

Rules and Procedures of HKFE Clearing Corporation Limited

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PREFACE

HKCC as Counterparty

HKCC becomes a counterparty to every trade registered with and cleared through it. Normally HKCC's obligations to parties on one side of a Contract will be met out of payments made to HKCC by the parties on the other side of a Contract.

HKCC is obliged to meet its liabilities as counterparty only to the extent that it has the resources to do so out of:-

- (i) the margin paid to HKCC pursuant to the Rules (other than margin in respect of which the HKCC Participants that paid them are entitled to reimbursement); and
- (ii) the fund and the contingent advance capital arrangement referred to below.

HKCC has established a fund to assist it in meeting its obligations as counterparty in circumstances where an HKCC Participant defaults in its obligations to HKCC. The management of HKCC monitors the adequacy of the fund continuously with particular reference to the level of market activity from time to time.

The fund is made up of money and/or facilities as follows:-

- (a) HKCC Participant's Deposits and HKCC Participant Additional Deposits:

As a precondition to becoming an HKCC Participant, each HKCC Participant is required to make a cash deposit with HKCC and to agree to make such additional deposits as may be required from time to time by HKCC in accordance with its procedures.

- (b) Other resources appropriated by HKCC from time to time to the fund out of the general revenue of HKCC.

- (c) Insurance arranged for the purpose of supporting the fund.
- (d) Guarantees or other facilities arranged for the purpose of supporting the fund.

If the fund is applied pursuant to the Rules, HKCC may exercise its powers to require HKCC Participants to provide additional contributions to replenish the fund.

Under the financial support from HKEx, HKCC has put in place a contingent advance capital arrangement to provide additional funding in the event that the resources of the fund are insufficient to meet its liabilities arising from a participant default situation. To the extent any amount available under the contingent advance capital is utilized, HKCC will exercise its power under the Rules to recover the utilized amount from HKCC Participants.

Risk Management

HKCC has a number of powers which it uses to assist in the risk management process. These include:-

- (f) the management of the fund referred to above, including requiring HKCC Participants where necessary to provide HKCC Participant Additional Deposits or replenish the depleted fund;

CHAPTER I

INTERPRETATION

Definitions

101. In these Rules the definitions contained in the Exchange Rules (as hereinafter defined) shall where the context permits be incorporated herein by reference and the following expressions shall, unless the context otherwise requires, bear the following meanings:-

“Bank Business Day”	means, in relation to a jurisdiction, any day (except Saturdays, Sundays, and public holidays) on which banks in that jurisdiction are open for business;
“CCMS”	means the Common Collateral Management System, a common sub-system of CCASS and DCASS, operated by HKSCC, HKCC and SEOCH, which enables HKCC Participants to manage their collateral paid or delivered to the Clearing House;
“Chairman”	means the person from time to time holding the office of Chairman of the Board or his designee;
“Defaulter”	means a Defaulting HKCC Participant which has been declared as a Defaulter by the Clearing House pursuant to Rule 510;

“Defaulting HKCC Participant”	means an HKCC Participant that gives rise to an event of default pursuant to Rule 509;
“HKCC Contingent Advance Capital”	means an arrangement put in place by the Clearing House pursuant to Rule 701(aa);
“Replenishment Contribution”	means a contribution required to be made by an HKCC Participant pursuant to Rule 707A to replenish its Reserve Fund Deposits in the event that the Reserve Fund has been applied or depleted;
“Reserve Fund Deposits”	means, in respect of an HKCC Participant, both its HKCC Participant’s Deposit and HKCC Participant Additional Deposit;

The definitions of “Former Clearing House Funds” and “TraHK Units” have been repealed.

CHAPTER II

HKCC PARTICIPANTSHIP

Procedure on application

210. An applicant approved pursuant to Rule 209 shall not be registered as an HKCC Participant unless and until it shall have satisfied all of the following conditions:-
- (a) (deleted)
 - (b) paid in full its HKCC Participant’s Deposit in Hong Kong dollars or in any other currency prescribed by the Clearing House from time to time (or such initial instalment on account of its HKCC Participant’s Deposit as the Clearing House may stipulate);

Continuing obligations of HKCC Participants

214. Every HKCC Participant must at all times during the currency of its HKCC Participantship:-
- (k) meet all requirements to provide such HKCC Participant Additional Deposits and Replenishment Contributions as may from time to time be demanded by the Clearing House;
 - (ka) meet all requirements to repay and reimburse the Clearing House on demand any amount paid by the Clearing House out of the HKCC Contingent Advance Capital; and

Resignation and reimbursement of HKCC Participants' Deposits and HKCC Participant Additional Deposits

217. (a) An HKCC Participant which wishes to resign its HKCC Participantship must give the Clearing House notice in writing of its intention to resign.
- (aa) A resigning HKCC Participant's HKCC Participantship will be terminated at such time as may be specified by the Clearing House and notified to the resigning HKCC Participant.
- (ab) The liability of a resigning HKCC Participant to provide Reserve Fund Deposits, to make Replenishment Contributions and to repay the Clearing House in respect of the HKCC Contingent Advance Capital shall be limited in accordance with the Clearing House Procedures.
- (b) Two months after the effective date of termination of its HKCC Participantship, an HKCC Participant has a right to reimbursement of an amount equal to its HKCC Participant's Deposit, without interest, subject to the following provisions of this Rule.
- (c) If all or part of the HKCC Participant's Deposit of the resigning HKCC Participant is applied towards any payment in accordance with Rule 706, the HKCC Participant's right to reimbursement shall be reduced by an equivalent amount and if any amount so applied is replenished from any monies recovered from Defaulters under Rule 701(b) as determined on the effective date of termination of its HKCC Participantship, the reimbursement to the resigning HKCC Participant shall include such replenished amount.
- (d) (deleted)
- (e) Until the effective date of termination of its HKCC Participantship, an HKCC Participant shall remain bound by all the provisions of these Rules.
- (f) A Resignation Notice may only be revoked before the effective date of termination of its HKCC Participantship with the prior written consent of the Clearing House. The resigning HKCC Participant is required to submit a written request to the Clearing House giving reasons for the revocation and to fulfill its liabilities under the Rules as if the Resignation Notice had not been given to the Clearing House before the resignation can be revoked.
- (g) Every HKCC Participant which has given a Resignation Notice:
- (i) is under a duty immediately to submit to the Clearing House a program for the winding down of all positions held by it, by closing out, trading out or transferring all the open Contracts held or controlled by it and, except with the prior consent of the Clearing House, shall adhere to that program until the effective date of termination of its HKCC Participantship; and
- (ii) shall not, except with the consent of, or as directed by, the Clearing House, create any open positions.

CHAPTER III

REGISTRATION, CLEARING, RISK

Timing of registration

- 308A. (c) The registration of a Block Trade executed through HKATS shall not occur until the Clearing House is satisfied that the Block Trade recorded in the Transaction Register of HKATS is a valid Block Trade and all criteria applicable to the Block Trade, including but not limited to the payment of any Special Block Trade Margin, have been satisfied. Unless an HKCC Participant receives any oral or written notice from the Exchange or the Clearing House that a Block Trade is not valid or not all criteria have been satisfied or the Block Trade shall not be registered for any other reason, the Block Trade shall be deemed to have been registered with the Clearing House upon the recording of such Block Trade in the Transaction Register of HKATS. The Exchange will endeavour to notify the HKCC Participant of any issue concerning any criteria set forth in Exchange Rule 815A within 30 minutes of the execution by the HKCC Participant of the Block Trade.

Legal effect of registration

310. The obligations of the Clearing House to HKCC Participants under a Contract arising pursuant to Rule 309 and for the time being extant shall be limited exclusively to:-
- (b) amounts recovered by the Clearing House from any Defaulting HKCC Participant (whether on enforcement of non-cash collateral, realization of assets or otherwise);
 - (d) the amount received pursuant to any claim under any insurance policy taken out by the Clearing House for the purpose of providing financial resources to support the Reserve Fund and which is available to support the Clearing House's obligations under that particular Contract or class of Contract;
 - (e) the amount of any guarantees or facilities available to the Clearing House and arranged expressly for the purpose of providing financial resources to support the Reserve Fund and which are available to support the Clearing House's obligations under that Contract or class of Contract; and
 - (f) any amount which may be made available by the Clearing House under the HKCC Contingent Advance Capital and which shall be repayable by HKCC Participants to the Clearing House.

No other assets of the Clearing House shall be available to meet any such obligation.

For the avoidance of doubt it is hereby declared that to the extent that the aggregate of the funds or assets of the Clearing House referred to in sub-paragraphs (a) to (f) above are insufficient at any time to meet the aggregate of the Clearing House's liabilities to HKCC Participants under all Contracts subsisting at any time, each HKCC Participant to which the Clearing House is liable shall only be entitled to receive payment pro rata according to the amount due to it as compared with the aggregate due to all HKCC Participants. Without prejudice to the foregoing:

- (i) in respect of the Clearing House's obligations to deliver the underlying commodity or instrument under Physical Delivery Contracts, to the extent that the Chairman determines that it is not possible or reasonably practicable to deliver the underlying commodity or instrument, the Clearing House's obligations shall be to make money compensation to HKCC Participants concerned in substitution for the delivery of the underlying commodity or instrument in whole or in part and in such amount as the Chairman may in his absolute discretion considers appropriate in consultation with the Commission by reference to the market value of such underlying commodity or instrument at the time of payment of compensation by the Clearing House (or the value at such other time as the Chairman shall, in consultation with the Commission, consider fair and reasonable in the circumstances). The money compensation shall be in such currency or currencies (whether in the Settlement Currency, the Currency of the Contract or otherwise) and at such conversion rate(s) as the Clearing House may in its absolute discretion determine to be fair and reasonable, taking into account all relevant circumstances as it may consider appropriate; and
- (ii) in respect of the Clearing House's obligations to make payment to HKCC Participants under Contracts in the Settlement Currency, to the extent that the Clearing House determines that it is not possible or reasonably practicable to make payment in such Settlement Currency, the Clearing House's obligations shall be to make payment, in full or in part, in such other currency or currencies and at such conversion rate(s) as the Clearing House may in its absolute discretion determine to be fair and reasonable, taking into account all relevant circumstances as it may consider appropriate.

The Clearing House shall remain liable on all Contracts which remain to be settled by the Clearing House, but payment of the balance of any amounts due and delivery of the balance of any underlying commodity or instrument (or payment of money compensation in substitution therefor) shall only be made as and when, and to the extent that, the amounts, funds or assets referred to in sub-paragraphs (a) to (e) are subsequently replenished and the amounts referred to in sub-paragraph (f) are repaid and further made available.

