HKEX
香港交易所

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香港期貨交易所有限公司
(香港交易及結算所有限公司全資附屬公司)
HONG KONG FUTURES EXCHANGE LIMITED
(A wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited)

通告 CIRCULAR

Subject: **Updates of the Guidelines on Margin Procedures for the Purpose of Minimum Requirement Pursuant to HKFE Rule 617 ("Guidelines")**

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As part of our continuing efforts to enhance transparency and demonstrate our commitment to provide the market with the most current information, the Hong Kong Futures Exchange Limited (the "**Exchange**" or "**HKFE**") is issuing the enclosed Guidelines, which will supersede the previous guidelines issued under the Exchange's circular dated 3 March 1997 (Ref. No. AUD/9703001) ("**1997 Circular**").

The Exchange would like to highlight that the Guidelines are not intended to introduce any new regulatory requirements. Instead, it serves as a refresher to the 1997 Circular by removing some obsolete terms; incorporating certain client margin-related changes already covered in other HKFE publications (e.g. derivatives Holiday Trading) issued in the past years; and reflecting the latest market practices in the handling of client margin.

The Guidelines will take effect from the date of this Circular. Participants are advised to take this opportunity to review their current set up and implement appropriate internal controls and measures to ensure compliance with the relevant rules and regulations.

Participants are encouraged to contact the Market Surveillance and Monitoring Department (email: surveillance@hkex.com.hk) should they have any questions.

Felix Wang
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This circular has been issued in English together with Chinese translation of the same. If there is any discrepancy between the Chinese translation and the English version, the English version shall prevail.

Guidelines on Margin Procedures for the Purpose of Minimum Requirement pursuant to Rule 617 of the Rules, Regulations and Procedures of Hong Kong Futures Exchange Limited (“**HKFE Rules**”)

(This updated version will supersede the previous circular dated 3 March 1997 (Ref. No. AUD/9703001))

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Guidelines on Margin Procedures for the Purpose of Minimum Requirement pursuant to Rule 617 of the HKFE Rules

The purpose of margin is to safeguard the completion of a contract. Setting margin for Clients[1] at a higher level than the minimum margin stipulated by Hong Kong Futures Exchange Limited ("**Exchange**"), whether generally for all Clients or specifically for one Client, is entirely at the discretion of the Exchange Participant. When in doubt, Exchange Participants are advised to be prudent and adopt a conservative approach to margining. **It should also be noted that the responsibility to fully comply with Exchange requirements rests with Exchange Participants. Exchange Participants should ensure that, among others, their operating systems (including systems which may have already been approved by the Exchange) comply with these Guidelines.**

Unless otherwise defined or the context requires otherwise, the terms and expressions used in these Guidelines shall have the same meanings assigned to them in the Rules, Regulations and Procedures of the Exchange or the Rules and Procedures of HKFE Clearing Corporation Limited (the "**Clearing House**").

1. Basis of margin computation

1.1 Gross margining system

a. The method of ascertaining the number of open positions held by a Client and the computation of minimum margin[2] required thereon is as follows:-

   i. The gross open long positions and the gross open short positions in each contract month are aggregated to establish the total number of open positions in each contract month.

   ii. The aggregate of the total open positions in all contract months shall be subject to minimum margin requirement at the full rate.

   iii. However, a spread margin rate may be applied to "qualified spread positions". In computing the number of qualified spread positions, accounts of different Clients must be considered independently. To qualify as a qualified spread position, the position must be either an intra-market spread (i.e. comprising a long position in one contract month against a short position in another contract month of the same contract, held by the same Client), or an inter-market spread (i.e. comprising positions in two different contracts which are eligible for offset, held by the same Client). A spread position maintained in an Omnibus Account must be affirmatively claimed by the Client. Spread positions of the same beneficial owner maintained in a net margin client account may be automatically applied by the Exchange Participant.

b. An Exchange Participant may assess the amount of margin required on other bases provided that the amount so determined will not be less than the amount assessed in accordance with the above.

c. The above gross margining method should be applied to all contracts except as specified in 1.2 below.

