

OTC Clear Clearing Procedures

Chapter 3

Rates and FX Clearing Services

3.8.2.1 Fees

Types of fees which are applicable to a Clearing Member and Sponsored Settlement Member (where applicable) will be notified by OTC Clear to its Clearing Members and Sponsored Settlement Member 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 or Sponsored Settlement Member (where applicable). 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 and, in addition, OTC Clear reserves the right to waive any fee or to charge any additional fee prescribed by it from time to time by notifying such waiver or additional fee to Clearing Members via Clearing Notice.

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.

3.11 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, except Notional Amounts of any Deliverable FX Derivatives Contract in the same Currency Pair (swap and FX), 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, except in relation to any SSM Payment Amounts referred to in sub-paragraph (c) below (where applicable), 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); and
 - (c) in respect of a Clearing Member's Client Business and in relation to SSM Payment Amounts pertaining to the Position Account of a particular Sponsored Settlement Member (if applicable), will be netted together (for the avoidance of doubt,

payments of such amounts will not be netted across different Sponsored Settlement Members).

- (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 ~~Derivatives 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, except in relation to any SSM Payment Amounts referred to in sub-paragraph (c) below (where applicable), 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); and
 - (c) in respect of a Clearing Member's Client Business and in relation to SSM Payment Amounts pertaining to the Position Account of a particular Sponsored Settlement Member (if applicable), will be netted together (for the avoidance of doubt, payments of such amounts will not be netted across different Sponsored Settlement Members).

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, other than in respect of any SSM Payment Amounts (where applicable), 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, solely in respect of any SSM Payment Amounts pertaining to a particular Sponsored Settlement Member (where applicable), the relevant Sponsored Settlement 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(iii) and (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 and their Sponsored Settlement Members (where applicable). 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. If a Sponsored Settlement Member wishes to change its standard settlement instruction in respect of cash payments relevant to its Client Position Account and Client Collateral Account, its relevant sponsoring Clearing Member 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**” (“**HKICL**”). For a Clearing Member who is not a member of the RTGS system, for cash settlement purpose, it should maintain an account with a member of the RTGS system. If a Clearing Member is a member of the RTGS system, it must settle directly with the settlement bank of OTC Clear via the RTGS system. Sponsored Settlement Members must settle directly with the settlement bank of OTC Clear via the 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.

Except for settlements 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 which must be settled through the Bulk Settlement Runs process, 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 a particular settlement currency and where a Sponsored Settlement Member has been appointed by OTC Clear as a settlement bank for a particular settlement 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.

Except for Bulk Settlement Runs, under RTGS system, the settlement of any amount shall be initiated by the payer of such amounts.

3.11.2 Bulk Settlement Run

- (i) In respect ~~to~~ of 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 Derivatives Contract relevant to a Currency Pair (swap and FX) for a particular Clearing Member or Sponsored Settlement Member (where applicable), if the netted amounts of at least one of the currencies of a Currency Pair (swap and FX) derived in accordance with section 3.11 (v) is greater than zero, they must be settled through the Bulk Settlement Run process for such Currency Pair (swap and FX), where “**Bulk**

Settlement Run” is a money clearing and settlement service linked with the RTGS system provided by HKICL, which settles interbank payments through a payment-versus-payment mechanism on a bulk settlement basis, “**payment-versus-payment**” (or “**PVP**”) is a mechanism whereby a transfer of one currency in a Currency Pair (swap and FX) occurs only if a transfer of the other currency in the Currency Pair (swap and FX) also takes place, and “**Bulk Settlement Run process**” is the settlement process comprising all the Bulk Settlement Runs in the same Currency Pair (swap and FX) on any particular payment date. For a Clearing Member who is not a member of the RTGS system, for cash settlement purpose, it should maintain an account with a member of the RTGS system. If a Clearing Member is a member of the RTGS system, it must settle directly through the Bulk Settlement Run process. A Sponsored Settlement Member settling on behalf of the relevant Clearing Member must settle directly through the Bulk Settlement Run process.

