

Shanghai Clearing House Guidelines on Default Management of Central Counterparty (CCP) Clearing Services

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Chapter 1 General Provisions

1. **(Purpose)** In order to mitigate financial risks and preserve market stability, effectively control default losses and regulate the default management process of the Central Counterparty (CCP) clearing services of Shanghai Clearing House (“SHCH”), SHCH has formulated the Guidelines on Default Management of Central Counterparty (CCP) Clearing Services (“the Guidelines”) in accordance with Futures and Derivative Law of the People's Republic of China, the Rules of Central Counterparty (CCP) Clearing Services and relevant laws, regulations and business rules.
2. **(Scope of application)** The Guidelines are applicable to all CCP clearing services of SHCH, including RMB interest rate swaps (IRS), Foreign Exchange (FX) Transaction, cross-border FX, bonds, standard bond forwards, commodity derivatives and others.
3. **(Composition)** The Guidelines comprise: the general Default Guidelines (Articles 1 to 31 inclusive) and Supplements ("Default Management Operational Guidelines") specific for each CCP clearing service.

The general Default Guidelines include the framework for default determination and default management implementation, the order of use and replenishment of risk reserve resources, the Default Management Group (“DMG”) and other related principle contents. The Supplements chapters of "Default management Operational Guidelines" for each CCP clearing service stipulate the operational details and other specific provisions for management of defaulting portfolios.

4. **(Terminology)** The terminologies used in the Guidelines are consistent with the relevant definitions in the “SHCH Rules of Central Counterparty (CCP) Clearing Services”.

Chapter 2 Default Determination and Management

5. **(Default determination)** A clearing member shall be deemed to be in operational default if it fails to pay margin, default fund, settlement assets (including but not limited to funds, bonds and physical assets, etc.) , special risk resources (including not limited

to RMB interest rate swap inter-CCP margin) or default penalties in full prior to the corresponding time of payment.

If a clearing member fails to eliminate the operational default situation in a timely manner, it is required to provide a written letter of commitment (Annex 1) that it will perform the relevant obligations before the key point-in-time of default management on the next business day of the operational default; otherwise, SHCH shall be entitled to determine the clearing member as in permanent default. The key point-in-time of default management for each clearing service is the normal settlement time corresponding to the type of defaulting funds as stipulated in the "SHCH Guidelines of Central Counterparty (CCP) Clearing Services".

If the clearing member does not eliminate the operational default situation in time on the next business day of such operational default or if another operational default occurs, SHCH will determine the clearing member as in permanent default. Under special circumstances, the clearing member may apply for a grace period of up to one business day (Annex 2), and the permanent default management may be suspended upon approval by SHCH. In the event that a clearing member has circumstances other than operational default that meet the criteria of permanent default, SHCH shall conduct determination of permanent default right away.

The determination of permanent default is not limited to the specific CCP clearing service that meets the criteria of permanent default determination. SHCH has the right to determine that a clearing member is in permanent default in multiple CCP clearing services at the same time. If a clearing member is deemed to be in permanent default, SHCH will send a notice of permanent default (Annex 3) to the clearing member.

6. **(Operational default management measures)** If a clearing member has been deemed to be in operational default in a CCP clearing service ("defaulting clearing service"), SHCH will take one or more of the following measures until the operational default situation is eliminated.
 - (i) Restrict or suspend the defaulting clearing member's access to the corresponding CCP clearing services, with measures including but not limited to one or more of the followings:

adjusting the defaulting clearing member's clearing limit and tolerance level in the defaulting clearing service, suspending the novation of the subsequent transactions of the defaulting clearing member in the defaulting service, suspending or rejecting clearing service applications from the defaulting clearing member in the defaulting clearing service (including but not limited to non-cash collateral pledge/unpledge, contract compression, early termination, etc.).

- (ii) Freeze the assets receivable (including funds, bonds and physical assets, etc.) of the defaulting clearing member in the defaulting clearing service, and no interest shall accrue on such part of funds during the asset freeze period.
- (iii) Freeze the margin account and default fund account of the defaulting clearing member in the defaulting clearing service.
- (iv) In accordance with the actual default situation, SHCH will use lines of credit from banks or initiate bond borrowing mechanisms to complete the clearing and settlement obligations to non-defaulting clearing members during the default management process.
- (v) If physical delivery is involved, in accordance with the actual default situation, SHCH will take measures such as cash differential compensation mechanism and default delivery distribution mechanism.
- (vi) If the defaulting clearing member does not fulfill its payment obligations within the required time, and the default situation is not eliminated in time, SHCH shall calculate the default penalties from the date of default based on the difference between the defaulting amount and the unpaid funds receivable of the defaulting clearing member in the same currency. The defaulting amount shall be calculated daily. If it is less than one day, it will be considered as one day. If the defaulting clearing member does not fulfill its physical delivery obligations within required time and the default situation is not eliminated in time, SHCH shall calculate the default penalties from the date of default based on the face value of the defaulting

bonds or the nominal principal amount of the defaulting physical assets on a daily basis. If it is less than one day, it will be considered as one day.

7. **(Permanent default management measures)** If a clearing member is in permanent default, SHCH may take one or more of the following measures in addition to the measures involved in the operational default management above.
 - (i) Terminate the defaulter's qualification of participation in the defaulting CCP services.
 - (ii) Transfer the positions and collateral of the defaulting clearing member in the corresponding CCP clearing service to the SHCH default management special account.
 - (iii) Initiate rapid liquidation process on non-cash collateral (if any) in part or in whole (Annex 4). SHCH is entitled to liquidate the non-cash collateral in part or in whole to cover the default losses. The non-cash collateral include those submitted by the defaulting clearing member for proprietary positions and client clearing positions that are not successfully ported.
 - (iv) Liquidate assets (including cash, bonds and physical assets) and margin receivable of the defaulting clearing member on an as-needed basis to complete the relevant payment obligations or to repay bank credit lines and return bonds borrowed.
 - (v) If physical delivery is involved, in accordance with the actual default situation, SHCH will take measures such as cash differential compensation mechanism and default delivery distribution mechanism.
 - (vi) According to the actual default situation, SHCH may convene the DMG to assist SHCH in default management.
 - (vii) If the defaulting clearing member is a general clearing member, SHCH will port the positions of its eligible non-defaulting non-clearing members in accordance with the relevant provisions of Chapter 3.
 - (viii) Conduct forced liquidation on defaulting clearing member's positions (including proprietary positions and client clearing positions that are not successfully ported). For the operation

procedures of forced liquidation, please refer to the relevant chapters of each clearing service.

- (ix) According to the results of forced liquidation, SHCH shall execute forced settlement in accordance with the corresponding provisions of the Default Management Operational Guidelines for the relevant clearing service (if applicable).
- (x) Execute the transfer of cash and non-cash collateral and positions based on the results of forced liquidation.
- (xi) In accordance with the loss allocation process (Annex 5), the risk reserve resources are used to cover losses caused by the forced liquidation or forced settlement (if any) of the defaulting clearing member's positions.
- (xii) Close the relevant accounts of the defaulting clearing member at SHCH and terminate its clearing membership.
- (xiii) Report to the regulator on the clearing member's default and default management process.
- (xiv) Timely disclose to the market of the default and default management process. Disclose to relevant clearing members the use of risk reserve (if any).

8. (The effectiveness of default determination) The determination of permanent default becomes effective immediately upon SHCH making the default determination and issuing the notice.

9. (Default management cooperation) In the event of a default event (including operational default and permanent default), SHCH will immediately launch a targeted investigation. The investigation may take one or more of the following forms, including but not limited to market public information tracking, on-site investigation of the defaulting clearing member, convening the Risk Management Committee of SHCH, etc. The relevant personnel shall provide relevant materials in a timely and complete manner according to the requirements of SHCH. The defaulting clearing member shall bear the obligation of confidentiality regarding the confidential information related to the default management. The defaulting clearing member is obliged to cooperate with SHCH in default management and bear legal

responsibility for the accuracy, authenticity and completeness of the materials provided.

Chapter 3 Porting

10. **(Default of a general clearing member)** If a general clearing member is in permanent default in a certain CCP clearing service, SHCH will allow its eligible non-defaulting non-clearing members (if any) in that CCP clearing service to port their positions, including specifically the transfer of client clearing relationship, positions and margin in that CCP clearing service to a new general clearing member. The defaulting clearing member's proprietary positions and client clearing positions that have not been successfully ported shall be closed out by SHCH.
11. **(Responsibilities of the defaulting general clearing member)** The general clearing member shall submit to SHCH within the specific period of time (in principle, within two hours of the notification point on the day of the permanent default notice, with the specific deadline specified in the permanent default notice) the Information on General Clearing Member Client Clearing Service Default (Annex 6) and relevant documents related to the default. In the Form, the general clearing member shall provide valid contact information and margin account information of all its non-clearing members (including defaulting non-clearing members and non-defaulting non-clearing members). If the Form and relevant documents are not provided within the specified period of time, SHCH will temporarily consider all non-clearing members of the defaulting general clearing member as non-defaulting non-clearing members and allow non-defaulting non-clearing members who meet the conditions for porting to port their positions.

The defaulting general clearing member shall not conceal the fact of its default from its non-clearing members. SHCH will promptly provide the defaulting general clearing member information including the deadline for porting of non-clearing members' positions and details about fund transfers. The defaulting general clearing member shall disclose the default situation to its non-clearing members within a specified period of time after receiving the relevant information from SHCH (in principle, it is the day of receiving the information, and the specific deadline will be

notified together with the relevant information). The defaulting general clearing member shall inform its non-defaulting non-clearing members of the deadline for porting and details about fund transfers, and update the valid contact information of all its non-clearing members to SHCH in a timely manner.

12. (Requirements for updating margin ledger information)

SHCH will determine the margin shortfall of each non-clearing member of the defaulting clearing member according to the margin ledger information provided by the defaulting general clearing member and transfer the margin assets of non-defaulting non-clearing members when porting. The following requirements must be met by general clearing members when updating the margin ledger¹.

- (i) The sum of the margin ledger balance should be consistent with the total amount of the client margin account balance.
- (ii) The corresponding margin ledger of each non-clearing member shall be consistent with the defaulting non-clearing member list provided by the defaulting general clearing member, and there shall not be a situation where the margin ledger balance of a non-defaulting non-clearing member does not meet its margin requirement.
- (iii) The amount of the defaulting non-clearing member's margin ledger balance shall not be less than the lesser amount of: i) the margin requirement of the non-clearing member at the time of the most recent successful margin call prior to the permanent default of the general clearing member and ii) the margin requirement of the non-clearing member at the time of the default.

SHCH will not be responsible for the losses arising from the errors in the maintenance of the margin ledger by the general clearing member. When the above conditions are met, SHCH will strictly use the margin ledger information as the basis for margin transfer.

If the above conditions are not met, the basis for subsequent margin transfers shall be determined according to the following principles. The lower value of the margin requirement of the non-clearing member at the time of the most recent successful margin

¹ The following requirements do not apply to bond CCP clearing service at this time.

call and the margin requirement of the non-clearing member at the time of default shall be used as the lower limit of the margin assets available for default management by SHCH. Assuming that for the non-defaulting non-clearing member, the lower value of its margin requirement at the time of the most recent successful margin call before the permanent default of the general clearing member and the margin requirement at the time of default is NM , and for the defaulting non-clearing member the above value is DM ; The corresponding balance for the non-defaulting non-clearing member is NB , while the corresponding balance for the defaulting non-clearing member is DB ; The larger of NB and NM is $\text{Max}(NB, NM)$.

(i) *If $\sum DB$ is lower than $\sum DM$*

1. When $\sum \text{Max}(NB, NM)$ is greater than the total margin balance of the defaulting clearing member's client margin account deducting $\sum DM$, SHCH will use NM as the basis for subsequent margin transfer for each non-defaulting non-clearing member.
2. When $\sum \text{Max}(NB, NM)$ is no greater than the total margin balance of the defaulting clearing member's client margin account deducting $\sum DM$, SHCH will use $\text{Max}(NB, NM)$ as the basis for subsequent margin transfer for each non-defaulting non-clearing member.

(ii) *If $\sum DB$ is greater than or equal to $\sum DM$:*

1. When $\sum \text{Max}(NB, NM)$ is no greater than the total margin balance of the defaulting clearing member's client margin account deducting $\sum DB$, SHCH will use $\text{Max}(NB, NM)$ as the basis for subsequent margin transfer for each non-defaulting non-clearing member.
2. When $\sum \text{Max}(NB, NM)$ is greater than the total margin balance of the defaulting clearing member's client margin account deducting $\sum DB$, SHCH will use NM as the basis for subsequent margin transfer for each non-defaulting non-clearing member.

13. **(Conditions for porting)** In the event of default of a general clearing member, its non-defaulting non-clearing members shall meet the requirements of assets payable (including margin and

settlement assets) before porting. If the non-defaulting non-clearing member has a shortfall of assets payable, the non-clearing member shall make up the shortfall to the account designated by SHCH within one business day after its general clearing member is deemed to be in permanent default. SHCH has the right to require the non-defaulting non-clearing members to make up the shortfall of assets payable within a shorter period of time according to the actual situation.

During the transitional period until a new general clearing member is identified, SHCH will make clearing settlement directly with the non-defaulting non-clearing members. SHCH will inform the non-defaulting non-clearing members by email, fax or system notice of the daily margin requirements and amount/nominal amount (if any) of settlement funds/bonds (if any), together with the payment route and account information (Annex 7), and the non-defaulting non-clearing members shall also inform SHCH by email or fax of their payment route and account information. The non-defaulting non-clearing members shall meet the payment obligation of the corresponding funds and assets by the normal settlement time every day.

14. **(Application for porting)** SHCH will send a reminder of porting (Annex 8) to non-defaulting non-clearing members based on the contact information provided by the defaulting general clearing member, informing them of the deadline for porting (in principle, non-defaulting non-clearing members should identify a new general clearing member within 10 business days), and stipulate the corresponding deadline for application for porting (the application refers to the application of non-clearing members indicating their intention to port their positions. In principle, the deadline is within 1 business day) (Annex 9).

The new general clearing member shall submit to SHCH for record the Client Clearing Agreement (hereinafter referred to as the "Agreement") signed with the non-defaulting non-clearing member, the Registration Form for Information Change of Non-Clearing Member and the SHCH Non-Clearing Member Information Form (Client) before the deadline for porting. The general clearing member may submit to SHCH the Agreement with additional temporary restriction clauses that do not violate the relevant rules of the CCP clearing service (hereinafter referred to

as the "Interim Agreement"), and then complete the signing of the Agreement with or without such temporary restriction clauses with the non-defaulting non-clearing member and submit it to SHCH for record. The signed Agreement will automatically replace the Interim Agreement and then the Interim Agreement will be annulled.

If the non-defaulting non-clearing member is unable to identify a new general clearing member, it may apply to SHCH for assistance, and SHCH may send relevant information of the non-defaulting non-clearing member to multiple general clearing members to assist the non-defaulting non-clearing member in establishing communication channels with other general clearing members; it may also choose to close its own positions within the porting period; SHCH shall not assume the obligation to designate a new general clearing member for the non-defaulting non-clearing member.

If a non-defaulting non-clearing member is unable to complete the identification of a new general clearing member or close out its position before the porting deadline and needs an extension, it may submit an application for grace period of porting (Annex 10) to SHCH, specifying the expected time for determining a new general clearing member or completing the close-out of its position and requesting a corresponding delay in the liquidation of its remaining porting-failed position. SHCH has the right to request the non-clearing member to complete the determination of the new general clearing member or close out the position earlier than the time of its application for grace period, and has the right not to approve the application for grace period.

15. **(Porting)** If a non-defaulting non-clearing member meets the conditions for porting, completes the application for porting and successfully identifies a new general clearing member, SHCH completes the transfer of the client clearing relationship of the non-clearing member and transfers all its positions to be ported and the margin balance to the new general clearing member, and the new client clearing relationship officially takes effect.
16. **(Failure of porting)** SHCH has the right to close out the positions of the non-defaulting non-clearing member if:

- (i) A non-clearing member defaults during the transition period before the successful transfer of positions after its general clearing member has been determined to be in permanent default, such as failure to pay the corresponding assets and meet various payment obligations within the specific period of time.
- (ii) The non-defaulting non-clearing member does not submit an application for porting before the deadline for such application.
- (iii) The non-defaulting non-clearing member submits the application for porting before the deadline for such application, but the new general clearing member has not been successfully identified after the deadline for porting.

The losses arising from the default management process of the non-defaulting non-clearing member shall be covered by the margin assets in the name of the non-clearing member, and the remaining shortfall shall be recovered from the original general clearing member by SHCH.

17. **(Integral nature of porting)** Porting is an integral transfer of a single non-defaulting non-clearing member's positions and partial porting is not allowed.

