

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:-

“Currency of the Contract” means the currency in which a Contract is traded;

“Settlement Currency” means, in relation to a Cash Settled Contract, the currency in which the 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;

**CHAPTER IV**

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

Variation adjustment

409. (a) HKCC Participants must pay all variation adjustments immediately on demand from the Clearing House. All such demands must be met by a cash payment in the Settlement Currency.

**CHAPTER VI**

**DELIVERY AND EXCHANGE OF FUTURES**

Cash Settled Contracts and Physical Delivery Contracts

601. (a) Cash Settled Contracts shall be settled by payment of cash in the Settlement Currency.

**APPENDIX A**

**Fees**

| <i>Description</i> | <i>Amount<sup>1</sup></i> |
|--------------------|---------------------------|
|--------------------|---------------------------|

*Settlement Fees (Futures) and Exercise Fees (Options)*

Metal products

|              |              |
|--------------|--------------|
| Gold Futures | US\$1.30/Lot |
|--------------|--------------|

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

**Chapter 2 Settlement Procedures**

2.3 Variation Adjustment

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.

2.4 Fees and Charges

All Exchange and Clearing House fees and charges will be calculated after the Market close and debited from HKCC Participants' CCMS Collateral Accounts on a daily basis. Subject to section 2.6A, trading fees arising from trades executed in all Markets shall be settled using cash in the Settlement Currency only.

2.5 Calculation of Daily Cover Required

2.5.2 *Cash Balance*

The comparisons referred to in paragraphs (a) to (c) above are made on the basis that Clearing House margin liability is not covered by any other acceptable means. To the extent that Clearing House margin liability is covered by other acceptable means, any shortfall in the amount of cover required (as calculated in paragraph (b) above) will be reduced accordingly and any cash amount that may be withdrawn will be increased accordingly, provided that (i) it is not held by the Clearing House as cover for the HKCC Participant's Clearing House margin liability; (ii) the amount of Clearing House margin liability that is covered by cash in the Settlement Currency will not fall below the minimum level prescribed by the Clearing House; and (iii) the withdrawal will not result in any other requirement regarding cover for the HKCC Participant's Clearing House margin liability not being satisfied.

## 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 at least 50% of the Clearing House margin liability for each CCMS Collateral Account of the HKCC Participant is covered by means of cash in the Settlement Currency. 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.

### 2.6.1 *Cover provided by means of Cash in the Settlement Currency*

Any cash balance in the Settlement Currency in excess of the amount required to cover an HKCC Participant's Clearing House margin liability shall automatically be used by the Clearing House as cover for any subsequent increase in the Clearing House margin liability of the HKCC Participant without the HKCC Participant's prior consent. Interest on cash balance in the Settlement Currency may be paid or charged by the Clearing House at such positive or negative rate as it may determine from time to time in accordance with prevailing bank savings rates.

If an HKCC Participant deposits cash in the Settlement Currency to cover outstanding debit, the Clearing House will neither pay interest nor levy accommodation charges on such deposit (see section 2.6.7).

### 2.6.2 *Cover provided by means of Cash in an Approved Currency other than the Settlement Currency*

Subject to the prior agreement of the Clearing House, an HKCC Participant may provide cover for its Clearing House margin liabilities by means of a deposit with the Clearing House of cash in an approved currency other than the Settlement Currency or by way of surplus balance on Contracts which are settled in a different Settlement Currency. The types of approved currencies that may be provided by HKCC Participants may be determined by the Clearing House from time to time (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 for Clearing House margin liabilities 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.

Interest may be paid or charged by the Clearing House on the cash balance in an approved currency other than the Settlement Currency at such positive or negative rate as it may determine from time to time in accordance with prevailing bank savings rates. The rate of interest may be varied from time to time by the Clearing House without prior notice.

No accommodation charge will be levied on Clearing House margin liabilities covered by surplus cash balance in an approved currency other than the Settlement Currency (see section 2.6.7).

Any HKCC Participant wishing to deposit 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..

### 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 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).

### 2.6A 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. 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 as soon as practicable after the liabilities arose from such source and on such basis as it shall consider appropriate. Any exchange rate risk arising from the conversion will be borne by the HKCC Participant.

## 2.7 Payment of Cover - Direct Margin Debiting System

Subject to section 2.6, the DMDS will operate as follows:

- a) Each HKCC Participant will need to open two bank accounts for House and Client respectively for each applicable Settlement Currency at one of the Designated Banks, Prime Settlement Banks or Approved Settlement Banks from time to time appointed by the Clearing House. For a Market Maker Account, an HKCC Participant need not have separate bank accounts for debiting purpose. The House bank accounts will be used as the designated bank accounts unless the Market Maker Account is of a Client nature, in which case the Client bank accounts shall be used as the designated bank accounts for the Market Maker Account. Any HKCC Participant wishing to use additional Client bank accounts as the designated bank accounts for a Market Maker Account which is of a Client nature must notify the Clearing House in writing. Each HKCC Participant is required to provide the bank via the Clearing House with separate mandates, in such form as shall be approved by the Clearing House, authorizing the transfer, on the Clearing House's instructions, of funds required to satisfy the daily call for Clearing House margins, loss arising from variation adjustment, outstanding debit and any other liabilities due to the Clearing House. For the avoidance of doubt, an HKCC Participant which has not opened bank accounts in the Settlement Currency of a Contract and provided mandates to the bank as aforesaid will not be allowed to record, register and clear that Contract.