- (ii) In normal circumstances, in respect of a particular payment date, the Bulk Settlement Run process for the Currency Pair (swap and FX) of USD and HKD commences at 11:40 hours Hong Kong time, and the Bulk Settlement Run process for the Currency Pair (swap and FX) of USD and CNY (offshore) commences at 12:00 hours Hong Kong time. The commencement times are subject to changes as set out in the relevant operating rules of the RTGS system. In respect of any Bulk Settlement Run process on a particular payment date, the commencement time of a Bulk Settlement Run process as set out in the relevant operating rules of the RTGS system is referred to as the “**Commencement Time**” in these Clearing Procedures.
- (iii) Any Bulk Settlement Run process which is not completed by the relevant Notional Exchange Settlement Cutoff Time will be cancelled in accordance with the relevant operating rules of the RTGS system.
- (iv) For the avoidance of doubt, the Bulk Settlement Run process for the Currency Pair (swap and FX) of USD and CNY (offshore) will commence after the completion or cancellation of the Bulk Settlement Run process for the Currency Pair (swap and FX) of USD and HKD, in any case no earlier than 12:00 hours Hong Kong time.
- (v) Where OTC Clear determines to continue to settle any amount pursuant to section 3.19(ii)(a) of these Clearing Procedures by means of other methods as determined by OTC Clear, if the Clearing Member is a member of the RTGS system, it must settle directly with the settlement banks appointed by OTC Clear via the RTGS system and Sponsored Settlement Members must settle directly with the settlement banks appointed by OTC Clear via the RTGS system.
- (vi) Each Clearing Member and Sponsored Settlement Member (where applicable) authorizes OTC Clear to instruct HKICL and each Settlement Institution on the amounts to be cleared and settled in any Bulk Settlement Run process by submitting to HKICL one or more files containing money clearing and settlement instructions between members of the RTGS system. Each Clearing Member (if it is a member of the RTGS system) and Sponsored Settlement Member (where applicable) authorizes and instructs HKICL and each Settlement Institution, or (if it is not a member of the RTGS system) agrees to ensure that each member of the RTGS system with which it maintains an account authorizes and instructs HKICL and each Settlement Institution, to accept such instructions from OTC Clear and to debit

and/or credit the accounts of the members of the RTGS system in accordance with such instructions from OTC Clear. Each Clearing Member and Sponsored Settlement Member (where applicable) agrees to ratify and confirm all instructions given, and all actions taken, in good faith by OTC Clear in relation to the matters set out in this section 3.11.2. “**Settlement Institution**” means any of the settlement institutions (in relation to HKD and USD) and clearing bank (in relation to CNY (offshore)) of the RTGS system.

- (vii) Any payment made through any Bulk Settlement Run process and/or other methods as determined by OTC Clear 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 or by the Sponsored Settlement Member on behalf of the Clearing Member (where applicable) on a particular payment date must be settled by the Clearing Member or by the Sponsored Settlement Member on behalf of the Clearing Member (where applicable):
 - (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 or the Sponsored Settlement Member on behalf of the Clearing Member (where applicable) must be operationally ready to settle the relevant cash settlement on a particular payment date by reserving sufficient funding for the relevant cash settlement no later than the Notional Exchange USD/HKD Settlement Ready Time for the Currency Pair (swap and FX) of USD and HKD and the Notional Exchange USD/CNY (offshore) Settlement Ready Time for the Currency Pair (swap and FX) of USD and CNY (offshore), 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;
 - (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 the Clearing Member or the Sponsored Settlement Member on behalf of the Clearing Member (where applicable) and OTC Clear no later than:

