Rules and Procedures of HKFE Clearing Corporation Limited

## PREFACE

Risk Management

HKCC has a number of powers which it uses to assist in the risk management process. These include:-

(g) the power to demand an HKCC Participant to provide, in respect of Physical Delivery Contracts, evidence of its holding of such amount of the underlying commodity or instrument as may be required to satisfy its settlement obligations;

(h) in the event that an HKCC Participant fails to satisfy its delivery obligations in the settlement of a Physical Delivery Contract, the power to borrow and/or execute a buy-in to purchase the underlying commodity or instrument on behalf of the HKCC Participant; and

(i) in the event that an HKCC Participant fails to satisfy its payment obligations in the settlement of a Contract, the power to borrow and/or purchase on behalf of the HKCC Participant the currency in which payment is required to be made.

## 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:-

| | |
|---|---|
| "commodity" | bears the same meaning as in the Exchange Rules; |
| "Currency Futures Contract" | means a Futures Contract whose underlying commodity is a specified currency and which is traded in the Currency Futures Market operated by the Exchange; |
| "Hong Kong dollars" or "HK$" | bears the same meaning as in the Exchange Rules; |
| "Renminbi" or "RMB" | bears the same meaning as in the Exchange Rules; |
| "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 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;

## CHAPTER III

## REGISTRATION, CLEARING, RISK

Legal effect of registration

310. The obligations of the Clearing House to HKCC Participants under a Contract arising pursuant to Rule 309 and for the time being extant shall be limited exclusively to:-

(a) amounts received by the Clearing House from HKCC Participants on the settlement of any Contract including variation adjustments and any underlying commodity or instrument;

For the avoidance of doubt it is hereby declared that to the extent that the aggregate of the funds or assets of the Clearing House referred to in sub-paragraphs (a) to (e) above are insufficient at any time to meet the aggregate of the Clearing House's liabilities to HKCC Participants under all Contracts subsisting at any time, each HKCC Participant to which the Clearing House is liable shall only be entitled to receive payment pro rata according to the amount due to it as compared with the aggregate due to all HKCC Participants. Without prejudice to the foregoing:

(i) in respect of the Clearing House's obligations to deliver the underlying commodity or instrument under Physical Delivery Contracts, to the extent that the Chairman determines that it is not possible or reasonably practicable to deliver the underlying commodity or instrument, the Clearing House's obligations shall be to make money compensation to HKCC Participants concerned in substitution for the delivery of the underlying commodity or instrument in whole or in part and in such amount as the Chairman may in his absolute discretion considers appropriate in consultation with the Commission by reference to the market value of such underlying commodity or instrument at the time of payment of compensation by the Clearing House (or the value at such other time as the Chairman shall, in consultation with the Commission, consider fair and reasonable in the circumstances). The money compensation shall be in such currency or currencies (whether in the Settlement Currency, the Currency of the Contract or otherwise) and at such conversion rate(s) as the Clearing House may in its absolute discretion determine to be fair and reasonable, taking into account all relevant circumstances as it may consider appropriate; and

(ii) in respect of the Clearing House's obligations to make payment to HKCC Participants under Contracts in the Settlement Currency, to the extent that the Clearing House determines that it is not possible or reasonably practicable to make payment in such Settlement Currency, the Clearing House's obligations shall be to make payment, in full or in part, in such other currency or currencies and at such conversion rate(s) as the Clearing House may in its absolute discretion determine to be fair and reasonable, taking into account all relevant circumstances as it may consider appropriate.

The Clearing House shall remain liable on all Contracts which remain to be settled by the Clearing House, but payment of the balance of any amounts due and delivery of the balance of any underlying commodity or instrument (or payment of money compensation in substitution therefor) shall only be made as and when, and to the extent that, the amounts, funds or assets referred to in sub-paragraphs (a) to (e) are subsequently replenished.

