

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.

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^{*}. 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[†]

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.

^{*} 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.

[†] 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.