(A) the Notional Exchange USD/HKD Settlement Cutoff Time for the Currency Pair (swap and FX) of USD and HKD and the Notional Exchange USD/CNY (offshore) Settlement Cutoff Time for the Currency Pair (swap and FX) of USD and CNY (offshore) or (B) if OTC Clear determines to continue to settle any amount pursuant to section 3.19(ii)(a) of these Clearing Procedures by means of other methods as determined by OTC Clear, then in respect of such amount only, 16:00 hours Hong Kong time, in each case 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 and/or the Sponsored Settlement Member (where applicable) by OTC Clear no later than the Notional Exchange USD/HKD Settlement Ready Time for the Currency Pair (swap and FX) of USD and HKD, and the Notional Exchange USD/CNY (offshore) Settlement Ready Time for the Currency Pair (swap and FX) of USD and CNY (offshore); and

- (c) If a Black Rainstorm Warning or a Typhoon Signal Number 8 or above is issued by The Hong Kong Observatory or Extreme Conditions are announced, the special arrangements as set out in section 9.6 of these Clearing Procedures will apply and the operation of the procedures set out in this section 3.12(ii) shall be construed accordingly.

3.16 Reporting

All reports published by OTC Clear will be made available to Clearing Members or Sponsored Settlement Members (where applicable) 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 or the Sponsored Settlement 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 or the Sponsored Settlement 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 or the Sponsored Settlement Member may request OTC Clear to provide such reports either by delivery in print-out form, or by providing such Clearing Member or the Sponsored Settlement 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.

3.19 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. Such settlement may be processed by means of Bulk Settlement Run(s) and/or any other methods as determined by OTC Clear;
- (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: (a) in respect of a Bulk Settlement Run process for the Currency Pair (swap and FX) of USD and HKD, 15 minutes after the Commencement Time of such Bulk Settlement Run process; or (b) in respect of a Bulk Settlement Run process for the Currency Pair (swap and FX) of USD and CNY (offshore), 15 minutes after the Commencement Time of such Bulk Settlement Run process, 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, or of the Sponsored Settlement Member on behalf of the Non-delivering Clearing Member (where applicable), 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 the Non-delivering Clearing Member, or the relevant Sponsored Settlement Member on behalf of the Non-delivering Clearing Member (where applicable), 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, or the Sponsored Settlement Member on behalf of the Non-delivering Clearing Member (where applicable), 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) or the relevant Sponsored Settlement Member on behalf of the Non-delivering Clearing Member (where applicable), as soon as practicable;
- (d) in the event that OTC Clear is unable, as a result of that Notional Exchange Failure, to satisfy its obligation to pay any part or the whole of an Initial Exchange Amount or Final Exchange Amount under a Standard Cross-currency Rates Derivatives Contract and/ or any part or the whole of a Notional Amount under a

Deliverable FX Derivatives Contract (each such amount the “**Affected Amount**”) with any other Clearing Member (the “**Affected Clearing Member**”), or the Sponsored Settlement Member on behalf of the Affected Clearing Member (where applicable) (the “**Affected SSM**”), 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 or Affected SSM 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 or the Affected SSM on behalf of the Affected Clearing Member (where applicable) 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 or the Affected SSM (where applicable) and if it is a negative number, the Affected Clearing Member or the Affected SSM on behalf of the Affected Clearing Member (where applicable) 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 or Sponsored Settlement Member on behalf of the Non-delivering Clearing Member (where applicable) 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, or the Sponsored Settlement Member on behalf of the Non-delivering Clearing Member (where applicable), 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, or the Affected SSM (where applicable), 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, or of the Sponsored Settlement Member on behalf of the Non-delivering Clearing Member (where applicable) on the Settlement Date and/or the Initial Exchange Date or Final Exchange Date (as the case may be) for that Unpaid Exchange Amount;

Chapter 4

Margin and Valuation

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, “**T₀**”). PAI is calculated by OTC Clear in accordance with the following formula:

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

where,

- (i) $NPV_{T_{-1}}$ is the net present value determined as at 19:00 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 “**T₀**” is an OTC Clear Business Day and “**T₋₁**” 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_{PAI} , where “**T_{PAI}**” 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_{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 each Sponsored Settlement Member (where applicable), and will be paid or received by such Clearing Member or Sponsored Settlement Member, as the case may be, as part of ~~the~~ the Clearing Member's Variation Margin requirement.