# CHAPTER IV

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

Variation adjustment

409. (c) In addition to any other rights the Clearing House may have under these Rules, where the Clearing House has an obligation to make payment under Rule 408(a) in the Settlement Currency, notwithstanding that the Settlement Currency may be available, the Clearing House may in lieu of making payment in that Settlement Currency make payment to the HKCC Participant concerned, in full or in part, in such other currency or currencies and at such conversion rate(s) as the Clearing House may in its absolute discretion determine to be fair and reasonable having regard to all the circumstances of the case. The Clearing House shall only exercise its powers under this Rule in circumstances when the Clearing House considers in its reasonable opinion that the Settlement Currency is not freely available or convertible in the market.

410. The Clearing House shall calculate margin requirements and variation adjustments at least once on every Business 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 earlier of (i) the date on which that Contract is closed out; or (ii) the date on which that Contract is settled or, in the case of a deliverable Currency Futures Contract, the Business Day immediately preceding the Final Settlement Day.

Additional margin and intra-day variation adjustment

411. (e) In addition to any other rights the Clearing House may have under these Rules, where the Clearing House has an obligation to make payment under Rule 411(c) in the Settlement Currency, notwithstanding that the Settlement Currency may be available, the Clearing House may in lieu of making payment in that Settlement Currency make payment to the HKCC Participant concerned, in full or in part, in such other currency or currencies and at such conversion rate(s) as the Clearing House may in its absolute discretion determine to be fair and reasonable having regard to all the circumstances of the case. The Clearing House shall only exercise its powers under this Rule in circumstances when the Clearing House considers in its reasonable opinion that the Settlement Currency is not freely available or convertible in the market.

## CHAPTER V

## LIMITS AND DEFAULTS

Powers of the Chairman on default

510. Notwithstanding any other provision of these Rules, the Clearing House may by decision of the Chairman or his designee take any of the following actions or such other action as the Chairman or his designee may think fit against an HKCC Participant upon the occurrence of an event of default without the need for any prior notice to or consent of the HKCC Participant:

(j) to refer the matter to the Compliance Department for instigating disciplinary action against the HKCC Participant in accordance with Rule 520;

(k) to execute a buy-in or effect a borrowing, or to instruct a designated agent to execute a buy-in or effect a borrowing of the underlying commodity or instrument up to the quantity required to be delivered by the HKCC Participant and to disclose the name and other details of the HKCC Participant and the details of the relevant Contracts to such designated agent as the Chairman or his designee deems fit; or

(l) to purchase or borrow, or to instruct a designated agent to purchase or borrow the currency in which payment is required to be made by the HKCC Participant under any open Contract registered in the name of the HKCC Participant up to the amount required to be paid by the HKCC Participant and to disclose the name and other details of the HKCC Participant and the details of the relevant Contracts to such designated agent as the Chairman or his designee deems fit.

# CHAPTER VI

## DELIVERY AND EXCHANGE OF FUTURES

Random assignment process

603. After Market close on the last trading day of a Physical Delivery Contract (other than a deliverable Currency Futures Contract), the Clearing House will allocate all short positions in such Contract to long positions in such Contract by a random assignment process. All long positions and short positions will be arrayed in two respective columns. Under the random 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.

Failure to comply with delivery and/or payment obligations

607A. In the event that an HKCC Participant ("defaulting buying HKCC Participant") fails to comply with its payment obligations under a Physical Delivery Contract by the prescribed time in accordance with the Exchange Rules, these Rules and the Clearing House Procedures, the Clearing House reserves the right at any time:

(i) to impose a penalty on the defaulting buying HKCC Participant for any late settlement, such penalty to be of such amount and to be payable at such time as shall be specified by the Clearing House; and/or

(ii) to purchase or borrow on behalf of the defaulting buying HKCC Participant the currency in which payment is required to be made up to the amount required to be paid by the defaulting buying HKCC Participant.

