

## **PART IV        RISK MANAGEMENT AND DEFAULT PROCEDURES**

### **Chapter 12     Margin for Clearing Members**

#### **Margin and Collateral**

- 1201. Each Clearing Member shall, in respect of each Contract registered in its name, pay or provide, on demand by OTC Clear, Collateral in respect of Margin in such amounts, in such forms and at such times in accordance with the Clearing Procedures.
- 1202. OTC Clear will determine the amount of Initial Margin, Additional Margin, Participating Margin and Variation Margin payable by or (in some cases in respect of Variation Margin) to each Clearing Member in accordance with the Clearing Procedures.
- 1203. Margin (including Initial Margin, Additional Margin, Participating Margin and Variation Margin) in respect of the House Position Account and each Client Position Account, if any, of a Clearing Member will be calculated by OTC Clear separately and shall be satisfied by a Clearing Member in the manner set out in the Clearing Procedures.

#### **Initial Margin, Additional Margin, Participating Margin, Variation Margin, and Intra-day Variation Margin**

- 1204. Each Clearing Member shall deliver sufficient Collateral as Margin as a pre-condition for (i) the registration of an Original Transaction or Original Northbound Transaction by OTC Clear and (ii) the implementation of an Unwind Proposal by OTC Clear.
- 1205. OTC Clear shall calculate and, where appropriate, demand Initial Margin on each OTC Clear Clearing Day, Northbound Clearing Day and Compression Execution Date, as applicable. In addition, OTC Clear may, from time to time, in its absolute discretion and on any OTC Clear Clearing Day, Northbound Clearing Day and Compression Execution Date, make an intra-day call for Initial Margin.
- 1205A. OTC Clear shall calculate and, where appropriate, demand Participating Margin on each Northbound Clearing Day. In addition, OTC Clear may, from time to time, in its absolute discretion and on any Northbound Clearing Day, make an intra-day call for Participating Margin.
- 1206. OTC Clear shall calculate the Variation Margin payable by or to a Clearing Member on each OTC Clear Clearing Day and Northbound Clearing Day. If such calculation indicates an increase in the Variation Margin payable by a Clearing Member, OTC Clear will be entitled to demand additional Collateral from such Clearing Member.
- 1207. OTC Clear may on any OTC Clear Business Day demand Routine Intra-day Variation Margin from one or more Clearing Members. In addition, OTC Clear may on any OTC Clear Clearing Day and Northbound Clearing Day demand from, or pay to, a Clearing Member Ad Hoc Intra-day Variation Margin. The amount of any Routine Intra-day Variation Margin or Ad Hoc Intra-day Variation Margin shall be calculated by OTC Clear using such methods as prescribed in the Clearing Procedures.

1208. OTC Clear may impose Additional Margin requirements on any Clearing Member in the circumstances described in section 4.5 of the Clearing Procedures, and may, at its discretion amend or withdraw any such Additional Margin requirements on any Clearing Member.