Chapter 4 Use of Risk Reserve Resources

18. **(Default losses)** The default losses shall be determined after SHCH has completed the relevant default management process of the defaulting clearing member. The shortfall of funds payable by the defaulting clearing member, plus any fees, costs and losses resulting from the actions took by SHCH to fulfill the defaulting clearing member's asset delivery obligations and the default management process, including assets liquidation, drawing credits, hedging, auction, position allocation, contract termination and liquidation of frozen assets etc., after offsetting by the defaulting clearing member's assets receivable in the defaulting clearing service, together constitute the default losses to be allocated in default management.

19. **(Order of usage of risk reserve resources)** SHCH uses risk reserve resources in the following order to cover the default losses to SHCH caused by the default of the clearing member.

- (i) The margin of the defaulting clearing member in the defaulting clearing service. If the margin is insufficient for the default management of the defaulting clearing member's proprietary positions, the defaulting clearing member's margin for its client clearing service shall not be used to cover the losses; If the margin is insufficient for the default management of defaulting clearing member's client clearing positions, the defaulting clearing member's margin for its proprietary positions shall be used to cover the losses. Any resulting losses to the general clearing member shall be recovered from the defaulting non-clearing member by the general clearing member itself;
- (ii) The default fund contributed by the defaulting clearing member in the defaulting clearing service;
- (iii) Not more than 10% of the total amount of the risk reserve disclosed by SHCH to the clearing members at the end of the previous fiscal year prior to the occurrence of such default;
- (iv) The default fund contributed by the non-defaulting clearing members in the defaulting clearing service;
- (v) Supplementary default fund contributed by the non-defaulting clearing members in the defaulting clearing service;
- (vi) The remaining risk reserve of SHCH.
- (vii) Other resources designated by SHCH.

20. **(Resource replenishment)** After the default management process is completed, SHCH shall recover the losses or/and claim compensation from the defaulting clearing member. After the proceeds are used to repay the previously borrowed funds and related expenses, the remaining shall be used to replenish risk reserve resources in the reverse order of depletion. If there are any risk reserve resources contributed by the defaulting clearing member in the defaulting clearing services remain after being used for the default management, it shall be used for the above replenishments in priority. The replenishments shall be made in the reverse order of the usage of risk reserve resources, and if risk reserve resources of one tier are used in multiple clearing services, the replenishments should be allocated in proportion to the amount

of such tier actually used in each clearing service. If there are any risk reserve resources contributed by the defaulting clearing member in the defaulting clearing services remain after being used for the aforementioned repayment, SHCH will return the remaining to the defaulting clearing member.

Chapter 5 Default Management Group

21. **(Default Management Group)** In order to properly manage the default of clearing members, reduce the impact of default on the markets, and improve the efficiency of default management process, SHCH has established the DMG according to the specific needs of each CCP clearing service.

22. **(Functions of the DMG)** The main function of the DMG is to provide advices and assist SHCH to carry out default management. Specifically, it includes:

- (i) To prepare the portfolio splitting plan for the defaulting clearing member's positions with the objective of facilitating risk neutralization and reducing losses in auctions. For certain CCP clearing services, circumstances such as the limitation on the scope of participants shall be taken into consideration.
- (ii) To draw up elements, strategies for hedging trades and to prepare the hedging plan for defaulting clearing members' positions with the objective of reducing hedging losses.
- (iii) To establish the schedule and execution plan for the close-out auction and to supervise the fairness and impartiality of the auction process on an as-needed basis.
- (iv) To assist in the implementation of the above described plans in (i) (ii) (iii), which are deemed appropriate upon approval by SHCH.
- (v) To participate in the DMG meetings organized by SHCH to assess the reasonability of latest default management process and to participate in the default management fire drills.
- (vi) Other matters need the participation of the DMG.

23. **(Composition of the DMG)** The DMG is appointed by SHCH. Its members include:

- (i) The Chairman of the Risk Management Committee of SHCH or his delegate as the head of the DMG.
- (ii) The market representatives designated by DMG partner institutions to perform specific functions in the DMG.
- (iii) Members of the Risk Management Committee of SHCH.
- (iv) Other candidates as deemed appropriate by SHCH.

24. **(DMG partner institutions)** SHCH invites clearing members in the corresponding CCP clearing services that meet the requirements of the relevant standards to be the DMG partner institutions. The DMG partner institutions shall recommend market representatives with rich market experience to SHCH.

25. **(Charter of the DMG)** SHCH has formulated the “Working Charter of the Default Management Group of Shanghai Clearing House” to specify the composition, functions, workflow and duty of confidentiality of the DMG.

26. **(Confidentiality of information)** Members of the DMG shall comply with the relevant confidentiality requirements in accordance with the relevant regulations, including but not limited to the relevant business rules of SHCH, the Guidelines, the “Working Charter of the Default Management Group of Shanghai Clearing House”, other relevant agreements and commitments, etc. If there is any violation, SHCH will pursue the corresponding legal responsibility.

27. **(Conflict of interest)** Members of the DMG shall comply with the “Working Charter of the Default Management Group of Shanghai Clearing House”. Priority should be given to best protect SHCH risk reserve resources and preserve financial stability in SHCH’s decision making regarding the default management and DMG’s performance of respective duties.sss

Chapter 6 Non-Clearing Member Default Management

28. **(Assisting in default management)** When a non-clearing member defaults, the general clearing member shall immediately submit to SHCH a notice of default of the non-clearing member with the official seal or reserved seal of the general clearing member (Annex 11), as well as relevant records or explanatory materials of the non-clearing member's default. SHCH shall perform formal examination of the above materials.

The general clearing member may request the non-clearing member to reduce its own positions or initiate the default management on the non-clearing member's positions in accordance with the clearing agreement signed with the non-clearing member. The general clearing member may submit the application form for assistance in non-clearing member default management (Annex 12) to apply for SHCH's assistance in non-clearing member default management, specifically includes:

- (i) To adjust the corresponding mode for receiving new transactions of the defaulting non-clearing member; to suspend the access permission to CCP clearing services of the defaulting non-clearing member, etc., specific matters are provided in the sections on non-clearing member default management in the Default Management Operational Guidelines of each clearing service.
- (ii) To provide assistance in the default management of the defaulting non-clearing member's positions, specific matters are provided in the sections on non-clearing member default management in the Default Management Operational Guidelines of each clearing service.
- (iii) To provide assistance in the liquidation of non-cash collateral (if any) of the defaulting non-clearing member (Annex 4).
- (iv) Other matters deemed reasonable by SHCH.

SHCH shall notify the general clearing member on the results of non-clearing member default management after completing the matters for which the general clearing member has applied for assistance. SHCH has the right to disclose to the market the information of non-clearing member default management.

29. **(Responsibilities of the general clearing member)** In case of default of a non-clearing member, the general clearing member shall immediately report the situation to SHCH and continue to fulfill its responsibilities of guaranteeing the settlement for its non-clearing members. If it does not fulfill the corresponding responsibility, the general clearing member will be regarded as in default. The losses and related costs incurred in the process of default management of the non-clearing member's default shall be borne by its general clearing member. After the general clearing

members bears the aforesaid losses and costs to SHCH, they shall have the right to claim compensation from the defaulting non-clearing member according to the clearing agreement.

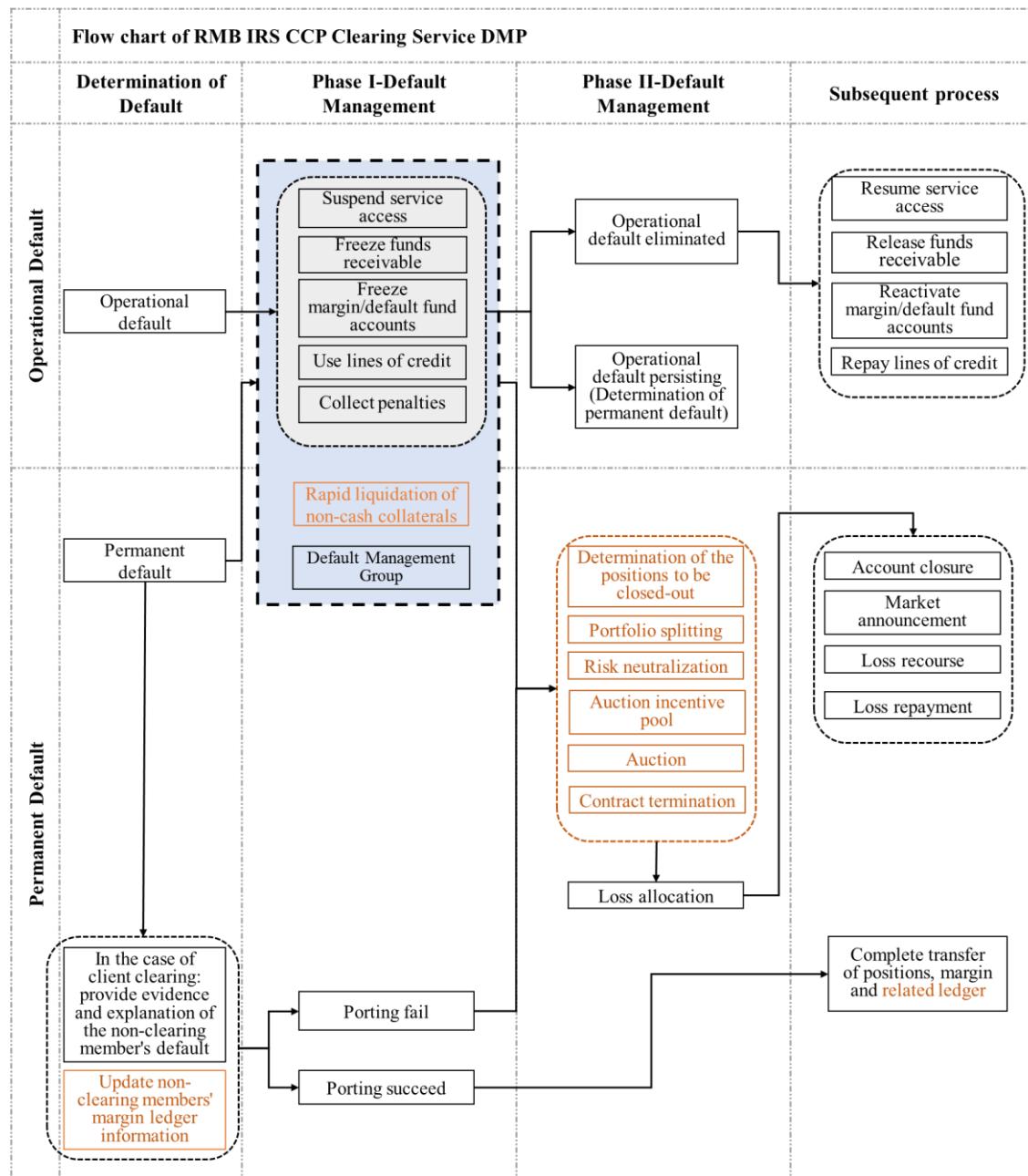
Chapter 7 Information Management and Prevention of Insider Trading

30. **(Information Disclosure)** In the process of default management, SHCH will publish necessary information related to default management in a timely manner to inform the markets of the status of default management and maintain market stability. Public information includes²: the name of the defaulting clearing member, the date of default, contract details of the auction portfolios (the name of the counterparties can be concealed), the portfolio risk exposure and mark-to-market value of the auction portfolios, etc.
31. **(Information Confidentiality)** Clearing members shall bear the obligations of confidentiality regarding all non-public information obtained during the default management process confidential and shall not disclose it to the market without the permission of SHCH. SHCH has the right to request written confirmation from clearing members regarding confidentiality matters. Clearing members and individuals who obtain confidential information on default management shall not illegally trade, provide or disclose the relevant information, or use the confidential information in their possession to engage in trading activities, or use the information to advise others to engage in trading activities. Clearing members shall establish an effective regime for identification and protection of confidential information, determine the scope of knowledge of confidential information, set restrictions on the protection of confidential information, and manage the channels and methods of transmitting confidential information.
32. **(Prevention of Insider Trading)** In reaction to the situation of insider trading through access to non-public information on default management, clearing members shall strengthen the behavior monitoring and management of their trading personnel, develop relevant regimes and processes to identify possible insider trading behaviors and prevent insider trading risks.

² The public information referred to herein includes information that is available to the public and information that is available to the clearing participants of relevant CCP clearing services.

Chapter 8 Operational Guidelines on RMB Interest Rate Swap (IRS) CCP clearing service Default Management Process (DMP)

Section I. Flow Chart of RMB IRS CCP Clearing Service DMP



Section II. Forced Liquidation

33. (Methods of Forced Liquidation) Methods of forced liquidation include: default management auction and contract termination. Priority is given to the auction. If the auction fails, contract termination may be executed.

34. (Default management Auction) SHCH will invite non-defaulting clearing members to participate in the default management auction,

and transfer the related positions to the accounts of the clearing members winning the auction.

35. **(Mandatory Participation)** All non-defaulting clearing members in SHCH's RMB IRS CCP clearing service are obliged to participate in the default management auction.

36. **(Auction process)** SHCH will perform the default management auction in accordance with the following procedures: portfolio splitting, risk neutralization, auction incentive pool, position auction.

(i) **Portfolio splitting:** SHCH shall have the discretion to decide whether to split the defaulting portfolio and the splitting methods based on factors such as the product type and risk exposure of the defaulting clearing member's positions. The DMG shall provide a plan with the aim of facilitating the efficiency of risk neutralization and reducing the risk associated with the auction process.

(ii) **Risk neutralization:** SHCH will execute hedging trades in the interbank market to reduce the risk exposure of the defaulting clearing member's auction portfolio so far as is reasonably practicable, which shall be determined by SHCH in light of the actual situation. The DMG shall provide a hedging strategy with the aim of reducing hedging losses.

Hedging transactions are executed between the clearing member delegated by SHCH and the market participants. The prices of hedging transactions, executed based on the hedging plan provided by the DMG and approved by SHCH, are considered reasonable and valid, and SHCH does not guarantee the prices are optimal at the instant. SHCH has the right to execute multiple hedges or no hedges for the auction portfolios. After the hedging transactions are submitted for clearing, SHCH will transfer the entrusted transactions to SHCH.

(iii) **Auction incentive pool:** Before the auction, SHCH will allocate the corresponding risk reserve resources (auction incentive pool) for each auction portfolio in order to estimate the losses that each portfolio can bear during the auction. The risk reserve resources in the auction incentive pool include the defaulting clearing member's margin and

default fund, part of SHCH's risk reserve, the non-defaulting clearing members' default fund contribution and the supplementary contribution. Before allocating the auction incentive pool, SHCH will adjust the risk reserve resources in each auction incentive pool according to the mark-to-market profit/loss of the auction portfolios (hereinafter referred to as "*Adjusted Risk Reserve Resources*"). The mark-to-market profit/loss of the auction portfolios refers to the cumulative mark-to-market profit/loss from the date of default to the auction date. If the auction portfolios have mark-to-market profits, the profits will be added to the risk reserve resources; if the auction portfolios have mark-to-market losses, the risk reserve resources will be reduced accordingly.

Auction incentive pool for each auction portfolio = ratio of the risk exposure of that auction portfolio to the total risk exposure of all auction portfolios × Adjusted Risk Reserve Resources

- (iv) **Auction:** After completion of portfolio splitting, risk neutralization and auction incentive pool allocation, SHCH will execute multiple rounds of auctions. The auction portfolios include the original defaulting portfolios and the hedging transactions.

Before each round of auction, SHCH will disclose the contract information, market-to-market value of each auction portfolio, IRS swap rate and other information to all non-defaulting clearing members participating in the auction (Annex 13-1). The non-defaulting clearing members shall submit bids to SHCH within one business day from the publication of the information on the auction portfolios by SHCH. SHCH has the right to require the non-defaulting clearing members to bid within a shorter timeframe in light of the actual situation. The participating clearing members may make multiple bids, and the last bid before the deadline of bidding shall be the valid bid of the clearing member for the round of auction.

SHCH will assess the validity of the bids on the auction portfolios with reference to the risk premium of the auction portfolios, the spread between the existing risk reserve

resources and the best bids, and decide whether to accept the best bid based on the assessment results. While making the decision, SHCH may consult with the DMG³.

If SHCH considers that the bids for the auction portfolios are valid, the auction shall be deemed to be successful. SHCH shall notify all participating members via the default management website that the auction is successful and notify the clearing members who submitted the winning bids that their bids have been accepted. If there is no bid for the auction portfolios or no bid is accepted by SHCH, the auction shall fail. SHCH shall notify all participating clearing members through the default management website that the auction has failed and how the next round of auction will be scheduled.

In principle, the auction should not exceed 3 rounds. In case of multiple failed auctions, SHCH has the right to decide whether to conduct contract termination.

