Chapter 2 Clearing and Settlement Procedures

2.1 General

After the System Input Cutoff Time on each Business Day, the Clearing House performs the clearing process by computing each HKCC Participant’s liabilities such as Clearing House margin, variation adjustment and trading fees. The total of these liabilities are then compared to the cash balance in each HKCC Participant's CCMS Collateral Account, and any sums outstanding that are not covered by other collateral will be collected through the Direct Margin Debiting System (“DMDS”).

2.2 Clearing House Margin

The amount of Clearing House margin for each type of Contract is decided by the Board of the Clearing House. The Clearing House retains the right to increase or decrease Clearing House margins either for the whole Market or for individual HKCC Participants, if this is considered necessary. The Clearing House will calculate the margin requirements of each HKCC Participant based on PRiME. HKCC Participants should refer to the PRiME Margining Guide for details of the margin calculation algorithm adopted by the Clearing House.

2.2.1 Components of Gross Margining

2.2.1.1 Risk Array

PRiME evaluates the maximum likely loss of a Contract that may reasonably occur over one trading day under a set of risk scenarios. The specific set of risk scenarios is defined in terms of (a) the Price Scan Range, which is how much the price of the underlying instrument is expected to change over one trading day, and (b) the Volatility Scan Range, which is how much the volatility of that underlying price is expected to change over one trading day. The result of the calculation for each risk scenario, viz. the amount by which the Contract will gain or lose value over one trading day under that risk scenario, is called the Risk Array value for that scenario.

2.2.1.2 Scan Risk

The Scan Risk of a Contract is the largest loss among a set of Risk Array values of that Contract.

2.2.1.2A Spot Month Charge and Physical Delivery Contract Charge

PRiME applies a Spot Month Charge and/or a Physical Delivery Contract Charge to each applicable spot month Contract to cover additional risks that may arise during the period leading up to the Final Settlement Day. Such Spot Month Charge and Physical Delivery Contract Charge and the Contracts to which they shall be applicable shall be as specified by the Clearing House from time to time.

2.2.1.3 Short Option Minimum Charge

PRiME applies a Short Option Minimum Charge to each short Option Contract. It serves as a lower bound of the margin requirement for such short Option Contract.

2.2.2 Clearing House Margin Liability Calculation for Gross Margining

The method of calculating the amount of cover for Clearing House margin for designated Contracts or accounts margined on a gross basis is as follows:

a) The gross open positions are identified. The number of open positions for each type of Contract is multiplied by the Scan Risk for such Contract.

aa) The gross open positions of each applicable spot month Contract are identified. The number of open positions for each applicable spot month Contract is multiplied by the Spot Month Charge and/or the Physical Delivery Contract Charge, as applicable, for such Contract.

b) The gross open positions of short Option Contracts are identified. The sum of the Scan Risk, Spot Month Charge and Physical Delivery Contract Charge is replaced with the Short Option Minimum Charge for a short Option Contract if the Short Option Minimum Charge is higher than the sum of the Scan Risk, Spot Month Charge and Physical Delivery Contract Charge for such short Option Contract.

c) The Clearing House margin requirement is the aggregated sum of the Scan Risk, Spot Month Charge and Physical Delivery Contract Charge (or, for short Option Contracts, the Short Option Minimum Charge if it is higher) for each type of Contract.

2.2.3 Components of Net Margining

2.2.3.1 Risk Array

PRiME evaluates the maximum likely loss of a portfolio under the same Combined Commodity* that may reasonably occur over one trading day under a set of risk scenarios. The specific set of risk scenarios are defined in terms of (a) the Price Scan Range, which is how much the price of the underlying instrument is expected to change over one trading day, and (b) the Volatility Scan Range, which is how much the volatility of that underlying price is expected to change over one trading day. The result of the calculation for each risk scenario, viz. the amount by which the portfolio will gain or lose value over one trading day under that risk scenario, is called the Risk Array value for that scenario.

**A Combined Commodity refers to a set of Futures/Options Contracts with the same underlying commodity and the same Currency of the Contract.*

2.2.3.2 Scan Risk

The Scan Risk of a portfolio under the same Combined Commodity is the largest loss among a set of Risk Array values of that portfolio.

2.2.3.3 Intracommodity (Intermonth) Spread Charge

As PRiME scans underlying prices within a single underlying instrument, it assumes that price moves correlate perfectly across contract months. Since price moves across contract months do not generally exhibit perfect correlation, PRiME adds an Intracommodity (Intermonth) Spread Charge to the Scan Risk associated with each Combined Commodity under net margining. For each spread formed, PRiME assesses a charge per spread at such charge rate as may be specified by the Clearing House from time to time. The total of all of these charges for a particular Combined Commodity constitutes the Intracommodity (Intermonth) Spread Charge for that Combined Commodity.

2.2.3.3A Spot Month Charge and Physical Delivery Contract Charge

PRiME applies a Spot Month Charge and/or a Physical Delivery Contract Charge to each applicable spot month Contract under the same Combined Commodity to cover additional risks that may arise during the period leading up to the Final Settlement Day. Such Spot Month Charge and Physical Delivery Contract Charge and the Contracts to which they shall be applicable shall be as specified by the Clearing House from time to time.

2.2.3.3B Intercommodity Spread Credit

PRiME generates Intercommodity Spread Credits for Combined Commodities that may from time to time be specified and paired by the Clearing House, taking into consideration their price move correlation and such other factors as it may consider relevant.

An Intercommodity Spread is formed between the Combined Commodities of each specified pair at a delta per spread ratio. For each spread formed, PRiME assesses a credit for each of the Combined Commodities based on a credit rate for the spread. The delta per spread ratio and the credit rate for the spread shall be as specified by the Clearing House from time to time. The total of all of these credits for a particular Combined Commodity constitutes the Intercommodity Spread Credit for that Combined Commodity.

2.2.3.4 Short Option Minimum Charge

PRiME applies a Short Option Minimum Charge to each Combined Commodity comprising short call and/or short put Option Contracts. It serves as a lower bound of the margin requirement for such Combined Commodity comprising short Option Contracts.

2.2.3.5 (deleted)

2.2.4 (deleted)

2.2.5 Clearing House Margin Liability Calculation for Net Margining

The method of calculating the amount of cover for Clearing House margin for designated Contracts or accounts of an HKCC Participant margined on a net basis is as follows:

a) The same type of Futures Contract in each delivery month is assessed to calculate the total net uncovered Contracts for that month.

b) The same type of Option Contract in each series is assessed to calculate the total net uncovered Contracts for that Option series.

c) For Futures/Option Contracts within the same Combined Commodity, the long or short net uncovered Futures Contracts in each delivery month, together with the long or short net uncovered Option Contracts in each series, are margined on a portfolio basis.

In calculating margin on a portfolio basis, the Scan Risk, the Intracommodity (Intermonth) Spread charge, the Spot Month Charge and the Physical Delivery Contract Charge of the portfolio are added together to determine the Commodity Risk. The Commodity Risk is the total risk of all Futures/Option Contracts within the same Combined Commodity.

ca) Other than a Combined Commodity comprising short Option Contracts referred to in paragraph (d) below, the margin requirement of a Combined Commodity is the Commodity Risk less the Intercommodity Spread Credit.

d) For a Combined Commodity comprising short Option Contracts, the margin requirement is (i) the Commodity Risk less the Intercommodity Spread Credit or (ii) the Short Option Minimum Charge of the Combined Commodity, whichever is greater.

e) (deleted)

f) The total Clearing House margin requirement is the aggregate of the margin requirement for each Combined Commodity in the portfolio.

2.2.6 Clearing House Margin for Different Types of Clearing Accounts in DCASS

The Clearing House maintains for each HKCC Participant in DCASS the different types of clearing accounts set forth in section 1.2 of these Clearing House Procedures. The Clearing House margin calculation for each type of account in DCASS is different depending on whether it is margined on a net or gross basis.

The Clearing House margin for an HKCC Participant's Client accounts is the sum of the margin requirements of its Omnibus Client Account, Individual Client Accounts and Client Offset Claim Account.

The Clearing House margin for an HKCC Participant's House accounts is the sum of the margin requirements of its House Account and Sink Account.

The Clearing House margin for an HKCC Participant's Market Maker accounts is the sum of the margin requirements of its Market Maker Accounts.

2.2.6.1 House (not including positions from the Sink Account), Market Maker or Individual Client Account

Each House Account (not including positions from the Sink Account), Market Maker Account or Individual Client Account is margined on a net basis (see the PRiME Margining Guide).

2.2.6.2 Omnibus Client Account, House positions in the Sink Account

Positions in the Omnibus Client Account and House positions in the Sink Account are margined on a gross basis, i.e., the Clearing House margin is calculated for each individual position separately (see the PRiME Margining Guide).

2.2.6.3 Client Offset Claim Account

Positions of individual Clients of an HKCC Participant which are of an offset nature are margined on a net basis (see the PRiME Margining Guide).

Only positions that are of an offset nature and that are allocated by an HKCC Participant from its Omnibus Client Account to its Client Offset Claim Account on the following basis will be eligible for margin offset (please refer to section 1.5.4):

a) Only positions with the same beneficial owner may be allocated;

b) HKCC Participants shall not allocate positions unless they can identify the beneficial owners of such positions;

c) Positions within the same Combined Commodity or positions within specified pairs of Combined Commodities that are eligible for Intercommodity Spread Credits can be offset according to the following list:

Long Futures	+	Short Futures
Long Futures	+	Short Call
Long Futures	+	Long Put
Long Call	+	Short Futures
Long Call	+	Short Call
Long Call	+	Long Put
Short Put	+	Short Futures

Short Put	+	Short Call
Short Put	+	Long Put
Conversions*		
Reversals**		

* A Conversion consists of a short call and long put in the same month with the same strike price and a long Futures in the same month.

** A Reversal consists of a long call and short put in the same month with the same strike price and a short Futures in the same month.

For positions within the same Combined Commodity, offset positions are claimed on a one-to-one basis except those relating to the offset of positions in the HSI Futures/Options and Mini-HSI Futures/Options Contracts or HSCEI Futures/Options and Mini-HSCEI Futures/Options Contracts, which are claimed on the basis of one HSI Futures/Options Contract against a maximum of five Mini-HSI Futures/Options Contracts or one HSCEI Futures/Options Contract against a maximum of five Mini-HSCEI Futures/Options Contracts, as the case may be.

For positions within specified pairs of Combined Commodities between which Intercommodity Spreads may be formed, offset positions are claimed at the relevant delta per spread ratio, where one delta refers to one Futures/Options Contract except those relating to the offset of positions involving Mini-HSI Futures/Options Contracts or Mini-HSCEI Futures/Options Contracts where one delta refers to five Mini-HSI Futures/Options Contracts or five Mini-HSCEI Futures/Options Contracts, as the case may be.

However, only those HKCC Participants which have proved to the Clearing House that they have sufficient risk management capabilities to handle risk involved in Option trading are eligible for making such offsetting claims.

2.2.7 Additional Clearing House Margin

2.2.7.1 An additional Clearing House margin will be imposed on an HKCC Participant in respect of its open Futures and Options Contracts which are based on the same or such similar underlying financial instruments as may be determined by the Clearing House and notified to HKCC Participants from time to time in the event that when assessed by reference to the historical data from each of the realized stressed market conditions and/or hypothetical data for each of the unrealized stressed market conditions as the Clearing House may determine:

(a) the projected aggregate loss (less any Clearing House margin) arising from such open Futures and Options Contracts registered in the Omnibus Client, Individual Client, Client Offset Claim, Sink, House and Market Maker Accounts ("Net Projected Loss") of the HKCC Participant is greater than 30 percent of the total Net Projected Loss of all HKCC Participants; and

(b) the total Net Projected Loss of all HKCC Participants arising from such open Futures and Options Contracts based on the same or similar underlying financial instruments exceeds HK$500 million.

In addition, the Chairman may impose on the HKCC Participant an additional Clearing House margin on all Futures and Options Contracts registered in the HKCC Participant's account(s) with the Clearing House under other circumstances as he deems appropriate.

2.2.7.2 The additional Clearing House margin to be imposed pursuant to section 2.2.7.1 above shall be a percentage of the otherwise applicable margin requirement based on the following or such other percentage as the Chairman may consider appropriate.

Net Projected Loss of the HKCC Participant vs all HKCC Participants	% of applicable margin requirement
More than 30% and equal to or less than 40%	20%
More than 40% and equal to or less than 50%	25%
More than 50% and equal to or less than 60%	30%
More than 60% and equal to or less than 80%	40%
More than 80%	50%

Notwithstanding the above, an HKCC Participant accounting for greater than 80% of the total Net Projected Loss is only required to pay 40% (instead of 50%) of the applicable margin requirement during the first five (5) Business Days when such percentage remains greater than 80%. In the event that an HKCC Participant's Net Projected Loss remains at a level greater than 80% of the total Net

Projected Loss for six (6) consecutive Business Days or more, the HKCC Participant must pay 50% of the applicable margin requirement as additional Clearing House margin from the sixth (6^{th}) Business Days onwards.

For the avoidance of doubt, if additional Clearing House margin is required under two or more stressed market conditions, the higher or highest (as the case may be) additional Clearing House margin rate shall be imposed.

2.2.7.3 Notwithstanding sections 2.2.7.1 and 2.2.7.2, no additional Clearing House margin will be imposed on open Futures and Options Contracts other than Physical Delivery Contracts in the spot month during the last two trading days on such spot month contracts unless the Chairman or his designee determines otherwise. Additional Clearing House margin will be imposed on a Physical Delivery Contract unless an HKCC Participant has provided the underlying commodity or instrument to the Clearing House as collateral for Clearing House margin in sufficient quantity to cover its positions in the Physical Delivery Contract with upside risk.

