cover liabilities in currencies other than their Contractual Currencies;
- (iv) the time at which Margin may be demanded by OTC Clear;
- (v) the settlement of a Settlement Component; and
- (vi) the settlement of Rates and FX Contribution.

In case of any amendment, deferral or suspension to the above-mentioned items, a message will be communicated to Clearing Members using the methods set out in section 9.1.1.

#### **9.1.5 Registration of Contracts**

During the period when business continuity plans have been invoked, the procedures for registration of Contracts as set out in Chapter 3 of these Clearing Procedures will continue to apply. However, OTC Clear reserves the right to amend the timing of registration of Contracts. Clearing Members will be notified (using the methods set out in section 9.1.1) if the registration of Contracts has to be delayed.

#### **9.1.6 New Office Address Notification**

If OTC Clear is unable to reoccupy OTC Clear's premises within two hours, Clearing Members will be notified of the proposed new office location, the contact details of OTC Clear and the effective date prior to it occupying the new premises, using the methods set out in section 9.1.1.

#### **9.1.7 Resumption of Normal Service**

If OTC Clear is able to resume normal service in the original OTC Clear's premises or in the permanent new location as stated in section 9.1.6, message will be communicated to Clearing Members using the methods set out in section 9.1.1.

#### **9.1.8 Periodic Testing of Business Continuity Plans**

OTC Clear will periodically review and test its business continuity plans and associated arrangements against various scenarios that may simulate wide-scale disasters. Clearing Members and critical service providers to OTC Clear may be involved in such review and testing.

### **9.2 Primary Data Center**

As the primary data center of OTC Clear is not located at OTC Clear's premises, evacuation of OTC Clear's premises will not affect Clearing Members' ability to access the Web Portal.

If the primary data center of OTC Clear fails, OTC Clear will switch to the secondary data center of OTC Clear as soon as reasonably practicable. The secondary data center is expected to be synchronized with the primary data center which means that data are stored at both data centers. In the absence of any failure or disruption to the primary data center, the secondary data center serves as a back-up and will be on standby.

The switch from the primary data center of OTC Clear to the secondary data center of OTC Clear is expected to take up to two hours for the core mission critical system. During the switch from primary data center to the secondary data center of OTC Clear, the Rates and FX Clearing Services will be suspended.

### **9.3 Service Outage**

If the Rates and FX Clearing Services are not available to or the Web Portal is not accessible to Clearing Members due to technical failure or other reasons, OTC Clear cannot guarantee Clearing Members a particular level of services in this situation. OTC Clear will activate the relevant business continuity plans and use its best endeavours to restore the normal service. Message will be disseminated to Clearing Members using the methods set out in section 9.1.1 of these Clearing Procedures.

### **9.4 Special Arrangement for Valuation of a Standard Rates Derivatives Contract which is Denominated in HK\$ and a Standard Cross-currency Rates Derivatives Contract which has a Fixed Amount or Floating Amount Denominated in HK\$ under Adverse Weather Conditions**

For the avoidance of doubt, when a Black Rainstorm Warning or a Typhoon Signal Number 8 or above is issued by The Hong Kong Observatory, for purposes of valuing a Standard Rates Derivatives Contract denominated in Hong Kong dollars and a Standard Cross-currency Rates Derivatives Contract which has Fixed Amount or Floating Amount denominated in Hong Kong dollars, Section 7.7 of the ISDA Definitions shall apply.

### **9.5 Special Arrangement of Voluntary Deposit of Cash Collateral, Porting of Excess Margin and Withdrawal of Excess Margin and Rates and FX Contribution Excess under Adverse Weather Conditions**

This section 9.5 includes the arrangement surrounding depositing, porting or withdrawing cash Collateral on a voluntary basis as adopted by OTC Clear when a Black Rainstorm Warning or a Typhoon Signal Number 8 or above is issued by The Hong Kong Observatory.

#### **9.5.1 Black Rainstorm Warning**

##### **9.5.1.1 Deposit of Cash Collateral**

- (i) if a Black Rainstorm Warning is issued prior to 07:00 hours Hong Kong time on an OTC Clear Clearing Day and is cancelled at or before 07:00 hours Hong Kong time on that day, any request which is submitted by a Clearing Member for deposit of cash Collateral on such day will be processed by OTC Clear in accordance with section 3.9.2 of these Clearing Procedures and subject to the availability of banking services to OTC Clear and such Clearing Member in Hong Kong on the day such deposit is due to be processed;
- (ii) if a Black Rainstorm Warning is issued prior to 09:00 hours Hong Kong time on an OTC Clear Clearing Day and is cancelled after 07:00 hours Hong Kong time but at or before 11:00 hours Hong Kong time, subject to sub-paragraphs (iii) and (iv) below, any request which is submitted by a Clearing Member for deposit of cash Collateral on such day will be processed by OTC Clear in accordance with section 3.9.2 of these Clearing Procedures on reasonable endeavour basis and subject to the availability of banking services to OTC Clear and such Clearing Member in Hong Kong on the day such deposit is due to be processed;
- (iii) if a Black Rainstorm Warning is issued prior to 09:00 hours Hong Kong time on an OTC Clear Clearing Day and is cancelled at or before 11:00 hours Hong Kong time and re-issued at or before 13:00 hours Hong Kong time on that day, any request which is submitted by a Clearing Member for deposit of cash Collateral on such day will be processed by OTC Clear in accordance with section 3.9.2 of these Clearing Procedures on reasonable endeavour basis and subject to the availability of banking services to OTC Clear and such Clearing Member in Hong Kong on the day such deposit is due to be processed;

- (iv) if a Black Rainstorm Warning is issued prior to 09:00 hours Hong Kong time on an OTC Clear Clearing Day and is cancelled at or before 11:00 hours Hong Kong time and re-issued after 13:00 hours Hong Kong time on that day, any request which is submitted by a Clearing Member for deposit of cash Collateral on such day will be processed by OTC Clear in accordance with section 3.9.2 of these Clearing Procedures on reasonable endeavour basis and subject to the availability of banking services to OTC Clear and such Clearing Member in Hong Kong on the day such deposit is due to be processed;
- (v) if a Black Rainstorm Warning is issued prior to 09:00 hours Hong Kong time on an OTC Clear Clearing Day and is cancelled after 11:00 hours Hong Kong time, any request which is submitted by a Clearing Member for deposit of cash Collateral on such day will be processed by OTC Clear in accordance with section 3.9.2 of these Clearing Procedures on reasonable endeavour basis and subject to the availability of banking services to OTC Clear and such Clearing Member in Hong Kong on the day such deposit is due to be processed; or
- (vi) if a Black Rainstorm Warning is issued at or after 09:00 hours Hong Kong time on an OTC Clear Clearing Day, any request which is submitted by a Clearing Member for deposit of cash Collateral on such day will be processed by OTC Clear in accordance with section 3.9.2 of these Clearing Procedures on reasonable endeavour basis and subject to the availability of banking services to OTC Clear and such Clearing Member in Hong Kong on the day such deposit is due to be processed.

#### **9.5.1.2 Withdrawal of Cash Collateral**

- (i) if a Black Rainstorm Warning is issued prior to 07:00 hours Hong Kong time on an OTC Clear Business Day and is cancelled at or before 07:00 hours Hong Kong time on that day, any request which is submitted by a Clearing Member for withdrawal of cash Collateral on such day will be processed by OTC Clear in accordance with section 3.9.1 of these Clearing Procedures and subject to the availability of banking services to OTC Clear and such Clearing Member in Hong Kong on the day such withdrawal is due to be processed;
- (ii) if a Black Rainstorm Warning is issued prior to 09:00 hours Hong Kong time on an OTC Clear Business Day and is cancelled after 07:00 hours Hong Kong time but at or before 11:00 hours Hong Kong time, subject to sub-paragraphs (iii) and (iv) below, any request which is submitted by a Clearing Member for withdrawal of cash Collateral on such day will be processed by OTC Clear in accordance with section 3.9.1 of these Clearing Procedures on reasonable endeavour basis and subject to the availability of banking services to OTC Clear and such Clearing Member in Hong Kong on the day such withdrawal is due to be processed;
- (iii) if a Black Rainstorm Warning is issued prior to 09:00 hours Hong Kong time on an OTC Clear Business Day and is cancelled at or before 11:00 hours Hong Kong time and re-issued at or before 13:00 hours Hong Kong time on that day, any request which is submitted by a Clearing Member for withdrawal of cash Collateral on such day will, notwithstanding section 3.9.1 of these Clearing Procedures, not be processed on that day;
- (iv) if a Black Rainstorm Warning is issued prior to 09:00 hours Hong Kong time on an OTC Clear Business Day and is cancelled at or before 11:00 hours Hong Kong time and re-issued after 13:00 hours Hong Kong time on that day, any request which is submitted by a Clearing Member for withdrawal of cash Collateral on such day will be processed by OTC Clear in accordance with section 3.9.1 of these Clearing Procedures on reasonable endeavour basis and subject to the availability of banking services to OTC Clear and such Clearing Member in Hong Kong on the day such withdrawal is due to be processed;

- (v) if a Black Rainstorm Warning is issued prior to 09:00 hours Hong Kong time on an OTC Clear Business Day and is cancelled after 11:00 hours Hong Kong time, any request which is submitted by a Clearing Member for withdrawal of cash Collateral on such day will, notwithstanding section 3.9.1 of these Clearing Procedures, not be processed on that day; or
- (vi) if a Black Rainstorm Warning is issued at or after 09:00 hours Hong Kong time on an OTC Clear Business Day, any request which is submitted by a Clearing Member for withdrawal of cash Collateral on such day will be processed by OTC Clear in accordance with section 3.9.1 of these Clearing Procedures on reasonable endeavour basis and subject to the availability of banking services to OTC Clear and such Clearing Member in Hong Kong on the day such withdrawal is due to be processed.

**9.5.1.3 Porting of Cash Collateral from the House Collateral Account of a Clearing Member to a Client Collateral Account of that Clearing Member**

- (i) if a Black Rainstorm Warning is issued prior to 07:00 hours Hong Kong time on an OTC Clear Business Day and is cancelled at or before 07:00 hours Hong Kong time on that day, any request which is submitted by a Clearing Member for porting of cash Collateral on such day will be processed by OTC Clear in accordance with section 3.9.3 of these Clearing Procedures and subject to the availability of banking services to OTC Clear in Hong Kong on the day such transfer is due to be processed;
- (ii) if a Black Rainstorm Warning is issued prior to 09:00 hours Hong Kong time on an OTC Clear Business Day and is cancelled after 07:00 hours Hong Kong time but at or before 11:00 hours Hong Kong time, subject to sub-paragraphs (iii) and (iv) below, any request which is submitted by a Clearing Member for porting of cash Collateral on such day will be processed by OTC Clear in accordance with section 3.9.3 of these Clearing Procedures on reasonable endeavour basis and subject to the availability of banking services to OTC Clear in Hong Kong on the day such transfer is due to be processed;
- (iii) if a Black Rainstorm Warning is issued prior to 09:00 hours Hong Kong time on an OTC Clear Business Day and is cancelled at or before 11:00 hours Hong Kong time and re-issued at or before 13:00 hours Hong Kong time on that day, any request which is submitted by a Clearing Member for porting of cash Collateral on such day will, notwithstanding section 3.9.3 of these Clearing Procedures, not be processed on that day;
- (iv) if a Black Rainstorm Warning is issued prior to 09:00 hours Hong Kong time on an OTC Clear Business Day and is cancelled at or before 11:00 hours Hong Kong time and re-issued after 13:00 hours Hong Kong time on that day, any request which is submitted by a Clearing Member for porting of cash Collateral on such day will be processed by OTC Clear in accordance with section 3.9.3 of these Clearing Procedures on reasonable endeavour basis and subject to the availability of banking services to OTC Clear in Hong Kong on the day such transfer is due to be processed;
- (v) if a Black Rainstorm Warning is issued prior to 09:00 hours Hong Kong time on an OTC Clear Business Day and is cancelled after 11:00 hours Hong Kong time, any request which is submitted by a Clearing Member for porting of cash Collateral on such day will, notwithstanding section 3.9.3 of these Clearing Procedures, not be processed on that day; or
- (vi) if a Black Rainstorm Warning is issued at or after 09:00 hours Hong Kong time on an OTC Clear Business Day, any request which is submitted by a Clearing Member for porting of cash Collateral on such day will be processed by OTC Clear in accordance with section 3.9.3 of

these Clearing Procedures on reasonable endeavour basis and subject to the availability of banking services to OTC Clear in Hong Kong on the day such transfer is due to be processed.