37. **(Contract termination)** SHCH will execute contract termination for failed auction positions. When the contract termination is executed, the contracts will be terminated based on SHCH's IRS curve on the termination date. SHCH will inform the clearing members (or the general clearing members if non-clearing members are involved) of the matter and the termination date through the default management website. At the end of the termination date, SHCH will publish the terminated contract information and the termination price to the market through the system portal.
38. **(Transfer of positions)** Upon completion of a successful auction, SHCH will transfer the successfully auctioned portfolios to the respective winning bidders, and complete the change of counterparty of the contracts.
39. **(Settlement of auction payments)** Upon completion of a successful auction, SHCH will settle the auction payments with the relevant winning bidders. If the clearing member with winning bids fails to complete the fund settlement with SHCH within the

³ During the consultation with DMG, the bidding information provided by SHCH to the DMG will be strictly anonymous.

specified time, it will be deemed to be default and the default will be managed accordingly.

40. **(Settlement of contract termination)** When conducting contract termination, SHCH will complete the netting settlements with the terminating parties on the designated settlement date and terminate all relevant contracts.

Section III. Non-Clearing Member Default Management

41. **(Assistance in default management)** SHCH will, based on the application form for assistance in default management (Annex 12-3) and the application form for position liquidation (Annex 14) submitted by the general clearing member, assist in the default management matters including:

- (i) Adjust the non-defaulting clearing member's margin adequacy ratio (which can be adjusted to trade-by-trade client clearing confirmation), suspend the subsequent contract novation, clearing withdrawal, early termination of the defaulting non-clearing member in the RMB IRS services, based on the application form for assistance in default management submitted by the general clearing member;
- (ii) Provide assistance in liquidating the defaulting non-clearing member's positions, based on the application form for position liquidation submitted by the general clearing member;

SHCH has the right to request other relevant materials from the general clearing members. The general clearing members may apply for:

1. Transferring the defaulting positions (in part or in whole) to the accounts of other clearing participants. If the application materials are received before 15:00, in normal circumstances, positions will be transferred on the same day after the risk resource adequacy check is passed. If the application materials are received after 15:00, the risk resource adequacy check will be performed on the following business day and the position transfer will be completed after the check is passed.

2. Applying to use SHCH default management website to obtain quotations from the market for the defaulting positions (partial or full). The application form should specify the specific arrangement requirements for each auction portfolio, including but not limited to auction date and bidding window, auction positions and detailed information, reserve price, payment date, value date, etc. The applicant shall submit the application form to SHCH before 17:00. In principle, the bidding open time shall be no earlier 21 hours after SHCH receives the application form. (If the application form is received on 12:00, the auction could start at 9:00 on the following day; if the application form is received on 17:00, the auction could start at 14:00 on the following day.) In principle, the bidding windows should be between 9:00 and 15:30 on business days.

SHCH will review the application, mainly to confirm whether the relevant contract details are consistent with the defaulting portfolio. Upon the approval, SHCH will organize the open auction according to the specific arrangement requirements in the application form. SHCH has the right to adjust the schedule for the bidding window and payment deadline in the application form. The final auction schedule shall be subject to the website notice. For the specific auction process, please refer to the auction process for the clearing member defaults.

If the payment deadline is before 15:00, after the fund settlement is completed, SHCH will conduct risk reserve resources adequacy check on both parties, and transfer the positions immediately if the check is passed. If the payment deadline is after 15:00, SHCH will conduct risk reserve resources adequacy check on the following business day, and transfer the positions immediately if the check is passed. Fund settlement will be completed directly between buyers and sellers through the settlement path used in the relevant CCP clearing service (the fund settlement path of the non-clearing member is the fund settlement path of its general clearing member's client clearing service).

3. Assistance with liquidation of non-cash collateral of the defaulting non-clearing members (Annex 4).

4. Other matters deemed reasonable by SHCH.

Section IV. Default Management of the Special Clearing House Participant in Northbound Swap Connect

42. (Default determination) The Special Clearing House Participant (SCHP) in Northbound Swap Connect shall be deemed to be in operational default if it fails to pay settlement assets, Northbound Swap Connect inter-CCP margin or default penalties in full prior to the corresponding time of payment. If the SCHP fails to eliminate the above-mentioned operational default situation within one SCHP's business day (no more than three business days of this service), SHCH shall be entitled to determine the SCHP as in permanent default.

Apart from the above-mentioned circumstances, SHCH has the right to determine a SCHP to be in permanent default, if the SCHP voluntarily commences a procedure for liquidation, administration, receivership, judicial management or a scheme of arrangement, or other similar relief with respect to itself or its debts under any bankruptcy, insolvency, regulatory, supervisory or similar law, or if any of the foregoing case or procedure is commenced in relation to the SCHP by any other person, or such procedures are not rejected, revoked, suspended or stopped within 21 SCHP's business day after initiation or submission.

If a SCHP is deemed to be in permanent default, SHCH will send a notice of permanent default to the SCHP, and the result shall take effect immediately when the default is determined by SHCH and the notice is issued.

43. (Default management measures) If the SCHP is in operational default, SHCH has right to unilaterally reduce the tolerance amount of inter-CCP margin. If the SCHP is in permanent default, SHCH will implement the default management process in accordance with the default management and forced liquidation process of this service.

44. (Loss allocation process) If the SCHP has been deemed to be in permanent default by SHCH, SHCH will use the inter-CCP margin in the following order to cover the default losses of SHCH caused by the SCHP's default:

- (i) The amount of the Northbound Swap Connect inter-CCP margin paid by the SCHP and offshore participants;
- (ii) The amount of the Northbound Swap Connect inter-CCP margin paid by SHCH;
- (iii) The amount of the Northbound Swap Connect inter-CCP margin paid by onshore participants.

If the inter-CCP margin are insufficient to cover the default losses, the remaining losses shall be allocated in the order according to the default management loss allocation process of this service, starting from the first-layer of the risk reserve resources of SHCH.

Section V. The Default Management of the SCHP's Clearing Member

45. (Assistance for SCHP in the default management auction)
SHCH and onshore clearing member voluntarily participate in the Northbound Swap Connect default management auction process of SCHP in the purpose of managing the offshore clearing participant's default. The process is as follows:

- (i) The SCHP may submit the application form to apply for SHCH's assistance in organizing onshore institutions to bid its clearing member's default portfolio. The application form should specify the specific requirements for each auction portfolio, including but not limited to bidding window, auction positions and related details, reserve price, payment date, etc. In principle, the value date should be the same as the contract transfer date and not earlier than the bidding opening time. The payment date is in principle the next business day of the contract transfer date. The SCHP shall submit the application form to the Risk Management Department of SHCH before 17:00. In principle, the bidding opening time shall be no earlier 21 hours after SHCH receives the application form (If the application form is received at 12:00, the auction could start at 9:00 on the following business day; if the application form is received at 17:00, the auction could start at 14:00 on the following business day). The bidding windows should be no later than 15:30 on business days.

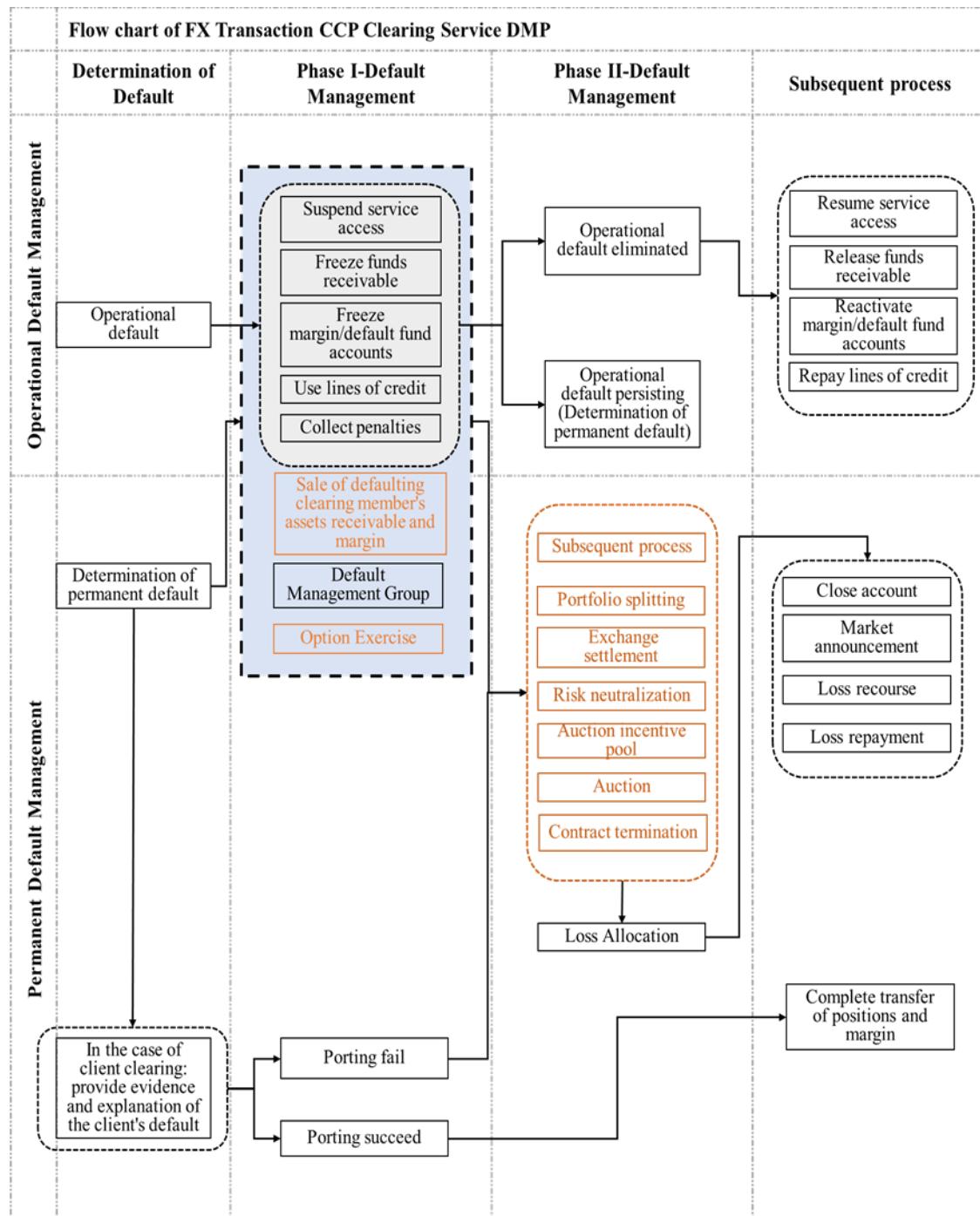
- (ii) SHCH will conduct the compliance check, including check on the transaction elements, for auction portfolios after receiving the SCHP's application for assistance in default management. If the compliance check fails, the SHCH shall not organize the auction.
- (iii) After passing the compliance checks, SHCH will organize the open auction with onshore clearing members via SHCH's default management website on the next business day of receiving the application. SHCH has the right to adjust the schedule for the bidding window and payment deadline in the application form. The final auction schedule shall be subject to the website notice.
- (iv) The SHCH will review the bids for auction positions during the auction process or after the bidding window is closed. The specific process is as follows:
 1. SHCH shall conduct the adequacy check of risk resources, and has the right to reduce the margin tolerance or collect special margin on bidding onshore members as appropriate, based on the risk premium and the risk exposures of the auction portfolios. Biddings from onshore members who don't have sufficient margin tolerance or fail to pay the special margin will be regarded as invalid. The participating onshore clearing members may submit multiple bids, and the last bid before the deadline for bidding shall be the valid bid of the clearing member for the round of auction.
 2. SHCH shall provide the information of the clearing members submitting valid bids to the SCHP, and the SCHP shall confirm the preliminary auction winner and inform SHCH before 17:00 on the contract transfer date.
 3. If the preliminary auction winner is an onshore clearing member, SHCH will conduct the end-of-day adequacy check of risk resources based on the member's bid at 17:30 on the contract transfer date. SHCH will calculate the inter-CCP margin exposure requirement corresponding to the (net) risk exposure to the SCHP and each onshore participants' contribution amount, on the assumption of completion of the contract transfer based on the latest

SHCH IRS swap curves. If the inter-CCP margin exposure requirement exceeds the Swap Connect lockbox limit, or the sum of the largest two inter-CCP margin call of the onshore clearing members exceed the SHCH's alert threshold, or if the assumed contract transfer would result in significant shortage of risk resource based on SHCH's assessment, SHCH shall have the right to determine all bids to be invalid. SHCH's alert threshold is equal to the higher of the inter-CCP margin tolerance and 50% of the remaining amount within the cap of SHCH's own funds used for inter CCP margin contribution.

4. SHCH shall notify SCHP the result of end-of-day risk reserve resources adequacy check. If such check is passed, the onshore preliminary auction winner shall be deemed to be the auction winner after SCHP confirmation. SHCH will complete the contract transfer.
 - (v) The onshore clearing member with winning bids shall complete the fund settlement before the payment deadline according to SHCH's notification. If the onshore clearing member with winning bids fails to fulfill the payment obligation within the specified time, the member will be deemed to be in default. If the payment deadline is earlier than the time of the risk reserve resources adequacy check and the check fails, related payments will be refunded.
 - (vi) SHCH will complete the fund settlement with SCHP on the next business day of the contract transfer date.
46. **(Northbound Swap Connect contract termination)** SCHP will execute contract termination for failed auction positions. SCHP should choose to terminate the contracts with offshore clearing participants whenever possible. Failure to terminate the contracts with offshore clearing participants may result in partial or full termination of the Northbound Swap Connect contracts between SHCH and SCHP. The contract termination with onshore participants will be completed in accordance with the contract termination procedures of this service. The contract will be terminated based on SHCH's IRS curve on the termination date.

Chapter 9 Operational Guidelines on Foreign Exchange (FX) Transaction CCP clearing service Default Management Process (DMP)

Section I. Flow Chart of FX Transaction CCP Clearing Service DMP



Section II. Forced Liquidation

47. **(Business Scope)** This chapter is applicable to the RMB FX Transaction CCP clearing service and Foreign Currency Pair Transaction CCP clearing service. The default management process will be executed independently based on the corresponding clearing service.

48. **(Methods of forced liquidation)** Methods of forced liquidation include: default management auction and contract termination. Priority is given to the auction. If the auction fails, contract termination may be executed.

49. **(Default management Auction)** SHCH will invite non-defaulting clearing members to participate in the default management auction, and transfer the related positions to the accounts of the clearing members winning the auction.

50. **(Mandatory participation)** All non-defaulting clearing members in SHCH's FX transaction CCP clearing service are obliged to participate in the default management auction.

51. **(Auction process)** SHCH will perform the default management auction in accordance with the following procedures: portfolio splitting, FX transaction settlement and sales, risk neutralization, auction incentive pool, and position auction.

- (i) **Portfolio splitting:** SHCH shall have the discretion to decide whether to split the defaulting portfolio and the methods of portfolio splitting based on factors such as the product type and risk exposure of the defaulting clearing member's positions. The DMG shall provide a plan with the aim of facilitating the efficiency of risk neutralization and reducing the risk associated with the auction process.
- (ii) **FX settlement and sales with banks:** Upon the default of the clearing member, SHCH may execute FX settlement and sales with banks as a customer for the overdue cash positions, positions close to settlement and cash margins, in order to fulfill the clearing and settlement obligations to the non-defaulting clearing members through liquidating the assets of the defaulting clearing member to make up for its payment gap during the default management period.

(iii) **Risk neutralization:** SHCH will execute hedging trades in the interbank market to reduce the risk exposure of the defaulting clearing member's auction portfolio so far as is reasonably practicable, which shall be determined by SHCH in light of the actual situation. The DMG shall provide a hedging strategy with the aim of reducing hedging losses.

Transactions in the hedging process are executed between the clearing member delegated by SHCH and the participants in the interbank FX market. The prices of hedging transactions, executed based on the hedging plan provided by the DMG and approved by SHCH, are considered reasonable and valid, and SHCH does not guarantee the prices are optimal at the instant. SHCH has the right to execute multiple hedges or no hedges for the auction portfolios. After the hedging transaction is completed, SHCH will entrust China Foreign Exchange Trade System (CFETS) to book the reverse transactions in the form of emergency transactions, and transfer the entrusted transactions to SHCH.

(iv) **Auction incentive pool:** Before the auction starts, SHCH will allocate the corresponding risk reserve resources (auction incentive pool) for each auction portfolio in order to estimate the losses that each portfolio can bear during the auction. The risk reserve resources in the auction incentive pool include the defaulting clearing member's margin and default fund, part of SHCH's risk reserve, the non-defaulting clearing members' default fund and the supplementary default fund. Before allocating the auction incentive pool, SHCH will adjust the risk reserve resources in the auction incentive pool according to the mark-to-market profit/loss of the auction portfolios (hereinafter referred to as "*Adjusted Risk Reserve Resources*"). The mark-to-market profit/loss of the auction portfolios refers to the cumulative mark-to-market profit/loss from the date of default event to the auction date. If the auction portfolios have mark-to-market profits, the profits will be added to the risk reserve resources; if the auction portfolios have mark-to-market losses, the risk reserve resources will be reduced accordingly.

