

Chapter 2A Settlement of Physical Delivery Contracts

(1) Physical Delivery Contracts that are Futures Contracts shall be settled by delivery of the underlying commodity or instrument by the Sellers of such Contracts and by payment of cash by the Buyers of such Contracts, (2) Physical Delivery Contracts (other than Physically Settled Options on Futures Contracts) that are Put Options shall be settled by delivery of the underlying commodity or instrument by their holders and the payment of cash by their writers, and (3) Physical Delivery Contracts (other than Physically Settled Options on Futures Contracts) that are Call Options shall be settled by delivery of the underlying commodity or instrument by their writers and the payment of cash by their holders, in accordance with the Exchange Rules, the Clearing House Rules and these Clearing House Procedures. Physically Settled Options on Futures Contracts shall be exercised in accordance with section 2A.5 below and any Futures Contracts arising from the exercise of such Physically Settled Options on Futures Contracts shall be settled as Cash Settled Contracts by payment of cash in the Settlement Currency.

2A.1 Exchange Fund Note (EFN) Futures Contracts

Settlement in EFN Futures Contracts shall be effected directly between buying HKCC Participants and selling HKCC Participants allocated to each other under the assignment process set forth in the Clearing House Rules through the real-time Delivery against Payment (DvP) facility of the Central Moneymarkets Unit (CMU) of the Hong Kong Monetary Authority. For the avoidance of doubt, if a settlement is effected between different accounts of an HKCC Participant, such settlement shall be effected through the real-time DvP facility of the CMU as if it were between HKCC Participants. If an HKCC Participant is not a Recognised Dealer or Market Maker of EFNs of the CMU, it must appoint a designated agent which is a Recognised Dealer or EFN Market Maker to effect settlement on behalf of the HKCC Participant and must notify the Clearing House of the particulars of such designated agent at least 14 Business Days before the Last Trading Day.

The settlement procedure for EFN Futures shall be as follows:

- (a) after trading of the spot month EFN Futures Contract ceases at 11:00 a.m. on the Last Trading Day or at such other time as may be specified by the Exchange from time to time, the Exchange in conjunction with the Clearing House will announce (i) the Final Settlement Price; and (ii) details of the particular issues of EFN acceptable for delivery (“Acceptable List”) together with the corresponding conversion factors and accrued interest;
- (b) HKCC Participants with short positions in the spot month EFN Futures shall submit to the Clearing House by 3:00 p.m. on the Last Trading Day or such other time as may be specified by the Clearing House a notification with the particular issue(s) of EFNs from the Acceptable List and the corresponding quantities that will be delivered by the HKCC Participant in satisfaction of its settlement obligations specified in such manner and using such form as may be prescribed by the Clearing House from time to time;

- (c) the Clearing House will allocate short positions of HKCC Participants in the EFN Futures Contract against long positions of HKCC Participants in the EFN Futures Contract. All long positions and short positions will be arrayed in two respective columns. Under the assignment process, a random number will be generated to determine the short position (“starting short position”) that is to be allocated to the first long position. Each consecutive short position following the starting short position will then be allocated to each consecutive long position following the first long position and the short positions listed above the starting short position will be allocated to the remaining long positions under the long position column (in some case, short positions of one account of an HKCC Participant may be assigned against the long positions in another account of the same HKCC Participant);
- (d) the Clearing House will, by the end of the Last Trading Day under normal circumstances, notify relevant HKCC Participants of the results of the assignment process and the relevant settlement details by facsimile, telephone or such other means as it considers appropriate;
- (e) on the Final Settlement Day, each selling HKCC Participant shall, or shall procure that its designated agent shall, if necessary, input DvP settlement instructions in the CMU at or before 3:00 p.m. (or such other cut off time for input of such DvP settlement instructions as may from time to time be specified by the CMU) to effect delivery of EFNs to the buying HKCC Participant allocated to the selling HKCC Participant under the assignment process or its designated agent; and the buying HKCC Participant shall, or shall procure that its designated agent shall, if necessary, input DvP settlement instructions in the CMU at or before 3:00 p.m. (or such other cut off time for input of such DvP settlement instructions as may from time to time be specified by the CMU) to effect payment to the selling HKCC Participant or its designated agent against delivery. The Clearing House shall not be liable to, and shall be discharged from its obligations as the counterparty to, the buying and selling HKCC Participants if a method or facility other than the DvP facility of the CMU is selected by the buying and selling HKCC Participants for settlement purposes. Any resulting claim arising from any failure to settle shall be as between the buying and selling HKCC Participants only.

In the event of settlement failure for any reason, the affected HKCC Participants shall notify the Clearing House of the failure as soon as possible and in any event no later than 5:00 p.m. on the Final Settlement Day by submitting a notification to the Clearing House in such manner and using such form as may be prescribed by the Clearing House from time to time.

Upon receipt of such notification, the Clearing House will take such action as it considers appropriate, including executing a buy-in and/or a borrowing of EFNs as set forth in the Clearing House Rules to effect settlement as soon as practicable. The Clearing House shall also have the right to impose on the defaulting selling HKCC Participant a late settlement penalty charge of 0.25% of the market value on the Final Settlement Day of the overdue positions of the HKCC Participant in the EFN Futures Contract.

Without prejudice to section 2A.1(e), if notification is not received by the Clearing House by the stipulated time from a buying HKCC Participant or the corresponding selling HKCC Participant, the Clearing House is deemed to have satisfied its obligations as counterparty to the buying and selling HKCC Participants and neither the buying nor selling HKCC Participant shall have any claim against the Clearing House.

Each HKCC Participant shall indemnify the Clearing House, the Exchange and a recognized exchange controller which is the controller of the Clearing House against all costs, fees, expenses, liabilities, losses and damages incurred in executing a buy-in and/or borrowing and taking such other action as the Clearing House considers appropriate as a result of the failure by the HKCC Participant to settle the EFN Futures Contract in accordance with the Exchange Rules, the Clearing House Rules and these Clearing House Procedures.

2A.2 Deliverable Currency Futures Contracts

Final settlement of spot month deliverable Currency Futures Contracts shall be effected by delivery of the underlying currency by the Seller and payment of cash in the Settlement Currency by the Buyer in accordance with the Contract Specifications. The settlement procedure shall be as follows:

- (a) after trading of the spot month deliverable Currency Futures Contracts ceases at 11:00 a.m. on the Last Trading Day or at such other time as may be specified by the Exchange from time to time, the Exchange in conjunction with the Clearing House will announce the Final Settlement Price;
- (b) HKCC Participants with short positions in the spot month deliverable Currency Futures Contracts shall make delivery of the underlying currency and receive payment of the Final Settlement Value as determined in accordance with the Contract Specifications;
- (c) HKCC Participants with long positions in the spot month deliverable Currency Futures Contracts shall make payment of the Final Settlement Value and take delivery of the underlying currency as determined in accordance with the Contract Specifications;
- (d) the delivery and payment obligations in relation to the same CCMS Collateral Account of an HKCC Participant are netted by currency with other settlement obligations in relation to that CCMS Collateral Account after the Market close on the Trading Day immediately preceding the Final Settlement Day. Any resulting surplus will be credited to the CCMS Collateral Account while any resulting shortfall shall be settled by the HKCC Participant by 9:15 a.m. on the Final Settlement Day.

