

Rules and Procedures of HKFE Clearing Corporation Limited

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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:-

“Bank Business Day”	means, in relation to a jurisdiction <u>outside Hong Kong</u> , any day (except Saturdays, Sundays, and public holidays) on which banks in that jurisdiction are open for business;
“Business Day”	means, in relation to an Exchange Contract, any day (other than a Saturday, Sunday or public holiday in Hong Kong) during which the Exchange is open for trading that Exchange Contract;
“Currency Options Contract”	means an Exchange Contract which is an Option Contract and whose underlying commodity is a specified currency;
“expiry”	means the <u>Last Trading Day</u> or Expiry Day, as the case may be;
“Expiry Day”	means the last or only Business-Trading Day, as the case may be, on which an option can be traded or exercised and shall, subject to section 901 of the Rules of the Exchange, be described in the applicable Contract Specifications;
<u>“Holiday Trading Exchange Contract”</u>	<u>bears the same meaning as in the Exchange Rules;</u>
“ <u>Last Trading Day</u> ”	means the last day for trading in an Exchange Contract, as specified in the Contract Specifications;
“mandatory intra-day variation adjustment and margin”	means the intra-day variation adjustment and Clearing House margin that is required by the

Clearing House pursuant to Rule 410C ~~on open Contracts in Markets with a T+1 Session and any other Market with the same or a similar underlying instrument;~~

- “margin” means Clearing House margin, Special Block Trade Margin, and/or additional margin;
- “Market close” means the close of trading of the T Session on each Business-Trading Day;
- “Settlement Currency” means the currency in which a Contract shall be settled, which currency shall be as specified in the applicable Contract Specifications, or if not so specified, shall be the Currency of the Contract provided that:
- (a) in respect of any Currency Futures Contract which is a Physical Delivery Contract:
 - (i) in the case of the Buyer, the Settlement Currency shall be the currency in which the Currency Futures Contract shall be settled by the Buyer; and
 - (ii) in the case of the Seller, the Settlement Currency for final settlement shall be the currency underlying the Currency Futures Contract which shall be delivered by the Seller and the Settlement Currency for payment of Clearing House margin, variation adjustment and any other form of margin or fees which may be imposed by the Clearing House or the Exchange shall be the currency in which the Currency Futures Contract is traded;
 - (b) in respect of any Currency Options Contract which is a Physical Delivery Contract:

- (i) in the case of the holder of a Call Option or writer of a Put Option, the Settlement Currency shall be the currency in which the Currency Options Contract shall be settled by the holder of a Call Option or the writer of a Put Option; and
- (ii) in the case of the writer of a Call Option or the holder of a Put Option, the Settlement Currency for final settlement shall be the currency underlying the Currency Options Contract which shall be delivered by the writer of a Call Option or the holder of a Put Option and the Settlement Currency for payment of Clearing House margin, variation adjustment and any other form of margin or fees which may be imposed by the Clearing House or the Exchange shall be the currency in which the Currency Options Contract is traded;

“Trading Day”

bears the same meaning as in the Exchange Rules;

CHAPTER II

HKCC PARTICIPANTSHIP

Procedure on application

209. (a) Every applicant shall be informed by notice in writing within 7 ~~business~~Business ~~days~~Days after the relevant meeting as to whether its application is approved or refused.

CHAPTER III

REGISTRATION, CLEARING, RISK

General

302. The Clearing House shall be open for business whenever any of the Markets of the Exchange are open for business, including on public holidays.

Holiday Trading Exchange Contracts

320. The Clearing House may in its absolute discretion specify, and shall notify HKCC Participants of, the clearing arrangements applicable to Holiday Trading Exchange Contracts from time to time.
321. An HKCC Participant that wishes to clear Holiday Trading Exchange Contracts shall apply to the Clearing House and comply with such terms, conditions and requirements as prescribed by the Clearing House from time to time, including but not limited to:
- (a) having an arrangement with a Designated Bank, an Approved Settlement Bank, or a Prime Settlement Bank for settlement on all Trading Days, including Trading Days which are public holidays in Hong Kong; and
 - (b) being able to comply with any margin and other payment obligations required by the Clearing House on a Trading Day which may be a public holiday in Hong Kong.
322. An HKCC Participant which is not approved by the Clearing House to clear Holiday Trading Exchange Contracts is prohibited from clearing Holiday Trading Exchange Contracts on all Trading Days, regardless of whether such Trading Days are Business Days.

CHAPTER IV

**CLEARING HOUSE MARGIN, VARIATION ADJUSTMENT,
COVER FOR MARGIN AND ACCOUNTS**

Release of ~~Clearing House~~ margin

406. The Clearing House may at any time in its absolute discretion release all or part of the ~~Clearing House~~ margin paid or delivered to the Clearing House.
407. Where an HKCC Participant has delivered non-cash collateral to the Clearing House pursuant to Rule 404(b) or Rule 411 and the Clearing House is subsequently satisfied that the value of non-cash collateral delivered pursuant to Rule 404(a) has increased, the Clearing House may in its absolute discretion release all or part of such margin.

407A. Notwithstanding the above or any provisions of the Rules to the contrary, no excess margin, whether in any type of currency or any form of collateral, will be released or redelivered by the Clearing House to an HKCC Participant on a Trading Day which is not a Business Day.

Variation adjustment

408. Except as otherwise prescribed in the Exchange Rules, the Clearing House will, in accordance with the HKCC Rules, calculate variation adjustments in respect of all open Contracts at least once daily on each Trading Day.
- (a) At Market close on each ~~Trading Business~~ Day until and including the ~~Business Trading~~ Day immediately preceding the ~~Last trading Trading~~ ~~Day~~ or such other day as specified in the Clearing House Procedures, ~~every an~~ HKCC Participant is, for the purpose of calculating variation adjustments, deemed to have closed out each open Contract at a price equal to the Closing Quotation for that ~~Business Trading~~ Day and to have entered into a new Contract at the Closing Quotation which is treated as its carry forward open Contract for the next ~~Business Trading~~ Day. Any profits or losses arising on the deemed closing out each ~~Business Trading~~ Day are treated as realized profits or losses and shall be debited or credited against the HKCC Participant's CCMS Collateral Account with the Clearing House, but no realized profits will be released by the Clearing House on a Trading Day which is not a Business Day.
- (aa) Profits and losses arising from Physical Delivery Contracts on or after the ~~last Last Trading trading~~ ~~Day~~ shall be treated in accordance with the Clearing House Procedures.