**9.5.1.4 Porting of Cash Collateral from a Client Account opened with a Transferor Clearing Member to a Client Account opened with a Transferee Clearing Member or amongst Client Accounts of a Clearing Member**

- (i) if a Black Rainstorm Warning is issued prior to 07:00 hours Hong Kong time on an OTC Clear Business Day and is cancelled at or before 07:00 hours Hong Kong time on that day, requests submitted for the porting of cash Collateral on such day from a Client Account opened with a Transferor Clearing Member to a Client Account opened with a Transferee Clearing Member or amongst Client Accounts of a Clearing Member, as the case may be, will be processed by OTC Clear in accordance with section 3.17.6 or 3.18.2 of these Clearing Procedures, respectively, notwithstanding that banking services are not available to OTC Clear in Hong Kong on the day such porting of cash Collateral is due to be processed;
- (ii) if a Black Rainstorm Warning is issued prior to 09:00 hours Hong Kong time on an OTC Clear Business Day and is cancelled after 07:00 hours Hong Kong time but at or before 11:00 hours Hong Kong time, subject to sub-paragraphs (iii) and (iv) below, requests submitted for the porting of cash Collateral on such day from a Client Account opened with a Transferor Clearing Member to a Client Account opened with a Transferee Clearing Member or amongst Client Accounts of a Clearing Member, as the case may be, will be processed by OTC Clear in accordance with section 3.17.6 or 3.18.2 of these Clearing Procedures, respectively, on reasonable endeavour basis;
- (iii) if a Black Rainstorm Warning is issued prior to 09:00 hours Hong Kong time on an OTC Clear Business Day and is cancelled at or before 11:00 hours Hong Kong time and re-issued at or before 13:00 hours Hong Kong time on that day, requests submitted for the porting of cash Collateral on such day from a Client Account opened with a Transferor Clearing Member to a Client Account opened with a Transferee Clearing Member or amongst Client Accounts of a Clearing Member, as the case may be, will be processed by OTC Clear in accordance with section 3.17.6 or 3.18.2 of these Clearing Procedures, respectively, on reasonable endeavour basis;
- (iv) if a Black Rainstorm Warning is issued prior to 09:00 hours Hong Kong time on an OTC Clear Business Day and is cancelled at or before 11:00 hours Hong Kong time and re-issued after 13:00 hours Hong Kong time on that day, requests submitted for the porting of cash Collateral on such day from a Client Account opened with a Transferor Clearing Member to a Client Account opened with a Transferee Clearing Member or amongst Client Accounts of a Clearing Member, as the case may be, will be processed by OTC Clear in accordance with section 3.17.6 or 3.18.2 of these Clearing Procedures, respectively, on reasonable endeavour basis;
- (v) if a Black Rainstorm Warning is issued prior to 09:00 hours Hong Kong time on an OTC Clear Business Day and is cancelled after 11:00 hours Hong Kong time, any porting of cash Collateral on such day, requests submitted for the porting of cash Collateral on such day from a Client Account opened with a Transferor Clearing Member to a Client Account opened with a Transferee Clearing Member or amongst Client Accounts of a Clearing Member, as the case may be, will be processed by OTC Clear in accordance with section 3.17.6 or 3.18.2 of these Clearing Procedures, respectively, on reasonable endeavour basis; or
- (vi) if a Black Rainstorm Warning is issued at or after 09:00 hours Hong Kong time on an OTC Clear Business Day, any porting of cash Collateral on such day, requests submitted for the porting of cash Collateral on such day from a Client Account opened with a Transferor Clearing

Member to a Client Account opened with a Transferee Clearing Member or amongst Client Accounts of a Clearing Member, as the case may be, will be processed by OTC Clear in accordance with section 3.17.6 or 3.18.2 of these Clearing Procedures, respectively, on reasonable endeavour basis.

## 9.5.2 Typhoon Signal Number 8 or Above

### 9.5.2.1 Deposit of Cash Collateral

- (i) if a Typhoon Signal Number 8 or above is hoisted by The Hong Kong Observatory prior to 07:00 hours Hong Kong time on an OTC Clear Clearing Day and lowered to a number 3 tropical cyclone warning signal (a “**Typhoon Signal Number 3**”) or below by The Hong Kong Observatory at or prior to 07:00 hours Hong Kong time on that day, any request which is submitted by a Clearing Member for deposit of cash Collateral on such day will be processed by OTC Clear in accordance with section 3.9.2 of these Clearing Procedures and subject to the availability of banking services to OTC Clear and such Clearing Member in Hong Kong on the day such deposit is due to be processed;
- (ii) if a Typhoon Signal Number 8 or above is in effect at or after 07:00 hours Hong Kong time on an OTC Clear Clearing Day and lowered to a Typhoon Signal Number 3 or below at or before 11:00 hours Hong Kong time on that day, subject to sub-paragraphs (iii)(a) and (iv) below, any request which is submitted by a Clearing Member for deposit of cash Collateral on such day will be processed by OTC Clear in accordance with section 3.9.2 of these Clearing Procedures on reasonable endeavour basis and subject to the availability of banking services to OTC Clear and such Clearing Member in Hong Kong on the day such deposit is due to be processed;
- (iii) if a Typhoon Signal Number 8 or above is in effect at or after 07:00 hours Hong Kong time on an OTC Clear Clearing Day; and
  - (a) lowered to a Typhoon Signal Number 3 or below at or before 11:00 hours Hong Kong time on that day and re-hoisted at or before 13:00 hours Hong Kong time on that day; or
  - (b) lowered to a Typhoon Signal Number 3 or below after 11:00 hours Hong Kong time on that day,any request which is submitted by a Clearing Member for deposit of cash Collateral on such day will be processed by OTC Clear in accordance with section 3.9.2 of these Clearing Procedures on reasonable endeavour basis and subject to the availability of banking services to OTC Clear and such Clearing Member in Hong Kong on the day such deposit is due to be processed; or
- (iv) if a Typhoon Signal Number 8 or above is in effect at or after 07:00 hours Hong Kong time on an OTC Clear Clearing Day and lowered to a Typhoon Signal Number 3 or below at or before 11:00 hours Hong Kong time on that day and re-hoisted after 13:00 hours Hong Kong time on that day, any request which is submitted by a Clearing Member for deposit of cash Collateral on such day will be processed in accordance with section 3.9.2 of these Clearing Procedures on reasonable endeavour basis and subject to the availability of banking services to OTC Clear and such Clearing Member in Hong Kong on the day such deposit is due to be processed.

### 9.5.2.2 Withdrawal of Cash Collateral

- (i) if a Typhoon Signal Number 8 or above is hoisted prior to 07:00 hours Hong Kong time on an OTC Clear Business Day and lowered to a Typhoon Signal Number 3 or below at or prior to 07:00 hours Hong Kong time on that day, any request which is submitted by a Clearing Member for withdrawal of cash Collateral on such day will be processed by OTC Clear in accordance with section 3.9.1 of these Clearing Procedures subject to the availability of banking services to OTC Clear and such Clearing Member in Hong Kong on the day such withdrawal is due to be processed;
- (ii) if a Typhoon Signal Number 8 or above is in effect at or after 07:00 hours Hong Kong time on an OTC Clear Business Day and lowered to a Typhoon Signal Number 3 or below at or before 11:00 hours Hong Kong time on that day, subject to sub-paragraphs (iii)(a) and (iv) below, any request which is submitted by a Clearing Member for withdrawal of cash Collateral on such day will be processed by OTC Clear in accordance with section 3.9.1 of these Clearing Procedures on reasonable endeavour basis and subject to the availability of banking services to OTC Clear and such Clearing Member in Hong Kong on the day such withdrawal is due to be processed;
- (iii) if a Typhoon Signal Number 8 or above is in effect at or after 07:00 hours Hong Kong time on an OTC Clear Business Day and
  - (a) lowered to a Typhoon Signal Number 3 or below at or before 11:00 hours Hong Kong time on that day and re-hoisted at or before 13:00 hours Hong Kong time on that day; or
  - (b) lowered to a Typhoon Signal Number 3 or below after 11:00 hours Hong Kong time on that day,any request which is submitted by a Clearing Member for withdrawal of cash Collateral on such day will, notwithstanding section 3.9.1 of these Clearing Procedures, not be processed on that day; or
- (iv) if a Typhoon Signal Number 8 or above is in effect at or after 07:00 hours Hong Kong time on an OTC Clear Business Day and lowered to a Typhoon Signal Number 3 or below at or before 11:00 hours Hong Kong time on that day and re-hoisted after 13:00 hours Hong Kong time on that day, any request which is submitted by a Clearing Member for withdrawal of cash Collateral on such day will be processed in accordance with section 3.9.1 of these Clearing Procedures on reasonable endeavour basis and subject to the availability of banking services to OTC Clear and such Clearing Member in Hong Kong on the day such withdrawal is due to be processed.

### 9.5.2.3 Porting of Cash Collateral from the House Collateral Account of a Clearing Member to a Client Collateral Account of that Clearing Member

- (i) if a Typhoon Signal Number 8 or above is hoisted prior to 07:00 hours Hong Kong time on an OTC Clear Business Day and lowered to a Typhoon Signal Number 3 or below at or prior to 07:00 hours Hong Kong time on that day, any request which is submitted by a Clearing Member for porting of cash Collateral on such day will be processed by OTC Clear in accordance with section 3.9.3 of these Clearing Procedures subject to the availability of banking services to OTC Clear in Hong Kong on the day such transfer is due to be processed;
- (ii) if a Typhoon Signal Number 8 or above is in effect at or after 07:00 hours Hong Kong time on an OTC Clear Business Day and lowered to a Typhoon Signal Number 3 or below at or before 11:00 hours Hong Kong time on that day, subject to sub-paragraphs (iii)(a) and (iv) below, any

request which is submitted by a Clearing Member for porting of cash Collateral on such day will be processed by OTC Clear in accordance with section 3.9.3 of these Clearing Procedures on reasonable endeavour basis and subject to the availability of banking services to OTC Clear in Hong Kong on the day such transfer is due to be processed;

- (iii) if a Typhoon Signal Number 8 or above is in effect at or after 07:00 hours Hong Kong time on an OTC Clear Business Day and
  - (a) lowered to a Typhoon Signal Number 3 or below at or before 11:00 hours Hong Kong time on that day and re-hoisted at or before 13:00 hours Hong Kong time on that day; or
  - (b) lowered to a Typhoon Signal Number 3 or below after 11:00 hours Hong Kong time on that day,

any request which is submitted by a Clearing Member for porting of cash Collateral on such day will, notwithstanding section 3.9.3 of these Clearing Procedures, not be processed on that day; or

- (iv) if a Typhoon Signal Number 8 or above is in effect at or after 07:00 hours Hong Kong time on an OTC Clear Business Day and lowered to a Typhoon Signal Number 3 or below at or before 11:00 hours Hong Kong time on that day and re-hoisted after 13:00 hours Hong Kong time on that day, any request which is submitted by a Clearing Member for porting of cash Collateral on such day will be processed in accordance with section 3.9.3 of these Clearing Procedures on reasonable endeavour basis and subject to the availability of banking services to OTC Clear in Hong Kong on the day such transfer is due to be processed.

**9.5.2.4 Porting of Cash Collateral from a Client Account opened with a Transferor Clearing Member to a Client Account opened with a Transferee Clearing Member or amongst Client Accounts of a Clearing Member**

- (i) if a Typhoon Signal Number 8 or above is hoisted by The Hong Kong Observatory prior to 07:00 hours Hong Kong time on an OTC Clear Business Day and lowered to a number 3 tropical cyclone warning signal (a “Typhoon Signal Number 3”) or below by The Hong Kong Observatory at or prior to 07:00 hours Hong Kong time on that day, requests submitted for the porting of cash Collateral on such day from a Client Account opened with a Transferor Clearing Member to a Client Account opened with a Transferee Clearing Member or amongst Client Accounts of a Clearing Member, as the case may be, will be processed by OTC Clear in accordance with section 3.17.6 or 3.18.2 of these Clearing Procedures, respectively, notwithstanding that banking services are not available to OTC Clear in Hong Kong on the day such porting of cash Collateral is due to be processed;
- (ii) if a Typhoon Signal Number 8 or above is in effect at or after 07:00 hours Hong Kong time on an OTC Clear Business Day and lowered to a Typhoon Signal Number 3 or below at or before 11:00 hours Hong Kong time on that day, requests submitted for the porting of cash Collateral on such day from a Client Account opened with a Transferor Clearing Member to a Client Account opened with a Transferee Clearing Member or amongst Client Accounts of a Clearing Member, as the case may be, will be processed by OTC Clear in accordance with section 3.17.6 or 3.18.2 of these Clearing Procedures, respectively, on reasonable endeavour basis;
- (iii) if a Typhoon Signal Number 8 or above is in effect at or after 07:00 hours Hong Kong time on an OTC Clear Business Day; and

- (a) lowered to a Typhoon Signal Number 3 or below at or before 11:00 hours Hong Kong time on that day and re-hoisted at or before 13:00 hours Hong Kong time on that day;  
or
- (b) lowered to a Typhoon Signal Number 3 or below after 11:00 hours Hong Kong time on that day,

requests submitted for the porting of cash Collateral on such day from a Client Account opened with a Transferor Clearing Member to a Client Account opened with a Transferee Clearing Member or amongst Client Accounts of a Clearing Member, as the case may be, will be processed by OTC Clear in accordance with section 3.17.6 or 3.18.2 of these Clearing Procedures, respectively, on reasonable endeavour basis; or

- (iv) if a Typhoon Signal Number 8 or above is in effect at or after 07:00 hours Hong Kong time on an OTC Clear Business Day and lowered to a Typhoon Signal Number 3 or below at or before 11:00 hours Hong Kong time on that day and re-hoisted after 13:00 hours Hong Kong time on that day, requests submitted for the porting of cash Collateral on such day from a Client Account opened with a Transferor Clearing Member to a Client Account opened with a Transferee Clearing Member or amongst Client Accounts of a Clearing Member, as the case may be, will be processed in accordance with section 3.17.6 or 3.18.2 of these Clearing Procedures, respectively, on reasonable endeavour basis.

## Chapter 10

### Determination of Close-out Value, Winding Down of the Rates and FX Clearing Service and OTC Clear Default

#### 10.1 Close-out Value

The close-out value for each Contract will be determined in the Base Currency, and shall be the difference between the aggregate net Variation Margin (but excluding Routine Intra-day Variation Margin) settled by the relevant Clearing Member up to and including the last End-of-Day Settlement Process immediately preceding the Final Settlement Cycle Determination Date in respect of such Contract and the Close-out Variation Margin relating to such Contract, where:

“**Close-out Variation Margin**” means, with respect to a Contract, the net present value relating to such Contract as determined by OTC Clear using calculation methodology similar to that used to determine Variation Margin in the End-of-Day Settlement Process, except that the relevant calculations will be determined on the basis of the curve(s) built and pricing input(s) and instrument quote(s) obtained as at 11:00 hours Hong Kong time on:

- (i) with respect to a Contract being terminated as a result of the occurrence of Rates and FX Clearing Termination Event, the Final Settlement Cycle Determination Date;
- (ii) with respect to a Contract which is the subject of Emergency Close-Out, the OTC Clear Business Day on which OTC Clear exercises such power;
- (iii) with respect to a Contract being terminated during the OTC Clear Failure to Pay Grace Period, or as a result of the occurrence of OTC Clear Failure to Pay Event or OTC Clear Insolvency Event, the OTC Clear Business Day on which such termination, OTC Clear Failure to Pay Event or OTC Clear Insolvency Event, as the case may be, occurs; and
- (iv) with respect to a Contract being terminated as a result of the occurrence of a Product Suspension Event, the Final Settlement Cycle Determination Date for such Product Suspension Event pursuant to section 10.4 of these Clearing Procedures.