4.6.1.3 Notional Exchange Risk Limit

OTC Clear will impose notional exchange risk limits (each a “**Notional Exchange Risk Limit**”) ~~on Clearing Members~~ in respect of Standard Cross-currency Rates Derivatives Contracts and Deliverable FX Derivatives Contracts on each Position Account. For each Position Account ~~Clearing Member~~, a separate Notional Exchange Risk Limit shall be set per currency, such that a Notional Exchange Risk Limit shall apply ~~on an aggregate basis~~ to all Standard Cross-currency Rates Derivatives Contracts and Deliverable FX Derivatives Contracts recorded in any each of the relevant Clearing Member's Position Accounts with the relevant currency as one of the Contractual Currencies. The Notional Exchange Risk Limit is established to limit OTC Clear's risk exposure in respect of Initial Exchange Amounts and/or Final Exchange Amounts payable to OTC Clear under Standard Cross-currency Rates Derivatives Contracts and Notional Amounts payable to OTC Clear under Deliverable FX Derivatives Contracts. Each Clearing Member will be subject to the aggregate of the Notional Exchange Risk Limits imposed on its Position Accounts. Each Sponsored Settlement Member (where applicable) will be subject to a Notional Exchange Risk Limit that is equivalent to or less than the Notional Exchange Risk Limit imposed on the relevant Clearing Member's House Position Account. OTC Clear will use reasonable endeavours to provide Clearing Members and Sponsored Settlement Members (where applicable) with reasonable advance notice prior to imposing or amending a Notional Exchange Risk Limit. In the event that a Notional Exchange Risk Limit is fully utilised, Clearing Member may post additional cash Collateral in the same currency as the Notional Exchange Risk Limit as Additional Margin to reduce the utilisation of the relevant Notional Exchange Risk Limit and to accommodate more trades for registration.

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.

Sponsored Settlement Members (where applicable) can also obtain certain information in respect of Variation Margin (other than Routine Intra-day Variation Margin) relating to the relevant Clearing Member's Position Account 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 19:00 hours Hong Kong time on an OTC Clear Clearing Day. The final Margin reports would

be made available to each Clearing Member or Sponsored Settlement Member (where applicable) on each OTC Clear Clearing Day.

4.7.3 Settlement of SSM Payment Amounts

Pursuant to Clearing Rule 7A01, the Clearing Member's obligation to pay the SSM Payment Amounts to OTC Clear shall be extinguished or reduced to the extent of the Sponsored Settlement Member's payment of the same to the OTC Clear, and OTC Clear's obligation to pay the SSM Payment Amounts to the Clearing Member shall be extinguished or reduced to the extent of OTC Clear's payment of the same to the Sponsored Settlement Member. As such, the references in sections 4.1(ii)(a), 4.1(ii)(c), 4.3.2, 4.4.3, 4.4.4 and 4.7 to payments of Variation Margin (other than Routine Intra-day Variation Margin), coupon payment for a Standard Rates Derivatives Contract, a Standard Cross-currency Rates Derivatives Contract and a Non Deliverable Rates Derivatives Contract, PAI, Initial Exchange Amount or Final Exchange Amount of a Standard Cross-currency Rates Derivatives Contract and/or Notional Amount of a Deliverable FX Derivatives Contract relating to the Client Account in respect of a Sponsored Settlement Member (where applicable), or any other amount as may be specified by the Clearing Rules or Clearing Procedures to be payable by a Sponsored Settlement Member on behalf of the relevant Clearing Member to OTC Clear, or payable by OTC Clear to such Sponsored Settlement Member, shall be construed to be payable by the Sponsored Settlement Member on behalf of the relevant Clearing Member to OTC Clear, or by OTC Clear to such Sponsored Settlement Member (as the case may be).