Terms of Contracts where the Clearing House is counterparty

311. Each Contract arising pursuant to Rule 309 shall incorporate the following terms:-

- (c) in every case the HKCC Participant which is a party to such a Contract shall deal with the Clearing House as principal and not as agent, and the Clearing House shall take no legal notice of any agency or other arrangement whether or not it has actual notice of the same. In particular (but without limitation), the Clearing House shall have no contractual relationship with any Non-Clearing Participant or any client of an HKCC Participant. Accordingly the Clearing House shall be entitled to treat all monies and non-cash collateral paid to it by an HKCC Participant as monies and non-cash collateral paid to it by a principal, and no monies or non-cash collateral in the hands of the Clearing House shall be impressed with a trust or other equitable interest in favour of any person, and payment by the Clearing House to an HKCC Participant shall constitute a good and sufficient discharge of the indebtedness represented thereby; and

CHAPTER IV

**CLEARING HOUSE MARGIN, VARIATION ADJUSTMENT,
COVER FOR MARGIN AND ACCOUNTS**

Clearing House margin

402. (c) Clearing House margin paid or delivered by an HKCC Participant to the Clearing House will be used by the Clearing House as cover for the HKCC Participant's liabilities to the Clearing House from time to time.
- (g) Failure to comply with any requirement of the Clearing House regarding Clearing House margin may result in action pursuant to Rule 510 and/or Rule 517.

Withholding Clearing House margin

403. The Clearing House shall on the written instructions of the Exchange withhold release to an HKCC Participant margin paid or delivered by that HKCC Participant to the Clearing House for any period required by the Exchange; notwithstanding that such margin is withheld, where an HKCC Participant has open Contracts he must continue to pay any variation adjustment required in respect of those Contracts or any further Clearing House margin on any other Contracts without taking into account any margin withheld by the Clearing House.

Approved Collateral

404. (a) The Clearing House may in its absolute discretion allow HKCC Participants to deliver approved currencies and approved non-cash collateral to satisfy their obligation to pay margin up to such limit as may from time to time be prescribed by the Clearing House.
- (b) If at any time non-cash collateral delivered pursuant to this Rule is, in the opinion of the Clearing House, no longer sufficient to satisfy the margin requirements of the HKCC Participant in question, the Clearing House may demand that further cash payment or non-cash collateral be provided. All demands for margin must be met immediately and in full.
- (c) The Clearing House shall be entitled to charge accommodation fees, calculated on such basis and at such rate as may be determined by the Clearing House from time to time, on non-cash collateral delivered to the Clearing House.
- (d) All rights, title and interest in any non-cash collateral delivered by an HKCC Participant pursuant to this Rule shall pass to the Clearing House and each HKCC Participant shall ensure and hereby warrants and represents that it is absolutely entitled to pass full legal and beneficial ownership of all such non-cash collateral to the Clearing House free from all liens, charges and encumbrances. For the purposes of these Rules, the Clearing House shall be free to redeliver or transfer any non-cash collateral to HKCC Participants (or other persons) in such form and in such equivalent amount as the Clearing House deems appropriate and for the avoidance of doubt, the Clearing House is not under any obligation to redeliver the original non-cash collateral to the HKCC Participant.

Release of Clearing House margin

406. The Clearing House may at any time in its absolute discretion release all or part of the Clearing House margin paid or delivered to the Clearing House.
407. Where an HKCC Participant has delivered non-cash collateral to the Clearing House pursuant to Rule 404(b) or Rule 411 and the Clearing House is subsequently satisfied that the value of non-cash collateral delivered pursuant to Rule 404(a) has increased, the Clearing House may in its absolute discretion release all or part of such margin.

Variation adjustment

409. (b) Failure to comply with any requirement of the Clearing House regarding variation adjustment may result in action pursuant to Rule 510 and/or Rule 517.

Additional margin and intra-day variation adjustment

411. (d) Failure to comply with any requirement of the Clearing House regarding additional margin and/or intra-day variation adjustment may result in action pursuant to Rule 510 and/or Rule 517.

Ledger accounts

414. (b) The Clearing House notes that certain HKCC Participants are required by the Exchange Rules to maintain accounts entitled "Client Account", "Segregated Account" or "Non-House" or some other similar name for the purpose of keeping their own separate record of trades transacted on behalf of their Clients. Accordingly, in accordance with the Clearing House Procedures, the Clearing House will open separate Client accounts in DCASS and CCMS for each HKCC Participant to whom the provision of the Exchange Rules applies. Neither the creation or maintenance of any such accounts nor the special provisions in these Rules relating to such accounts shall in any way detract from the provisions of Rule 311(c) or shall give rise to any trust or other equitable interest in respect of the monies or non-cash collateral standing to the credit of such accounts, or in any way relieve any HKCC Participant from its obligations as principal under all Contracts registered and cleared with the Clearing House.
- (c) Without prejudice to any other rights of the Clearing House in respect of the amounts standing to the credit of an HKCC Participant's CCMS Collateral Account (including its Reserve Fund Deposits), the Clearing House may invest such amounts or any part thereof in such manner and to such extent as the Clearing House considers expedient and financially prudent. For the avoidance of doubt, any obligation of the Clearing House to redeliver or release such amounts to the HKCC Participant and any interest the Clearing House may pay or charge the HKCC Participant in accordance with these Rules shall not be affected by any gain or loss arising from the investment activities. Any such gain or loss in respect of amounts other than Reserve Fund Deposits is for the Clearing House; and any such gain or loss in respect of Reserve Fund Deposits is for the Reserve Fund.

Interest on credit balances

417. The Clearing House may pay or charge HKCC Participants interest on the cash balance in HKCC Participants' CCMS Collateral Accounts at such positive or negative rate as it may determine from time to time in accordance with the Clearing House Procedures.

Interest rates

419. Any alteration in the basis of calculating interest rates under Rule 417 or Rule 418 shall become effective, in respect of all current and future deposits, on the seventh day after the date on which notice of the alteration is notified to HKCC Participants. For the avoidance of doubt, alterations may be made by the Clearing House on shorter notice or without prior notice if only the interest rate as applied by the Clearing House under Rule 417 is changed but the basis of calculating the rate remains unaltered.

"Client CCMS Collateral Account" dealt with separately

420. In determining:-

(iii) whether non-cash collateral delivered is adequate;

any HKCC Participant's account in CCMS designated as a "Client CCMS Collateral Account" or which is of a Client nature shall be regarded entirely independently and separately from any other CCMS Collateral Account of the HKCC Participant.

CHAPTER V

LIMITS AND DEFAULTS

Exceeding position limits

508. (b) If an HKCC Participant fails to comply with any requirement of the Clearing House to close out or transfer open positions pursuant to this Rule, the Clearing House may transfer such open positions on the HKCC Participant's behalf in accordance with Rules 313 and 513 or close out such open positions on the HKCC Participant's behalf in accordance with Rule 512.
- (c) Where an HKCC Participant has failed to comply with any requirement of the Chief Executive of the Exchange to close out or transfer open positions pursuant to Rule 631 or Rule 632 of the Exchange Rules and the Clearing House receives a request from the Exchange to that effect, the Clearing House shall transfer such open positions as may be directed by the Chief Executive of the Exchange on the Defaulting HKCC Participant's behalf, in accordance with Rules 313 and 513 or close out such open positions as may be directed by the Chief Executive of the Exchange on the Defaulting HKCC Participant's behalf, in accordance with Rule 512.
- (d) A Defaulting HKCC Participant shall indemnify the Clearing House, the Exchange, and a recognized exchange controller which is the controller of the Clearing House in respect of any costs, loss or other expenses arising by reason of any Contract being closed out or transferred by the Clearing House on the HKCC Participant's behalf pursuant to this Rule.

Events of default

509. Any of the following events or circumstances shall constitute an event of default upon its occurrence or if the Clearing House in its absolute discretion determines that it has occurred:

- (e) an HKCC Participant fails to comply with any of the following:
 - (i) any provision of the Financial Resources Rules or any financial resources requirement prescribed by the Clearing House;
 - (ii) any position limits imposed by the Clearing House or the Exchange;
 - (iii) any payment in respect of its HKCC Participant Additional Deposit, any Replenishment Contribution demanded by the Clearing House pursuant to Rule 707A or any repayment demanded by the Clearing House in respect of the HKCC Contingent Advance Capital pursuant to Rule 706C; or
 - (iv) margin calls or demands for variation adjustment;

Powers of the Chairman on default

510. Notwithstanding any other provision of these Rules, the Clearing House may by decision of the Chairman declare an HKCC Participant to be a Defaulter and/or take any of the following actions or such other action as the Chairman may think fit against the HKCC Participant upon the occurrence of an event of default without the need for any prior notice to or consent of the HKCC Participant:

- (c) to suspend its HKCC Participantship on such terms and for such period as the Chairman shall think fit;
- (ca) to prohibit or restrict the HKCC Participant from having access to and/or using any or all of the Clearing House's facilities, including the suspension, withdrawal or revocation of the right of the HKCC Participant's access to DCASS and/or CCMS on such terms and for such period as the Chairman shall think fit;
- (d) without prior written notice to the HKCC Participant and without having to obtain from the HKCC Participant or any other person any power of attorney, consent or document, to realize any non-cash collateral delivered by the HKCC Participant pursuant to Rule 404 by public or private sale and to do such acts and things and execute such documents as the Clearing House may consider necessary or expedient for such purpose and (subject to Rule 415(b) and Rule 416) to apply the proceeds of any such non-cash collateral in or towards the satisfaction of any amount due to the Clearing House;
- (f) to transfer any open Contracts registered in the name of the HKCC Participant into the name of another HKCC Participant who agrees to accept such transfer, and to cause to be paid or transferred any margin, variation adjustments or non-cash collateral in respect of such Contracts to that other HKCC Participant;

- (g) subject to Rule 415(b) and Rule 416 to apply any funds or the proceeds of any non-cash collateral delivered by the HKCC Participant pursuant to Rule 404 in or towards the satisfaction of any amount due to the Clearing House;
- (h) to hedge the risk posed by any or all of the open Contracts registered in the name of the HKCC Participants by appointing any person to take appropriate positions via auction and/or private arrangement or by the Clearing House taking appropriate positions directly in any markets, including those Markets operated by the Exchange, on behalf of such Defaulting HKCC Participant, as directed by the Chairman after consultation with the Commission;
- (k) to execute a buy-in or effect a borrowing, or to instruct a designated agent to execute a buy-in or effect a borrowing of the underlying commodity or instrument up to the quantity required to be delivered by the HKCC Participant and to disclose the name and other details of the HKCC Participant and the details of the relevant Contracts to such designated agent as the Chairman deems fit; or

511. (deleted)

Compulsory closing out, transfer, sale and settlement

512. (a) Where the Clearing House exercises its powers under these Rules to close out a Contract compulsorily, it may close out the Contract itself or it may request an Exchange Participant to conclude on behalf of the Defaulting HKCC Participant a Contract (the “new Contract”) on exactly the same terms as the Contract to be closed out, except that the price may not be the same as the price specified in the Contract to be closed out and the side which the Defaulting HKCC Participant shall take in respect of the new Contract shall be opposite to the side it holds under the Contract to be closed out.
- (d) On the execution of the new Contract through HKATS, the Defaulting HKCC Participant shall be deemed to have agreed to all of the terms of the new Contract and the new Contract will be registered accordingly.