- (b) (deleted)
 - (c) Other methods

The Clearing House may from time to time introduce other adjustment methods by giving notice to all HKCC Participants.
 - (d) The Clearing House will keep the Commission informed of the method used to adjust Contracts from time to time.
409. (a) HKCC Participants must pay all variation adjustments immediately on demand from the Clearing House, including, in respect of HKCC Participants which clear Holiday Trading Exchange Contracts, those demanded from the Clearing House on a Trading Day which is not a Business Day. All such demands must be met by ~~a~~ cash payment in the Settlement Currency, unless otherwise permitted by the Clearing House.
410. The Clearing House shall calculate margin requirements and variation adjustments at least once on every BusinessTrading Day in respect of:-
- (a) every Cash Settled Contract until the earlier of the date on which that Contract (i) is closed out; or (ii) expires or is exercised; and
 - (b) every Physical Delivery Contract until the earliest of (i) the date on which that Contract is closed out; (ii) the date on which that Contract is settled; or in the case of a Physically Settled Options on Futures Contract, the date on which that Contract expires or is exercised; or (iii) in the case of a Physical Delivery Contract where the settlement obligations of HKCC Participants to HKCC will complete at or before 9:15 a.m. on the Final Settlement Day, the BusinessTrading Day immediately preceding the Final Settlement Day, or in the case of any other Physical Delivery Contract, the Final Settlement Day.

Mandatory intra-day variation adjustment and margin

- 410C. (a) Following Market open of the T Session on each BusinessTrading Day, the Clearing House will, in accordance with the Clearing House Procedures, call for a mandatory intra-day variation adjustment and margin in respect of all open Contracts held in all Markets by an HKCC Participant at a time specified by the Clearing House ~~in Markets with a T+1 Session and any other Market whose underlying instrument is the same as or similar to any of the Markets with a T+1 Session~~.
- (b) HKCC Participants must pay all mandatory intra-day variation adjustment and margin immediately on demand from the Clearing

House in accordance with the Clearing House Procedures, including, in respect of HKCC Participants which clear Holiday Trading Contracts, those demanded from the Clearing House on a Trading Day which is not a Business Day.

- (c) Failure to comply with any requirement of the Clearing House regarding mandatory intra-day variation adjustment and margin may result in action pursuant to Rule 510 and/or Rule 517.

Additional margin and intra-day variation adjustment

411. (a) If according to any intra-day assessment of the liabilities arising from the open Contracts of an HKCC Participant, any capital-based position limit imposed on the HKCC Participant in accordance with the Clearing House Procedures is determined by the Clearing House to have been exceeded, or if in the opinion of the Clearing House sudden fluctuations of any Market operated by the Exchange are apparent, the Clearing House may, during the T Session or where applicable during the T+1 Session of any ~~Business~~Trading Day, call for intra-day variation adjustment and/or, in the latter case, additional margin.
- (aa) The Clearing House may also call for additional margin on any ~~Trading Day~~Business Day (i) if according to its assessment of the liabilities arising from the open Contracts of an HKCC Participant which are based on the same or similar underlying instruments, any concentration or specified threshold imposed on the HKCC Participant in accordance with the Clearing House Procedures has been exceeded; or (ii) if the projected aggregate loss (less General Collateral (excluding any excess collateral) and any margin except additional margin collected under section 2.2.8 of the Clearing House Procedures) arising from the open Contracts of an HKCC Participant exceeds the Reserve Fund Risk Predefined Limit; or (iii) under such other circumstances as may be specified in the Clearing House Procedures.
 - (b) Additional margin shall take the form of additional Clearing House margin and shall be payable immediately on demand from the Clearing House.

Calculation of interest, costs and charges

419. Any alteration in the basis of calculating interest, costs and charges under Rule 417 or Rule 418 shall become effective, in respect of all current and future deposits, on the seventh ~~day~~Business Day after the date on which notice of the alteration is notified to HKCC Participants. For the avoidance of doubt, alterations may be made by the Clearing House on shorter notice or without prior notice if the basis of calculation remains unaltered.

CHAPTER VI

CASH SETTLEMENT, DELIVERY AND EXCHANGE OF FUTURES

Assignment process

603. After Market close on the ~~L~~ast ~~T~~trading ~~D~~ay of a Physical Delivery Contract (other than a deliverable Currency Futures Contract, a deliverable Currency Option Contract or a Physically Settled Options on Futures Contract), the Clearing House will allocate all short positions in such Contract to long positions in such Contract by an assignment process set forth in the Clearing House Procedures. In respect of a Physical Delivery Contract which is Physically Settled Metal Futures Contract, any outstanding open position in the relevant spot month Physically Settled Metal Futures Contract held by any HKCC Participant will be included in the Matching Process pursuant to section 2A.3.2.1(c) of the Clearing House Procedures. Each Physical Delivery Participant acknowledges and accepts that they may be matched, through the Matching Process, with a Non-delivery HKCC Participant. In such circumstances, the Physical Delivery Participant will receive a payment of Cash Compensation instead of completing the sale or purchase of, and delivering or taking delivery of, Deliverable Metal, as the case may be. The Physical Delivery Participant accepts and acknowledges such risk, and shall have no claim against the Clearing House, the relevant Non-delivery HKCC Participant or any other person resulting from it receiving payment of Cash Compensation instead of delivering or taking delivery of Deliverable Metal, as the case may be.

Open positions of a Non-delivery HKCC Participant under a Physically Settled Metal Futures Contract

606A. A Non-delivery HKCC Participant shall not:

- (i) have any open position in any spot month Physically Settled Metal Futures Contract at or after the System Input Cutoff Time on the ~~Trading~~Business Day before the ~~last trading day~~Last Trading Day in respect of such Contract and shall close out or transfer any such open position to another HKCC Participant before such time;
- (ii) trade (and where applicable, shall procure that its Non-Clearing Participants will not trade) any spot month Physically Settled Metal Futures Contract during or after the T+1 Session on the ~~Business~~Trading Day before the ~~last trading day~~Last Trading Day unless such trade serves to close out an existing open position of the Non-delivery HKCC Participant;
- (iii) perform any trade adjustment or position adjustment in any spot month Physically Settled Metal Futures Contract relating to trades registered with the Clearing House during the T+1 Session on the ~~Business~~Trading Day before the ~~last trading day~~Last Trading Day unless such trade adjustment or position adjustment serves to close out an existing open position of the Non-delivery HKCC Participant; or

- (iv) perform any trade adjustment or position adjustment in any spot month Physically Settled Metal Futures Contract on the ~~last trading day~~ Last Trading Day unless such trade adjustment or position adjustment serves to close out an existing open position of the Non-delivery HKCC Participant.

Action of the Clearing House against a Non-delivery HKCC Participant under a Physically Settled Metal Futures Contract

606B. If a Non-delivery HKCC Participant fails to comply with Rule 606A, the Clearing House shall have the right to impose a fine as set out in section 2A.3.3.A of the Clearing House Procedures and the Non-delivery HKCC Participant shall submit to the Clearing House within one month of the ~~last trading day~~ Last Trading Day a rectification plan setting out an explanation of the non-compliance and the measures that it will put in place to ensure that non-compliance will not recur. If there is any breach by the Non-delivery HKCC Participant by virtue of the Non-delivery HKCC Participant failing to comply with Rule 606A(i), 606A(ii), 606A(iii) or 606A(iv), or maintaining open positions by the end of the ~~last trading day~~ Last Trading Day in more than one month during any continuous 12-month period, the Clearing House shall have the right to restrict the Non-delivery HKCC Participant from opening new positions in all Contract Months of the Physically Settled Metal Futures Contract and/or require the Non-delivery HKCC Participant to close out or transfer to another HKCC Participant open positions in such Physically Settled Metal Futures Contract for such period as the Clearing House considers fit.