608. The Clearing House may instruct its designated agent to execute a buy-in or effect a purchase or borrowing under Rule 607 or 607A. The Clearing House shall have the right to disclose the name and other details of the defaulting selling HKCC Participant or the defaulting buying HKCC Participant and details of the relevant Contracts to such designated agent as the Clearing House deems fit.

609. Each defaulting selling HKCC Participant and defaulting buying HKCC Participant shall indemnify the Clearing House, the Exchange and a recognized exchange controller which is the controller of the Clearing House against all costs, fees, expenses, liabilities, losses and damages incurred by the Clearing House in executing a buy-in and/or effecting a purchase or borrowing on its behalf under Rule 607 or 607A or taking any other action as the Clearing House considers appropriate as a result of the failure by the HKCC Participant to settle the Physical Delivery Contract in accordance with the Exchange Rules, these Rules and the Clearing House Procedures.

Rights of the Clearing House against an HKCC Participant

610. 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, the Clearing House may deliver such type(s) or issue(s) of underlying commodity or instrument

as it in its absolute discretion considers appropriate to the buying HKCC Participant to which the defaulting selling HKCC Participant was allocated under the random assignment process.

611. In addition to any other rights the Clearing House may have under these Rules:-

(a) where the Clearing House has an obligation to deliver the underlying commodity or instrument to the buying HKCC Participant under a Physical Delivery Contract, the Clearing House may, in lieu of delivering the underlying commodity or instrument in whole or in part, make compensation to the buying HKCC Participant concerned notwithstanding that such underlying commodity or instrument may be available in the market. The Chairman shall only exercise his powers under this Rule 611(a) in circumstances when the Chairman considers in his reasonable opinion that the underlying commodity or instrument is not freely available in the market. The money compensation shall be in such amount and in such currency or currencies (whether in the Settlement Currency, the Currency of the Contract or otherwise) as the Chairman considers, in consultation with the Commission, to be fair and reasonable having regard to all the circumstances of the case. The Chairman's decision on the amount of payment is final and there shall be no appeal for any reason; and

(b) where the Clearing House has an obligation to make payment to the selling HKCC Participant under a Physical Delivery Contract in the Settlement Currency, notwithstanding that the Settlement Currency may be available, the Clearing House may in lieu of making payment in that Settlement Currency make payment to the selling HKCC Participant concerned, in full or in part, in such other currency or currencies and at such conversion rate(s) as the Clearing House may in its absolute discretion determine to be fair and reasonable having regard to all the circumstances of the case. The Clearing House shall only exercise its powers under this Rule in circumstances when the Clearing House considers in its reasonable opinion that the Settlement Currency is not freely available or convertible in the market.

611A. The Clearing House shall not be liable to an HKCC Participant in respect of any loss or damage, in contract, tort or otherwise and whether direct, indirect, consequential or otherwise, arising from any late settlement as a result of the failure by the defaulting selling HKCC Participant or the defaulting buying HKCC Participant to satisfy its delivery or payment obligations by the prescribed time.

**APPENDIX A**

**Fees**

| **Description** | **Amount**[1] |
|---|---|
| ***Settlement Fees (Futures) and Exercise Fees (Options)*** | |
| Currency products | |
| US Dollar vs Renminbi (Hong Kong) Futures | RMB8.00/Lot |

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

**Chapter 2 Settlement Procedures**

2.2 Clearing House Margin

*2.2.1. Components of Gross Margining*

*2.2.1.2A Spot Month Charge*

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

*2.2.2 Clearing House Margin Liability Calculation for Gross Margining*

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

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

aa) The gross open positions of each applicable spot month Contract are identified. The number of open positions for each applicable spot month Contract is multiplied by the Spot Month Charge for such Contract.