2.2.7.4 Where additional Clearing House margin is collected pursuant to this section, interest thereon may be paid or charged by the Clearing House at such positive or negative rate as it may determine from time to time in accordance with prevailing bank savings rates. Any interest accrued or charged shall be posted to the HKCC Participant's CCMS Collateral Account on the first Business Day of the following month.

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, for the purpose of calculating variation adjustments, 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 are credited to and debited from the relevant HKCC Participant's CCMS Collateral Account each Business Day as the variation adjustment.

Subject to section 2.6A, 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, 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 shall be calculated as follows:

(a) Subject to paragraph (d), if there was a trade during the final two-minute period the following will apply:

(1) if the last trade was at or below the best bid price amongst the last bid price(s) that had any corresponding offer price(s) during the final two-minute period, the Closing Quotation will be such best bid price;

(2) if the last trade was at or above the best offer price amongst the last offer price(s) that had any corresponding bid price(s) during the final two-minute period, the Closing Quotation will be such best offer price;

(3) if the last trade was between the best bid price amongst the last bid price(s) that had any corresponding offer price(s) during the final two-minute period and the best corresponding offer price, then the Closing Quotation will be the price of such last trade; and

(4) if no pairs of bid and corresponding offer prices were available during the final two-minute period, then the Closing Quotation will be the price of such last trade.

(b) If there was no trade during the final two-minute period, the Closing Quotation will be calculated as the midpoint between the best bid price amongst the last bid price(s) that had any corresponding offer price(s) during the final two-minute period and the best corresponding offer price, rounded to the nearest tick. However, if the Clearing House determines that the bid-offer spread is not consistent with those of other months, and the resultant Closing Quotation does not reflect the true market conditions, the Clearing House will disregard this Closing Quotation and proceed to the procedures laid down in paragraph (ba).

(ba) If neither a trade nor a pair of bid and offer prices was available during the final two-minute period, or if the Clearing House determines according to paragraph (b) that the procedures laid down in this paragraph (ba) should be followed, the Closing Quotation will be set by the Clearing House with reference to the prices in the final two-minute period of a similar local/overseas instrument or commodity that the Clearing House considers appropriate.

(c) If the Clearing House considers that no similar local/overseas instrument or commodity is appropriate, or there were no appropriate prices in the final two-minute period for the similar local/overseas instrument or commodity that the Clearing House considers appropriate in paragraph (ba), the Closing Quotation will be set by the Clearing House with reference to the prices of the underlying instrument or commodity and the following:

(1) the last trade in the Futures Contract prior to the final two-minute period;

(2) the premiums/discounts of the Futures Contract to the spot month Futures Contract on the previous Business Day or the closing price of a similar local/overseas instrument or commodity that the Clearing House considers appropriate on its previous trading day, whichever is later, if there was no trade prior to the final two-minute period; and

(3) other information provided by Market Makers in the relevant Market if premiums/discounts of the Futures Contract to the spot month Futures Contract on the previous Business Day and the closing price of a similar local/overseas instrument or commodity that the Clearing House considers appropriate on its previous trading day

were not available.

or if the Clearing House determines that reference to the prices of the underlying instrument or commodity is inappropriate, the Closing Quotation will be set with reference to the following:

(1) the last trade in the Futures Contract prior to the final two-minute period;

(2) the Closing Quotation of the Futures Contract on the previous Business Day or the closing price of a similar local/overseas instrument or commodity that the Clearing House considers appropriate on its previous trading day, whichever is later, if there was no trade prior to the final two-minute period; and

(3) other information provided by Market Makers in the relevant Market if the Closing Quotation of the Futures Contract on the previous Business Day and the closing price of a similar local/overseas instrument or commodity that the Clearing House considers appropriate on its previous trading day were not available.

(d) Block Trade prices and prices in the T+1 Session will not be used by the Clearing House in determining the Closing Quotation.

(da) The Closing Quotation so determined shall be within the Maximum Fluctuation of the Futures Contract where applicable.

(e) Notwithstanding the above, the Clearing House may, in its discretion, adjust or otherwise determine the Closing Quotation of a Futures Contract.

2.3.1.2 [Repealed]

2.3.2 Option Contracts – Closing Quotation

Except for the Closing Quotation of (i) the Mini-Hang Seng Index Option Contract, which shall be the Closing Quotation set for the Hang Seng Index Option Contract; and (ii) the Mini-Hang Seng China Enterprises Index Option Contract, which shall be the Closing Quotation set for the Hang Seng China Enterprises Index Option Contract, prices of Option Contracts entered into during the final fifteen minutes of trading prior to the Market close will normally be used by the Clearing House to determine the Closing Quotation for each Option Contract. Unless otherwise determined by the Clearing House under special circumstances, the Closing Quotation of an Option Contract, other than the Mini-Hang Seng Index Option Contract and the Mini-Hang Seng China Enterprises Index Option Contract, shall be calculated as follows:

(a) Subject to paragraph (e), if there was a trade during the final fifteen-minute period, the following will apply:

(1) if the last trade was at or below the best bid price amongst the last bid price(s) that had any corresponding offer price(s) during the final fifteen-minute period, the Closing Quotation will be such best bid price;

(2) if the last trade was at or above the best offer price amongst the last offer price(s) that had any corresponding bid price(s) during the final fifteen-minute period, the Closing Quotation will be such best offer price;

(3) if the last trade was between the best bid price amongst the last bid price(s) that had any corresponding offer price(s) during the final fifteen-minute period and the best corresponding offer price, then the Closing Quotation will be the price of such last trade; and

(4) if no pairs of bid and corresponding offer prices were available during the final fifteen-minute period, the Closing Quotation will be the price of such last trade.

(b) If there was no trade during the final fifteen-minute period, the Closing Quotation will be calculated as the midpoint between the best bid price amongst the last bid price(s) that had any corresponding offer price(s) during the final fifteen-minute period and the best corresponding offer price, rounded to the nearest tick. However, if the Clearing House determines that the bid-offer spread is not consistent with those of other months with similar strike prices, and the resultant Closing Quotation does not reflect the true market conditions, the Clearing House will disregard this Closing Quotation and proceed to the procedures laid down in paragraph (c).

(c) If neither a trade nor a pair of bid and offer prices was available during the final fifteen-minute period, or if the Clearing House determines according to paragraph (b) that the procedures laid down in this paragraph (c) should be followed, the Closing Quotation of an Option Contract shall be calculated by the

Clearing House using the Black's Model as follows:-

$$C = e^{-rT}\,[FN(d_1) - XN(d_2)]$$
$$P = e^{-rT}\,[XN(-d_2) - FN(-d_1)]$$
$$d_1 = \frac{ln(F / X) + ½\sigma^2 T}{\sigma\sqrt{T}}$$
$$d_2 = d_1 - \sigma\sqrt{T}$$

where C and P are the Closing Quotations of the call and put Options respectively; N(x) is the standard normal distribution function of x; X is the strike price; T is the time to maturity in a 365-day year; r is the annual risk-free rate; F is the price of the underlying; and σ is the volatility of the price of the underlying.

(1) The Clearing House will determine the price of the underlying of the Option Contract with reference to the Closing Quotation of the corresponding Futures Contract; or if the Option Contract does not have a Futures Contract with the same contract month, other information provided by Market Makers in the relevant Market; or the premiums/discounts of the corresponding underlying of the Option Contract to the spot month Futures Contract on the previous Business Day.

(2) The Clearing House will determine the volatility of each option series with reference to the prices of the underlying instrument or commodity and the following:

- the prices of the Futures and Option Contracts of the same month during the final fifteen-minute period;

- the prices of the Futures and Option Contracts of the same month prior to the final fifteen-minute period if no sufficient prices of the Futures and Option Contracts of the same month during the final fifteen-minute period were available to determine the volatility of such option series;

- the volatility and skewness of the Option Contracts of the same month on the previous Business Day if no sufficient prices of the Futures and Option Contracts of the same month prior to the final fifteen-minute period were available to determine the volatility of such option series; and

- other information provided by the Market Makers in the relevant Market if no volatility or skewness of the Options Contracts of the same month on the previous Business Day was available.

(d) The Clearing House will adjust, where appropriate, the Closing Quotation of an Option Contract calculated under paragraph (a), (b) or (c) according to the following and rounded to the nearest tick:

(1) if the Closing Quotation so determined is smaller than the intrinsic value of the option series, it will be adjusted to such intrinsic value;

(2) if the Closing Quotation so determined is greater than the upper boundary set by the Clearing House based on a prescribed percentage of the theoretical price of the option series calculated according to the procedures laid down in paragraph (c), it will be adjusted to such upper boundary;

(3) if the Closing Quotation so determined is smaller than the lower boundary set by the Clearing House based on a prescribed percentage of the theoretical price of the option series calculated according to the procedures laid down in paragraph (c), it will be adjusted to such lower boundary;

(4) starting from the at-the-money to the most in-the-money option series of the same underlying instrument, month and call/put type, if the Closing Quotation is smaller than or equal to the Closing Quotation of the preceding option series, it will be adjusted to a value not lower than the Closing Quotation of such preceding option series; and

(5) starting from the at-the-money to the most out-of-the-money option series of the same underlying instrument, month and call/put type, if the Closing Quotation is greater than or equal to the Closing Quotation of the preceding option series, it will be adjusted to a value not higher than the Closing Quotation of such preceding option series.

(e) Block Trade prices will not be used by the Clearing House in determining the Closing Quotation.

(f) Notwithstanding the above, the Clearing House may, in its discretion, adjust or otherwise determine the Closing Quotation of an Option Contract.

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) in the case of a Physical Delivery Contract where the obligations of HKCC Participants to HKCC for the final settlement will complete at or before 9:15 a.m. on the Final Settlement Day, the Business Day immediately preceding the Final Settlement Day; or (ii) in the case of other Physical Delivery Contract, the Final Settlement Day, such Contract shall be deemed to be closed out and re-opened at the spot price of its underlying commodity or instrument, or at such price with reference to a similar local/overseas commodity or instrument that the Clearing House considers appropriate. 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.

2.4 Fees and Charges

All Exchange and Clearing House fees and charges will be calculated after the Market close and debited from HKCC Participants' CCMS Collateral Accounts on a daily basis. Subject to section 2.6A, trading fees arising from trades executed in all Markets shall be settled using cash in the Settlement Currency only.

2.5 Calculation of Daily Cover Required

In determining the amount of daily cover required from an HKCC Participant, the Clearing House will first calculate the HKCC Participant's cash amount in its CCMS Collateral Account as follows:-

cash amount = (confirmed amount) +/- (variation adjustment) - (fees)

where:

(i) variation adjustment may either be a debit or a credit, except that those arising from Physical Delivery Contracts after the last trading day will be treated in accordance with section 2.3; and

(ii) confirmed amount is the cash amount brought forward.

2.5.1 Outstanding Debit

Should the "cash amount" in the above calculation result in a negative figure (hereinafter referred to as "outstanding debit"), the amount of cover required from the HKCC Participant equals:

Amount of cover required = (outstanding debit) + (Clearing House margin liability)

2.5.2 Cash Balance

Should the "cash amount" calculated under section 2.5 show a positive value (hereinafter referred to as "cash balance"), the following comparisons will be made and the consequent actions taken:

(a) If (cash balance) = (Clearing House margin liability), the cash balance will be used as as cover for the HKCC Participant's Clearing House margin liability and there will not be any action required;

(b) If (cash balance) is less than (Clearing House margin liability), amount of cover required = (shortfall); and

(c) If (cash balance) is greater than (Clearing House margin liability), amount that may be redelivered = (cash balance) – (Clearing House margin liability).

The comparisons referred to in paragraphs (a) to (c) above are made on the basis that Clearing House margin liability is not covered by any other acceptable means. To the extent that Clearing House margin liability is covered by other acceptable means, any shortfall in the amount of cover required (as calculated in paragraph (b) above) will be reduced accordingly and any cash amount that may be redelivered will be increased accordingly, provided that (i) it is not used by the Clearing House as cover for the HKCC Participant's Clearing House margin liability; (ii) the amount of Clearing House margin liability that is covered by any acceptable means other than cash in the Settlement Currency will not exceed the maximum level(s) prescribed by the Clearing House; and (iii) the redelivery will not result in any other requirement regarding cover for the HKCC Participant's Clearing House margin liability not being satisfied.

2.6 Methods of Providing Cover for Clearing House Margin

The payment of cover for Clearing House margin is operated through the DMDS as referred to in sections 2.7 and 2.8B. Where the Settlement Currency of a Contract is not the same as the Currency of the Contract, Clearing House margin payable on such Contract will be converted by the Clearing House from the Currency of the Contract into the Settlement Currency at the exchange rate determined by the Clearing House from such source and on such basis as it shall consider appropriate as soon as practicable after the Clearing House margin liabilities arose. An HKCC Participant may also provide cover for its Clearing House margin liabilities in one or more of the ways set forth in sections 2.6.1, 2.6.2, 2.6.4 and 2.6.6 below ("approved collateral") provided that the amount of Clearing House margin liability that is covered by approved collateral other than cash in the Settlement Currency does not exceed the maximum level(s) prescribed by the Clearing House with respect to the HKCC Participant and/or each CCMS Collateral Account of the HKCC Participant, as the case may be. Normally, an HKCC Participant's margin liabilities will first be satisfied by cash in the Settlement Currency, then cash in any other currency from time to time approved by the Clearing House and then by any non-cash collateral maintained in the HKCC Participant's CCMS Collateral Account, or any other order of application prescribed by the Clearing House from time to time.