Adjusted Risk Reserve Resources = risk reserve resources in the auction incentive pool - mark-to-market losses of the auction portfolios (or + mark-to-market profits of the auction portfolios)

The mark-to-market losses of the auction portfolios will be met by using the defaulting clearing member's margin and default fund. If it is insufficient, the outstanding losses will be covered by part of the risk reserve of SHCH. If it is still insufficient, the remaining losses will be attributed to non-defaulting clearing member's default fund and the supplementary default fund pro rata according to the proportion that the default fund contributions of such non-defaulting clearing member to the total default fund.

Auction incentive pool for each auction portfolio = ratio of the risk exposure of that auction portfolio to the total risk exposure of all auction portfolios × Adjusted Risk Reserve Resources

(v) **Auction:** After completion of portfolio splitting, risk neutralization and auction incentive pool allocation, SHCH will execute multiple rounds of auctions. The auction portfolios include the original defaulting portfolios and the hedging transactions.

Before each round of auction, SHCH will disclose the trade type, trading currency, trading volume, mark-to-market value and other information of each auction portfolio to all non-defaulting clearing members participating in the auction (Annex 13-2). The non-defaulting clearing members shall submit bids to SHCH within one business day from the publication of the information on the auction portfolios by SHCH. SHCH has the right to require the non-defaulting clearing members to bid within a shorter timeframe in light of the actual situation. The participating clearing members may make multiple bids, and the last bid before the deadline of bidding shall be the valid bid of the clearing member for the round of auction.

SHCH will assess the validity of the bids on the auction portfolios with reference to the risk premium of the auction portfolios, the spread between the existing risk reserve

resources and the best bids, and decide whether to accept the best bid based on the assessment results.

If SHCH considers that the bids for the auction portfolios are valid, the auction shall be deemed to be successful. SHCH shall notify all participating members via the default management website that the auction is successful and notify the clearing members who submitted the winning bids that their bids have been accepted. If there is no bid for the auction portfolios or no bid is accepted by SHCH, the auction shall fail. SHCH shall notify all participating clearing members through the default management website that the auction has failed and how the next round of auction will be scheduled.

In principle, the auction should not exceed 3 rounds. In case of multiple failed auctions, SHCH has the right to decide whether to conduct contract termination.

52. (Contract termination) When the contract termination is executed, the contracts will be terminated based on SHCH's interest rate curve, FX spot rate, FX swap rate and implied volatility surface of option on the termination date. SHCH will inform the clearing members (or the general clearing members if non-clearing members are involved) of the matter and the termination date through the default management website. At the end of the termination date, SHCH will publish the terminated contract information and the termination price to the market through the system portal and synchronize the relevant information to CFETS.

53. (Transfer of positions) Upon completion of a successful Auction, CFETS will book the transactions between SHCH and the auction winner in the form of emergency transactions, according to the transaction details sent by SHCH. CFETS will replace the transactions between the defaulting clearing member and the original counterparties with transactions between SHCH and the original counterparties, enabling auction position transfers.

54. (Settlement of auction payments) Upon completion of a successful auction, SHCH will settle the auction payments with the clearing members with winning bids. If the clearing member with winning bids fails to complete the fund settlement with

SHCH within the specified time, it will be deemed to be in default and the default will be managed accordingly.

Section III. Non-Clearing Member Default Management

55. (Assistance in default management) SHCH will, based on the application form for assistance in default management (Annex 12-2) and the application form for position liquidation (Annex 14) submitted by the general clearing member, assist the general clearing member in the default management matters including:

- (i) Adjust the client clearing confirmation mode (which can be adjusted to trade-by-trade client clearing confirmation), adjust the client clearing risk tolerance, suspend the subsequent contract novation of the defaulting non-clearing member in the FX transaction CCP clearing services, based on the application form for assistance in default management submitted by the general clearing member;
- (ii) Provide assistance in liquidating the defaulting non-clearing member's positions, based on the application form for position liquidation submitted by the general clearing member;
- (iii) SHCH has the right to request other relevant materials from the general clearing members. The general clearing members may apply for:
 1. Transferring the defaulting positions (in part or in whole) to the accounts of other clearing participants, exception for positions settled on the day of application and within 2 business days after that. If the application materials are received before 15:00, SHCH will send the transaction details of the positions transferred to CFETS on the same day. If the application materials are received after 15:00, SHCH will send the transaction details of the positions transferred to the CFETS on the following business day. CFETS will book the transactions between SHCH and the designated clearing participants in the form of emergency transaction, according to the transaction details sent by SHCH. CFETS will replace the transactions between the defaulting non-clearing member and the original counterparties with transactions between SHCH and the

original counterparties, enabling position transfers. SHCH has the right to adjust the above schedule.

2. Applying to use SHCH default management website to obtain quotations from the market for the defaulting positions (partial or full), whose value date should be greater than or equal to 2 business days after the payment date. The application form should specify the specific arrangement requirements for each auction portfolio, including but not limited to auction date and bidding window, auction positions and related information, reserve price, payment date, value date, etc. The applicant shall submit the application form to SHCH before 17:00. In principle, the bidding open time shall be no earlier 21 hours after SHCH receives the application form. (If the application form is received on 12:00, the auction could start at 9:00 on the following day; if the application form is received on 17:00, the auction could start at 14:00 on the following day.) In principle, the bidding windows should be between 9:00 and 15:30 on business days.

SHCH will review the application, mainly to confirm whether the relevant contract details are consistent with the defaulting portfolio. Upon the approval, SHCH will organize the open auction according to the specific arrangement requirements in the application form. SHCH has the right to adjust the schedule for the bidding window and payment deadline in the application form. The final auction schedule shall be subject to the website notice. For the specific auction process, please refer to the auction process for the clearing member defaults.

If the payment deadline is before 15:00 and the fund settlement is completed, SHCH will send the transaction details of the auction outcomes to the CFETS on the same day. If the payment deadline is after 15:00 and the fund settlement is completed, SHCH will send the transaction details of the positions to be transferred to the CFETS on the following business day. CFETS will book the transactions between SHCH and the auction winner in the form of emergency transaction, according to the transaction details sent by SHCH. CFETS will replace the transitions between

the defaulting non-clearing member and the original counterparties with transitions between SHCH and the original counterparties, enabling position transfers. SHCH has the right to adjust the above schedule. Fund settlement will be completed through the settlement path used in the relevant CCP clearing service (the fund settlement path of the non-clearing member is the fund settlement path of its general clearing member's client clearing service).

3. Other matters deemed reasonable by SHCH.

Section IV. Other Specific Provisions

56. (Additional measures for permanent default management)

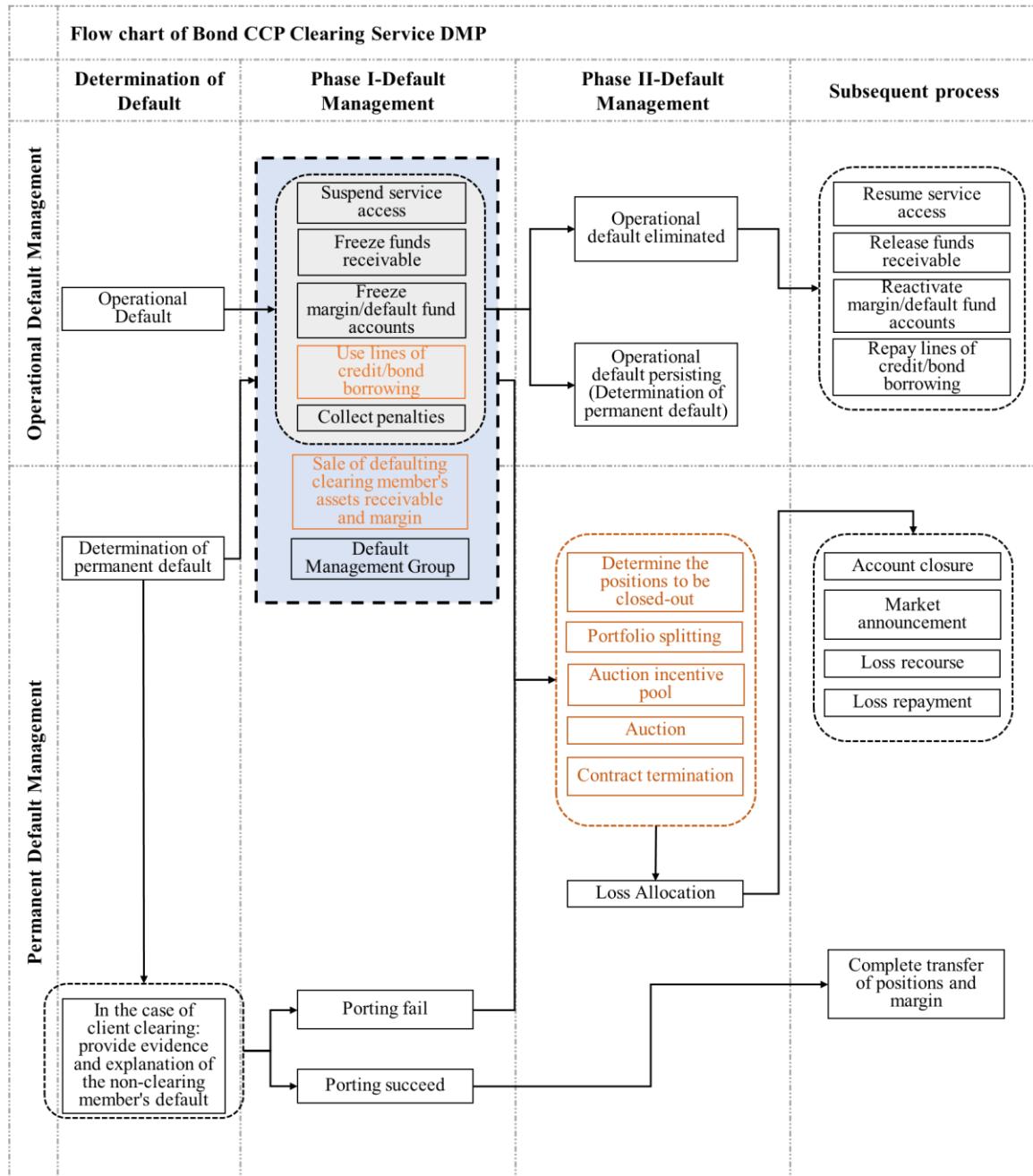
When a clearing member is deemed to be in permanent default in the FX transaction central clearing business, SHCH may take the following measures in addition to those described in Article 7 of Chapter 2 of the Guidelines.

If the defaulting member is the buyer of a FX option contract, during the default management period (from the time the clearing member is deemed to be in permanent default to the completion of the forced liquidation), SHCH has the right to decide whether to exercise the option or not. CFETS will cooperate with SHCH to complete the option exercise.

57. (Position porting) Positions cleared but not yet settled are not included in the scope of the porting for non-clearing members in the FX transaction CCP clearing service, and these positions will be settled according to the original settlement process. SHCH will calculate the special margin for positions cleared but not yet settled, and make a margin call to the non-clearing members before the porting takes effect. The related non-clearing members should pay special margin in full and in time as required by SHCH.

Chapter 10 Operational Guidelines on Bond CCP clearing service Default Management Process (DMP)

Section I. Flow Chart of Bond CCP Clearing Service DMP



Section II. Forced Liquidation

58. (Methods of forced liquidation) Methods of forced liquidation include: default management auction and contract termination. The default management auction includes auction for cash bonds and auction for outstanding positions.

59. **(Default management Auction)** The auction for cash bonds includes auctions of the defaulting clearing member's frozen receivable bonds, security collateral and other bonds which SHCH has the right to liquidate. The auction for outstanding positions includes auctions of the defaulting clearing member's outstanding fund or bond positions. SHCH will transfer the related positions to the accounts of the winning auction participants based on the auction results.

60. **(Mandatory participation)** All non-defaulting clearing members in SHCH's bond CCP clearing service are obliged to participate in the default management auction. SHCH may expand the scope of auction participants according to the circumstances, such as expanding to the gross settlement members.

61. **(Auction process)** SHCH will perform the default management auction in accordance with the following procedures: portfolio splitting, auction incentive pool, position auction.

- (i) **Portfolio splitting:** SHCH shall have the discretion to decide whether to split the defaulting portfolio and the portfolio splitting methods based on factors such as the trade type, the underlying asset attributes and risk exposure of the defaulting clearing member's positions. The DMG shall provide a plan with the aim of facilitating the efficiency of accomplishing the auction and reducing the risk associated with the auction process.
- (ii) **Auction incentive pool:** Before the auction starts, SHCH will allocate the corresponding risk reserve resources (auction incentive pool) for each auction portfolio in order to estimate the losses that each portfolio can bear during the auction. The risk reserve resources in the auction incentive pool include the defaulting clearing member's margin and default fund, part of SHCH's risk reserve, the non-defaulting clearing members' default fund and the supplementary default fund.

Auction Incentive Pool for each auction portfolio = ratio of the risk exposure of that auction portfolio to the total risk exposure of all auction portfolios × risk reserve resources in the auction incentive pool

(iii) **Auction:** After portfolio splitting and auction incentive pool allocation, SHCH will execute multiple rounds of auctions.

Before each round of auction, SHCH will disclose the contract information of each auction portfolio to all auction participants (Annex 13-3). The auction participants shall submit quotes to SHCH before the specified point-in-time in that round of auction. The auction participants may submit multiple quotes, and the last quote before the deadline shall be valid quote of the participant for the round of auction.

SHCH will assess the validity of the quotes on the auction portfolios with reference to the risk premium of the auction portfolios, the spread between the existing risk reserve resources and the best quotes, and decide whether to accept the best quotes based on the assessment results.

If SHCH considers that the quotes on the auction portfolios are valid, the auction shall be deemed to be successful. SHCH shall notify all participants via the default management website that the auction is successful and notify the winning auction participants that their quotes have been accepted. If there is no quote on the auction portfolios or no quote is accepted by SHCH, the auction shall fail. SHCH shall notify all participants through the default management website that the auction has failed and how the next round of auction will be scheduled.

In case that multiple rounds of auctions for outstanding positions fail, SHCH has the right to decide whether to conduct contract termination.

62. (Contract termination) When the contract termination is executed, the contracts will be terminated based on SHCH's bond valuation and related interest rate curves on the termination date. SHCH will inform the clearing members (or the general clearing members if non-clearing members are involved) of the matter and the termination date. At the end of the termination date, SHCH will publish the terminated contract information and the termination price to the market.

63. (Transfer of positions) Upon completion of a successful auction, SHCH will transfer the successfully auctioned portfolios to the

respective auction winners, and complete the change of counterparty for the contracts.

64. **(Settlement of auction payments)** Upon completion of a successful auction, SHCH will conduct funds and bonds settlements with the participants with winning quotes. If the participant with winning quotes fails to perform its payment obligations to take over the contracts within the specified time, it will be deemed to be in default and the default will be managed accordingly.
65. **(Settlement of contract termination)** When conducting contract termination, SHCH will complete the netting settlements with the terminating parties on the designated settlement date and terminate all relevant contracts.

Section III. Non-Clearing Member Default Management

66. **(Assistance in default management)** SHCH will, based on the application form for assistance in default management (Annex 12-3) and the application form for position liquidation (Annex 14) submitted by the general clearing member, assist the general clearing member with the default management matters including:
 - (i) Adjust the client clearing confirmation mode (which can be adjusted to trade-by-trade client clearing confirmation), suspend the subsequent contract novation of the defaulting non-clearing member for partial or all product types in the bond CCP clearing services, based on the application form for assistance in default management submitted by the general clearing member;
 - (ii) Provide assistance in disposal of the defaulting non-clearing member's positions, based on the application form for position liquidation submitted by the general clearing member;

SHCH has the right to request other relevant materials from the general clearing members. The general clearing members may apply for:

1. Transferring the defaulting positions (partial or full) to the accounts of other clearing participants. If the application materials are received before the specified time on the day, without special circumstances, positions

will be transferred on the same day after the risk resource adequacy check is passed. If the application materials are received after the specified time, the risk resource adequacy check will be performed on the following business day and the position transfer will be completed after the check is passed.

2. Applying to use SHCH default management website to obtain quotations from the market for the defaulting positions (partial or full). The application form should specify the specific arrangement requirements for each auction portfolio, including but not limited to auction date and bidding window, auction positions and related information, reserve price, payment date, value date, etc. The applicant shall submit the application form to SHCH before the specified point-in-time. SHCH shall have the discretion to decide the start time of bidding.