CHAPTER VIII

EMERGENCIES

Typhoons, Extreme Conditions and rainstorms

802. Clearing, settlement and collateral management services may be temporarily suspended in accordance with the Clearing House Procedures in the event that a Typhoon Signal No. 8 or above is hoisted, Extreme Conditions are announced or a Black Rainstorm Warning is issued on any ~~Business Day~~Trading Day.

APPENDIX A

Fees

Description

Amount¹

DCASS-Related Fees

Access to the DCASS testing environment

100/day or part thereof
provided that no access fee
will be charged for the first
5 ~~B~~Business ~~d~~Days

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

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

The Clearing House Procedures below outline the registration, settlement, clearing and margining procedures for the Futures / Options Contracts (in these procedures, referred to as “Contracts”) traded on HKATS. These procedures are divided into the following chapters:- Chapter 1 – Registration Procedures; Chapter 2 – Clearing and Settlement Procedures; Chapter 2A – Settlement of Physical Delivery Contracts; Chapter 3 – Clearing Documentation; Chapter 4 – Reserve Fund Contribution; Chapter 5 – Capital-Based Position Limits; Chapter 6 – Typhoons, Extreme Conditions and Rainstorms; Chapter 7 – Clearing Service Termination Event and Chapter 8 - HKCC Failure to Pay Event and HKCC Insolvency Event.

Chapter 1 Registration Procedures

1.1 Trade Capture and Registration

Trade details of a Contract executed on HKATS are electronically transmitted from HKATS to the Clearing House once they have been validated, matched and recorded in the Transaction Register of the system. Unless otherwise specified in the Exchange Rules, the Clearing House Rules or these Clearing House Procedures, the Contract will be immediately registered with the Clearing House upon the recording of such Contract in accordance with the Exchange Rules. Notwithstanding the foregoing, any such Contract registered with the Clearing House during the T+1 Session on a **BusinessTrading** Day shall for the purposes of clearing and settlement, be treated as a trade executed by the relevant HKCC Participant on the next **BusinessTrading** Day, unless otherwise specified in the Clearing House Rules or these Clearing House Procedures.

1.2 Types of Clearing Accounts in DCASS

1.2.6 Daily Account

The Daily Account serves as an account to which trades can be transferred on a temporary basis for average price trade calculation or other purposes prescribed by the Clearing House from time to time. Trades and positions in the Daily Account are treated for all purposes as trades and positions belonging to the House Account with the exception that positions recorded in the Daily Account ~~on any Business Day~~ will be maintained on a gross basis up to the System Input Cutoff Time. An HKCC Participant shall

transfer all trades in its Daily Account to its other accounts in DCASS (other than the Sink Account) prior to the System Input Cutoff Time. Any trades and positions remaining in the Daily Account after the System Input Cutoff Time will be automatically transferred to the Sink Account of the HKCC Participant.

1.4 Trade and Position Adjustment

1.4.1 Trade Adjustment

The types of trade adjustment available to an HKCC Participant include (1) internal trade transfer between different accounts of the HKCC Participant, (2) external trade transfer from an account of the HKCC Participant to an account of another HKCC Participant, (3) separation of a trade into smaller trades, (4) trade open/close adjustment and (5) grouping of separate trades into an average price trade. Unless otherwise specified in these Clearing House Procedures, HKCC Participants may directly submit trade adjustment to the Clearing House using DCASS.

For trades (other than Block Trades) executed during the T Session on a BusinessTrading Day, trade adjustment requests may be submitted at any time prior to the System Input Cutoff Time on the same TradingBusiness Day or, except for requests relating to the grouping of separate trades into an average price trade, at any time prior to the System Input Cutoff Time on the next TradingBusiness Day. For trades (other than Block Trades) executed during the T+1 Session on a BusinessTrading Day, trade adjustment requests may be submitted at any time prior to the System Input Cutoff Time on the next TradingBusiness Day.

For Block Trades executed during the T Session on a BusinessTrading Day, trade adjustment requests may be submitted at any time 30 minutes prior to the System Input Cutoff Time on the same BusinessTrading Day or 30 minutes prior to the System Input Cutoff Time on the next BusinessTrading Day. For Block Trades executed during the T+1 Session on a BusinessTrading Day, trade adjustment requests may be submitted at any time prior to the T+1 Session Cutoff Time of that T+1 Session or 30 minutes prior to the System Input Cutoff Time on the next BusinessTrading Day.

1.4.2 (deleted)

1.4.3 Position Adjustment

The types of position adjustment available to an HKCC Participant include (1) position closing and re-opening (as more particularly described in section 1.5 below), (2) internal position transfer between

different accounts of the HKCC Participant, (3) external position transfer from an account of the HKCC Participant to an account of another HKCC Participant and (4) position netting within an account. Unless otherwise specified in these Clearing House Procedures, HKCC Participants may directly submit position adjustment requests to the Clearing House using DCASS.

An HKCC Participant may submit position adjustment requests to the Clearing House at any time prior to the System Input Cutoff Time on a **BusinessTrading** Day and, if the T+1 Session is applicable to an Exchange Contract, position adjustment requests in respect of positions in such Exchange Contract and any other Exchange Contract which is specified in its Contract Specifications to be fungible to such Exchange Contract may also be submitted from the completion of batch processing after the T Session to any time prior to the T+1 Session Cutoff Time, except for requests relating to position closing between option series of Flexible Options and standard series which have the same underlying commodity with the same option type, Strike Price and Expiry Day (“position closing between Flexible and standard Option series”), which must be made by the HKCC Participant completing and submitting to the Clearing House the relevant form available from the HKEX website or such other channels as HKCC may from time to time notify HKCC Participants, no later than such deadlines as may be prescribed by the Clearing House from time to time and stated in the relevant form.

If the HKCC Participant wishes to have the position adjustment for position closing between Flexible and standard Option series processed on the same **BusinessTrading** Day, the relevant position adjustment request form must be received by the Clearing House no later than the System Input Cutoff Time on that **BusinessTrading** Day. If the T+1 Session is applicable, the relevant position adjustment request form received by the Clearing House after the System Input Cutoff Time but before the T+1 Session Cutoff Time will be processed by the Clearing House on the same **BusinessTrading** Day on a best efforts basis.

With regard to requests for external position transfers, both the transferring and receiving HKCC Participant must submit and confirm such transfer requests. Any request for external position transfer will become effective when such request has been accepted by the Clearing House. Any position the transfer of which is not confirmed by the receiving HKCC Participant or the transfer request of which is rejected by the Clearing House will remain as the position of the transferring HKCC Participant. With regard to any request for external position transfer of positions in a Client Offset Claim Account of an HKCC Participant upon the occurrence of an event of default, the transfer must be for all, but not part, of the positions in that account.