In the event of any settlement failure on the part of an HKCC Participant under any deliverable Currency Futures Contract for any reason, the Clearing House will take such action as it considers appropriate, including executing a buy-in and/or a borrowing of the underlying currency and/or executing a purchase and/or a borrowing of the currency in which payment is required to be made as set forth in the Clearing House Rules to effect settlement as soon as practicable. The Clearing House shall also have the right to impose on the defaulting HKCC Participant a late settlement penalty charge of 0.25% of the

market value on the Final Settlement Day of the overdue positions and/or payment obligations of the HKCC Participant under such deliverable Currency Futures Contract.

Each HKCC Participant shall indemnify the Clearing House, the Exchange and a recognized exchange controller which is the controller of the Clearing House against all costs, fees, expenses, liabilities, losses and damages that may be incurred in executing a buy-in, effecting a purchase or borrowing and taking such other action as the Clearing House considers appropriate as a result of the failure by the HKCC Participant to settle any deliverable Currency Futures Contract in accordance with the Exchange Rules, the Clearing House Rules and these Clearing House Procedures.

2A.3 Physically Settled Metal Futures Contract

Unless otherwise stated, final settlement of a spot month Physically Settled Metal Futures Contract shall be effected by physical delivery of the Deliverable Metal by the Seller and payment of cash in the Settlement Currency by the Buyer in accordance with the Contract Specifications. The settlement and delivery procedures shall be as set out below.

2A.3.1 *Documentation*

2A.3.1.1 *Delivery Agreements*

- (a) An HKCC Participant which intends to deliver the Deliverable Metal through a Delivery Agent must have a valid, binding and effective Delivery Agreement in place between itself and its Delivery Agent. No Delivery Agent may deliver Deliverable Metal for another HKCC Participant until such Delivery Agreement has been entered into by both parties.
- (b) A Delivery Agent shall notify the Clearing House forthwith on the execution of each Delivery Agreement, identifying the name of the HKCC Participant for which delivery of Deliverable Metal will be made. Such notification shall be in such form as the Clearing House may from time to time specify. The Delivery Agent shall, at the request of the Clearing House, supply it with a certified copy of the executed Delivery Agreement.
- (c) A Delivery Agent shall be responsible for all delivery obligations of the HKCC Participant for which delivery of Deliverable Metal will be made. In the event of any failure by the Delivery Agent to comply with any such delivery obligations, the Clearing House shall have the right to claim, and/or take any other action which the Clearing House considers appropriate, against (i) the Delivery Agent where such failure was a result of a breach by the Delivery Agent of its obligations under the Delivery Agreement and/or the Clearing House Rules and/or Clearing House Procedures and/or (ii) the relevant HKCC Participant

where such failure was a result of a breach by such HKCC Participant of its obligations under the Delivery Agreement and/or the Clearing House Rules and/or Clearing House Procedures.

- (d) A Delivery Agent or the relevant HKCC Participant shall give no less than 14 Business Days' prior written notice to the Clearing House if either party intends to terminate the Delivery Agreement between them.
- (e) When the Clearing House receives a termination notice from the Delivery Agent or the relevant HKCC Participant, the Clearing House will issue a written confirmation of termination to the Delivery Agent or the relevant HKCC Participant, as the case may be, with a copy to the other party and unless and until such written confirmation has been issued, the Delivery Agreement shall be treated as valid, binding and effective by the Clearing House for the purposes of these Clearing House Procedures notwithstanding any provision to the contrary in the Delivery Agreement and/or the termination notice from the Delivery Agent or the HKCC Participant concerned and the Delivery Agent shall continue to be bound by the Delivery Agreement and be responsible for all the delivery obligations of the HKCC Participant. The termination notice shall be in such form as the Clearing House may from time to time specify.
- (f) Notwithstanding the above, the Delivery Agreement shall be terminated when any one or more of the following has occurred: (i) the Delivery Agent resigns from HKCC Participantship, (ii) its HKCC Participantship is suspended or revoked, or (iii) its access to DCASS and/or CCMS is suspended or revoked under the HKCC Rules.
- (g) The termination of the Delivery Agreement between a Delivery Agent and an HKCC Participant will not affect any of their rights or liabilities arising out of matters which have taken place prior to the termination of the Delivery Agreement and for the purpose of settlement of any such rights or liabilities of the Delivery Agent and HKCC Participant concerned, the Clearing House may continue to treat the Delivery Agent as the Delivery Agent of the HKCC Participant.
- (h) A Delivery Agent shall enter into an Approved Depository Account Agreement with each Approved Depository.

2A.3.1.2 Approved Depository Account Agreements

- (a) Unless an HKCC Participant has in place a Delivery Agreement between itself and a Delivery Agent, an

HKCC Participant which intends to deliver Deliverable Metal must enter into an Approved Depository Account Agreement with each Approved Depository in such form and containing such provisions as may from time to time be required by the Clearing House (“mandatory provisions”) including but not limited to the following:

- (i) authorization to the Approved Depository to comply with any information requests it receives from the Clearing House concerning the HKCC Participant’s account with the Approved Depository and the Deliverable Metal stored by the HKCC Participant at the Approved Depository;
 - (ii) authorization to the Approved Depository to act on the instructions of the Clearing House (and such instructions shall prevail over those of the HKCC Participant) in respect of any amount of the HKCC Participant’s Deliverable Metal which has been earmarked by the Approved Depository for delivery to the relevant Buyer;
 - (iii) acknowledgement and confirmation by the HKCC Participant and the Approved Depository that any Deliverable Metal which has been so earmarked shall be clearly identified as being separate from other Deliverable Metal and shall not be available to meet or fulfill any delivery or transfer request other than with the consent and/or on the instruction of the Clearing House;
 - (iv) the operational procedure of earmarking shall be specified, in reasonable detail; and
 - (v) an acknowledgement by each of the HKCC Participant and the Approved Depository that any earmarking shall be conducted in compliance with such operational procedure and any requirements set out in the Clearing House Rules or these Clearing House Procedures.
- (b) Any references in an Approved Depository Account Agreement or a Delivery Agreement to "earmarking" shall comply and be consistent with the requirements for earmarking set out under section 2A.3.2.2(d) and the Approved Depository Account Agreement and Delivery Agreement shall include express terms setting out and giving effect to those requirements.
- (c) An HKCC Participant shall notify the Clearing House forthwith on the execution of each Approved Depository Account Agreement. Such notification shall be in such form as the Clearing House may from time to time specify. The HKCC Participant shall, at

the request of the Clearing House, supply it with a certified copy of the executed Approved Depository Account Agreement. An HKCC Participant which enters into an Approved Depository Account Agreement may not amend or revoke any mandatory provision without the Clearing House's written consent.

- (d) An HKCC Participant shall give no less than 14 Business Days' prior written notice to the Clearing House if either itself or an Approved Depository intends to terminate any Approved Depository Account Agreement.

