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Rules and Procedures of HKFE Clearing Corporation Limited

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:-

"Currency Options Contract"	means an Exchange Contract which is an Option Contract and whose underlying commodity is a specified currency;
"holder"	an HKCC Participant which holds a long position in an option;
"Settlement Currency"	means the currency in which a Contract shall be settled, which currency shall be as specified in the applicable Contract Specifications, or if not so specified, shall be the Currency of the Contract provided that:

(a) in respect of any Currency Futures Contract which is a Physical Delivery Contract:

(i) in the case of the Buyer, the Settlement Currency shall be the currency in which the Currency Futures Contract shall be settled by the Buyer; and

(ii) in the case of the Seller, the Settlement Currency for final settlement shall be the currency underlying the Currency Futures Contract which shall be delivered by the Seller and the Settlement Currency for payment of Clearing House margin, variation adjustment and any other form of margin or fees which may be imposed by the Clearing House or the Exchange shall be the currency in which the Currency Futures Contract is traded;

(b) in respect of any Currency Options Contract which is a Physical Delivery Contract:

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(i) in the case of the holder of a Call Option or writer of a Put Option, the Settlement Currency shall be the currency in which the Currency Options Contract shall be settled by the holder of a Call Option or the writer of a Put Option; and

(ii) in the case of the writer of a Call Option or the holder of a Put Option, the Settlement Currency for final settlement shall be the currency underlying the Currency Options Contract which shall be delivered by the writer of a Call Option or the holder of a Put Option and the Settlement Currency for payment of Clearing House margin, variation adjustment and any other form of margin or fees which may be imposed by the Clearing House or the Exchange shall be the currency in which the Currency Options Contract is traded;

"writer" an HKCC Participant which holds a short position in an option;

CHAPTER IV

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

Variation adjustment

408. Except as otherwise prescribed in the Exchange Rules, the Clearing House will, in accordance with the HKCC Rules, calculate variation adjustments in respect of all open Contracts at least once daily.

(a) At Market close on each Business Day until and including the Business Day immediately preceding the last trading day or such other day as specified in Clearing House Procedures, every HKCC Participant is, for the purpose of calculating variation adjustments, deemed to have closed out each open Contract at a price equal to the Closing Quotation for that Business Day and to have entered into a new Contract at the Closing Quotation which is treated as its carry forward open Contract for the next Business Day. Any profits or losses arising on the deemed closing out each Business Day ~~(except those arising from Physical Delivery Contracts after the last trading day)~~ are treated as realized profits or losses and shall be debited or credited against the HKCC Participant's CCMS Collateral Account with the Clearing House.

(aa) Profits and losses arising from Physical Delivery Contracts on or after the last trading day shall be treated in accordance with the Clearing House Procedures.

410. The Clearing House shall calculate margin requirements and variation adjustments at least once on every Business Day in respect of:-

(b) every Physical Delivery Contract until the earliest~~r~~ of (i) the date on which that Contract is closed out; ~~or~~ (ii) the date on which that Contract is settled; or~~,~~ (iii)(a) in the case of a deliverable Currency Futures Contract or a deliverable Currency Options Contract, the Business Day immediately preceding the Final Settlement Day, or (b) in the case of other Physical Delivery Contract, the Final Settlement Day.

CHAPTER VI

CASH SETTLEMENT, DELIVERY AND EXCHANGE OF FUTURES

Cash Settled Contracts and Physical Delivery Contracts

601. (b) Physical Delivery Contracts that are Futures Contracts shall be settled by delivery of the underlying commodity or instrument by ~~the~~ their Sellers ~~of such Contracts and by payment of cash by the Buyers of such Contracts~~and the payment of cash by their Buyers, Physical Delivery Contracts that are Put Options shall be settled by delivery of the underlying commodity or instrument by their holders and the payment of cash by their writers, and Physical Delivery Contracts that are Call Options shall be settled by delivery of the underlying commodity or instrument by their writers and the payment of cash by their holders.

Random assignment process

603. After Market close on the last trading day of a Physical Delivery Contract (other than a deliverable Currency Futures Contract or a deliverable Currency Options Contract), the Clearing House will allocate all short positions in such Contract to long positions in such Contract by a random assignment process. All long positions and short positions will be arrayed in two respective columns. Under the random assignment process, a random number will be generated to determine the short position (“starting short position”) that is to be allocated to the first long position. Each consecutive short position following the starting short position will then be allocated to each consecutive long position following the first long position and the short positions listed above the starting short position will be allocated to the remaining long positions under the long position column.