1.5 Position Closing and Re-opening

Unless otherwise specified in these Clearing House Procedures, HKCC Participants may directly submit position closing and transfer requests to the Clearing House using DCASS.

1.5.1 *Closing of Positions*

Except for position closing between Flexible and standard Option series, position close adjustments only apply to Omnibus Client Accounts as positions in Omnibus Client Accounts are maintained on a gross long and short basis, and HKCC Participants do not need to instruct the Clearing House to close positions in the House, Individual Client and Market Maker Accounts since positions in these accounts are netted automatically after the System Input Cutoff Time on each **Business Trading Day**.

The Clearing House will consider all positions in the Omnibus Client Account of an HKCC Participant as “open” positions unless the HKCC Participant instructs the Clearing House otherwise.

Except for position closing between Flexible and standard Option series, HKCC Participants wishing to close out positions in the Omnibus Client Account may submit position adjustment requests to the Clearing House at any time prior to the System Input Cutoff Time on a **Business Trading Day** and, if the T+1 Session is applicable, from the completion of batch processing after the T Session to any time prior to the T+1 Session Cutoff Time.

Except for position closing between HSI Futures and Mini-HSI Futures Contracts at the ratio of one HSI Futures Contract against five Mini-HSI Futures Contracts, for position closing between HSI Options and Mini-HSI Options Contracts at the ratio of one HSI Options Contract against five Mini-HSI Options Contracts, for position closing between HSCEI Futures and Mini-HSCEI Futures Contracts at the ratio of one HSCEI Futures Contract against five Mini-HSCEI Futures Contracts and for position closing between HSCEI Options and Mini-HSCEI Options Contracts at the ratio of one HSCEI Options Contract against five Mini-HSCEI Options Contracts, the closing of positions may only be effected in respect of positions of the same Contract.

Notwithstanding the foregoing, the Clearing House reserves the right to accept or reject any request at any time at its sole discretion.

1.5.4 Claiming Client Offset Positions

HKCC Participants wishing to claim margin offset for positions in their Omnibus Client Accounts that are of an offset nature must request the Clearing House to open a Client Offset Claim Account for such purpose (please refer to section 1.2). HKCC Participants will have to transfer such eligible positions from the Omnibus Client Account to the Client Offset Claim Account. Positions in each portfolio for offset claim must belong to the same Client. Positions in the Client Offset Claim Account are maintained on a gross basis but margined on a net basis (please refer to section 2.2.6.3). An HKCC Participant may submit such position transfer requests to the Clearing House at any time prior to the System Input Cutoff Time on a **BusinessTrading** Day and, if the T+1 Session is applicable, from the completion of batch processing after the T Session to any time prior to the T+1 Session Cutoff Time.

All claimed positions in the Client Offset Claim Account will be carried forward to the next **BusinessTrading** Day unless otherwise instructed by HKCC Participants. HKCC Participants wishing to adjust the claimed positions in the Client Offset Claim Account may have to effect position transfer between the Client Offset Claim Account and the Omnibus Client Account by submitting such requests to the Clearing House at any time prior to the System Input Cutoff Time on the same **BusinessTrading** Day or, if the T+1 Session is applicable, from the completion of batch processing after the T Session to any time prior to the T+1 Session Cutoff Time.

Chapter 2 Clearing and Settlement Procedures

2.1 General

After the System Input Cutoff Time on each **Trading 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

2.2.7 *Additional Clearing House Margin – concentration margin*

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 week or spot month during the last two **trading days Trading Days** on such spot week or 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.

2.2.8 *Additional Clearing House Margin – Reserve Fund additional margin*

2.2.8.3 Notwithstanding sections 2.2.8.1 and 2.2.8.2, should HKCC accept the HKCC Participant's request to waive the whole or part of the additional Clearing House margin requirement, the HKCC Participant must close out, hedge or transfer to any other HKCC Participant such positions as may reduce the Reserve Fund Net Projected Loss to an amount which is less than the sum of the Reserve Fund **Risk** Predefined Limit and additional Clearing House margin set forth in section 2.2.8.2 maintained with the Clearing House if any by the end of the same **Business Trading Day** as the additional Clearing House margin collection due date, failing which the Clearing House may subsequently close out, hedge or transfer such positions on behalf of the HKCC Participant.

2.3 Variation Adjustment

After Market close on each BusinessTrading Day until and including the BusinessTrading Day immediately preceding the ~~last trading day~~Last Trading Day or, for those Cash Settled Contracts whose Final Settlement Day is not the first BusinessTrading Day after the ~~last trading day~~Last Trading Day, the ~~last trading day~~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 BusinessTrading 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, unless otherwise permitted by the Clearing House.

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; and (iii) a Futures Contract on a day which is not a Trading Day for such Futures Contract, which shall be the Closing Quotation set on the previous Trading Day for such 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:

- (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 **BusinessTrading** 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 **BusinessTrading** 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 **BusinessTrading** 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 **BusinessTrading** 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.

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; and (iii) an Option Contract on a day which is not a Trading Day for such Option Contract, which shall be the Closing Quotation determined based on the procedures laid down in paragraph (c), 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:

- (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:-

$$C = e^{-rT} [FN(d_1) - XN(d_2)]$$

$$P = e^{-rT} [XN(-d_2) - FN(-d_1)]$$

$$d_1 = \frac{\ln(F / X) + \frac{1}{2}\sigma^2 T}{\sigma\sqrt{T}}$$

$$d_2 = d_1 - \sigma\sqrt{T}$$

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 expiry, 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 Trading 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 with the same expiry during the final fifteen-minute period;
 - the prices of the Futures and Option Contracts with the same expiry prior to the final fifteen-minute period if no sufficient prices of the Futures and Option Contracts with the same expiry during the final fifteen-minute period were available to determine the volatility of such option series;
 - the volatility and skewness of the Option Contracts with the same expiry on the previous Business Trading Day if no sufficient prices of the Futures and Option Contracts with the same expiry 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 with the same expiry on the previous Business Trading Day was available.

2.3.3 Physical Delivery Contracts on or after the ~~last trading day~~ Last Trading Day

- 2.3.3.1 For the purpose of calculating realized profits and losses, after Market close on the ~~last trading day~~ 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 TradingBusiness Day from and including the ~~last trading day~~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 TradingBusiness 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.

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~~Last Trading Day will be treated in accordance with section 2.3; and
- (ii) confirmed amount is the cash amount brought forward.

2.6 Methods of Providing Cover for Clearing House Margin

2.6.2 *Cover provided by means of Cash 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. or any time specified by the Clearing House.

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.

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-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.

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. on a Trading 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 **BusinessTrading** 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 **TradingBusiness** 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.

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, unless otherwise permitted by the Clearing House.

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.