513. Where the Clearing House exercises its powers under these Rules:

- (a) to transfer a Contract compulsorily or to require an HKCC participant to transfer a Contract, such transfer shall be effected pursuant to Rule 313; or
- (b) to sell Contracts by auction or private arrangement, the Clearing House shall have the absolute discretion to determine the selling price of such Contract

and the Defaulting HKCC Participant shall be deemed to have given its consent to such transfer or sale.

514. The reference in Rule 510(b) to the settling of Contracts means settling in accordance with the following provisions:

- (a) where a Defaulting HKCC Participant has registered in its name with the Clearing House Contracts for the purchase and sale of an equal quantity of a particular underlying commodity or instrument for the same:
 - (i) futures delivery month; or
 - (ii) option series,
- 515.
- (a) Every Defaulting HKCC Participant shall indemnify the Clearing House, the Exchange and a recognized exchange controller which is the controller of the Clearing House in respect of any costs, loss, interests or other expenses incurred by it in effecting the transfer, closing out, sale or settlement of any Contract in pursuance of the powers of the Clearing House.
 - (b) Where the Clearing House determines that it is necessary and appropriate to take action against a Defaulting HKCC Participant in relation to all open Contracts of that HKCC Participant, the Clearing House may conduct the following process under the Ordinance :
 - (i) provide for there to be payable by or to the HKCC Participant a sum of money in relation to each open Contract if this is required after taking into account all the rights and liabilities of the HKCC Participant under or in respect of the Contract concerned;
 - (ii) provide for all sums of money payable by or to the HKCC Participant as determined in accordance with subparagraph (i) to be aggregated or set-off so as to produce a net sum (if any) payable by or to the HKCC Participant;
 - (iii) if any net sum referred to in subparagraph (ii) is payable by the HKCC Participant, provide for that net sum to be set-off against all property of the HKCC Participant which is either subject to a market charge or which has been provided as market collateral (or set-off against the proceeds of the realization of such property) so as to produce a further net sum (if any) payable by or to the HKCC Participant (for the purpose of this subparagraph and subparagraph (iv), the terms “market charge” and “market collateral” bear the meanings set out in section 18 of the Ordinance;
 - (iv) if any net sum referred to in subparagraph (iii) is payable to the HKCC Participant, provide that all property of the HKCC Participant which is either subject to a market charge or which has been provided as market collateral shall cease to be subject to the market charge (but without prejudice to any other form of charge to which it may be subject) or to be market collateral (but without prejudice to its provision as any other form of collateral) (as the case may be); and
 - (v) provide for the certification by the Clearing House of any net sum referred to in subparagraph (ii) payable to the HKCC Participant, or of any further net sum referred to in subparagraph (iii) payable by or to the HKCC Participant (as the case may be) or, if there is no such sum, the certification by the Clearing House of that fact.

Revocation and effect of revocation

519. (d) The HKCC Participant shall be entitled to reimbursement, without interest, of an amount in respect of its HKCC Participant's Deposit and for the purpose of calculating the amount to be reimbursed, the HKCC Participant shall be deemed to have given, on the date on which the revocation takes effect, an irrevocable Resignation Notice and the provisions of Rule 217(c) (but no other provisions of Rule 217) shall be applied accordingly. All references in Rule 217(c), howsoever phrased, to the effective date of termination of its HKCC Participantship shall be construed as references to the date on which the revocation takes effect. Reimbursement shall be made two months after the Clearing House has determined the remaining balance standing to the credit of the HKCC Participant's Deposit of the HKCC Participant. Reimbursement of HKCC Participant Additional Deposit will be made in accordance with the Clearing House Procedures.

CHAPTER VII

**THE RESERVE FUND AND
THE HKCC CONTINGENT ADVANCE CAPITAL**

General

701. (a) The Clearing House shall establish a fund to provide resources to assist the Clearing House in meeting its obligations under Contracts arising pursuant to Rule 309 or Rule 313. That fund shall constitute the Reserve Fund which shall be used only if the Clearing House is unable to meet its liabilities under Contracts by reason of defaults by HKCC Participants and shall be used only in accordance with the following Rules.
- (aa) In addition to establishing the Reserve Fund, the Clearing House may put in place an arrangement in the form of HKCC Contingent Advance Capital to provide additional funding in the event that its liabilities from Contracts arising pursuant to Rule 309 or Rule 313 exceed the resources available under the Reserve Fund. The level of HKCC Contingent Advance Capital support shall be determined in accordance with the Clearing House Procedures, but shall not in any event exceed the actual amount of funding made available by HKEX to the Clearing House for this purpose under the prevailing circumstances. The resources of the HKCC Contingent Advance Capital shall be applied only after the resources of the Reserve Fund have been fully depleted and to the extent any amount under the HKCC Contingent Advance Capital is so applied, HKCC Participants shall be liable to repay and reimburse such amount to the Clearing House forthwith on demand.
- (b) Notwithstanding that any resources of the Reserve Fund and the HKCC Contingent Advance Capital may be applied to cover a default, this shall in no way prejudice the Clearing House's right to recover in full from the Defaulter. Monies recovered from the Defaulter (less any costs and expenses of recovery) may, but need not necessarily, be applied in replenishment of the Reserve Fund. If applied, the replenishment would be in the reverse order of priority and on the same pro rata basis as that for payment out of the Reserve Fund pursuant to Rules 706(c) to 706(e). It may be a term of any guarantee, facility or insurance policy that recoveries from the Defaulter be applied in a particular fashion other than in replenishment of the Reserve Fund.

Accounts and accounting

702. (a) The Clearing House shall earmark the Reserve Fund in its accounts and maintain a separate record in respect of the Reserve Fund so that all amounts standing to the credit of and all guarantees, facilities or policies inuring for the benefit of the Reserve Fund from time to time shall be apparent from the accounts and so that it is apparent whether any of such amounts, guarantees, facilities or policies are of limited application, being available to support the Clearing House's obligations only under particular Contracts or classes of Contract. Without prejudice to the aforesaid, the Clearing House shall maintain a separate account in respect of all the HKCC Participant's Deposits and HKCC Participant Additional Deposits made or required to be made by HKCC Participants to the Reserve Fund.
- (b) Simultaneously with the annual audit of the accounts of the Clearing House, the Clearing House shall request its auditors to prepare a report on the Reserve Fund for circulation to the Commission and, upon request, to HKCC Participants.

Notify resources of Reserve Fund

703. The Clearing House shall notify HKCC Participants and the Commission on a regular basis of the resources available to the Reserve Fund, comprising the amounts standing to the credit of the Reserve Fund, the policies, guarantees and facilities available to support the Reserve Fund and the level of HKCC Contingent Advance Capital support, and shall notify HKCC Participants and the Commission as to whether any part or parts of such resources is or are limited in application, being available to support the Clearing House's obligations only under particular Contracts or classes of Contracts.

Appropriations to Reserve Fund

704. (a) The Clearing House may appropriate any of its resources to the Reserve Fund.
- (b) All HKCC Participant's Deposits and HKCC Participant Additional Deposits shall be credited to the Reserve Fund promptly upon receipt.

Support for Reserve Fund

705. The Clearing House may arrange insurance policies, guarantees or any other facilities or source of revenue for the purpose of providing additional resources to the Reserve Fund. Any such policy or guarantee or other facility may be expressed to be available to support the Clearing House's obligations under all Contracts, or only under particular Contracts or classes of Contract.
- 705A. For the purpose of providing further additional resources to the Reserve Fund, the Clearing House shall from time to time require HKCC Participants to pay such amounts by way of HKCC Participant Additional Deposits as the Clearing House determines necessary in accordance with the Clearing House Procedures. HKCC Participant Additional Deposits shall be applied by the Clearing House to the Reserve Fund in accordance with the HKCC Rules.

Use and order of application of Reserve Fund

706. (a) Except as provided in Rule 708, amounts standing to the credit of the Reserve Fund may be applied only in respect of the Clearing House's liabilities which arise by virtue of its being a counterparty to every Contract registered with and cleared by it (including but not limited to the expenses involved in making recoveries against Defaulters). If, in the opinion of the Clearing House, the resources of the Reserve Fund are at any time liable to be fully depleted or are at any time at a level which is unlikely to satisfy all such liabilities, the resources of the Reserve Fund shall be applied to all such liabilities on a pro rata basis or in such other manner as the Clearing House may consider fair and appropriate.
- (b) The Clearing House may agree or arrange with any person (including but not limited to HKCC Participants) that any of the amounts standing to the credit of the Reserve Fund shall be available to support the Clearing House's obligations only under particular Contracts or classes of Contract or that any such amounts shall be applied in a particular order of priority.
- (c) Subject to any agreement or arrangement pursuant to Rule 706(b), the amounts standing to the credit of the Reserve Fund shall be applied towards any payment permitted by Rule 706(a) in the following order of priority: -
- (i) First, the HKCC Participant's Deposit and HKCC Participant Additional Deposit of the Defaulter;
 - (ii) Second, interest income credited to the Reserve Fund;
 - (iii) Third, the proceeds of any insurance policy arranged pursuant to Rule 705;
 - (iv) Fourth, the Clearing House's resources appropriated from time to time to the Reserve Fund;
 - (v) Fifth, the HKCC Participant's Deposits of other HKCC Participants;
 - (vi) Sixth, the proceeds of any guarantee or facility arranged pursuant to Rule 705; and
 - (vii) Seventh, the HKCC Participant Additional Deposits of other HKCC Participants.
- (d) (deleted)
- (da) For the purposes of sub-paragraphs (v) and (vii) of Rule 706(c), if after the date of default of a Defaulter, an HKCC Participant has itself been declared as a Defaulter, any prevailing amounts standing to the credit of its HKCC Participant's Deposit and HKCC Participant Additional Deposit shall be applied towards the default of the other Defaulter and its own default in such manner as the Clearing House may consider appropriate.

- (e) The amount of HKCC Participant's Deposit and HKCC Participant Additional Deposit in respect of each HKCC Participant to be applied pursuant to sub-paragraphs (v) and (vii) of Rule 706(c) respectively shall be calculated on a pro rata basis by reference to the HKCC Participant's share of the total HKCC Participant's Deposits or total requirements for HKCC Participant Additional Deposits, as the case may be, immediately before the default, excluding the portions contributed by any Defaulter and any HKCC Participant whose HKCC Participantship has been effectively terminated or revoked. Notwithstanding the aforesaid, if on or before the date of the default of a Defaulter, the HKCC Participantship of an HKCC Participant is effectively terminated or revoked, its HKCC Participant's Deposit and HKCC Participant Additional Deposit will not be applied towards the default, and if on or before the date of the default, an HKCC Participant has itself been declared as a Defaulter, its HKCC Participant's Deposit and HKCC Participant Additional Deposit will only be applied towards its own default.

