

Rules and Procedures of HKFE Clearing Corporation Limited

Chapter 5 Capital-Based Position Limits

5.1 Position Limits Prescribed by the Clearing House

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

Gross Limit = 6 x Liquid Capital or, in the case of a General Clearing Participant which is a Registered Institution its Adjusted Capital

(i.e., 6 x Liquid Capital or Adjusted 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 or Adjusted 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 or Adjusted Capital

(i.e., 3 x Liquid Capital or Adjusted Capital
≥ the sum of the net margin liabilities of the House, Client, Sink and MM Accounts; or

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

5.2 Extension of Position Limits

An HKCC Participant may increase its Liquid Capital or, in the case of a General Clearing Participant which is a Registered Institution, its Adjusted Capital, whether by revising the amount or percentage of Liquid Capital or Adjusted Capital (as appropriate) apportioned or otherwise, to extend its position limits.

Based on the gross and net margin liabilities calculated by the Clearing House at the end of the T Session of each Business Day, if the gross and/or net position limit of an HKCC Participant are/is exceeded, the HKCC Participant must take remedial action by increasing its Liquid Capital or Adjusted Capital (as appropriate). Unless an extension is granted subject to such conditions as may be imposed by the Clearing House on a case by case basis, the remedial action must be taken

- within 10 Business Days if the HKCC Participant pays or delivers to the Clearing House an additional margin equivalent to 25% of whichever is the higher of:
 - its gross margin liability in excess of its gross position limit; or
 - its net margin liability in excess of its net position limit; or
- immediately in any other case.

Notwithstanding the above, when the applicable time period (as may be extended and subject to such conditions as aforesaid) comes to an end, 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.

5.3 T+1 Session Position Limit

The Clearing House will regularly monitor the net margin liabilities against the net position limit of all clearing accounts of each HKCC Participant during the T+1 Session. Unless otherwise determined by the Clearing House, the net position limit of the T+1 Session shall be calculated as follows:

Net Limit = 3 x Liquid Capital or Adjusted Capital

(i.e., 3 x Liquid Capital or Adjusted Capital
≥ the sum of the net margin liabilities of the House, Client, Sink and MM
Accounts; or

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

5.4 Extension of T+1 Session Position Limit

The T+1 Session net position limit of an HKCC Participant can be extended by arranging an advance margin deposit with the Clearing House before the commencement of the T+1 Session or any other time specified by the Clearing House from time to time on each Business Day. Unless otherwise determined by the Clearing House on a case by case basis, the sum of the net margin liabilities for the purpose of monitoring against the net position limit during the T+1 Session will be adjusted by such advance margin deposit and any additional margin made pursuant to section 5.2 as follows:

Adjusted sum of the net margin liabilities
= sum of the net margin liabilities –
4 x (advance margin deposit + additional margin pursuant to section 5.2)