Where any liabilities arising from trades executed in any Market, including outstanding debit and variation adjustments, are permitted by the Clearing House to be settled in a currency other than the Settlement Currency, the Clearing House shall have the absolute right to determine the maximum amount of such liabilities which may be so covered, the duration for which such liabilities may be so covered and the types of approved currencies that may be provided by HKCC Participants (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 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. Any exchange rate risk arising from the use of a currency other than the Settlement Currency as cover 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 provided that if the HKCC Participant also clears Holiday Trading Exchange Contracts, the HKCC Participant shall pay such shortfall and any outstanding debit through the Direct Margin Debiting System by the next Trading Day, regardless of whether it is a Business Day.

* *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:

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

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 and at such other time as may be specified by the Clearing House on each a Trading Business Day which is not a 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.

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~~ 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~~ 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~~ 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, it shall constitute an event of default. Without prejudice to Rule 510, the Clearing House may restrict such HKCC Participant from opening new positions and may require compulsory close-outs where circumstances warrant such action.

2.8B Mandatory Intra-day Variation Adjustment and Margin

Following Market open of T Session on each Business Trading 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 in all Markets by an HKCC Participant at a time specified by the Clearing House ~~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 ~~by such time before Market open of the T Session as may be by the time~~ specified by the Clearing House from time to time. Any post-trade adjustments executed thereafter may not be incorporated in the mandatory intra-day variation adjustment and margin calculation.

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~~ 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~~ 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~~ 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. or any time specified by the Clearing House on any Business Trading 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 Trading 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 Trading 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 D~~day, in which case the value date for the transfer of Relevant Currency amount shall be the ~~Hong Kong Bank Business D~~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.

Subject to Rule 407A, Aan 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 on the excess Currency Amount being redelivered at such positive or negative rate may be paid or charged, and costs and charges in such amount may be levied, by the Clearing House as it may determine from time to time in accordance with Appendix V to these Clearing House Procedures 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~~ Trading 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. on a Trading Day or any time on a Trading Day which is not a Business Day, 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

Subject to Rule 407A, ~~A~~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 any day which is not a Business Day ~~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.

Chapter 2A Settlement of Physical Delivery Contracts

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~~ **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~~ **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 submit to the Clearing House by 3:00 p.m. on the ~~last trading day~~ **Last Trading Day** or such other time as may be specified by the Clearing House a notification with the particular issue(s) of EFNs from the Acceptable List and the corresponding quantities that will be delivered by the HKCC Participant in satisfaction of its settlement obligations specified in such manner and using such form as may be prescribed by the Clearing House from time to time;
- (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~~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;

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~~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 Trading~~ 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.

2A.3 Physically Settled Metal Futures Contract

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~~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~~ **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”):
 - (vii) the Clearing House will, by the end of the ~~last trading day~~ **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 *First **BusinessTrading** Day after Last Trading Day*

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 **BusinessTrading** Day after the ~~last trading day~~ **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. In the event that the Contract Specifications of a Physically Settled Metal Futures Contract stipulate a weight tolerance level in respect of the Deliverable Metal, the Clearing House will require the Approved Depository

to provide to the selling HKCC Participant, and the selling HKCC Participant shall include, the weight(s) specified in the list or document issued by the Recognized Refiner in respect of the Deliverable Metal and identification numbers of the Deliverable Metal to be delivered when submitting such Delivery Notice to the Clearing House.

- (b) By noon on the first Hong Kong **Business Trading Day** after the ~~last trading day~~ **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.

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 at or after the System Input Cutoff Time on the **Business Trading Day** before the ~~last trading day~~ **Last Trading Day** of such spot month contract, the Clearing House shall have the right to impose a fine on such Non-delivery HKCC Participant. If the open position is held at the System Input Cutoff Time on the **Business Trading Day** before the ~~last trading day~~ **Last Trading Day** of such spot month contract, the fine for that day shall be 0.25% of the Closing Quotation of the spot month Physically Settled Metal Futures Contract on that day multiplied by the Contract Size of such position. If such open position is created on or is carried over to the ~~last trading day~~ **Last Trading Day**, the fine for that day shall be 0.25% of the Final Settlement Price of the spot month Physically Settled Metal Futures Contract multiplied by the Contract Size of such position.

- (b) 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 a Non-delivery HKCC Participant (or, where applicable, any Non-Clearing Participant of the Non-delivery HKCC Participant) arising from the following trades or trade adjustments or position adjustments except where such trades or trade adjustments or position adjustments are for closing 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 Contract:
- (i) trades in the spot month Physically Settled Metal Futures Contract registered with the Clearing House during or after the T+1 Session on the ~~Business Trading~~ Day before the ~~last trading day~~ Last Trading Day;
 - (ii) trade adjustments or position adjustments in the spot month Physically Settled Metal Futures Contract relating to trades registered with the Clearing House during or after the T+1 Session on the ~~Business Trading~~ Day before the ~~last trading day~~ Last Trading Day; or
 - (iii) trade adjustments or position adjustments in the spot month Physically Settled Metal Futures Contract on the ~~last trading day~~ Last Trading Day.

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 Trading** 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.

2A.5 Physically Settled Options on Futures Contracts

All underlying Futures Contract positions arising from the exercise of a Physically Settled Options on Futures Contract as mentioned above will be marked to market on the same **Business Trading** Day in which the Official Settlement Price of the Physically Settled Options on Futures Contract is announced.

Chapter 4 Reserve Fund Contribution

Pursuant to HKCC Rules, each HKCC Participant is also required to pay by way of HKCC Participant Additional Deposits such amounts as the Clearing House may from time to time determine to be necessary in response to market fluctuations and increased risk exposures. For the purpose of determining the HKCC Participant Additional Deposit or any other amount payable by an HKCC Participant in respect of the Reserve Fund, positions of the HKCC Participant arising from the T+1 Session on a BusinessTrading Day will be incorporated in the determination on the next BusinessTrading Day, unless otherwise determined by the Clearing House.

4.1 HKCC Participant Additional Deposits

Subject to Rule 707B, on the first BusinessTrading Day which is also a Business Day of every month, the Clearing House will assess the adequacy of the Reserve Fund to cover the maximum daily risk exposure of the Reserve Fund during the most recent 60 BusinessTrading Days and will determine whether any HKCC Participant Additional Deposits would be required from HKCC Participants, taking into consideration the risk exposure of the Reserve Fund, the Reserve Fund Threshold and the prevailing market conditions.

As part of such monthly assessment of the adequacy of the Reserve Fund, HKCC Participant Additional Deposits will be recalculated and demanded such that the sum of (i) the existing aggregate value of the Reserve Fund after the injection of the HKCC Participant Additional Deposits and resources which may be appropriated by the Clearing House as contributions to the Reserve Fund; and (ii) the aggregate HKCC Participant Additional Deposits Credit utilized by all the HKCC Participants, will cover 115% of the risk exposures of the Reserve Fund throughout the most recent 60 BusinessTrading Days. If the sum determined above is higher than the Reserve Fund Threshold, it shall be reduced to an amount equal to the Reserve Fund Threshold.