Use of HKCC Contingent Advance Capital

- 706A. In the event that the Reserve Fund is insufficient to cover the Clearing House's liabilities under Contracts arising pursuant to Rule 309 or Rule 313 even after its resources have been fully depleted as a result of an application made under Rule 706, the Clearing House may apply any funding available under the HKCC Contingent Advance Capital towards the satisfaction of its outstanding liabilities, up to an amount not exceeding the HKCC Participant Additional Deposits applied pursuant to Rule 706.
- 706B. If, in the opinion of the Clearing House, the amount available under the HKCC Contingent Advance Capital is at any time liable to be fully utilized or is unlikely to be sufficient to meet all of its outstanding liabilities, such available amount shall be applied to cover its liabilities on a pro rata basis or in such other manner as the Clearing House shall consider fair and appropriate.
- 706C. To the extent any amount has been paid by the Clearing House out of the HKCC Contingent Advance Capital pursuant to Rule 706A, HKCC Participants (excluding those specified under Rule 706D) shall be liable to repay and reimburse such amount in full to the Clearing House on demand. The repayment or reimbursement amount required from each HKCC Participant shall be determined by the Clearing House on a pro rata basis and must be met by cash payment within the time period specified by the Clearing House. For the avoidance of doubt, such payments shall not form part of the Reserve Fund and if at any time both a demand under this Rule and a demand for Replenishment Contribution under Rule 707A or HKCC Participant Additional Deposit under Rule 705A remain to be met by an HKCC Participant, the demand made under this Rule shall have priority regardless of whether it is made at the same time as or after the demand under Rule 707A or Rule 705A and any cash payment from the HKCC Participant shall first be applied towards the satisfaction of the demand under this Rule.
- 706D. Repayment and reimbursement of the HKCC Contingent Advance Capital shall not be required from any HKCC Participant which has been declared as a Defaulter or whose HKCC Participantship has been effectively terminated or revoked on the day such demand for repayment or reimbursement is made, or which became an HKCC Participant only after the date the default giving rise to such demand for repayment and reimbursement occurs.

Replenishment of Reserve Fund

707. (a) (deleted)
- (b) (deleted)
- 707A. (a) Where all or part of the HKCC Participant's Deposit and HKCC Participant Additional Deposit of an HKCC Participant are applied pursuant to Rule 706, the HKCC Participant (excluding any HKCC Participant specified under Rule 707A(b)) shall on demand by the Clearing House make a Replenishment Contribution to the Reserve Fund (i) to ensure that its Reserve Fund Deposits are replenished to the same level as that before any application is made; and (ii) to provide such additional resources as the Clearing House may require to meet any liabilities that remain outstanding even after any funding under the HKCC Contingent Advance Capital has been utilized pursuant to Rule 706A.
- (b) Replenishment Contributions shall not be required from HKCC Participants which have been declared as a Defaulter or whose HKCC Participants have been effectively terminated or revoked on the day such Replenishment Contributions are demanded.
- (c) The Clearing House shall notify HKCC Participants of any demand for Replenishment Contributions verbally or in writing as the Clearing House considers appropriate. The Clearing House may demand such Replenishment Contributions to be satisfied after or at the same time that an application is made under Rule 706. All demands for Replenishment Contributions must be met by cash payment in Hong Kong dollars or in any other currency prescribed by the Clearing House from time to time no later than the third Business Day after the demand is made by the Clearing House or within such other time period as may be specified by the Clearing House and shall be without prejudice to the Clearing House's right to any HKCC Contingent Advance Capital repayment under Rule 706C.

Payments out of Reserve Fund

708. (a) In addition to its power to make payments out of the Reserve Fund in respect of the liabilities referred to in Rule 706(a), the Clearing House may make payments out of the Reserve Fund in accordance with the following provisions of this Rule.
- (aa) The Clearing House may apply any amounts standing to the credit of the Reserve Fund as a short-term source of liquid funds to meet any immediate obligations under Contracts arising pursuant to Rule 309 or Rule 313 on a temporary basis.
- (b) The Clearing House may apply any amounts standing to the credit of the Reserve Fund (other than any amount representing HKCC Participant's Deposits and any HKCC Participant Additional Deposits) which are in the opinion of the Clearing House surplus to the requirements of the Reserve Fund in such manner as the Clearing House thinks fit, including appropriation of such moneys out of the Reserve Fund temporarily or permanently.

- (c) For the purposes of Rules 217 and 519(d) the Clearing House may withdraw from the Reserve Fund and reimburse to an HKCC Participant an amount equal to an HKCC Participant's Deposit and any HKCC Participant Additional Deposit (or such lesser amount as is payable in accordance with the provisions of those Rules).

CHAPTER VIII

EMERGENCIES

Typhoons and rainstorms

802. Except as otherwise determined by the Clearing House and/or the Exchange, the following shall apply:-

(b) Money Settlement Services

If a Typhoon Signal No. 8 or above is hoisted or a Black Rainstorm Warning is issued by the Hong Kong Observatory before 9:00 a.m. and is not lowered or cancelled at 12:00 noon on any Business Day, no money settlement services will be available on that Business Day. In such event, money settlement will be effectuated prior to the resumption of trading on the Exchange on the first Business Day thereafter on which the Exchange is open for business, and will be due for settlement by no later than 9:15 a.m. if the first Business Day is a full Bank Business Day or one hour after resumption of money settlement services if the first Business Day is not a full Bank Business Day. Failure to effectuate money settlement will subject an HKCC Participant to disciplinary action pursuant to Rule 510 and/or Rule 517.

If a Typhoon Signal No. 8 is lowered or a Black Rainstorm Warning is cancelled at or before 12:00 noon on any Business Day, money settlement services will normally resume two hours later and any amounts demanded from the HKCC Participants by the Clearing House must be settled no later than one hour after the resumption of the money settlement services on that Business Day.

(d) Redelivery Requests

If a Typhoon Signal No. 8 or above is hoisted or a Black Rainstorm Warning is issued by the Hong Kong Observatory before 9:00 a.m. and is not lowered or cancelled at 12:00 noon on any Business Day, no requests for redelivery of surplus funds will be accepted on that Business Day.

If a Typhoon Signal No. 8 or above is hoisted or a Black Rainstorm Warning is issued on any Business Day prior to the deadline for requests for redelivery of surplus funds (normally 11:00 a.m. on a Business Day), those redelivery requests already submitted will be accepted as usual, subject to the availability of the applicable services of corresponding banks.

If a Typhoon Signal No. 8 is lowered or a Black Rainstorm Warning is cancelled at or before 12:00 noon on any Business Day, requests for redelivery of surplus funds will be processed on a best effort basis and subject to the availability of the applicable services of corresponding banks.

The procedures adopted by the Clearing House in relation to typhoons or rainstorms are generally in line with those of the Exchange.

CLEARING HOUSE PROCEDURES FOR FUTURES/OPTIONS CONTRACTS TRADED ON THE AUTOMATED TRADING SYSTEM OF THE EXCHANGE ("HKATS")

Chapter 1 Registration Procedures

1.3 Types of Clearing Accounts in CCMS

Transactions of an HKCC Participant with HKCC in respect of its delivery or redelivery of collateral, whether cash or non-cash, are referred to as “collateral movement transactions” for the purpose of this section.

The Clearing House maintains for each HKCC Participant different types of clearing accounts in CCMS for recording collateral movement transactions between that HKCC Participant and the Clearing House. These accounts are registered in the name of the HKCC Participant and are identified as the HKCC Participant’s (1) House CCMS Collateral Account, (2) Client CCMS Collateral Account(s), and (3) Market Maker CCMS Collateral Account(s). Each of these accounts is mapped with one or more clearing accounts of the HKCC Participant in DCASS. For the purposes of the Clearing House Rules and these Clearing House Procedures, the term CCMS Collateral Account will mean the House CCMS Collateral Account, Client CCMS Collateral Account(s) and Market Maker CCMS Collateral Account(s) unless otherwise specified or the context requires otherwise.

Unless otherwise specified by the Clearing House or an HKCC Participant, all cash and non-cash collateral paid or delivered by the HKCC Participant to the Clearing House will be recorded in the HKCC Participant’s CCMS Collateral Account as General Collateral and will be eligible for use as cover for the HKCC Participant’s Clearing House margin liabilities and outstanding debit in accordance with section 2.6. HKCC Participants should refer to the CCMS Terminal User Guide for a detailed description of the collateral management functions of CCMS.

Chapter 2 Settlement Procedures

2.2 Clearing House Margin

2.2.7 *Additional Clearing House Margin*

2.2.7.1 An additional Clearing House margin will be imposed on an HKCC Participant in respect of its open Futures and Options Contracts which are based on the same underlying financial instrument in the event that:

- (b) the total net open interest in the Futures Contracts on the same underlying financial instrument exceeds the following number of contracts:-

Futures Contract	Number of contracts
Exchange Fund Note Futures Contract	10,000 on any day prior to the last six trading days and 2,000 during the last six trading days
Three-Month HIBOR Futures Contract and One-Month HIBOR Futures Contract	4,000

US Dollar vs Renminbi (Hong Kong) Futures Contract	20,000 on any day prior to the last five Business Days before the Final Settlement Day and 10,000 during the last five Business Days before the Final Settlement Day
All other Futures Contracts	20,000

In addition, the Chairman may impose on the HKCC Participant an additional Clearing House margin on all Futures and Options Contracts registered in the HKCC Participant's account(s) with the Clearing House.

2.2.7.2 The additional Clearing House margin to be imposed pursuant to section 2.2.7.1 above shall be 20% of the otherwise applicable margin requirement or such other percentage as the Chairman may consider appropriate.

2.5 Calculation of Daily Cover Required

2.5.2 Cash Balance

Should the "cash amount" calculated under section 2.5 show a positive value (hereinafter referred to as "cash balance"), the following comparisons will be made and the consequent actions taken:

- (a) If (cash balance) = (Clearing House margin liability), the cash balance will be used as cover for the HKCC Participant's Clearing House margin liability and there will not be any action required;
- (b) If (cash balance) is less than (Clearing House margin liability), amount of cover required = (shortfall); and
- (c) If (cash balance) is greater than (Clearing House margin liability), amount that may be redelivered = (cash balance) – (Clearing House margin liability).

The comparisons referred to in paragraphs (a) to (c) above are made on the basis that Clearing House margin liability is not covered by any other acceptable means. To the extent that Clearing House margin liability is covered by other acceptable means, any shortfall in the amount of cover required (as calculated in paragraph (b) above) will be reduced accordingly and any cash amount that may be redelivered will be increased accordingly, provided that (i) it is not used by the Clearing House as cover for the HKCC Participant's Clearing House margin liability; (ii) the amount of Clearing House margin liability that is covered by cash in the Settlement Currency will not fall below the minimum level prescribed by the Clearing House; and (iii) the redelivery will not result in any other requirement regarding cover for the HKCC Participant's Clearing House margin liability not being satisfied.