2A.3.2 *Delivery and Settlement Procedures*

2A.3.2.1 *Last Trading Day*

- (a) After trading of the spot month Physically Settled Metal Futures Contract ceases on the Last Trading Day, the Exchange in conjunction with the Clearing House will announce the Final Settlement Price.
- (b) Each Physical Delivery Participant with any short positions in the spot month Physically Settled Metal Futures Contract shall complete and submit a Delivery Notice and each Physical Delivery Participant with any long positions in the spot month Physically Settled Metal Futures Contract shall complete and submit an Acceptance Notice, in each case to the Clearing House by 5:00 p.m. on the Last Trading Day. Each Delivery Notice and Acceptance Notice shall be irrevocable upon submission to the Clearing House and the selling HKCC Participant and the buying HKCC Participant shall be bound by the particulars specified in the Delivery Notice and Acceptance Notice respectively. Notwithstanding that a buying HKCC Participant or a selling HKCC Participant fails to submit an Acceptance Notice or Delivery Notice, as the case may be, or if any such Acceptance Notice or Delivery Notice is incomplete or defective in any way, such Acceptance Notice or Delivery Notice shall be deemed to have been submitted with such particulars as the Clearing House may deem necessary for the Matching Process described below, and such particulars shall thereafter be binding on such buying HKCC Participant or selling HKCC Participant.
- (c) The Clearing House will allocate short positions of HKCC Participants in the Physically Settled Metal Futures Contract to long positions of HKCC Participants in the Physically Settled Metal Futures Contract in accordance with the following process (such process being known as the "Matching Process"):

(i) all selling and buying HKCC Participants will be divided into two or more notional pools for allocation purposes (each an "Allocation Pool") as follows:

(A) all selling and buying Non-delivery HKCC Participants will be grouped into a single Allocation Pool (the "Non-delivery Pool");

(B) all other selling and buying HKCC Participants will be grouped into one or more Allocation Pools (each "an Approved Depository Pool") each referable to the Approved Depository at which that selling or buying HKCC Participant intends to deliver or take delivery of, as the case may be, Deliverable Metal in the following manner.

All selling and buying HKCC Participants other than Non-delivery HKCC Participants, which have, in a Delivery Notice or Acceptance Notice, as applicable, delivered in accordance with section 2A.3.2.1(b) above, specified that they will deliver or take delivery of, as the case may be, Deliverable Metal in the same Approved Depository will be grouped into the same Approved Depository Pool. If for the time being there is only one Approved Depository, all HKCC Participants, other than Non-delivery HKCC Participants, will be grouped into a single Approved Depository Pool;

(ii) in respect of each Allocation Pool:

(A) all short positions of selling HKCC Participants in that Allocation Pool will be ranked in descending order by reference to the quantity of Deliverable Metal which each HKCC Participant is respectively required to deliver and all long positions of buying HKCC Participants in that Allocation Pool will be ranked in descending order by reference to the quantity of Deliverable Metal which each HKCC Participant is required to take delivery respectively. If the short positions of two or more selling HKCC Participants or the long positions of two or more buying HKCC Participants are the same, then those selling HKCC Participants or those buying HKCC Participants, as the case may be, shall be ranked in descending order on a random basis as between themselves;

(B) the short positions of selling HKCC

Participants will then be matched to the long positions of buying HKCC Participants as follows:

- (I) the respective short and long positions of a selling HKCC Participant and a buying HKCC Participant for the same quantity of Deliverable Metal will be matched with each other, starting with the short and long positions, respectively, of the selling and buying HKCC Participants at the top of the rankings as determined, and thereafter proceeding in descending order through the short and long positions of the selling and buying HKCC Participants in the remainder of the rankings; and
 - (II) once all the respective short and long positions of HKCC Participants for the same quantity of Deliverable Metal have been matched in accordance with section (I) above, matching will continue down the list of remaining selling HKCC Participants and the list of remaining buying HKCC Participants. If there are unmatched short or long positions of HKCC Participants in the Allocation Pool, all the unmatched short or long positions will be handled in accordance with section (iii) and/or (iv), as the case may be;
- (iii) if at any time there are two or more Approved Depository Pools, and, after the application of the process described in section (ii) above to any of those Approved Depository Pools, there remains in those Approved Depository Pools any unmatched short or long position of an HKCC Participant, all HKCC Participants within the Approved Depository Pools which have unmatched positions will be grouped into a further Allocation Pool (a "Cross-depository Pool") in respect of such unmatched positions, and such unmatched positions of those HKCC Participants will be matched in accordance with the process described in section (ii) above;
- (iv) if, after the application of the process described in section (ii) to the Non-delivery Pool and Approved Depository Pool and if applicable, the Cross-depository Pool, there remains any unmatched short or long position of a Non-delivery HKCC Participant, each such short or long position of that Non-delivery HKCC Participant will be matched by applying the process described in section (ii) to

the unmatched short or long positions of an HKCC Participant remaining in the Approved Depository Pool or the Cross-depository Pool;

- (v) in some cases, short positions in one account of an HKCC Participant may be matched against the long positions in another account of the same HKCC Participant;
- (vi) a selling HKCC Participant, other than a Non-delivery HKCC Participant, must satisfy in full its obligation to deliver Deliverable Metal to the buying HKCC Participant with which it is matched. If a selling HKCC Participant does not have sufficient Deliverable Metal to satisfy its obligation to deliver Deliverable Metal to all of the buying HKCC Participants with which it has been matched, HKCC will determine on a random basis which of the matched buying HKCC Participant(s) shall take delivery of the Deliverable Metal; and
- (vii) the Clearing House will, by the end of the Last Trading Day under normal circumstances, notify the relevant HKCC Participants of the results of the Matching Process and the relevant settlement details.

2A.3.2.2 First Trading Day after Last Trading Day

The provisions set out in this section 2A.3.2.2 relating to delivery or payment shall not apply to Non-delivery HKCC Participants, except where specifically provided otherwise.

- (a) By 10:00 a.m. on the first Hong Kong Trading Day after the Last Trading Day each selling HKCC Participant shall confirm to the Clearing House the delivery details using the relevant Delivery Notice prescribed by the Clearing House from time to time. In the event that the Contract Specifications of a Physically Settled Metal Futures Contract stipulate a weight tolerance level in respect of the Deliverable Metal, the Clearing House will require the Approved Depository to provide to the selling HKCC Participant, and the selling HKCC Participant shall include, the weight(s) specified in the list or document issued by the Recognized Refiner in respect of the Deliverable Metal and identification numbers of the Deliverable Metal to be delivered when submitting such Delivery Notice to the Clearing House.
- (b) By noon on the first Hong Kong Trading Day after the Last Trading Day the selling HKCC Participant or its Delivery Agent shall ensure that the required quantity of Deliverable Metal is in the Approved Depository as

specified in the Matching Process and notified to it by the Clearing House under section 2A.3.2.1(c)(vii) above. The Clearing House shall request the Approved Depository to earmark the required quantity of Deliverable Metal for delivery and to confirm by a prescribed time on the same day whether the required quantity of Deliverable Metal to be delivered on the Final Settlement Day has been earmarked or not.