### **Margin Settlement**

1209. Save where the Clearing Procedures require otherwise, Initial Margin and Additional Margin requirements (other than Notional Exchange Failure Margin requirements) may be satisfied by payment in cash in any Eligible Currency, or by delivery of non-cash assets specified pursuant to section 7.3 of the Clearing Procedures.
- 1209A. Save where the Clearing Procedures require otherwise, Participating Margin requirements must be satisfied by payment in cash in any Eligible Inter-CCP Currency.
1210. Save where the Clearing Procedures require otherwise, and subject to Clearing Rule 1211, Variation Margin requirements must be satisfied by payments in cash in the relevant Contractual Currency of each Contract pursuant to the relevant Contract Terms of such Contract.
1211. Notwithstanding Clearing Rule 1210, for the purpose of satisfying a Routine Intra-day VM Call and Ad Hoc Intra-day VM Call, a Clearing Member may, in lieu of payment of cash in an Eligible Currency, deliver to OTC Clear non-cash Collateral as is acceptable to OTC Clear in the manner and at or prior to the time specified in the Clearing Procedures. Any Collateral (cash or non-cash) delivered by a Clearing Member for satisfaction of a Routine Intra-day VM Call and Ad Hoc Intra-day VM Call on an OTC Clear Business Day shall not be taken into account when OTC Clear performs its end-of-day Variation Margin and/or Ad Hoc Intra-day VM Call calculation on such day. If, subsequent to the end-of-day Variation Margin calculation on such day, a Clearing Member delivers cash in the relevant Contractual Currency in full satisfaction of its end-of-day Variation Margin requirement determined for such day, such Clearing Member shall be entitled to request OTC Clear to redeliver any Collateral previously delivered by the relevant Clearing Member to satisfy a Routine Intra-day VM Call and Ad Hoc Intra-day VM Call under this Clearing Rule 1211 as Excess Margin provided that if it has opted to utilize its Excess Margin under Clearing Rule 1218A, it may only request such redelivery after it has notified OTC Clear in the manner described in section 3.9.1 or section 3.10.2, as the case may be, of the Clearing Procedures.
1212. If any Margin (excluding Participating Margin) falls due and the Margin Balance of the relevant Clearing Member is insufficient to cover its Margin requirements as determined by OTC Clear, such Clearing Member shall deliver such Collateral in such form and manner and at or prior to the time specified in the Clearing Procedures. In addition, the relevant Clearing Member shall deliver Collateral specified in the Clearing Procedures, separately from its Margin Balance, if any Participating Margin falls due and the Participating Margin Balance is insufficient to cover its Participating Margin requirements as determined by OTC Clear. A Clearing Member may transfer Excess Margin or Excess Participating Margin to the relevant Collateral Account to satisfy its Participating Margin or Margin requirements respectively, provided that (i) House

Bond Connect Securities may only be transferred to the House Collateral Account and (ii) Client Bond Connect Securities may only be transferred to the relevant Client Clearing Category 1 Collateral Account relating to that Client Clearing Category 1 Client.

1213. Cash delivered by Clearing Members to OTC Clear for satisfaction of their Margin or Participating Margin requirements will be held by OTC Clear in accordance with the Clearing Procedures, provided that OTC Clear has the power to use any cash Collateral transferred outright to it by Clearing Members as Participating Margin to satisfy its Inter-CCP OTCC Margin Amount. Nothing in these Clearing Rules intends to create in favour of OTC Clear any mortgage, charge, lien, pledge, encumbrance or other security interest in any cash Collateral transferred by a Clearing Member to OTC Clear pursuant to these Clearing Rules. OTC Clear has the power to invest any cash Collateral delivered to it in accordance with its investment policy. OTC Clear may perform any such investment itself as it sees fit, or it may engage an independent third party to perform such investment.

A Clearing Member who intends to transfer non-cash Collateral for purposes of satisfying its Margin requirements shall execute all necessary documentation as may be required by OTC Clear in order to create, and perfect, a valid security interest over the relevant assets. OTC Clear will not re-use, rehypothecate or re-invest any non-cash Collateral delivered by Clearing Members as Margin. If OTC Clear accepts non-cash Collateral from Clearing Members as Margin, then the manner in which OTC Clear will hold such non-cash Collateral will be set out in the Clearing Procedures.

#### **Acceptable Collateral for Margin and Rates and FX Contribution**

1214. OTC Clear may restrict or add to the types of Eligible Currencies, Eligible Inter-CCP Currencies and acceptable Collateral, or modify any valuation procedures or haircuts set out in Chapter 7 of the Clearing Procedures, or impose a maximum on the amount of each type of Eligible Currency, Eligible Inter-CCP Currency or Collateral which OTC Clear may accept for purposes of satisfying Margin requirements or Rates and FX Liability. In respect of any eligible non-cash Collateral, OTC Clear will only accept delivery of such non-cash Collateral if it is delivered in minimum tradable board lot size applicable to such non-cash Collateral and acceptable to OTC Clear. OTC Clear will use reasonable endeavours to provide Clearing Members with three-months' advance written notice prior to removing any Collateral from the then existing list of Eligible Currencies and acceptable Collateral. For the avoidance of doubt, OTC Clear may add to the types of Eligible Currencies, Eligible Inter-CCP Currencies and acceptable Collateral, or modify any valuation procedures or haircuts set out in the Clearing Procedures, at any time as it thinks fit. The value of any instruments which are not Eligible Currencies, Eligible Inter-CCP Currencies or acceptable Collateral will not be taken into account in determining the Margin Balance or Participating Margin Balance of such Clearing Member.
- 1214A. OTC Clear will only accept from a Clearing Member (i) House Bond Connect Securities for purposes of satisfying Margin (excluding Participating Margin) requirements in respect of its House Position Account and (ii) Client Bond

Connect Securities for purposes of satisfying Margin requirements in respect of its Client Clearing Category 1 Position Account relating to that Client Clearing Category 1 Client.

