

Chapter 7A Sponsored Settlement Member

General

7A01. To simplify the payments between OTC Clear and a Clearing Member in respect of Contracts and between such Clearing Member and its Client under the Corresponding Client Transactions, and to provide for the continued clearing and performance of Contracts recorded to the Client Position Account of Clients following the occurrence of a DMP Event but prior to Porting of the relevant Contracts to a Replacement Clearing Member (or their termination if Porting does not occur) in order to manage risks relating to such DMP Event, OTC Clear may approve certain Clients to become Sponsored Settlement Members. A Sponsored Settlement Member may settle SSM Payment Amounts with OTC Clear in respect of the Client Clearing Category 1 Accounts relating to such Sponsored Settlement Member, as set out in the Clearing Procedures, and in the case of Sponsored Settlement Members incorporated in England or France, on the terms and subject to the conditions set out in the SSM Tripartite Agreement to which that Sponsored Settlement Member, OTC Clear and the relevant Clearing Member are party. Each relevant sponsoring Clearing Member which is incorporated in Hong Kong and OTC Clear agree that:

- (1) OTC Clear's obligation to pay SSM Payment Amounts to that sponsoring Clearing Member in respect of any Contract shall be extinguished or reduced to the extent of payment of the same by OTC Clear to the Sponsored Settlement Member with which that sponsoring Clearing Member has a Corresponding Client Transaction in respect of that Contract; and
- (2) that sponsoring Clearing Member's obligation to pay SSM Payment Amounts to OTC Clear in respect of any Contract shall be extinguished or reduced to the extent of payment of the same by the Sponsored Settlement Member with which that sponsoring Clearing Member has a Corresponding Client Transaction in respect of that Contract to OTC Clear.

For the avoidance of doubt, the relevant Clearing Member shall remain liable to OTC Clear for all its obligations in respect of the Contracts and Client Accounts registered in its name as further set out in Clearing Rule 817. In the event of a failure to pay all or part of any SSM Payment Amount by the Sponsored Settlement Member to OTC Clear, the Clearing Member shall remain liable to pay any such unpaid amount.

7A02. A Clearing Member may submit for OTC Clear's approval any of its Clients to act as its Sponsored Settlement Member in respect of the Client Clearing Category 1 Accounts relating to such Client upon satisfaction of the following eligibility criteria ("**SSM Eligibility Criteria**"):

- (1) the relevant sponsoring Clearing Member is incorporated in Hong Kong, England or France;
- (2) the relevant Client is validly incorporated and existing under the laws of its jurisdiction of incorporation, (if relevant in such jurisdiction) is in good standing and is an Authorized Institution;

- (3) the relevant Client satisfies OTC Clear's internal credit assessment metrics applicable to a Sponsored Settlement Member;
- (4) the relevant Client complies with all relevant payment settlement operational arrangements applicable to a Sponsored Settlement Member to the satisfaction of OTC Clear, including, without limitation, being a member of, and having the operational capability to settle cash payments through the RTGS system; and
- (5) in the case of sponsoring Clearing Members who are incorporated in England or France, the relevant Client, the relevant sponsoring Clearing Member and OTC Clear have entered into the relevant SSM Tripartite Agreement.

A Client may be a Sponsored Settlement Member in respect of one or more of its Clearing Members at any given time. Notwithstanding the SSM Eligibility Criteria, OTC Clear retains the sole right and discretion in determining whether to approve a Client to be a Sponsored Settlement Member of a Clearing Member and shall issue a notice of approval to the Clearing Member and the relevant Sponsored Settlement Member if it decides to approve the relevant application.

- 7A03. Each sponsoring Clearing Member agrees that each of its Clients who is its Sponsored Settlement Member may settle SSM Payment Amounts with OTC Clear in respect of the Client Clearing Category 1 Accounts relating to such Sponsored Settlement Member in accordance with the Clearing Procedures.
- 7A04. Each sponsoring Clearing Member shall have procedures in place to notify the Sponsored Settlement Members approved by OTC Clear in relation to such Clearing Member of the ongoing requirements applicable to Sponsored Settlement Members in the Clearing Rules and Clearing Procedures from time to time (including, without limitation, any amounts to be paid by those Sponsored Settlement Members to OTC Clear pursuant to any SSM Tripartite Agreement), and shall procure the Sponsored Settlement Member's compliance with OTC Clear's directions or requests for information from time to time. Failure by any Sponsored Settlement Member to satisfy the SSM Eligibility Criteria and the ongoing requirements relating to Sponsored Settlement Members (including the requirement to comply with OTC Clear's directions or requests for information) at all times may result in termination by OTC Clear of its status as Sponsored Settlement Member.
- 7A05. A Clearing Member may not request OTC Clear to terminate any Sponsored Settlement Member's status unless it has complied with all requirements of OTC Clear for such termination as notified to the Clearing Member at the relevant time, which may include, without limitation, a requirement that the Clearing Member does not trigger a breach of its Notional Exchange Risk Limit as Clients' exposures are aggregated with House Business for the purposes of ensuring compliance with a Clearing Member's Notional Exchange Risk Limit.
- 7A06. OTC Clear shall notify each relevant Clearing Member as soon as reasonably practicable if an SSM Failure to Pay Event occurs or if OTC Clear otherwise decides to terminate any Client's status as Sponsored Settlement Member for

any reason, including a failure by such Client to satisfy the SSM Eligibility Criteria.