

Rules and Procedures of HKFE Clearing Corporation Limited

CHAPTER IV

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

Approved Collateral

404. (a) The Clearing House may in its absolute discretion allow HKCC Participants to deliver approved currencies and approved non-cash collateral to satisfy their obligation to pay margin up to such limit or limits as may from time to time be prescribed by the Clearing House. For the avoidance of doubt, the Clearing House may, in relation to any Contract, prescribe –
- (i) the approved currencies and/or the approved non-cash collateral that a HKCC Participant may be allowed to deliver to satisfy its obligations to pay margin; and
 - (ii) the limit or limits up to which such approved currencies, approved non-cash collateral and/or any of them may be delivered by the HKCC Participant as cover for margin in accordance with the Clearing House Procedures.

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

Chapter 2 Clearing and Settlement Procedures

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 redelivered will be increased accordingly, provided that (i) it is not used 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 any acceptable means other than cash in the Settlement Currency will not exceed the maximum level(s) prescribed by the

Clearing House; and (iii) the redelivery 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 sections 2.7 and 2.8B. 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 from such source and on such basis as it shall consider appropriate as soon as practicable after the Clearing House margin liabilities arose. An HKCC Participant may also provide cover for its Clearing House margin liabilities in one or more of the ways set forth in sections 2.6.1, 2.6.2, 2.6.4 and 2.6.6 below ("approved collateral") provided that the amount of Clearing House margin liability that is covered by approved collateral other than cash in the Settlement Currency does not exceed the maximum level(s) prescribed by the Clearing House with respect to the HKCC Participant and/or each CCMS Collateral Account of the HKCC Participant, as the case may be. 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.

2.6.2 *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 delivery to 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 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 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.

2.9 Value Date for Delivery and Redelivery of Approved Currencies Other Than Applicable Settlement Currencies

2.9.3 *Substitution for the Settlement Currency*

HKCC Participants may elect to deliver 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 amount of Clearing House margin liabilities that is covered by approved collateral other than cash in the Settlement Currency will not exceed the maximum level(s) prescribed by the Clearing House and provided further the delivery will not result in any other requirement regarding cover for HKCC Participant's Clearing House margin liabilities not being satisfied. If cash in a currency other than the Settlement Currency approved by the Clearing House is delivered 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 redelivered 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 redelivered to HKCC Participants for value on the next Hong Kong Bank Business Day.

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

An HKCC Participant may request the redelivery of surplus funds in the Settlement Currency in its CCMS Collateral Account by inputting an order for redelivery via a CCMS terminal and may request the redelivery of surplus non-cash collateral in its CCMS Collateral Account by notifying the Clearing House in writing or by other means acceptable to the Clearing House by 11:00 a.m. each Business Day. It should be noted that the Clearing House will not redeliver any surplus funds or non-cash collateral to HKCC Participants on Saturdays or if the amount of Clearing House margin liabilities that is covered by approved collateral other than cash in the Settlement Currency will exceed the maximum level(s) prescribed by the Clearing House or if the redelivery will result in any other requirement regarding cover for the HKCC Participant's Clearing House margin liability not being satisfied.