The Close-out Variation Margin amount determined in any of the situations described in sub-paragraph (i), (ii), (iii) or (iv) above will not be adjusted by PAI.

#### 10.2 Rates and FX Clearing Termination Event

In the case of a winding down of the Rates and FX Clearing Service pursuant to Clearing Rules 1530 to 1540, OTC Clear will determine the Close-out Variation Margin for all Contracts on the Final Settlement Cycle Determination Date, where the “**Final Settlement Cycle Determination Date**” shall fall on:

- (i) if a Rates and FX Clearing Termination Event is declared by OTC Clear at or prior to 09:00 hours Hong Kong time on an OTC Clear Business Day, such OTC Clear Business Day; or
- (ii) if a Rates and FX Clearing Termination Event is declared after 09:00 hours Hong Kong time on an OTC Clear Business Day, the OTC Clear Business Day immediately following the day on which such Rates and FX Clearing Termination Event is declared.

OTC Clear will announce the decision to determine the Close-out Variation Margin with respect to all Contracts by 09:00 hours Hong Kong time on a Final Settlement Cycle Determination Date.

### **10.3 OTC Clear Default**

Upon the designation of an Early Termination Date pursuant to Clearing Rule 1320(1), 1321(1) or 1323, OTC Clear will determine the Close-out Variation Margin for all Contracts on the Final Settlement Cycle Determination Date, where the Final Settlement Cycle Determination Date shall fall on:

- (i) if an Early Termination Date is declared by OTC Clear at or prior to 09:00 hours Hong Kong time on an OTC Clear Business Day, such OTC Clear Business Day; or
- (ii) if Early Termination Date is declared after 09:00 hours Hong Kong time on an OTC Clear Business Day, the OTC Clear Business Day immediately following the day on which such Early Termination Date is declared.

OTC Clear will announce the decision to determine the Close-out Variation Margin with respect to all Contracts by 09:00 hours Hong Kong time on a Final Settlement Cycle Determination Date.

### **10.4 Product Suspension Event**

In the case of a Product Suspension Event pursuant to section 3.4A of these Clearing Procedures, OTC Clear will determine the Close-out Variation Margin for all Contracts in respect of which a Product Suspension Event has occurred on the Final Settlement Cycle Determination Date, where the Final Settlement Cycle Determination Date shall fall on:

- (i) if a Product Suspension Event is effective at or prior to 09:00 hours Hong Kong time on an OTC Clear Business Day, such OTC Clear Business Day; or
- (ii) if a Product Suspension Event is effective after 09:00 hours Hong Kong time on an OTC Clear Business Day, the OTC Clear Business Day immediately following the day on which such Product Suspension Event is effective.

OTC Clear will announce the decision to determine the Close-out Variation Margin with respect to all Contracts in respect of which a Product Suspension Event has occurred by 09:00 hours Hong Kong time on a Final Settlement Cycle Determination Date.

## Appendix I Fees Schedule

**(i) Annual Fee, Registration Fee and Maintenance Fee (for Clearing Members engaged in House Business)**

**(a) Standard Rates Derivatives Contract and Non Deliverable Rates Derivatives Contract**

<b>Tariff</b>	<b>Annual Fee</b>	<b>Registration Fee</b>	<b>Maintenance Fee</b>
Tariff A	HK\$ 5 million	Nil	HK\$ 20 on a monthly basis in respect of each Contract until its maturity.
Tariff B	HK\$ 1 million	In case of backloading, Nil for registration of a Contract. Otherwise HK\$ 750 for registration of a Contract*.	HK\$ 60 on a monthly basis in respect of each Contract until its maturity.
Tariff C	Nil	In case of backloading, Nil for registration of a Contract. Otherwise HK\$ 1,500 for registration of a Contract*.	HK\$ 120 on a monthly basis in respect of each Contract until its maturity.

**(b) Standard Cross-currency Rates Derivatives Contract**

Tenor	Fee Rate	
	Registration Fee	Maintenance Fee
0 – 1 year	0.0015% of the notional amount of the USD leg of the Contract*.	0.00008% of the notional amount of the USD leg of the Contract, on a monthly basis in respect of each Contract until its maturity.  Registration Fees and Maintenance Fees will be billed in aggregate (in HK\$) monthly in arrears.
>1 – 3 years	0.0035% of the notional amount of the USD leg of the Contract*.	
>3 – 5 years	0.0065% of the notional amount of the USD leg of the Contract*.	
>5 – 7 years	0.0085% of the notional amount of the USD leg of the Contract*.	
>7 – 10 years	0.0115% of the notional amount of the USD leg of the Contract*.	

**(c) Non Deliverable FX Derivatives Contract**

Tariff	Annual Fee	Registration Fee
Tariff A	HK\$ 5 million	In case of backloading, HK\$ 3.9 per each million notional amount (in USD) for registration of a Contract.  Otherwise HK\$ 7.8 per each million notional amount (in USD) for registration of a Contract*.
Tariff B	HK\$ 1 million	In case of backloading, HK\$ 11.7 per each million notional amount (in USD) for registration of a Contract.  Otherwise HK\$ 23.4 per each million notional amount (in USD) for registration of a Contract*.
Tariff C	Nil	In case of backloading, HK\$ 23.4 per each million notional amount (in USD) for registration of a Contract.  Otherwise HK\$ 46.8 per each million notional amount (in USD) for registration of a Contract*.

**(d) Deliverable FX Derivatives Contract**

Tenor	Registration Fee	
	Deliverable FX Forward Contract	Deliverable FX Swap Contract
2 days	0.0002% of the notional amount of the USD leg of the Contract*.	-
> 2 days – 1 year	0.0005% of the notional amount of the USD leg of the Contract*.	0.0007% of the notional amount of the USD leg of the Contract*.
> 1 – 3 years	0.0008% of the notional amount of the USD leg of the Contract*.	0.0010% of the notional amount of the USD leg of the Contract*.

**(ii) Registration Fee and Maintenance Fee (for Clearing Members providing Client Clearing Services to their Clients)****(a) Standard Rates Derivatives Contract and Non Deliverable Rates Derivatives Contract**

Type of Client Position Account	Registration Fee	Maintenance Fee
Contracts registered to a Client Clearing Category 1 Position Account	0.001% of the notional amount of each Contract per Position Account*. Registration Fees and Maintenance Fees will be billed in aggregate (in HK\$) monthly in arrears.	0.00004% of the notional amount of each Contract per Position Account on a monthly basis in respect of each Contract until its maturity. Registration Fees and Maintenance Fees will be billed in aggregate (in HK\$) monthly in arrears.
Contracts registered to a Client Clearing Category 2 Position Account	0.001% of the notional amount of each Contract per Position Account*. Registration Fees and Maintenance Fees will be billed in aggregate (in HK\$) monthly in arrears.	0.00004% of the notional amount of each Contract per Position Account on a monthly basis in respect of each Contract until its maturity. Registration Fees and Maintenance Fees will be billed in aggregate (in HK\$) monthly in arrears.

**(b) Standard Cross-currency Rates Derivatives Contract**

<b>Tenor</b>	<b>Fee Rate</b>	
	<b>Registration Fee</b>	<b>Maintenance Fee</b>
0 – 1 year	0.0015% of the notional amount of the USD leg of the Contract*.	0.00008% of the notional amount of the USD leg of the Contract, on a monthly basis in respect of each Contract until its maturity.  Registration Fees and Maintenance Fees will be billed in aggregate (in HK\$) monthly in arrears.
>1 – 3 years	0.0035% of the notional amount of the USD leg of the Contract*.	
>3 – 5 years	0.0065% of the notional amount of the USD leg of the Contract*.	
>5 – 7 years	0.0085% of the notional amount of the USD leg of the Contract*.	
>7 – 10 years	0.0115% of the notional amount of the USD leg of the Contract*.	

**(c) Non Deliverable FX Derivatives Contract**

<b>Type of Client Position Account</b>	<b>Registration Fee</b>
Contracts registered to a Client Clearing Category 1 Position Account	0.0006% of the notional amount (in USD) of each Contract per Position Account*. Registration Fees will be billed in aggregate (in HK\$) monthly in arrears.
Contracts registered to a Client Clearing Category 2 Position Account	0.0006% of the notional amount (in USD) of each Contract per Position Account*. Registration Fees will be billed in aggregate (in HK\$) monthly in arrears.

**(d) Deliverable FX Derivatives Contract**

Tenor	Registration Fee	
	Deliverable FX Forward Contract	Deliverable FX Swap Contract
2 days	0.0002% of the notional amount of the USD leg of the Contract*.	-
> 2 days – 1 year	0.0005% of the notional amount of the USD leg of the Contract*.	0.0007% of the notional amount of the USD leg of the Contract*.
> 1 – 3 years	0.0008% of the notional amount of the USD leg of the Contract*.	0.0010% of the notional amount of the USD leg of the Contract*.

**(iii) De-registration Fee**

HK\$ 250 in respect of each Standard Rates Derivatives Contract, Standard Cross-currency Rates Derivatives Contract, Non Deliverable Rates Derivatives Contract, Deliverable FX Forward Contract, Deliverable FX Swap Contract or Non Deliverable FX Derivatives Contract previously registered in its name that has been de-registered.

**(iv) Fee for Resuming User Access or Resetting Password**

HK\$ 50 per each user access resumption, password reset or retrieval for the Web Portal (excluding, for the avoidance of doubt, password provided for first time log on).

**(v) Fee for Retrieval of Reports Removed from the Web Portal and/or Printing of Reports**

HK\$ 5 per page, up to HK\$ 1,000 per each report.

**(vi) Accommodation charges, administrative fees and/or commitment fees for credit lines in respect of any non-cash Collateral**

An accommodation charge will be charged monthly in arrears to each Clearing Member, calculated at the rate of 0.15% per annum of the average daily aggregate principal amount of non-cash Collateral outstanding across each Clearing Member's Collateral Accounts over the immediately preceding month.

**(vii) Default Interest Rate**

Default Interest Rate, with respect to an Eligible Currency, represents the higher of (i) best lending rate obtained by OTC Clear from its banker plus 2% per annum and (ii) the relevant interbank offered rate for such Eligible Currency plus 2% per annum.

**(viii) Fee for porting of Contracts between Position Accounts held by the same Clearing Member)**

HK\$ 10,000 per request

**(ix) Fee for porting of some or all Contracts to a Transferee Clearing Member**

**(a) Partial porting of Contracts:** HK\$ 20,000 per request

**(b) Full porting of Contracts:** HK\$ 20,000 per request

For the avoidance of doubt, no fees will be charged for the porting of Contracts and Collateral held by a Defaulting Clearing Member to a Replacement Clearing Member upon the occurrence of a DMP Event.

**(x) Fee for each request for deposit, porting or withdrawal of non-cash Collateral**

**(a) Deposit:** Charge at cost

**(b) Porting:** Charge at cost

**(c) Withdrawal:** Charge at cost

For the avoidance of doubt, no fees will be charged for the porting of non-cash Collateral held by a Defaulting Clearing Member to a Replacement Clearing Member upon the occurrence of a DMP Event.

**Note:**

Backloading applies when (a) the Trade Date of a Contract registered in the name of a Clearing Member precedes the commencement of the Membership of that particular Clearing Member; or (b) the Trade Date of an Original Transaction submitted for registration as Contracts precedes the effective date of the amendment in the specific product eligibility requirements (as set out in section 3.4 of the Clearing Procedures) and such Original Transaction, but for such amendment, would have not been accepted for registration.

\* If the Trade Date of an Original Transaction precedes the date on which such Original Transaction is submitted to OTC Clear for registration and backloading does not apply, the relevant registration fee or such lesser amount as OTC Clear may from time to time agree with the Clearing Member will apply.

## Appendix II Additional Financial Centers

Amsterdam	Helsinki	Prague
Ankara	Hong Kong	Reykjavik
Athens	Jakarta	Riyadh
Auckland	Johannesburg	Santiago
Bangkok	Kampala	Sao Paulo
Beijing	Kuala Lumpur	Seoul
Beirut	Lima	Singapore
Bogota	Lisbon	Stockholm
Bratislava	London	Sydney
Brussels	Lusaka	Taipei
Bucharest	Luxembourg	Tallinn
Budapest	Madrid	TARGET
Buenos Aires	Manila	Tel Aviv
Cairo	Mexico City	Tokyo
Caracas	Milan	Toronto
Copenhagen	Moscow	Vienna
Dubai	Mumbai	Warsaw
Dublin	Nairobi	Wellington
Frankfurt	New York	Zurich
Gaborone	Oslo	
Hanoi	Paris	

**Appendix III**  
**Template Hong Kong law Deed of Charge – House Collateral**  
**Account**

DEED OF CHARGE – HOUSE COLLATERAL ACCOUNT

dated [\_\_\_\_\_]

created by

*[CLEARING MEMBER]*

(Registered No. [\_\_\_\_\_])

as a Clearing Member  
in favour of

*OTC CLEARING HONG KONG LIMITED*

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THIS DEED is dated [ ] and made between:

- (1) [ ] a company incorporated in [ ] having company number [ ] and its [registered] / [principal] office at [ ] (the "**Clearing Member**"); and
- (2) OTC Clearing Hong Kong Limited of 12/F, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong ("**OTC Clear**").

### **Background**

- (A) The Clearing Member is entering into this Deed in connection with the Clearing Documentation.
- (B) The Board of Directors of the Clearing Member is satisfied that entering into this Deed is for the purposes and to the benefit of the Clearing Member and its business.

This DEED witnesses the following:

## **1. DEFINITIONS AND INTERPRETATION**

### **1.1 Definitions**

In this Deed:

"**Authorisation**" means an authorisation, consent, approval, resolution, licence, exemption, filing, notarisation or registration.

"**Charged Assets**" means the assets from time to time subject, or expressed to be subject, to the Charges or any part of those assets.

"**Charges**" means all or any of the Security created or expressed to be created by or pursuant to this Deed.

"**Clearing Procedures**" means the practices, procedures and administrative requirements prescribed by OTC Clear from time to time in effect.