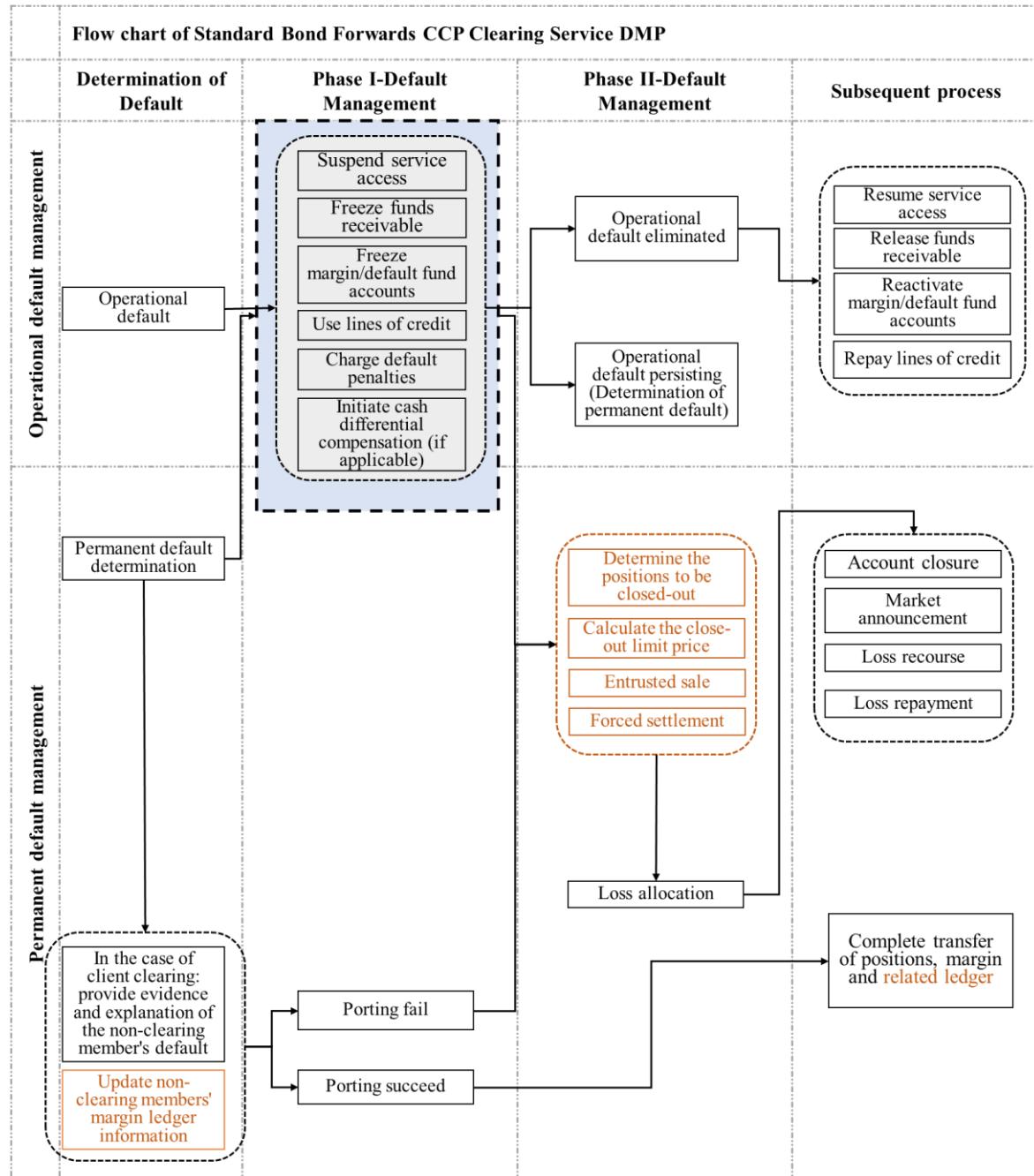
SHCH will review the application, mainly to confirm whether the relevant contract details are consistent with the defaulting portfolio. Upon the approval, SHCH will organize the open auction according to the specific arrangement requirements in the application form. SHCH has the right to adjust the schedule for the bidding window, payment deadline, etc. The final auction schedule shall be subject to the website notice. For the specific auction process, please refer to the auction process for the clearing member defaults.

After the settlement is completed, SHCH will conduct the risk reserve resources adequacy check for both parties, and transfer the positions immediately if the check is passed. Fund settlement will be completed through the settlement path used by buyers and sellers in the relevant CCP clearing service (the fund settlement path of the non-clearing member is the fund settlement path of its general clearing member's client clearing service).

3. Other matters deemed reasonable by SHCH.

Chapter 11 Operational Guidelines on Standard Bond Forwards CCP clearing service Default Management Process (DMP)

Section I. Flow Chart of Standard Bond Forwards CCP Clearing Service DMP



Section II. Cash differential Compensation

67. **(Methods of cash differential compensation)** After physical delivery default happens, SHCH shall close out the outstanding positions in the form of compensatory payment. The defaulting

party shall pay the differential compensation to non-defaulting counterparties through SHCH. SHCH shall further charge the performance compensation which is a certain percentage of the contract value of the failed delivery from the defaulting party and pay a certain percentage of the performance compensation to the non-defaulting counterparties.

68. **(Responsibilities of the general clearing member)** In case of physical delivery default by a non-clearing member, the general clearing member of the non-clearing member shall immediately report to SHCH the relevant situation and deliver the cash differential compensation and performance compensation in full within the specific period of time. If the general clearing member fails to deliver the corresponding funds within the specific period of time, the general clearing member shall be deemed to be in default.
69. **(Non-performance for the cash differential compensation)** If a clearing member fails to deliver the cash differential compensation and performance compensation in full within the specific period of time, SHCH has the right to determine the permanent default of the clearing member in accordance with Chapter 2 of the Guidelines.

Section III. Forced Liquidation and Forced Settlement

70. **(Methods of forced liquidation)** SHCH entrusts CFETS to conduct forced sale of the relevant positions of the defaulting clearing member within the specific period of time.
71. **(Forced liquidation process)** SHCH shall forcibly close out the positions of the defaulting clearing member in accordance with the following process:
 - (i) **Determining the positions to be closed-out.** SHCH determines the number of positions to be closed-out based on the actual default situation.
 - (ii) **Calculating the close-out price limit.** SHCH calculates the close-out price limit according to the latest quotation spread of the positions to be closed-out and the existing risk reserve resources and other factors. If the positions to be closed-out are buy positions, the transaction price shall not be lower than the close-out price limit; if the positions to be closed-out are sell positions, the transaction price shall not be

higher than the close-out price limit.

(iii) **Entrusted sale.** SHCH issues the forced liquidation order to CFETS. CFETS shall complete the forced liquidation order according to the instructions from SHCH. If the forced liquidation order is successfully completed, CFETS sends the corresponding transaction data with the close-out mark to SHCH to inform the execution of the close-out order.

If the forced liquidation order is completed on the day of liquidation, SHCH will notify the defaulting clearing member. If not all the positions are closed-out on the day of liquidation, SHCH has the right to decide whether to use forced settlement to liquidate the outstanding positions.

72. **(Method of forced settlement)** SHCH will terminate the positions and complete the transfer of funds according to the specified process for positions that fail to be closed-out.

73. **(Forced settlement Process)** SHCH shall settle the positions of the defaulting clearing member in accordance with the following process:

- (i) **Determining the *positions to be forced settled*,** which are the remaining positions of the defaulting clearing member that fail to be closed-out.
- (ii) **Selecting the *scope of forced settlement*.** For clearing participants who have net positions in the opposite direction of the *positions to be forced settled*, all of their corresponding net positions shall be included in the *scope of forced settlement*.
- (iii) **Allocating *positions to be forced settled*.** SHCH calculates the unit position profit and loss of the clearing participants and allocates the positions in four levels within *the scope of forced settlement* in accordance with the principle of profitable positions first and clearing members first.

The *Unit Profit and Loss under a Contract of a Clearing Participant* is calculated in the following method:

Unit Profit and Loss under a Contract of a Clearing Participant = *(the total net position profit and loss of the contract of the clearing participant)/(number of net positions of the contract of the clearing participant)*

The specific positions corresponding to the net position of the contract, are determined based on the “First In First Out” principle. The actual transaction price of each specific position is compared with the forced settlement price to calculate the profit/loss of the single position, which is then summed up to get the total net position profit and loss of the contract of the clearing participant.

The allocation is divided into four levels within *the scope of forced settlement*. The allocation is carried out level by level until all positions have been allocated. The allocation sequence is as follows:

1. Proprietary positions held by clearing members with unit profit
2. Positions held by non-clearing members with unit profit
3. Proprietary positions held by clearing members with unit loss
4. Positions held by non-clearing members with unit loss

If the number of positions in the first level is greater than or equal to the number of *positions to be forced settled*, the *positions to be forced settled* are allocated according to the ratio of the number of *positions to be forced settled* to the number of positions in the first level; if the number of positions in the first level is less than the number of *positions to be forced settled*, the corresponding *positions to be forced settled* are allocated according to the number of positions in the first level, and the remaining *positions to be forced settled* are allocated to the second level according to the above method, and so on.

(iv) **Implementing forced settlement.** At the end of the day, SHCH will execute forced settlement and complete the transfer of funds in accordance with the price specified by SHCH.

After the completion of the forced settlement, SHCH notifies the defaulting clearing members and the non-defaulting clearing members affected.

Section IV. Non-Clearing Member Default management

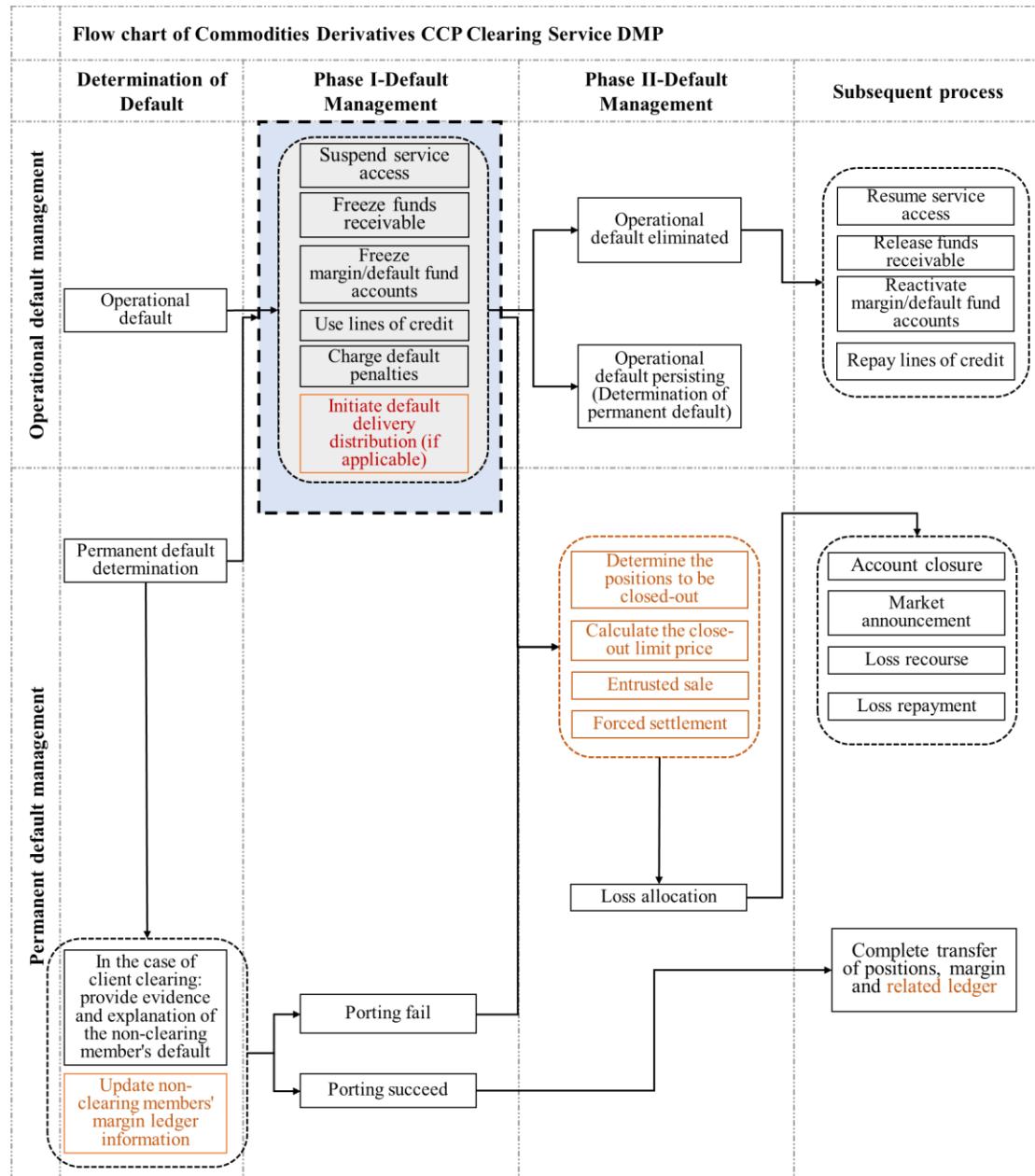
74. (Assistance in non-clearing member default management)

SHCH will, based on the application form submitted by the general clearing member (Annex 12-4), assist the general clearing member in non-clearing member default management, including:

- (i) Restricting the defaulting non-clearing member from opening new positions (partial or full) of the standard bond forwards CCP clearing service.
- (ii) Providing system assistance for forced liquidation of the positions of the defaulting non-clearing member, but specific close-out requirements including the number and price of positions to be closed-out are to be determined by the general clearing member.
- (iii) Providing forced settlement of the remaining positions after forced liquidation (if any) of the defaulting non-clearing member.
- (iv) Other matters deemed reasonable by SHCH.

Chapter 12 Operational Guidelines on Commodity Derivatives CCP Clearing Service Default management Process (DMP)

Section I. Flow Chart of Commodity Derivatives CCP Clearing Service DMP



Section II. Default Delivery Distribution

75. (Methods of default delivery distribution) On the final settlement day of the physical delivery products, SHCH will forcibly convert the physical delivery positions of the defaulting clearing participant to cash settlement. SHCH shall charge the compensation (a certain percentage of the settlement margin) from the defaulting clearing participant and pay the compensation to the

non-defaulting clearing participants affected.

76. **(Default delivery distribution process)** SHCH performs default delivery distribution in accordance with the following process: determining the *positions to be allocated*, selecting the *scope of allocation*, and matching positions.

- (i) **Determining the *positions to be allocated*.** Based on the actual default situation, SHCH determines whether to allocate the physical delivery positions of the defaulting clearing participant and the number of positions to be allocated.
- (ii) **Selecting the *scope of allocation*.** For non-defaulting clearing participants whose positions are opposite to the *positions to be allocated*, all of their corresponding positions shall be included in the *scope of allocation*.
- (iii) **Matching positions.** Within the *scope of allocation*, the positions are divided into three levels and matched level by level until all *positions to be allocated* are matched. The order of matching is as follows:
 1. Non-defaulting clearing participants whose number of positions is equal to the number of *positions to be allocated*.
 2. Non-defaulting clearing participants whose number of positions is larger than the number of *positions to be allocated*.
 3. Non-defaulting clearing participants whose number of positions is smaller than the number of *positions to be allocated*.

If there are multiple non-defaulting clearing participants in the same level, the non-defaulting clearing participant with the number of positions closest to the number of *positions to be allocated* is selected for matching. If there are more than one non-defaulting clearing participant with equal number of positions in the same level, the system will randomly select one for matching.

After the default delivery distribution is completed, SHCH notifies the defaulting clearing member and the affected non-defaulting clearing members.

Section III. Forced Liquidation and Forced Settlement

77. **(Methods of forced liquidation)** SHCH entrusts the designated data provider to conduct forced sale of the relevant positions of the defaulting clearing member within a specified period of time.

78. **(Forced liquidation process)** SHCH executes forced liquidation in accordance with the following process: determining the positions to be closed-out, calculating the close-out price limit, and entrusted sale.

- (i) **Determining the positions to be closed-out.** SHCH determines the number of positions to be closed-out according to the actual default situation.
- (ii) **Calculating the close-out price limit.** SHCH calculates the close-out price limit according to the latest quotation spread of the position to be closed-out and the existing risk reserve resources and other factors. If the positions to be closed-out are buy positions, the transaction price shall not be lower than the close-out price limit; if the positions to be closed-out are sell positions, the transaction price shall not be higher than the close-out price limit.
- (iii) **Entrusted sale.** SHCH entrusts the designated data provider to conduct forced liquidation. The designated data provider shall sell the position to be closed-out within a specified period of time and provide timely feedback on the progress of close-out.

If the forced liquidation order is completed on the day of liquidation, SHCH will notify the defaulting clearing member. If not all the positions are closed-out on the day of liquidation, SHCH has the right to decide whether to use forced settlement to liquidate the outstanding positions.

79. **(Methods of forced settlement)** SHCH will terminate the positions and complete the transfer of funds according to the specified process for positions that fail to be closed-out.

80. **(Forced settlement process)** SHCH performs forced settlement in accordance with the following process: determining the positions to be forced settled, selecting the scope of forced settlement, allocating positions to be forced settled within the scope of forced settlement, and implementing forced settlement.

- (i) **Determining the *positions to be forced settled***, which are the remaining positions of the defaulting clearing member that fail to be closed-out.
- (ii) **Selecting the *scope of forced settlement***. For clearing participants who have positions in the opposite direction of the *positions to be forced settled*, their corresponding positions shall be included in the *scope of forced settlement*.
- (iii) **Allocating *positions to be forced settled***. SHCH calculates the unit position profit and loss of the clearing participants and allocates the positions in four levels within the *scope of forced settlement* in accordance with the principle of profitable positions first and clearing members first.

