

Rules and Procedures of HKFE Clearing Corporation Limited

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

CHAPTER 2 Settlement Procedures

2.6 Methods of Providing Cover for Clearing House Margin

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

2.6.3 *Approved Bank Guarantee*

Each HKCC Participant is allowed to provide cover for Clearing House margin liability by means of one or more guarantees given by licensed banks approved by the Clearing House in the form prescribed from time to time by the Clearing House provided that the Clearing House shall have the absolute right to determine the maximum amount of an HKCC Participant's Clearing House margin liability which may be so covered. The value of the approved bank guarantee allowed to be used as cover for Clearing House margin liabilities shall be the guaranteed amount as stated in the guarantee issued by the licensed bank, after deducting a haircut of such percentage as determined from time to time by the Clearing House. The Clearing House reserves the right to add to or reduce the number of licensed banks so approved at any time and determine the maximum amount of guarantees that may be accepted from a licensed bank. Accordingly, HKCC Participants must seek prior approval from the Clearing House before putting a guarantee in place. Notwithstanding the foregoing, the Clearing House will not accept any guarantee issued by any licensed bank which holds or controls (whether directly or indirectly) 20 percent or more of the issued share capital or voting power of an HKCC

Participant or which, in the Clearing House's absolute opinion, is closely associated with or related to the HKCC Participant. In any event, each HKCC Participant must give the Clearing House at least one bank business day's notice of its intention to use a bank guarantee by inputting a deposit order via a CCMS terminal. As the basis for daily cover is cash in the Settlement Currency, it is necessary for accommodation charges to be made on all amounts of Clearing House margin liability covered by approved bank guarantees (see section 2.6.7).

2.8 Intra-day Variation Adjustments

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 amount represents intra-day variation adjustment arising from Physical Delivery Contracts after the last trading day. Any amount to be credited as aforesaid will be made automatically via the DMDS to the DMDS bank account designated by the HKCC Participant. HKCC Participants shall ensure that standing instructions are given to the Clearing House for this purpose.

2.9 Value Date for Deposit and Release of Approved Currencies Other Than Applicable Settlement Currencies

2.9.1 *Deposit 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 held 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.

The value date applicable to the transfer of any Currency Amount from an HKCC Participant's account in one bank to the Clearing House's account in another bank is normally the next (Hong Kong) bank business day after the date on which the HKCC Participant's bank receives the HKCC Participant's instructions to effect such transfer. If that day is a bank holiday in the country where the HKCC Participant's bank is located or where the Relevant Currency is cleared, the value date shall be on the next (Hong Kong) bank business day which is not a bank holiday in that country. The funds cannot be used to cover any liabilities. 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, the transfer may be effected within the same bank business day, in which case the value date for the transfer of Relevant Currency Amount shall be the bank business day on which such bank receives the HKCC Participant's instructions to effect the transfer.

2.9.2 Release of Approved Currencies Other Than Applicable Settlement Currencies

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

An HKCC Participant may request the release of any excess Currency Amount on deposit with the Clearing House on each (Hong Kong) bank business day except for Saturday by notifying the Clearing House of the proposed withdrawal in writing or by other means acceptable to the Clearing House by 11:00 a.m. on each bank business day (Monday to Friday). In the event that the Clearing House, in its sole discretion, agrees to release such excess Currency Amount, the requesting HKCC Participant's CCMS Collateral Account with the Clearing House will be debited immediately. However, as the release 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, interest may be paid or charged by the Clearing House on the excess Currency Amount being released at such positive or negative rate as it may determine from time to time in accordance with prevailing bank savings rates until the release is effected.

2.9.2.1 Japanese Yen

The value date for the release of Currency Amount denominated in Japanese Yen is the second (Hong Kong) bank business day after the date on which the release 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 Japan.

2.9.2.2 Currency Amounts not denominated in Japanese Yen

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

Schedule I

INTEREST AND ACCOMMODATION CHARGE STRUCTURE

1. APPROVED CURRENCIES

INTEREST PAYABLE TO OR LEVIED ON HKCC PARTICIPANTS

Clearing House margin covered by cash) to be determined by the
Surplus cash) Clearing House from time to
Additional margin covered by cash) time in accordance with
) prevailing bank savings rates
HKCC Participant Additional Deposits made in cash) to be determined by the
) Clearing House from time to
) time

Schedule V

LIST OF APPROVED CURRENCIES

List of approved currencies is as follows:-

1. HK Dollars
2. US Dollars
3. Euro
4. Japanese Yen
5. Renminbi