[1] Margin for Clients (i.e. client margin) includes margin due from a Non-Clearing Participant to its General Clearing Participant.

[2] Please refer to the Circular "System Readiness in relation to the Revised Client Margining Methodology for Derivatives Products" dated 28 September 2016 (Ref. No.: DCRM/HKEX/198/2016). The client margin multiplier is subject to change and any such change will be announced through participants' circular.

1.2 Risk based margining system

The amount of minimum margin required for option contracts should be determined as follows:-

a. Client cash accounts

For Clients permitted only to carry long options positions, the full cash value of the purchase price of the option (i.e. the option premium) should be collected on the day of trade.

b. Client margin accounts

i. A client margin account refers to the account of a Client in an Exchange Participant's back office system where the Client's futures and options positions are maintained and margin requirement computed. At the Exchange Participant's discretion, a Client may carry both long and short options positions in a margin account. Client margins shall be charged by Exchange Participants on all open positions held in a client margin account, calculated using a margining system or methodology approved by the Exchange.

ii. Where a Client has both futures and options positions with the same underlying in a client margin account, or has futures and/or options positions with different underlyings but the underlying contracts are eligible for offset as specified by the Exchange, the offsetting risk of futures and/or options may be considered in computing the combined margin requirement for the entire portfolio in accordance with a margining system or methodology approved by the Exchange. Only those futures and/or option contracts allowed by the Exchange may be offset for the purpose of calculating the combined margin requirement.

iii. The Exchange has approved the use of the "Standard Portfolio Analysis of Risk" ("**SPAN**") margining system for client margin accounts.

iv. An Exchange Participant may assess the amount of margin required on other bases, provided that the amount so determined will not be less than the amount assessed using SPAN and that any other basis adopted is approved by the Exchange.

2. Initial margin requirement

2.1 Initial margin is required on each and every new position established, i.e. any addition to the number of open positions held. In the calculation of initial margin requirement, the Exchange Participant shall take into account open positions of all Exchange Contracts maintained by the Client.

2.2 The amount of initial margin required on newly added open positions held would be equal to:

A – B Only if A is greater than B
Where:

A = total initial margin required on all open positions held after establishing the new positions; and

B = total initial margin required on all open positions held before establishing the new positions.

2.3 A Client must have adequate margin deposits or sufficient excess net equity in his account to meet the initial margin requirements on a new position prior to establishing the new position.

2.4 Subject to 2.6 below, in respect of an established Client[3] who has demonstrated a record of consistently meeting margin obligations and maintaining a sound financial position, when the Client represents that the funds necessary to fully satisfy his margin obligations will be immediately transmitted, the Exchange Participant may use his discretion as to whether or not to accept, for a reasonable period of time, this assurance in lieu of cash. In this regard, a call for initial margin must be issued within the same Trading Day when a new position is established during the T Session or within the next Trading Day when a new position is established during the T+1 Session, and the Exchange Participant must see to it that the initial margin is received, except in respect of day trades[4], as soon thereafter as practicable after the call but in no event later than the next Trading Day following the T Session or T+1 Session during which the new position is established. During any public holiday in both Hong Kong and the United States, there may be a situation that an established Client is unable to complete fund transfers to the Exchange Participant within the prescribed timeframe to settle an outstanding margin call due to a lack of banking support. If an established Client is able to demonstrate to the Exchange Participant with documentary evidence that (i) there is sufficient funding with the bank to fulfil the margin obligations; (ii) fund transfer instructions have been placed with the bank pending completion due to the holiday reason; and (iii) the pending fund transfer has been completed on the day which Holiday Trading Exchange Contracts open for trading immediately after the United States banking holiday, it is considered acceptable not to treat the outstanding margin call as an unfulfilled margin call for the purpose of Exchange Participant's assessment under Rule 617(b).