The *Unit Profit and Loss under a Contract* of a clearing participant is calculated in the following method:

Unit Profit and Loss under a Contract = (total profit and loss of the contract)/(number of positions of the contract)

The specific positions corresponding to the net position of the contract, are determined based on the “First In First Out” principle. The actual transaction price of each specific position is compared with the forced settlement price to calculate the profit/loss of the single position, which is then summed up to get the total profit and loss of the contract of the clearing participant.

The allocation is divided into four levels within the *scope of forced settlement*. The allocation is carried out level by level until all the positions have been allocated. The allocation sequence is as follows:

1. Proprietary positions held by clearing members with unit profit
2. Positions held by non-clearing members with unit profit
3. Proprietary positions held by clearing members with unit loss
4. Positions held by non-clearing members with unit loss

If the number of positions in the first level is greater than or equal to the number of *positions to be forced settled*, the *positions to be forced settled* are allocated according to the

ratio of the number of *positions to be forced settled* to the number of positions in the first level; if the number of positions in the first level is less than the number of *positions to be forced settled*, the corresponding *positions to be forced settled* are allocated according to the number of positions in the first level, and the remaining *positions to be forced settled* are allocated to the second level according to the above method, and so on.

(iv) **Implementing forced settlement.** At the end of the day, SHCH will execute forced settlement and complete the transfer of funds in accordance with the end-of-day settlement price announced by SHCH.

After the completion of the forced settlement, SHCH notifies the defaulting clearing member and the non-defaulting clearing members affected.

Section IV. Non-Clearing Member Default Management

81. (Assistance in non-clearing member default management)

SHCH will, based on the application form submitted by the general clearing member (Annex 12-5), assist the general clearing member in non-clearing member default management, including:

- (i) Suspending the defaulting non-clearing member's access to part or all of the products of the Commodity Derivatives CCP Clearing Service.
- (ii) Providing system assistance of forced liquidation of the positions of the defaulting non-clearing member, but specific close-out requirements including the number and price of positions to be closed-out are to be determined by the general clearing member.
- (iii) Providing forced settlement of the remaining positions after forced liquidation (if any) of the defaulting non-clearing member.
- (iv) Providing default delivery distribution for physical delivery positions of the defaulting non-clearing member.
- (v) Other matters deemed reasonable by SHCH.

Chapter 13 By-laws

82. (Right of interpretation) SHCH is responsible for the interpretation of these Guidelines.

83. (Implementation date) The Guidelines shall be implemented from the date of publication.

Annex:

1 Clearing Member Operational Default Commitment Letter

2 Application for Permanent Default Grace Period

3 Clearing Member Permanent Default Notice

4 Non-Cash Collateral Rapid Liquidation Process

5-1 Default management Loss Allocation Process

(Applicable to RMB IRS, FX Transaction, Bond CCP Clearing Service)

5-2 Default Management Loss Allocation Process

(Applicable to Commodity Derivatives, Standard Bond Forwards, Cross-border FX service)

6 Information on General Clearing Member Client Clearing Service Default

7 Daily Fund Notification (from SHCH to non-defaulting non-clearing member)

8 Letter of Reminder of Porting/ Default Management for Non-Clearing Members (from SHCH to Non-Clearing Member)

9 Non-Clearing Member Application for Porting

10 Application for Grace Period of Porting

11 Non-Clearing Member Default Notice

12-1 Application Form for Assistance in Non-Clearing Member Default Management

(For RMB IRS CCP clearing service)

12-2 Application Form for Assistance in Non-Clearing Member Default Management

(For Foreign Exchange (FX) Transaction CCP Clearing Service)

12-3 Application Form for Assistance in Non-Clearing Member Default Management

(For Bond CCP Clearing Service)

12-4 Application Form for Assistance in Non-Clearing Member Default Management

(For Standard Bond Forwards CCP Clearing Service)

12-5 Application Form for Assistance in Non-Clearing Member Default Management

(For Commodity Derivatives CCP Clearing Service)

13-1 Example of information on auction portfolios in RMB IRS CCP Clearing Service

13-2 Example of information on auction portfolios in FX transaction CCP Clearing Service

13-3 Example of information on auction portfolios in Bond CCP Clearing Service

14 Application Form for Liquidation of Defaulting Non-Clearing Member's Positions

Annex List

Number	Document name	RMB IRS	FX Transaction	Bond	Standard Bond Forwards	Commodities	Cross-border FX
1	Clearing Member Operational Default Commitment Letter	√	√	√	√	√	√
2	Application for Permanent Default Grace Period	√	√	√	√	√	√
3	Clearing Member Permanent Default Notice	√	√	√	√	√	√
4	Non-Cash Collateral Rapid Liquidation Process	√	√	√	√	√	√
5-1	Default management Loss Allocation Process (Applicable to RMB IRS, FX Transaction, Bond CCP Clearing Service)	√	√	√			
5-2	Default Management Loss Allocation Process (Applicable to Commodity Derivatives, Standard Bond Forwards, Cross-border FX service)				√	√	√
6	Information on General Clearing Member Client Clearing Service Default	√	√	√	√	√	

Number	Document name	RMB IRS	FX Transaction	Bond	Standard Bond Forwards	Commodities	Cross-border FX
7	Daily Fund Notification (from SHCH to non-defaulting non-clearing member)	√	√	√	√	√	
8	Letter of Reminder of Porting/ Default Management for Non-Clearing Members (from SHCH to Non-Clearing Member)	√	√	√	√	√	
9	Non-Clearing Member Application for Porting	√	√	√	√	√	
10	Application for Grace Period of Porting	√	√	√	√	√	
11	Non-Clearing Member Default Notice	√	√	√	√	√	
12-1	Application Form for Assistance in Non-Clearing Member Default Management (For RMB IRS CCP clearing service)	√					
12-2	Application Form for Assistance in Non-Clearing Member Default Management (For FX Transaction CCP Clearing Service)		√				
12-3	Application Form for Assistance in Non-Clearing Member Default Management (For Bond CCP Clearing Service)			√			
12-4	Application Form for Assistance in Non-Clearing Member Default Management				√		

Number	Document name	RMB IRS	FX Transaction	Bond	Standard Bond Forwards	Commodities	Cross- border FX
	(For Standard Bond Forwards CCP Clearing Service)						
12-5	Application Form for Assistance in Non-Clearing Member Default Management (For Commodity Derivatives CCP Clearing Service)					√	
13-1	Example of information on auction portfolios in RMB IRS CCP Clearing Service	√					
13-2	Example of information on auction portfolios in FX transaction CCP Clearing Service		√				
13-3	Example of information on auction portfolios in Bond CCP Clearing Service			√			
14	Application Form for Liquidation of Defaulting Non-Clearing Member's Positions	√	√	√	√	√	

Annex 1

Clearing Member Operational Default Commitment

Letter

Shanghai Clearing House:

The institution (name of institution) is temporarily unable to perform its obligations in (name of defaulting clearing service) due to (reason, e.g., operational error, system failure, short-term liquidity shortage, etc.) and hereby solemnly undertakes to comply with the following:

The relevant obligations will be performed by the next business day (time).

Signature and seal of an authorized signatory: (reserved or official seal)

Contact Person: _____

Contact details: _____

Date: _____

Annex 2

Application for Permanent Default Grace Period

Shanghai Clearing House:

The institution (name of institution) is temporarily unable to perform its obligation in (name of defaulting clearing service) due to (reason, e.g., operational error, system failure, short-term liquidity shortage, etc.) and hereby solemnly commits to comply with the following:

The relevant obligations will be performed by (date, time).

Signature and seal of an authorized signatory: (reserved or official seal)

Contact Person: _____

Contact details: _____

Date: _____

Annex 3

Clearing Member Permanent Default Notice

(Name of Institution):

On (date), your institution had an outstanding payment due of (type of funds) of (amount, currency) in (name of defaulting clearing service) and had not performed the corresponding payment obligations as of (date). /Your institution has incurred (trigger of default event).

As decided by SHCH, (name of institution) was found to be in **permanent default** in (name of defaulting clearing service).

Please provide the list of defaulting non-clearing members and non-defaulting non-clearing members and their contact information (Annex 6) to SHCH by (date, time), and inform the non-defaulting non-clearing members of the following porting information:

Non-defaulting non-clearing members shall submit an application for porting (Annex 9) to SHCH before (date, time), and complete the identification of new general clearing members before (date, time).

Notice is hereby given.

Shanghai Clearing House

(date)

Annex 4

Non-Cash Collateral Rapid Liquidation Process

The fair value mentioned in this Process refers to the average transaction price within 30 trading days before the liquidation date, or the latest valuation price of SHCH if transaction prices within 30 trading days before the liquidation date are not available.

I. Liquidation process for non-cash collateral in case of clearing member default

- (i) When a clearing member is determined to be in permanent default, SHCH shall first transfer the bond collateral to the SHCH default management special account for rapid liquidation. SHCH shall rapidly liquidate the bond collateral by means of sell or auction or a combination of both. For non-cash collateral in the form of fund shares, SHCH shall apply to the fund company for redemption.
- (ii) If the liquidation is carried out by sale, the process is as follows:
 1. SHCH conducts transactions on bond trading platforms by itself or by entrusting market institutions.
 2. Completes DVP settlement through SHCH system.
- (iii) If the liquidation is carried out by auction, the process is as follows:
 1. SHCH may select some market institutions to participate in the auction or conduct a public auction.
 2. SHCH will disclose to selected market institutions the auction bidding period, bond information, total number of bids, bidding method, basic bidding units, reserve price, minimum single bid volume, bid variation, bid limit, whether to bid for consecutive bids, winning rules, payment deadline and default management account information, etc.
 3. The auction reserve price shall, in principle, not be less than the smaller of 80% of the market fair value and the value of bond collateral.

$$\text{Value of Bond Collateral} = \text{bond face value} \times \text{discount rate}^4$$

4. The bidding institution shall submit the "Bidding Form for

⁴ Discount rate for eligible bond collateral set by SHCH.

"Bond Default Management Auction" (Attachment 1) to SHCH during the bidding period on the auction day. The bidding information shall comply with the bidding rules agreed in the default management announcement, and bids with a single bid volume lower than the minimum single bid volume and a bid price lower than the reserve price shall be invalid.

5. SHCH will process the winning bids according to the full bidding situation after the bidding period ends on the auction day, and the winning bids will be processed in principle of full price bidding and multiple price winning bids.
6. If the total number of bids is less than or equal to the total number of bids called for, all bids are successful. For the part of unsuccessful auction, SHCH may conduct multiple rounds of auction, and relax the reserve price limit.
7. If the total number of bids is greater than the total number of bids called for, the bids will be collected in accordance with the principle of price priority, and if the prices are the same, the principle of time priority will be followed.
8. After SHCH completes the winning bid processing, it issues a notification of the winning bid result to the winning institution, informing it of the winning bid volume, winning amount, payment deadline and other information.
9. The successful bidder shall transfer the relevant payment to the account designated by SHCH before the payment deadline. After the successful bidder has made the payment, SHCH will transfer the bond collateral to the account of the successful bidder in accordance with the corresponding winning volume (in face value) of the successful bidder.

(iv) The funds obtained from the liquidation together with the margin cash assets of the defaulting participant shall be used to make up for the default losses of SHCH caused by the default of the clearing member.

(v) If not all non-cash collateral is successfully liquidated, but the funds obtained are sufficient to cover the default losses without using the risk reserve of SHCH, SHCH will return the remaining collateral to the original account and release it, otherwise SHCH will continue to liquidate the remaining collateral to cover the default losses or until it is fully liquidated.

II. Liquidation process of non-cash collateral in case of non-clearing member default

- (i) If a general clearing member needs assistance in the liquidation of non-cash collateral of a defaulting non-clearing member, it is required to submit the "Application Form for Liquidation of Defaulting Non-Clearing Members' Non-Cash Collateral" (Attachment 2), and SHCH has the right to request the general clearing member to submit other relevant materials. The matters that can be assisted include transfer of bond collateral and public auction.
- (ii) If an application is made to transfer the bond collateral (part or all) of the defaulting non-clearing member to the account of the general clearing member or a third party account, SHCH will first conduct the risk reserve resources adequacy check for the general clearing member after receiving the application, and after the check is passed, SHCH will complete the unpledging and the transfer operation of the bond collateral.
- (iii) Application for entrusting SHCH to conduct a public auction of the defaulting non-clearing member's bond collateral, the specific process and main considerations are as follows:
 1. The application form should specify the specific requirements for each auction portfolio, including but not limited to the auction day and bidding period, auction bond information, total number of bids, bidding method, basic bidding units, reserve price (recommended to be no less than the smaller of 80% of the market fair value and the value of bond collateral), minimum single bid volume, bid variation, bid limit, whether to bid for consecutive bids, rules for winning bids, payment deadline (the deadline for payment can be specified directly, otherwise is 15:00 on the payment date), etc.
 2. SHCH will review the application, mainly to confirm whether the relevant bond information is consistent with that of the non-clearing member's bond collateral. SHCH will organize a public auction based on the specific requirements listed on the application form after the review is approved. The specific auction process refers to the auction process for non-cash collateral of defaulting clearing members. The auction proceeds will be transferred directly to the client clearing margin account

of the general clearing member as margin.

Attachment:

1. Bidding Form for Bond Default Management Auction
2. Application Form for Liquidation of Defaulting Non-Clearing member's Non-Cash Collateral

Attachment 1

Bidding Form for Bond Default Management Auction

I. Bidding institution account information			
Full name of bond account			
Bond Account Abbreviation		Holder Account Number	
II. Bidding information			
Tender Bonds		Bidding price (RMB)	Bidding volume (tens of thousands RMB)
Bond Code			
...			
Total			
III. the operator information			
Name			
Department			
Contact number			
Fax			

The institution in accordance with the principle of good faith to make the following commitments:

1. The institution promises that the above information is true, accurate and complete.
2. The institution will conduct bond auction liquidation business in strict accordance with relevant laws, regulations and rules of the interbank bond market, and will not engage in fraud, inside trading, benefit transfer and market manipulation that violate laws, regulatory requirements and affect market order.
3. The institution fully understands and is willing to bear the risks associated with participating in the bond auction liquidation business.
4. The institution promises that the bidding information is a true expression of will based on independent judgment based on full understanding of market information, without any coercion and irregular agency behavior; the institution will follow the principle of fairness and good faith, without any behavior that can conceal the facts.

(official seal/ reserved seal at the bidder institution)

(Date)

Attachment 2

Application Form for Liquidation of Defaulting Non-Clearing Member's Non-Cash Collateral

Clearing service needs operational assistance	(required)		
Full name of general clearing member	(required)	General clearing member Holder Account Number	(required)
Contact Person	(If blank, considered consistent with the relevant information in the Application Form for Assistance in Default Management)	Contact number	(If blank, considered consistent with the relevant information in the Application Form for Assistance in Default Management)
Contact mobile	(If blank, considered consistent with the relevant information in the Application Form for Assistance in Default Management)	Contact email	(If blank, considered consistent with the relevant information in the Application Form for Assistance in Default Management)
Full name of non-clearing member	(required)	Non-clearing member holder account number	(required)
Contact Person	(If blank, considered consistent with the relevant information in the Application Form for Assistance in Default Management)	Contact number	(If blank, considered consistent with the relevant information in the Application Form for Assistance in Default Management)
Contact mobile	(If blank, considered consistent with the relevant information in the Application Form for Assistance in Default Management)	Contact email	(If blank, considered consistent with the relevant information in the Application Form for Assistance in Default Management)

Application for	<input type="checkbox"/> Bond transfer <input type="checkbox"/> Bond auction		
Fill in when choosing transfer			
Full name of the designated transferee	(if required)	Designated transferee holder account number	(if required)
Bond Information			
Product abbreviation	Product code	Pledged face value (tens of thousands yuan)	Transfer face value (tens of thousands yuan)
(if any)	(if any)	(if any)	(if any)
Fill in when choosing auction			
Portfolio number: (if any)			
Product abbreviation	Product code	Pledged face value (tens of thousands RMB)	Application for auction face value (tens of thousands RMB)
(if any)	(if any)	(if any)	(if any)
Auction date		Bidding period	
Payment date and deadline		Bidding method: price bidding	
Winning method: multiple price winning		Tender method: full price	
Basic bidding unit (tens of thousands yuan):		Minimum single bid volume (tens of thousands yuan)	
Bid variation (yuan)		Limit of the number of bids.	
<p>I hereby declare that, by consensus of all parties concerned, I hereby apply to you for the liquidation of the relevant bonds, and undertake that the above information is true and valid, and hereby confirm it. Any loss caused by the above information being incorrect or inaccurate shall be borne by the applicant and SHCH shall not be liable for any loss.</p>			
official seal or reserved seal for client clearing service at the general clearing member (required)	signature and seal of an authorized signatory at the non-clearing member (official seal/signature and seal of the investment/asset manager (Required if bond transfer/unpledge of fund shares is selected)		

(date)	
official seal/reserved seal of an authorized signatory at the transferee (Required if bond transfer is selected and different from the applicant institution)	
(date)	

Instructions:

1. SHCH only accepts applications from entities who have the right to liquidate the non-cash collateral in the respective CCP clearing services according to relevant laws, regulations or agreements.
2. The "auction date" and "bidding period" refer to the start and end date and time of the auction.
3. The auction adopts the approach of "multi-unit pay your price". The bidder only bid on the price and the corresponding quantity of the bonds. After the bidding is completed, SHCH will sort the valid bids of each bidding institution from the highest to the lowest bid price until the total amount of bids is accumulated, and the valid bids within this price range will be the winning bids, and the corresponding bidder will pay the price of its winning bid respectively.
4. The "Minimum single bid volume" sets the minimum amount that a bidder need to bid for one bid. The "basic bidding unit" refers to the unit change of one bidder's bid volume. Both "Minimum single bid volume" and "basic bidding unit" are in ten thousand units, with a minimum of 10,000 RMB.
5. SHCH has the right to adjust the information of bidding elements such as "auction date", "bidding period", "payment date and deadline" according to the actual situation, and such elements shall be subject to the information published on the official website on the announcement date.
6. If the defaulting non-clearing member is an unincorporated entity, the official seal at the investment/asset manager's institution, and the official seal or reserved seal at the custodian shall be affixed.
7. When filling in the above information, the information cannot contain any special characters such as quotation marks.
8. The above information is required if not specified. Except for the seal and date, all

information should not be handwritten, and must be printed on one side (the instructions do not need to be printed) and stamped with a seam seal.

