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Member on each day Collateral is delivered to OTC Clear pursuant to these Clearing Rules.

1220A. Each Non Rule-Based Clearing Member represents and warrants to OTC Clear that:

- (1) all filings and registrations necessary for the purpose of the creation, perfection, protection and maintenance of any security conferred or intended to be conferred on each Client by or pursuant to any Security Deed have been effected and are in full force and effect; and
- (2) any Security Deed creates in favour of each Client identified therein security over the relevant Client Entitlement in respect of such Client that is legal, valid, binding and enforceable, in accordance with the terms of such deed.

The representations and warranties made by a Non Rule-Based Clearing Member pursuant to this Clearing Rule 1220A shall be deemed to be repeated by such Clearing Member on each day on which an Original Transaction is submitted for registration as part of such Clearing Member's Client Clearing Services and each day on which Collateral is delivered to OTC Clear pursuant to these Clearing Rules and in connection with such Clearing Member's Client Clearing Services.

1221. A Clearing Member shall be liable to OTC Clear for any Damage incurred by OTC Clear as a result of OTC Clear possessing, holding, perfecting the title to or otherwise being associated with, any Collateral delivered by such Clearing Member.

Position Limits and Notional Exchange Risk Limits

1222. Pursuant to section 4.6.1 of the Clearing Procedures, unless with the prior written approval from OTC Clear, each Clearing Member is required to impose a House Account Limit in respect of its House Position Account and a Client Account Limit in respect of each of its Client Position Accounts, provided that OTC Clear may, at any time and from time to time, in its absolute discretion, in respect of each Position Account, override, amend or revoke any such Position Limits and/or impose an Absolute Risk Limit and/or a Notional Exchange Risk Limit.

1223. If a Clearing Member exceeds any Position Limits or Notional Exchange Risk Limits imposed, that Clearing Member must immediately notify OTC Clear and take appropriate steps to ensure that, within such period as OTC Clear may specify, it is in compliance with such Position Limits or Notional Exchange Risk Limits, as the case may be. In addition, OTC Clear may, at its discretion:

- (1) require a Clearing Member to de-clear certain Contracts and/or enter into risk-reducing Contracts, including, without limitation, the measures described in section 3.20 of the Clearing Procedures with respect to any exceedance of a Notional Exchange Risk Limit;
- (2) demand such Additional Margin as OTC Clear in its discretion determines including, without limitation, Additional Margin be provided in

specific settlement currency(ies) with respect to any exceedance of a Notional Exchange Risk Limit; and/or

- (3) take such other action as OTC Clear in its discretion determines.

As further described in section 4.6.1 of the Clearing Procedures, OTC Clear will not register any Original Transactions submitted by a Clearing Member (or by a Designated Person on its behalf) if registration of any such Original Transactions will result in a breach of any Position Limits applicable to such Clearing Member.

1224. If the Clearing Member fails to comply with any requirement imposed on it pursuant to Clearing Rule 1223, the Clearing Member shall be in breach of these Clearing Rules and, without limitation, OTC Clear may, at its discretion, in respect of the Clearing Member concerned:

- (1) declare an Event of Default under Clearing Rule 1301;
- (2) suspend or terminate Membership of the Clearing Member;
- (3) terminate or liquidate such Contracts as OTC Clear at its discretion selects on behalf of the Clearing Member;
- (4) instigate an investigation or disciplinary proceedings under Chapter 14 of these Clearing Rules;
- (5) impose such other requirements on the Clearing Member as it sees fit; and/or
- (6) take such other action as OTC Clear in its discretion determines.

and/or Contract Termination Losses arising out of the DMP Events occurring within the same Capped Liability Period:

(1) OTC Clear may make such adjustments as are necessary in determining the Preliminary Available Resources and the RAP and the Margin Allocation Percentage(s) for each Auction Portfolio constructed as a result of each DMP Event occurring within the same Capped Liability Period. In doing so, OTC Clear will review the aggregate sum of all resources it has then to satisfy the Rates and FX Loss arising out of each such DMP Event, namely, the then Margin Balance held in respect of the Defaulting Clearing Members, any Unsettled VM Amount (to the extent that such Unsettled VM Amount is payable by OTC Clear to the Defaulting Clearing Members) and any income and redemption proceeds on any non-cash Collateral that have not already been paid to or withdrawn by the Defaulting Clearing Members, the OTC Clear Contribution, and the Rates and FX Contribution Balance then held in respect of by all Non-Defaulting Clearing Members; and

(2)

(a) to the extent that the Auction Losses and/or Contract Termination Losses arising from all Auction Portfolios constructed for one single Defaulting Clearing Member do not require utilization in full of the Rates and FX Contribution of such Defaulting Clearing Member, any remaining Rates and FX Contribution of such Defaulting Clearing Member shall be utilized to satisfy any Auction Losses and/or Contract Termination Losses arising from one or more Auction Portfolios constructed for another Default Management Process in respect of another Defaulting Clearing Member;

(b) any excess Rates and FX Contribution of a Defaulting Clearing Member will be applied on a pro-rata basis based on the share of Rates and FX Contribution contributed by the relevant Defaulting Clearing Member; and

(c) OTC Clear will always ensure that the Rates and FX Contribution of all Defaulting Clearing Members whose DMP Events occurred within the same Capped Liability have been utilized in full prior to utilizing the OTC Clear First Contribution.

