

CHAPTER IV

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

General

401. Every HKCC Participant shall forthwith on demand pay to the Clearing House such margin as the Clearing House or Exchange may from time to time require.

Clearing House margin

402. (a) The Clearing House shall demand payment of Clearing House margin in an amount determined by the Clearing House immediately upon the registration and clearing of Contracts pursuant to these Rules.
- (b) Every HKCC Participant has a continuing obligation to maintain Clearing House margin at the level and during the period from time to time stipulated by the Clearing House.
- (c) Clearing House margin paid or delivered by an HKCC Participant to the Clearing House will be used by the Clearing House as cover for the HKCC Participant's liabilities to the Clearing House from time to time.
- (d) The Clearing House shall determine the level of Clearing House margin required from each HKCC Participant with regard to open positions from Contracts registered pursuant to Rule 308A(e) or arising pursuant to Rule 309 using a risk based algorithm or such other methods as may be set from time to time in the Clearing House Procedures. So far as practicable the Clearing House shall make available on request the method used to HKCC Participants and the Commission. The Clearing House will inform the Commission and HKCC Participants of any changes to the margin methodology or prevailing margin rates.
- (e) On the written instructions of the Exchange, the Clearing House shall require higher Clearing House margin from all HKCC Participants or any individual HKCC Participant notwithstanding that the amount demanded exceeds the level generally demanded by the Clearing House at that time.
- (f) The Board may at any time in its absolute discretion determine that the amount of Clearing House margin to be paid by any HKCC Participant shall be increased and the HKCC Participant in question shall pay such increased amount forthwith on demand.

- (g) Failure to comply with any requirement of the Clearing House regarding Clearing House margin may result in action pursuant to Rule 510 and/or Rule 517.

Withholding Clearing House margin

403. The Clearing House shall on the written instructions of the Exchange withhold release to an HKCC Participant margin paid or delivered by that HKCC Participant to the Clearing House for any period required by the Exchange; notwithstanding that such margin is withheld, where an HKCC Participant has open Contracts he must continue to pay any variation adjustment required in respect of those Contracts or any further Clearing House margin on any other Contracts without taking into account any margin withheld by the Clearing House.

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.
- (b) If at any time non-cash collateral delivered pursuant to this Rule is, in the opinion of the Clearing House, no longer sufficient to satisfy the margin requirements of the HKCC Participant in question, the Clearing House may demand that further cash payment or non-cash collateral be provided. All demands for margin must be met immediately and in full.
- (c) The Clearing House shall be entitled to charge accommodation fees, calculated on such basis and at such rate as may be determined by the Clearing House from time to time, on non-cash collateral delivered to the Clearing House.
- (d) All rights, title and interest in any non-cash collateral delivered by an HKCC Participant pursuant to this Rule shall pass to the Clearing House and each HKCC Participant shall ensure and hereby warrants and represents that it is absolutely entitled to pass full legal and beneficial

ownership of all such non-cash collateral to the Clearing House free from all liens, charges and encumbrances. For the purposes of these Rules, the Clearing House shall be free to redeliver or transfer any non-cash collateral to HKCC Participants (or other persons) in such form and in such equivalent amount as the Clearing House deems appropriate and for the avoidance of doubt, the Clearing House is not under any obligation to redeliver the original non-cash collateral to the HKCC Participant.

405. (deleted)

Release of margin

406. The Clearing House may at any time in its absolute discretion release all or part of the margin paid or delivered to the Clearing House.

407. Where an HKCC Participant has delivered non-cash collateral to the Clearing House pursuant to Rule 404(b) or Rule 411 and the Clearing House is subsequently satisfied that the value of non-cash collateral delivered pursuant to Rule 404(a) has increased, the Clearing House may in its absolute discretion release all or part of such margin.

407A. Notwithstanding the above or any provisions of the Rules to the contrary, no excess margin, whether in any type of currency or any form of collateral, will be released or redelivered by the Clearing House to an HKCC Participant on a Trading Day which is not a Business Day.

Variation adjustment

408. Except as otherwise prescribed in the Exchange Rules, the Clearing House will, in accordance with the HKCC Rules, calculate variation adjustments in respect of all open Contracts at least once daily on each Trading Day.