2.6.1 Cover provided by means of Cash in the Settlement Currency

Any cash balance in the Settlement Currency in excess of the amount required to cover an HKCC Participant's Clearing House margin liability shall automatically be used by the Clearing House as cover for any subsequent increase in the Clearing House margin liability of the HKCC Participant without the HKCC Participant's prior consent. Interest on cash balance in the Settlement Currency may be paid or charged by the Clearing House at such positive or negative rate as it may determine from time to time in accordance with prevailing bank savings rates.

If an HKCC Participant delivers cash in the Settlement Currency to cover outstanding debit, the Clearing House will neither pay interest nor levy accommodation charges on such delivered amount.

Any HKCC Participant wishing to deliver cash with the Clearing House as excess cover for Clearing House margin liability or as cover for outstanding debit shall input a delivery order via a CCMS terminal and the amount to be delivered will be forthwith debited from the HKCC Participant's DMDS bank account. The HKCC Participant shall ensure that there are sufficient funds delivered in its relevant DMDS bank account for debiting purpose.

2.6.2 Cover provided by means of Cash in an Approved Currency other than the Settlement Currency

Subject to the prior agreement of the Clearing House, an HKCC Participant may provide cover for its Clearing House margin liabilities by means of a delivery to the Clearing House of cash in an approved currency other than the Settlement Currency or by way of surplus balance on Contracts which are settled in a different Settlement Currency 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 types of approved currencies that may be provided by HKCC Participants may be determined by the Clearing House from time to time (see Appendix V – (5) for the current list of approved currencies). The value of any cash in an approved currency other than the Settlement Currency allowed to be used as cover for Clearing House margin liabilities shall be determined on a daily basis based on the prevailing market value as determined by the Clearing House after deducting a haircut of such percentage as determined from time to time by the Clearing House.

Interest may be paid or charged by the Clearing House on the cash balance in an approved currency other than the Settlement Currency at such positive or negative rate as it may determine from time to time in accordance with prevailing bank savings rates. The rate of interest may be varied from time to time by the Clearing House without prior notice.

No accommodation charge will be levied on Clearing House margin liabilities covered by surplus cash balance in an approved currency other than the Settlement Currency.

Any HKCC Participant wishing to deliver cash in an approved currency other than the Settlement Currency shall notify the Clearing House in writing or by other means acceptable to the Clearing House by 11:00 a.m..

2.6.3 (deleted)

2.6.4 *Exchange Fund Bills/Notes*

HKCC Participants may provide cover for their Clearing House margin liabilities by means of Exchange Fund Bills/Notes issued by the Hong Kong Special Administrative Region Government for the account of the Exchange Fund ("Exchange Fund Bills/Notes") 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.

Any HKCC Participant wishing to use Exchange Fund Bills/Notes to cover calls for Clearing House margin or to request for the redelivery of Exchange Fund Bills/Notes shall notify the Clearing House by 11:00 a.m. of its intention in writing or by such other means as may be acceptable to the Clearing House and shall instruct its Recognized Dealer (or its clients' Recognized Dealers in the manner set forth below) to transfer Exchange Fund Bills/Notes to the Clearing House's account with the Hong Kong Monetary Authority ("HKMA"). The Clearing House will accept Exchange Fund Bills/Notes as cover for Clearing House margin liabilities only when confirmation of the transfer is received by the Clearing House from HKMA. To receive same-day credit for Exchange Fund Bills/Notes, the HKCC Participant must transfer Exchange Fund Bills/Notes to the Clearing House's account with HKMA by such transfer cutoff time as may from time to time be specified by HKMA.

An HKCC Participant may meet its Clearing House margin liabilities through the transfer of Exchange Fund Bills/Notes directly from the HKCC Participant's clients ("direct transfer") provided that the HKCC Participant notifies the Clearing House of the details of the direct transfer in advance. Upon receipt of such direct transfer, the Clearing House will update the HKCC Participant's CCMS Collateral Account and any Exchange Fund Bills/Notes provided under such direct transfer shall be considered to be delivered by the HKCC Participant. In the event any such direct transfer fails to be made with the result that the HKCC Participant fails to meet any margin call, the HKCC Participant shall remain liable to the Clearing House in respect of such margin call and will be placed in default under the Clearing House Rules.

The value of the Exchange Fund Bills/Notes allowed to be used as cover for Clearing House margin liabilities shall be the closing value or the market value of the Exchange Fund Bills/Notes at a specified time published by the HKMA at the close of each Business Day, after deducting a haircut of such percentage as determined from time to time by the Clearing House.

Where an HKCC Participant has made a request for redelivery of Exchange Fund Bills/Notes pursuant to section 2.10, the Clearing

House will, on the express instructions of the HKCC Participant, transfer Exchange Fund Bills/Notes to the account of the HKCC Participant or such other account as the HKCC Participant may specify provided that the HKCC Participant provides confirmation to the Clearing House that the holder of such account is a client of the HKCC Participant. The Clearing House will accept such request for redelivery only if and to the extent that it will not result in any requirement regarding cover for the HKCC Participant's Clearing House margin liability not being satisfied. Any Exchange Fund Bills/Notes so transferred by the Clearing House shall be deemed to have been transferred to the HKCC Participant insofar as the satisfaction of any liability of the Clearing House towards the HKCC Participant is concerned.

Where interest or, upon maturity, redemption money, is paid to the Clearing House in relation to Exchange Fund Bills/Notes which are the subject of cover for Clearing House margin liability provided by an HKCC Participant, the Clearing House shall pay to the HKCC Participant, by crediting its CCMS Collateral Account with the Clearing House on the same Business Day, a sum equivalent to the amount of such interest or redemption money less any withholding tax that may be required to be deducted pursuant to any applicable tax laws and regulations and/or net of any Withholding Tax (whether withheld by the Clearing House or any other parties). The Clearing House will have no obligation to gross-up any such interest payment or to pay any additional amount as a result of such deduction or Withholding Tax. Without prejudice to the foregoing, to the extent required by the Tax Information Exchange Framework, the Clearing House shall be entitled to deduct or withhold Withholding Tax (whether withheld by the Clearing House or any other parties) from any payment of interest or redemption money (or payment of any other income) received by the Clearing House on the Exchange Fund Bills/Notes to an HKCC Participant (or from any other payment made by the Clearing House to an HKCC Participant) and shall have no obligation to gross-up any such payment or to pay any additional amount as a result of such Withholding Tax.

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 its acceptance of Exchange Fund Bills/Notes from the HKCC Participant, including its redelivery or delivery of Exchange Fund Bills/Notes and related sums to the HKCC Participant.

Pursuant to Clearing House Rule 404(c), an accommodation charge as determined from time to time by the Clearing House will be imposed on the amount of Exchange Fund Bills/Notes used as cover for margin liabilities.

2.6.5 (deleted)

2.6.6 U.S. Government Treasury Bills and Notes

HKCC Participants may also deliver U.S. Government Treasury Bills or Notes ("U.S. Treasuries") excluding U.S. Treasury Callable Corpus ("TCAL") and Separate Trading of Registered Interest and Principal of Securities ("STRIPs") to meet Clearing House margin liabilities 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.

Any HKCC Participant wishing to use U.S. Treasuries to cover calls for Clearing House margin liabilities shall notify the Clearing House by 11:00 a.m. of its intention in writing or by such other means as may be acceptable to the Clearing House and the Clearing House will, as soon as practicable, upon receipt of such notice process such request. Any delivery of U.S. Treasuries shall be made to the Clearing House's account with any of the banks or depositories approved by the Clearing House from time to time. The Clearing House will update the HKCC Participant's CCMS Collateral Account and accept U.S. Treasuries as cover for Clearing House margin liabilities only when confirmation of the transfer is received by the Clearing House from the approved bank or depository.

An HKCC Participant may meet its Clearing House margin liabilities through the transfer of U.S. Treasuries directly from the HKCC Participant's clients ("direct transfer") provided that details of the direct transfer are given by the HKCC Participant to the Clearing House in advance. Upon receipt of such direct transfer, the Clearing House will update the HKCC Participant's CCMS Collateral Account and any U.S. Treasuries provided under such direct transfer shall be considered to be delivered by the HKCC Participant. In the event any such direct transfer fails to be made with the result that the HKCC Participant fails to meet any margin call, the HKCC Participant shall remain liable to the Clearing House in respect of such margin call and will be placed in default under the Clearing House Rules.

The value of U.S. Treasuries allowed to be used as cover for Clearing House margin liabilities shall be the market value quoted by information vendor(s) selected from time to time by the Clearing House at the close of each Business Day, after deducting a haircut of such percentage as determined from time to time by the Clearing House.

Where an HKCC Participant has made a request for redelivery of U.S. Treasuries pursuant to section 2.10, the Clearing House will, on the express instructions of the HKCC Participant, transfer U.S. Treasuries to the account of the HKCC Participant or such other account as the HKCC Participant may specify provided that the HKCC Participant provides confirmation to the Clearing House that the holder of such account is a client of the HKCC Participant. The Clearing House will accept such request for redelivery only if and to the extent that it will not result in any requirement regarding cover for the HKCC Participant's Clearing House margin liability not being satisfied. Any U.S. Treasuries so transferred by the Clearing House shall be deemed to have been transferred to the HKCC Participant insofar as the satisfaction of any liability of the Clearing House towards the HKCC Participant is concerned.

Where interest or, upon maturity, redemption money, is paid to the Clearing House in relation to U.S. Treasuries which are the subject of cover for Clearing House margin liability provided by an HKCC Participant, the Clearing House shall pay to the HKCC Participant, by crediting its CCMS Collateral Account with the Clearing House on the same Business Day, a sum equivalent to the amount of such interest or redemption money less any withholding tax that may be required to be deducted pursuant to any applicable tax laws and regulations and/or net of any Withholding Tax (whether withheld by the Clearing House or any other parties). The Clearing House will have no obligation to gross-up any such interest payment or to pay any additional amount as a result of such deduction or Withholding Tax. Without prejudice to the foregoing, to the extent required by the Tax Information Exchange Framework, the Clearing House shall be entitled to deduct or withhold Withholding Tax (whether withheld by the Clearing House or any other parties) from any payment of interest or redemption money (or payment of any other income) received by the Clearing House on the U.S. Treasuries to an HKCC Participant (or from any other payment made by the Clearing House to an HKCC Participant) and shall have no obligation to gross-up any such payment or to pay any additional amount as a result of such Withholding Tax. In the event that the HKCC Participant's clearing account is not in U.S. dollars, such amount will be credited to a U.S. dollar bank account designated by the HKCC Participant.

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 its acceptance of U.S. Treasuries from the HKCC Participant, including its redelivery or delivery of U.S. Treasuries and related sums to the HKCC Participant.

Pursuant to Clearing House Rule 404(c), an accommodation charge as determined from time to time by the Clearing House will be imposed on the amount of U.S. Treasuries used as cover for margin liabilities.

2.6.7 (deleted)

2.6A Settlement of Liabilities including Outstanding Debit & Variation Adjustment

Subject to section 2.6, all liabilities arising from trades executed in any Market, including outstanding debit and variation adjustments, must be settled by cash in the Settlement Currency. Where the Settlement Currency of any such trade is not the same as the Currency of the Contract, liabilities arising from such trade will be converted by the Clearing House from the Currency of the Contract into the Settlement Currency at the exchange rate determined by the Clearing House from such source and on such basis as it shall consider appropriate as soon as practicable after the liabilities arose. Any exchange rate risk arising from the conversion will be borne by the HKCC Participant.

2.7 Payment of Cover - Direct Margin Debiting System

When an HKCC Participant's Clearing House margin liability exceeds the amount of cover provided and/or an HKCC Participant has outstanding debit, the HKCC Participant shall pay such shortfall and any outstanding debit by the next (Hong Kong) Bank Business Day (Monday to Friday except public holiday)* through the Direct Margin Debiting System.

* *This applies to each Exchange Contract regardless of whether there is trading available in the market on which the underlying instrument or commodity of the Exchange Contract is traded.*

Subject to section 2.6, the DMDS will operate as follows:

a) Each HKCC Participant will need to open two bank accounts for House and Client respectively for each applicable Settlement Currency at one of the Designated Banks, Prime Settlement Banks or Approved Settlement Banks from time to time appointed by the Clearing House. For a Market Maker Account, an HKCC Participant need not have separate bank accounts for debiting purpose. The House bank accounts will be used as the designated bank accounts unless the Market Maker Account is of a Client nature, in which case the Client bank accounts shall be used as the designated bank accounts for the Market Maker Account. Any HKCC Participant wishing to use additional Client bank accounts as the designated bank accounts for a Market Maker Account which is of a Client nature must notify the Clearing House in writing. Each HKCC Participant is required to provide the bank via the Clearing House with separate mandates, in such form as shall be approved by the Clearing House, authorizing the transfer, on the Clearing House's instructions, of funds required to satisfy the daily call for Clearing House margins, loss arising from variation adjustment, outstanding debit and any other liabilities due to the Clearing House. For the avoidance of doubt, an HKCC Participant which has not opened bank accounts in the Settlement Currency of a Contract and provided mandates to the bank as aforesaid will not be allowed to record, register and clear that Contract.

b) The Clearing House will provide to each Designated Bank, Prime Settlement Bank and Approved Settlement Bank, on each Bank Business Day, a list of amounts due from HKCC Participants having accounts at that bank.

c) On receipt of the list, each Designated Bank and Approved Settlement Bank will debit the amount due from each HKCC Participant from the HKCC Participant's account and transfer the same amount to the Clearing House's account at one of the Prime Settlement Banks designated by the Clearing House.