- (c) Upon receipt of the Approved Depository's confirmation that the required quantity of Deliverable Metal has been earmarked, or if the selling HKCC Participant is a Non-delivery HKCC Participant, at such time as the Clearing House may elect, the Clearing House shall calculate the Final Settlement Value (including in respect of a Physically Settled Metal Futures Contract under which a Non-delivery HKCC Participant is buyer or seller) in accordance with the following formula, and notify the buying HKCC Participant and selling HKCC Participant of the Final Settlement Value and details of the Deliverable Metal to be delivered:

Final Settlement Value = Final Settlement Price x Contract Size (subject to any adjustment for (i) weight where a weight tolerance level is stipulated in the Contract Specifications and (ii) fineness variance)

- (d) Any references in the Clearing House Rules or these Clearing House Procedures to "earmarking" shall, at a minimum, be construed to mean the following:
- (i) the Approved Depository has, on behalf of the relevant HKCC Participant, clearly identified and recorded Deliverable Metal held by the Approved Depository for the selling HKCC Participant as (A) being identified as separate from other Deliverable Metal of the selling HKCC Participant and any other person and (B) available for delivery in respect of a specified Re-novated Contract or set of Re-novated Contracts in accordance with the Clearing House Rules and Clearing House Procedures;
 - (ii) any Deliverable Metal so earmarked shall, and the selling HKCC Participant, the Approved Depository, the Clearing House and any relevant Delivery Agent shall have acknowledged, represented and agreed that such Deliverable Metal shall, not be available to meet or fulfill any delivery, transfer or similar request other than with the consent, or on the instruction of, the Clearing House acting in its role as Settlement Agent; and

- (iii) (A) the selling HKCC Participant shall have good title to such Deliverable Metal and (B) such Deliverable Metal shall be free and clear from any encumbrance, lien, claim, mortgage, charge, security interest or any other interest of any nature whatsoever, and the selling HKCC Participant shall represent and warrant to the Clearing House, the Approved Depository and any relevant Delivery Agent that (A) and (B) are, and will be, the case at the time of, and during the period of, any earmarking.

2A.3.2.3 *Final Settlement Day*

The provisions set out in this section 2A.3.2.3 relating to delivery or payment shall not apply to Non-delivery HKCC Participants, except where specifically provided otherwise.

- (a) By 9:15 a.m. on the Final Settlement Day, the buying HKCC Participant shall transfer to a settlement account specified by the Clearing House the amount of its payment obligation previously notified to it by the Clearing House under section 2A.3.2.2(c) above. Any such amount paid to the Clearing House will be kept in a segregated settlement account for the buying HKCC Participant until the Clearing House either (i) releases such amount to the selling HKCC Participant pursuant to section 2A.3.2.3(d)(ii) below in settlement of the buying HKCC Participant's payment obligation under the Re-novated Contract; or (ii) returns such amount to the buying HKCC Participant pursuant to section 2A.3.2.3(c)(ii) below, and, without prejudice to any other provision of the Clearing House Rules, these Clearing House Procedures or the Exchange Rules, the Clearing House shall have no other obligations of any nature whatsoever to the buying HKCC Participant or any other person in respect of such amount.
- (b) Upon receipt by the Clearing House of the following:
 - (i) a notice from the relevant Approved Depository confirming that the required quantity of Deliverable Metal from the selling HKCC Participant has been earmarked in accordance with section 2A.3.2.2(b) above; and
 - (ii) the full amount of the payment obligation from the buying HKCC Participant in accordance with section 2A.3.2.3(a) above,

Contract Re-novation shall occur, pursuant to Rule 309A, immediately and without further notice to or action by any party. Upon the occurrence of Contract Re-novation, the Clearing House's role as a counterparty to the relevant Physically Settled Metal Futures Contracts and all of its obligations in respect thereof shall be fully and finally discharged in accordance with Rule 309A and the Clearing House Rules and these Clearing House Procedures. The Clearing House's role shall thereafter be

limited to that of acting as settlement agent for the buying HKCC Participant and the selling HKCC Participant in order to facilitate settlement of the Re-novated Contract between the buying HKCC Participant and the selling HKCC Participant under the terms of section 2A.3.2.3(d) below and the Re-novated Contract (the Clearing House in such role being referred to as the "**Settlement Agent**").

- (c) If the Clearing House has not received the notice from the relevant Approved Depository referred to in section 2A.3.2.3(b)(i) above and/or the amount of the payment obligation from the buying HKCC Participant referred to in section 2A.3.2.3 (b)(ii) above before 2:30 p.m. on the Final Settlement Day or either the buying HKCC Participant or selling HKCC Participant is a Non-delivery HKCC Participant:
 - (i) Contract Re-novation shall not occur;
 - (ii) the Clearing House shall either (A) instruct the relevant Approved Depository to remove the earmarking of the Deliverable Metal which had been earmarked in accordance with section 2A.3.2.2(b) above or (B) return to the buying HKCC Participant the full amount of the payment obligation which had been transferred to the Clearing House in accordance with section 2A.3.2.3(a) above, as the case may be; and
 - (iii) Cash Compensation and the non-delivery charge shall apply in accordance with section 2A.3.3 below.
- (d) Following Contract Re-novation, the Clearing House shall facilitate settlement of the Re-novated Contract between the buying HKCC Participant and the selling HKCC Participant in its role as Settlement Agent by:
 - (i) as soon as reasonably practicable after Contract Re-novation, instructing the relevant Approved Depository to effect the delivery of Deliverable Metal from the depository account of the selling HKCC Participant or its Delivery Agent to the depository account of the buying HKCC Participant or its Delivery Agent; and
 - (ii) at, or as soon as reasonably practicable after, 2:30 p.m. on the Final Settlement Day, releasing the amount of the payment obligation it received from the buying HKCC Participant in accordance with section 2A.3.2.3(a) to the selling HKCC Participant's designated bank account, unless the Clearing House has received notice from the buying HKCC Participant before 2:30 p.m. on the Final Settlement Day that the buying HKCC Participant has not received the full amount of the Deliverable Metal in its depository account. Such notice from the buying HKCC Participant shall be in such form as the Clearing House may from time to time specify.

- (e) The transfer of ownership of the Deliverable Metal from the selling HKCC Participant to the buying HKCC Participant shall occur at the time when the full amount of the payment obligation is released to the selling HKCC Participant's designated bank account.
- (f) Upon delivery of the full amount of the Deliverable Metal to the depository account of the buying HKCC Participant, the Approved Depository shall send a confirmation notice to the buying HKCC Participant, with a copy to the Clearing House.
- (g) In respect of each Re-novated Contract, each of the buying HKCC Participant and the selling HKCC Participant irrevocably appoints the Clearing House as their settlement agent to perform the role of Settlement Agent as set out in this section 2A.3.2.3. The selling HKCC Participant irrevocably authorizes and instructs the Clearing House in its capacity as Settlement Agent to instruct the relevant Approved Depository as set out in section 2A.3.2.3(d)(i) above; and
- (h) If (i) the Clearing House receives notice from the buying HKCC Participant before 2:30 p.m. on the Final Settlement Day that the buying HKCC Participant has not received the full amount of the Deliverable Metal in its depository account or (ii) the Clearing House does not release the amount of the payment obligation it received from the buying HKCC Participant in accordance with section 2A.3.2.3(a) to the selling HKCC Participant's designated bank account on or as soon as reasonably practicable after 2:30 p.m. for any other reason, then:
 - (A) the Clearing House shall not release the amount of the payment obligation it received from the buying HKCC Participant in accordance with section 2A.3.2.3(a) to the selling HKCC Participant's designated bank account;
 - (B) the Clearing House shall, on the instructions of the buying HKCC Participant, release the amount of the payment obligation from the segregated settlement account to the designated account of the buying HKCC Participant; and
 - (C) any disputes between the buying HKCC Participant and the selling HKCC Participant shall be resolved in accordance with the terms of the Re-novated Contract.

