Rules and Procedures of HKFE Clearing Corporation Limited

CHAPTER I

INTERPRETATION

Definitions

101. In these Rules, the definitions contained in the Exchange Rules (as hereinafter defined) shall where the context permits be incorporated herein by reference and the following expressions shall, unless the context otherwise requires, bear the following meanings:-

"Approved Settlement Bank"	means a bank at which HKCC has opened an account and designated by HKCC from time to time as being eligible for money settlements in relation to clearing services provided by HKCC through either internal fund transfers or fund transfers to and from a Prime Settlement Bank or settlement account of HKCC maintained with the Hong Kong Monetary Authority;
"Designated Bank"	means a bank designated by HKCC from time to time as being eligible for money settlements in relation to clearing services provided by HKCC through fund transfers to and from a Prime Settlement Bank or settlement account of HKCC maintained with the Hong Kong Monetary Authority;
"Prime Settlement Bank"	means a bank at which HKCC has opened an account and designated by HKCC from time to time as being eligible for money settlements in relation to clearing services provided by HKCC through either internal fund transfers or fund transfers to and from an Approved Settlement Bank, a Designated Bank or settlement account of HKCC maintained with the Hong Kong Monetary Authority;

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

Chapter 2 Clearing and Settlement Procedures

2.6 Methods of Providing Cover for Clearing House Margin

2.6.4 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. on a Trading Day which is a Business Day 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.

An HKCC Participant may make a request for redelivery of surplus Exchange Fund Bills/Notes in its CCMS Collateral Account by inputting an order for redelivery via a CCMS terminal, by notifying the Clearing House in writing or by other means acceptable to the Clearing House by 11:00 a.m. on a Trading Day which is a Business Day. If the Clearing House accepts such redelivery request, the Clearing House will, subject to Rule 407A, 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 Trading Day which is a 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.

2.6.6 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. on a Trading Day which is a Business Day 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 Trading Day, after deducting a haircut of such percentage as determined from time to time by the Clearing House.

An HKCC Participant may make a request for redelivery of surplus U.S. Treasuries in its CCMS Collateral Account by inputting an order for redelivery via a CCMS terminal, by notifying the Clearing House in writing or by other means acceptable to the Clearing House by 11:00 a.m. on a Trading Day which

is a Business Day. If the Clearing House accepts such redelivery request, the Clearing House will, subject to Rule 407A, 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 Trading 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.

2.10 Redelivery of Surplus Funds in the Settlement Currency

Subject to Rule 407A, 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, by notifying the Clearing House in writing or by other means acceptable to the Clearing House by 11:00 a.m. on each Business Day. It should be noted that the Clearing House will not redeliver any surplus funds 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. If the Clearing House accepts the redelivery request, the Clearing House will pay the requested amount from its settlement account maintained with the Hong Kong Monetary Authority and/or from its account with a Prime Settlement Bank or an Approved Settlement Bank (as applicable) to the HKCC Participant's account with a Prime Settlement Bank, Approved Settlement Bank or Designated Bank (as applicable) for same day value.