On receipt of the list, each Prime Settlement Bank will process the transfers internally. Each Prime Settlement Bank will simultaneously debit the amount due from each HKCC Participant from the HKCC Participant's account and credit the same amount to the Clearing House's account maintained with the bank.

d) Each Prime Settlement Bank will notify the Clearing House by 9:15 a.m. (i) of any transfer from the Designated Banks and Approved Settlement Banks and (ii) whether any transfer from the HKCC Participants' accounts maintained with the Prime Settlement Bank cannot be made.

e) HKCC Participants must ensure that their accounts at the Designated Banks, Prime Settlement Banks or Approved Settlement Banks contain sufficient credit balances to meet the Clearing House transfer instructions and/or to negotiate appropriate borrowing facilities with the banks concerned. HKCC Participants maintaining accounts with Designated Banks or Approved Settlement Banks must also ensure that their banks transfer all payments to the designated Prime Settlement Banks by 9:10 a.m. on each payment day.

Written notification to the Clearing House must be given at least 24 hours in advance if HKCC Participants want to nominate another bank or, where applicable, another currency as the medium for the direct debit. Any bank charges arising in connection with the operation of the system shall be borne by HKCC Participants.

2.8 Intra-day Variation Adjustments

At the close of the morning trading session of the Hang Seng Index Futures Market on each Business Day, the Clearing House will, unless otherwise determined by the Clearing House, perform an intra-day assessment of the gross and net margin liabilities of all the accounts of each HKCC Participant in DCASS in respect of all open Contracts held by the HKCC Participant in all

Markets. Where such gross or net margin liability is determined by the Clearing House to have exceeded the gross or net capital-based position limit imposed on the HKCC Participant and calculated in accordance with section 5.1, the Clearing House may make an intra-day variation adjustment in respect of all open Contracts held by the HKCC Participant in all open Markets.

Furthermore, where the price movements in a Market are particularly volatile such that the applicable Clearing House margin in respect of that Market has been eroded by approximately 25% or where the Clearing House considers appropriate under any other circumstances, the Clearing House may make an intra-day variation adjustment in respect of all open Contracts held by an HKCC Participant in that Market and/or any other Market whose underlying instrument is the same as or similar to the underlying instrument of that Market at the time of the intra-day variation adjustment.

The Clearing House will generate a report, which will set forth the amount which will be debited from or credited to the relevant CCMS Collateral Account of the HKCC Participant as a result of any intra-day variation adjustment.

To the extent that the collateral in the HKCC Participant's relevant CCMS Collateral Account is insufficient, funds required to satisfy an intra-day variation adjustment will be collected via the DMDS. HKCC Participants shall ensure that there are sufficient funds deposited in their DMDS bank accounts for debiting purpose. Unless otherwise permitted by the Clearing House, all margin calls for intra-day variation adjustments must be settled by cash in the Settlement Currency and must be paid by the HKCC Participant on demand and in any event no later than one hour after the abovementioned report is issued to the HKCC Participant or such shorter period as may from time to time be prescribed by the Clearing House. Where the Settlement Currency of a Contract is not the same as the Currency of the Contract, intra-day variation adjustment payable on such Contract will be converted by the Clearing House from the Currency of the Contract into the Settlement Currency at the exchange rate determined by the Clearing House from such source and on such basis as it shall consider appropriate as soon as practicable after the intra-day variation adjustment arose. Any exchange rate risk arising from the conversion will be borne by the HKCC Participant.

No amount arising from an intra-day variation adjustment made pursuant to an intra-day assessment as mentioned above will be credited to an HKCC Participant. In any other case, for each type of Settlement Currency, where an intra-day variation adjustment is made at or before 12:30 p.m. on any day, any amount to be credited to the HKCC Participant as a result of the intra-day variation adjustment will be made by the Clearing House on the same day except that no payment will be made by the Clearing House (i) if the amount to be credited is HK$1 million or less or its non-Hong Kong Dollar currency equivalent based on the exchange rate determined by the Clearing House; or (ii) if the credit arises from Physical Delivery Contracts after the last trading day.

Any amount to be credited as aforesaid will be made automatically via the DMDS to the DMDS bank account designated by the HKCC Participant. HKCC Participants shall ensure that standing instructions are given to the Clearing House for this purpose.

Notwithstanding the above, in the case of Physical Delivery Contracts after the last trading day, as long as any cover provided by an HKCC Participant under section 2.6 is sufficient to satisfy an intra-day variation adjustment, no funds will be collected via the DMDS. To the extent that cover provided under section 2.6 is insufficient, the shortfall will be collected via the DMDS. Furthermore, no credit arising from intra-day variation adjustment on Physical Delivery Contracts after the last trading day will be made to any HKCC Participant as mentioned above, or used to offset any Clearing House margin liabilities of the HKCC Participant.

Some of the Markets may remain open on public holidays in Hong Kong. HKCC Participants are advised to arrange additional cover to deal with any potential intra-day variation adjustment call. If an HKCC Participant is unable to meet its intra-day variation adjustment calls by the prescribed deadline for any reason, the Clearing House may restrict such HKCC Participant from opening new positions and may require compulsory close-outs where circumstances warrant such action.

2.8A Special Block Trade Margin

If in the opinion of the Clearing House or the Exchange, the executed price of a Block Trade is not fair and reasonable or a significant deviation exists between the executed price and the prevailing market price or between the executed price and the theoretical price determined by the Clearing House, or if a Block Trade is executed at such a price that an intra-day variation adjustment would have been triggered had the trade been executed or as if it has been executed as a normal trade in the Central Orderbook, the Clearing House may, within 30 minutes after the Block Trade is executed or after a trade adjustment request in respect of such Block Trade is submitted, call for a Special Block Trade Margin from the relevant HKCC Participant.

To the extent that the collateral in the HKCC Participant's relevant CCMS Collateral Account is insufficient to satisfy the Special Block Trade Margin, the Clearing House will generate a Special Block Trade Margin report and any Special Block Trade Margin payable by the HKCC Participant will be debited from its relevant DMDS bank account. The HKCC Participant shall ensure that there are sufficient funds deposited in its DMDS bank account for debiting purpose.

Unless otherwise permitted by the Clearing House, all Special Block Trade Margin must be settled by cash in the Settlement Currency and must be paid by the HKCC Participant on demand and in any event no later than one hour after the abovementioned report is issued to the HKCC Participant or such shorter period as may from time to time be prescribed by the Clearing House. Where the Settlement Currency of a Contract is not the same as the Currency of the Contract, any Special Block Trade Margin payable on such Contract will be converted by the Clearing House from the Currency of the Contract into the Settlement Currency at the exchange rate determined by the Clearing House from such source and on such basis as it shall consider appropriate as soon as practicable after the Special Block Trade Margin arose. Any exchange rate risk arising from the conversion will be borne by the HKCC Participant.

A Block Trade will not be registered with the Clearing House or novated unless the required Special Block Trade Margin and any other criteria applicable to the Block Trade have been satisfied.

For the avoidance of doubt, no amount will be credited to HKCC Participants as a result of any Special Block Trade Margin call.

Some of the Markets may remain open after normal banking hours or on public holidays in Hong Kong. HKCC Participants are advised to arrange additional cover to deal with any potential Special Block Trade Margin.

If an HKCC Participant is unable to pay or otherwise satisfy any Special Block Trade Margin in respect of a Block Trade by the prescribed deadline for any reason (including where the Block Trade is executed during the T+1 Session during which no debit can be made from its relevant DMDS bank account and there is insufficient collateral in its CCMS Collateral Account to satisfy the Special Block Trade Margin), the Block Trade shall, without notice being required to be given to the HKCC Participant, be deleted from HKATS and DCASS as if the Block Trade had never been executed and will not be registered with or novated or cleared by the Clearing House.

If an HKCC Participant is unable to pay or otherwise satisfy any Special Block Trade Margin arising from a trade adjustment request submitted in respect of a Block Trade by the prescribed deadline for any reason (including where the request is submitted between the commencement of the T+1 Session and the T+1 Session Cutoff Time during which no debit can be made from its relevant DMDS bank account and there is insufficient collateral in its CCMS Collateral Account to satisfy the Special Block Trade Margin), the trade adjustment request will be rejected by the Clearing House.

2.8B Mandatory Intra-day Variation Adjustment and Margin

Following Market open of T Session on each Business Day, the Clearing House will, unless otherwise determined by the Clearing House, call for mandatory intra-day variation adjustment and margin in respect of all open Contracts, including those traded in the preceding T+1 Session, held by an HKCC Participant immediately before Market open in Markets with a T+1 Session and any other Market whose underlying instrument is the same as or similar to the underlying instrument of any such Markets. HKCC Participants are advised to complete all their post-trade adjustments under sections 1.4 and 1.5 for trades executed in the preceding T+1 Session thirty minutes before Market open of the T Session. Any post-trade adjustments executed thereafter may not be incorporated in the mandatory intra-day variation adjustment and margin calculation.

The amount of cover required to satisfy any call for mandatory intra-day variation adjustment and margin will be determined in accordance with the methodology set forth in section 2.5. The Clearing House will generate a report to each HKCC Participant, which will set forth the amounts of the intra-day variation adjustment component of the mandatory intra-day variation adjustment and margin to be debited from or credited to the relevant CCMS Collateral Account of the HKCC Participant and the amount of liability for the Clearing House margin component for each CCMS Collateral Account of the HKCC Participant.

Funds required to satisfy a mandatory intra-day variation adjustment and margin will be collected via the DMDS. HKCC Participants shall ensure that there are sufficient funds deposited in their DMDS bank accounts for debiting purpose. Unless otherwise permitted by the Clearing House, all margin calls for mandatory intra-day variation adjustment and margin must be settled by cash in the Settlement Currency and must be paid by the HKCC Participant on demand and in any event no later than two hours after the abovementioned report is issued to the HKCC Participant or such shorter period as may from time to time be prescribed by the Clearing House. Where the Settlement Currency of a Contract is not the same as the Currency of the Contract, mandatory intra-day variation adjustment and margin payable on such Contract will be converted by the Clearing House from the Currency of the Contract into the Settlement Currency at the exchange rate determined by the Clearing House from such source and on such basis as it shall consider appropriate as soon as practicable after the mandatory intra-day variation adjustment and margin arose. Any exchange rate risk arising from the conversion will be borne by the HKCC Participant.

For each type of Settlement Currency, any amount of intra-day variation adjustment to be credited to the HKCC Participant, after deducting the additional cover required for Clearing House margin if any, as a result of the mandatory intra-day variation adjustment and margin at or before 12:30 p.m. will be made by the Clearing House on the same day except that no payment will be made by the Clearing House (i) if the amount to be credited, after deducting the additional cover required for Clearing House margin if any, is HK$1 million or less or its non-Hong Kong Dollar currency equivalent based on the exchange rate determined by the Clearing House; or (ii) if the credit arises from Physical Delivery Contracts after the last trading day. Any amount to be credited as aforesaid will be made automatically via the DMDS to the DMDS bank account designated by the HKCC Participant. HKCC Participants shall ensure that standing instructions are given to the Clearing House for this purpose.

Notwithstanding the above, in the case of Physical Delivery Contracts after the last trading day, as long as any cover provided by an HKCC Participant under section 2.6 is sufficient to satisfy a mandatory intra-day variation adjustment and margin, no funds will be collected via the DMDS. To the extent that cover provided under section 2.6 is insufficient, the shortfall will be collected via the DMDS. Furthermore, no credit arising from mandatory intra-day variation adjustment and margin calls on Physical Delivery Contracts after the last trading day will be made to any HKCC Participant as mentioned above, or used to offset any Clearing House margin liabilities of the HKCC Participant.

2.9 Value Date for Delivery and Redelivery of Approved Currencies Other Than Applicable Settlement Currencies

2.9.1 Delivery of Approved Currencies Other Than Applicable Settlement Currencies

In this section 2.9.1 and in section 2.9.2, references to “Currency Amount” means the amount denominated in an approved currency referred to in section 2.6.2 and Appendix V-(5) which is recorded in an HKCC Participant’s CCMS Collateral Account or its account in a bank, where appropriate, other than any amount that is denominated in an applicable Settlement Currency referred to in section 2.7(a); and references to the “Relevant Currency” means an approved currency other than an applicable Settlement Currency.

An HKCC Participant wishing to use any Currency Amount to cover calls for Clearing House margin shall notify the Clearing House by 11:00 a.m. on any Business Day of its intention in writing or by such other means as may be acceptable to the Clearing House. The value date applicable to the transfer of any Currency Amount from an HKCC Participant’s account in one bank to the Clearing House’s account in another bank is normally the next Hong Kong Bank Business Day after the date on which the HKCC Participant’s bank receives the HKCC Participant’s instructions to effect such transfer. If that day is a bank holiday in the country where the HKCC Participant’s bank is located or where the Relevant Currency is cleared, the value date shall be on the next Hong Kong Bank Business Day which is not a bank holiday in that country. Only after the receipt of the funds is confirmed by the Clearing House’s bank, will the Clearing House accept these funds as cover for the HKCC Participant’s Clearing House margin liabilities and/or outstanding debit.

If the HKCC Participant’s account and the Clearing House’s account are maintained with the same bank in Hong Kong, the transfer may be effected within the same Hong Kong Bank Business Day, in which case the value date for the transfer of Relevant Currency amount shall be the Hong Kong Bank Business Day on which such bank receives the HKCC Participant's instructions to effect the transfer.

2.9.2 Redelivery of Approved Currencies Other Than Applicable Settlement Currencies

In this section, references to "Currency Amount" and "Relevant Currency" have the same meaning as set out in section 2.9.1.