1917. OTC Clear will at all times observe Clearing Rule 823 in carrying out the loss allocation process described in Clearing Rules 1914 to 1916, and Initial Non-Porting Client Resources allocated to a Client Auction Portfolio of a Defaulting Clearing Member shall never be utilized to meet any losses arising out of such or other Defaulting Clearing Members' House Account.

Successive Auction

1918. If an Auction is unsuccessful in dealing with all Auction Positions in the relevant Auction Portfolio, further round(s) of Auction may be held. In order to facilitate the Auction process and/or if OTC Clear declares a Contract Termination Event affecting more than one Auction Portfolio, OTC Clear may, in consultation with the Default Management Group, decide to combine or sub-divide previously constructed Auction Portfolios for successive Auctions or for the purpose of allocating losses relating to a Contract Termination Event.

1918A. If, pursuant to Clearing Rule 1918, an Auction is held and is unsuccessful, and if OTC Clear reasonably believes that further round(s) of Auction will not be successful in dealing

with all Auction Positions in one or more Auction Portfolio(s) within a reasonable time frame as determined by OTC Clear, OTC Clear may invoke the contract termination process as provided for in this Clearing Rule in consultation with the SFC. OTC Clear shall determine which Contracts will be terminated, either in whole or in part, (“**Identified Contracts**”) under this Clearing Rule, shall notify the relevant Clearing Members of the details of the relevant Identified Contracts, and shall declare the occurrence of a termination event in respect of such Identified Contracts, either in whole or in part, (a “**Contract Termination Event**”). In making this determination, OTC Clear may:

- (i) select (a) those Contracts executed between OTC Clear and any Non-Defaulting Clearing Member for the purpose of Hedging the exposure of OTC Clear in relation to the Auction Failed Positions of the Defaulting Clearing Member and (b) those Contracts between OTC Clear and Non-Defaulting Clearing Members which have equal but opposite terms to the Auction Failed Positions in respect of the Defaulting Clearing Member; or
- (ii) select (a) those Contracts executed between OTC Clear and any Non-Defaulting Clearing Member for the purpose of Hedging the exposure of OTC Clear in relation to the Auction Failed Positions of the Defaulting Clearing Member and (b) all Contracts which are of the same Transaction Category as the Contracts described in Clearing Rule 1918A(i)(b), regardless of whether such Contracts are on the same or equal but opposite terms to those of the Auction Failed Positions in respect of the Defaulting Clearing Member; or
- (iii) select all Contracts registered at OTC Clear regardless of the Transaction Category of such Contracts.

The Identified Contracts shall be terminated as of the Final Settlement Cycle Determination Date for such Contract Termination Event as determined pursuant to section 10.5 of the Clearing Procedures.

1918B. On the Final Settlement Cycle Determination Date for a Contract Termination Event, all obligations of OTC Clear and the relevant Non-Defaulting Clearing Member in respect of each Identified Contract between them shall cease to exist and be replaced with the obligation of OTC Clear or the relevant Non-Defaulting Clearing Member, as the case may be, to pay a net sum in respect of all such Identified Contracts as between them (each a “**Contract Termination Net Payment**”) equal to the change in net present value for each such Identified Contract between the last End-of Day Settlement Process immediately preceding the relevant Final Settlement Cycle Determination Date and 11.00 hours Hong Kong time on the Final Settlement Cycle Determination Date, as determined by OTC Clear in accordance with this Clearing Rule and sections 10.1(iv) and 10.5 of the Clearing Procedures. OTC Clear will, as soon as reasonably practicable on the Final Settlement Cycle Determination Date, notify the relevant Non-Defaulting Clearing Member of the Contract Termination Net Payment payable by it, and the relevant Non-Defaulting Clearing Member shall pay OTC Clear such amount within one OTC Clear Business Day after the Final Settlement Cycle Determination Date. Notwithstanding the above, if at any time during the Contract Termination Event process but prior to the effective date of termination of the relevant Identified Contracts, OTC Clear determines that the Contract Termination Net Payments would result in any of the events set out in Clearing Rule 1530(1), OTC Clear may, instead of proceeding with the Contract Termination Event, declare the occurrence of a Rates and FX Clearing Termination Event, and in such case the Identified Contracts shall not be terminated pursuant to this Clearing Rule 1918B but shall be