

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 or, in the case of a General Clearing Participant which is a Registered Institution, its Adjusted 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 or, in the case of a General Clearing Participant which is a Registered Institution, its Adjusted 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) or, in the case of a General Clearing Participant which is a Registered Institution, a designated amount or a percentage of the Adjusted Capital as notified to the Clearing House 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 or Adjusted Capital as appropriate as notified to the Clearing House.

Notification of an HKCC Participant's initial Liquid Capital or Adjusted Capital apportionment or any change thereof shall be made by such HKCC Participant in such manner, using such form and according to such schedule as may be prescribed 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 T Session 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 or Adjusted Capital, as appropriate, on behalf of the HKCC Participant.

For the purpose of this Chapter: (1) 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, 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; and (2) the term “Adjusted Capital” shall, where applicable, be construed as the “apportioned Adjusted Capital”.

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

Gross Limit = 6 x Liquid Capital or, in the case of a General Clearing Participant which is a Registered Institution its Adjusted Capital

(i.e., 6 x Liquid Capital or Adjusted Capital
≥ 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 or Adjusted Capital
≥ 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 or Adjusted Capital

(i.e., 3 x Liquid Capital or Adjusted Capital
≥ the sum of the net margin liabilities of the House, Client, Sink and MM Accounts; or

Liquid Capital or Adjusted Capital
≥ 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 margin liabilities 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 margin liabilities 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.

Unless otherwise determined by the Clearing House, positions of an HKCC Participant arising from the T+1 Session on a Trading Day will be incorporated in its position limit calculations on the next Trading Day.

5.2 Extension of Position Limits

An HKCC Participant may increase its Liquid Capital or, in the case of a General Clearing Participant which is a Registered Institution, its Adjusted Capital, whether by revising the amount or percentage of Liquid Capital or Adjusted Capital (as appropriate) apportioned or otherwise, to extend its position limits.

Based on the gross and net margin liabilities calculated by the Clearing House at the end of the T Session of each Trading 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 or Adjusted Capital (as appropriate). Unless an extension is granted subject to such conditions as may be imposed by the Clearing House on a case by case basis, the remedial action must be taken

- within 10 Trading Days (excluding any Trading Day which is not a Business Day) 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.

Notwithstanding the above, when the applicable time period (as may be extended and subject to such conditions as aforesaid) comes to an end, 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:

Net Limit = 3 x Liquid Capital or Adjusted Capital

(i.e., 3 x Liquid Capital or Adjusted Capital
≥ the sum of the net margin liabilities of the House,
Client, Sink and MM Accounts; or

Liquid Capital or Adjusted Capital
≥ 33.3% x the sum of the net margin liabilities of the
House, Client, Sink and MM Accounts)

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.

For the purpose of calculating the net margin liabilities of an HKCC Participant during the T+1 Session, 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.

For the purpose of calculating the net limit of an HKCC Participant, the Liquid Capital shall be upward adjusted by the cash contribution to its HKCC Participant's Deposit and HKCC Participant Additional Deposit as of 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.

Based on the net margin liabilities calculated during the T+1 Session, if the net position limit is exceeded, an HKCC Participant must, or failing which the Clearing House may, close out, hedge or transfer to any other HKCC Participant or HKCC Participants all positions in excess of the net position limit.

5.4 Extension of T+1 Session Position Limit

The T+1 Session net position limit of an HKCC Participant can be extended by arranging an advance margin deposit with the Clearing House before the commencement of the T+1 Session or any other time specified by the Clearing House from time to time on each Trading Day. Unless otherwise determined by the Clearing House on a case by case basis, the sum of the net margin liabilities for the purpose of monitoring against the net position limit during the T+1 Session will be adjusted by such advance margin deposit and any additional margin made pursuant to section 5.2 as follows:

Adjusted sum of the net margin liabilities
= sum of the net margin liabilities –
4 x (advance margin deposit + additional margin pursuant to section 5.2)