An HKCC Participant may request the redelivery of any excess Currency Amount provided to the Clearing House by notifying the Clearing House of its intention in writing or by other means acceptable to the Clearing House by 11:00 a.m. on each Business Day. In the event that the Clearing House, in its sole discretion, agrees to redeliver such excess Currency Amount, the requesting HKCC Participant's CCMS Collateral Account with the Clearing House will be debited immediately. The redelivery of the requested amount will not be effected on the same day as the date of the request as set out in sections 2.9.2.1 and 2.9.2.2 and will depend on whether it is a Bank Business Day in the country where the HKCC Participant's bank is located or where the Currency Amount is cleared. Interest may be paid or charged by the Clearing House on the excess Currency Amount being redelivered at such positive or negative rate as it may determine from time to time in accordance with prevailing bank savings rates until the redelivery is effected.

2.9.2.1 Japanese Yen

The value date for the redelivery of Currency Amount denominated in Japanese Yen is the second Hong Kong Bank Business Day after the date on which the redelivery request is received by the Clearing House. If that day is a bank holiday in Japan, then the value date shall be on the next Bank Business Day in both Japan and Hong Kong.

2.9.2.2 Currency Amounts not denominated in Japanese Yen

The value date for the redelivery of any Currency Amount not denominated in Japanese Yen is the next Hong Kong Bank Business Day after the date on which the redelivery request is received by the Clearing House. If that day is a bank holiday in the country or countries where the HKCC Participant's bank is located and where the Relevant Currency (other than Japanese Yen) is cleared, then the value date shall be on the next Bank Business Day in those countries and Hong Kong.

2.9.3 Substitution for the Settlement Currency

HKCC Participants may elect to deliver cash in a currency other than the Settlement Currency approved by the Clearing House as cover for HKCC Participants' Clearing House margin liabilities provided that the amount of Clearing House margin liabilities that is covered by approved collateral other than cash in the Settlement Currency will not exceed the maximum level(s) prescribed by the Clearing House and provided further the delivery will not result in any other requirement regarding cover for HKCC Participant's Clearing House margin liabilities not being satisfied. If cash in a currency other than the Settlement Currency approved by the Clearing House is delivered by an HKCC Participant as substitution for any Clearing House margin settled by the HKCC Participant using the Settlement Currency, such cash must be received by the Clearing House with finality by 9:30 a.m. on each Hong Kong Bank Business Day in order for the HKCC Participant to have surplus funds resulting from such cash redelivered to the HKCC Participant in the Settlement Currency for same-day value. If such cash is received after 9:30 a.m., any surplus in the Settlement Currency will be redelivered to HKCC Participants for value on the next Hong Kong Bank Business Day.

2.10 Redelivery of Surplus Funds in the Settlement Currency or Non-Cash Collateral

An HKCC Participant may request the redelivery of surplus funds in the Settlement Currency in its CCMS Collateral Account by inputting an order for redelivery via a CCMS terminal and may request the redelivery of surplus non-cash collateral in its CCMS Collateral Account by notifying the Clearing House in writing or by other means acceptable to the Clearing House by 11:00 a.m. each Business Day. It should be noted that the Clearing House will not redeliver any surplus funds or non-cash collateral to HKCC Participants on Saturdays or if the amount of Clearing House margin liabilities that is covered by approved collateral other than cash in the Settlement Currency will exceed the maximum level(s) prescribed by the Clearing House or if the redelivery will result in any other requirement regarding cover for the HKCC Participant's Clearing House margin liability not being satisfied.

2.11 Final Settlement of Futures Contract

2.11.1 Cash Settled Contracts

All Cash Settled Futures Contracts traded on HKATS are cash settled at the Final Settlement Price on the Last Trading Day or other day as determined in accordance with the Contract Specifications. Any profits or losses on cash settlement will be credited to or debited from the relevant CCMS Collateral Account of the HKCC Participant. If there are excess funds as shown in the CCMS Collateral Account, after considering all other liabilities, a payment will be made to the HKCC Participant upon request. If there are insufficient funds as shown in the CCMS Collateral Account to cover the resulting losses, a call will be made via the DMDS. In addition, a cash settlement fee is charged on every open Futures position on the Final Settlement Day.

In respect of any Cash Settled Futures Contract whose Settlement Currency is different from the Currency of the Contract, the amount required to be settled by the HKCC Participant on the Final Settlement Day shall be converted to the Settlement Currency equivalent. The conversion rate to be applied shall be the exchange rate obtained by the Clearing House at such time on the Last Trading Day or other day and from such source as it shall consider appropriate. The Clearing House will promptly announce these rates after they are determined. HKCC Participants must use these rates for conversions at the Client account level.

2.11.2 Physical Delivery Contracts

Physical Delivery Contracts that are Futures Contracts shall be settled in accordance with the Exchange Rules, the Clearing House Rules and Chapter 2A of these Clearing House Procedures.

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 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.

In respect of any Option Contract whose Settlement Currency is different from the Currency of the Contract, the amount required to be settled by the HKCC Participant on the Final Settlement Day shall be converted to the Settlement Currency equivalent. The conversion rate to be applied shall be the exchange rate obtained by the Clearing House at such time on the Expiry Day or other day and from such source as it shall consider appropriate. The Clearing House will promptly announce these rates after they are determined. HKCC Participants must use these rates for conversions at the Client account level.

2.12.2 Physical Delivery Contracts

Physical Delivery Contracts that are Option Contracts shall be settled in accordance with the Exchange Rules, the Clearing House Rules and Chapter 2A of these Clearing House Procedures.

Chapter 2A Settlement of Physical Delivery Contracts

(1) Physical Delivery Contracts that are Futures Contracts shall be settled by delivery of the underlying commodity or instrument by the Sellers of such Contracts and by payment of cash by the Buyers of such Contracts, (2) 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 (3) 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 accordance with the Exchange Rules, the Clearing House Rules and these Clearing House Procedures.

2A.1 Exchange Fund Note (EFN) Futures Contracts

Settlement in EFN Futures Contracts shall be effected directly between buying HKCC Participants and selling HKCC Participants allocated to each other under the assignment process set forth in the Clearing House Rules through the real-time Delivery against Payment (DvP) facility of the Central Moneymarkets Unit (CMU) of the Hong Kong Monetary Authority. For the avoidance of doubt, if a settlement is effected between different accounts of an HKCC Participant, such settlement shall be effected through the real-time DvP facility of the CMU as if it were between HKCC Participants. If an HKCC Participant is not a Recognised Dealer or Market Maker of EFNs of the CMU, it must appoint a designated agent which is a Recognised Dealer or EFN Market Maker to effect settlement on behalf of the HKCC Participant and must notify the Clearing House of the particulars of such designated agent at least 14 Business Days before the last trading day.

The settlement procedure for EFN Futures shall be as follows:

(a) after trading of the spot month EFN Futures Contract ceases at 11:00 a.m. on the last trading day or at such other time as may be specified by the Exchange from time to time, the Exchange in conjunction with the Clearing House will announce (i) the Final Settlement Price; and (ii) details of the particular issues of EFN acceptable for delivery (“Acceptable List”) together with the corresponding conversion factors and accrued interest;

(b) HKCC Participants with short positions in the spot month EFN Futures shall complete and submit by facsimile to the Clearing House by 3:00 p.m. on the last trading day or such other time as may be specified by the Clearing House the “Notification of Designated Agent/Acceptable EFNs to be Delivered” set forth in the DCASS Terminal User Guide specifying the particular issue(s) of EFNs from the Acceptable List, together with the corresponding quantities, that will be delivered by the HKCC Participant in satisfaction of its settlement obligations;

(c) the Clearing House will allocate short positions of HKCC Participants in the EFN Futures Contract against long positions of HKCC Participants in the EFN Futures Contract. All long positions and short positions will be arrayed in two respective columns. Under the 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 (in some case, short positions of one account of an HKCC Participant may be assigned against the long positions in another account of the same HKCC Participant);

(d) the Clearing House will, by the end of the last trading day under normal circumstances, notify relevant HKCC Participants of the results of the assignment process and the relevant settlement details by facsimile, telephone or such other means as it considers appropriate;

(e) on the Final Settlement Day, each selling HKCC Participant shall, or shall procure that its designated agent shall, if necessary, input DvP settlement instructions in the CMU at or before 3:00 p.m. (or such other cut off time for input of such DvP settlement instructions as may from time to time be specified by the CMU) to effect delivery of EFNs to the buying HKCC Participant allocated to the selling HKCC Participant under the assignment process or its designated agent; and the buying HKCC Participant shall, or shall procure that its designated agent shall, if necessary, input DvP settlement instructions in the CMU at or before 3:00 p.m. (or such other cut off time for input of such DvP settlement instructions as may from time to time be specified by the CMU) to effect payment to the selling HKCC Participant or its designated agent against delivery. The Clearing House shall not be liable to, and shall be discharged from its obligations as the counterparty to, the buying and selling HKCC Participants if a method or facility other than the DvP facility of the CMU is selected by the buying and selling HKCC Participants for settlement purposes. Any resulting claim arising from any failure to settle shall be as between the buying and selling HKCC Participants only.

In the event of settlement failure for any reason, the affected HKCC Participants shall notify the Clearing House of the failure as soon as possible and in any event no later than 5:00 p.m. on the Final Settlement Day by submitting to the Clearing House by facsimile the “Notification of Settlement Failure in respect of Open Contracts in Exchange Fund Notes” set forth in the DCASS Terminal User Guide.

Upon receipt of such notification, the Clearing House will take such action as it considers appropriate, including executing a buy-in and/or a borrowing of EFNs 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 selling HKCC Participant a late settlement penalty charge of 0.25% of the market value on the Final Settlement Day of the overdue positions of the HKCC Participant in the EFN Futures Contract.

Without prejudice to section 2A.1(e), if notification is not received by the Clearing House by the stipulated time from a buying HKCC Participant or the corresponding selling HKCC Participant, the Clearing House is deemed to have satisfied its obligations as counterparty to the buying and selling HKCC Participants and neither the buying nor selling HKCC Participant shall have any claim against the Clearing House.

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 incurred in executing a buy-in and/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 the EFN Futures Contract in accordance with the Exchange Rules, the Clearing House Rules and these Clearing House Procedures.

2A.2 Deliverable Currency Futures Contracts

Final settlement of spot month deliverable Currency Futures Contracts shall be effected by delivery of the underlying currency by the Seller and payment of cash in the Settlement Currency by the Buyer in accordance with the Contract Specifications. The settlement procedure shall be as follows:

(a) after trading of the spot month deliverable Currency Futures Contracts ceases at 11:00 a.m. on the last trading day or at such other time as may be specified by the Exchange from time to time, the Exchange in conjunction with the Clearing House will announce the Final Settlement Price;

(b) HKCC Participants with short positions in the spot month deliverable Currency Futures Contracts shall make delivery of the underlying currency and receive payment of the Final Settlement Value as determined in accordance with the Contract Specifications;

(c) HKCC Participants with long positions in the spot month deliverable Currency Futures Contracts shall make payment of the Final Settlement Value and take delivery of the underlying currency 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 Futures 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 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 penalty 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 Futures 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 Futures Contract in accordance with the Exchange Rules, the Clearing House Rules and these Clearing House Procedures.

2A.3 Physically Settled Metal Futures Contract

Unless otherwise stated, final settlement of a spot month Physically Settled Metal Futures Contract shall be effected by physical delivery of the Deliverable Metal by the Seller and payment of cash in the Settlement Currency by the Buyer in accordance with the Contract Specifications. The settlement and delivery procedures shall be as set out below.

2A.3.1 Documentation

2A.3.1.1 <u>Delivery Agreements</u>

(a) An HKCC Participant which intends to deliver the Deliverable Metal through a Delivery Agent must have a valid, binding and effective Delivery Agreement in place between itself and its Delivery Agent. No Delivery Agent may deliver Deliverable Metal for another HKCC Participant until such Delivery Agreement has been entered into by both parties.

(b) A Delivery Agent shall notify the Clearing House forthwith on the execution of each Delivery Agreement, identifying the name of the HKCC Participant for which delivery of Deliverable Metal will be made. Such notification shall be in such form as the Clearing House may from time to time specify. The Delivery Agent shall, at the request of the Clearing House, supply it with a certified copy of the executed Delivery Agreement.

(c) A Delivery Agent shall be responsible for all delivery obligations of the HKCC Participant for which delivery of Deliverable Metal will be made. In the event of any failure by the Delivery Agent to comply with any such delivery obligations, the Clearing House shall have the right to claim, and/or take any other action which the Clearing House considers appropriate, against (i) the Delivery Agent where such failure was a result of a breach by the Delivery Agent of its obligations under the Delivery Agreement and/or the Clearing House Rules and/or Clearing House Procedures and/or (ii) the relevant HKCC Participant where such failure was a result of a breach by such HKCC Participant of its obligations under the Delivery Agreement and/or the Clearing House Rules and/or Clearing House Procedures.

(d) A Delivery Agent or the relevant HKCC Participant shall give no less than 14 Business Days' prior written notice to the Clearing House if either party intends to terminate the Delivery Agreement between them.

(e) When the Clearing House receives a termination notice from the Delivery Agent or the relevant HKCC Participant, the Clearing House will issue a written confirmation of termination to the Delivery Agent or the relevant HKCC Participant, as the case may be, with a copy to the other party and unless and until such written confirmation has been issued, the Delivery Agreement shall be treated as valid, binding and effective by the Clearing House for the purposes of these Clearing House Procedures notwithstanding any provision to the contrary in the Delivery Agreement and/or the termination notice from the Delivery Agent or the HKCC Participant concerned and the Delivery Agent shall continue to be bound by the Delivery Agreement and be responsible for all the delivery obligations of the HKCC Participant. The termination notice shall be in such form as the Clearing House may from time to time specify.