The total HKCC Participant Additional Deposits required and the resources which may be appropriated by the Clearing House as contributions to the Reserve Fund can be obtained using the following formulae:

If 115% of *MEX* is lower than *MIN*:

$$CHA = 10\% \times (BEF \div 90\%)$$
$$HPAD = 0$$

If 115% of *MEX* is higher than or equal to *MIN* but lower than the Reserve Fund Threshold:

$$CHA = 10\% \times (MEX \times 115\%)$$
$$HPAD = (MEX \times 115\% - BEF - CHA)$$

If 115% of MEX is higher than the Reserve Fund Threshold:

$$CHA = 10\% \text{ of Reserve Fund Threshold}$$
$$HPAD = \text{Reserve Fund Threshold} - BEF - CHA$$

where:

MEX denotes the maximum daily risk exposure of the Reserve Fund during the most recent 60 **BusinessTrading** Days;

MIN denotes the minimum size of the Reserve Fund (i.e. the basic elements of the Reserve Fund and the resources which may be appropriated by the Clearing House as contributions to the Reserve Fund), which should amount to $BEF \div 90\%$;

BEF denotes the basic elements of the Reserve Fund (i.e. the existing aggregate value of the Reserve Fund less the total HKCC Participant Additional Deposits and resources which may be appropriated by the Clearing House as contributions to the Reserved Fund);

HPAD denotes the total HKCC Participant Additional Deposits required; and

CHA denotes the resources which may be appropriated by the Clearing House as contributions to the Reserve Fund, which should amount to 10% or such other percentage of the Reserve Fund size as the Clearing House may determine from time to time, in which case the percentage in the formulae above shall be adjusted accordingly.

Aside from the demands made under regular monthly assessments, subject to Rule 707B, HKCC Participant Additional Deposits will be recalculated and demanded in accordance with the abovementioned formula if

(a) the daily risk exposure of the Reserve Fund as calculated on each **BusinessTrading** Day exceeds 90% of; and

(b) Reserve Fund Threshold is higher than

the sum of (i) the existing aggregate value of the Reserve Fund (i.e. the basic elements of the Reserve Fund plus the total HKCC Participant Additional Deposits and the resources which may be appropriated by the Clearing House as contributions to the Reserve Fund); and (ii) the aggregate HKCC Participant

Additional Deposits Credit utilized by all the HKCC Participants, provided that the Chairman may, at his sole discretion, waive the demand of HKCC Participant Additional Deposits where the current risk exposure of the Reserve Fund does not exceed the sum of (i) the existing aggregate value of the Reserve Fund; and (ii) the aggregate HKCC Participant Additional Deposits Credit utilized by all the HKCC Participants by more than 15%.

In respect of the recalculation of HKCC Participant Additional Deposits and notwithstanding the above, if the relevant Trading Day (i.e. day of calculation of the daily risk exposure of the Reserve Fund) falls on a day which is not a Business Day, the Clearing House shall recalculate for HKCC Participant Additional Deposits in accordance with the abovementioned formula on the first Trading Day which is also a Business Day.

Notwithstanding the above or any other provisions of these HKCC Rules, the Clearing House may assess the adequacy of the Reserve Fund and recalculate the requirements for HKCC Participant Additional Deposits based on the abovementioned formula or on such other basis as the Clearing House may consider appropriate at its absolute discretion from time to time and following the Capped Liability Period pursuant to Rule 707B, the Clearing House may further at its absolute discretion determine the appropriate aggregate value of the Reserve Fund for the purpose of calculating any HKCC Participant Additional Deposits required and in each of the aforementioned circumstances, HKCC Participants shall pay to the Clearing House such HKCC Participant Additional Deposits as may from time to time be demanded by the Clearing House.

4.2 Calculation Methodology for each HKCC Participant's contribution to HKCC Participant Additional Deposits

4.2.2 The Clearing House will calculate the daily average total net margin liabilities for each HKCC Participant during the most recent 60 Business Trading Days as follows:

Daily average total net margin liabilities of an HKCC Participant

$$= \frac{\sum \text{Total net margin liabilities for the HKCC Participant on } j^{\text{th}} \text{ day}}{60}$$

where j = 1, 2, 3, ..., 59, 60

4.4 Release of HKCC Participant Additional Deposits

If, after each assessment of the requirements for HKCC Participant Additional Deposits as stipulated in section 4.1 or if the Clearing House otherwise

determines that HKCC Participant Additional Deposits shall be recalculated, the existing resources in the Reserve Fund are determined to be sufficient, and if the total amount of HKCC Participant Additional Deposits calculated according to the formula stipulated in section 4.1 is less than the existing total HKCC Participant Additional Deposits, the Clearing House will refund to HKCC Participants any surplus contribution in accordance with the calculation methodology set forth in section 4.2 above, subject to their HKCC Participants' Deposits being maintained and subject to the right of the Clearing House to withhold the release of any such surplus for such period as it in its absolute discretion considers appropriate.

In the event HKCC Participant Additional Deposits collected from HKCC Participants have been applied towards any payment in accordance with HKCC Rule 706 after the determination of any surplus contributions, the amount of HKCC Participant Additional Deposits which can be refunded to HKCC Participants will be reduced by an equivalent amount.

No release of HKCC Participants Additional Deposits will be made on a Trading Day which is not a Business Day.

4.4A Settlement Time for HKCC Participants

In the event HKCC Participant Additional Deposits are recalculated by the Clearing House pursuant to section 4.1 on any BusinessTrading Day, a clearing report showing the amount payable or that may be released will be distributed to each HKCC Participant on the same BusinessTrading Day. Any HKCC Participant Additional Deposit payable by an HKCC Participant will be debited from its House CCMS Collateral Account via the Direct Margin Debiting System (DMDS) by 4:00 p.m. on the first TradingBusiness Day which is also a Business Day, unless otherwise specified by the Clearing House, after the distribution of the clearing report. HKCC Participants shall ensure that sufficient funds are available in their DMDS House accounts to meet any HKCC Participant Additional Deposit payable by them as demanded in their clearing reports. Any surplus HKCC Participant Additional Deposit will be credited to its House CCMS Collateral Account via the DMDS on the same day. For the avoidance of doubt, any HKCC Participant Additional Deposit settled via the DMDS shall be in Hong Kong dollars or in any other currency prescribed by the Clearing House from time to time.

4.5 Illustration

The following example illustrates how HKCC Participant Additional Deposits are collected and released. For illustration purposes only, the following parameters will be applied:

- (i) the Reserve Fund is hypothetically sized to cover the maximum risk exposure throughout the most recent 3 BusinessTrading Days instead of the prescribed 60 BusinessTrading Days;
- (ii) a regular monthly assessment of the adequacy of the Reserve Fund falls on Day 4, being the first BusinessTrading Day which is also a Business Day of the month;

The requirements for HKCC Participant Additional Deposits will be calculated as follows:

4.5.1 On Day 4, the maximum risk exposure during the most recent 3 BusinessTrading Days

$$= \text{HK\$}269,565,217$$

The resources which may be appropriated by the Clearing House

$$= \text{HK\$} (269,565,217 \times 1.15) \times 10\%$$

$$= \text{HK\$}31,000,000$$

Hence, Clearing House shall make available HK\$(31,000,000-20,000,000) = HK\$11,000,000 more for appropriation to the Reserve Fund on Day 4.