2.6 Methods of Providing Cover for Clearing House Margin

2.6.1 Cover provided by means of Cash in the Settlement Currency

Any cash balance in the Settlement Currency in excess of the amount required to cover an HKCC Participant's Clearing House margin liability shall automatically be used by the Clearing House as cover for any subsequent increase in the Clearing House margin liability of the HKCC Participant without the HKCC Participant's prior consent. Interest on cash balance in the Settlement Currency may be paid or charged by the Clearing House at such positive or negative rate as it may determine from time to time in accordance with prevailing bank savings rates.

If an HKCC Participant delivers cash in the Settlement Currency to cover outstanding debit, the Clearing House will neither pay interest nor levy accommodation charges on such delivered amount.

Any HKCC Participant wishing to deliver cash with the Clearing House as excess cover for Clearing House margin liability or as cover for outstanding debit shall input a delivery order via a CCMS terminal and the amount to be delivered will be forthwith debited from the HKCC Participant's DMDS bank account. The HKCC Participant shall ensure that there are sufficient funds delivered in its relevant DMDS bank account for debiting purpose.

2.6.2 Cover provided by means of Cash in an Approved Currency other than the Settlement Currency

Subject to the prior agreement of the Clearing House, an HKCC Participant may provide cover for its Clearing House margin liabilities by means of a delivery to the Clearing House of cash in an approved currency other than the Settlement Currency or by way of surplus balance on Contracts which are settled in a different Settlement Currency. The types of approved currencies that may be provided by HKCC Participants may be determined by the Clearing House from time to time (see Appendix V – (5) for the current list of approved currencies). The value of any cash in an approved currency other than the Settlement Currency allowed to be used as cover for Clearing House margin liabilities shall be determined on a daily basis based on the prevailing market value as determined by the Clearing House after deducting a haircut of such percentage as determined from time to time by the Clearing House.

Interest may be paid or charged by the Clearing House on the cash balance in an approved currency other than the Settlement Currency at such positive or negative rate as it may determine from time to time in accordance with prevailing bank savings rates. The rate of interest may be varied from time to time by the Clearing House without prior notice.

No accommodation charge will be levied on Clearing House margin liabilities covered by surplus cash balance in an approved currency other than the Settlement Currency.

Any HKCC Participant wishing to deliver cash in an approved currency other than the Settlement Currency shall notify the Clearing House in writing or by other means acceptable to the Clearing House by 11:00 a.m..

2.6.3 Approved Bank Guarantee

Each HKCC Participant is allowed to provide cover for Clearing House margin liability by means of one or more guarantees given by licensed banks approved by

the Clearing House in the form prescribed from time to time by the Clearing House provided that the Clearing House shall have the absolute right to determine the maximum amount of an HKCC Participant's Clearing House margin liability which may be so covered. The value of the approved bank guarantee allowed to be used as cover for Clearing House margin liabilities shall be the guaranteed amount as stated in the guarantee issued by the licensed bank, after deducting a haircut of such percentage as determined from time to time by the Clearing House. The Clearing House reserves the right to add to or reduce the number of licensed banks so approved at any time and determine the maximum amount of guarantees that may be accepted from a licensed bank.

Notwithstanding the foregoing, the Clearing House will not accept any guarantee issued by any licensed bank which holds or controls (whether directly or indirectly) 20 percent or more of the issued share capital or voting power of an HKCC Participant or which, in the Clearing House's absolute opinion, is closely associated with or related to the HKCC Participant.

Any HKCC Participant wishing to cover calls for Clearing House margin liability by means of a bank guarantee shall seek prior approval from the Clearing House in writing or by such other means as may be acceptable to the Clearing House. Such deposit notification must include the specific purpose for which the bank guarantee is being deposited. If approval is given, the Clearing House will update the HKCC Participant's CCMS Collateral Account upon actual receipt of the original bank guarantee documents and confirmation from the guarantor bank of the validity of the bank guarantee. Unless otherwise terminated in accordance with its terms, any bank guarantee accepted shall remain valid until the end of the Business Day immediately preceding the expiry date set forth therein.

An HKCC Participant shall be liable for all disbursements and expenses that may be incurred by the Clearing House in respect of or incidental to the acceptance, expiry, and early termination of any bank guarantee that may be provided by the HKCC Participant.

Pursuant to Clearing House Rule 404(c), an accommodation charge as determined from time to time by the Clearing House will be imposed on the amount of bank guarantee used as cover for Clearing House margin liabilities.

2.6.4 Exchange Fund Bills/Notes

HKCC Participants may provide cover for their Clearing House margin liabilities by means of Exchange Fund Bills/Notes issued by the Hong Kong Special Administrative Region Government for the account of the Exchange Fund ("Exchange Fund Bills/Notes") provided that the Clearing House shall have the absolute right to determine the maximum amount of an HKCC Participant's Clearing House margin liability which may be so covered.

Any HKCC Participant wishing to use Exchange Fund Bills/Notes to cover calls for Clearing House margin or to request for the redelivery of Exchange Fund Bills/Notes shall notify the Clearing House by 11:00 a.m. of its intention in writing or by such other means as may be acceptable to the Clearing House and shall instruct its Recognized Dealer (or its clients' Recognized Dealers in the manner set forth below) to transfer Exchange Fund Bills/Notes to the Clearing House's account with the Hong Kong Monetary Authority ("HKMA"). The Clearing House will

accept Exchange Fund Bills/Notes as cover for Clearing House margin liabilities only when confirmation of the transfer is received by the Clearing House from HKMA. To receive same-day credit for Exchange Fund Bills/Notes, the HKCC Participant must transfer Exchange Fund Bills/Notes to the Clearing House's account with HKMA by such transfer cutoff time as may from time to time be specified by HKMA.

An HKCC Participant may meet its Clearing House margin liabilities through the transfer of Exchange Fund Bills/Notes directly from the HKCC Participant's clients ("direct transfer") provided that the HKCC Participant notifies the Clearing House of the details of the direct transfer in advance. Upon receipt of such direct transfer, the Clearing House will update the HKCC Participant's CCMS Collateral Account and any Exchange Fund Bills/Notes provided under such direct transfer shall be considered to be delivered by the HKCC Participant. In the event any such direct transfer fails to be made with the result that the HKCC Participant fails to meet any margin call, the HKCC Participant shall remain liable to the Clearing House in respect of such margin call and will be placed in default under the Clearing House Rules.

The value of the Exchange Fund Bills/Notes allowed to be used as cover for Clearing House margin liabilities shall be the closing value or the market value of the Exchange Fund Bills/Notes at a specified time published by the HKMA at the close of each Business Day, after deducting a haircut of such percentage as determined from time to time by the Clearing House.

Where an HKCC Participant has made a request for redelivery of Exchange Fund Bills/Notes pursuant to section 2.10, the Clearing House will, on the express instructions of the HKCC Participant, transfer Exchange Fund Bills/Notes to the account of the HKCC Participant or such other account as the HKCC Participant may specify provided that the HKCC Participant provides confirmation to the Clearing House that the holder of such account is a client of the HKCC Participant. The Clearing House will accept such request for redelivery only if and to the extent that it will not result in any requirement regarding cover for the HKCC Participant's Clearing House margin liability not being satisfied. Any Exchange Fund Bills/Notes so transferred by the Clearing House shall be deemed to have been transferred to the HKCC Participant insofar as the satisfaction of any liability of the Clearing House towards the HKCC Participant is concerned.

Where interest or, upon maturity, redemption money, is paid to the Clearing House in relation to Exchange Fund Bills/Notes which are the subject of cover for Clearing House margin liability provided by an HKCC Participant, the Clearing House shall pay to the HKCC Participant, by crediting its CCMS Collateral Account with the Clearing House on the same Business Day, a sum equivalent to the amount of such interest or redemption money that the HKCC Participant would have been entitled to receive had such Exchange Fund Bills/Notes not been provided to the Clearing House and had been retained by the HKCC Participant on the interest or redemption money payment date, less any withholding tax that may be required to be deducted pursuant to any applicable tax laws and regulations.

An HKCC Participant shall be liable for all disbursements and expenses that may be incurred by the Clearing House in respect of or incidental to its acceptance of

Exchange Fund Bills/Notes from the HKCC Participant, including its redelivery or delivery of Exchange Fund Bills/Notes and related sums to the HKCC Participant.

Pursuant to Clearing House Rule 404(c), an accommodation charge as determined from time to time by the Clearing House will be imposed on the amount of Exchange Fund Bills/Notes used as cover for margin liabilities.

2.6.5 *(deleted)*

2.6.6 *U.S. Government Treasury Bills and Notes*

HKCC Participants may also deliver U.S. Government Treasury Bills or Notes (“U.S. Treasuries”) excluding U.S. Treasury Callable Corpus (“TCAL”) and Separate Trading of Registered Interest and Principal of Securities (“STRIPs”) to meet Clearing House margin liabilities provided that the Clearing House shall have the absolute right to determine the maximum amount of an HKCC Participant’s Clearing House margin liability which may be so covered.

Any HKCC Participant wishing to use U.S. Treasuries to cover calls for Clearing House margin liabilities shall notify the Clearing House by 11:00 a.m. of its intention in writing or by such other means as may be acceptable to the Clearing House and the Clearing House will, as soon as practicable, upon receipt of such notice process such request. Any delivery of U.S. Treasuries shall be made to the Clearing House’s account with any of the banks or depositories approved by the Clearing House from time to time. The Clearing House will update the HKCC Participant’s CCMS Collateral Account and accept U.S. Treasuries as cover for Clearing House margin liabilities only when confirmation of the transfer is received by the Clearing House from the approved bank or depository.

An HKCC Participant may meet its Clearing House margin liabilities through the transfer of U.S. Treasuries directly from the HKCC Participant’s clients (“direct transfer”) provided that details of the direct transfer are given by the HKCC Participant to the Clearing House in advance. Upon receipt of such direct transfer, the Clearing House will update the HKCC Participant’s CCMS Collateral Account and any U.S. Treasuries provided under such direct transfer shall be considered to be delivered by the HKCC Participant. In the event any such direct transfer fails to be made with the result that the HKCC Participant fails to meet any margin call, the HKCC Participant shall remain liable to the Clearing House in respect of such margin call and will be placed in default under the Clearing House Rules.

The value of U.S. Treasuries allowed to be used as cover for Clearing House margin liabilities shall be the market value quoted by information vendor(s) selected from time to time by the Clearing House at the close of each Business Day, after deducting a haircut of such percentage as determined from time to time by the Clearing House.