2.5 Exchange Participants must ensure that, at all times, they have appropriate arrangements in place with Clients for settlement of initial margin calls (e.g. when Hong Kong banks are not open for business).

2.6 No Clients shall be permitted to establish new positions if he has overdue initial margin calls as of the previous Trading Day.

2.7 In determining whether an account has sufficient excess net equity to meet the initial margin requirements on a new open position established during the day, equity shall be calculated as of the close of business of the previous Trading Day at a minimum and in an appropriately risk-sensitive manner during the Trading Day. For instance, consideration should be given to the Client's entire portfolio which may comprise positions in a variety of contracts with different values and risk exposures. During volatile markets, Exchange Participants shall adopt a more rigorous approach in calculating the equity balance in order to protect them from running financial losses or credit exposure.

2.8 For the avoidance of doubt, in calculating the equity of an account, Exchange Participants shall include, *inter alia*, allowance for any variation adjustment made by the Clearing House.

2.9 If a Client has a credit in excess of the initial margin requirements on all existing open positions in his account, this excess net equity may be used as part or all of the initial margin required on the newly established open positions. However, credits in excess of maintenance margin but less than initial margin requirement shall not be used to satisfy any part of the initial margin requirement on the newly established open positions.

2.10 When an initial margin call is required, the amount of the call should be equal to the difference between the excess net equity, if any, and the amount of initial margin required on the newly added open positions as computed according to 2.2 above.

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[3] Please refer to the Circular "Margin Requirements under Rule 617" dated 22 June 2017 (Ref. No.: MO/DT/089/17) regarding the criteria for assessing established Clients.

[4] A day trade shall mean a position that is opened and closed out within the same T Session or within the same T+1 Session.

2.11 An Exchange Participant may demand from its Client such higher level of haircut as the Exchange Participant deems appropriate. The Exchange believes that Exchange Participants should take a conservative approach on this matter. Exchange Participants shall only accept from Clients initial margins in currencies accepted by the Clearing House for the collection of Clearing House margins.

3. Maintenance margin requirements

3.1 Maintenance margin is required on each and every open position held at the end of each Trading Day. Maintenance margin shall equal to, at a minimum, 80%[5] of the initial margin requirement for futures positions. As for options positions or a portfolio of futures and options positions, the same calculation shall be applied using SPAN or other means as described in 1.2 b. above.

3.2 In determining whether an account has sufficient net equity to meet the maintenance margin requirements, equity shall be calculated as of the close of business on the Trading Day at a minimum. During volatile markets, Exchange Participants should adopt a more rigorous approach in monitoring the level of equity in order to protect them from running financial losses or credit exposure as a result of their Clients failing to meet the maintenance margin requirements due to extreme market movements.

3.3 For the avoidance of doubt, in calculating the equity of an account, Exchange Participants shall include, *inter alia*, allowance for any variation adjustment made by the Clearing House.

3.4 The amount of outstanding initial margin call for the day (see 2.4 above) shall be considered in determining whether the equity in the account is above the maintenance margin level.

3.5 When the net equity in an account falls below the maintenance margin level, a margin call must be issued to the Client to bring his net equity up to the level of the initial margin requirements.

3.6 Exchange Participants must ensure that, at all times, they have appropriate arrangements in place with Clients for settlement of maintenance margin calls (e.g. when banks in Hong Kong are not open for business).

3.7 When a maintenance margin call is required, the amount of the call should be equal to the difference between the equity (after allowing for outstanding initial margin calls in accordance with 3.4 above) and the amount of initial margin required on all open positions.

3.8 Exchange Participants should issue maintenance margin calls as soon as practicable, and in no event later than the next Trading Day.

3.9 Under the derivatives holiday trading regime, Exchange Participants who have been approved by the Exchange to trade Holiday Trading Exchange Contracts should issue margin calls during each Hong Kong public holiday which is also a Trading Day to Clients who trade Holiday Trading Exchange Contracts, and Clients who trade Holiday Trading Exchange Contracts should continue to fulfill their money settlement for margin obligations during Hong Kong public holidays.