(f) Notwithstanding the above, the Delivery Agreement shall be terminated when any one or more of the following has occurred: (i) the Delivery Agent resigns from HKCC Participantship, (ii) its HKCC Participantship is suspended or revoked, or (iii) its access to DCASS and/or CCMS is suspended or revoked under the HKCC Rules.

(g) The termination of the Delivery Agreement between a Delivery Agent and an HKCC Participant will not affect any of their rights or liabilities arising out of matters which have taken place prior to the termination of the Delivery Agreement and for the purpose of settlement of any such rights or liabilities of the Delivery Agent and HKCC Participant concerned, the Clearing House may continue to treat the Delivery Agent as the Delivery Agent of the HKCC Participant.

(h) A Delivery Agent shall enter into an Approved Depository Account Agreement with each Approved Depository.

2A.3.1.2 *<u>Approved Depository Account Agreements</u>*

(a) Unless an HKCC Participant has in place a Delivery Agreement between itself and a Delivery Agent, an HKCC Participant which intends to deliver Deliverable Metal must enter into an Approved Depository Account Agreement with each Approved Depository in such form and containing such provisions as may from time to time be required by the Clearing House ("mandatory provisions") including but not limited to the following:

(i) authorization to the Approved Depository to comply with any information requests it receives from the Clearing House concerning the HKCC Participant's account with the Approved Depository and the Deliverable Metal stored by the HKCC Participant at the Approved Depository;

(ii) authorization to the Approved Depository to act on the instructions of the Clearing House (and such instructions shall prevail over those of the HKCC Participant) in respect of any amount of the HKCC Participant's Deliverable Metal which has been earmarked by the Approved Depository for delivery to the relevant Buyer;

(iii) acknowledgement and confirmation by the HKCC Participant and the Approved Depository that any Deliverable Metal which has been so earmarked shall be clearly identified as being separate from other Deliverable Metal and shall not be available to meet or fulfill any delivery or transfer request other than with the consent and/or on the instruction of the Clearing House;

(iv) the operational procedure of earmarking shall be specified, in reasonable detail; and

(v) an acknowledgement by each of the HKCC Participant and the Approved Depository that any earmarking shall be conducted in compliance with such operational procedure and any requirements set out in the Clearing House Rules or these Clearing House Procedures.

(b) Any references in an Approved Depository Account Agreement or a Delivery Agreement to "earmarking" shall comply and be consistent with the requirements for earmarking set out under section 2A.3.2.2(d) and the Approved Depository Account Agreement and Delivery Agreement shall include express terms setting out and giving effect to those requirements.

(c) An HKCC Participant shall notify the Clearing House forthwith on the execution of each Approved Depository Account Agreement. Such notification shall be in such form as the Clearing House may from time to time specify. The HKCC Participant shall, at the request of the Clearing House, supply it with a certified copy of the executed Approved Depository Account Agreement. An HKCC Participant which enters into an Approved Depository Account Agreement may not amend or revoke any mandatory provision without the Clearing House's written consent.

(d) An HKCC Participant shall give no less than 14 Business Days' prior written notice to the Clearing House if either itself or an Approved Depository intends to terminate any Approved Depository Account Agreement.

2A.3.2 Delivery and Settlement Procedures

2A.3.2.1 Last Trading Day

(a) After trading of the spot month Physically Settled Metal Futures Contract ceases on the last trading day, the Exchange in conjunction with the Clearing House will announce the Final Settlement Price.

(b) Each Physical Delivery Participant with any short positions in the spot month Physically Settled Metal Futures Contract shall complete and submit a Delivery Notice and each Physical Delivery Participant with any long positions in the spot month Physically Settled Metal Futures Contract shall complete and submit an Acceptance Notice, in each case to the Clearing House by 5:00 p.m. on the last trading day. Each Delivery Notice and Acceptance Notice shall be irrevocable upon submission to the Clearing House and the selling HKCC Participant and the buying HKCC Participant shall be bound by the particulars specified in the Delivery Notice and Acceptance Notice respectively. Notwithstanding that a buying HKCC Participant or a selling HKCC Participant fails to submit an Acceptance Notice or Delivery Notice, as the case may be, or if any such Acceptance Notice or Delivery Notice is incomplete or defective in any way, such Acceptance Notice or Delivery Notice shall be deemed to have been submitted with such particulars as the Clearing House may deem necessary for the Matching Process described below, and such particulars shall thereafter be binding on such buying HKCC Participant or selling HKCC Participant.

(c) The Clearing House will allocate short positions of HKCC Participants in the Physically Settled Metal Futures Contract to long positions of HKCC Participants in the Physically Settled Metal Futures Contract in accordance with the following process (such process being known as the "Matching Process"):

(i) all selling and buying HKCC Participants will be divided into two or more notional pools for allocation purposes (each an "Allocation Pool") as follows:

(A) all selling and buying Non-delivery HKCC Participants will be grouped into a single Allocation Pool (the "Non-delivery Pool");

(B) all other selling and buying HKCC Participants will be grouped into one or more Allocation Pools (each "an Approved Depository Pool") each referable to the Approved Depository at which that selling or buying HKCC Participant intends to deliver or take delivery of, as the case may be, Deliverable Metal in the following manner.

All selling and buying HKCC Participants other than Non-delivery HKCC Participants, which have, in a Delivery Notice or Acceptance Notice, as applicable, delivered in accordance with section 2A.3.2.1(b) above, specified that they will deliver or take delivery of, as the case may be, Deliverable Metal in the same Approved Depository will be grouped into the same Approved Depository Pool. If for the time being there is only one Approved Depository, all HKCC Participants, other than Non-delivery HKCC Participants, will be grouped into a single Approved Depository Pool;

(ii) in respect of each Allocation Pool:

(A) all short positions of selling HKCC Participants in that Allocation Pool will be ranked in descending order by reference to the quantity of Deliverable Metal which each HKCC Participant is respectively required to deliver and all long positions of buying HKCC Participants in that Allocation Pool will be ranked in descending order by reference to the quantity of Deliverable Metal which each HKCC Participant is required to take delivery respectively. If the short positions of two or more selling HKCC

Participants or the long positions of two or more buying HKCC Participants are the same, then those selling HKCC Participants or those buying HKCC Participants, as the case may be, shall be ranked in descending order on a random basis as between themselves;

(B) the short positions of selling HKCC Participants will then be matched to the long positions of buying HKCC Participants as follows:

(I) the respective short and long positions of a selling HKCC Participant and a buying HKCC Participant for the same quantity of Deliverable Metal will be matched with each other, starting with the short and long positions, respectively, of the selling and buying HKCC Participants at the top of the rankings as determined, and thereafter proceeding in descending order through the short and long positions of the selling and buying HKCC Participants in the remainder of the rankings; and

(II) once all the respective short and long positions of HKCC Participants for the same quantity of Deliverable Metal have been matched in accordance with section (I) above, matching will continue down the list of remaining selling HKCC Participants and the list of remaining buying HKCC Participants. If there are unmatched short or long positions of HKCC Participants in the Allocation Pool, all the unmatched short or long positions will be handled in accordance with section (iii) and/or (iv), as the case may be;

(iii) if at any time there are two or more Approved Depository Pools, and, after the application of the process described in section (ii) above to any of those Approved Depository Pools, there remains in those Approved Depository Pools any unmatched short or long position of an HKCC Participant, all HKCC Participants within the Approved Depository Pools which have unmatched positions will be grouped into a further Allocation Pool (a "Cross-depository Pool") in respect of such unmatched positions, and such unmatched positions of those HKCC Participants will be matched in accordance with the process described in section (ii) above;

(iv) if, after the application of the process described in section (ii) to the Non-delivery Pool and Approved Depository Pool and if applicable, the Cross-depository Pool, there remains any unmatched short or long position of a Non-delivery HKCC Participant, each such short or long position of that Non-delivery HKCC Participant will be matched by applying the process described in section (ii) to the unmatched short or long positions of an HKCC Participant remaining in the Approved Depository Pool or the Cross-depository Pool;

(v) in some cases, short positions in one account of an HKCC Participant may be matched against the long positions in another account of the same HKCC Participant;

(vi) a selling HKCC Participant, other than a Non-delivery HKCC Participant, must satisfy in full its obligation to deliver Deliverable Metal to the buying HKCC Participant with which it is matched. If a selling HKCC Participant does not have sufficient Deliverable Metal to satisfy its obligation to deliver Deliverable Metal to all of the buying HKCC Participants with which it has been matched, HKCC will determine on a random basis which of the matched buying HKCC Participant(s) shall take delivery of the Deliverable Metal; and

(vii) the Clearing House will, by the end of the last trading day under normal circumstances, notify the relevant HKCC Participants of the results of the Matching Process and the relevant settlement details.

2A.3.2.2 *<u>First Business Day after Last Trading Day</u>*

The provisions set out in this section 2A.3.2.2 relating to delivery or payment shall not apply to Non-delivery HKCC Participants, except where specifically provided otherwise.

(a) By 10:00 a.m. on the first Hong Kong Business Day after the last trading day each selling HKCC Participant shall confirm to the Clearing House the delivery details using the relevant Delivery Notice prescribed by the Clearing House from time to time.

(b) By noon on the first Hong Kong Business Day after the last trading day the selling HKCC Participant or its Delivery Agent shall ensure that the required quantity of Deliverable Metal is in the Approved Depository as specified in the Matching Process and notified to it by the Clearing House under section 2A.3.2.1(c)(vii) above. The Clearing House shall request the Approved Depository to earmark the required quantity of

Deliverable Metal for delivery and to confirm by a prescribed time on the same day whether the required quantity of Deliverable Metal to be delivered on the Final Settlement Day has been earmarked or not.

(c) Upon receipt of the Approved Depository's confirmation that the required quantity of Deliverable Metal has been earmarked, or if the selling HKCC Participant is a Non-delivery HKCC Participant, at such time as the Clearing House may elect, the Clearing House shall calculate the Final Settlement Value (including in respect of a Physically Settled Metal Futures Contract under which a Non-delivery HKCC Participant is buyer or seller) in accordance with the following formula, and notify the buying HKCC Participant and selling HKCC Participant of the Final Settlement Value and details of the Deliverable Metal to be delivered:

Final Settlement Value = Final Settlement Price x Contract Size (subject to any adjustment for weight and fineness variance)

(d) Any references in the Clearing House Rules or these Clearing House Procedures to "earmarking" shall, at a minimum, be construed to mean the following:

(i) the Approved Depository has, on behalf of the relevant HKCC Participant, clearly identified and recorded Deliverable Metal held by the Approved Depository for the selling HKCC Participant as (A) being identified as separate from other Deliverable Metal of the selling HKCC Participant and any other person and (B) available for delivery in respect of a specified Re-novated Contract or set of Re-novated Contracts in accordance with the Clearing House Rules and Clearing House Procedures;

(ii) any Deliverable Metal so earmarked shall, and the selling HKCC Participant, the Approved Depository, the Clearing House and any relevant Delivery Agent shall have acknowledged, represented and agreed that such Deliverable Metal shall, not be available to meet or fulfill any delivery, transfer or similar request other than with the consent, or on the instruction of, the Clearing House acting in its role as Settlement Agent; and

(iii) (A) the selling HKCC Participant shall have good title to such Deliverable Metal and (B) such Deliverable Metal shall be free and clear from any encumbrance, lien, claim, mortgage, charge, security interest or any other interest of any nature whatsoever, and the selling HKCC Participant shall represent and warrant to the Clearing House, the Approved Depository and any relevant Delivery Agent that (A) and (B) are, and will be, the case at the time of, and during the period of, any earmarking.

2A.3.2.3 *<u>Final Settlement Day</u>*

The provisions set out in this section 2A.3.2.3 relating to delivery or payment shall not apply to Non-delivery HKCC Participants, except where specifically provided otherwise.

(a) By 9:15 a.m. on the Final Settlement Day, the buying HKCC Participant shall transfer to a settlement account specified by the Clearing House the amount of its payment obligation previously notified to it by the Clearing House under section 2A.3.2.2(c) above. Any such amount paid to the Clearing House will be kept in a segregated settlement account for the buying HKCC Participant until the Clearing House either (i) releases such amount to the selling HKCC Participant pursuant to section 2A.3.2.3(d)(ii) below in settlement of the buying HKCC Participant's payment obligation under the Re-novated Contract; or (ii) returns such amount to the buying HKCC Participant pursuant to section 2A.3.2.3(c)(ii) below, and, without prejudice to any other provision of the Clearing House Rules, these Clearing House Procedures or the Exchange Rules, the Clearing House shall have no other obligations of any nature whatsoever to the buying HKCC Participant or any other person in respect of such amount.

(b) Upon receipt by the Clearing House of the following:

(i) a notice from the relevant Approved Depository confirming that the required quantity of Deliverable Metal from the selling HKCC Participant has been earmarked in accordance with section 2A.3.2.2(b) above; and

(ii) the full amount of the payment obligation from the buying HKCC Participant in accordance with section 2A.3.2.3(a) above,

Contract Re-novation shall occur, pursuant to Rule 309A, immediately and without further notice to or action by any party. Upon the occurrence of Contract Re-novation, the Clearing House's role as a counterparty to the relevant Physically Settled Metal Futures Contracts and all of its obligations in respect thereof shall be fully and finally discharged in accordance with Rule 309A and the Clearing House Rules and these Clearing House Procedures. The Clearing House's role shall thereafter be limited to that of acting as settlement agent for the buying HKCC Participant and the selling HKCC Participant in order to facilitate settlement of the Re-novated Contract between the buying HKCC Participant and the selling HKCC Participant under the terms of section 2A.3.2.3(d) below and the Re-novated Contract (the Clearing House in such role being referred to as the "**Settlement Agent**").