Where an HKCC Participant has made a request for redelivery of U.S. Treasuries pursuant to section 2.10, the Clearing House will, on the express instructions of the HKCC Participant, transfer U.S. Treasuries to the account of the HKCC Participant or such other account as the HKCC Participant may specify provided that the HKCC

Participant provides confirmation to the Clearing House that the holder of such account is a client of the HKCC Participant. The Clearing House will accept such request for redelivery only if and to the extent that it will not result in any requirement regarding cover for the HKCC Participant's Clearing House margin liability not being satisfied. Any U.S. Treasuries so transferred by the Clearing House shall be deemed to have been transferred to the HKCC Participant insofar as the satisfaction of any liability of the Clearing House towards the HKCC Participant is concerned.

Where interest or, upon maturity, redemption money, is paid to the Clearing House in relation to U.S. Treasuries which are the subject of cover for Clearing House margin liability provided by an HKCC Participant, the Clearing House shall pay to the HKCC Participant, by crediting its CCMS Collateral Account with the Clearing House on the same Business Day, a sum equivalent to the amount of such interest or redemption money that the HKCC Participant would have been entitled to receive had such U.S. Treasuries not been provided to the Clearing House and had been retained by the HKCC Participant on the interest or redemption money payment date, less any withholding tax that may be required to be deducted pursuant to any applicable tax laws and regulations. In the event that the HKCC Participant's clearing account is not in U.S. dollars, such amount will be credited to a U.S. dollar bank account designated by the HKCC Participant.

An HKCC Participant shall be liable for all disbursements and expenses that may be incurred by the Clearing House in respect of or incidental to its acceptance of U.S. Treasuries from the HKCC Participant, including its redelivery or delivery of U.S. Treasuries and related sums to the HKCC Participant.

Pursuant to Clearing House Rule 404(c), an accommodation charge as determined from time to time by the Clearing House will be imposed on the amount of U.S. Treasuries used as cover for margin liabilities.

2.6.7 *(deleted)*

2.7 Payment of Cover - Direct Margin Debiting System

The system will operate according to the following table when an HKCC Participant's Clearing House margin liability exceeds cover and/or an HKCC Participant has outstanding debit.

Subject to section 2.6, the DMDS will operate as follows:

- b) The Clearing House will provide to each Designated Bank, Prime Settlement Bank and Approved Settlement Bank, on each Bank Business Day, a list of amounts due from HKCC Participants having accounts at that bank.

2.9 Value Date for Delivery and Redelivery of Approved Currencies Other Than Applicable Settlement Currencies

2.9.1 *Delivery of Approved Currencies Other Than Applicable Settlement Currencies*

In this section 2.9.1 and in section 2.9.2, references to "Currency Amount" means the amount denominated in an approved currency referred to in section 2.6.2 and

Appendix V-(5) which is recorded in an HKCC Participant's CCMS Collateral Account or its account in a bank, where appropriate, other than any amount that is denominated in an applicable Settlement Currency referred to in section 2.7(a); and references to the "Relevant Currency" means an approved currency other than an applicable Settlement Currency.

An HKCC Participant wishing to use any Currency Amount to cover calls for Clearing House margin shall notify the Clearing House by 11:00 a.m. on any Business Day of its intention in writing or by such other means as may be acceptable to the Clearing House. The value date applicable to the transfer of any Currency Amount from an HKCC Participant's account in one bank to the Clearing House's account in another bank is normally the next Hong Kong Bank Business Day after the date on which the HKCC Participant's bank receives the HKCC Participant's instructions to effect such transfer. If that day is a bank holiday in the country where the HKCC Participant's bank is located or where the Relevant Currency is cleared, the value date shall be on the next Hong Kong Bank Business Day which is not a bank holiday in that country. Only after the receipt of the funds is confirmed by the Clearing House's bank, will the Clearing House accept these funds as cover for the HKCC Participant's Clearing House margin liabilities and/or outstanding debit.

If the HKCC Participant's account and the Clearing House's account are maintained with the same bank in Hong Kong, the transfer may be effected within the same Hong Kong Bank Business Day, in which case the value date for the transfer of Relevant Currency amount shall be the Hong Kong Bank Business Day on which such bank receives the HKCC Participant's instructions to effect the transfer.

2.9.2 Redelivery of Approved Currencies Other Than Applicable Settlement Currencies

In this section, references to "Currency Amount" and "Relevant Currency" have the same meaning as set out in section 2.9.1.

An HKCC Participant may request the redelivery of any excess Currency Amount provided to the Clearing House by notifying the Clearing House of its intention in writing or by other means acceptable to the Clearing House by 11:00 a.m. on each Business Day. In the event that the Clearing House, in its sole discretion, agrees to redeliver such excess Currency Amount, the requesting HKCC Participant's CCMS Collateral Account with the Clearing House will be debited immediately. The redelivery of the requested amount will not be effected on the same day as the date of the request as set out in sections 2.9.2.1 and 2.9.2.2 and will depend on whether it is a Bank Business Day in the country where the HKCC Participant's bank is located or where the Currency Amount is cleared. Interest may be paid or charged by the Clearing House on the excess Currency Amount being redelivered at such positive or negative rate as it may determine from time to time in accordance with prevailing bank savings rates until the redelivery is effected.

2.9.2.1 Japanese Yen

The value date for the redelivery of Currency Amount denominated in Japanese Yen is the second Hong Kong Bank Business Day after the date on which the redelivery request is received by the Clearing House. If

that day is a bank holiday in Japan, then the value date shall be on the next Bank Business Day in both Japan and Hong Kong.

2.9.2.2 *Currency Amounts not denominated in Japanese Yen*

The value date for the redelivery of any Currency Amount not denominated in Japanese Yen is the next Hong Kong Bank Business Day after the date on which the redelivery request is received by the Clearing House. If that day is a bank holiday in the country or countries where the HKCC Participant's bank is located and where the Relevant Currency (other than Japanese Yen) is cleared, then the value date shall be on the next Bank Business Day in those countries and Hong Kong.

2.9.3 *Substitution for the Settlement Currency*

HKCC Participants may elect to deliver cash in a currency other than the Settlement Currency approved by the Clearing House as cover for HKCC Participants' Clearing House margin liabilities provided that the minimum level of Clearing House margin liabilities that is required to be satisfied by cash in the Settlement Currency is at all times maintained. If cash in a currency other than the Settlement Currency approved by the Clearing House is delivered by an HKCC Participant as substitution for any Clearing House margin settled by the HKCC Participant using the Settlement Currency, such cash must be received by the Clearing House with finality by 9:30 a.m. on each Hong Kong Bank Business Day in order for the HKCC Participant to have surplus funds resulting from such cash redelivered to the HKCC Participant in the Settlement Currency for same-day value. If such cash is received after 9:30 a.m., any surplus in the Settlement Currency will be redelivered to HKCC Participants for value on the next Hong Kong Bank Business Day.

2.10 Redelivery of Surplus Funds in the Settlement Currency or Non-Cash Collateral

An HKCC Participant may request the redelivery of surplus funds in the Settlement Currency in its CCMS Collateral Account by inputting an order for redelivery via a CCMS terminal and may request the redelivery of surplus non-cash collateral in its CCMS Collateral Account by notifying the Clearing House in writing or by other means acceptable to the Clearing House by 11:00 a.m. each Business Day. It should be noted that the Clearing House will not redeliver any surplus funds or non-cash collateral to HKCC Participants on Saturdays or if the amount of Clearing House margin liabilities that is covered by cash in the Settlement Currency will fall below the minimum level prescribed by the Clearing House or if the redelivery will result in any other requirement regarding cover for the HKCC Participant's Clearing House margin liability not being satisfied.

Chapter 4 Reserve Fund Contribution

Pursuant to HKCC Rules, each HKCC Participant is required to contribute to the Reserve Fund in the form of an HKCC Participant's Deposit by cash in Hong Kong dollars or in any other currency prescribed by the Clearing House from time to time upon its HKCC Participantship application being approved. The HKCC Participant's Deposit required from each Clearing Participant is HK\$1.5 million while that required from each General Clearing Participant is HK\$7.5 million.

Pursuant to HKCC Rules, each HKCC Participant is also required to pay by way of HKCC Participant Additional Deposits such amounts as the Clearing House may from time to time determine to be necessary in response to market fluctuations and increased risk exposures.

4.1 HKCC Participant Additional Deposits

On the first Business Day of every month, the Clearing House will assess the adequacy of the Reserve Fund to cover the maximum daily risk exposure of the Reserve Fund during the most recent 20 Business Days and will determine whether any HKCC Participant Additional Deposits would be required from HKCC Participants, taking into consideration the risk exposure of the Reserve Fund and the prevailing market conditions.

HKCC Participant Additional Deposits will be demanded such that 95% of the existing aggregate value of the Reserve Fund after the injection of the HKCC Participant Additional Deposits, together with the maximum amount of funding that may be available under the HKCC Contingent Advance Capital (i.e. an amount which equals the total amount of HKCC Participant Additional Deposits after the injection), will cover all the risk exposures of the Reserve Fund throughout the most recent 20 Business Days.

The total HKCC Participant Additional Deposits required can be obtained using the following formula:

$$MEX = 95\% \times (BEF + HPAD + CAC)$$

$$MEX = 95\% \times (BEF + HPAD + HPAD)$$

$$HPAD = (MEX \div 95\% - BEF) \div 2$$

where:

MEX denotes the maximum daily risk exposure of the Reserve Fund during the most recent 20 Business Days;

BEF denotes the basic elements of the Reserve Fund (i.e. the existing aggregate value of the Reserve Fund less the total HKCC Participant Additional Deposits);

HPAD denotes the total HKCC Participant Additional Deposits; and

CAC denotes the maximum amount which may be made available under the HKCC Contingent Advance Capital (which equals the total HKCC Participant Additional Deposits after the injection).

Aside from the demands made under regular monthly assessments, HKCC Participant Additional Deposits will be recalculated and demanded in accordance with the abovementioned formula if the daily risk exposure of the Reserve Fund exceeds 95% of the sum of (i) the existing aggregate value of the Reserve Fund (i.e. the basic elements of the Reserve Fund plus the total HKCC Participant Additional Deposits in the Reserve Fund); and (ii) the maximum amount of funding which may be made available under the HKCC

Contingent Advance Capital in three consecutive Business Days unless the Chairman at his discretion determines that HKCC Participant Additional Deposits shall not be required under the following circumstances:

- (a) where the relevant Business Day (i.e. day of calculation) falls on the last four Business Days of the month and the current risk exposure of the Reserve Fund does not exceed the existing aggregate value of the Reserve Fund and the HKCC Contingent Advance Capital by more than 30%; or
- (b) where the relevant Business Day does not fall on the last four Business Days of the month and the current risk exposure of the Reserve Fund does not exceed the existing aggregate value of the Reserve Fund and the HKCC Contingent Advance Capital by more than 15%.