"**Clearing Rules**" means the clearing rules of OTC Clear as from time to time in effect and shall include the Clearing Procedures.

"**Clearing System**" means each of (i) the Hong Kong Monetary Authority acting as operator of the Central Moneymarkets Unit Service and (ii) any other clearing system agreed by the Clearing Member and OTC Clear.

"**Companies Ordinance**" means the Companies Ordinance (Cap. 622) of the Laws of Hong Kong.

"**Companies (Winding Up and Miscellaneous Provisions) Ordinance**" means the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of the Laws of Hong Kong.

"**CPO**" means the Conveyancing and Property Ordinance (Cap. 219) of the Laws of Hong Kong.

"**Delegate**" means a delegate or sub-delegate appointed under Clause 10.2 (*Delegation*).

"**Interest**" means all present and future:

- (a) interest and distributions of any kind and any other cash or securities or investments received or receivable in respect of any of the Charged Assets; and

- (b) all other rights attaching to, deriving from, relating to or exercisable by virtue of the ownership of any of the Charged Assets.

**"Liabilities"** means all present and future moneys, debts, liabilities and obligations due, owing or incurred by the Clearing Member to OTC Clear under or in connection with any Contract or Clearing Documentation (in each case, whether alone or jointly, or jointly and severally, with any other person, whether actually or contingently and whether as principal, surety or otherwise).

**"Party"** means a party to this Deed.

**"Receiver"** means a receiver and manager or other receiver appointed in respect of the Charged Assets.

**"Repeating Representations"** means each of the representations set out in paragraphs (i), (ii), (iii), (iv), (v) and (vii) of Clause 7(a).

**"Securities"** means:

- (a) securities and investments of any kind (other than cash and balances in respect of cash) from time to time recorded in the Clearing Member's House Collateral Account; and
- (b) all rights relating to those securities and investments referred to in paragraph (a) above which are deposited with, or registered in the name of, any depository, custodian, nominee, clearing house or system, investment manager, chargee or other similar person or their nominee, in each case whether or not on a fungible basis (including rights against any such person).

**"Security"** means a mortgage, charge, pledge, lien or other security interest securing any obligation of any person or any other agreement or arrangement having a similar effect.

**"SFO"** means the Securities and Futures Ordinance (Cap. 571) of the Laws of Hong Kong.

**"Winding-up"** means winding up, amalgamation, reconstruction, administration, dissolution, liquidation, merger or consolidation or any analogous procedure or step in any jurisdiction.

## 1.2 **Incorporation of defined terms**

Unless a contrary indication appears, terms used in the Clearing Rules have the same meaning in this Deed.

## 1.3 **Construction**

- (c) Unless a contrary indication appears, any reference in this Deed to:
- (i) **"OTC Clear"**, the **"Clearing Member"** or any **"Party"** shall be construed so as to include its successors in title, permitted assigns and permitted transferees to, or of, its rights and/or obligations under the Clearing Documentation;
- (ii) any **"Contract"**, any **"Clearing Documentation"** or any other agreement or instrument is a reference to that Contract, Clearing Documentation or other agreement or instrument as amended, novated, supplemented, extended,

restated (however fundamentally and whether or not more onerous) or replaced; and

- (iii) a "**person**" includes any individual, firm, company, corporation, government, state or agency of a state or any association, trust, joint venture, consortium, partnership or other entity (whether or not having separate legal personality).
- (d) The provisions in Clearing Rules 102 to 108 apply to this Deed with all necessary changes.
- (e) In the context of the rights, powers, privileges, discretions and immunities conferred on OTC Clear, a Receiver or a Delegate, references to charge or mortgage in any provision of the CPO shall, for the purposes of this Deed, be deemed to be references to the Charges and references to mortgaged land in any provision of the CPO shall, for the purposes of this Deed, be deemed to be references to the Charged Assets.

#### 1.4 **Third Party Rights**

- (a) Unless expressly provided to the contrary in the Clearing Documentation, a person who is not a Party has no right under the Contracts (Rights of Third Parties) Ordinance (Cap. 623) to enforce or to enjoy the benefit of any term of this Deed.
- (b) Notwithstanding any term of any Clearing Documentation, the consent of any person who is not a Party is not required to rescind or vary this Deed at any time.

## 2. **UNDERTAKING TO PAY**

The Clearing Member shall pay each of its Liabilities when due in accordance with its terms or, if they do not specify a time for payment, immediately on demand by OTC Clear.

## 3. **SECURITY**

The Clearing Member, as beneficial owner of the Securities and as continuing security for the due and punctual payment and discharge of all Liabilities charges in favour of OTC Clear:

- (a) by way of first mortgage, all its present and future Securities and Interest; and
- (b) by way of first fixed charge, to the extent not validly and effectively mortgaged under paragraph (a) above, all its present and future Securities and Interest and all its present and future rights relating to any of the Securities, including without limitation:
  - (i) rights (contractually or otherwise) to give instructions relating to the Securities; and
  - (ii) all claims for damages and rights to receive moneys due or to become due for any reason whatsoever in respect of any of the Securities.

#### 4. **RESTRICTIONS AND FURTHER ASSURANCE**

##### 4.1 **Negative pledge**

The Clearing Member shall not create or permit to subsist any Security over any Charged Assets except for the Charges.

##### 4.2 **Disposal**

The Clearing Member shall not (nor agree to) enter into a single transaction or a series of transactions (whether related or not and whether voluntary or involuntary) to sell, lease, withdraw, transfer or otherwise dispose of any Charged Asset except as permitted by the Clearing Rules and Clearing Procedures.

##### 4.3 **Delivery of documents**

The Clearing Member shall deliver or procure that there shall be delivered to OTC Clear such documents relating to the Securities as OTC Clear requires.

##### 4.4 **Further assurance**

(a) The Clearing Member shall promptly do whatever OTC Clear requires:

- (i) to perfect or protect the Charges or the priority of the Charges; or
- (ii) to facilitate the realisation of the Charged Assets or the exercise of any rights vested in OTC Clear or any Receiver,

including, without limitation, making any registration and giving any notice, order or direction.

(b) The Clearing Member shall take all such action as is available to it (including making all filings and registrations) as may from time to time be necessary for the purpose of the creation, perfection, protection or maintenance of any Security conferred or intended to be conferred on OTC Clear by or pursuant to this Deed.

#### 5. **MORTGAGED SECURITIES**

##### 5.1 **Voting before enforcement**

Subject to Clause 5.2 (*Voting after enforcement*), the Clearing Member shall not be entitled to exercise, and shall not be entitled to direct the exercise of, the voting and other rights attached to any Securities.

##### 5.2 **Voting after enforcement**

At any time after the occurrence of a DMP Event with respect to the Clearing Member:

- (a) OTC Clear or the Receiver shall be entitled to exercise or direct the exercise of the voting and other rights attached to any Securities in such manner as it or he sees fit; and
- (b) the Clearing Member shall comply or procure the compliance with any directions of OTC Clear or the Receiver in respect of the exercise of those rights and shall promptly execute and/or deliver to OTC Clear or the Receiver such forms of proxy as it or he requires with a view to enabling such person as it or he selects to exercise those rights.

**5.3 Interest before enforcement**

Subject to Clause 5.4 (*Interest after enforcement*), the Clearing Member shall be entitled to receive, and OTC Clear shall pay, such amounts in respect of cash income derived from the Securities as are specified in the Clearing Rules and Clearing Procedures.

**5.4 Interest after enforcement**

At any time after the occurrence of a DMP Event with respect to the Clearing Member, OTC Clear (or, as the case may be, its nominee) shall be entitled to retain any such cash income derived from the Securities received by it and apply the same in such manner as OTC Clear sees fit.

**5.5 Communications**

The Clearing Member shall promptly deliver to OTC Clear a copy of every circular, notice, report, set of accounts or other documents received by it or its nominee in connection with the Securities or in connection with or from the issuer of any of the Securities.

**5.6 Payment of calls etc.**

The Clearing Member will promptly pay or procure the payment of all calls, instalments or other payments which may at any time become due in respect of any of the Charged Assets.

**6. GENERAL UNDERTAKINGS**

**6.1 Information**

The Clearing Member shall supply to OTC Clear promptly such information regarding the Charged Assets and its compliance with this Deed as OTC Clear may reasonably request.

**6.2 No prejudicial conduct**

The Clearing Member shall not do, or permit to be done, anything which could prejudice the Charges.

**7. REPRESENTATIONS AND WARRANTIES**

(a) The Clearing Member makes the representations and warranties set out in this paragraph (a) to OTC Clear on the date of this Deed:

- (i) It is a corporation, duly incorporated and validly existing under the law of its jurisdiction of incorporation.
- (ii) It has the power to own its assets and carry on its business as it is being conducted.
- (iii) The obligations expressed to be assumed by it in this Deed are legal, valid, binding and enforceable, subject to:
  - (A) any general principles of law limiting its obligations which are specifically referred to in any legal opinion delivered to OTC Clear in respect of this Deed; or
  - (B) any registrations to be made after the date of this Deed which are specifically referred to in any legal opinion delivered to OTC Clear in respect of this Deed.
- (iv) Its entry into, performance and delivery of this Deed, and the transactions contemplated by this Deed, do not and will not conflict with:

- (A) any law or regulation applicable to it;
  - (B) its constitutional documents; or
  - (C) any agreement or instrument binding upon it or any of its assets,
- nor (except for the Charges) result in the existence of, or oblige it to create, any Security (or any other Encumbrance) over any of its assets.
- (v) It has the power to enter into, perform and deliver, and has taken all necessary action to authorise its entry into, performance and delivery of, this Deed and the transactions contemplated this Deed.
  - (vi) All Authorisations required or desirable:
    - (A) to enable it lawfully to enter into, exercise its rights and comply with its obligations in this Deed;
    - (B) to make this Deed admissible in evidence in its jurisdiction of incorporation; and
    - (C) to enable it to create the Charges and to ensure that the Charges have the priority and ranking the Charges are expressed to have,

have been obtained or effected and are in full force and effect, subject to any registrations specifically referred to in any legal opinion delivered to OTC Clear in respect of this Deed.
  - (vii) Subject to any qualifications specifically referred to in any legal opinion delivered to OTC Clear in respect of this Deed:
    - (A) the choice of Hong Kong law as the governing law of this Deed will be recognised and enforced in its jurisdiction of incorporation; and
    - (B) any judgment obtained in Hong Kong in relation to this Deed will be recognised and enforced in its jurisdiction of incorporation.
  - (b) The Repeating Representations are deemed to be made by the Clearing Member by reference to the facts and circumstances then existing on each day additional Securities become Charged Assets.
  - (c) In addition, the Clearing Member makes the representations and warranties set out in Clearing Rule 1220 to OTC Clear:
    - (i) on the date of this Deed; and
    - (ii) pursuant to Clearing Rule 1220, on each day Collateral is delivered to OTC Clear pursuant to the Clearing Rules.

## 8. ENFORCEMENT

### 8.1 When enforceable

The Charges shall be immediately enforceable on and at any time after the occurrence of a DMP Event with respect to the Clearing Member, and OTC Clear:

- (a) may enforce all or any part of any Charges (at the times, in the manner and on the terms it thinks fit) and take possession and hold or dispose of all or any part of the Charged Assets; and
- (b) whether or not it has appointed a Receiver, may exercise all or any of the powers, authorities and discretions given to mortgagees and receivers by the CPO as varied or extended by this Deed or otherwise conferred by law.

## 8.2 **Power of sale**

The statutory power of sale, of appointing a Receiver and the other statutory powers conferred on mortgagees by Section 51 (*Powers of mortgagee and receiver*) and Section 53 (*Sale by Mortgagee*) of the CPO and the Fourth Schedule (*Powers of mortgagee and receiver*) to the CPO as varied and extended by this Deed shall arise on the date of this Deed and no restriction imposed by any ordinance or other statutory provision in relation to the exercise of any power of sale shall apply to this Deed.

## 8.3 **No requirement of notice period**

OTC Clear is not required to give any prior notice of non-payment or default to the Clearing Member before enforcing the Charges, there is no minimum period for which Liabilities must remain due and unpaid before the Charges can be enforced and Paragraph 11 of the Fourth Schedule (*Powers of mortgagee and receiver*) to the CPO (and any similar provision under other laws) does not apply to this Deed.

## 8.4 **No Liability as mortgagee in possession**

Nothing done by or on behalf of OTC Clear pursuant to this Deed shall render it liable to account as a mortgagee in possession for any sums other than actual receipts.

## 8.5 **Wide construction of enforcement powers**

The powers of OTC Clear under this Deed shall be construed in the widest possible sense and all Parties intend that OTC Clear shall have as wide and flexible a range of powers as may be conferred (or, if not expressly conferred, as is not restricted) by any applicable law.

## 9. **APPOINTMENT AND RIGHTS OF RECEIVERS**

### 9.1 **Appointment of Receivers**

If:

- (a) requested by the Clearing Member; or
- (b) the Charges become enforceable (whether or not OTC Clear has taken possession of the Charged Assets),

without any notice or further notice, OTC Clear may, by deed, or otherwise in writing signed by any officer or manager of OTC Clear or any person authorised for this purpose by OTC Clear, appoint one or more persons to be a Receiver. OTC Clear may similarly remove any Receiver and appoint any person instead of any Receiver. If OTC Clear appoints more than one person as Receiver, OTC Clear may give those persons power to act either jointly or severally. The provisions of section 50 (*Power to appoint a receiver*) of the CPO (as varied and/or extended by this Deed) shall apply to any appointment made pursuant to this Deed.

## 9.2 **Scope of appointment**

Any Receiver may be appointed Receiver of all of the Charged Assets or Receiver of a part of the Charged Assets specified in the appointment. In the latter case, the rights conferred on a Receiver as set out in the Schedule to this Deed shall have effect as though every reference in the Schedule to this Deed to any Charged Assets were a reference to the part of those assets so specified or any part of those assets.

## 9.3 **Rights of Receivers**

Any Receiver appointed pursuant to this Clause 9 shall have the rights, powers, discretions, privileges and immunities conferred on receivers by the CPO (as varied and/or extended by this Deed), all powers (if any) conferred on receivers by law or otherwise and shall also have the powers and rights set out in the Schedule to this Deed, all of which powers and rights are exercisable without further notice.