(c) If the Clearing House has not received the notice from the relevant Approved Depository referred to in section 2A.3.2.3(b)(i) above and/or the amount of the payment obligation from the buying HKCC Participant referred to in section 2A.3.2.3 (b)(ii) above before 2:30 p.m. on the Final Settlement Day or either the buying HKCC Participant or selling HKCC Participant is a Non-delivery HKCC Participant:

(i) Contract Re-novation shall not occur;

(ii) the Clearing House shall either (A) instruct the relevant Approved Depository to remove the earmarking of the Deliverable Metal which had been earmarked in accordance with section 2A.3.2.2(b) above or (B) return to the buying HKCC Participant the full amount of the payment obligation which had been transferred to the Clearing House in accordance with section 2A.3.2.3(a) above, as the case may be; and

(iii) Cash Compensation and the non-delivery charge shall apply in accordance with section 2A.3.3 below.

(d) Following Contract Re-novation, the Clearing House shall facilitate settlement of the Re-novated Contract between the buying HKCC Participant and the selling HKCC Participant in its role as Settlement Agent by:

(i) as soon as reasonably practicable after Contract Re-novation, instructing the relevant Approved Depository to effect the delivery of Deliverable Metal from the depository account of the selling HKCC Participant or its Delivery Agent to the depository account of the buying HKCC Participant or its Delivery Agent; and

(ii) at, or as soon as reasonably practicable after, 2:30 p.m. on the Final Settlement Day, releasing the amount of the payment obligation it received from the buying HKCC Participant in accordance with section 2A.3.2.3(a) to the selling HKCC Participant’s designated bank account, unless the Clearing House has received notice from the buying HKCC Participant before 2:30 p.m. on the Final Settlement Day that the buying HKCC Participant has not received the full amount of the Deliverable Metal in its depository account. Such notice from the buying HKCC Participant shall be in such form as the Clearing House may from time to time specify.

(e) The transfer of ownership of the Deliverable Metal from the selling HKCC Participant to the buying HKCC Participant shall occur at the time when the full amount of the payment obligation is released to the selling HKCC Participant's designated bank account.

(f) Upon delivery of the full amount of the Deliverable Metal to the depository account of the buying HKCC Participant, the Approved Depository shall send a confirmation notice to the buying HKCC Participant, with a copy to the Clearing House.

(g) In respect of each Re-novated Contract, each of the buying HKCC Participant and the selling HKCC Participant irrevocably appoints the Clearing House as their settlement agent to perform the role of Settlement Agent as set out in this section 2A.3.2.3. The selling HKCC Participant irrevocably authorizes and instructs the Clearing House in its capacity as Settlement Agent to instruct the relevant Approved Depository as set out in section 2A.3.2.3(d)(i) above; and

(h) If (i) the Clearing House receives notice from the buying HKCC Participant before 2:30 p.m. on the Final Settlement Day that the buying HKCC Participant has not received the full amount of the Deliverable Metal in its depository account or (ii) the Clearing House does not release the amount of the payment obligation it received from the buying HKCC Participant in accordance with section 2A.3.2.3(a) to the selling HKCC Participant's designated bank account on or as soon as reasonably practicable after 2:30 p.m. for any other reason, then:

(A) the Clearing House shall not release the amount of the payment obligation it received from the buying HKCC Participant in accordance with section 2A.3.2.3(a) to the selling HKCC Participant's designated bank account;

(B) the Clearing House shall, on the instructions of the buying HKCC Participant, release the amount of the payment obligation from the segregated settlement account to the designated account of the buying HKCC Participant; and

(C) any disputes between the buying HKCC Participant and the selling HKCC Participant shall be resolved in accordance with the terms of the Re-novated Contract.

2A.3.3 Cash Compensation and non-delivery charge

(a) *Cash Compensation if one party is unable to fulfill its obligation*. If Contract Re-novation does not occur pursuant to section 2A.3.2.3(c) above or a Non-delivery HKCC Participant upon completion of the Matching Process pursuant to section 2A.3.2.1(c) is matched with a Physical Delivery Participant, Cash Compensation shall be payable by (i) the selling HKCC Participant if the Clearing House did not receive the notice from the Approved Depository confirming that the full amount of the Deliverable Metal has been earmarked or the selling HKCC Participant is a Non-delivery HKCC Participant, or (ii) the buying HKCC Participant if the Clearing House did not receive the full amount of the payment obligation, or the buying HKCC Participant is a Non-delivery HKCC Participant. Cash Compensation shall be determined by the Clearing House in its sole and absolute discretion in respect of each Physically Settled Metal Futures Contract which was required to be settled between the relevant buying HKCC Participant and the relevant selling HKCC Participant as follows:

(i) the Cash Compensation shall be an amount equal to the sum of (A) the Price Differential and (B) 3% of the Reference Price multiplied by the Contract Size;

(ii) the Reference Price shall be the Closing Quotation on the Final Settlement Day of the then prevailing spot month Physically Settled Metal Futures Contract whose terms correspond to those of the Physically Settled Metal Futures Contract which is about to settle;

(iii) if the Cash Compensation is payable by the selling HKCC Participant, the Price Differential shall be an amount equal to (A) the amount, by which the Reference Price exceeds the Final Settlement Price multiplied by (B) the Contract Size of the Physically Settled Metal Futures Contract which is about to settle and such Price Differential shall be zero if the Final Settlement Price is greater than the Reference Price.

(iv) if the Cash Compensation is payable by the buying HKCC Participant, the Price Differential shall be an amount equal to (A) the amount, by which the Final Settlement Price exceeds the Reference Price multiplied by (B) the Contract Size of the Physically Settled Metal Futures Contract which is about to settle and such Price Differential shall be zero if the Reference Price is greater than the Final Settlement Price.

The Clearing House shall debit an amount equal to the Cash Compensation from the relevant CCMS Collateral Account of the paying HKCC Participant and credit the same to the relevant CCMS Collateral Account of the receiving HKCC Participant on the Final Settlement Day or as soon as reasonably practicable thereafter. The Clearing House shall also have the right to impose on the paying HKCC Participant a non-delivery charge of 7% of the Reference Price multiplied by the Contract Size which shall be debited by the Clearing House from the paying HKCC Participant's relevant CCMS Collateral Account.

(b) *Cash Compensation if both parties are unable to fulfill their respective obligations*. If both: (i) the notice from the relevant Approved Depository confirming the earmarking of the required quantity of Deliverable Metal has not been received by the Clearing House in accordance with section 2A.3.2.3 or the selling HKCC Participant is a Non-delivery HKCC Participant; and (ii) the amount of the payment obligation from the buying HKCC Participant has not been received by the Clearing House in accordance with section 2A.3.2.3 or the buying HKCC Participant is a Non-delivery HKCC Participant, then Cash Compensation shall be payable by either the selling HKCC Participant or the buying HKCC Participant. Cash Compensation shall be payable by: (A) the buying HKCC

Participant if the Final Settlement Price of the Physically Settled Metal Futures Contract which is about to settle is greater than the Reference Price, or (B) the selling HKCC Participant if the Reference Price is greater than the Final Settlement Price of the Physically Settled Metal Futures Contract which is about to settle as follows:

(i) the Cash Compensation shall be an amount equal to the Price Differential;

(ii) the Price Differential shall be the difference between the Reference Price and the Final Settlement Price which is about to settle multiplied by the Contract Size; and

(iii) the Reference Price shall be the Closing Quotation on the Final Settlement Day of the then prevailing spot month Physically Settled Metal Futures Contract whose terms correspond to those of the Physically Settled Metal Futures Contract which is about to settle,

in each case as determined by the Clearing House in its sole and absolute discretion. The Clearing House shall debit an amount equal to the Cash Compensation from the relevant CCMS Collateral Account of the paying HKCC Participant and credit the same to the relevant CCMS Collateral Account of the receiving HKCC Participant on the Final Settlement Day or as soon as practicable thereafter. The Clearing House shall also have the right to impose a non-delivery charge of 7% of the Reference Price multiplied by the Contract Size on each of the HKCC Participants which shall be debited by the Clearing House from each HKCC Participant's relevant CCMS Collateral Account.

(c) The Clearing House shall be obliged to credit the relevant CCMS Collateral Account of the relevant receiving HKCC Participant with an amount equal to the Cash Compensation, as contemplated in paragraphs (a) and (b) of this section 2A.3.3, only to the extent that the receiving HKCC Participant is entitled to such amount in accordance with the provisions of paragraphs (a) and (b) of this section 2A.3.3.

If at any time the Clearing House shall determine that the Clearing House has credited any amount of Cash Compensation to the relevant CCMS Collateral Account of a receiving HKCC Participant in circumstances where the Clearing House was for any reason not obliged or entitled to do so or was for any reason not entitled to debit any related amount from the CCMS Collateral Account of the relevant paying HKCC Participant (including, without limitation, in circumstances where, the paying HKCC Participant was not obliged to pay Cash Compensation to the receiving HKCC Participant, or by virtue of any mistake or error as to fact or law), the relevant receiving HKCC Participant shall repay such amount to the paying HKCC Participant or to the Clearing House, as may be notified by the Clearing House to the relevant receiving HKCC Participant, and the Clearing House may, but shall not be obliged to, debit any such amount from the CCMS Collateral Account of the relevant receiving HKCC Participant.

2A.3.3A Fine for Non-delivery HKCC Participants

(a) If a Non-delivery HKCC Participant holds any open position in a spot month Physically Settled Metal Futures Contract after the System Input Cutoff Time on the Business Day before the last trading day of such spot month contract, the Clearing House shall have the right to impose a fine of 0.25% of the Closing Quotation of the spot month Physically Settled Metal Futures Contract on that day multiplied by the Contract Size of each such position.

(b) If a Non-delivery HKCC Participant (or, where applicable, any Non-Clearing Participant of the Non-delivery HKCC Participant) trades or accepts any trade or position transfer in the spot month Physically Settled Metal Futures Contracts after the T Session on the Business Day before the last trading day other than to close out an existing open position that would otherwise be subject to the Matching Process described in section 2A.3.2.1(c) of the Clearing House Procedures in respect of such Physically Settled Metal Futures Contracts, the Clearing House shall have the right to impose a fine of 0.25% of the Final Settlement Price of the spot month Physically Settled Metal Futures Contract multiplied by the Contract Size on each of such open position as determined by the Clearing House in its sole and absolute discretion.

2A.3.4 Role of Clearing House as Settlement Agent; exclusion of liability

(a) Without prejudice to the duties and the limitations on the liability of the Clearing House as a central counterparty as set out elsewhere in the Clearing House Rules, the role of the Clearing House in relation to the delivery and settlement of any Physically Settled Metal Futures Contract as set out in section 2A of these Clearing House Procedures (including, without limitation, its role as Settlement Agent) is to assist with the facilitation of the settlement of Physically Settled Metal Futures Contracts only and is purely administrative in nature. HKCC Participants acknowledge and accept (and undertake to procure that all Third Party Service Providers acknowledge and accept) that the Clearing House acts in this role under section 2A of these Clearing House Procedures (including, without limitation, in the role of Settlement Agent), and undertake (and undertake to procure that all Third Party Service Providers undertake) to co-operate with the Clearing House in acting in such role, including to do or refrain from doing (and to procure that Third Party Service Providers do or refraining from doing) such acts, and to provide (and to procure that Third Party Service Providers undertake to provide) such documentation or information to the Clearing House, as the Clearing House, in its sole and absolute discretion, may require.

(b) The Clearing House shall not be required to take any action under section 2A of these Clearing House Procedures (including, without limitation, in its role as Settlement Agent) unless it is satisfied, in its sole and absolute discretion, that (i) such action is in compliance with all applicable laws and regulations, these Clearing House Procedures, the Clearing House Rules, the Exchange Rules and the internal policies of the Clearing House, and (ii) the Clearing House has received all relevant documentation and other information from an HKCC Participant, Third Party Service Provider or any other party as the Clearing House may require.

(c) Each HKCC Participant undertakes to notify the Clearing House of any change of fact or circumstance which may be material to the Clearing House to enable it to fulfil its role under section 2A of these Clearing House Procedures (including, without limitation, in its role as Settlement Agent).

(d) The Clearing House may disclose any information it receives in connection with its role under section 2A of these Clearing House Procedures (including, without limitation, in its role as Settlement Agent) where disclosure is required by applicable law or regulation, a court of competent jurisdiction or a governmental or regulatory body or in connection with legal proceedings. No disclosure restriction shall apply to information which is in, or comes into, the public domain.

(e) In the event that, in the opinion of the Clearing House, it is unclear how it is required to act under section 2A of these Clearing House Procedures (including, without limitation, in connection with its role as Settlement Agent), it may in its sole and absolute discretion, and without incurring any liability of any nature whatsoever, refrain from acting pending receipt to its satisfaction of such additional information, clarification, or advice from an HKCC Participant, Third Party Service Provider or any other party (including, without limitation, any legal, professional or relevant expert advisor, regulator, or other governmental or judicial body) as it deems necessary or desirable.