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

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

*2.2.3 Components of Net Margining*

*2.2.3.3A Spot Month Charge*

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

*2.2.5 Clearing House Margin Liability Calculation for Net Margining*

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

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

*2.2.7 Additional Clearing House Margin*

*2.2.7.1* An additional Clearing House margin will be imposed on an HKCC Participant in respect of its open Futures and Options Contracts which are based on the same underlying financial instrument in the event that:

(b) the total net open interest in the Futures Contracts on the same underlying financial instrument exceeds the following number of contracts:-

| Futures Contract | Number of contracts |
|---|---|
| Exchange Fund Note Futures Contract | 10,000 on any day prior to the last six trading days and 2,000 during the last six trading days |
| Three-Month HIBOR Futures Contract and One-Month HIBOR Futures Contract | 4,000 |
| US Dollar vs Renminbi (Hong Kong) Futures Contract | 20,000 on any day prior to the last five Business Days before the Final Settlement Day and 10,000 during the last five Business Days before the Final Settlement Day |
| All other Futures Contracts | 20,000 |

2.3 Variation Adjustment

After Market close, all open positions held at the Clearing House 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 (except those arising from Physical Delivery Contracts after the last trading day) are credited to and debited from the relevant HKCC Participant’s CCMS Collateral Account each Business Day as the variation adjustment. In the case of Physical Delivery Contracts after the last trading day, profits arising from the “mark to market” mechanism will be used to offset against, while losses arising from such mechanism will be added to and collected as, Clearing House margin payable in respect of the relevant CCMS Collateral Account of the HKCC Participant. Any profits in excess of the Clearing House margin requirement will not be credited to the relevant CCMS Collateral Account of the HKCC Participant.

Subject to section 2.6A and the treatment of variation adjustment for Physical Delivery Contracts after the last trading day as mentioned above, variation adjustment arising from trades executed in all Markets shall be settled using cash in the Settlement Currency only.

*2.3.1 Futures Contracts*

*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; (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 Physical Delivery Contract after the last trading day until the day of settlement of that Contract, which shall be determined according to section 2.3.1.2, 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, Mini-Hang Seng China Enterprises Index Futures Contract and a Physical Delivery Contract after the last trading day to the day of settlement of that Contract, shall be calculated as follows:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2.11 Final Settlement of Futures Contract

*2.11.2. Physical Delivery Contracts*

Physical Delivery Contracts shall be settled by delivery of the underlying commodity or instrument by the Sellers of such Contracts and by payment of cash by the Buyers of such Contracts in accordance with the Exchange Rules, the Clearing House Rules and these Clearing House Procedures.

*2.11.2.2 Deliverable Currency Futures Contracts*

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

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

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

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

(d) the delivery and payment obligations in relation to the same CCMS Collateral Account of an HKCC Participant are netted by currency with other settlement obligations in relation to that CCMS Collateral Account after the Market close on the Business Day immediately preceding the Final Settlement Day. Any resulting surplus will be credited to the CCMS Collateral Account while any resulting shortfall shall be settled by the HKCC Participant by 9:15 a.m. on the Final Settlement Day.

In the event of any settlement failure on the part of an HKCC Participant under any deliverable Currency Futures Contract for any reason, the Clearing House will take such action as it considers appropriate, including executing a buy-in and/or a borrowing of the underlying currency and/or executing a purchase and/or a borrowing of the currency in which payment is required to be made as set forth in the Clearing House Rules to effect settlement as soon as practicable. The Clearing House shall also have the right to impose on the defaulting HKCC Participant a late settlement penalty charge of 0.25% of the market value on the Final Settlement Day of the overdue positions and/or payment obligations of the HKCC Participant under such deliverable Currency Futures Contract.

Each HKCC Participant shall indemnify the Clearing House, the Exchange and a recognized exchange controller which is the controller of the Clearing House against all costs, fees, expenses, liabilities, losses and damages that may be incurred in executing a buy-in, effecting a purchase or borrowing and taking such other action as the Clearing House considers appropriate as a result of the failure by the HKCC Participant to settle any deliverable Currency Futures Contract in accordance with the Exchange Rules, the Clearing House Rules and these Clearing House Procedures.