Notwithstanding the above or any other provisions of these HKCC Rules, the Clearing House may assess the adequacy of the Reserve Fund and recalculate the requirements for HKCC Participant Additional Deposits based on the abovementioned formula at such time as it may consider appropriate and following an event of default, the Clearing House may further at its absolute discretion determine the appropriate aggregate value of the Reserve Fund for the purpose of calculating any HKCC Participant Additional Deposits required taking into account the estimated loss arising from any actions taken by the Clearing House in respect of such event of default under Chapter 5 of the HKCC Rules, and in each of the aforementioned circumstances, HKCC Participants shall pay to the Clearing House such HKCC Participant Additional Deposits as may from time to time be demanded by the Clearing House.

4.2 Calculation Methodology for each HKCC Participant's contribution to HKCC Participant Additional Deposits

After each assessment of the requirements for HKCC Participant Additional Deposits as stipulated in section 4.1 or if the Clearing House otherwise determines that HKCC Participant Additional Deposits shall be recalculated or further required from HKCC Participants, the Clearing House will calculate each HKCC Participant's contribution requirement based on each HKCC Participant's daily average risk exposure as follows and each HKCC Participant's share of the total Reserve Fund Deposits shall be proportionate to its relative weighting calculated under section 4.2.4:

- 4.2.1 The risk exposure of each HKCC Participant will be measured based on its total net margin liabilities. The net margin liabilities of each account shall be the sum of the net margin requirements for each Market in that account.

For comparison purpose, the net margin liabilities of all contracts will be measured in Hong Kong dollars or the equivalent based on the exchange rate determined by the Clearing House for each type of currency. The net margin liabilities of each of the Client, House, Sink and Market Maker account will be computed separately. The total net margin liabilities for each HKCC Participant shall be the sum of the net margin liabilities of each account. For the purpose of calculating the net margin liabilities of an HKCC Participant's Client accounts for each Market, positions in each Individual Client Account will be aggregated with positions in its Omnibus Client Account and Client Offset Claim Account for that Market and margined

together on a net basis, and positions of an HKCC Participant's Sink Account in the same Market will be margined together on a net basis to determine the net margin liabilities of its Sink Account for each Market.

- 4.2.2 The Clearing House will calculate the daily average total net margin liabilities for each HKCC Participant during the most recent 20 Business Days as follows:

Daily average total net margin liabilities of an HKCC Participant

$$= \frac{\sum \text{Total net margin liabilities for the HKCC Participant on } j^{\text{th}} \text{ day}}{20}$$

where $j = 1, 2, 3, \dots, 19, 20$

- 4.2.3 The daily average market total net margin liabilities will then be calculated as follows:

Daily average market total net margin liabilities

$$= \sum \text{Daily average total net margin liabilities for each HKCC Participant}$$

- 4.2.4 The relative weighting of each HKCC Participant's daily average total net margin liabilities as compared to the daily average market total net margin liabilities is then used to calculate the required contribution from the HKCC Participant based on the following formula, rounded up to the nearest dollar:

Required contribution from each HKCC Participant

$$= \frac{\text{Daily average total net margin liabilities for the HKCC Participant}}{\text{Daily average market total net margin liabilities}} \times \frac{\text{Total HKCC Participant Additional Deposits}}$$

- 4.2.5 Each HKCC Participant's required contribution as calculated under section 4.2.4 will be compared with its existing contribution amount. In determining its existing contribution amount, any HKCC Participant Additional Deposit that has been applied or that has been replenished from monies recovered from Defaulters preceding the calculation day shall be taken into account. HKCC Participants with increased contribution requirements will be required to pay any deficit to the Clearing House. HKCC Participants with decreased contribution requirements will be refunded any surplus contribution in accordance with section 4.4.

Notwithstanding the above, each HKCC Participant must maintain at least its HKCC Participant's Deposit (i.e. HK\$1.5 million for Clearing Participants and HK\$7.5 million for General Clearing Participants) with the Clearing House.

- 4.2.6 Since the HKCC Participant's Deposit for General Clearing Participants is HK\$6 million higher than that for Clearing Participants, this HK\$6 million will be taken into account in the calculation of a General Clearing Participant's contributions and

a contribution will only be collected if its requirement for HKCC Participant Additional Deposit exceeds HK\$6 million.

4.2.7 For the purpose of calculation under this section, the HKCC Participant Additional Deposit of any HKCC Participant which has been declared as a Defaulter or whose HKCC Participations have been effectively terminated or revoked on or preceding the calculation day shall be excluded.

4.3 (deleted)

4.4 Release of HKCC Participant Additional Deposits

If, after each assessment of the requirements for HKCC Participant Additional Deposits as stipulated in section 4.1 or if the Clearing House otherwise determines that HKCC Participant Additional Deposits shall be recalculated, the existing resources in the Reserve Fund are determined to be sufficient, and if the total amount of HKCC Participant Additional Deposits calculated according to the formula stipulated in section 4.1 is less than the existing total HKCC Participant Additional Deposits, the Clearing House will refund to HKCC Participants any surplus contribution in accordance with the calculation methodology set forth in section 4.2 above, subject to their HKCC Participants' Deposits being maintained and subject to the right of the Clearing House to withhold the release of any such surplus for such period as it in its absolute discretion considers appropriate.

In the event HKCC Participant Additional Deposits collected from HKCC Participants have been applied towards any payment in accordance with HKCC Rule 706 after the determination of any surplus contributions, the amount of HKCC Participant Additional Deposits which can be refunded to HKCC Participants will be reduced by an equivalent amount.

4.4A Settlement Time

In the event HKCC Participant Additional Deposits are recalculated by the Clearing House on any Business Day, a clearing report showing the amount payable or that may be released will be distributed to each HKCC Participant on the same Business Day. Any HKCC Participant Additional Deposit payable by an HKCC Participant will be debited from its House CCMS Collateral Account via the Direct Margin Debiting System (DMDS) by 12:00 noon on the third Business Day after the distribution of the clearing report. HKCC Participants shall ensure that sufficient funds are available in their DMDS House accounts to meet any HKCC Participant Additional Deposit payable by them as demanded in their clearing reports. Any surplus HKCC Participant Additional Deposit will be credited to its House CCMS Collateral Account via the DMDS on the same day (i.e. the third Business Day after the distribution of the clearing report). For the avoidance of doubt, any HKCC Participant Additional Deposit settled via the DMDS shall be in Hong Kong dollars or in any other currency prescribed by the Clearing House from time to time.

4.5 Illustration

The following example illustrates how HKCC Participant Additional Deposits are collected and released. For the sake of simplicity, a 3-day basis instead of a 20-day basis is used.

Hypothetical Reserve Fund Size : HK\$200,000,000
(comprising only the basic elements of the Reserve Fund with no HKCC Participant Additional Deposits)

Total net margin liabilities (HK\$ equivalent)

<u>Date</u>	<u>Exposure</u>	<u>HKCC Participant A (GCP)</u>	<u>HKCC Participant B (CP)</u>	<u>HKCC Participant C (CP)</u>
Day 1	210,000,000	50,000,000	30,000,000	20,000,000
Day 2	250,250,000	50,000,000	30,000,000	20,000,000
Day 3	262,200,000	50,000,000	30,000,000	20,000,000
Day 4	289,900,000	10,000,000	60,000,000	30,000,000
Day 5	289,850,000	10,000,000	60,000,000	30,000,000
Day 6	292,600,000	10,000,000	60,000,000	30,000,000

Assuming Day 3 is the first Business Day of the month.

The requirements for HKCC Participant Additional Deposits will be calculated as follows:

4.5.1 On Day 3, the maximum risk exposure during the most recent 3 Business Days

$$= \text{HK\$}262,200,000$$

Total requirements for HKCC Participant Additional Deposits

$$= \text{HK\$} (262,200,000 \div 0.95 - 200,000,000) \div 2$$

$$= \text{HK\$}38,000,000$$

4.5.2 Daily average total net margin liabilities of HKCC Participant A on Day 3

$$= \text{HK\$} (50,000,000 + 50,000,000 + 50,000,000)/3$$

$$= \text{HK\$}50,000,000$$

Similarly, the daily average total net margin liabilities of HKCC Participants B and C on Day 3 are HK\$30,000,000 and HK\$20,000,000 respectively.

4.5.3 Daily average market total net margin liabilities

$$= \text{HK\$} (50,000,000 + 30,000,000 + 20,000,000)$$

$$= \text{HK\$}100,000,000$$

4.5.4 Since HKCC Participant A is a General Clearing Participant which is only required to contribute when its contribution requirement is greater than HK\$6 million, the sum of HK\$6 million will need to be added to the total HKCC Participant Additional Deposits figure in the formula set forth in section 4.2.4 in order to obtain the additional HKCC Participant Additional Deposits of HK\$38,000,000.

Contribution from HKCC Participant A

$$= \text{HK\$} \frac{(50,000,000 \times 44,000,000)}{100,000,000}$$

$$= \text{HK\$}22,000,000$$

Since HKCC Participant A is a General Clearing Participant, it will in effect receive HK\$6,000,000 credit and its requirement for HKCC Participant Additional Deposit will be HK\$16,000,000.

Similarly, the HKCC Participant Additional Deposits required from HKCC Participants B and C are HK\$13,200,000 and HK\$8,800,000 respectively.

The total amount of HKCC Participant Additional Deposits that will be demanded from HKCC Participants A, B and C is HK\$38,000,000, which is the amount required to cover the risk exposure on Day 3.

4.5.5 (deleted)

4.5.6 On Day 6, the condition for recalculation stipulated in section 4.1 is triggered. The maximum risk exposure in the most recent 3 Business Days is HK\$292,600,000.

Applying the formula in section 4.1, the new total requirement for HKCC Participant Additional Deposits is:

$$= \text{HK\$} (292,600,000 \div 0.95 - 200,000,000) \div 2$$

$$= \text{HK\$}54,000,000$$

Using the most recent 3 Business Days' total net margin liabilities of each HKCC Participant, the required margin contributions from HKCC Participants A, B and C are HK\$10,000,000, HK\$60,000,000 and HK\$30,000,000 respectively.

Since HKCC Participant A is a General Clearing Participant, up to HK\$6,000,000 of the required amount can be waived. In this case, since its HKCC Participant Additional Deposit is equal to HK\$6,000,000, no contribution will be required from HKCC Participant A.

HKCC Participant	Existing Contribution	Contribution Requirement	Amount to be Collected/(Released)
A	HK\$16,000,000	NIL	(HK\$16,000,000)
B	HK\$13,200,000	HK\$36,000,000	HK\$22,800,000
C	HK\$8,800,000	HK\$18,000,000	HK\$9,200,000

By comparing each HKCC Participant's new contribution requirement with its existing contribution, HKCC Participant A will be refunded HK\$16,000,000 and HKCC Participants B and C will be required to pay HK\$22,800,000 and

HK\$9,200,000 respectively.