2A.3.3 Cash Compensation and non-delivery charge

- (a) *Cash Compensation if one party is unable to fulfill its obligation.* If Contract Re-novation does not occur pursuant to section 2A.3.2.3(c) above or a Non-delivery HKCC Participant upon completion of the Matching Process pursuant to section 2A.3.2.1(c) is matched with a Physical Delivery Participant, Cash Compensation shall be payable by (i) the selling HKCC Participant if the Clearing House did not receive the notice from the Approved Depository confirming that the full amount of the Deliverable Metal has been earmarked or the selling HKCC

Participant is a Non-delivery HKCC Participant, or (ii) the buying HKCC Participant if the Clearing House did not receive the full amount of the payment obligation, or the buying HKCC Participant is a Non-delivery HKCC Participant. Cash Compensation shall be determined by the Clearing House in its sole and absolute discretion in respect of each Physically Settled Metal Futures Contract which was required to be settled between the relevant buying HKCC Participant and the relevant selling HKCC Participant as follows:

- (i) the Cash Compensation shall be an amount equal to the sum of (A) the Price Differential and (B) 3% of the Reference Price multiplied by the Contract Size;
- (ii) the Reference Price shall be the Closing Quotation on the Final Settlement Day of the then prevailing spot month Physically Settled Metal Futures Contract whose terms correspond to those of the Physically Settled Metal Futures Contract which is about to settle;
- (iii) if the Cash Compensation is payable by the selling HKCC Participant, the Price Differential shall be an amount equal to (A) the amount, by which the Reference Price exceeds the Final Settlement Price multiplied by (B) the Contract Size of the Physically Settled Metal Futures Contract which is about to settle and such Price Differential shall be zero if the Final Settlement Price is greater than the Reference Price.
- (iv) if the Cash Compensation is payable by the buying HKCC Participant, the Price Differential shall be an amount equal to (A) the amount, by which the Final Settlement Price exceeds the Reference Price multiplied by (B) the Contract Size of the Physically Settled Metal Futures Contract which is about to settle and such Price Differential shall be zero if the Reference Price is greater than the Final Settlement Price.

The Clearing House shall debit an amount equal to the Cash Compensation from the relevant CCMS Collateral Account of the paying HKCC Participant and credit the same to the relevant CCMS Collateral Account of the receiving HKCC Participant on the Final Settlement Day or as soon as reasonably practicable thereafter. The Clearing House shall also have the right to impose on the paying HKCC Participant a non-delivery charge of 7% of the Reference Price multiplied by the Contract Size which shall be debited by the Clearing House from the paying HKCC Participant's relevant CCMS Collateral Account.

- (b) *Cash Compensation if both parties are unable to fulfill their respective obligations.* If both: (i) the notice from the relevant Approved Depository confirming the earmarking of the required quantity of Deliverable Metal has not been received by the Clearing House in accordance with section 2A.3.2.3 or the selling HKCC Participant is a Non-delivery HKCC Participant; and (ii) the amount of the payment obligation from the buying HKCC Participant has not been received by the Clearing House

in accordance with section 2A.3.2.3 or the buying HKCC Participant is a Non-delivery HKCC Participant, then Cash Compensation shall be payable by either the selling HKCC Participant or the buying HKCC Participant. Cash Compensation shall be payable by: (A) the buying HKCC Participant if the Final Settlement Price of the Physically Settled Metal Futures Contract which is about to settle is greater than the Reference Price, or (B) the selling HKCC Participant if the Reference Price is greater than the Final Settlement Price of the Physically Settled Metal Futures Contract which is about to settle as follows:

- (i) the Cash Compensation shall be an amount equal to the Price Differential;
- (ii) the Price Differential shall be the difference between the Reference Price and the Final Settlement Price which is about to settle multiplied by the Contract Size; and
- (iii) the Reference Price shall be the Closing Quotation on the Final Settlement Day of the then prevailing spot month Physically Settled Metal Futures Contract whose terms correspond to those of the Physically Settled Metal Futures Contract which is about to settle,

in each case as determined by the Clearing House in its sole and absolute discretion. The Clearing House shall debit an amount equal to the Cash Compensation from the relevant CCMS Collateral Account of the paying HKCC Participant and credit the same to the relevant CCMS Collateral Account of the receiving HKCC Participant on the Final Settlement Day or as soon as practicable thereafter. The Clearing House shall also have the right to impose a non-delivery charge of 7% of the Reference Price multiplied by the Contract Size on each of the HKCC Participants which shall be debited by the Clearing House from each HKCC Participant's relevant CCMS Collateral Account.

- (c) The Clearing House shall be obliged to credit the relevant CCMS Collateral Account of the relevant receiving HKCC Participant with an amount equal to the Cash Compensation, as contemplated in paragraphs (a) and (b) of this section 2A.3.3, only to the extent that the receiving HKCC Participant is entitled to such amount in accordance with the provisions of paragraphs (a) and (b) of this section 2A.3.3.

If at any time the Clearing House shall determine that the Clearing House has credited any amount of Cash Compensation to the relevant CCMS Collateral Account of a receiving HKCC Participant in circumstances where the Clearing House was for any reason not obliged or entitled to do so or was for any reason not entitled to debit any related amount from the CCMS Collateral Account of the relevant paying HKCC Participant (including, without limitation, in circumstances where, the paying HKCC Participant was not obliged to pay Cash

Compensation to the receiving HKCC Participant, or by virtue of any mistake or error as to fact or law), the relevant receiving HKCC Participant shall repay such amount to the paying HKCC Participant or to the Clearing House, as may be notified by the Clearing House to the relevant receiving HKCC Participant, and the Clearing House may, but shall not be obliged to, debit any such amount from the CCMS Collateral Account of the relevant receiving HKCC Participant.

2A.3.3A Fine for Non-delivery HKCC Participants

- (a) If a Non-delivery HKCC Participant holds any open position in a spot month Physically Settled Metal Futures Contract at or after the System Input Cutoff Time on the Trading Day before the Last Trading Day of such spot month contract, the Clearing House shall have the right to impose a fine on such Non-delivery HKCC Participant. If the open position is held at the System Input Cutoff Time on the Trading Day before the Last Trading Day of such spot month contract, the fine for that day shall be 0.25% of the Closing Quotation of the spot month Physically Settled Metal Futures Contract on that day multiplied by the Contract Size of such position. If such open position is created on or is carried over to the Last Trading Day, the fine for that day shall be 0.25% of the Final Settlement Price of the spot month Physically Settled Metal Futures Contract multiplied by the Contract Size of such position.
- (b) The Clearing House shall have the right to impose a fine of 0.25% of the Final Settlement Price of the spot month Physically Settled Metal Futures Contract multiplied by the Contract Size on a Non-delivery HKCC Participant (or, where applicable, any Non-Clearing Participant of the Non-delivery HKCC Participant) arising from the following trades or trade adjustments or position adjustments except where such trades or trade adjustments or position adjustments are for closing out an existing open position that would otherwise be subject to the Matching Process described in section 2A.3.2.1(c) of the Clearing House Procedures in respect of such Physically Settled Metal Futures Contract:
 - (i) trades in the spot month Physically Settled Metal Futures Contract registered with the Clearing House during or after the T+1 Session on the Trading Day before the Last Trading Day;
 - (ii) trade adjustments or position adjustments in the spot month Physically Settled Metal Futures Contract relating to trades registered with the Clearing House during or after the T+1 Session on the Trading Day before the Last Trading Day; or

- (iii) trade adjustments or position adjustments in the spot month Physically Settled Metal Futures Contract on the Last Trading Day.

