

## PREFACE

### General

This preface is intended to give a general explanation of the purpose of the Rules of HKFE Clearing Corporation Limited. This preface does not form part of the Rules and does not affect the construction of the Rules.

HKFE Clearing Corporation Limited (“HKCC”) has been established to operate a clearing house for the purpose of clearing all trades concluded on the markets operated by Hong Kong Futures Exchange Limited (the “Exchange”).

### Participation

Every HKCC Participant must be an Exchange Participant. HKCC Participation is not open to anyone other than Exchange Participants.

HKCC Participants may be registered under one of the following categories:-

**General Clearing Participants** which are allowed to register and clear trades both on their own account and on behalf of Non-Clearing Participants;

**Clearing Participants** which are only allowed to register and clear trades on their own behalf. Certain Clearing Participants may, at the discretion of HKCC, be permitted to clear trades on behalf of other Clearing Participants.

### Relationship to the Exchange

On the Scheme Effective Date (as defined in the Rules of the Exchange), the Exchange and The Stock Exchange of Hong Kong Limited became wholly-owned subsidiaries of Hong Kong Exchanges and Clearing Limited (“HKEX”) by way of respective schemes of arrangement under section 166 of the Companies Ordinance. Further to a group restructuring effected in 2016, HKCC became a wholly-owned subsidiary of HKEX which is the direct holding company of the Exchange. The Rules of the Exchange and the Rules of HKCC provide for the exchange of information between the Exchange, HKCC and HKEX within the confines of the Rules of the Exchange and HKCC which are designed to protect the confidentiality and sensitivity of such information.

In particular, the surveillance department of the Exchange is merged with that of HKCC to ensure strict compliance by Exchange Participants and HKCC Participants with the Rules of both companies. In addition, the Board of HKCC has delegated to the Designated Compliance Department Staff (as defined in the Rules of the Exchange) the power to adjudicate Non-serious Offences committed by HKCC Participants, the Disciplinary Committee (which is also the disciplinary committee of the Exchange) the power to adjudicate serious offences committed by HKCC Participants, and the Disciplinary Appeals Committee (which is also the disciplinary appeals committee of the Exchange) the power to consider appeals against decisions of the Disciplinary Committee.

## HKCC as Counterparty

HKCC becomes a counterparty to every trade registered with and cleared through it. Normally HKCC's obligations to parties on one side of a Contract will be met out of payments made to HKCC by the parties on the other side of a Contract.

HKCC is obliged to meet its liabilities as counterparty only to the extent that it has the resources to do so out of:-

- (i) the margin paid to HKCC pursuant to the Rules (other than margin in respect of which the HKCC Participants that paid them are entitled to reimbursement); and
- (ii) the fund referred to below.

HKCC has established a fund to assist it in meeting its obligations as counterparty in circumstances where an HKCC Participant defaults in its obligations to HKCC. The management of HKCC monitors the adequacy of the fund continuously with particular reference to the level of market activity from time to time.

The fund is made up of money and/or facilities as follows:-

- (a) HKCC Participant's Deposits and HKCC Participant Additional Deposits:

As a precondition to becoming an HKCC Participant, each HKCC Participant is required to make a cash deposit with HKCC and to agree to make such additional deposits as may be required from time to time by HKCC in accordance with its procedures.

- (b) Other resources appropriated by HKCC from time to time to the fund out of the general revenue of HKCC.
- (c) Insurance arranged for the purpose of supporting the fund.
- (d) Guarantees or other facilities arranged for the purpose of supporting the fund.

If the fund is applied pursuant to the Rules, HKCC may exercise its powers to require HKCC Participants to provide additional contributions to replenish the fund.

Under the financial support from HKEX, HKCC has put in place an HKCC Participant Additional Deposits Credit funding arrangement which helps to reduce the amount of HKCC Participant Additional Deposits payable by an HKCC Participant to HKCC.

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## Risk Management

HKCC has a number of powers which it uses to assist in the risk management process. These include:-

- (a) the power to demand Clearing House margin and to increase Clearing House margin from time to time;
- (b) the daily adjustment of Contracts by equity margining or “marking to market”;
- (c) the power to require payment of additional margin;
- (d) the power to impose position limits;
- (e) the use of large position reports;
- (f) the power to manage the fund referred to above, including requiring HKCC Participants where necessary to provide HKCC Participant Additional Deposits and Assessments or replenish the depleted fund;
- (g) in respect of Physical Delivery Contracts, the power to require an HKCC Participant to provide, evidence of its holding of such amount of the underlying commodity or instrument as may be required to satisfy its settlement obligations and the power to require a Non-delivery HKCC Participant to close out and/or transfer any open positions by such time as shall be specified by the Clearing House from time to time, where applicable;
- (h) in the event that an HKCC Participant fails to satisfy its delivery obligations in the settlement of a Physical Delivery Contract, the power to borrow, execute a buy-in to purchase the underlying commodity or instrument and/or make payment of Cash Compensation on behalf of the HKCC Participant, where applicable;
- (i) in the event that an HKCC Participant fails to satisfy its payment obligations in the settlement of a Contract (including, without limitation, the payment of Cash Compensation), the power to borrow and/or purchase on behalf of the HKCC Participant the currency in which payment is required to be made;
- (j) the power to allocate losses arising from any event of default through a Loss Distribution Process; and
- (k) the power to perform contract termination.

HKFE Clearing Corporation Limited