(a) At Market close on each Trading Day until and including the Trading Day immediately preceding the Last Trading Day or such other day as specified in the Clearing House Procedures, an HKCC Participant is, for the purpose of calculating variation adjustments, deemed to have closed out each open Contract at a price equal to the Closing Quotation for that Trading Day and to have entered into a new Contract at the Closing Quotation which is treated as its carry forward open Contract for the next Trading Day. Any profits or losses arising on the deemed closing out each Trading Day are treated as realized profits or losses and shall be debited or credited against the HKCC Participant's CCMS Collateral Account with the Clearing House, but no realized profits will be released by the Clearing House on a Trading Day which is not a Business Day.

(aa) Profits and losses arising from Physical Delivery Contracts on or after

the Last Trading Day shall be treated in accordance with the Clearing House Procedures.

- (b) (deleted)
 - (c) The Clearing House may from time to time introduce other adjustment methods by giving notice to all HKCC Participants.
 - (d) The Clearing House will keep the Commission informed of the method used to adjust Contracts from time to time.
409. (a) HKCC Participants must pay all variation adjustments immediately on demand from the Clearing House, including, in respect of HKCC Participants which clear Holiday Trading Exchange Contracts, those demanded from the Clearing House on a Trading Day which is not a Business Day. All such demands must be met by cash payment in the Settlement Currency, unless otherwise permitted by the Clearing House.
- (b) Failure to comply with any requirement of the Clearing House regarding variation adjustment may result in action pursuant to Rule 510 and/or Rule 517.
 - (c) In addition to any other rights the Clearing House may have under these Rules, where the Clearing House has an obligation to make payment under Rule 408(a) in a Settlement Currency, notwithstanding that the Settlement Currency may be available, the Clearing House may in lieu of making payment in that Settlement Currency make payment to the HKCC Participant concerned, in full or in part, in such other currency or currencies and at such conversion rate(s) as the Clearing House may in its absolute discretion determine to be fair and reasonable having regard to all the circumstances of the case. The Clearing House shall only exercise its powers under this Rule in circumstances when the Clearing House considers in its reasonable opinion that the Settlement Currency is not freely available or convertible in the market.
410. The Clearing House shall calculate margin requirements and variation adjustments at least once on every Trading Day in respect of:-
- (a) every Cash Settled Contract until the earlier of the date on which that Contract (i) is closed out; or (ii) expires or is exercised; and
 - (b) every Physical Delivery Contract until the earliest of (i) the date on which that Contract is closed out; (ii) the date on which that Contract is settled; or in the case of a Physically Settled Options on Futures Contract, the date on which that Contract expires or is exercised; or (iii) in the case of a Physical Delivery Contract where the settlement obligations of HKCC Participants to HKCC will complete at or before

9:15 a.m. on the Final Settlement Day, the Trading Day immediately preceding the Final Settlement Day, or in the case of any other Physical Delivery Contract, the Final Settlement Day.

410A. (deleted)

410B. (deleted)

Mandatory intra-day variation adjustment and margin

- 410C. (a) Following Market open of the T Session on each Trading Day, the Clearing House will, in accordance with the Clearing House Procedures, call for a mandatory intra-day variation adjustment and margin in respect of all open Contracts held in all Markets by an HKCC Participant at a time specified by the Clearing House.
- (b) HKCC Participants must pay all mandatory intra-day variation adjustment and margin immediately on demand from the Clearing House in accordance with the Clearing House Procedures, including, in respect of HKCC Participants which clear Holiday Trading Contracts, those demanded from the Clearing House on a Trading Day which is not a Business Day.
- (c) Failure to comply with any requirement of the Clearing House regarding mandatory intra-day variation adjustment and margin may result in action pursuant to Rule 510 and/or Rule 517.

Additional margin and intra-day variation adjustment

411. (a) On each Trading Day, the Clearing House will, unless in exceptional circumstances as determined by the Clearing House, call for intra-day variation adjustment(s) in accordance with the Clearing House Procedures in respect of all open Contracts held in all Markets and/or any Market by an HKCC Participant, according to such schedule as may be prescribed by the Clearing House from time to time.

In addition, 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 or where the Clearing House considers appropriate under any other circumstances, the Clearing House may, during the T Session or where applicable during the T+1 Session of any Trading Day, call for intra-day variation adjustment(s) and/or additional margin.