9. If the application form contains more than one page, please indicate the number of pages and the total number of pages in the bottom right corner of each page.

Annex 5-1

Default Management Loss Allocation Process (Applicable to RMB IRS, FX Transaction, Bond CCP Clearing Service)

- I. Calculate the default losses for each portfolio.
- II. The default losses shall be allocated to the risk reserve resources contributed by the defaulting clearing member first. All portfolios participate in this step of loss allocation. The order of allocation is as follows:
 - (i) Calculate each portfolio's quota in that tier of risk reserve resources.

Risk Resource Quota = total risk reserve resources in the tier × allocation ratio

Allocation Ratio = risk of the portfolio / total risk of all portfolios in allocation
 - (ii) Calculate whether the *Risk Resource Quota* of each portfolio are sufficient to cover the default losses of that portfolio. If there is a portfolio of which the default losses can be covered by the *Risk Resource Quota* of that tier, the loss allocation of that portfolio completes and the remaining *Risk Resource Quota* of that portfolio are allocated to the remaining portfolios of which the default losses are not fully covered.

Allocation Ratio = risk of the portfolio / total risk of all remaining portfolios
 - (iii) Repeat step (ii) until one of the following occurs:
 1. The loss allocation for all portfolios completes. The default management loss allocation completes.
 2. There are remaining portfolios of which the default losses cannot be fully covered by the risk reserve resources of the defaulting clearing member. These portfolios proceed to step III for subsequent loss allocation.
- III. The remaining losses of the portfolios participating in this step of allocation are the default losses in step I after adjustment in step II. The losses shall be allocated by using part of the risk reserve of SHCH. The order of allocation is as follows:

- (i) Calculate each portfolio's quota in that tier of risk reserve resources.

Risk Resource Quota=total risk reserve resources in the tier × allocation ratio

Allocation Ratio = risk of the portfolio / total risk of all portfolios in allocation

- (ii) Calculate whether the *Risk Resource Quota* of each portfolio are sufficient to cover the remaining default losses of that portfolio. If there is a portfolio of which the default losses can be covered by the *Risk Resource Quota* of that tier, the loss allocation of that portfolio completes and the remaining *Risk Resource Quota* of that portfolio are allocated to the remaining portfolios of which the default losses are not fully covered.
- (iii) Repeat step (ii) until one of the following occurs:
 - 1. The loss allocation for all portfolios completes. The default management loss allocation completes.
 - 2. There are remaining portfolios of which the default losses cannot be fully covered by part of the risk reserve of SHCH. These portfolios proceed to step IV for subsequent loss allocation.
- IV. The remaining losses of the portfolios participating in this step of allocation are the default losses in step I after adjustment in step II and step III. The losses shall be allocated to the default fund contributions of the non-defaulting clearing members. The order of allocation is as follows:

- (i) The remaining losses of a portfolio shall be allocated to the default fund contributions of those clearing members who did not participate in the auction of the portfolio first. The allocation amount is capped at the amount of the clearing member's default fund contributions in the incentive pool corresponding to the portfolio.

Allocation Ratio =A/B; while A=the default fund contributions of the clearing member. B=total default fund contributions of all clearing members who did not participate in the auction of the portfolio.

Allocation Shortfall= \sum_i Max(actual allocation amount of clearing member i in the portfolio-the default fund contributions of clearing member i in the incentive pool corresponding to the portfolio, 0)

(ii) If Allocation Shortfall appears, the Allocation Shortfall shall be further allocated among the clearing members whose bidding price are lower than the auction transaction price:

1. Calculate the allocation amount based on the *Allocation Ratio* below. The allocation shortfall in this step (if any) shall be capped at the amount of the clearing member's default fund contribution in the incentive pool corresponding to that portfolio.

Allocation Ratio = A/B; while A=the difference between the bidding price of the clearing member and the auction transaction price. B=the sum of the difference between the bidding price and the auction transaction price of all bids that are worse than the auction transaction price

2. If there is *Allocation Shortfall* in Step 1, the shortfall will be allocated by the remaining default fund contributions of the clearing members in the corresponding incentive pool after the current round of loss allocation is completed.

Allocation Ratio = A/B; while A=the difference between the bidding price of the clearing member who still have remaining default fund contributions in the incentive pool corresponding to the portfolio after the current round of loss allocation is completed and the auction transaction price. B=the total difference between the bidding price of all the clearing members who bids worse than the auction transaction price, have completed the current round of loss allocation and still have remaining default fund contributions corresponding to the incentive pool of the portfolio and the auction transaction price.

3. Repeat step 2 until no clearing member participating in this round of allocation has *Allocation Shortfall*. The default management allocation is completed. Otherwise the default fund contributions of all clearing members whose bidding price is lower than the auction transaction price cannot cover the remaining losses after the allocation.

- (iii) The amount of losses remaining to be allocated after step (ii) will be allocated among the clearing members whose bids are better than or equal to the auction transaction price.

Allocation Ratio = A/B; while A=default fund contributions of the clearing member. B= total default fund contributions of the clearing members whose bids are better than or equal to the auction transaction price.

- (iv) If there are portfolios (including the portfolios whose loss allocation have been completed in steps ii and iii) that still have a surplus of corresponding default fund contributions quota of the non-defaulting clearing members after the loss allocation has been completed, the surplus default fund quota of non-defaulting clearing members will be allocated to the remaining auction portfolios whose allocation has not been completed.

Allocation Ratio = risk of the portfolio / total risk of all portfolios in allocation

- (v) Repeat steps (i) through (iv) until the following occurs:
 - 1. The loss allocation of all remaining portfolios is completed. The default management loss allocation is completed.
 - 2. The default losses of all portfolios in this step still cannot be covered by the default fund contributions of the non-defaulting clearing members. These portfolios proceed to step V for subsequent loss allocation.
- V. The remaining losses of the portfolios participating in this step of allocation are the default losses in step I after adjustment in step II and step III and IV. The losses shall be allocated to the supplementary default fund of non-defaulting clearing members. The order of allocation is the same as the order of allocation of the default fund contributions of non-defaulting clearing members in Step IV. Until one of the following situations occurs:
 - (i) Loss allocation for all remaining portfolios completes and the default management loss allocation is completed.
 - (ii) The default losses of all portfolios in this step still cannot be covered by the supplementary default fund of non-defaulting clearing members. These portfolios proceed to step VI for subsequent loss allocation.

- VI. Any unallocated loss amount remaining after Step V will be allocated using the remaining risk reserve of SHCH.
- VII. For RMB Interest Rate Swaps Central Clearing Service, FX Transaction CCP Clearing Service, the amount of losses remaining to be allocated after Step VI will be allocated using the accumulated MTM profits of the non-defaulting clearing participants from the date of default.

*Allocation Ratio of each clearing participant with MTM profits
= cumulative MTM profits of the clearing participant / Sum of cumulative MTM profits of all non-defaulting clearing participants*

Allocation Amount of each clearing participant with MTM profits = allocation ratio of the clearing participant with MTM profits ×uncovered loss

The collection date can be from the date when SHCH considers that the default management losses cannot be covered by the resources involved in the above step I through VI until the date when the default management losses have been determined. For a single default event or multiple successive defaults, the available MTM profit of a non-defaulting clearing member from the date of default to the date when the default management losses have been determined shall not exceed twice the amount of the default fund contributions by the clearing member. The amount to be allocated to a general clearing member shall be the sum of the allocated amount for its proprietary business and the allocated amount for each of its non-clearing member.

- VIII. The foregoing default management allocation process applies to both the default auction losses and the losses incurred by SHCH to complete the settlement of contract termination.

Annex 5-2

Default Management Loss Allocation Process

(Applicable to Commodity Derivatives, Standard Bond Forwards, Cross-border FX service)

- I. Calculate the default management losses for all positions.
- II. The default management losses of all positions shall be allocated to the risk reserve resources contributed by the defaulting clearing member first.

Situation 1: The default management losses of all positions can be fully covered by the risk reserve resources of the defaulting clearing member. The default management loss allocation completes.
Situation 2: There are remaining positions of which the default management losses cannot be fully covered by the risk reserve resources of the defaulting clearing member. The remaining losses shall be allocated by using part of the risk reserve of SHCH. These uncovered losses proceed to step III for subsequent loss allocation.
- III. The losses to be allocated in this step are the default management losses in step I after adjustment in step II. The losses shall be allocated by using part of the risk reserve of SHCH.

Situation 1: The default management losses of remaining positions can be fully covered by the part of the risk reserve of SHCH. The default management loss allocation completes.
Situation 2: The default management losses of remaining positions cannot be fully covered by the part of the risk reserve of SHCH. The remaining losses after step III shall be further allocated by using the default fund contributions of the non-defaulting clearing members. These uncovered losses proceed to step IV for subsequent loss allocation.
- IV. The losses to be allocated in this step are the default management losses in step I after adjustment in step II and step III. The remaining losses shall be allocated by using the default fund contributions of the non-defaulting clearing members.

Allocation Ratio = the default fund contributions of the non-defaulting clearing member / total default fund contributions of all non-defaulting clearing members.

Situation 1: The default management losses of remaining positions can be fully covered by the default fund contributions of the non-

defaulting clearing members. The default management loss allocation completes.

Situation 2: The default management losses of remaining positions cannot be fully covered by the default fund contributions of the non-defaulting clearing members. The remaining losses after step IV shall be further allocated by using the supplementary default fund of the non-defaulting clearing members. These uncovered losses proceed to step V for subsequent loss allocation.

V. The losses to be allocated in this step are the default management losses in step I after adjustment in step II, step III and step IV. The remaining losses shall be allocated by using the supplementary default fund of the non-defaulting clearing members. The allocation method is the same as the allocation method of the default fund contributions of the non-defaulting clearing members in Step IV.

Situation 1: The default management losses of remaining positions can be fully covered by the supplementary default fund of the non-defaulting clearing members. The default management loss allocation completes.

Situation 2: The default management losses of remaining positions cannot be fully covered by the supplementary default fund of the non-defaulting clearing members. The remaining losses after step V shall be further allocated by using the remaining risk reserve of SHCH. These uncovered losses proceed to step VI for subsequent loss allocation.

VI. Any remaining losses after step V shall be covered by using the remaining risk reserve of SHCH.

Annex 6

Information on General Clearing Member Client Clearing Service Default

Shanghai Clearing House:

The institution (name of institution) (name of defaulting clearing service) is in default in its client clearing business. Relevant information is as below:

List of defaulting non-clearing members and contact information:

Full name of the defaulting non-clearing member	Contact Name	Phone	Cell phone	E-Mail	Margin balance (if applicable)
Total					

List of non-defaulting non-clearing members and contact information:

Full name of non-defaulting non-clearing member	Contact Name	Phone	Cell phone	E-Mail	Margin balance (if applicable)
Total					

Signature and seal of an authorized signatory at the general clearing member: (reserved or official seal for client clearing service)

Contact Person: _____

Contact Phone: _____

Date: _____

Annex 7

Daily Fund Notification

Name of nonNon-clearing member:

Your institution is requested to pay (name of defaulting clearing service) margin _____(amount, currency), settlement funds _____(amount, currency), other (purpose) (amount, currency), to the following account by (date and time, to the nearest minute).

(Currency) Margin account name:

Margin account information:

(Currency) Settlement account name:

Settlement account information:

(Currency) Settlement account name:

Settlement account information:

.....

Shanghai Clearing House
(Date)

Annex 8

Letter of Reminder of Porting/ Default Management for Non-Clearing Members

(Name of the non-clearing member):

(Name of the general clearing member) has been determined by SHCH to be in permanent default in (name of defaulting clearing service). According to the information provided by your general clearing member, your institution is a (defaulting/non-defaulting non-clearing member).

(In the case of defaulting non-clearing member)

Please be informed that SHCH will conduct default management on all of your outstanding contracts.

(In the case of non-defaulting non-clearing member)

You may port the positions within the specified time. The deadline for application for porting is (date, time), please submit the application for porting before this deadline. The deadline for porting is (date, time), please identify the new general clearing member and complete the corresponding procedures before the deadline for porting.

Shanghai Clearing House

(Date)

Annex 9

Non-Clearing Member Application for Porting

Shanghai Clearing House:

The institution/product (name of institution/unincorporated entity) intends to port our positions in (name of defaulting clearing service), as prompted by your "Letter of Reminder of Porting for Non-Clearing Members" and intends to identify a new general clearing member by (date) and complete the relevant preparations for porting.

signature and seal of an authorized signatory at the non-clearing member: (official seal/signature and seal of the investment/asset manager)

Contact Person: _____

Contact details: _____

Date: _____

Annex 10

Application for Grace Period of Porting

Shanghai Clearing House:

The institution/product (name of institution/unincorporated entity) (name of defaulting clearing service) is unable to complete the corresponding procedures for closing out our positions or identify a new general clearing member within the porting period due to (reason), and applies for an extension of the porting period to (date, time).

We hereby solemnly commit to comply with the following:

By (date, time), Identify a new general clearing member and complete the corresponding procedures/ Complete the close-out of all positions.

signature and seal of an authorized signatory at the non-clearing member: (official seal/signature and seal of the investment/asset manager)

Contact Person: _____

Contact details: _____

Date: _____

Annex 11

Non-Clearing Member Default Notice

Shanghai Clearing House:

The non-clearing member (full name of the defaulting non-clearing member) clearing through the client clearing service provided by the institution (full name of the general clearing member) in (name of the defaulting clearing service) is deemed to be in default at (date, time) due to (reason). The outstanding margin amounted to (amount, currency), the outstanding default fund amounted to (amount, currency), the outstanding settlement fund amounted to (amount, currency), and the outstanding other funds amounted to (amount, currency).

Other information regarding the event of default:

Signature and seal of an authorized signatory at the general clearing member: (reserved or official seal for client clearing service)

Contact Person: _____

Contact details: _____

Date: _____

Annex 12-1

Application Form for Assistance in Non-Clearing Member Default Management (For RMB IRS CCP Clearing Service)

Basic information of the applicant	
General clearing member name (in full):	
General clearing member code:	
Contact person:	Contact phone number:
Contact mobile:	Contact email:
Defaulting non-clearing member name (in full):	
Defaulting non-clearing member name (Abbreviation):	
Contact person:	Contact phone number:
Contact mobile:	Contact email:
Application for assistance	
<input type="checkbox"/> 1. Adjustment of the defaulting non-clearing members' margin adequacy ratio (can be adjusted to trade-by-trade client clearing confirmation).	
Explanation for adjustment: _____	
<input type="checkbox"/> 2. Suspending the defaulting non-clearing members' subsequent RMB IRS CCP clearing service access.	
Remark: _____	
<input type="checkbox"/> 3. Opening the SHCH default management special account	
<input type="checkbox"/> 4. Transfer all defaulting non-clearing members' positions to the SHCH default management special account.	
<input type="checkbox"/> 5. Other applications	
<hr/> <p>We hereby declare: By consensus of all parties concerned, we hereby apply to SHCH for the above default management matters and promise that the above information filled in are true and valid, which is hereby confirmed. Any loss caused by the above information being incorrect or inaccurate shall be borne by the applicant and SHCH shall not bear any responsibility.</p>	
Signature and seal of an authorized signatory at the general clearing member/reserved or official seal for client clearing service:	
(required)	

Instructions:

1. When filling in the above information, the information cannot contain any special characters such as quotation marks.
2. The above information is required if not specified. Except for the seal and date, all information should not be handwritten, and must be printed on one side (the instructions do not need to be printed) and stamped with a seam seal.
3. If the application form contains more than one page, please indicate the number of pages and the total number of pages in the bottom right corner of each page.

