

**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:-

“DCASS User Guide” means the manual entitled “DCASS User Guide” relating to the operation of DCASS via online access, as amended from time to time by the Clearing House;

**CHAPTER IX**

**DCASS**

Introduction

901. HKCC Participants shall ensure that DCASS is operated, and Contracts are cleared and settled through DCASS, in accordance with these Rules, the Clearing House Procedures, the DCASS User Guide and such other procedures and requirements as may be specified by the Clearing House from time to time, including those specified in the DCASS Agreement.

Connection to DCASS

902A. An HKCC Participant shall establish its DCASS connections via the central gateway provided by the Clearing House.

DCASS equipment and software

912. (deleted)

Backup Centre for DCASS

912A. In case HKCC Participants cannot perform post-trade functions via DCASS due to technical or other reasons, they can request the use of the backup centre provided by the Clearing House to perform such functions. For the service hours of the backup centre and other details, please refer to the DCASS User Guide.

912B. (deleted)

**CHAPTER X**

**CCMS**

Backup Centre for CCMS

1011. In case HKCC Participants cannot perform collateral management functions via CCMS due to technical or other reasons, they can request the use of the backup centre provided by the Clearing House to perform such functions. For the service hours of the backup centre and other details, please refer to the CCMS Terminal User Guide.

**APPENDIX A**

**Fees**

Description	Amount <sup>1</sup>
<b><i>DCASS-Related Fees</i></b>	
Connection fee for DCASS online access via the central gateway	2,600/month/connection
Sub-license fee for DCASS OAPI via the central gateway	2,600/month/connection
Access to the DCASS testing environment	100/day or part thereof provided that no access fee will be charged for the first 5 business days
Performance of login test or transaction test outside of HKCC's normal working hours	1,000/day or part thereof regardless of test results
OAPI certification	2,000/test regardless of test results
On-behalf-of processing	50/transaction (minimum fee of 500/day)
Re-print of reports	5/page up to 1,000 per report or per diskette

<sup>1</sup> Unless otherwise specified, the amounts listed in this appendix are in HK dollars

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

**Chapter 1 Registration Procedures**

1.2 Types of Clearing Accounts in DCASS

*1.2.8 APT Account*

The APT Account serves as an account to which a selected group of trades can be transferred on a temporary basis for the purpose of performing average price trade calculation. No positions will be recorded or maintained in the APT Account.

Any request for the opening, maintenance or termination of accounts shall be made by an HKCC Participant to the Clearing House in such manner and using such form as may be prescribed by the Clearing House from time to time. The Clearing House may in its absolute discretion accept or reject any account opening and maintenance request.

1.4 Trade and Position Adjustment

*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 Business 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:

- (i) 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”); and
- (ii) external position transfers,

which must be made by the HKCC Participant completing and submitting to the Clearing House the relevant forms available from the HKEX website 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 or external position transfer processed on the same Business Day, position adjustment request forms must be received by the Clearing House no later than the System Input Cutoff Time on that Business Day. If the T+1 Session is applicable, position adjustment request forms 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 Business Day on a best efforts basis.

With regard to external position transfers, both the transferring and receiving HKCC Participant must duly complete and submit to the Clearing House the relevant form available from the HKEX website. 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.

With regard to position netting within an account, DCASS allows HKCC Participants to specify and close out any number of long and short positions in a series within any account other than the Sink Account and Daily Account.

Notwithstanding the foregoing, the Clearing House may in its absolute discretion accept or reject any position adjustment request.

## 1.5 Position Closing and Re-opening

### 1.5.2 *Re-Opening of Positions*

HKCC Participants wishing to re-open positions must duly complete and submit the relevant form available from the HKEX website to the Clearing House no later than such deadline as may be prescribed by the Clearing House from time to time and stated in the form.

Each HKCC Participant making a position re-opening request shall provide to the Clearing House such information as it may require relating to the position re-opening, including the reason therefor.

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

## 1.6 On-behalf-of Processing

In case HKCC Participants cannot perform post-trade adjustment functions via DCASS due to technical or other reasons, they may request the Clearing House to input post-trade adjustment requests into DCASS on its behalf by completing and submitting to the Clearing House the relevant forms available from the HKEX website no later than such deadline as may be prescribed by the Clearing House from time to time and stated in the form.

On-behalf-of processing is provided by the Clearing House subject to the availability of its resources and subject to the payment by the HKCC Participant of such processing fee as may be prescribed by the Clearing House from time to time. In the event that demand on its resources exceeds its capacity to service all requests within a particular time, it may assign priorities in such manner as it in its absolute discretion considers appropriate. The Clearing House does not warrant that a request will be processed by a particular time. Neither the Clearing House, the Exchange, nor a recognized exchange controller which is the controller of the Clearing House shall be liable to any HKCC Participant whether in contract, tort or otherwise for any direct, consequential, special, indirect, punitive or other damages that may be suffered or incurred by the HKCC Participant or any other person as a result of the execution or processing of instructions, or its failing to execute or process instructions, on behalf of the HKCC Participant.

## 1.7 Backup Centre

In case HKCC Participants cannot perform post-trade adjustment functions via DCASS due to technical or other reasons, they can request the use of the backup centre provided by the Clearing House to perform such functions. For the service hours of the backup centre and other details, please refer to the DCASS User Guide.