## 2.8 Intra-day Variation Adjustments

Funds required to satisfy an intra-day variation adjustment will be collected via the DMDS. Unless otherwise permitted by the Clearing House, all margin calls for intra-day variation adjustments must be settled by cash in the Settlement Currency and must be paid by the HKCC Participant on demand and in any event no later than one hour after notification or such shorter period as may from time to time be prescribed by the Clearing House. Where the Settlement Currency of a Contract is not the same as the Currency of the Contract, intra-day variation adjustment 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 intra-day variation adjustment arose from such source and on such basis as it shall consider appropriate. Any exchange rate risk arising from the conversion will be borne by the HKCC Participant.

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; (ii) if the Settlement Currency in respect of which the intra-day variation adjustment is made is a currency other than the Hong Kong dollar; or (iii) 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.

## 2.8A Special Block Trade Margin

Unless otherwise permitted by the Clearing House, all Special Block Trade Margin must be settled by cash in the Settlement Currency and must be paid by the HKCC Participant on demand and in any event no later than one hour after notification or such shorter period as may from time to time be prescribed by the Clearing House. Where the Settlement Currency of a Contract is not the same as the Currency of the Contract, any Special Block Trade 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 Special Block Trade Margin arose from such source and on such basis as it shall consider appropriate. Any exchange rate risk arising from the conversion will be borne by the HKCC Participant.

## 2.9 Value Date for Deposit and Release of Foreign Currencies

### 2.9.3 *Substitution for the Settlement Currency*

HKCC Participants may elect to deposit 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 minimum level of Clearing House margin liabilities that is required to be satisfied by cash in the Settlement Currency is at all times maintained. If cash in a currency other than the Settlement Currency approved by the Clearing House is deposited 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 day in order for the HKCC Participant to have surplus funds resulting from such cash deposit refunded to the HKCC Participant in the Settlement Currency for same-day value. If such cash is received after 9:30 a.m., any surplus in the Settlement Currency will be refunded to HKCC Participants for value on the next (Hong Kong) bank business day.

## 2.10 Release of Surplus Funds in the Settlement Currency or Non-Cash Collateral

An HKCC Participant may request the withdrawal of surplus funds in the Settlement Currency or non-cash collateral in its CCMS Collateral Account by inputting a withdrawal order via a CCMS terminal before 11:00 a.m. each (Hong Kong) bank business day (Monday to Friday). It should be noted that the Clearing House will not release any surplus funds or non-cash collateral to HKCC Participants on Saturdays or if the amount of Clearing House margin liability that is covered by cash in the Settlement Currency will fall below the minimum level prescribed by the Clearing House or if the withdrawal will result in any other requirement regarding cover for the HKCC Participant's Clearing House margin liability not being satisfied.

## 2.11 Final Settlement of Futures Contract

### 2.11.1 Cash Settled Contracts

All Cash Settled Futures Contracts traded on HKATS are cash settled at the Final Settlement Price on the Last Trading Day or other day as determined in accordance with the Contract Specifications. Any profits or losses on cash settlement will be credited to or debited from the relevant CCMS Collateral Account of the HKCC Participant. If there are excess funds as shown in the CCMS Collateral Account, after considering all other liabilities, a payment will be made to the HKCC Participant upon request. If there are insufficient funds as shown in the CCMS Collateral Account to cover the resulting losses, a call will be made via the DMDS. In addition, a cash settlement fee is charged on every open Futures position on the Final Settlement Day.

In respect of any Cash Settled Futures Contract whose Settlement Currency is different from the Currency of the Contract, the amount required to be settled by the HKCC Participant on the Final Settlement Day shall be converted to the Settlement Currency equivalent. The conversion rate to be applied shall be the exchange rate obtained by the Clearing House at such time on the Last Trading Day or other day and from such source as it shall consider appropriate. The Clearing House will promptly announce these rates after they are determined. HKCC Participants must use these rates for conversions at the Client account level.

## 2.12 Exercise/Assignment of Option Contracts

In respect of any Option Contract whose Settlement Currency is different from the Currency of the Contract, the amount required to be settled by the HKCC Participant on the Final Settlement Day shall be converted to the Settlement Currency equivalent. The conversion rate to be applied shall be the exchange rate obtained by the Clearing House at such time on the Expiry Day or other day and from such source as it shall consider appropriate. The Clearing House will promptly announce these rates after they are determined. HKCC Participants must use these rates for conversions at the Client account level.

## **Chapter 4 Reserve Fund Contribution**

### 4.2 Calculation Methodology

If HKCC Participant Additional Deposits are required from HKCC Participants, the Clearing House will calculate each HKCC Participant's contribution requirement based on each HKCC Participant's daily average risk exposure as follows:

- 4.2.1 For comparison purpose, the 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. The net margin liabilities of each of the Client, House, Sink and Market Maker account will be computed separately. The total net margin liabilities for each HKCC Participant shall be the sum of the net margin liabilities of each account. For the purpose of calculating the net margin liabilities of an

HKCC Participant's Client accounts for each Market, positions in each Individual Client Account will be aggregated with positions in its Omnibus Client Account and Client Offset Claim Account for that Market and margined together on a net basis, and positions of an HKCC Participant's Sink Account in the same Market will be margined together on a net basis to determine the net margin liabilities of its Sink Account for each Market.

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

### 5.1 Position Limits Prescribed by the Clearing House

Net Limit = 3 x (Liquid Capital + Bank Guarantee)

(i.e., 3 x (Liquid Capital + Bank Guarantee)  
 $\geq$  the sum of the net margin liabilities of the House,  
 Client, Sink and MM Accounts; or

Liquid Capital + Bank Guarantee  
 $\geq$  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.