

Rules and Procedures of HKFE Clearing Corporation Limited

CHAPTER I

INTERPRETATION

Definitions

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

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|---------------------------------|--|
| “Delivery Agent” | in respect of a Physically Settled Metal Futures Contract, an HKCC Participant appointed as such by another HKCC Participant for the delivery of Deliverable Metal underlying such Physically Settled Metal Futures Contract for such other HKCC Participant under the terms of a Delivery Agreement; |
| “Non-delivery HKCC Participant” | in respect of a Physically Settled Metal Futures Contract, an HKCC Participant which neither has itself entered into, nor has entered into a Delivery Agreement with another HKCC Participant which has entered into, an Approved Depository Account Agreement with each of the Approved Depositories relating to the Deliverable Metal underlying such Physically Settled Metal Futures Contract; |

CHAPTER VI

CASH SETTLEMENT, DELIVERY AND EXCHANGE OF FUTURES

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 Business Day before the 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 Day before the 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 Day before the 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 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 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 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.

APPENDIX A

Fees

| Description | Amount¹ |
|--|---------------------------|
| <i>Settlement Fees (Futures) and Exercise Fees (Options)</i> | |
| <u>Metal products</u> | |
| CNH Silver Futures | RMB 12.00/Lot |
| USD Silver Futures | USD 2.00/Lot |

APPENDIX B

T+1 Session Cutoff Time

| Products | Time |
|-----------------------|-------------|
| <u>Metal products</u> | |
| CNH Silver Futures | 3:00 a.m. |
| USD Silver Futures | 3:00 a.m. |

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

Chapter 2A Settlement of Physical Delivery Contracts

2A.3 Physically Settled Metal Futures Contract

2A.3.2 *Delivery and Settlement Procedures*

2A.3.2.2 *First Business 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 Business Day after the last trading day each selling HKCC Participant shall confirm to the Clearing House the delivery details using the relevant Delivery Notice prescribed by the Clearing House from time to time. 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 Day after the last trading day the selling HKCC Participant or its Delivery Agent shall ensure that the required quantity of Deliverable Metal is in the Approved Depository as specified in the Matching Process and notified to it by the Clearing House under section 2A.3.2.1(c)(vii) above. The Clearing House shall request the Approved Depository to earmark the required quantity of Deliverable Metal for delivery and to confirm by a prescribed time on the same day whether the required quantity of Deliverable Metal to be delivered on the Final Settlement Day has been earmarked or not.
- (c) Upon receipt of the Approved Depository's confirmation that the required quantity of Deliverable Metal has been earmarked, or if the selling HKCC Participant is a Non-delivery HKCC Participant, at such time as the Clearing House may elect, the Clearing House shall calculate the Final Settlement Value (including in respect of a Physically Settled Metal Futures Contract under which a Non-delivery HKCC Participant is buyer or seller) in accordance with the following formula, and notify the buying HKCC Participant and selling HKCC Participant of the Final Settlement Value and details of the Deliverable Metal to be delivered:

Final Settlement Value = Final Settlement Price x Contract Size
(subject to any adjustment for (i) weight where a weight tolerance level is stipulated in the Contract Specifications and (ii) fineness variance)

- (d) Any references in the Clearing House Rules or these Clearing House Procedures to "earmarking" shall, at a minimum, be construed to mean the following:
- (i) the Approved Depository has, on behalf of the relevant HKCC Participant, clearly identified and recorded Deliverable Metal held by the Approved Depository for the selling HKCC Participant as (A) being identified as separate from other Deliverable Metal of the selling HKCC Participant and any other person and (B) available for delivery in respect of a specified Re-novated Contract or set of Re-novated Contracts in accordance with the Clearing House Rules and Clearing House Procedures;
 - (ii) any Deliverable Metal so earmarked shall, and the selling HKCC Participant, the Approved Depository, the Clearing House and any relevant Delivery Agent shall have acknowledged, represented and agreed that such Deliverable Metal shall, not be available to meet or fulfill any delivery, transfer or similar request other than with the consent, or on the instruction of, the Clearing House acting in its role as Settlement Agent; and
 - (iii) (A) the selling HKCC Participant shall have good title to such Deliverable Metal and (B) such Deliverable Metal shall be free and clear from any encumbrance, lien, claim, mortgage, charge, security interest or any other interest of any nature whatsoever, and the selling HKCC Participant shall represent and warrant to the Clearing House, the Approved Depository and any relevant Delivery Agent that (A) and (B) are, and will be, the case at the time of, and during the period of, any earmarking.

2A.3.3A 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 Day before the 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 Day before the 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, 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 Day before the 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 Day before the last trading day; or
 - (iii) trade adjustments or position adjustments in the spot month Physically Settled Metal Futures Contract on the last trading day.