- (aa) The Clearing House may also call for additional margin on any Trading Day (i) if according to its assessment of the liabilities arising from the open Contracts of an HKCC Participant which are based on the same or

similar underlying instruments, any concentration or specified threshold imposed on the HKCC Participant in accordance with the Clearing House Procedures has been exceeded; or (ii) if the projected aggregate loss (less General Collateral (excluding any excess collateral) and any margin except additional margin collected under section 2.2.8 of the Clearing House Procedures) arising from the open Contracts of an HKCC Participant exceeds the Reserve Fund Risk Predefined Limit; or (iii) under such other circumstances as may be specified in the Clearing House Procedures.

- (b) Additional margin shall take the form of additional Clearing House margin and shall be payable immediately on demand from the Clearing House.
- (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.
- (d) Failure to comply with any requirement of the Clearing House regarding additional margin and/or intra-day variation adjustment may result in action pursuant to Rule 510 and/or Rule 517.
- (e) In addition to any other rights the Clearing House may have under these Rules, where the Clearing House has an obligation to make payment under Rule 411(c) in a Settlement Currency, notwithstanding that the Settlement Currency may be available, the Clearing House may in lieu of making payment in that Settlement Currency make payment to the HKCC Participant concerned, in full or in part, in such other currency or currencies and at such conversion rate(s) as the Clearing House may in its absolute discretion determine to be fair and reasonable having regard to all the circumstances of the case. The Clearing House shall exercise its powers under this Rule only if the Clearing House considers in its reasonable opinion that the Settlement Currency is not freely available or convertible in the market.

Special Block Trade Margin

- 411A. (a) If, in the opinion of the Clearing House or the Exchange, the executed price of a Block Trade is not fair and reasonable or a significant deviation exists between the executed price and the prevailing market price or between the executed price and the theoretical price determined by the Clearing House, the Clearing House may, within 30 minutes after the Block Trade is executed or after a trade adjustment request in respect of such Block Trade is submitted, call for a Special Block Trade Margin from the relevant HKCC Participant.

- (b) Special Block Trade Margin shall be collected from HKCC Participants in accordance with the Clearing House Procedures.
- (c) A Block Trade will not be registered and novated with the Clearing House unless any Special Block Trade Margin in respect of the Block Trade is paid or otherwise considered by the Clearing House to have been satisfied by the prescribed time. Any trade adjustment request in respect of a Block Trade will not be accepted by the Clearing House unless any Special Block Trade Margin arising from such trade adjustment is paid or otherwise considered by the Clearing House to have been satisfied by the prescribed time.

Closing Quotations

412. Where applicable, the Closing Quotation in respect of each futures expiry or option series, as the case may be, shall be determined by the Clearing House pursuant to the Clearing House Procedures and shall be used to calculate the variation adjustment.

Ledger accounts

413. The Clearing House shall maintain one or more ledger accounts in respect of each HKCC Participant.
414. (a) The Clearing House will open more than one account in DCASS and CCMS in respect of each HKCC Participant as more particularly described in the Clearing House Procedures. Every account shall bear the name of the HKCC Participant in question and may bear such additional titles as the HKCC Participant may request.
- (b) The Clearing House notes that certain HKCC Participants are required by the Exchange Rules to maintain accounts entitled "Client Account", "Segregated Account" or "Non-House" or some other similar name for the purpose of keeping their own separate record of trades transacted on behalf of their Clients. Accordingly, in accordance with the Clearing House Procedures, the Clearing House will open separate Client accounts in DCASS and CCMS for each HKCC Participant to whom the provision of the Exchange Rules applies. Neither the creation or maintenance of any such accounts nor the special provisions in these Rules relating to such accounts shall in any way detract from the provisions of Rule 311(c) or shall give rise to any trust or other equitable interest in respect of the monies or non-cash collateral standing to the credit of such accounts, or in any way relieve any HKCC Participant from its obligations as principal under all Contracts registered and cleared with the Clearing House.
- (c) Without prejudice to any other rights of the Clearing House in respect of the amounts standing to the credit of an HKCC Participant's CCMS Collateral Account (including its Reserve Fund Deposits), the Clearing

House may invest such amounts or any part thereof in such manner and to such extent as the Clearing House considers expedient and financially prudent. For the avoidance of doubt, any obligation of the Clearing House to redeliver or release such amounts to the HKCC Participant in accordance with these Rules shall not be affected by any gain or loss arising from the investment activities. Any such gain or loss in respect of amounts other than Reserve Fund Deposits is for the Clearing House; and any such gain or loss in respect of Reserve Fund Deposits is for the Reserve Fund.