## **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.

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 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 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 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;
- (e) on the Final Settlement Day, each selling HKCC Participant shall, or shall procure that its designated agent shall, if necessary, input DvP settlement instructions in the CMU at or before 3:00 p.m. (or such other cut off time for input of such DvP settlement instructions as may from time to time be specified by the CMU) to effect delivery of EFNs to the buying HKCC Participant allocated to the selling HKCC Participant under the assignment process or its designated agent; and the buying HKCC Participant shall, or shall procure that its designated agent shall, if necessary, input DvP settlement instructions in the CMU at or before 3:00 p.m. (or such other cut off time for input of such DvP settlement instructions as may from time to time be specified by the CMU) to effect payment to the selling HKCC Participant or its designated agent against delivery. The Clearing House shall not be liable to, and shall be discharged from its obligations as the counterparty to,

the buying and selling HKCC Participants if a method or facility other than the DvP facility of the CMU is selected by the buying and selling HKCC Participants for settlement purposes. Any resulting claim arising from any failure to settle shall be as between the buying and selling HKCC Participants only.

In the event of settlement failure for any reason, the affected HKCC Participants shall notify the Clearing House of the failure as soon as possible and in any event no later than 5:00 p.m. on the Final Settlement Day by submitting a notification to the Clearing House in such manner and using such form as may be prescribed by the Clearing House from time to time.

Upon receipt of such notification, the Clearing House will take such action as it considers appropriate, including executing a buy-in and/or a borrowing of EFNs 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 selling HKCC Participant a late settlement penalty charge of 0.25% of the market value on the Final Settlement Day of the overdue positions of the HKCC Participant in the EFN Futures Contract.

Without prejudice to section 2A.1(e), if notification is not received by the Clearing House by the stipulated time from a buying HKCC Participant or the corresponding selling HKCC Participant, the Clearing House is deemed to have satisfied its obligations as counterparty to the buying and selling HKCC Participants and neither the buying nor selling HKCC Participant shall have any claim against the Clearing House.

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 incurred in executing a buy-in and/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 the EFN Futures Contract in accordance with the Exchange Rules, the Clearing House Rules and these Clearing House Procedures.

### **Chapter 3                      Clearing Documentation**

DCASS and CCMS will generate different types of clearing reports for HKCC Participants after the daily settlement process. Please refer to the DCASS User Guide and CCMS Terminal User Guide for details.



## **Chapter 5 Capital-Based Position Limits**

### **5.1 Position Limits Prescribed by the Clearing House**

Gross and net position limits are assigned to each HKCC Participant on the basis of its Liquid Capital. The gross and net margin liabilities of all clearing accounts of each HKCC Participant may not exceed its gross and net position limits respectively.

Gross and net position limits are assigned to each HKCC Participant on the basis of its Liquid Capital. Where an HKCC Participant is a Common Participant or carries on regulated activities under the Ordinance other than Type 1 or Type 2 regulated activity, it must apportion either a designated amount or a percentage of the Liquid Capital (unless otherwise determined by the Clearing House on a case by case basis, as per its latest monthly return filed with the Commission under the Financial Resources Rules and received by the Clearing House from the Commission) for the purpose of clearing trades concluded or to be concluded on the Exchange or satisfying its payment or other obligations as an HKCC Participant to the Clearing House, and the gross and net position limits will be assigned to such HKCC Participant on the basis of its apportioned Liquid Capital as notified to the Clearing House.

Notification of an HKCC Participant's initial Liquid 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 Business 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 Business 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 on behalf of the HKCC Participant.

For the purpose of this Chapter, the term "Liquid Capital" shall, where applicable, be construed as the "apportioned Liquid Capital" and for the purpose of calculating the gross and net limits of an HKCC Participant, its Liquid Capital shall be adjusted to include its cash contribution to the Reserve Fund Deposits as at the date of its latest monthly return filed with the Commission under the Financial Resources Rules and received by the Clearing House from the Commission.

Unless otherwise determined by the Clearing House, the gross and net position limits shall be calculated as follows:

Gross Limit = 6 x Liquid Capital

(i.e., 6 x Liquid Capital  
≥ the sum of the gross margin liabilities of the House, Omnibus Client, Individual Client, Client Offset Claim, Sink and Market Maker ("MM") Accounts; or

Liquid Capital

≥ 16.7% x the sum of the gross margin liabilities of the House, Omnibus Client, Individual Client, Client Offset Claim, Sink and MM Accounts)

Net Limit = 3 x Liquid Capital

(i.e., 3 x Liquid Capital

≥ the sum of the net margin liabilities of the House, Client, Sink and MM Accounts; or

Liquid Capital

≥ 33.3% x the sum of the net margin liabilities of the House, Client, Sink and MM Accounts)

The gross and net margin liabilities of all contracts will be measured in Hong Kong dollars or the equivalent based on the exchange rate determined by the Clearing House for each type of currency.

For the purpose of calculating the gross margin liabilities of an HKCC Participant, since positions in the House, MM, Individual Client and Client Offset Claim Accounts are margined on a net basis, the net margin liabilities (please refer to sections 2.2.1 to 2.2.5) of these clearing accounts will be used in calculating the gross limits of HKCC Participants.

For the purpose of calculating the net margin liabilities of an HKCC Participant, positions in each of its Individual Client Accounts will be aggregated with positions in its Omnibus Client Account and Client Offset Claim Account and margined together on a net basis to determine the net margin liabilities of its Client Accounts, and positions of an HKCC Participant's Sink Account will be margined together on a net basis to determine the net margin liabilities of its Sink Account.

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