## 9.4 **Agent of Clearing Member**

Any Receiver shall be the agent of the Clearing Member for all purposes. The Clearing Member alone shall be responsible for the Receiver's contracts, engagements, acts, omissions, defaults and losses and for liabilities incurred by the Receiver.

## 9.5 **Remuneration**

OTC Clear may determine the remuneration of any Receiver and direct payment of that remuneration out of moneys he receives as Receiver. The Clearing Member alone shall be liable for the remuneration and all other costs, losses, liabilities and expenses of the Receiver.

## 10. **OTC CLEAR'S RIGHTS**

### 10.1 **Rights of OTC Clear**

Any rights conferred by this Deed upon a Receiver may be exercised by OTC Clear after the Charges become enforceable, whether or not OTC Clear shall have taken possession or appointed a Receiver of the Charged Assets.

### 10.2 **Delegation**

OTC Clear may delegate in any manner to any person any rights exercisable by OTC Clear under this Deed. Any such delegation may be made upon such terms and conditions (including power to sub-delegate) as OTC Clear thinks fit.

## 11. **ORDER OF DISTRIBUTIONS**

All amounts received or recovered by OTC Clear or any Receiver or any Delegate in exercise of their rights under this Deed shall be applied in the following order of priority (subject to Clause 15.5 (*Appropriations*)), in each case in accordance with the terms of the Clearing Rules and Clearing Procedures:

- (a) in or towards the payment of all costs, losses, liabilities and expenses of and incidental to the appointment of any Receiver or Delegate and the exercise of any of his rights, including his remuneration and all outgoings paid by him (to the extent that, in OTC Clear's opinion, such costs, losses, liabilities and expenses relate to the amount received or recovered);
- (b) in or towards the payment of Liabilities; and

(c) in payment of any surplus to the Clearing Member or other person entitled to it.

## 12. LIABILITY OF OTC CLEAR, RECEIVERS AND DELEGATES

### 12.1 Possession

If OTC Clear, any Receiver or any Delegate takes possession of the Charged Assets, it or he may at any time relinquish possession.

### 12.2 OTC Clear's liability

- (a) Neither OTC Clear nor any Receiver or Delegate shall (either by reason of taking possession of the Charged Assets or for any other reason and whether as mortgagee in possession or otherwise) be liable to the Clearing Member or any other person for any costs, losses, liabilities or expenses relating to the realisation of any Charged Assets or from any act, default, omission or misconduct of OTC Clear, any Receiver, any Delegate or their respective officers, employees or agents in relation to the Charged Assets or in connection with any Contract or Clearing Documentation provided that the relevant realisation, act, default, omission or misconduct is done or made, as the case may be, in good faith.
- (b) Nothing in this Deed shall be construed as placing on OTC Clear any liability whatsoever in respect of any calls, instalments or other payments relating to any of the Charged Assets or any rights, shares or other securities accruing, offered or arising as aforesaid, and the Clearing Member shall indemnify OTC Clear in respect of all calls, instalments or other payments relating to any of the Charged Assets owned by it and to any rights, shares and other securities accruing, offered or arising as aforesaid in respect of any of the Charged Assets.

## 13. POWER OF ATTORNEY

### 13.1 Appointment

The Clearing Member by way of security irrevocably appoints OTC Clear, every Receiver and every Delegate severally as its attorney (with full power of substitution), on its behalf and in its name or otherwise, at such time and in such manner as the attorney thinks fit:

- (a) to do anything which the Clearing Member is obliged to do (but has not done) under any Clearing Documentation (including to execute charges over, transfers, conveyances, assignments and assurances of, and other instruments, notices, orders and directions relating to, the Charged Assets); and
- (b) to exercise any of the rights conferred on OTC Clear, any Receiver or any Delegate in relation to the Charged Assets, under or in connection with any Clearing Documentation or under the CPO, the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the SFO or generally under Hong Kong law.

### 13.2 Ratification

The Clearing Member ratifies and confirms and agrees to ratify and confirm whatever any such attorney shall do in the exercise or purported exercise of the power of attorney granted by it in Clause 13.1 (*Appointment*).

## 14. PROTECTION OF THIRD PARTIES

### 14.1 No duty to enquire

No person dealing with OTC Clear, any Receiver or any Delegate shall be concerned to enquire:

- (a) whether the power or rights conferred under or in connection with this Deed are exercisable;
- (b) whether any consents, regulations, restrictions or directions relating to such rights have been obtained or complied with;
- (c) otherwise as to the propriety or regularity of acts purporting or intended to be in exercise of any such rights; or
- (d) as to the application of any money borrowed or raised.

### 14.2 Protection to purchasers

Subject to the provisions of this Deed, all the protection to purchasers contained in Sections 52 (*Protection of purchaser*), 53 (*Sale by mortgagee*) and 55 (*Mortgagee's receipt*) of the CPO or in any other applicable legislation shall apply to any person purchasing from or dealing with OTC Clear, any Receiver or any Delegate.

## 15. SAVING PROVISIONS

### 15.1 Continuing Security

Subject to Clause 16 (*Discharge of Security*), the Charges are continuing Security and will extend to the ultimate balance of the Liabilities, regardless of any intermediate payment or discharge in whole or in part.

### 15.2 Reinstatement

If any discharge, release or arrangement (whether in respect of the obligations of the Clearing Member or any security for those obligations or otherwise) is made by OTC Clear in whole or in part on the basis of any payment, security or other disposition which is avoided or must be restored in insolvency, liquidation, administration or otherwise, without limitation, then the liability of the Clearing Member and the Charges shall continue or be reinstated as if the discharge, release or arrangement had not occurred.

### 15.3 Waiver of defences

Neither the obligations of the Clearing Member under this Deed nor the Charges will be affected by an act, omission, matter or thing which, but for this Clause, would reduce, release or prejudice any of its obligations under any Contract or Clearing Documentation or any of the Charges (without limitation and whether or not known to it or OTC Clear) including:

- (a) any time, waiver or consent granted to, or composition with, the Clearing Member or other person;
- (b) the release of the Clearing Member or other person under the terms of any composition or arrangement with any creditor of the Clearing Member;
- (c) the taking, variation, compromise, exchange, renewal or release of, or refusal or neglect to perfect, take up or enforce any rights against, or security over assets of,

the Clearing Member or other person or any non-presentation or non-observance of any formality or other requirement in respect of any instrument or any failure to realise the full value of any security;

- (d) any incapacity or lack of power, authority or legal personality of or dissolution or change in the members or status of the Clearing Member or other person;
- (e) any amendment, novation, supplement, extension, restatement (however fundamental and whether or not more onerous) or replacement of any Contract or Clearing Documentation or any other document or security;
- (f) any unenforceability, illegality or invalidity of any obligation of any person under any Contract or Clearing Documentation or any other document or security; or
- (g) any insolvency or similar proceedings.

#### 15.4 **Immediate recourse**

The Clearing Member waives any right it may have of first requiring OTC Clear (or any trustee or agent on its behalf) to proceed against or enforce any other rights or security or claim payment from any person before claiming from the Clearing Member under this Deed. This waiver applies irrespective of any law or any provision of any Contract or Clearing Documentation to the contrary.

#### 15.5 **Appropriations**

Until all the Liabilities have been irrevocably paid in full and the Membership of the Clearing Member has been terminated in accordance with the Clearing Rules, OTC Clear (or any trustee or agent on its behalf) may:

- (a) refrain from applying or enforcing any other moneys, security or rights held or received by OTC Clear (or any trustee or agent on its behalf) in respect of those amounts, or apply and enforce the same in such manner and order as it sees fit (whether against those amounts or otherwise) and the Clearing Member shall not be entitled to the benefit of the same; and
- (b) hold in an interest-bearing suspense account any moneys received from the Clearing Member or on account of the Clearing Member's liability under this Deed.

#### 15.6 **Additional Security**

The Charges are in addition to and are not in any way prejudiced by any other guarantees or security now or subsequently held OTC Clear.

### 16. **DISCHARGE OF SECURITY**

#### 16.1 **Final redemption**

Subject to Clause 16.2 (*Retention of security*), if OTC Clear is satisfied that all the Liabilities have been irrevocably paid in full and that the Membership of the Clearing Member has been terminated in accordance with the Clearing Rules, OTC Clear shall at the request and cost of the Clearing Member release, reassign or discharge (as appropriate) the Charged Assets from the Charges.

## 16.2 **Retention of security**

If OTC Clear considers that any amount paid or credited to OTC Clear under any Contract or Clearing Documentation is capable of being avoided or otherwise set aside, that amount shall not be considered to have been paid for the purposes of determining whether all the Liabilities have been irrevocably paid.

## 16.3 **Consolidation**

Any restrictions on the consolidation of Security shall be excluded to the fullest extent permitted by law and OTC Clear shall, so far as it is lawful and subject to other provisions of this Deed, be entitled to consolidate all or any of the Charges with any other Security whether in existence on the date of this Deed or in the future.

## 17. **PAYMENTS**

### 17.1 **Demands**

Any demand for payment made by OTC Clear shall be valid and effective even if it contains no statement of the relevant Liabilities or an inaccurate or incomplete statement of them.

### 17.2 **Payments**

All payments by the Clearing Member under this Deed (including damages for its breach) shall be made to such account, with such financial institution and in such other manner as OTC Clear may direct.

### 17.3 **Continuation of accounts**

At any time after:

- (a) the receipt by OTC Clear of notice (either actual or otherwise) of any subsequent Security affecting the Charged Assets; or
- (b) the presentation of a petition or the passing of a resolution in relation to the Winding-up of the Clearing Member,

OTC Clear may open a new account in the name of the Clearing Member (whether or not it permits any existing account to continue). If OTC Clear does not open such a new account, it shall nevertheless be treated as if it had done so when the relevant event occurred. No moneys paid into any account, whether new or continuing, after that event shall discharge or reduce the Liabilities as at the time the relevant event occurred.

## 18. **RIGHTS, WAIVERS AND DETERMINATIONS**

### 18.1 **Ambiguity**

Where there is any ambiguity or conflict between the rights conferred by law and those conferred by or pursuant to this Deed, the terms of this Deed shall prevail.

### 18.2 **Remedies and waivers**

No failure to exercise, nor any delay in exercising, on the part of OTC Clear, any Receiver or any Delegate any right or remedy under this Deed shall operate as a waiver of any such right or remedy or constitute an election to affirm this Deed. No waiver or election to affirm this Deed on the part of OTC Clear, any Receiver or any Delegate shall be effective unless in writing. No single or partial exercise of any right or remedy shall prevent any further or other exercise or the exercise of any other right or remedy. The rights and remedies provided in this Deed are cumulative and not exclusive of any rights or remedies provided by law.

18.3 **Determinations**

Any determination by or certificate of OTC Clear, any Receiver or any Delegate under this Deed is, in the absence of manifest error, conclusive evidence of the matters to which it relates.

19. **SEPARATE AND INDEPENDENT OBLIGATIONS**

The Security created by the Clearing Member by or in connection with any Contract or Clearing Documentation is separate from and independent of the Security created or intended to be created by any other person by or in connection with any Contract or Clearing Documentation.

20. **COUNTERPARTS**

This Deed may be executed in any number of counterparts, and this has the same effect as if the signatures on the counterparts were on a single copy of this Deed.

21. **GOVERNING LAW**

This Deed is governed by Hong Kong law.

22. **JURISDICTION**

- (a) The courts of Hong Kong have exclusive jurisdiction to settle any dispute arising out of or in connection with this Deed (including a dispute relating to the existence, validity or termination of this Deed) (a "**Dispute**").
- (b) The Parties agree that the courts of Hong Kong are the most appropriate and convenient courts to settle Disputes and accordingly no Party will argue to the contrary.
- (c) This Clause 22 is for the benefit of OTC Clear only. As a result, OTC Clear shall not be prevented from taking proceedings relating to a Dispute in any other courts with jurisdiction. To the extent allowed by law, OTC Clear may take concurrent proceedings in any number of jurisdictions.

**SCHEDULE**  
**RIGHTS OF RECEIVERS**

Any Receiver appointed pursuant to Clause 9 (*Appointment and rights of Receivers*) shall have the right, either in its own name or in the name of the Clearing Member or otherwise and in such manner and upon such terms and conditions as the Receiver thinks fit, and either alone or jointly with any other person:

(a) **Take possession**

to take possession of, get in and collect the Charged Assets, and to require payment to it of all Interest including without limitation, to complete any instruments of transfer and to procure the transfer of the Charged Assets into the name of the Receiver or its nominee and, if necessary, take possession of and collect any documents of title relating to the Charged Assets and/or cause physical documents of title to be withdrawn from any Clearing System and/or cause the Charged Assets to be deposited into any relevant Clearing System, in each case, at the cost and risk of the Clearing Member;

(b) **Deal with Charged Assets**

to sell, transfer, assign, exchange, lend or otherwise dispose of or realise the Charged Assets to any person either by public offer or auction, tender or private contract and for a consideration of any kind (which may be payable or delivered in one amount or by instalments spread over a period or deferred);

(c) **Borrow money**

to borrow or raise money either unsecured or on the security of the Charged Assets (either in priority to the Charges or otherwise);

(d) **Rights of ownership**

to exercise and do (or permit the Clearing Member or any nominee of it to exercise and do) all such rights and things as OTC Clear would be capable of exercising or doing if it were the absolute beneficial owner of the Charged Assets;

(e) **Claims**

to settle, adjust, refer to arbitration, compromise and arrange any claims, accounts, disputes, questions and demands with or by any person relating to the Charged Assets;

(f) **Legal actions**

to bring, prosecute, enforce, defend and abandon actions, suits and proceedings in relation to the Charged Assets or any business of the Clearing Member;

(g) **Redemption of Security**

to redeem any Security (whether or not having priority to the Charges) over the Charged Assets and to settle the accounts of any person with an interest in the Charged Assets; and

(h) **Other powers**

to do anything else it may think fit for the realisation of the Charged Assets or incidental to the exercise of any of the rights conferred on the Receiver under or by virtue of any Contract, any Clearing Documentation, the CPO, the Companies Ordinance, the Companies (Winding

Up and Miscellaneous Provisions) Ordinance, the SFO and other applicable statutory provisions and common law.