2A.3.4 Role of Clearing House as Settlement Agent; exclusion of liability

- (a) Without prejudice to the duties and the limitations on the liability of the Clearing House as a central counterparty as set out elsewhere in the Clearing House Rules, the role of the Clearing House in relation to the delivery and settlement of any Physically Settled Metal Futures Contract as set out in section 2A of these Clearing House Procedures (including, without limitation, its role as Settlement Agent) is to assist with the facilitation of the settlement of Physically Settled Metal Futures Contracts only and is purely administrative in nature. HKCC Participants acknowledge and accept (and undertake to procure that all Third Party Service Providers acknowledge and accept) that the Clearing House acts in this role under section 2A of these Clearing House Procedures (including, without limitation, in the role of Settlement Agent), and undertake (and undertake to procure that all Third Party Service Providers undertake) to co-operate with the Clearing House in acting in such role, including to do or refrain from doing (and to procure that Third Party Service Providers do or refraining from doing) such acts, and to provide (and to procure that Third Party Service Providers undertake to provide) such documentation or information to the Clearing House, as the Clearing House, in its sole and absolute discretion, may require.
- (b) The Clearing House shall not be required to take any action under section 2A of these Clearing House Procedures (including, without limitation, in its role as Settlement Agent) unless it is satisfied, in its sole and absolute discretion, that (i) such action is in compliance with all applicable laws and regulations, these Clearing House Procedures, the Clearing House Rules, the Exchange Rules and the internal policies of the Clearing House, and (ii) the Clearing House has received all relevant documentation and other information from an HKCC Participant, Third Party Service Provider or any other party as the Clearing House may require.
- (c) Each HKCC Participant undertakes to notify the Clearing House of any change of fact or circumstance which may be material to the Clearing House to enable it to fulfil its role under section 2A of these Clearing House Procedures (including, without limitation, in its role as Settlement Agent).
- (d) The Clearing House may disclose any information it receives in connection with its role under section 2A of these Clearing House Procedures (including, without limitation, in its role as Settlement Agent) where disclosure is required by applicable law or regulation, a court of competent jurisdiction or a governmental or regulatory body or in connection with legal

proceedings. No disclosure restriction shall apply to information which is in, or comes into, the public domain.

- (e) In the event that, in the opinion of the Clearing House, it is unclear how it is required to act under section 2A of these Clearing House Procedures (including, without limitation, in connection with its role as Settlement Agent), it may in its sole and absolute discretion, and without incurring any liability of any nature whatsoever, refrain from acting pending receipt to its satisfaction of such additional information, clarification, or advice from an HKCC Participant, Third Party Service Provider or any other party (including, without limitation, any legal, professional or relevant expert advisor, regulator, or other governmental or judicial body) as it deems necessary or desirable.
- (f) The Clearing House does not in any circumstances act under section 2A of these Clearing House Procedures as a trustee or fiduciary of an HKCC Participant or any other person, shall have no implied duties (including, without limitation, any duty to act in good faith or any fiduciary duty), and none of the Clearing House, the Exchange and any recognized controller of the Clearing House shall have any liability of any nature whatsoever to an HKCC Participant or any other person in connection with its role under section 2A of these Clearing House Procedures (including, without limitation, in its role as Settlement Agent). Without limitation to the foregoing:
 - (i) the Clearing House, the Exchange and any recognized controller of the Clearing House make no representation or warranty as to the competence, condition, suitability, or fitness for purpose for its respective role of any Third Party Service Provider;
 - (ii) the Clearing House makes no representation or warranty as to the validity, authenticity or accuracy of any instruction given by, or document issued, delivered, submitted, lodged or provided by any Third Party Service Provider or which it otherwise receives in connection with its role under section 2A of these Clearing House Procedures (including, without limitation, in its role as Settlement Agent), and the Clearing House shall have no duty to investigate or verify the adequacy, accuracy or completeness of any document, and shall be entitled to rely on all such instructions and documents as valid, authentic and accurate and shall have no liability to any person for any action taken by it in accordance with any such instruction or document;
 - (iii) the Clearing House, in connection with its role under section 2A of these Clearing House Procedures (including, without limitation, in its role as Settlement Agent), shall have no obligation:
 - (A) to take any action which, in its sole and absolute discretion, it determines may subject it to any cost or

liability which it deems may not be recoverable promptly;

- (B) to solicit instructions from any HKCC Participant, any Third Party Service Provider or any other party; and
 - (C) to verify the accuracy, completeness or compliance with the Contract Specifications, these Rules and the Rules of the Exchange of any Deliverable Metal, any amount paid or payable in respect of such Deliverable Metal, or any other assets provided or transferred to it or any other party in connection with the settlement of a Physically Settled Metal Futures Contract (collectively "**Delivery Assets**");
- (iv) the Clearing House shall have no liability to an HKCC Participant or any other person for any decision to release, or any delay by it in releasing, or instructing the release of, as the case may be, any Delivery Assets;
 - (v) in no circumstances shall ownership of Deliverable Metal delivered by a selling HKCC Participant pass to the Clearing House, and the Clearing House shall in no circumstances be liable to any party in connection with any claim that ownership of Deliverable Metal passed to the Clearing House whether in connection with the Clearing House's role under section 2A of these Clearing House Procedures (including, without limitation, in its role as Settlement Agent) or otherwise;
 - (vi) without prejudice to Rule 309A and section 2A.3.2.3(b) of these Clearing House Procedures, following a Contract Re-novation, the Clearing House shall have no further liability as a central counterparty to any Buyer or Seller under a Contract in respect of which Contract Re-novation has occurred; and
 - (vii) the Clearing House shall not be responsible for, and shall have no liability in connection with, ensuring that an HKCC Participant or any other party complies with all applicable laws, regulations, requirements or procedures which may be binding on such HKCC Participant or other party in connection with a Physically Settled Metal Futures Contract.
- (g) Each HKCC Participant confirms and represents at all times that:
 - (i) it has conducted and will continue to conduct its own review, due diligence and assessment of each relevant Third Party Service Provider and the procedures of such Third Party Service Provider and it has not relied and will not rely on the Clearing House to conduct any review, due diligence or assessment of any Third Party Service Provider or the procedures of such Third Party Service Provider;

- (ii) it has had access to such information from the Clearing House or each relevant Third Party Service Provider as it may require to conduct such review, due diligence and assessment;
 - (iii) it has made and will continue to make its own independent investigation and assessment of the financial condition and affairs of the other HKCC Participant under the relevant Re-novated Contract and it has not relied on any investigation or assessment of, or any information provided to it by, the Clearing House or the Exchange; and
 - (iv) it has consulted with its own legal, regulatory, tax, business, investments, financial and accounting advisors to the extent that it has deemed necessary, and it has made its own investments, hedging, and trading decisions in respect of the Re-novated Contract based upon its own judgment and upon any advice from such advisors as it has deemed necessary and not upon any view expressed by the Clearing House or the Exchange.
- (h) Each HKCC Participant shall indemnify and hold harmless the Clearing House from all liabilities or obligations of any kind whatsoever that may be imposed on or incurred by the Clearing House in connection with any action, claim or proceeding brought or threatened to be brought against it in connection with its role under section 2A of these Clearing House Procedures (including, without limitation, its role as Settlement Agent).
- (i) The Clearing House makes no representation or warranty and assumes no responsibility to any HKCC Participant for:
- (i) the legality, validity, effectiveness, adequacy or enforceability of the Re-novated Contract;
 - (ii) the financial condition of the other HKCC Participant under a Re-novated Contract;
 - (iii) the performance and observance by the other HKCC Participant under a Re-novated Contract of its obligations under such Re-novated Contract; or
 - (iv) the accuracy of any statements (whether written or oral) made by any HKCC Participant or Third Party Service Provider in or in connection with a Re-novated Contract,

and any representations or warranties implied by law are excluded.

