

Rules and Procedures of HKFE Clearing Corporation Limited

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

Chapter 2 Clearing and Settlement Procedures

2.6 Methods of Providing Cover for Clearing House Margin

~~2.6.3 *Approved Bank Guarantee (deleted)*~~

~~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 shares 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(e), 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.~~

Chapter 4 Reserve Fund Contribution

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

5.1 Position Limits Prescribed by the Clearing House

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:

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

$$\begin{aligned} \text{(i.e., } 6 \times (\text{Liquid Capital} + \text{Bank Guarantee}) \\ \geq \text{ the sum of the gross margin liabilities of the House,} \\ \text{Omnibus Client, Individual Client, Client Offset Claim,} \\ \text{Sink and Market Maker (“MM”) Accounts; or} \end{aligned}$$

$$\begin{aligned} \text{Liquid Capital} + \text{Bank Guarantee} \\ \geq 16.7\% \times \text{ the sum of the gross margin liabilities of the} \\ \text{House, Omnibus Client, Individual Client, Client Offset} \\ \text{Claim, Sink and MM Accounts)} \end{aligned}$$

$$\text{Net Limit} = 3 \times (\text{Liquid Capital} + \text{Bank Guarantee})$$

$$\begin{aligned} \text{(i.e., } 3 \times (\text{Liquid Capital} + \text{Bank Guarantee}) \\ \geq \text{ the sum of the net margin liabilities of the House, Client,} \\ \text{Sink and MM Accounts; or} \end{aligned}$$

$$\begin{aligned} \text{Liquid Capital} + \text{Bank Guarantee} \\ \geq 33.3\% \times \text{ the sum of the net margin liabilities of} \\ \text{the House, Client, Sink and MM Accounts)} \end{aligned}$$

5.2 Extension of Position Limits

~~An HKCC Participant may Apart from increasing-increase 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 the T Session 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.

5.3 T+1 Session Position Limit

The Clearing House will regularly monitor the net margin liabilities against the net position limit of all clearing accounts of each HKCC Participant during the T+1 Session. Unless otherwise determined by the Clearing House, the net position limit of the T+1 Session shall be calculated as follows:

$$\text{Net Limit} = 3 \times (\text{Liquid Capital} + \text{Bank Guarantee})$$

$$\begin{aligned} & \text{(i.e., } 3 \times (\text{Liquid Capital} + \text{Bank Guarantee}) \\ & \geq \text{the sum of the net margin liabilities of the House, Client,} \\ & \quad \text{Sink and MM Accounts; or} \end{aligned}$$

$$\begin{aligned} & \text{Liquid Capital} + \text{Bank Guarantee} \\ & \geq 33.3\% \times \text{the sum of the net margin liabilities of the House,} \\ & \quad \text{Client, Sink and MM Accounts)} \end{aligned}$$

Schedule I

INTEREST AND ACCOMMODATION CHARGE STRUCTURE

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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