Aggregation and set-off

415. (a) The Clearing House may not apply any right of set-off or combination between the accounts of different HKCC Participants.
- (b) Cash and non-cash balances standing to the credit of an HKCC Participant's CCMS Collateral Account which is not identified as a "Client CCMS Collateral Account" or which is not of a Client nature may be aggregated with and/or set off against debit balances on any CCMS Collateral Account of the HKCC Participant (including any account which is designated as a "Client CCMS Collateral Account" or which is of a Client nature, including a Market Maker CCMS Collateral Account which is opened for a Client of the HKCC Participant). Cash and non-cash balances of any Client CCMS Collateral Account or account which is of a Client nature of an HKCC Participant may not be aggregated with and/or set off against debit balances of other CCMS Collateral Accounts of the HKCC Participant but may be aggregated with and/or set off against debit balances of each other.

Application of monies

416. Amounts standing to the credit of any HKCC Participant's CCMS Collateral Account may be applied at any time by the Clearing House without notice to the HKCC Participant in or towards meeting any liability of the HKCC Participant in the event that any HKCC Participant fails to meet any demand for payment of any monies to the Clearing House howsoever arising, with the exception that credit balances on a Client CCMS Collateral Account or an account which is of a Client nature may only be applied to meet liabilities arising in respect of any of those accounts.
- 416A. (a) The Clearing House shall be entitled to apply any sums denominated in any currency standing to the credit of any CCMS Collateral Account with the Clearing House of an HKCC Participant in satisfaction of any sum denominated in any currency due or payable by such HKCC Participant to the Clearing House, whether actual or contingent, and whether solely or jointly with any other person, with the exception that credit balances on a Client CCMS Collateral Account or an account which is of a Client nature may only be applied to meet liabilities

arising in respect of any of those accounts.

- (b) For the purpose of this Rule, the Clearing House is authorised to purchase with sums denominated in any currency standing to the credit of any such CCMS Collateral Account such other currencies as may be necessary to effect such application and any agreement relating to such credit balance shall be deemed to incorporate a provision entitling the Clearing House so to apply such credit balance whether or not the same is held on any special terms (including where it shall only be repayable at some future date).
- (c) The Clearing House shall not be obliged to exercise its rights under this Rule.

Interest, costs and charges on credit balances

417. The Clearing House may pay or charge HKCC Participants interest on the cash balance in HKCC Participants' CCMS Collateral Accounts at such positive or negative rate, and may levy costs and charges thereon in such amount, as it may determine from time to time in accordance with the Clearing House Procedures.

Interest on debit balances

418. Debit balances due to the Clearing House are payable on demand and carry interest at a rate from time to time determined by the Clearing House. The Clearing House has an absolute discretion to waive all or part of such interest.

Calculation of interest, costs and charges

419. Any alteration in the basis of calculating interest, costs and charges under Rule 417 or Rule 418 shall become effective, in respect of all current and future deposits, on the seventh Business Day after the date on which notice of the alteration is notified to HKCC Participants. For the avoidance of doubt, alterations may be made by the Clearing House on shorter notice or without prior notice if the basis of calculation remains unaltered.

"Client CCMS Collateral Account" dealt with separately

420. In determining:-

- (i) the amount of Clearing House margin payable;
- (ii) (deleted)
- (iii) whether non-cash collateral delivered is adequate;
- (iv) the amount of variation adjustment payable;

- (v) whether additional margin is required;
- (vi) whether Clearing House margin, or additional margin should be released;
- (vii) the amount of VA Flow Adjustment in the Loss Distribution Process;
- (viii) the amount of Termination Value Payable and Termination Value Receivable in the contract termination process;
- (ix) the amount of Limited Recourse Interim CP Payables, Limited Recourse Final CP Payables and Limited Recourse CP Receivables in a Clearing Service Termination Event; and
- (x) the amount of HKCC Default Interim CP Payables, HKCC Default Final CP Payables and HKCC Default CP Receivables pursuant to section 8.1 of the Clearing House Procedures

any HKCC Participant's account in CCMS designated as a "Client CCMS Collateral Account" or which is of a Client nature shall be regarded entirely independently and separately from any other CCMS Collateral Account of the HKCC Participant.