Total requirements for HKCC Participant Additional Deposits

$$= \text{HK\$} (269,565,217 \times 1.15 - 180,000,000 - 31,000,000)$$

$$= \text{HK\$}99,000,000$$

4.5.6 On Day 5, the condition for recalculation stipulated in section 4.1 is triggered. The maximum risk exposure during the most recent 3 BusinessTrading Days is HK\$306,000,000.

Using the most recent 3 TradingBusiness Days' total net margin liabilities of each HKCC Participant, the average total net margin liabilities of HKCC Participants A, B and C are HK\$100,000,000, HK\$80,000,000 and HK\$20,000,000 respectively.

Chapter 5 Capital-Based Position Limits

Pursuant to HKCC Rules, the Clearing House may impose position limits on any HKCC Participant to regulate or limit the maximum number or value of gross and net positions which can be held or controlled by the HKCC Participant.

5.1 Position Limits Prescribed by the Clearing House

Notification of an HKCC Participant's initial Liquid Capital or Adjusted Capital apportionment or any change thereof shall be made by such HKCC Participant in such manner, using such form and according to such schedule as may be prescribed by the Clearing House from time to time. Any notification of changes to the apportionment received by the Clearing House before a time specified by the Clearing House from time to time, shall become effective on the same **BusinessTrading** Day the notification is received by the Clearing House. Otherwise, changes to the apportionment shall become effective on the commencement of the T Session of the next **BusinessTrading** Day following receipt of the notification by the Clearing House. Notwithstanding the foregoing, the Clearing House reserves the right to accept or reject any initial apportionment or change of apportionment notified to it at its sole discretion. If no apportionment is notified to the Clearing House, the Clearing House reserves the right to apportion the Liquid Capital or Adjusted Capital, as appropriate, on behalf of the HKCC Participant.

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

5.2 Extension of Position Limits

Based on the gross and net margin liabilities calculated by the Clearing House at the end of the T Session of each **BusinessTrading** Day, if the gross and/or net position limit of an HKCC Participant are/is exceeded, the HKCC Participant must take remedial action by increasing its Liquid Capital or Adjusted Capital (as appropriate). Unless an extension is granted subject to such conditions as may be imposed by the Clearing House on a case by case basis, the remedial action must be taken

- within 10 **BusinessTrading** Days (excluding any Trading Day which is not a Business Day) if the HKCC Participant pays or delivers to the Clearing House an additional margin equivalent to 25% of whichever is the higher of:
 - its gross margin liability in excess of its gross position limit; or
 - its net margin liability in excess of its net position limit; or

- immediately in any other case.

5.4 Extension of T+1 Session Position Limit

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

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

Chapter 6 Typhoons, Extreme Conditions and Rainstorms

Except as otherwise determined by the Clearing House or the Exchange (which shall have the discretion to suspend, terminate, postpone or extend any clearing, money settlement or collateral management services of the Clearing House for such period and on such terms as it may specify), the following procedures shall apply when a Typhoon Signal No. 8 or above is hoisted or lowered, Extreme Conditions are announced or cancelled or a Black Rainstorm Warning is issued or cancelled on any **BusinessTrading** Day.

6.1 Clearing Services

6.1.1 *Typhoons and Extreme Conditions*

If a Typhoon Signal No. 8 or above is hoisted or Extreme Conditions are announced before clearing services under DCASS are available and the Typhoon is lowered and Extreme Conditions are cancelled (where applicable) at or before 12:00 noon on any **BusinessTrading** Day, such services will resume two hours thereafter and continue to be available in accordance with their normal services hours.

If a Typhoon Signal No. 8 or above is hoisted or Extreme Conditions are announced before clearing services under DCASS are available and the Typhoon is not lowered or Extreme Conditions are not cancelled at 12:00 noon on any **BusinessTrading** Day, such services will resume two hours from 12:00 noon and cease at the System Input Cutoff Time for Contracts traded in Markets with a T+1 Session and any other Market whose underlying instrument is the same as or similar to any of the Markets with a T+1 Session, but no clearing services will be available for the day for all other Contracts. If such **BusinessTrading** Day is the ~~last trading day~~**Last Trading Day** or Expiry Day of an Exchange Contract, clearing services in respect of such expiring Exchange Contract will be further extended by one **BusinessTrading** Day.

If a Typhoon Signal No. 8 or above is hoisted or Extreme Conditions are announced after clearing services under DCASS are available and the Typhoon is lowered and Extreme Conditions are cancelled (where applicable) at or before 12:00 noon on any **BusinessTrading** Day, such services will continue to be available in accordance with their normal services hours.

If a Typhoon Signal No. 8 or above is hoisted or Extreme Conditions are announced after clearing services under DCASS are available and the Typhoon is not lowered or Extreme Conditions are not cancelled at 12:00 noon on any **BusinessTrading** Day, such services will continue to be

available within two hours after the hoisting of the Typhoon Signal or announcement of Extreme Conditions but will cease thereafter.

If a Typhoon Signal No. 8 or above is hoisted or Extreme Conditions are announced after 12:00 noon on any BusinessTrading Day, clearing services under DCASS will continue to be available until two hours after the hoisting of the Typhoon Signal, announcement of Extreme Conditions or the end of its normal services hours, whichever is earlier.

6.1.2 *Rainstorms*

If a Black Rainstorm Warning is issued before clearing services under DCASS are available and is cancelled at or before 12:00 noon on any BusinessTrading Day, such services will resume two hours thereafter and continue to be available in accordance with their normal services hours.

If a Black Rainstorm Warning is issued before clearing services under DCASS are available and is not cancelled at 12:00 noon on any BusinessTrading Day, such services will resume two hours from 12:00 noon and cease at the System Input Cutoff Time for Contracts traded in Markets with a T+1 Session and any other Market whose underlying instrument is the same as or similar to any of the Markets with a T+1 Session, but no clearing services will be available for the day for all other Contracts. If such BusinessTrading Day is the last trading dayLast Trading Day or Expiry Day of an Exchange Contract, clearing services in respect of such expiring Exchange Contract will be further extended by one BusinessTrading Day.

If a Black Rainstorm Warning is issued after clearing services under DCASS are available and is cancelled at or before 12:00 noon on any BusinessTrading Day, such services will continue to be available in accordance with their normal services hours.

If a Black Rainstorm Warning is issued after clearing services under DCASS are available and is not cancelled at 12:00 noon on any BusinessTrading Day, such services will continue to be available until the T+1 Session Cutoff Time if the T+1 Session of any Market continues to be available on that day. Otherwise, clearing services under DCASS will cease at the System Input Cutoff Time.