(f) The Clearing House does not in any circumstances act under section 2A of these Clearing House Procedures as a trustee or fiduciary of an HKCC Participant or any other person, shall have no implied duties (including, without limitation, any duty to act in good faith or any fiduciary duty), and none of the Clearing House, the Exchange and any recognized controller of the Clearing House shall have any liability of any nature whatsoever to an HKCC Participant or any other person in connection with its role under section 2A of these Clearing House Procedures (including, without limitation, in its role as Settlement Agent). Without limitation to the foregoing:

  (i) the Clearing House, the Exchange and any recognized controller of the Clearing House make no representation or warranty as to the competence, condition, suitability, or fitness for purpose for its respective role of any Third Party Service Provider;

(ii) the Clearing House makes no representation or warranty as to the validity, authenticity or accuracy of any instruction given by, or document issued, delivered, submitted, lodged or provided by any Third Party Service Provider or which it otherwise receives in connection with its role under section 2A of these Clearing House Procedures (including, without limitation, in its role as Settlement Agent), and the Clearing House shall have no duty to investigate or verify the adequacy, accuracy or completeness of any document, and shall be entitled to rely on all such instructions and documents as valid, authentic and accurate and shall have no liability to any person for any action taken by it in accordance with any such instruction or document;

(iii) the Clearing House, in connection with its role under section 2A of these Clearing House Procedures (including, without limitation, in its role as Settlement Agent), shall have no obligation:

(A) to take any action which, in its sole and absolute discretion, it determines may subject it to any cost or liability which it deems may not be recoverable promptly;

(B) to solicit instructions from any HKCC Participant, any Third Party Service Provider or any other party; and

(C) to verify the accuracy, completeness or compliance with the Contract Specifications, these Rules and the Rules of the Exchange of any Deliverable Metal, any amount paid or payable in respect of such Deliverable Metal, or any other assets provided or transferred to it or any other party in connection with the settlement of a Physically Settled Metal Futures Contract (collectively "**Delivery Assets**");

(iv) the Clearing House shall have no liability to an HKCC Participant or any other person for any decision to release, or any delay by it in releasing, or instructing the release of, as the case may be, any Delivery Assets;

(v) in no circumstances shall ownership of Deliverable Metal delivered by a selling HKCC Participant pass to the Clearing House, and the Clearing House shall in no circumstances be liable to any party in connection with any claim that ownership of Deliverable Metal passed to the Clearing House whether in connection with the Clearing House's role under section 2A of these Clearing House Procedures (including, without limitation, in its role as Settlement Agent) or otherwise;

(vi) without prejudice to Rule 309A and section 2A.3.2.3(b) of these Clearing House Procedures, following a Contract Re-novation, the Clearing House shall have no further liability as a central counterparty to any Buyer or Seller under a Contract in respect of which Contract Re-novation has occurred; and

(vii) the Clearing House shall not be responsible for, and shall have no liability in connection with, ensuring that an HKCC Participant or any other party complies with all applicable laws, regulations, requirements or procedures which may be binding on such HKCC Participant or other party in connection with a Physically Settled Metal Futures Contract.

(g) Each HKCC Participant confirms and represents at all times that:

(i) it has conducted and will continue to conduct its own review, due diligence and assessment of each relevant Third Party Service Provider and the procedures of such Third Party Service Provider and it has not relied and will not rely on the Clearing House to conduct any review, due diligence or assessment of any Third Party Service Provider or the procedures of such Third Party Service Provider;

(ii) it has had access to such information from the Clearing House or each relevant Third Party Service Provider as it may require to conduct such review, due diligence and assessment;

(iii) it has made and will continue to make its own independent investigation and assessment of the financial condition and affairs of the other HKCC Participant under the relevant Re-novated Contract and it has not relied on any investigation or assessment of, or any information provided to it by, the Clearing House or the Exchange; and

(iv) it has consulted with its own legal, regulatory, tax, business, investments, financial and accounting advisors to the extent that it has deemed necessary, and it has made its own investments, hedging, and trading decisions in respect of the Re-novated Contract based upon its own judgment and upon any advice from such advisors as it has deemed necessary and not upon any view expressed by the Clearing House or the Exchange.

(h) Each HKCC Participant shall indemnify and hold harmless the Clearing House from all liabilities or obligations of any kind whatsoever that may be imposed on or incurred by the Clearing House in connection with any action, claim or proceeding brought or threatened to be brought against it in connection with its role under section 2A of these Clearing House Procedures (including, without limitation, its role as Settlement Agent).

(i) The Clearing House makes no representation or warranty and assumes no responsibility to any HKCC Participant for:

   (i) the legality, validity, effectiveness, adequacy or enforceability of the Re-novated Contract;

   (ii) the financial condition of the other HKCC Participant under a Re-novated Contract;

   (iii) the performance and observance by the other HKCC Participant under a Re-novated Contract of its obligations under such Re-novated Contract; or

   (iv) the accuracy of any statements (whether written or oral) made by any HKCC Participant or Third Party Service Provider in or in connection with a Re-novated Contract,

and any representations or warranties implied by law are excluded.

2A.3.5 Terms of Re-novated Contract and dispute resolution

A Re-novated Contract shall have the following terms:

(a) a Re-novated Contract shall be governed by, and construed in accordance with, the laws of Hong Kong;

(b) the implied terms of the Sale of Goods Ordinance (Cap. 26 of Hong Kong) shall not apply to a Re-novated Contract;

(c) for the avoidance of doubt, a Re-novated Contract shall constitute a market contract for the purposes of the Securities and Futures Ordinance (Cap. 571 of Hong Kong);

(d) Rules 509 and 510 of the Clearing House Rules shall not apply to a Re-novated Contract;

(e) the buying HKCC Participant and/or the selling HKCC Participant which are parties to a Re-novated Contract shall not waive or amend any term of, or assign or otherwise dispose of any right or interest in, that Re-novated Contract without the prior written consent of the Clearing House and the Exchange, unless such waiver or amendment is in respect of one or more of the Delivery Representations and/or the Delivery Warranties set out in section 2A.3.5 (f) and (g) respectively and only to the extent that such waiver or amendment does not affect in any way any rights and obligations of the Exchange or the Clearing House under or in respect of the Re-novated Contract;

(f) each of the buying HKCC Participant and the selling HKCC Participant under a Re-novated Contract makes the following representations to the other HKCC Participant under such Re-novated Contract at the time that the Contract Re-novation takes place (collectively, the "**Delivery Representations**"):

(i) it is duly organised and validly existing under the laws of the jurisdiction of its organisation or incorporation and, if relevant under such laws, in good standing;

(ii) it has the power to enter into the Re-novated Contract and any other documentation relating to the Re-novated Contract that it is required by the Re-novated Contract to enter into and to perform its obligations under the Re-novated Contract and any such other documentation and has taken all necessary action to authorise the entering into and performance of such obligations;

(iii) the entering into and performance of the Re-novated Contract and any other documentation relating to the Re-novated Contract that it is required by the Re-novated Contract to enter into do not violate or conflict with any rules of the Exchange or the Clearing House, any law applicable to it, any provision of its constitutional documents, any order or judgment of any court or other agency of government applicable to it or any of its assets or any contractual restriction binding on or affecting it or any of its assets;

(iv) all governmental and other consents that are required to have been obtained by it with respect to the Re-novated Contract have been obtained and are in full force and effect and all conditions of any such consents have been complied with;

(v) its obligations under the Re-novated Contract constitute its legal, valid and binding obligations, enforceable in accordance with their respective terms (subject, as to enforceability, to equitable principles of general application (regardless of whether enforcement is sought in a proceeding in equity or at law);

(vi) the Re-novated Contract is a market contract for the purposes of the Securities and Futures Ordinance (Cap. 571 of Hong Kong);

(vii) no default or potential default under any rules of the Exchange or the Clearing House with respect to it has occurred and is continuing and no such event or circumstance would occur as a result of its entering into or performing its obligations under the Re-novated Contract; and

(viii) there is not pending or, to its knowledge, threatened against it any action, suit or proceeding at law or in equity or before any court, tribunal, governmental body, agency or official or any arbitrator that is likely to affect the legality, validity or enforceability against it of the Re-novated Contract or its ability to perform its obligations under the Re-novated Contract;

(g) the selling HKCC Participant under a Re-novated Contract makes the following warranties to the buying HKCC Participant under such Re-novated Contract at the time that the Contract Re-novation takes place (collectively, the "**Delivery Warranties**"):

(i) it has good title to the Deliverable Metal that it delivers, and which is earmarked for delivery, under each Re-novated Contract, and such Deliverable Metal is, and will at the time of delivery to the buying HKCC Participant be, free and clear from any encumbrance, lien, claim, mortgage, charge, security interest or any other interest of any nature whatsoever save for any liens or any rights as bailee of any Approved Depository in respect of such Deliverable Metal arising pursuant to the terms of any Approved Depository Account Agreement between an HKCC Participant and an Approved Depository;

(ii) the Deliverable Metal that is earmarked for delivery and which it delivers under each Re-novated Contract complies in all respects with the applicable Contract Specifications, these Clearing House Procedures, the Clearing House Rules and the Exchange Rules, including, without limitation, that such Deliverable Metal is of the prescribed weight, quality and fineness as specified in the Contract Specifications and is in the amount in aggregate, in respect of each Re-novated Contract, specified in the relevant Delivery Notice; and

(iii) all information provided by the HKCC Participant or its Delivery Agent to the Clearing House under section 2A of these Clearing House Procedures in connection with the delivery by such HKCC Participant or Delivery Agent of Deliverable Metal, including all information contained in any Delivery Notice, is true, accurate and complete in all respects;

(h) settlement of the Re-novated Contract shall be conducted in accordance with section 2A.3.2.3(d) to (h) of these Clearing House Procedures. Subject to and in compliance with section 2A.3.2.3(d) to (h) of these Clearing House Procedures and any other relevant provisions of the Clearing House Rules or these Clearing House Procedures, (i) the buying HKCC Participant agrees to pay the amount of its payment obligation in respect of the Re-novated Contract to the designated bank account of the selling HKCC Participant and (ii) the selling HKCC Participant agrees to deliver the Deliverable Metal in respect of the Re-novated Contract to the depository account of the buying HKCC Participant or its Delivery Agent, in each case in accordance with the Contract Specifications. The selling HKCC Participant shall deliver such Deliverable Metal to the buying HKCC Participant with good title and free and clear from any encumbrance, lien, claim, mortgage, charge, security interest or any other interest of any nature whatsoever. All fees, costs and expenses related to such delivery shall be borne by the selling HKCC Participant and all fees, costs and expenses that may be charged by the buying HKCC Participant's Approved Depository for accepting such delivery shall be borne by the buying HKCC Participant;

(i) all risk in, and ownership of, Deliverable Metal, shall pass from the selling HKCC Participant to the buying HKCC Participant under a Re-novated Contract at the time that the Clearing House releases the full amount of the buying HKCC Participant's payment obligation to the selling HKCC Participant's designated bank account in accordance with section 2A.3.2.3(e) of these Clearing House Procedures;

(j) in the event that a buying HKCC Participant (the "**Disputing Party**") claims that Deliverable Metal delivered to it by a selling HKCC Participant does not comply with the Contract Specifications or the selling HKCC Participant otherwise breaches the Delivery Warranties, the Disputing Party may submit the relevant Deliverable Metal to a Recognized Assayer for sampling or testing. The Disputing Party shall, in the first instance, bear the costs of such sampling and testing, and shall be responsible for making all necessary arrangements with the Approved Depository, Recognized Refiner, Recognized Assayer and/or or any other relevant party for such sampling and testing process. In the event that the Recognized Assayer finds that the Deliverable Metal does not comply with the Contract Specifications or that the selling HKCC Participant has otherwise breached a Delivery Warranty, or the Disputing Party disagrees with the findings of the Recognized Assayer, the Disputing Party may proceed directly against the selling HKCC Participant in accordance with section 2A.3.5(k) of these Clearing House Procedures; and

(k) Rule 308C shall not apply to a Re-novated Contract.

Rather, any dispute, controversy, difference or claim arising out of or relating to a Re-novated Contract, including the existence, validity, interpretation, performance, breach or termination thereof or any dispute regarding non-contractual or pre-contractual rights and obligations arising out of or relating to it ("**Dispute**"), shall be referred to and finally resolved by arbitration administered by the Hong Kong International Arbitration Centre ("**HKIAC**") under the HKIAC Administered Arbitration Rules in force when the Notice of Arbitration is submitted ("**Arbitration Rules**"), which Arbitration Rules are deemed to be incorporated by reference into this clause. The seat of the arbitration shall be Hong Kong. The number of arbitrators shall be three. The arbitration proceedings shall be conducted in English. The selling HKCC Participant and the buying HKCC Participant undertake to comply without delay with any award or order made by the arbitral tribunal.

For the avoidance of doubt, no HKCC Participant nor any other party may bring arbitration or any other proceedings against the

Clearing House, the Exchange or any controller of the Exchange in connection with any Dispute, and nor shall any of the Clearing House, the Exchange or any controller of the Exchange be joined to any arbitration proceedings relating to any Dispute;

(l) the terms under this section 2A.3.5 constitute the entire agreement between the Clearing House, the buying HKCC Participant and the selling HKCC Participant under a Re-novated Contract in relation to the obligations of each party under the Re-novated Contract and supersedes any previous agreement, whether express or implied, in relation to any term of the Re-novated Contract;

(m) a person who is not the Clearing House, the Exchange, or the buying HKCC Participant or the selling HKCC Participant under a Re-novated Contract has no right under the Contracts (Rights of Third Parties) Ordinance (Cap. 623) to enforce or to enjoy the benefit of any term of the Re-novated Contract; and

(n) the Clearing House is a party to the Re-novated Contract only for the purposes of effecting the re-novation to the buying HKCC Participant and the selling HKCC Participant, performing its role as Settlement Agent in respect of such Re-novated Contract and enforcing its rights under sections 2A.3.5(d), (e) and (h) and this section 2A.3.5(n). The Clearing House shall have no liability whatsoever for the performance of the buying HKCC Participant and the selling HKCC Participant in respect of the Re-novated Contract and each of the buying HKCC Participant and the selling HKCC Participant confirm to each other and to the Clearing House their agreement to the terms set out in section 2A.3.4 of these Clearing House Rules and such terms shall be incorporated in full into the Re-novated Contract.

2A.4 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 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.