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APPENDIX A

Fees

Description	**Amount**[1]
Settlement Fees (Futures) and Exercise Fees (Options)	
Currency products	
US Dollar vs Renminbi (Hong Kong) Options	RMB8.00/Lot

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

Chapter 2 Clearing and Settlement Procedures

2.3 Variation Adjustment

After Market close on each Business Day until and including the Business Day immediately preceding the last trading day or, for those Cash Settled Contracts whose Final Settlement Day is not the first Business Day after the last trading day, the last trading day, all open positions held at the Clearing House are treated as if they were closed out and re-opened at the relevant Closing Quotation. Profits and losses arising from this "mark to market" mechanism ~~(except those arising from Physical Delivery Contracts after the last trading day)~~ are credited to and debited from the relevant HKCC Participant's CCMS Collateral Account each Business Day as the variation adjustment. ~~In the case of Physical Delivery Contracts after the last trading day, profits arising from the "mark to market" mechanism will be used to offset against, while losses arising from such mechanism will be added to and collected as, Clearing House margin payable in respect of the relevant CCMS Collateral Account of the HKCC Participant. Any profits in excess of the Clearing House margin requirement will not be credited to the relevant CCMS Collateral Account of the HKCC Participant.~~

Subject to section 2.6A ~~and the treatment of variation adjustment for Physical Delivery Contracts after the last trading day as mentioned above~~, variation adjustment arising from trades executed in all Markets shall be settled using cash in the Settlement Currency only.

2.3.1 Futures Contracts – Closing Quotation

2.3.1.1 Except for the Closing Quotation of (i) the Mini-Hang Seng Index Futures Contract, which shall be the Closing Quotation set for the Hang Seng Index Futures Contract; and (ii) the Mini-Hang Seng China

Enterprises Index Futures Contract, which shall be the Closing Quotation set for the Hang Seng China Enterprises Index Futures Contract~~; and (iii) a Physical Delivery Contract after the last trading day until the day of settlement of that Contract, which shall be determined according to section 2.3.1.2~~, prices of Futures Contracts entered into during the final two minutes of trading prior to the Market close will normally be used by the Clearing House to determine the Closing Quotation for each Futures Contract. Unless otherwise determined by the Clearing House under special circumstances, the Closing Quotation of a Futures Contract, other than the Mini-Hang Seng Index Futures Contract and~~,~~ Mini-Hang Seng China Enterprises Index Futures Contract ~~and a Physical Delivery Contract after the last trading day to the day of settlement of that Contract,~~ shall be calculated as follows:

2.3.1.2 [Repealed] ~~Unless otherwise determined by the Clearing House under special circumstances, the Closing Quotation of a Physical Delivery Contract after the last trading day to the day of settlement of that Contract shall be determined with reference to the cash price of the underlying commodity or instrument. If more than one particular type or issue of underlying commodity or instrument is allowed for delivery as specified in the Exchange Rules or prescribed by the Clearing House, reference would be made to the type or issue that would create the greatest variation adjustment for the relevant Physical Delivery Contract.~~

2.3.2 Option Contracts – Closing Quotation

2.3.3 Physical Delivery Contracts on or after the last trading day

2.3.3.1 For the purpose of calculating realized profits and losses, after Market close on the last trading day, all open positions in Physical Delivery Contracts held at the Clearing House are treated as if they were closed out at the final settlement price (for Futures Contracts) or at zero value (for Option Contracts). Profits and losses arising from this "mark to market" mechanism will be credited to and debited from the relevant HKCC Participant's CCMS Collateral Account as the variation adjustment. Subject to section 2.6A, such variation adjustment shall be settled using cash in the Settlement Currency only.

2.3.3.2 For the purpose of calculating unrealized profits and losses, after Market close on each Business Day from and including the last trading day to but excluding (i) the Business Day immediately preceding the Final Settlement Day of a deliverable Currency Futures Contract or a deliverable Currency Options Contract; or (ii) the Final Settlement Day of other Physical Delivery Contract, such Contract shall be deemed to be closed out and re-opened at the cash price of its underlying commodity or instrument. If more than one particular type or issue of underlying commodity or instrument is allowed for delivery as specified in the Exchange Rules or prescribed by the Clearing House, reference would be made to the type or issue that would create the greatest variation adjustment for the relevant Physical Delivery Contract.