3.10 Where a maintenance margin call is settled by a Client in a currency other than that in which the Clearing House variation adjustment is calculated, a haircut of an amount equivalent to or greater than the haircut applied by the Clearing House may be applied by the Exchange Participant to the exchange rate used to compute such settlement amount.

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[5] Reference is made to the Margin Tables published on the HKEX website, which may be updated by the Exchange from time to time. Exchange Participants should continue to observe and stay up-to-date of the relevant requirement.

3.11 An Exchange Participant may demand from its Clients such higher level of haircut as the Exchange Participant deems appropriate. The Exchange believes that Exchange Participants should take a conservative approach on this matter. Exchange Participants shall only accept from Clients maintenance margins in currencies accepted by the Clearing House for the collection of Clearing House variation adjustment.

4. Intra-day margin calls

4.1 Subject to 4.2 below, where an intra-day margin call is made by the Clearing House, Exchange Participants are advised to consider the collection of intra-day margins from Clients. In these circumstances, Exchange Participants should have regard, *inter alia*, to the open positions of each Client and the effect on the Exchange Participant's own cash flow. When in doubt, Exchange Participants are advised to adopt a conservative approach.

4.2 In cases where Clients as referred to in 2.4 above have historically transacted day trades exclusively, Exchange Participants are advised to collect intra-day margins amounting to not less than the initial margins from the Clients.

5. Settlement of a margin call

5.1 Once a call for margin is issued by an Exchange Participant on a Client, margin deposits must be lodged by the Client with the Exchange Participant on demand.

5.2 Calls for margin can be met by:-

i. Cash deposit (For this purpose a cheque or fund transfer instruction received by an Exchange Participant in good faith which the Exchange Participant has no reason to suspect that it will not be honoured on first presentation may be treated as cash); or

ii. In respect of maintenance margin calls, a subsequent increase in the equity balance of the account, to at or above the corresponding initial margin requirement.

5.3 An initial margin call may be cancelled if the positions, to which the initial margin relates, are closed out in the same Trading Session (i.e. positions from day trades as referred to in 2.4 above). However, the issued initial margin call would not be considered as being settled by closing out the relevant positions subsequently after the current Trading Session. Moreover, if an established Client did not settle an initial margin call by cash, the relevant position should not be counted as an overnight position for satisfying Scenario 2 Condition A in the Exclusive Day Trader assessment stated in the Circular entitled "*Margin Requirements under Rule 617*" dated 22 June 2017 (Ref. No. MO/DT/089/17).

5.4 As a matter of good practice, Exchange Participants should ensure maintenance margin calls issued are settled in no event later than the next Trading Day.

6. Withdrawal by Clients

6.1 No withdrawal shall be allowed if:-

i. The equity balance of the account is less than the minimum initial margin requirement; or

ii. There are any outstanding initial margin calls.

6.2 Whenever a withdrawal is allowed, the equity on account after the withdrawal shall not be less than the minimum initial margin required on all open positions.

7. Failure to meet two successive margin calls

7.1 Failure by Clients to meet two successive margin calls or demands for variation adjustment are required to be reported to the Exchange in accordance with Rule 619(b).

7.2 In order to ascertain whether a Client has failed to meet two successive margin calls, Exchange Participants must keep appropriate detailed records to ensure that the case history of each individual margin call can be readily established.

8. Position limits

8.1 Exchange Participants should set proper trading limits at individual Client level and aggregated firm level and closely monitor the utilization of such limits and the trading positions of individual Clients and for their own account, in order to comply with the position limits imposed from time to time by the Exchange and/or the Clearing House, or under the Securities and Futures Ordinance. In this connection, Exchange Participants should have regard, *inter alia*, to intra-day positions established as a result of day trades. Such trading limits should be reviewed regularly and on an ad-hoc basis if needed.

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