

Rules and Procedures of HKFE Clearing Corporation Limited

**CHAPTER IV**

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

Additional margin and intra-day variation adjustment

411. (a) If according to any intra-day assessment of the liabilities arising from the open Contracts of an HKCC Participant, any capital-based position limit imposed on the HKCC Participant in accordance with the Clearing House Procedures is determined by the Clearing House to have been exceeded, or if in the opinion of the Clearing House sudden fluctuations of any Market operated by the Exchange are apparent, the Clearing House may, during any Business Day, call for intra-day variation adjustment and/or, in the latter case, additional margin.
- (c) Other than profit arising from an intra-day variation adjustment call made pursuant to any intra-day assessment referred to in Rule 411(a), in respect of which no release shall be made, any profit or loss arising from an intra-day variation adjustment shall be released to or collected from each HKCC Participant in accordance with the Clearing House Procedures.

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

The Clearing House Procedures below outline the registration, settlement, clearing and margining procedures for the Futures / Options Contracts (in these procedures, referred to as "Contracts") traded on HKATS. These procedures are divided into the following chapters:- Chapter 1 – Registration Procedures; Chapter 2 – Settlement Procedures; Chapter 3 – Clearing Documentation; Chapter 4 – Reserve Fund Contribution; and Chapter 5 – Capital-Based Position Limits.

**Chapter 2 Settlement Procedures**

**2.8 Intra-day Variation Adjustments**

At the close of the morning trading session of the Hang Seng Index Futures Market on each Business Day, the Clearing House will, unless otherwise determined by the Clearing House, perform an intra-day assessment of the gross and net margin liabilities of all the accounts of each HKCC Participant in DCASS in respect of all open Contracts held by the HKCC Participant in all Markets. Where such gross or net margin liability is determined by the Clearing House to have exceeded the gross or net capital-based position limit imposed on the HKCC Participant and calculated in accordance with section 5.1, the Clearing House may make an intra-day variation adjustment in respect of all open Contracts held by the HKCC Participant in all open Markets.

Furthermore, where the price movements in a Market are particularly volatile such that the applicable Clearing House margin in respect of that Market has been eroded by approximately 25% in case of the Hang Seng Index Futures, Hang Seng Index Options, Mini-Hang Seng Index Futures or Mini-Hang Seng Index Options Market and approximately 35% in the case of any other Market, or where the Clearing House considers appropriate under any other circumstances, the Clearing House may make an intra-day variation adjustment in respect of all open Contracts held by an HKCC Participant in that Market and/or any other Market whose underlying instrument is the same as or similar to the underlying instrument of that Market at the time of the intra-day variation adjustment.

The Clearing House will generate a report, which will set forth the amount which will be debited from or credited to the relevant CCMS Collateral Account of the HKCC Participant as a result of any intra-day variation adjustment.

If the amount to be debited from the CCMS Collateral Account of the HKCC Participant cannot be fully covered by the surplus funds as shown in that account, the Clearing House will inform the HKCC Participant by phone or by any other means as the Clearing House may consider appropriate and the HKCC Participant shall forthwith ensure that there are sufficient funds deposited in its relevant DMDS bank account for debiting purpose.

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.

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, 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.

Notwithstanding the above, in the case of Physical Delivery Contracts after the last trading day, as long as any cover provided by an HKCC Participant under section 2.6 is sufficient to satisfy an intra-day variation adjustment, no funds will be collected via the DMDS. To the extent that cover provided under section 2.6 is insufficient, the shortfall will be collected via the DMDS. Furthermore, no intra-day variation adjustment arising from Physical Delivery Contracts after the last trading

day will be credited to HKCC Participants as mentioned above, or used to offset any Clearing House margin liabilities of HKCC Participants.

Some of the Markets may remain open on public holidays in Hong Kong. HKCC Participants are advised to arrange additional cover to deal with any potential intra-day variation adjustment call. If an HKCC Participant is unable to meet its intra-day variation adjustment calls by the prescribed deadline for any reason, the Clearing House may restrict such HKCC Participant from opening new positions and may require compulsory close-outs where circumstances warrant such action.

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

### **5.2      Extension of Position Limits**

Apart from increasing its Liquid Capital, whether by revising the amount or percentage of Liquid Capital apportioned or otherwise, an HKCC Participant may arrange one or more bank guarantees to extend its position limits. The bank guarantees to be arranged must satisfy the same requirements and criteria as those set forth in section 2.6.3 for the use of bank guarantees as a means of providing cover for Clearing House margin liability. Furthermore, an HKCC Participant's own assets which have been taken into account in calculating its Liquid Capital are not allowed to be used in any form as security for the purpose of arranging a bank guarantee, the maximum amount of bank guarantees that may be used by an HKCC Participant at any time is limited to 150% of the latest Liquid Capital submitted by it to the Clearing House, and under no circumstances will an HKCC Participant be allowed to use bank guarantees which in aggregate exceed 150% of its Liquid Capital.

Based on the gross and net margin liabilities calculated at the end of each Business Day, if either the gross or net position limit is exceeded, an HKCC Participant must take remedial action by increasing its Liquid Capital and/or arranging bank guarantee(s). The remedial action must be taken

- within 10 Business Days if the HKCC Participant deposits with the Clearing House an additional margin deposit of 25% of the Clearing House margin on those positions in excess of its position limit; or
- immediately in any other case.

Upon the expiry of the applicable time period, the HKCC Participant must, or failing which the Clearing House may, close out or transfer to any other HKCC Participant or HKCC Participants all positions in excess of the position limit.