Profits arising from the above "mark to market" mechanism will be used to offset against, while losses arising from such mechanism will be added to and collected as, Clearing House margin payable in respect of the relevant CCMS Collateral Account of the HKCC Participant. Any profits in excess of the Clearing House margin requirement will not be credited to the relevant CCMS Collateral Account of the HKCC Participant.

2.12 Exercise/Assignment of Option Contracts

2.12.1 Cash Settled Contracts

All the Option Contracts which are Cash Settled Contracts traded on HKATS are ~~cash~~ settled by cash at the Official Settlement Price on the Expiry Day as determined in accordance with the Contract Specifications. On expiry, any proceeds from the exercise and assignment for the in-the-money Options will be debited from the Option writers' CCMS Collateral Accounts and credited to the Option holders' CCMS Collateral Accounts. If there are excess funds as shown in the CCMS Collateral Account of the relevant HKCC Participant, after considering all other liabilities, a payment will be made to the HKCC Participant upon request. If there are insufficient funds as shown in its CCMS Collateral Account to cover the resulting losses, a call will be made via the DMDS. An exercise and assignment fee is levied on both the Option holder and Option writer for auto-settlement on the Expiry Day.

2.12.2. Physical Delivery Contracts

Physical Delivery Contracts that are Put Options shall be settled by delivery of the underlying commodity or instrument by their holders and the payment of cash by their writers, and Physical Delivery Contracts that are Call Options shall be settled by delivery of the underlying commodity or instrument by their writers and the payment of cash by their holders, in each case in accordance with the Exchange Rules, the Clearing House Rules and these Clearing House Procedures.

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2.12.2.1 Deliverable Currency Options Contracts

Final settlement of a spot month deliverable Currency Options Contract shall be effected by physical delivery of the underlying currency by the Call Option writer or Put Option holder; and payment of cash in the Settlement Currency by the Call Option holder or Put Option writer in accordance with the Contract Specifications. The settlement procedure shall be as follows:

(a) after trading of the spot month deliverable Currency Options Contract ceases at 11:00 a.m. on the Expiry Day or at such other times as may be specified by the Exchange from time to time, the Exchange in conjunction with the Clearing House will announce the Official Settlement Price;

(b) holders of Call Options and writers of Put Options of the spot month deliverable Currency Options Contract shall make delivery of the Final Settlement Value and receive payment of the underlying currency as determined in accordance with the Contract Specifications;

(c) writers of Call Options and holders of Put Options of the spot month deliverable Currency Options Contract shall make payment of the underlying currency and take delivery of the Final Settlement Value as determined in accordance with the Contract Specifications;

(d) the delivery and payment obligations in relation to the same CCMS Collateral Account of an HKCC Participant are netted by currency with other settlement obligations in relation to that CCMS Collateral Account after the Market close on the Business Day immediately preceding the Final Settlement Day. Any resulting surplus will be credited to the CCMS Collateral Account while any resulting shortfall shall be settled by the HKCC Participant by 9:15 a.m. on the Final Settlement Day.

In the event of any settlement failure on the part of an HKCC Participant under any deliverable Currency Options Contract for any reason, the Clearing House will take such action as it considers appropriate, including executing a buy-in and/or a borrowing of the underlying currency and/or executing a purchase and/or a borrowing of the currency in which payment is

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required to be made as set forth in the Clearing House Rules to effect settlement as soon as practicable. The Clearing House shall also have the right to impose on the defaulting HKCC Participant a late settlement charge of 0.25% of the market value on the Final Settlement Day of the overdue positions and/or payment obligations of the HKCC Participant under such deliverable Currency Options Contract.

Each HKCC Participant shall indemnify the Clearing House, the Exchange and a recognized exchange controller which is the controller of the Clearing House against all costs, fees, expenses, liabilities, losses and damages that may be incurred in executing a buy-in, effecting a purchase or borrowing and taking such other action as the Clearing House considers appropriate as a result of the failure by the HKCC Participant to settle any deliverable Currency Options Contract in accordance with the Exchange Rules, the Clearing House Rules and these Clearing House Procedures.