In witness whereof this Deed has been [signed/executed/sealed]<sup>1</sup> [and delivered] as a deed on the date stated at the beginning.

**Clearing Member**

*[Note: For use by a Hong Kong company executing by seal]*

[[THE [COMMON SEAL] of]  
[CLEARING MEMBER]

[COMMON SEAL OF CLEARING  
MEMBER]

was affixed in the presence of:

.....  
[Signature of Director]

Director

.....  
[Signature of Director/Secretary]

[Director/Secretary]]

**OR**

*[Note: For use by a Hong Kong company executing under hand (subject to requirements in Articles)]*

[EXECUTED AND DELIVERED as  
a DEED by and in the name of  
[CLEARING MEMBER] acting by [its sole director]/[two  
directors]/[a director and its company secretary]:

.....  
[Signature of Director]

Director

.....  
[Signature of Director/Secretary]

[Director/Secretary]

\_\_\_\_\_

<sup>1</sup> Ensure that this is consistent with the words used in the relevant signature block – in particular whether “signed”, “executed” and/or “sealed” has been used.

[Signature of witness]

Name

Address

Occupation]

**OTC Clear**

**EXECUTED** by [name of authorised signatory] for and on behalf of **OTC CLEARING HONG KONG LIMITED** in the presence of

[Signature of authorised signatory]

.....

.....

[Signature of witness]

Name

Address

Occupation

Address:

Fax No:

Attention:

**Appendix IV**  
**Template Hong Kong law Deed of Charge – Client Collateral**  
**Accounts**

DEED OF CHARGE – CLIENT COLLATERAL ACCOUNTS

dated [\_\_\_\_\_]

created by

*[CLEARING MEMBER]*

(Registered No. [\_\_\_\_\_])

as a Clearing Member  
in favour of

*OTC Clearing Hong Kong Limited*

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THIS DEED is dated [ ] and made between:

- (1) [ ] a company incorporated in [ ] having company number [ ] and its [registered] / [principal] office at [ ] (the "**Clearing Member**"); and
- (2) OTC Clearing Hong Kong Limited of 12/F, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong ("**OTC Clear**").

### **Background**

- (A) The Clearing Member is entering into this Deed in connection with the Clearing Documentation.
- (B) The Board of Directors of the Clearing Member is satisfied that entering into this Deed is for the purposes and to the benefit of the Clearing Member and its business.

This DEED witnesses the following:

## **1. DEFINITIONS AND INTERPRETATION**

### **1.1 Definitions**

In this Deed:

"**Authorisation**" means an authorisation, consent, approval, resolution, licence, exemption, filing, notarisation or registration.

"**Charged Assets**" means the assets from time to time subject, or expressed to be subject, to the Charges or any part of those assets.

"**Charges**" means all or any of the Security created or expressed to be created by or pursuant to this Deed.

"**Clearing Procedures**" means the practices, procedures and administrative requirements prescribed by OTC Clear from time to time in effect.

"**Clearing Rules**" means the clearing rules of OTC Clear as from time to time in effect and shall include the Clearing Procedures.

"**Clearing System**" means each of (i) the Hong Kong Monetary Authority acting as operator of the Central Moneymarkets Unit Service and (ii) any other clearing system agreed by the Clearing Member and OTC Clear.

"**Companies Ordinance**" means the Companies Ordinance (Cap. 622) of the Laws of Hong Kong.

"**Companies (Winding Up and Miscellaneous Provisions) Ordinance**" means the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of the Laws of Hong Kong.

"**CPO**" means the Conveyancing and Property Ordinance (Cap. 219) of the Laws of Hong Kong.

"**Delegate**" means a delegate or sub-delegate appointed under Clause 10.2 (*Delegation*).

"**Interest**" means all present and future:

- (a) interest and distributions of any kind and any other cash or securities or investments received or receivable in respect of any of the Charged Assets; and

- (b) all other rights attaching to, deriving from, relating to or exercisable by virtue of the ownership of any of the Charged Assets.

**"Liabilities"** means all present and future moneys, debts, liabilities and obligations due, owing or incurred by the Clearing Member to OTC Clear under or in connection with any Contract or Clearing Documentation (in each case, whether alone or jointly, or jointly and severally, with any other person, whether actually or contingently and whether as principal, surety or otherwise), other than moneys, debts, liabilities and obligations relating to the Clearing Member's House Position Account.

**"Party"** means a party to this Deed.

**"Receiver"** means a receiver and manager or other receiver appointed in respect of the Charged Assets.

**"Relevant Charged Assets"** means, in relation to an amount received or recovered by OTC Clear, any Receiver or any Delegate in exercise of their rights under this Deed, the Charged Assets in respect of which the amount is received or recovered.

**"Repeating Representations"** means each of the representations set out in paragraphs (i), (ii), (iii), (iv), (v) and (vii) of Clause 7(a).

**"Securities"** means:

- (a) securities and investments of any kind (other than cash and balances in respect of cash) from time to time recorded in any Client Collateral Account from time to time maintained for the Clearing Member; and
- (b) all rights relating to those securities and investments referred to in paragraph (a) above which are deposited with, or registered in the name of, any depositary, custodian, nominee, clearing house or system, investment manager, chargee or other similar person or their nominee, in each case whether or not on a fungible basis (including rights against any such person).

**"Security"** means a mortgage, charge, pledge, lien or other security interest securing any obligation of any person or any other agreement or arrangement having a similar effect.

**"SFO"** means the Securities and Futures Ordinance (Cap. 571) of the Laws of Hong Kong.

**"Winding-up"** means winding up, amalgamation, reconstruction, administration, dissolution, liquidation, merger or consolidation or any analogous procedure or step in any jurisdiction.

## 1.2 **Incorporation of defined terms**

Unless a contrary indication appears, terms used in the Clearing Rules have the same meaning in this Deed.

## 1.3 **Construction**

- (a) Unless a contrary indication appears, any reference in this Deed to:
- (i) **"OTC Clear"**, the **"Clearing Member"** or any **"Party"** shall be construed so as to include its successors in title, permitted assigns and permitted transferees to, or of, its rights and/or obligations under the Clearing Documentation;

- (ii) any "**Contract**", any "**Clearing Documentation**" or any other agreement or instrument is a reference to that Contract, Clearing Documentation or other agreement or instrument as amended, novated, supplemented, extended, restated (however fundamentally and whether or not more onerous) or replaced; and
  - (iii) a "**person**" includes any individual, firm, company, corporation, government, state or agency of a state or any association, trust, joint venture, consortium, partnership or other entity (whether or not having separate legal personality).
- (b) The provisions in Clearing Rules 102 to 108 apply to this Deed with all necessary changes.
  - (c) In the context of the rights, powers, privileges, discretions and immunities conferred on OTC Clear, a Receiver or a Delegate, references to charge or mortgage in any provision of the CPO shall, for the purposes of this Deed, be deemed to be references to the Charges and references to mortgaged land in any provision of the CPO shall, for the purposes of this Deed, be deemed to be references to the Charged Assets.

#### 1.4 **Third Party Rights**

- (a) Unless expressly provided to the contrary in the Clearing Documentation, a person who is not a Party has no right under the Contracts (Rights of Third Parties) Ordinance (Cap. 623) to enforce or to enjoy the benefit of any term of this Deed.
- (b) Notwithstanding any term of any Clearing Documentation, the consent of any person who is not a Party is not required to rescind or vary this Deed at any time.

## 2. **UNDERTAKING TO PAY**

The Clearing Member shall pay each of its Liabilities when due in accordance with its terms or, if they do not specify a time for payment, immediately on demand by OTC Clear.

## 3. **SECURITY**

The Clearing Member, as beneficial owner of the Securities and as continuing security for the due and punctual payment and discharge of all Liabilities charges in favour of OTC Clear:

- (a) by way of first mortgage, all its present and future Securities and Interest;
- (b) by way of first fixed charge, all present and future equities of redemption assigned to the Clearing Member as Transferee Clearing Member or Replacement Clearing Member from time to time in connection with the porting of Collateral pursuant to the Clearing Rules and Clearing Procedures; and
- (c) by way of first fixed charge, to the extent not validly and effectively mortgaged under paragraph (a) above, all its present and future Securities and Interest and all its present and future rights relating to any of the Securities, including without limitation:

- (i) rights (contractually or otherwise) to give instructions relating to the Securities; and
- (ii) all claims for damages and rights to receive moneys due or to become due for any reason whatsoever in respect of any of the Securities.

#### 4. **RESTRICTIONS AND FURTHER ASSURANCE**

##### 4.1 **Negative pledge**

The Clearing Member shall not create or permit to subsist any Security over any Charged Assets except for the Charges.

##### 4.2 **Disposal**

The Clearing Member shall not (nor agree to) enter into a single transaction or a series of transactions (whether related or not and whether voluntary or involuntary) to sell, lease, withdraw, transfer or otherwise dispose of any Charged Asset except as permitted by the Clearing Rules and Clearing Procedures.

##### 4.3 **Delivery of documents**

The Clearing Member shall deliver or procure that there shall be delivered to OTC Clear such documents relating to the Securities as OTC Clear requires.

##### 4.4 **Further assurance**

(a) The Clearing Member shall promptly do whatever OTC Clear requires:

- (i) to perfect or protect the Charges or the priority of the Charges; or
- (ii) to facilitate the realisation of the Charged Assets or the exercise of any rights vested in OTC Clear or any Receiver,

including, without limitation, making any registration and giving any notice, order or direction.

(b) The Clearing Member shall take all such action as is available to it (including making all filings and registrations) as may from time to time be necessary for the purpose of the creation, perfection, protection or maintenance of any Security conferred or intended to be conferred on OTC Clear by or pursuant to this Deed.

##### 4.5 **Assignment of equities of redemption**

The Clearing Member shall not assign any equities of redemption held by it in respect of Collateral that is subject to a Deed of Charge in respect of Client Collateral Account(s) other than pursuant to Clearing Rule 835, 1703 or 1704.

##### 4.6 **BAU Porting Supplemental Assignment Letter**

In respect of any non-cash Collateral that is to be ported pursuant to Clearing Rule 835 either from the Clearing Member as Transferor Clearing Member or to the Clearing Member as Transferee Clearing Member, the Clearing Member shall, upon request by OTC Clear, promptly (and in any event within any timeframe specified by OTC Clear) execute (as Transferor Clearing Member or Transferee Clearing Member, as the case may be) and deliver to OTC Clear a letter in the form of Schedule 2 (*Form of BAU Porting Supplemental Assignment Letter*) to this Deed in respect of that Collateral.

#### 4.7 **Default Porting Supplemental Assignment Letter**

In respect of any non-cash Collateral that is to be ported pursuant to Clearing Rule 1703 or 1704 either from the Clearing Member as Defaulting Clearing Member or to the Clearing Member as Replacement Clearing Member, the Clearing Member shall, upon request by OTC Clear, promptly (and in any event within any timeframe specified by OTC Clear) execute (as Defaulting Clearing Member or Replacement Clearing Member, as the case may be) and deliver to OTC Clear a letter in the form of Schedule 3 (*Form of Default Porting Supplemental Assignment Letter*) to this Deed in respect of that Collateral.

### 5. **MORTGAGED SECURITIES**

#### 5.1 **Voting before enforcement**

Subject to Clause 5.2 (*Voting after enforcement*), the Clearing Member shall not be entitled to exercise, and shall not be entitled to direct the exercise of, the voting and other rights attached to any Securities.

#### 5.2 **Voting after enforcement**

At any time after the occurrence of a DMP Event with respect to the Clearing Member:

- (a) OTC Clear or the Receiver shall be entitled to exercise or direct the exercise of the voting and other rights attached to any Securities in such manner as it or he sees fit; and
- (b) the Clearing Member shall comply or procure the compliance with any directions of OTC Clear or the Receiver in respect of the exercise of those rights and shall promptly execute and/or deliver to OTC Clear or the Receiver such forms of proxy as it or he requires with a view to enabling such person as it or he selects to exercise those rights.

#### 5.3 **Interest before enforcement**

Subject to Clause 5.4 (*Interest after enforcement*), the Clearing Member shall be entitled to receive, and OTC Clear shall pay, such amounts in respect of cash income derived from the Securities as are specified in the Clearing Rules and Clearing Procedures.

#### 5.4 **Interest after enforcement**

At any time after the occurrence of a DMP Event with respect to the Clearing Member, OTC Clear (or, as the case may be, its nominee) shall be entitled to retain any such cash income derived from the Securities received by it and apply the same in such manner as OTC Clear sees fit.

#### 5.5 **Communications**

The Clearing Member shall promptly deliver to OTC Clear a copy of every circular, notice, report, set of accounts or other documents received by it or its nominee in connection with the Securities or in connection with or from the issuer of any of the Securities.

#### 5.6 **Payment of calls etc.**

The Clearing Member will promptly pay or procure the payment of all calls, instalments or other payments which may at any time become due in respect of any of the Charged Assets.

6. **GENERAL UNDERTAKINGS**

6.1 **Information**

The Clearing Member shall supply to OTC Clear promptly such information regarding the Charged Assets and its compliance with this Deed as OTC Clear may reasonably request.

6.2 **No prejudicial conduct**

The Clearing Member shall not do, or permit to be done, anything which could prejudice the Charges.