Notwithstanding 6.1.1 and 6.1.2 above, the Clearing House will continue to perform the daily clearing process and compute each HKCC Participant's liabilities as stated in section 2.1.

6.2 Money Settlement Services

6.2.1 *Typhoons and Extreme Conditions*

If a Typhoon Signal No. 8 or above is hoisted or Extreme Conditions are announced before 9:00 a.m. and the Typhoon is not lowered or Extreme Conditions are not cancelled at 12:00 noon on any TradingBusiness Day, money settlement services will not be available for the day. In such event, money settlement will be effected prior to the resumption of trading on the Exchange on the next BusinessTrading Day the Exchange is open for business, and will be due for settlement by no later than 9:15 a.m. if such BusinessTrading Day is a full Bank BusinessTrading Day or one hour after resumption of money settlement services if such BusinessTrading Day is not a full Bank BusinessTrading Day.

If a Typhoon Signal No. 8 or above is lowered and Extreme Conditions are cancelled (where applicable) at or before 12:00 noon on any BusinessTrading Day, money settlement services will normally resume in two hours and any amounts demanded from HKCC Participants by the Clearing House must be settled no later than one hour after the resumption of the money settlement services on that BusinessTrading Day.

If a Typhoon Signal No. 8 or above is hoisted or Extreme Conditions are announced at or after 9:00 a.m., HKCC Participants' outstanding amounts due for settlement according to the normal schedule set forth in Chapter 2 shall be settled by HKCC Participants. Money settlement services will cease two hours after the hoisting of the Typhoon Signal or announcement of Extreme Conditions.

6.2.2 *Rainstorms*

If a Black Rainstorm Warning is issued before 9:00 a.m. and is not cancelled at 12:00 noon on any BusinessTrading Day, money settlement services will not be available for the day. In such event, money settlement will be effected prior to the resumption of trading on the Exchange on the next BusinessTrading Day the Exchange is open for business, and will be due for settlement by no later than 9:15 a.m. if such BusinessTrading Day is a full Bank BusinessTrading Day or one hour after resumption of money settlement services if such BusinessTrading Day is not a full Bank BusinessTrading Day.

If a Black Rainstorm Warning is issued before 9:00 a.m. and is cancelled at or before 12:00 noon on any BusinessTrading Day, money settlement services will normally resume in two hours and any amounts demanded from HKCC Participants by the Clearing House must be settled no later than one hour after the resumption of the money settlement services on that BusinessTrading Day.

If a Black Rainstorm Warning is issued at or after 9:00 a.m., HKCC Participants' outstanding amounts due for settlement according to the normal schedule set forth in Chapter 2 shall continue to be settled by HKCC Participants. Money settlement services will continue to be available in accordance with their normal services hours.

Notwithstanding 6.2.1 and 6.2.2 above, money settlement services of the Clearing House, which are dependent on the availability of banking services in Hong Kong, will not be available if the banking services in Hong Kong become unavailable in case of typhoon, Extreme Conditions or rainstorm situations. If the banking services in Hong Kong remain unavailable for any **BusinessTrading** Day, each Designated Bank, Approved Settlement Bank and Prime Settlement Bank will, upon resumption of such banking services on the next **BusinessTrading** Day, debit the amounts due from HKCC Participants according to Chapter 2. HKCC Participants must ensure that their bank accounts have sufficient funds to fulfill their money settlement obligations. Failure to do so will subject an HKCC Participant to disciplinary action pursuant to Rule 510 and/or Rule 517.

6.3 Collateral Management Services

The procedures below are applicable to collateral management services provided via CCMS, whereas money settlement services are dealt with in accordance with section 6.2.

6.3.1 *Typhoons and Extreme Conditions*

If a Typhoon Signal No. 8 or above is hoisted or Extreme Conditions are announced before 9:00 a.m. and the Typhoon is lowered and Extreme Conditions are cancelled (where applicable) at or before 12:00 noon on any **BusinessTrading** Day, collateral management services via CCMS will resume two hours thereafter, while requests for redelivery of surplus funds will be processed on a best efforts basis subject to the availability of the applicable services of corresponding banks.

If a Typhoon Signal No. 8 or above is hoisted or Extreme Conditions are announced before 9:00 a.m. and the Typhoon is not lowered or Extreme Conditions are not cancelled at 12:00 noon on any **BusinessTrading** Day, collateral management services via CCMS will not be available on that day.

If a Typhoon Signal No. 8 or above is hoisted or Extreme Conditions are announced at or after 9:00 a.m. but prior to the deadline for requests for redelivery of surplus funds (normally 11:00 a.m.) on any **BusinessTrading** Day **which is also a Business Day**, those requests for redelivery of surplus funds already submitted will be accepted as usual, subject to the availability of the applicable services of corresponding banks.

6.3.2 *Rainstorms*

If a Black Rainstorm Warning is issued before 9:00 a.m. and is cancelled at or before 12:00 noon on any **BusinessTrading** Day, collateral management services via CCMS will resume in two hours and requests for redelivery of surplus funds will be processed on a best efforts basis subject to the availability of the applicable services of corresponding banks.

If a Black Rainstorm Warning is issued before 9:00 a.m. and is not cancelled at 12:00 noon on any **BusinessTrading** Day, collateral management services via CCMS will not be available on that day.

If a Black Rainstorm Warning is issued at or after 9:00 a.m. on any **BusinessTrading** Day, normal collateral management services via CCMS will continue to be available for the day.

6.4 Settlement Services relating to Physical Delivery Contracts

6.4.1 *Typhoons and Extreme Conditions*

If a Typhoon Signal No. 8 or above is hoisted or Extreme Conditions are announced on a **BusinessTrading** Day which is after the ~~last trading day~~**Last Trading Day** or Expiry Day and up to and including the Final Settlement Day of an expiring Physical Delivery Contract and physical delivery of the underlying commodity or instrument for the settlement of the Physical Delivery Contract cannot be effected on the day by the CMU, an Approved Depository or any other relevant depository or facility which effects the physical delivery of such Physical Delivery Contract, as the case may be, services relating to the final settlement of such Physical Delivery Contract (i.e. both physical delivery and the corresponding money settlement) will be postponed by one **BusinessTrading** Day.

6.4.2 *Rainstorms*

If a Black Rainstorm Warning is issued on a **BusinessTrading** Day which is after the ~~last trading day~~**Last Trading Day** or Expiry Day and up to and including the Final Settlement Day of an expiring Physical Delivery Contract and physical delivery of the underlying commodity or instrument for the settlement of the Physical Delivery Contract cannot be effected on the day by the CMU, an Approved Depository or any other relevant depository or facility which effects the physical delivery of such Physical Delivery Contract, as the case may be, services relating to the final settlement of such Physical Delivery Contract (i.e. both physical delivery and the corresponding money settlement) will be postponed by one **BusinessTrading** Day.