OTC Clear will only accept Client Bond Connect Securities as Collateral in respect of a Client Clearing Category 1 Position Account if (i) such Bond Connect Securities are of a type that has been approved by OTC Clear, (ii) such Bond Connect Securities are delivered by the relevant Client Clearing Category 1 Client directly to OTC Clear and (iii) the procedures in section 3.10 of the Clearing Procedures have otherwise been complied with.

Upon such Bond Connect Securities delivered by a Client Clearing Category 1 Client of a Clearing Member being credited to the relevant Client Clearing Category 1 Collateral Account in accordance with section 3.10 of the Clearing Procedures, such Client Bond Connect Securities shall be treated as having been transferred outright from such Client Clearing Category 1 Client to the Clearing Member and then delivered by the Clearing Member to OTC Clear, such that the Client Bond Connect Securities are held by OTC Clear in the same manner as if such Client Bond Connect Securities had been delivered by the Clearing Member to OTC Clear.

With respect to any return of such Client Bond Connect Securities from OTC Clear to a Client Clearing Category 1 Client in accordance with these Clearing Rules and the Clearing Procedures, upon the delivery of such Client Bond Connect Securities from OTC Clear to a Client Clearing Category 1 Client, such Client Bond Connect Securities shall be treated as having been delivered by OTC Clear to the Clearing Member and then transferred outright from the Clearing Member to such Client Clearing Category 1 Client.

For the avoidance of doubt, in no circumstances may (i) House Bond Connect Securities be accepted in respect of a Client Position Account or (ii) Client Bond Connect Securities be accepted in respect of a House Position Account and any other Client Position Account that is not relating to that Client Clearing Category 1 Client.

- 1215. OTC Clear may at any time, in its sole and absolute discretion, require a Clearing Member to transfer cash in other Eligible Currencies, other Eligible Inter-CCP Currencies or other types of Collateral to it in substitution for any Collateral already transferred to it.
- 1216. OTC Clear may charge Clearing Members accommodation charges, administrative costs and/or commitment fees for credit lines in respect of any non-cash Collateral provided to it as Margin at a rate determined by OTC Clear and set out in the Fees Schedule (see Appendix I to the Clearing Procedures).
- 1216A. OTC Clear may incur charges or costs or receive negative interest rates when investing any Participating Margin or Rates and FX Contribution delivered in the form of cash by Clearing Members (including when posting any such cash comprising Participating Margin as part of the Inter-CCP OTCC Margin Amount). If it does so, OTC Clear shall be entitled to demand reimbursement of such amounts from the relevant Clearing Members.