7. **REPRESENTATIONS AND WARRANTIES**

(a) The Clearing Member makes the representations and warranties set out in this paragraph (a) to OTC Clear on the date of this Deed:

- (i) It is a corporation, duly incorporated and validly existing under the law of its jurisdiction of incorporation.
- (ii) It has the power to own its assets and carry on its business as it is being conducted.
- (iii) The obligations expressed to be assumed by it in this Deed are legal, valid, binding and enforceable, subject to:
  - (A) any general principles of law limiting its obligations which are specifically referred to in any legal opinion delivered to OTC Clear in respect of this Deed; or
  - (B) any registrations to be made after the date of this Deed which are specifically referred to in any legal opinion delivered to OTC Clear in respect of this Deed.
- (iv) Its entry into , performance and delivery of this Deed, and the transactions contemplated by this Deed, do not and will not conflict with:
  - (A) any law or regulation applicable to it;
  - (B) its constitutional documents; or
  - (C) any agreement or instrument binding upon it or any of its assets, nor (except for the Charges) result in the existence of, or oblige it to create, any Security (or any other Encumbrance) over any of its assets.
- (v) It has the power to enter into, perform and deliver, and has taken all necessary action to authorise its entry into, performance and delivery of, this Deed and the transactions contemplated this Deed.
- (vi) All Authorisations required or desirable:
  - (A) to enable it lawfully to enter into, exercise its rights and comply with its obligations in this Deed;
  - (B) to make this Deed admissible in evidence in its jurisdiction of incorporation; and

- (C) to enable it to create the Charges and to ensure that the Charges have the priority and ranking the Charges are expressed to have,
  - have been obtained or effected and are in full force and effect, subject to any registrations specifically referred to in any legal opinion delivered to OTC Clear in respect of this Deed.
- (vii) Subject to any qualifications specifically referred to in any legal opinion delivered to OTC Clear in respect of this Deed:
  - (A) the choice of Hong Kong law as the governing law of this Deed will be recognised and enforced in its jurisdiction of incorporation; and
  - (B) any judgment obtained in Hong Kong in relation to this Deed will be recognised and enforced in its jurisdiction of incorporation.
- (b) The Repeating Representations are deemed to be made by the Clearing Member by reference to the facts and circumstances then existing on each day additional Securities become Charged Assets.
- (c) In addition, the Clearing Member makes the representations and warranties set out in Clearing Rule 1220 to OTC Clear:
  - (i) on the date of this Deed; and
  - (ii) pursuant to Clearing Rule 1220, on each day Collateral is delivered to OTC Clear pursuant to the Clearing Rules.

## 8. ENFORCEMENT

### 8.1 When enforceable

The Charges shall be immediately enforceable on and at any time after the occurrence of a DMP Event with respect to the Clearing Member, and OTC Clear:

- (a) may enforce all or any part of any Charges (at the times, in the manner and on the terms it thinks fit) and take possession and hold or dispose of all or any part of the Charged Assets; and
- (b) whether or not it has appointed a Receiver, may exercise all or any of the powers, authorities and discretions given to mortgagees and receivers by the CPO as varied or extended by this Deed or otherwise conferred by law.

### 8.2 Power of sale

The statutory power of sale, of appointing a Receiver and the other statutory powers conferred on mortgagees by Section 51 (*Powers of mortgagee and receiver*) and Section 53 (*Sale by Mortgagee*) of the CPO and the Fourth Schedule (*Powers of mortgagee and receiver*) to the CPO as varied and extended by this Deed shall arise on the date of this Deed and no restriction imposed by any ordinance or other statutory provision in relation to the exercise of any power of sale shall apply to this Deed.

### 8.3 No requirement of notice period

OTC Clear is not required to give any prior notice of non-payment or default to the Clearing Member before enforcing the Charges, there is no minimum period for which Liabilities must

remain due and unpaid before the Charges can be enforced and Paragraph 11 of the Fourth Schedule (*Powers of mortgagee and receiver*) to the CPO (and any similar provision under other laws) does not apply to this Deed.

#### 8.4 **No Liability as mortgagee in possession**

Nothing done by or on behalf of OTC Clear pursuant to this Deed shall render it liable to account as a mortgagee in possession for any sums other than actual receipts.

#### 8.5 **Wide construction of enforcement powers**

The powers of OTC Clear under this Deed shall be construed in the widest possible sense and all Parties intend that OTC Clear shall have as wide and flexible a range of powers as may be conferred (or, if not expressly conferred, as is not restricted) by any applicable law.

### 9. **APPOINTMENT AND RIGHTS OF RECEIVERS**

#### 9.1 **Appointment of Receivers**

If:

- (a) requested by the Clearing Member; or
- (b) the Charges become enforceable (whether or not OTC Clear has taken possession of the Charged Assets),

without any notice or further notice, OTC Clear may, by deed, or otherwise in writing signed by any officer or manager of OTC Clear or any person authorised for this purpose by OTC Clear, appoint one or more persons to be a Receiver. OTC Clear may similarly remove any Receiver and appoint any person instead of any Receiver. If OTC Clear appoints more than one person as Receiver, OTC Clear may give those persons power to act either jointly or severally. The provisions of section 50 (*Power to appoint a receiver*) of the CPO (as varied and/or extended by this Deed) shall apply to any appointment made pursuant to this Deed.

#### 9.2 **Scope of appointment**

Any Receiver may be appointed Receiver of all of the Charged Assets or Receiver of a part of the Charged Assets specified in the appointment. In the latter case, the rights conferred on a Receiver as set out in Schedule 1 (*Rights of Receivers*) to this Deed shall have effect as though every reference in that Schedule to any Charged Assets were a reference to the part of those assets so specified or any part of those assets.

#### 9.3 **Rights of Receivers**

Any Receiver appointed pursuant to this Clause 9 shall have the rights, powers, discretions, privileges and immunities conferred on receivers by the CPO (as varied and/or extended by this Deed), all powers (if any) conferred on receivers by law or otherwise and shall also have the powers and rights set out in Schedule 1 (*Rights of Receivers*) to this Deed, all of which powers and rights are exercisable without further notice.

#### 9.4 **Agent of Clearing Member**

Any Receiver shall be the agent of the Clearing Member for all purposes. The Clearing Member alone shall be responsible for the Receiver's contracts, engagements, acts, omissions, defaults and losses and for liabilities incurred by the Receiver.

#### 9.5 **Remuneration**

OTC Clear may determine the remuneration of any Receiver and direct payment of that remuneration out of moneys he receives as Receiver. The Clearing Member alone shall be

liable for the remuneration and all other costs, losses, liabilities and expenses of the Receiver.

## 10. OTC CLEAR'S RIGHTS

### 10.1 Rights of OTC Clear

Any rights conferred by this Deed upon a Receiver may be exercised by OTC Clear after the Charges become enforceable, whether or not OTC Clear shall have taken possession or appointed a Receiver of the Charged Assets.

### 10.2 Delegation

OTC Clear may delegate in any manner to any person any rights exercisable by OTC Clear under this Deed. Any such delegation may be made upon such terms and conditions (including power to sub-delegate) as OTC Clear thinks fit.

## 11. ORDER OF DISTRIBUTIONS

All amounts received or recovered by OTC Clear or any Receiver or any Delegate in exercise of their rights under this Deed shall be applied in the following order of priority (subject to Clause 15.5 (*Appropriations*)), in each case in accordance with the terms of the Clearing Rules and Clearing Procedures:

- (a) in or towards the payment of all costs, losses, liabilities and expenses of and incidental to the appointment of any Receiver or Delegate and the exercise of any of his rights, including his remuneration and all outgoings paid by him (to the extent that, in OTC Clear's opinion, such costs, losses, liabilities and expenses relate to the amount received or recovered);
- (b) in or towards the payment of Liabilities relating to the Client Position Account to which the Relevant Charged Assets are or were attributed by OTC Clear in accordance with the Clearing Rules and Clearing Procedures; and
- (c) in payment of any surplus to the Clearing Member or other person entitled to it.

## 12. LIABILITY OF OTC CLEAR, RECEIVERS AND DELEGATES

### 12.1 Possession

If OTC Clear, any Receiver or any Delegate takes possession of the Charged Assets, it or he may at any time relinquish possession.

### 12.2 OTC Clear's liability

- (a) Neither OTC Clear nor any Receiver or Delegate shall (either by reason of taking possession of the Charged Assets or for any other reason and whether as mortgagee in possession or otherwise) be liable to the Clearing Member or any other person for any costs, losses, liabilities or expenses relating to the realisation of any Charged Assets or from any act, default, omission or misconduct of OTC Clear, any Receiver, any Delegate or their respective officers, employees or agents in relation to the Charged Assets or in connection with any Contract or Clearing Documentation provided that the relevant realisation, act, default, omission or misconduct is done or made, as the case may be, in good faith.
- (b) Nothing in this Deed shall be construed as placing on OTC Clear any liability whatsoever in respect of any calls, instalments or other payments relating to any of the Charged Assets or

any rights, shares or other securities accruing, offered or arising as aforesaid, and the Clearing Member shall indemnify OTC Clear in respect of all calls, instalments or other payments relating to any of the Charged Assets owned by it and to any rights, shares and other securities accruing, offered or arising as aforesaid in respect of any of the Charged Assets.

### 13. **POWER OF ATTORNEY**

#### 13.1 **Appointment**

The Clearing Member by way of security irrevocably appoints OTC Clear, every Receiver and every Delegate severally as its attorney (with full power of substitution), on its behalf and in its name or otherwise, at such time and in such manner as the attorney thinks fit:

- (a) to do anything which the Clearing Member is obliged to do (but has not done) under any Clearing Documentation (including to execute charges over, transfers, conveyances, assignments and assurances of, and other instruments, notices, orders and directions relating to, the Charged Assets); and
- (b) to exercise any of the rights conferred on OTC Clear, any Receiver or any Delegate in relation to the Charged Assets or under or in connection with any Clearing Documentation or under the CPO, the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the SFO or generally under Hong Kong law.

#### 13.2 **Ratification**

The Clearing Member ratifies and confirms and agrees to ratify and confirm whatever any such attorney shall do in the exercise or purported exercise of the power of attorney granted by it in Clause 13.1 (*Appointment*).

### 14. **PROTECTION OF THIRD PARTIES**

#### 14.1 **No duty to enquire**

No person dealing with OTC Clear, any Receiver or any Delegate shall be concerned to enquire:

- (a) whether the power or rights conferred under or in connection with this Deed are exercisable;
- (b) whether any consents, regulations, restrictions or directions relating to such rights have been obtained or complied with;
- (c) otherwise as to the propriety or regularity of acts purporting or intended to be in exercise of any such rights; or
- (d) as to the application of any money borrowed or raised.

#### 14.2 **Protection to purchasers**

Subject to the provisions of this Deed, all the protection to purchasers contained in Sections 52 (*Protection of purchaser*), 53 (*Sale by mortgagee*) and 55 (*Mortgagee's receipt*) of the CPO or in any other applicable legislation shall apply to any person purchasing from or dealing with OTC Clear, any Receiver or any Delegate.

## 15. **SAVING PROVISIONS**

### 15.1 **Continuing Security**

Subject to Clause 16 (*Discharge of Security*), the Charges are continuing Security and will extend to the ultimate balance of the Liabilities, regardless of any intermediate payment or discharge in whole or in part.

### 15.2 **Reinstatement**

If any discharge, release or arrangement (whether in respect of the obligations of the Clearing Member or any security for those obligations or otherwise) is made by OTC Clear in whole or in part on the basis of any payment, security or other disposition which is avoided or must be restored in insolvency, liquidation, administration or otherwise, without limitation, then the liability of the Clearing Member and the Charges shall continue or be reinstated as if the discharge, release or arrangement had not occurred.

### 15.3 **Waiver of defences**

Neither the obligations of the Clearing Member under this Deed nor the Charges will be affected by an act, omission, matter or thing which, but for this Clause, would reduce, release or prejudice any of its obligations under any Contract or Clearing Documentation or any of the Charges (without limitation and whether or not known to it or OTC Clear) including:

- (a) any time, waiver or consent granted to, or composition with, the Clearing Member or other person;
- (b) the release of the Clearing Member or other person under the terms of any composition or arrangement with any creditor of the Clearing Member;
- (c) the taking, variation, compromise, exchange, renewal or release of, or refusal or neglect to perfect, take up or enforce any rights against, or security over assets of, the Clearing Member or other person or any non-presentation or non-observance of any formality or other requirement in respect of any instrument or any failure to realise the full value of any security;
- (d) any incapacity or lack of power, authority or legal personality of or dissolution or change in the members or status of the Clearing Member or other person;
- (e) any amendment, novation, supplement, extension, restatement (however fundamental and whether or not more onerous) or replacement of any Contract or Clearing Documentation or any other document or security;
- (f) any unenforceability, illegality or invalidity of any obligation of any person under any Contract or Clearing Documentation or any other document or security; or
- (g) any insolvency or similar proceedings.

### 15.4 **Immediate recourse**

The Clearing Member waives any right it may have of first requiring OTC Clear (or any trustee or agent on its behalf) to proceed against or enforce any other rights or security or claim payment from any person before claiming from the Clearing Member under this Deed. This waiver applies irrespective of any law or any provision of any Contract or Clearing Documentation to the contrary.

## 15.5 Appropriations

Until all the Liabilities have been irrevocably paid in full and the Membership of the Clearing Member has been terminated in accordance with the Clearing Rules, OTC Clear (or any trustee or agent on its behalf) may:

- (a) refrain from applying or enforcing any other moneys, security or rights held or received by OTC Clear (or any trustee or agent on its behalf) in respect of those amounts, or apply and enforce the same in such manner and order as it sees fit (whether against those amounts or otherwise) and the Clearing Member shall not be entitled to the benefit of the same; and
- (b) hold in an interest-bearing suspense account any moneys received from the Clearing Member or on account of the Clearing Member's liability under this Deed.

## 15.6 Additional Security

The Charges are in addition to and are not in any way prejudiced by any other guarantees or security now or subsequently held OTC Clear.

## 16. DISCHARGE OF SECURITY

### 16.1 Final redemption

Subject to Clause 16.2 (*Retention of security*), if OTC Clear is satisfied that all the Liabilities have been irrevocably paid in full and that the Membership of the Clearing Member has been terminated in accordance with the Clearing Rules, OTC Clear shall at the request and cost of the Clearing Member release, reassign or discharge (as appropriate) the Charged Assets from the Charges.

### 16.2 Retention of security

If OTC Clear considers that any amount paid or credited to OTC Clear under any Contract or Clearing Documentation is capable of being avoided or otherwise set aside, that amount shall not be considered to have been paid for the purposes of determining whether all the Liabilities have been irrevocably paid.