Annex 12-2

Application Form for Assistance in Non-Clearing Member Default Management

(For FX Transaction CCP Clearing Service)

Basic information of the applicant	
General clearing member name (in full):	
General clearing member code:	
Contact person:	Contact phone number:
Contact mobile:	Contact email:
Defaulting non-clearing member name (in full):	
Contact person:	Contact phone number:
Contact mobile:	Contact email:
Application for assistance	
1、 Adjustment of client clearing confirmation and suspension of trade processing	
<input type="checkbox"/> 1. Adjustment to trade-by-trade client clearing confirmation	
Explanation for adjustment: _____	
<input type="checkbox"/> 2. Suspending the defaulting non-clearing members' subsequent <input type="checkbox"/> RMB FX transaction CCP clearing service <input type="checkbox"/> Foreign Currency Pair Transaction CCP clearing service access	
Remark: _____	
<input type="checkbox"/> 3. Adjustment of client clearing risk tolerance	
Explanation for adjustment: _____	
<input type="checkbox"/> 4. Other applications	
<hr/> <p>We hereby declare: By consensus of all parties concerned, we hereby apply to SHCH for the above default management matters and promise that the above information filled in are true and valid, which is hereby confirmed. Any loss caused by the above information being incorrect or inaccurate shall be borne by the applicant and SHCH shall not bear any responsibility.</p>	
Signature and seal of an authorized signatory at the general clearing member/reserved or official seal for client clearing service:	
(required)	

(date)

Instructions:

10. When filling in the above information, the information cannot contain any special characters such as quotation marks.
11. The above information are required if not specified. Except for the seal and date, all information should not be handwritten, and must be printed on one side (the instructions do not need to be printed) and stamped with a seam seal.
12. If the application form contains more than one page, please indicate the number of pages and the total number of pages in the bottom right corner of each page.

Annex 12-3

Application Form for Assistance in Non-Clearing Member Default Management (For Bond CCP Clearing Service)

Basic information of the applicant	
General clearing member name (in full):	
General clearing member code:	
Contact person	Contact phone number
Contact mobile	Contact email
Defaulting non-clearing member name (in full):	
Contact person	Contact phone number
Contact mobile	Contact email
Application for assistance	
<input type="checkbox"/> 1. Adjustment of client clearing confirmation Explanation for adjustment: _____	
<input type="checkbox"/> 2. Suspending the defaulting non-clearing members' subsequent bond CCP clearing service access Remark: _____	
<input type="checkbox"/> 3. Other applications _____	
We hereby declare: By consensus of all parties concerned, we hereby apply to SHCH for the above default management matters and promise that the above information filled in are true and valid, which is hereby confirmed. Any loss caused by the above information being incorrect or inaccurate shall be borne by the applicant and SHCH shall not bear any responsibility.	
Signature and seal of an authorized signatory at the general clearing member/reserved or official seal for client clearing service: (required)	
(date)	

Instructions:

1. When filling in the above information, the information cannot contain any special characters such as quotation marks.
2. The above information are required if not specified. Except for the seal and date, all information should not be handwritten, and must be printed on one side (the instructions do not need to be printed) and stamped with a seam seal.
3. If the application form contains more than one page, please indicate the number of pages and the total number of pages in the bottom right corner of each page.

Annex 12-4

Application Form for Assistance in Non-Clearing Member Default Management

(For Standard Bond Forward CCP Clearing Service)

1、Basic information of the applicant				
General clearing member name		General clearing member code		
Contact person		Contact phone number		
Contact mobile		Contact email		
Defaulting non-clearing member name		Defaulting non-clearing member code		
Contact person		Contact phone number		
Contact mobile		Contact email		
2、Apply for the treatment of following positions of the defaulting non-clearing member:				
<input type="checkbox"/> Forced liquidation <input type="checkbox"/> Forced settlement				
Fill in when choosing forced liquidation				
Contract code	Long/Short position	Long/Short Quantity	Close-out Price Limit	Close-out Date
Fill in when choosing forced settlement				
Contract code	Long/Short position	Long/Short Quantity	Forced Settlement Date	
3. Is there an application to suspend the novation of the defaulting non-clearing member's subsequent new positions in all or part of products into central clearing?				
<input type="checkbox"/> All products <input type="checkbox"/> Part of products <input type="checkbox"/> No				
Product name: _____ (For part of the products, please fill in the product name)				

4、Other applications**5、Reasons for forced liquidation/forced settlement application**

Signature and seal of an authorized signatory at the general clearing member/reserved or official seal for client clearing service:

date:

Annex 12-5

Application Form for Assistance in Non-Clearing Member Default Management (For Commodity Derivatives CCP Clearing Service)

1、 Basic information of the applicant						
General clearing member name		General clearing member code				
Contact person		Contact phone number				
Contact mobile		Contact email				
Defaulting non-clearing member name		Defaulting non-clearing member code				
Contact person		Contact phone number				
Contact mobile		Contact email				
2、 Apply for the treatment of following positions of the defaulting non-clearing member:						
<input type="checkbox"/> Default delivery distribution <input type="checkbox"/> Forced liquidation <input type="checkbox"/> Forced settlement						
Fill in when choosing default delivery distribution						
Contract code	Long/Short Position	Long/Short Quantity	Default Delivery Distribution Date			
Fill in when choosing forced liquidation						
Contract code	Long/Short Position	Long/Short Quantity	Close-out Price Limit	Broker code	Close-out Date	Whether to choose the portfolio forced liquidation ⁵

⁵ If you choose the portfolio forced liquidation method, please indicate the portfolio number, for example: portfolio 1, portfolio 2. Positions with the same portfolio number will be closed-out as one portfolio.

Fill in when choosing forced settlement

Contract code	Long/Short Position	Long/Short Quantity	Forced Settlement Date

3. Is there an application to suspend the novation of the defaulting non-clearing member's subsequent new positions in all or part of products into central clearing?

All products Part of products No

Product name: _____ (For part of the products, please fill in the product name)

4. Other information (If you apply for forced settlement for positions changing from physical settlement to cash settlement and the counterparties have been found, then the following table must be filled in. If not, there is no need to fill in the following table.)

Counterparty clearing member name		Counterparty clearing member code	
Contact person		Contact phone number	
Contact mobile		Contact email	
Counterparty non-clearing member name		Counterparty clearing member code	
Contact person		Contact phone number	
Contact mobile		Contact email	
Brokerage company name		Counterparty's brokerage company name	
Force settlement price			

5. Other applications

5、 Reasons for default delivery distribution/forced liquidation/forced settlement application

Signature and seal of an authorized signatory at the general clearing member/reserved or official seal
for client clearing service:

date:

Annex 13-1

Example of information on auction portfolios in RMB IRS CCP Clearing Service

I. Portfolio 1 contract details

Fixed Leg	Floating Leg	Trade date	Effective Date	Maturity Date	Product Name	Payment Frequency	Fixed rate (%)	Notional Value (million RMB)	Floating rate Index spread(B PS)	Time to maturity (yearly)
Defaulter	CCP	2015-01-21	2015-01-21	2016-01-21	Fixed_FR007	Quarterly	2.7600	1,000	0	
CCP	Defaulter	2014-05-19	2014-05-19	2016-05-19	Fixed_FR007	Quarterly	4.3400	1,000	0	
Defaulter	CCP	2013-12-18	2013-12-18	2016-12-18	Fixed_FR007	Quarterly	2.1600	2,000	0	
Defaulter	CCP	2012-03-28	2012-03-28	2017-03-28	Fixed_FR007	Quarterly	4.4000	1,000	0	
Defaulter	CCP	2014-10-20	2014-10-20	2018-10-20	Fixed_FR007	Quarterly	3.5100	1,000	0	

II. Portfolio 1 Mark-to-market Value and Risk Exposure (RMB)

	Mark-to-market Value	Risk Exposure
Portfolio 1	-151,161,347.27	8,181,871.64

III. Portfolio DV01 information (million RMB)

	3M	6M	9M	1Y	2Y	3Y	4Y	5Y	Total
DV01	4.77	-1.04	-0.01	4.25	9.96	-0.13	-3.87	-0.00	12.74

IV. Curve information

Value Date	XXXX/XX/XX						
Tenor	7DRepo	Tenor	3MShibor	Tenor	ONShibor	Tenor	LPR1Y
1D		1D		1D		3M	
7D		3M		1M		6M	
1M		6M		3M		9M	
3M		9M		6M		1Y	
6M		1Y		9M		2Y	
9M		2Y		1Y		3Y	
1Y		3Y		2Y		4Y	
2Y		4Y		3Y		5Y	
3Y		5Y					
4Y		7Y					
5Y		10Y					
7Y							
10Y							

Annex 13-2

Example of information on auction portfolios in FX Transaction CCP Clearing Service

(RMB FX Transaction / Foreign Currency Pair Transaction)

I. Cash flow information

Settlement Date	USD	CNY	EUR
2017/6/12	1,000,000,000.00	-6,921,530,000.00	
2017/6/20	200,000,000.00	-1,386,020,000.00	
2017/7/5	-1,200,000,000.00		1,100,000,000.00

II. Contract details

Portfolio1

Product Description	Near leg Settlement date	Far leg Settlement date	Near leg Maturity	Far leg Maturity	Near leg base currency buyer	Near leg base currency seller	Currency pairs	Near leg base currency nominal value	Far leg base currency nominal value	Near leg FX Rate	Far leg FX Rate	Near leg non-base currency nominal value	Far leg non-base currency nominal value
RMB FX Swap	2019/10/21	2019/10/28	SPO T	1W	SHCH	Defaulter	USDCNY	2,000,000,000.00	2,000,000,000.00	7.0978	7.0994	14,195,600,000.00	14,198,800,000.00
RMB FX Swap	2019/10/21	2019/10/28	SPO T	1W	SHCH	Defaulter	USDCNY	2,000,000,000.00	2,000,000,000.00	7.099	7.1025	14,198,000,000.00	14,205,000,000.00
RMB FX Swap	2019/10/21	2019/10/28	SPO T	1W	SHCH	Defaulter	USDCNY	2,000,000,000.00	2,000,000,000.00	7.098	7.0993	14,196,000,000.00	14,198,600,000.00
RMB FX Swap	2019/10/21	2019/10/28	SPO T	1W	SHCH	Defaulter	USDCNY	1,500,000,000.00	1,500,000,000.00	7.0986	7.0997	10,647,900,000.00	10,649,550,000.00
RMB FX Swap	2019/10/21	2020/2/21	SPO T	4M	SHCH	Defaulter	USDCNY	6,500,000,000.00	6,500,000,000.00	7.0987	7.1132	46,141,550,000.00	46,235,800,000.00

RMB FX Swap	2019/10/21	2020/7/20	SPO T	9M	SHCH	Defaulter	USDCNY	3,500,000,00	3,500,000,00	7.0988	7.1258	24,845,800,00.00	24,940,300,000.00
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Portfolio2

Product description	Option direction (defaulter)	Currency pairs	Base Currency	Premium Currency	Option premium	Option premium rate	Option premium Type	Exercise Price	Settlement style	Option type	Fee Payment Date	Option Expiration Date	Option Exercise Settlement Date	Exercise Style
RMB FX Option	Long/short	USD/CNY	USD	CNY	3,812,100.00	381.210000	Pips	6.889000	Full Delivery	Call Options	2018-10-09	2018-11-07	2018-11-09	European style options

III. Portfolio 1 Mark-to-market Value and Risk Exposure (RMB)

	Mark-to-market Value	Risk Exposure
Portfolio 1	-161,347.27	234,346.33

Portfolio 2	109,100.09	6,003.11
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Annex 13-3

Example of information on auction portfolios in Bond CCP Clearing Service

Portfolio code	Trade Type	Bidder Direction	SHCH Direction	Bond code	Name of the Bond-abbreviation	Face Value (million RMB)	Settlement date	Net Settlement price	Acceptable volume (million RMB)
1	Spot Certificates Trading	Buyer	Sellers	XXXXXXX XX	21XXXSC P001	XXXX	YYYY-MM-DD	[TBD]	[TBD]
2	Spot Certificates Trading	Sellers	Buyer	XXXXXXX XX	20XXXMT N003	XXX	YYYY-MM-DD	[TBD]	[TBD]
Portfolio code	Trade Type	Bidder Direction	SHCH Direction	Bond code	Name of the Bond-abbreviation	Face Value (million RMB)	Settlement date	Settlement amount due (RMB)	Transaction rate (%)
3	Outright Repo	Repo	Reverse Repo	XXXXXXX XX	21XXXCP 002	XXXX	Initial Settlement Date: YYYY-MM-DD Expiration Settlement Date:	XX,XXX,X XX.XX	[TBD]

							YYYY-MM-DD		
4	Pledged Repo	Reverse Repo	Repo	XXXXXXX XX	19XXXXM TN001	XXXX	Initial Settlement Date: YYYY-MM- DD Expiration Settlement Date: YYYY-MM-DD	XXX,XXX, XXX.XX	[TBD]

Annex 14

Application Form for Liquidation of Defaulting Non-Clearing Member's Positions

Applicable Service	(required)		
General clearing member Name (in full)	(required)	General clearing member Holder Account Number	(required)
Contact person	(If left blank, the default information is the same as Application Form for Assistance in Default Management)	Contact phone number	(If left blank, the default information is the same as Application Form for Assistance in Default Management)
Contact mobile	(If left blank, the default information is the same as Application Form for Assistance in Default Management)	Contact email	(If left blank, the default information is the same as Application Form for Assistance in Default Management)
Non-clearing member Name (in full)	(required)	Non-clearing member Holder Account Number	(required)
Contact person	(If left blank, the default information is the same as Application Form for Assistance in Default Management)	Contact phone number	(If left blank, the default information is the same as Application Form for Assistance in Default Management)
Contact mobile	(If left blank, the default information is the same as Application Form for Assistance in Default Management)	Contact email	(If left blank, the default information is the same as Application Form for Assistance in Default Management)
Application for methods of default management	<input type="checkbox"/> Position transfer <input type="checkbox"/> Position auction		
Fill in when choosing position transfer			
Full name of the designated transferee	(required, if applicable)	Designated transferee holder account number	(required, if applicable)
Designated transferee's general clearing member	(required, if applicable)		
Position information <input type="checkbox"/> All <input type="checkbox"/> Part of (must provide position details and submit an electronic version)			

Fill in when choosing position auction	
Portfolio No. (if any) (must provide position details and submit an electronic version)	
Auction Date (required)	Bidding Period (required)
Valuation date (required)	Payment date and deadline (if any)
I hereby declare: By consensus of all parties concerned, I hereby apply to you for the liquidation of the relevant positions and undertake that the above information is true and valid, and I hereby confirm it. Any loss caused by the above information being incorrect or inaccurate shall be borne by the applicant and SHCH shall not be held responsible.	
Signature and seal of an authorized signatory at the general clearing member/reserved or official seal for client clearing service (Required)	signature and seal of an authorized signatory at the non-clearing member (official seal/signature and seal of the investment/asset manager) (Required when choosing position transfer)
	(date)
official seal/reserved seal of an authorized signatory at the transferee (Required when choosing position transfer)	
	(date)

Instructions:

1. SHCH will only accept applications from entities who have the right to liquidate the related positions in the respective CCP clearing services according to relevant laws, regulations or agreements.
2. The "auction date" and "bidding period" refer to the start and end time of the auction. The "valuation date" refer to the benchmark date for determining the auction price. The auction parties should use the settled mark-to-market value (if any) on the valuation date as the benchmark for the auction and the corresponding settlement.
3. The auction adopts the approach of full price bidding and the first price winning. The bidders bid for the price of the auction. After the bidding is completed, SHCH will rank the valid bids of each bidder according to the price of the bid position from highest to lowest, and the valid bid with the highest price will be the winning bid. The winner will pay the price of its winning bid.
4. SHCH has the right to adjust the auction elements such as "auction date", "bidding period", "payment date and deadline" according to the actual situation. Such information shall be subject to the website notice on the announcement date.
5. If you choose specific method of default management for part of positions, you need to fill in the position details. If you choose to liquidate all positions, you may not provide the details. SHCH will complete the corresponding default management process according to the clearing/settlement registration information.
6. If the defaulting non-clearing member is an unincorporated entity, the official seal at the investment/asset manager's institution, and the official seal or reserved seal at the custodian shall be affixed.
7. When filling in the above information, the information cannot contain any special characters such as quotation marks.
8. The above information are required if not specified. Except for the seal and date, all information should not be handwritten, and must be printed on one side (the instructions do not need to be printed) and stamped with a seam seal.
9. If the application form contains more than one page, please indicate the number of pages and the total number of pages in the bottom right corner of each page.