

香港期貨結算有限公司
(香港交易及結算所有限公司全資附屬公司)

HKFE CLEARING CORPORATION LIMITED
(A wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited)

通告 CIRCULAR

Subject: Reminder on Payment Obligations of Clearing Participants

Enquiry: 2979 7222

HKFE Clearing Corporation Limited (HKCC) considers it appropriate to remind all Clearing Participants (CPs) of the importance of having proper risk management and robust funding arrangements in place to adequately monitor their exposures and fulfil their payment obligations to HKCC on time to ensure the smooth operations of the derivatives market.

Participants must adhere to the settlement timelines stipulated by HKCC. Failure to do so constitutes an **event of default** under HKCC Rule 509, the consequence of which includes default actions and/or disciplinary actions against the participant concerned pursuant to HKCC Rules 510 and/or 517 which may lead to suspension of participants, imposition of penalties and/or additional risk management measures. Participants are strongly advised to review their existing operational and monitoring procedures and introduce enhancement measures where appropriate. Below are examples of areas that should be covered in the review:

1. Timeliness of completion of position close-out and claiming margin offsets (including attention to the completion timeline set for specific occasion, e.g. under Typhoon arrangement, before holidays and on Holiday Trading Days);
2. Funding arrangement procedures, taken into account the following areas:
 - (i) timeliness of interbank or intra-bank fund transfer and FX conversion, appropriate limit and authorization assigned to facilitate the transfer and conversion (if applicable), in particular on Holiday Trading Days for Holiday Trading CPs;
 - (ii) cut-off time of your Designated Banks;

- (iii) process to ensure relevant bank accounts are in active status;
 - (iv) the service level agreements with the banks; and
 - (v) validity of internet banking and authorized personnel if applicable;
3. Adequacy of funding and bank facilities, particularly for non-Hong Kong dollars (i.e. CNH and USD);
 4. Contingency and business continuity plan (e.g. back up sites, system connection resilience and remote working arrangement);
 5. Effectiveness of client and proprietary exposure monitoring;
 6. Back-up staff arrangement (e.g. sick leave, holiday cover and split team arrangement during pandemic); and
 7. Holiday Trading CPs should arrange pre-funding by submitting deposit instructions in Common Collateral Management System (CCMS) by 11:00 a.m. on the Business Day before Holiday Trading Day and sufficient funding (including liquidity buffer) in the respective currency or credit facilities with appointed settlement banks before HK holidays to meet payment obligations during Holiday Trading Days.

As a best practice, participants should have established procedures to project the amount of payment obligations to HKCC and arrange sufficient funding to meet such requirements in a timely manner. A summary of payment obligations to HKCC is also set out in the Appendix for reference.

Should you have any queries on the above, please contact 2979 7222.

Irene Lee
Senior Vice President
Clearing Risk Management

Appendix

Participants can refer to the relevant reports in Common Collateral Management System (CCMS) / Derivatives Clearing and Settlement System (DCASS) for the settlement amounts. All calls must be settled (i.e. credited to HKCC bank account) via the Direct Margin Debiting System (DMDS) by the settlement time in accordance with the HKCC Procedures:

Type of Calls	Settlement Time	Terminal / Report ID	Report Name	Report Available Time
End of day margins, VA and other settlement amounts	By 9:15 a.m. on the next Trading / Business Day ^	CCMS / CCMPY02	Posting / Collateralisation Result Report	Shortly after each day-end collateralisation run (approximately by 12:00 a.m.)
Mandatory intra-day VA and margin call	Within two hours of notification	CCMS / CCMPY01	Posting / Collateralisation Result Report	Around 10:00 a.m.
Ad-hoc intra-day calls for VA	Within one hour of notification	CCMS / CCMPY01	Posting / Collateralisation Result Report	Shortly after each ad-hoc intra-day call for VA
HKCC Participant Additional Deposits	By 4:00 p.m. on the first Business Day after distribution of the report	DCASS / RP008	HKCC Participant Advanced Margin Deposits	Around 12:00 noon
Concentration Risk Margin *	Before 11:00 a.m. of the next Trading / Business day ^	DCASS / RP012	Net Projected Loss	Around 2:00 a.m.
Capital Based Position Limits *	Before 11:00 a.m. of the next Trading / Business day ^	DCASS / RP003 and RP010	Margin Summary and Net Margin Summary	Around 11:00 p.m.

Type of Calls	Settlement Time	Terminal / Report ID	Report Name	Report Available Time
Reserve Fund Additional Margin [*] / #	Before 11:00 a.m. of the next Trading / Business day [^]	DCASS / RP008	HKCC Participant Additional Deposits	Around 12:00 noon

** Concerned CPs will be notified by email for the amount of additional margin required around 2:00 a.m.*

Reserve Fund (RF) additional margin in the amount of net projected loss of the Clearing Participants (CPs) in excess of 50% of the RF will be collected from the concerned CPs should the RF threshold be reached. Information can be obtained via HKCC circular issued after each RF review.

^ Holiday Trading CPs are required to settle the payment obligations (including obligations for HKD and other currencies) on Holiday Trading Days. Non-Holiday Trading CPs are not required to fulfill any HKCC payment obligations during Holiday Trading Days, and outstanding payment obligations will be settled on the next Business Day after Holiday Trading Day(s).

In addition, HKCC may issue additional margin calls from time to time. Participants are required to meet and settle such calls within the timelines as advised by HKCC at the time.