### 16.3 Consolidation

Any restrictions on the consolidation of Security shall be excluded to the fullest extent permitted by law and OTC Clear shall, so far as it is lawful and subject to other provisions of this Deed, be entitled to consolidate all or any of the Charges with any other Security whether in existence on the date of this Deed or in the future.

## 17. PAYMENTS

### 17.1 Demands

Any demand for payment made by OTC Clear shall be valid and effective even if it contains no statement of the relevant Liabilities or an inaccurate or incomplete statement of them.

### 17.2 Payments

All payments by the Clearing Member under this Deed (including damages for its breach) shall be made to such account, with such financial institution and in such other manner as OTC Clear may direct.

### 17.3 Continuation of accounts

At any time after:

- (a) the receipt by OTC Clear of notice (either actual or otherwise) of any subsequent Security affecting the Charged Assets; or
- (b) the presentation of a petition or the passing of a resolution in relation to the Winding-up of the Clearing Member,

OTC Clear may open a new account in the name of the Clearing Member (whether or not it permits any existing account to continue). If OTC Clear does not open such a new account, it shall nevertheless be treated as if it had done so when the relevant event occurred. No moneys paid into any account, whether new or continuing, after that event shall discharge or reduce the Liabilities as at the time the relevant event occurred.

## 18. RIGHTS, WAIVERS AND DETERMINATIONS

### 18.1 Ambiguity

Where there is any ambiguity or conflict between the rights conferred by law and those conferred by or pursuant to this Deed, the terms of this Deed shall prevail.

### 18.2 Remedies and waivers

No failure to exercise, nor any delay in exercising, on the part of OTC Clear, any Receiver or any Delegate any right or remedy under this Deed shall operate as a waiver of any such right or remedy or constitute an election to affirm this Deed. No waiver or election to affirm this Deed on the part of OTC Clear, any Receiver or any Delegate shall be effective unless in writing. No single or partial exercise of any right or remedy shall prevent any further or other exercise or the exercise of any other right or remedy. The rights and remedies provided in this Deed are cumulative and not exclusive of any rights or remedies provided by law.

### 18.3 Determinations

Any determination by or certificate of OTC Clear, any Receiver or any Delegate under this Deed is, in the absence of manifest error, conclusive evidence of the matters to which it relates.

## 19. SEPARATE AND INDEPENDENT OBLIGATIONS

The Security created by the Clearing Member by or in connection with any Contract or Clearing Documentation is separate from and independent of the Security created or intended to be created by any other person by or in connection with any Contract or Clearing Documentation.

## 20. COUNTERPARTS

This Deed may be executed in any number of counterparts, and this has the same effect as if the signatures on the counterparts were on a single copy of this Deed.

## 21. GOVERNING LAW

This Deed is governed by Hong Kong law.

## 22. JURISDICTION

- (a) The courts of Hong Kong have exclusive jurisdiction to settle any dispute arising out of or in connection with this Deed (including a dispute relating to the existence, validity or termination of this Deed) (a "**Dispute**").

- (b) The Parties agree that the courts of Hong Kong are the most appropriate and convenient courts to settle Disputes and accordingly no Party will argue to the contrary.
- (c) This Clause 22 is for the benefit of OTC Clear only. As a result, OTC Clear shall not be prevented from taking proceedings relating to a Dispute in any other courts with jurisdiction. To the extent allowed by law, OTC Clear may take concurrent proceedings in any number of jurisdictions.

**SCHEDULE 1**  
**RIGHTS OF RECEIVERS**

Any Receiver appointed pursuant to Clause 9 (*Appointment and rights of Receivers*) shall have the right, either in its own name or in the name of the Clearing Member or otherwise and in such manner and upon such terms and conditions as the Receiver thinks fit, and either alone or jointly with any other person:

(a) **Take possession**

to take possession of, get in and collect the Charged Assets, and to require payment to it of all Interest including without limitation, to complete any instruments of transfer and to procure the transfer of the Charged Assets into the name of the Receiver or its nominee and, if necessary, take possession of and collect any documents of title relating to the Charged Assets and/or cause physical documents of title to be withdrawn from any Clearing System and/or cause the Charged Assets to be deposited into any relevant Clearing System, in each case, at the cost and risk of the Clearing Member;

(b) **Deal with Charged Assets**

to sell, transfer, assign, exchange, lend or otherwise dispose of or realise the Charged Assets to any person either by public offer or auction, tender or private contract and for a consideration of any kind (which may be payable or delivered in one amount or by instalments spread over a period or deferred);

(c) **Borrow money**

to borrow or raise money either unsecured or on the security of the Charged Assets (either in priority to the Charges or otherwise);

(d) **Rights of ownership**

to exercise and do (or permit the Clearing Member or any nominee of it to exercise and do) all such rights and things as OTC Clear would be capable of exercising or doing if it were the absolute beneficial owner of the Charged Assets;

(e) **Claims**

to settle, adjust, refer to arbitration, compromise and arrange any claims, accounts, disputes, questions and demands with or by any person relating to the Charged Assets;

(f) **Legal actions**

to bring, prosecute, enforce, defend and abandon actions, suits and proceedings in relation to the Charged Assets or any business of the Clearing Member;

(g) **Redemption of Security**

to redeem any Security (whether or not having priority to the Charges) over the Charged Assets and to settle the accounts of any person with an interest in the Charged Assets; and

(h) **Other powers**

to do anything else it may think fit for the realisation of the Charged Assets or incidental to the exercise of any of the rights conferred on the Receiver under or by virtue of any Contract, any Clearing Documentation, the CPO, the Companies Ordinance, the Companies (Winding

Up and Miscellaneous Provisions) Ordinance, the SFO and other applicable statutory provisions and common law.

**SCHEDULE 2**  
**FORM OF BAU PORTING SUPPLEMENTAL ASSIGNMENT LETTER**

To: [●] (the “**Transferee Clearing Member**”)  
Cc: OTC Clearing Hong Kong Limited (“**OTC Clear**”)  
From: [●] (the “**Transferor Clearing Member**”)

[Insert date]

Dear Sirs

1. We refer to:
  - a. the clearing membership agreement between the Transferor Clearing Member and OTC Clear dated [●] (the “**Membership Agreement**”); and
  - b. the porting request made by the Transferee Clearing Member pursuant to Clearing Rule 830 with reference number [●] and dated [●] (the “**Porting Request**”).
2. Terms used and not defined in this letter have the meanings that such terms have for the purposes of the Membership Agreement.
3. To the extent not already assigned pursuant to the Clearing Rules, the Transferor Clearing Member hereby assigns absolutely, on the terms of Clearing Rule 835, to the Transferee Clearing Member any equities of redemption held by the Transferor Clearing Member in respect of Collateral that is:
  - a. subject to a Deed of Charge between the Transferor Clearing Member and OTC Clear in respect of Client Collateral Account(s) (as defined in the Clearing Rules); and
  - b. to be ported from the Transferor Clearing Member to the Transferee Clearing Member pursuant to the Porting Request.
4. This letter shall be governed by and construed in accordance with the laws of Hong Kong.
5. The Transferor Clearing Member and Transferee Clearing Member intend this letter to take effect as a deed even if the Transferee Clearing Member only executes it under hand. This letter has been delivered as a deed on the date stated at the beginning of this letter.

**Signature page to the BAU Porting Supplemental Assignment Letter**

**Transferor Clearing Member**

*[Note: For use by a Hong Kong company executing by seal]*

**[[THE [COMMON SEAL] of]  
[TRANSFEROR CLEARING MEMBER]**

**[COMMON SEAL OF TRANSFEROR  
CLEARING MEMBER]**

was affixed in the presence of:

.....  
[Signature of Director]

Director

.....  
[Signature of Director/Secretary]

[Director/Secretary]]

**OR**

*[Note: For use by a Hong Kong company executing under hand (subject to requirements in Articles)]*

**[EXECUTED AND DELIVERED** as  
a **DEED** by and in the name of

**[TRANSFEROR CLEARING MEMBER]** acting by [its sole director]/[two  
directors]/[a director and its company secretary]:

.....  
[Signature of Director]

Director

.....  
[Signature of Director/Secretary]

[Director/Secretary]

[Signature of witness]

Name

Address

Occupation]

**Transferee Clearing Member**

**[INSERT NAME OF TRANSFEREE CLEARING  
MEMBER]**

By:

### SCHEDULE 3

#### FORM OF DEFAULT PORTING SUPPLEMENTAL ASSIGNMENT LETTER

To: [●] (the “**Replacement Clearing Member**”)  
Cc: OTC Clearing Hong Kong Limited (“**OTC Clear**”)  
From: [●] (the “**Defaulting Clearing Member**”)

[Insert date]

Dear Sirs

1. We refer to:
  - a. the clearing membership agreement between the Defaulting Clearing Member and OTC Clear dated [●] (the “**Membership Agreement**”); and
  - b. the Porting Instructions submitted to OTC Clear pursuant to Clearing Rule 822 with reference number[s] [●] and dated [●] (the “**Porting Instructions**”).
2. Terms used and not defined in this letter have the meanings that such terms have for the purposes of the Membership Agreement.
3. To the extent not already assigned pursuant to the Clearing Rules, the Defaulting Clearing Member hereby assigns absolutely, on the terms of Clearing Rule 1703, to the Replacement Clearing Member any equities of redemption held by the Defaulting Clearing Member in respect of Collateral that is:
  - a. subject to a Deed of Charge between the Defaulting Clearing Member and OTC Clear in respect of Client Collateral Account(s) (as defined in the Clearing Rules);
  - b. recorded in the Client Clearing Category 1 Collateral Account (as defined in the Clearing Rules) relating to the Client referred to in the Porting Instructions; and
  - c. to be ported from the Defaulting Clearing Member to the Replacement Clearing Member pursuant to Clearing Rule 1703.
4. To the extent not already assigned pursuant to the Clearing Rules, the Defaulting Clearing Member hereby assigns absolutely, on the terms of Clearing Rule 1704, to the Replacement Clearing Member any equities of redemption held by the Defaulting Clearing Member in respect of Collateral that is:
  - a. subject to a Deed of Charge between the Defaulting Clearing Member and OTC Clear in respect of Client Collateral Account(s) (as defined in the Clearing Rules);
  - b. recorded in the Client Clearing Category 2 Collateral Account (as defined in the Clearing Rules) relating to (amongst others) the Client referred to in the Porting Instructions; and
  - c. to be ported from the Defaulting Clearing Member to the Replacement Clearing Member pursuant to Clearing Rule 1704.
5. This letter shall be governed by and construed in accordance with the laws of Hong Kong.

6. The Defaulting Clearing Member and Replacement Clearing Member intend this letter to take effect as a deed even if the Replacement Clearing Member only executes it under hand. This letter has been delivered as a deed on the date stated at the beginning of this letter.

**Signature page to the Default Porting Supplemental Assignment Letter**

**Defaulting Clearing Member**

*[Note: For use by a Hong Kong company executing by seal]*

**[[THE [COMMON SEAL] of]  
[DEFAULTING CLEARING MEMBER]**

**[COMMON SEAL OF DEFAULTING  
CLEARING MEMBER]**

was affixed in the presence of:

.....  
[Signature of Director]

Director

.....  
[Signature of Director/Secretary]

[Director/Secretary]

**OR**

*[Note: For use by a Hong Kong company executing under hand (subject to requirements in Articles)]*

**[EXECUTED AND DELIVERED** as  
a **DEED** by and in the name of

**[DEFAULTING CLEARING MEMBER]** acting by [its sole director]/[two  
directors]/[a director and its company secretary]:

.....  
[Signature of Director]

Director

.....  
[Signature of Director/Secretary]

[Director/Secretary]

[Signature of witness]

Name

Address

Occupation]

**Replacement Clearing Member**

**[INSERT NAME OF REPLACEMENT  
CLEARING MEMBER]**

By:

**Signature page to the Deed of Charge**

In witness whereof this Deed has been [signed/executed/sealed]<sup>1</sup> [and delivered] as a deed on the date stated at the beginning.

**Clearing Member**

*[Note: For use by a Hong Kong company executing by seal]*

[[THE [COMMON SEAL] of]  
[CLEARING MEMBER]

[COMMON SEAL OF CLEARING  
MEMBER]

was affixed in the presence of:

.....  
[Signature of Director]

Director

.....  
[Signature of Director/Secretary]

[Director/Secretary]

**OR**

*[Note: For use by a Hong Kong company executing under hand (subject to requirements in Articles)]*

[EXECUTED AND DELIVERED as  
a DEED by and in the name of  
[CLEARING MEMBER] acting by [its sole director]/[two  
directors]/[a director and its company secretary]:

.....

[Signature of Director]

Director

.....

[Signature of Director/Secretary]

\_\_\_\_\_

<sup>1</sup> Ensure that this is consistent with the words used in the relevant signature block – in particular whether “signed”, “executed” and/or “sealed” has been used.

[Director/Secretary]

[Signature of witness]

Name

Address

Occupation]

**OTC Clear**

**EXECUTED** by [name of authorised signatory] for and on behalf of **OTC CLEARING HONG KONG LIMITED** in the presence of

[Signature of authorised signatory]

.....

.....

[Signature of witness]

Name

Address

Occupation

Address:

Fax No:

Attention:

## Appendix V

### Floating Rate Options and Designated Maturities Accepted for a Calculation Period to which Stub or Interpolation is Applicable

Floating Rate Option	Designated Maturity
CNH-HIBOR-TMA	One Month, Three Months, Six Months and One Year
CNY-SHIBOR-Reuters	One Month, Three Months, Six Months and One Year
EUR-EURIBOR-Reuters	One Week, One Month, Two Months, Three Months, Six Months, and One Year
EUR-LIBOR-BBA	One Week, One Month, Two Months, Three Months, Six Months and One Year
HKD-HIBOR-HKAB	One Month, Two Months, Three Months, Six Months and One Year
USD-LIBOR-BBA	One Week, One Month, Two Months, Three Months, Six Months and One Year
MYR-KLIBOR-BNM	One Month, Two Months, Three Months, Six Months and One Year
THB-THBFIX-Reuters	One Month, Three Months, Six Months and One Year
TWD-TAIBOR-Reuters	One Month, Two Months, Three Months and Six Months

## Glossary

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