1217. A Clearing Member may provide Collateral in excess of the Initial Margin, Additional Margin and/or Participating Margin requirements applicable to any of its Position Account(s). Any such Collateral provided by a Clearing Member will be credited to the Collateral Account designated by the Clearing Member and shall form part of the Margin Balance and/or Participating Margin Balance relating to such Collateral Account, provided that any Collateral represented by House Bond Connect Securities may only be credited to its House Collateral Account and any Collateral represented by Client Bond Connect Securities may only be credited to the relevant Client Clearing Category 1 Collateral Account relating to that Client Clearing Category 1 Client. In addition, any Collateral provided for the purpose of satisfying Routine Intra-day VM Call and Ad Hoc Intra-day VM Call on an OTC Clear Business Day pursuant to Clearing Rule 1211 will not be taken into account when OTC Clear performs its end-of-day Variation Margin calculation in respect of the relevant Position Account on such day, and such Collateral shall form part of the Margin Balance relating to the relevant Collateral Account of such Clearing Member.
1218. A Clearing Member may request OTC Clear to redeliver Collateral in equivalent form and currency as any Collateral it has delivered to OTC Clear as Margin and Participating Margin in a value not exceeding the Excess Margin and the Excess Participating Margin respectively; provided that if it has opted to utilize its Excess Margin under Clearing Rule 1218A, it may only request such redelivery after it has notified OTC Clear in the manner described in section 3.9.1 or section 3.10.2, as the case may be, of the Clearing Procedures. A Clearing Member shall specify the exact form and currency of the relevant Collateral requested to be redelivered. Following receipt of such request, OTC Clear will deliver (in the manner described in section 4.7 of the Clearing Procedures) Collateral in equivalent form and currency as requested in an amount not exceeding the Excess Margin and Excess Participating Margin, except that OTC Clear may deliver Collateral in other form or currency determined by OTC Clear if:
- (1) with respect to a Defaulting Clearing Member only, the relevant Collateral is delivered prior to any DMP Event and such Collateral or part thereof was applied in such DMP Event; or
  - (2) any part of the Collateral is of a type or currency that is subject to any foreign exchange or other settlement risk or disruption, as determined by OTC Clear, at the time such Collateral is due to be redelivered to Clearing Members.
- 1218A. A Clearing Member may opt to utilize its Excess Margin to reduce the Expected Uncollateralized Loss in respect of any of its Position Account(s), where Expected Uncollateralized Loss has the meaning given to it in section 6.1.1(4) of the Clearing Procedures (and as modified by section 6.1.1(8) of the Clearing Procedures if Client Clearing Services are provided by such Clearing Member) by giving OTC Clear no less than five Business Days' notice or such shorter notice period as determined by OTC Clear in its absolute discretion, provided that the Excess Margin to reduce the Expected Uncollateralized Loss for such Clearing Member shall not exceed 30% of the Rates and FX Guarantee Fund as calculated on the immediately preceding Rates and FX Contribution Determination Date and provided further that Excess Margin represented by

House Bond Connect Securities may only be utilized in respect of its House Position Account and Client Bond Connect Securities may only be utilized in respect of its Client Clearing Category 1 Position Account relating to that Client Clearing Category 1 Client. OTC Clear reserves the right at its absolute discretion to impose a lower cap on the Excess Margin that may be utilized to reduce the Expected Uncollateralized Loss for each Clearing Member. The Collateral provided in respect of such Excess Margin will be taken into account as part of the Margin Balance as recorded in the corresponding Collateral Account when OTC Clear performs its Rates and FX Guarantee Fund calculation in respect of the relevant Position Account.

**Rights relating to Collateral in respect of Margin and Rates and FX Contribution and Representations of Clearing Members**

1219. Unless otherwise stated in Clearing Rules 817 and 1310, OTC Clear will take no account of any right or interest which any Person other than the Clearing Member may have in any Collateral provided by, or on behalf of, such Clearing Member to OTC Clear. The operations of section 56(1) of the SFO shall be modified by this Clearing Rule 1219 as permitted under section 56(2) of the SFO.
1220. Each Clearing Member represents and warrants to OTC Clear that:
- (1) immediately prior to delivery of the Collateral to OTC Clear, the Clearing Member is the sole legal and beneficial owner of all Collateral delivered to OTC Clear;
  - (2) any Collateral delivered to OTC Clear pursuant to these Clearing Rules is not subject to any Encumbrance whatsoever save for:
    - (a) any Encumbrance in favour of OTC Clear;
    - (b) any liens granted to the clearing systems through which the Collateral is being transferred;
    - (c) in the case of a Clearing Member who is a Rule-Based Clearing Member, the right of its Client to receive any Client Entitlement from OTC Clear under Clearing Rules 1308A and 1309; and
    - (d) in the case of a Clearing Member who is a Non Rule-Based Clearing Member, any Encumbrance created pursuant to a Security Deed;
  - (3) in delivering the Collateral to OTC Clear pursuant to these Clearing Rules, the Clearing Member is not in breach of any of its contractual obligations towards any third party or under any Applicable Laws;
  - (4) 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 OTC Clear by or pursuant to any Deed of Charge between OTC Clear and the Clearing Member have been effected and are in full force and effect; and
  - (5) any Deed of Charge between OTC Clear and the Clearing Member creates in favour of OTC Clear the security which it is expressed to create with the ranking and priority it is expressed to have.

The representations and warranties made by a Clearing Member pursuant to this Clearing Rule 1220 shall be deemed to be repeated by such Clearing 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 or Original Northbound 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 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 or Original Northbound Transactions submitted by a Clearing Member (or by a Designated Person on its behalf) if registration of any such Original Transactions or Original Northbound 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.