2A.3.5 Terms of Re-novated Contract and dispute resolution

A Re-novated Contract shall have the following terms:

- (a) a Re-novated Contract shall be governed by, and construed in accordance with, the laws of Hong Kong;

- (b) the implied terms of the Sale of Goods Ordinance (Cap. 26 of Hong Kong) shall not apply to a Re-novated Contract;
- (c) for the avoidance of doubt, a Re-novated Contract shall constitute a market contract for the purposes of the Securities and Futures Ordinance (Cap. 571 of Hong Kong);
- (d) Rules 509 and 510 of the Clearing House Rules shall not apply to a Re-novated Contract;
- (e) the buying HKCC Participant and/or the selling HKCC Participant which are parties to a Re-novated Contract shall not waive or amend any term of, or assign or otherwise dispose of any right or interest in, that Re-novated Contract without the prior written consent of the Clearing House and the Exchange, unless such waiver or amendment is in respect of one or more of the Delivery Representations and/or the Delivery Warranties set out in section 2A.3.5 (f) and (g) respectively and only to the extent that such waiver or amendment does not affect in any way any rights and obligations of the Exchange or the Clearing House under or in respect of the Re-novated Contract;
- (f) each of the buying HKCC Participant and the selling HKCC Participant under a Re-novated Contract makes the following representations to the other HKCC Participant under such Re-novated Contract at the time that the Contract Re-novation takes place (collectively, the "**Delivery Representations**"):
 - (i) it is duly organised and validly existing under the laws of the jurisdiction of its organisation or incorporation and, if relevant under such laws, in good standing;
 - (ii) it has the power to enter into the Re-novated Contract and any other documentation relating to the Re-novated Contract that it is required by the Re-novated Contract to enter into and to perform its obligations under the Re-novated Contract and any such other documentation and has taken all necessary action to authorise the entering into and performance of such obligations;
 - (iii) the entering into and performance of the Re-novated Contract and any other documentation relating to the Re-novated Contract that it is required by the Re-novated Contract to enter into do not violate or conflict with any rules of the Exchange or the Clearing House, any law applicable to it, any provision of its constitutional documents, any order or judgment of any court or other agency of government applicable to it or any of its assets or any contractual restriction binding on or affecting it or any of its assets;
 - (iv) all governmental and other consents that are required to have been obtained by it with respect to the Re-novated Contract have been obtained and are in full force and

effect and all conditions of any such consents have been complied with;

- (v) its obligations under the Re-novated Contract constitute its legal, valid and binding obligations, enforceable in accordance with their respective terms (subject, as to enforceability, to equitable principles of general application (regardless of whether enforcement is sought in a proceeding in equity or at law));
 - (vi) the Re-novated Contract is a market contract for the purposes of the Securities and Futures Ordinance (Cap. 571 of Hong Kong);
 - (vii) no default or potential default under any rules of the Exchange or the Clearing House with respect to it has occurred and is continuing and no such event or circumstance would occur as a result of its entering into or performing its obligations under the Re-novated Contract; and
 - (viii) there is not pending or, to its knowledge, threatened against it any action, suit or proceeding at law or in equity or before any court, tribunal, governmental body, agency or official or any arbitrator that is likely to affect the legality, validity or enforceability against it of the Re-novated Contract or its ability to perform its obligations under the Re-novated Contract;
- (g) the selling HKCC Participant under a Re-novated Contract makes the following warranties to the buying HKCC Participant under such Re-novated Contract at the time that the Contract Re-novation takes place (collectively, the "**Delivery Warranties**"):
- (i) it has good title to the Deliverable Metal that it delivers, and which is earmarked for delivery, under each Re-novated Contract, and such Deliverable Metal is, and will at the time of delivery to the buying HKCC Participant be, free and clear from any encumbrance, lien, claim, mortgage, charge, security interest or any other interest of any nature whatsoever save for any liens or any rights as bailee of any Approved Depository in respect of such Deliverable Metal arising pursuant to the terms of any Approved Depository Account Agreement between an HKCC Participant and an Approved Depository;
 - (ii) the Deliverable Metal that is earmarked for delivery and which it delivers under each Re-novated Contract complies in all respects with the applicable Contract Specifications, these Clearing House Procedures, the Clearing House Rules and the Exchange Rules, including, without limitation, that such Deliverable Metal is of the prescribed weight, quality and fineness as specified in the

Contract Specifications and is in the amount in aggregate, in respect of each Re-novated Contract, specified in the relevant Delivery Notice; and

- (iii) all information provided by the HKCC Participant or its Delivery Agent to the Clearing House under section 2A of these Clearing House Procedures in connection with the delivery by such HKCC Participant or Delivery Agent of Deliverable Metal, including all information contained in any Delivery Notice, is true, accurate and complete in all respects;
- (h) settlement of the Re-novated Contract shall be conducted in accordance with section 2A.3.2.3(d) to (h) of these Clearing House Procedures. Subject to and in compliance with section 2A.3.2.3(d) to (h) of these Clearing House Procedures and any other relevant provisions of the Clearing House Rules or these Clearing House Procedures, (i) the buying HKCC Participant agrees to pay the amount of its payment obligation in respect of the Re-novated Contract to the designated bank account of the selling HKCC Participant and (ii) the selling HKCC Participant agrees to deliver the Deliverable Metal in respect of the Re-novated Contract to the depository account of the buying HKCC Participant or its Delivery Agent, in each case in accordance with the Contract Specifications. The selling HKCC Participant shall deliver such Deliverable Metal to the buying HKCC Participant with good title and free and clear from any encumbrance, lien, claim, mortgage, charge, security interest or any other interest of any nature whatsoever. All fees, costs and expenses related to such delivery shall be borne by the selling HKCC Participant and all fees, costs and expenses that may be charged by the buying HKCC Participant's Approved Depository for accepting such delivery shall be borne by the buying HKCC Participant;
- (i) all risk in, and ownership of, Deliverable Metal, shall pass from the selling HKCC Participant to the buying HKCC Participant under a Re-novated Contract at the time that the Clearing House releases the full amount of the buying HKCC Participant's payment obligation to the selling HKCC Participant's designated bank account in accordance with section 2A.3.2.3(e) of these Clearing House Procedures;
- (j) in the event that a buying HKCC Participant (the "**Disputing Party**") claims that Deliverable Metal delivered to it by a selling HKCC Participant does not comply with the Contract Specifications or the selling HKCC Participant otherwise breaches the Delivery Warranties, the Disputing Party may submit the relevant Deliverable Metal to a Recognized Assayer for sampling or testing. The Disputing Party shall, in the first instance, bear the costs of such sampling and testing, and shall be responsible for making all necessary arrangements with the Approved Depository, Recognized Refiner, Recognized Assayer and/or or any other relevant party for such sampling and testing process. In the event that the Recognized Assayer finds that the

Deliverable Metal does not comply with the Contract Specifications or that the selling HKCC Participant has otherwise breached a Delivery Warranty, or the Disputing Party disagrees with the findings of the Recognized Assayer, the Disputing Party may proceed directly against the selling HKCC Participant in accordance with section 2A.3.5(k) of these Clearing House Procedures; and

- (k) Rule 308C shall not apply to a Re-novated Contract.