4.6 Termination of HKCC Participantship

The HKCC Participantship of any HKCC Participant can be terminated in any of the following ways:

4.6.1 *Resignation*

- a) As required by HKCC Rule 217, any HKCC Participant wishing to resign from HKCC Participantship must give the Clearing House notice in writing of such intention.
- aa) Any demand for the payment of Reserve Fund Deposits or the repayment of the HKCC Contingent Advance Capital made by the Clearing House on or preceding the Business Day the Clearing House receives a Resignation Notice from an HKCC Participant must be met in full by the resigning HKCC Participant. Any demand made by the Clearing House for Replenishment Contribution must also be met in full by an HKCC Participant unless within three Business Days after the demand is made, the Clearing House receives a Resignation Notice from the HKCC Participant, in which case its liability will be limited in the manner prescribed in paragraph (ab) below.
- ab) Where an HKCC Participant has submitted a Resignation Notice to the Clearing House, its liability to provide Reserve Fund Deposits, to make Replenishment Contributions and to repay the Clearing House in respect of the HKCC Contingent Advance Capital pursuant to any demands made by the Clearing House (i) for Reserve Fund Deposits and repayment of the HKCC Contingent Advance Capital from the Business Day following receipt of its Resignation Notice and (ii) for Replenishment Contributions from three Business Days before the Business Day the Clearing House receives the Resignation Notice shall be limited to an amount which equals the aggregate of its Reserve Fund Deposits requirement and its HKCC Contingent Advance Capital repayment requirement (equivalent to its requirement for HKCC Participant Additional Deposit) on the Business Day the Clearing House receives the Resignation Notice, plus two times such aggregated amount.

For example, assume that (i) the Clearing House issues a notice demanding Replenishment Contribution of HK\$7,000,000 from an HKCC Participant on a particular Business Day; (ii) the Clearing House receives a Resignation Notice from the HKCC Participant on the following Business Day; (iii) on the Business Day the Clearing House receives the Resignation Notice, its HKCC Participant's Deposit is HK\$1,500,000 and the HKCC Participant Additional Deposit already demanded by the Clearing House but remains to be settled by the resigning HKCC Participant is HK\$500,000 (which amount is equivalent to its HKCC Contingent Advance Capital repayment requirement). In this case, the maximum liability of the resigning HKCC Participant to contribute to the Reserve Fund and to repay the HKCC

Contingent Advance Capital would be HK\$7,500,000 (i.e. three times the aggregate of its HKCC Participant's Deposit of HK\$1,500,000, HKCC Participant Additional Deposit requirement of HK\$500,000 and HKCC Contingent Advance Capital repayment requirement of HK\$500,000). In other words, it would only be obliged to contribute a further amount of HK\$5,500,000 in addition to its existing Reserve Fund Deposits requirement of HK\$2,000,000.

- b) A resigning HKCC Participant shall be entitled to reimbursement of its HKCC Participant Additional Deposit only to the extent it is entitled to a release of such HKCC Participant Additional Deposit under section 4.4.
- c) (deleted)
- d) (deleted)
- e) Two months after the effective date of termination of its HKCC Participantship, the resigning HKCC Participant has the right to reimbursement of any remaining balance of its HKCC Participant Additional Deposit.
- f) (deleted)

4.6.2 *Revocation of HKCC Participantship*

The HKCC Participantship of an HKCC Participant may be revoked pursuant to disciplinary powers exercised against the HKCC Participant under HKCC Rule 517 or by the Clearing House under HKCC Rule 519(e).

The HKCC Participant Additional Deposit of the HKCC Participant will be refunded according to the conditions described in section 4.6.1 provided that no such refund shall be made until after the Clearing House has determined if all or part of the HKCC Participant Additional Deposit of the HKCC Participant shall be applied under HKCC Rule 706(c)(i).

4.7 Interest on HKCC Participant Additional Deposits

HKCC Participants may be paid or charged interest on HKCC Participant Additional Deposits made in cash at such positive or negative rate as the Clearing House may determine from time to time. Interest will be calculated daily and will be posted to HKCC Participants' House CCMS Collateral Accounts on the first Business Day of each month according to their contributions maintained during the immediately preceding month.

4.8 Other Means of Contribution to HKCC Participant Additional Deposits

HKCC Participant Additional Deposits may be contributed in the form of non-cash collateral including bank guarantees and Exchange Fund Bills and Notes which satisfy or are subject to the same requirements and criteria as those set forth in sections 2.6.3 and 2.6.4 for bank guarantees and Exchange Fund Bills and Notes that are provided as a means of cover for Clearing House margin liability.

Chapter 5 Capital-Based Position Limits

Pursuant to HKCC Rules, the Clearing House may impose position limits on any HKCC Participant to regulate or limit the maximum number or value of gross and net positions which can be held or controlled by the HKCC Participant.

5.1 Position Limits Prescribed by the Clearing House

Gross and net position limits are assigned to each HKCC Participant on the basis of its Liquid Capital. The gross and net margin liabilities of all clearing accounts of each HKCC Participant may not exceed its gross and net position limits respectively.

Gross and net position limits are assigned to each HKCC Participant on the basis of its Liquid Capital. Where an HKCC Participant is a Common Participant or carries on regulated activities under the Ordinance other than Type 1 or Type 2 regulated activity, it must apportion either a designated amount or a percentage of the Liquid Capital (unless otherwise determined by the Clearing House on a case by case basis, as per its latest monthly return filed with the Commission under the Financial Resources Rules and received by the Clearing House from the Commission) for the purpose of clearing trades concluded or to be concluded on the Exchange or satisfying its payment or other obligations as an HKCC Participant to the Clearing House, and the gross and net position limits will be assigned to such HKCC Participant on the basis of its apportioned Liquid Capital as notified to the Clearing House.

Notification of an HKCC Participant's initial Liquid Capital apportionment or any change thereof shall be made by such HKCC Participant submitting to the Clearing House by facsimile an "Application/Change Request for Liquid Capital Apportionment Form 11" according to the schedule determined by the Clearing House from time to time. Any notification of changes to the apportionment received by the Clearing House before a time specified by the Clearing House from time to time, shall become effective on the same trading day the notification is received by the Clearing House. Otherwise, changes to the apportionment shall become effective on the commencement of the next trading day following receipt of the notification by the Clearing House. Notwithstanding the foregoing, the Clearing House reserves the right to accept or reject any initial apportionment or change of apportionment notified to it at its sole discretion. If no apportionment is notified to the Clearing House, the Clearing House reserves the right to apportion the Liquid Capital on behalf of the HKCC Participant.

For the purpose of this Chapter, the term "Liquid Capital" shall, where applicable, be construed as the "apportioned Liquid Capital" and for the purpose of calculating the gross and net limits of an HKCC Participant and determining the maximum amount of bank guarantee that may be used by an HKCC Participant to extend its position limits in this Chapter, its Liquid Capital shall be adjusted to include its cash contribution to the Reserve Fund Deposits as at the date of its latest monthly return filed with the Commission under the Financial Resources Rules and received by the Clearing House from the Commission.

Unless otherwise determined by the Clearing House, the gross and net position limits shall be calculated as follows:

Gross Limit = $6 \times (\text{Liquid Capital} + \text{Bank Guarantee})$

(i.e., $6 \times (\text{Liquid Capital} + \text{Bank Guarantee})$)

\geq the sum of the gross margin liabilities of the House, Omnibus Client, Individual Client, Client Offset Claim, Sink and Market

Maker (“MM”) Accounts; or

Liquid Capital + Bank Guarantee
 $\geq 16.7\%$ x the sum of the gross margin liabilities of the House, Omnibus Client, Individual Client, Client Offset Claim, Sink and MM Accounts)

Net Limit = 3 x (Liquid Capital + Bank Guarantee)

(i.e., 3 x (Liquid Capital + Bank Guarantee)
 \geq the sum of the net margin liabilities of the House, Client, Sink and MM Accounts; or

Liquid Capital + Bank Guarantee
 $\geq 33.3\%$ x the sum of the net margin liabilities of the House, Client, Sink and MM Accounts)

The gross and net margin liabilities of all contracts will be measured in Hong Kong dollars or the equivalent based on the exchange rate determined by the Clearing House for each type of currency.

For the purpose of calculating the gross limit of an HKCC Participant, since positions in the House, MM, Individual Client and Client Offset Claim Accounts are margined on a net basis, the net margin liabilities (please refer to sections 2.2.1 to 2.2.5) of these clearing accounts will be used in calculating the gross limits of HKCC Participants.

For the purpose of calculating the net limit of an HKCC Participant, positions in each of its Individual Client Accounts will be aggregated with positions in its Omnibus Client Account and Client Offset Claim Account and margined together on a net basis to determine the net margin liabilities of its Client Accounts, and positions of an HKCC Participant’s Sink Account will be margined together on a net basis to determine the net margin liabilities of its Sink Account.

5.2 Extension of Position Limits

Apart from increasing its Liquid Capital, whether by revising the amount or percentage of Liquid Capital apportioned or otherwise, an HKCC Participant may arrange one or more bank guarantees to extend its position limits. The bank guarantees to be arranged must satisfy the same requirements and criteria as those set forth in section 2.6.3 for the use of bank guarantees as a means of providing cover for Clearing House margin liability. Furthermore, an HKCC Participant’s own assets which have been taken into account in calculating its Liquid Capital are not allowed to be used in any form as security for the purpose of arranging a bank guarantee, the maximum amount of bank guarantees that may be used by an HKCC Participant at any time is limited to 150% of the latest Liquid Capital submitted by it to the Clearing House, and under no circumstances will an HKCC Participant be allowed to use bank guarantees which in aggregate exceed 150% of its Liquid Capital.

Based on the gross and net margin liabilities calculated by the Clearing House at the end of each Business Day, if the gross and/or net position limit of an HKCC Participant are/is exceeded, the HKCC Participant must take remedial action by increasing its Liquid Capital and/or arranging bank guarantee(s). The remedial action must be taken

- within 10 Business Days if the HKCC Participant pays or delivers to the Clearing House an additional margin equivalent to 25% of whichever is the higher of:

- its gross margin liability in excess of its gross position limit; or
- its net margin liability in excess of its net position limit; or
- immediately in any other case.

Upon the expiry of the applicable time period, the HKCC Participant must, or failing which the Clearing House may, close out or transfer to any other HKCC Participant or HKCC Participants all positions in excess of the position limit.

Schedule I

INTEREST AND ACCOMMODATION CHARGE STRUCTURE

1. APPROVED CURRENCIES
INTEREST PAYABLE TO OR LEVIED ON HKCC PARTICIPANTS

Clearing House margin covered by cash)	to be determined by
Surplus cash)	the Clearing House
Additional margin covered by cash)	from time to time
)	in accordance with prevailing bank savings rates

HKCC Participant Additional Deposits made in cash)	to be determined by
)	the Clearing House
)	from time to time
)	in accordance with prevailing deposit rates

2. ACCOMMODATION CHARGES PAYABLE BY HKCC PARTICIPANTS

Clearing House margin covered by bank guarantee/ Exchange Fund Bills/Notes/ U.S. Government Treasury Bills and Notes/ Other non-cash collateral	—	to be determined by the Clearing House from time to time in its absolute discretion
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