Rather, any dispute, controversy, difference or claim arising out of or relating to a Re-novated Contract, including the existence, validity, interpretation, performance, breach or termination thereof or any dispute regarding non-contractual or pre-contractual rights and obligations arising out of or relating to it ("**Dispute**"), shall be referred to and finally resolved by arbitration administered by the Hong Kong International Arbitration Centre ("**HKIAC**") under the HKIAC Administered Arbitration Rules in force when the Notice of Arbitration is submitted ("**Arbitration Rules**"), which Arbitration Rules are deemed to be incorporated by reference into this clause. The seat of the arbitration shall be Hong Kong. The number of arbitrators shall be three. The arbitration proceedings shall be conducted in English. The selling HKCC Participant and the buying HKCC Participant undertake to comply without delay with any award or order made by the arbitral tribunal.

For the avoidance of doubt, no HKCC Participant nor any other party may bring arbitration or any other proceedings against the Clearing House, the Exchange or any controller of the Exchange in connection with any Dispute, and nor shall any of the Clearing House, the Exchange or any controller of the Exchange be joined to any arbitration proceedings relating to any Dispute;

- (l) the terms under this section 2A.3.5 constitute the entire agreement between the Clearing House, the buying HKCC Participant and the selling HKCC Participant under a Re-novated Contract in relation to the obligations of each party under the Re-novated Contract and supersedes any previous agreement, whether express or implied, in relation to any term of the Re-novated Contract;
- (m) a person who is not the Clearing House, the Exchange, or the buying HKCC Participant or the selling HKCC Participant under a Re-novated Contract has no right under the Contracts (Rights of Third Parties) Ordinance (Cap. 623) to enforce or to enjoy the benefit of any term of the Re-novated Contract; and
- (n) the Clearing House is a party to the Re-novated Contract only for the purposes of effecting the re-novation to the buying HKCC Participant and the selling HKCC Participant, performing its role as Settlement Agent in respect of such Re-novated Contract and enforcing its rights under sections 2A.3.5(d), (e) and (h) and this section 2A.3.5(n). The Clearing House shall have no liability whatsoever for the performance of

the buying HKCC Participant and the selling HKCC Participant in respect of the Re-novated Contract and each of the buying HKCC Participant and the selling HKCC Participant confirm to each other and to the Clearing House their agreement to the terms set out in section 2A.3.4 of these Clearing House Rules and such terms shall be incorporated in full into the Re-novated Contract.

2A.4 Deliverable Currency Option Contracts

Final settlement of a spot month deliverable Currency Option Contract shall be effected by physical delivery of the underlying currency by the Call Option writer or Put Option holder; and payment of cash in the Settlement Currency by the Call Option holder or Put Option writer in accordance with the Contract Specifications. The settlement procedure shall be as follows:

- (a) after trading of the spot month deliverable Currency Option Contract ceases at 11:00 a.m. on the Expiry Day or at such other times as may be specified by the Exchange from time to time, the Exchange in conjunction with the Clearing House will announce the Official Settlement Price;
- (b) holders of Call Options and writers of Put Options of the spot month deliverable Currency Option Contract shall make delivery of the Final Settlement Value and receive payment of the underlying currency as determined in accordance with the Contract Specifications;
- (c) writers of Call Options and holders of Put Options of the spot month deliverable Currency Option Contract shall make payment of the underlying currency and take delivery of the Final Settlement Value as determined in accordance with the Contract Specifications;
- (d) the delivery and payment obligations in relation to the same CCMS Collateral Account of an HKCC Participant are netted by currency with other settlement obligations in relation to that CCMS Collateral Account after the Market close on the Trading Day immediately preceding the Final Settlement Day. Any resulting surplus will be credited to the CCMS Collateral Account while any resulting shortfall shall be settled by the HKCC Participant by 9:15 a.m. on the Final Settlement Day.

In the event of any settlement failure on the part of an HKCC Participant under any deliverable Currency Option Contract for any reason, the Clearing House will take such action as it considers appropriate, including executing a buy-in and/or a borrowing of the underlying currency and/or executing a purchase and/or a borrowing of the currency in which payment is required to be made as set forth in the Clearing House Rules to effect settlement as soon as practicable. The Clearing House shall also have the right to impose on the defaulting HKCC Participant a late settlement charge of 0.25% of the market value on the Final Settlement Day of the overdue positions and/or payment obligations of the HKCC Participant under such deliverable Currency Option Contract.

Each HKCC Participant shall indemnify the Clearing House, the Exchange and a recognized exchange controller which is the controller of the Clearing

House against all costs, fees, expenses, liabilities, losses and damages that may be incurred in executing a buy-in, effecting a purchase or borrowing and taking such other action as the Clearing House considers appropriate as a result of the failure by the HKCC Participant to settle any deliverable Currency Option Contract in accordance with the Exchange Rules, the Clearing House Rules and these Clearing House Procedures.

2A.5 Physically Settled Options on Futures Contracts

After trading of the spot month Physically Settled Options on Futures Contract ceases on the Expiry Day or at such other times as may be specified by the Exchange from time to time, the Exchange in conjunction with the Clearing House will announce the Official Settlement Price of the Physically Settled Options on Futures Contract.

If, on the Expiry Day, the Strike Price of a Call Option of a holder is less than the Official Settlement Price, the Call Option shall be deemed to be exercised by the holder automatically. No overriding instructions would be accepted. Upon exercise, the holder of the Call Option will be assigned a long position in the underlying Futures Contract with the same Contract Month and with a price which is equal to the Strike Price of the Call Option. If the Strike Price of the Call Option is greater than, or equal to, the Official Settlement Price, then the Call Option of the holder shall be deemed to have expired worthless.

If, on the Expiry Day, the Strike Price of a Call Option of a writer is less than the Official Settlement Price, the writer of the Call Option will be assigned a short position in the underlying Futures Contract with the same Contract Month and with a price which is equal to the Strike Price of the Call Option. If the Strike Price of the Call Option is greater than, or equal to, the Official Settlement Price, then the Call Option shall be deemed to have expired worthless and the writer shall have no further obligation in respect of that Call Option.

If, on the Expiry Day, the Strike Price of a Put Option of a holder is greater than the Official Settlement Price, the Put Option shall be deemed to be exercised by the holder automatically. No overriding instructions would be accepted. Upon exercise, the holder of the Put Option will be assigned a short position in the underlying Futures Contract with the same Contract Month and with a price which is equal to the Strike Price of the Put Option. If the Strike Price of the Put Option is less than, or equal to, the Official Settlement Price, then the Put Option of the holder shall be deemed to have expired worthless.

If, on the Expiry Day, the Strike Price of a Put Option of a writer is greater than the Official Settlement Price, the writer will be assigned a long position in the underlying Futures Contract with the same Contract Month and with a price which is equal to the Strike Price of the Put Option. If the Strike Price is less than, or equal to, the Official Settlement Price, then the Put Option shall

be deemed to have expired worthless and the writer shall have no further obligation in respect of that Put Option.

All underlying Futures Contract positions arising from the exercise of a Physically Settled Options on Futures Contract as mentioned above will be marked to market on the same Trading Day in which the Official Settlement Price of the Physically Settled Options on Futures Contract is announced.