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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").

Participantship

Every HKCC Participant must be an Exchange Participant. HKCC Participantship 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.

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

CHAPTER I

INTERPRETATION

Definitions

101. In these Rules, the definitions contained in the Exchange Rules (as hereinafter defined) shall where the context permits be incorporated herein by reference and the following expressions shall, unless the context otherwise requires, bear the following meanings:-

"Acceptance Notice"	means a notice to be provided by a Buyer under a Physically Settled Metal Futures Contract in the form prescribed and published by the Clearing House from time to time;
"additional margin"	means additional Clearing House margin demanded pursuant to Rule 411;
"Adjusted Capital"	in respect of a General Clearing Participant which is a Registered Institution, means the minimum of its: (i) High Quality Liquid Assets – Total Net Cash Outflows over the next 30 calendar days (in each case as described in the latest financial information and accounts supplied to the Clearing House under Rule 214D) and (ii) Tier 1 capital;
"Approved Depository"	means, in respect of a Physically Settled Metal Futures Contract, a depository for precious metals approved by the Clearing House and included on the list of Approved Depositories published by the Clearing House from time to time;
"Approved Depository Account Agreement"	means an agreement between an HKCC Participant and an Approved Depository containing such terms as may be specified by the Clearing House;
"Approved Settlement Bank"	means a bank at which HKCC has opened an account and designated by HKCC from time to time as being eligible for money settlements in relation to clearing services provided by HKCC through either internal fund transfers or fund transfers to and from a Prime Settlement Bank or settlement account of HKCC maintained with the Hong Kong Monetary Authority;

"Arbitration Rules"	has the meaning given to it in section 2A.3.5(k) of the Clearing House Procedures;
"Assessments"	means additional contributions to the Reserve Fund provided or required to be provided by an HKCC Participant pursuant to Rule 707A;
"Authorized Person"	has the same meaning as in the Exchange Rules;
"Bank Business Day"	means, in relation to a jurisdiction outside Hong Kong, a day (except a Saturday, Sunday, and public holiday) on which banks in that jurisdiction are open for business;
"Base Currency"	means Hong Kong dollars, or such other currency as designated by the Clearing House and notified to HKCC Participants from time to time;
"Block Trade"	bears the same meaning as in the Exchange Rules;
"Board"	means the Board of directors of the Clearing House;
"Business Day"	means a day other than a Saturday, Sunday or public holiday in Hong Kong;
"Buyer"	means the HKCC Participant registered as the buyer of an F/O Contract pursuant to these Rules;
"Capped Liability Period"	means the period beginning from the date on which the Clearing House declares an HKCC Participant to be a Defaulter for an event of default and ending on the 5th Business Day following such declaration, provided that each time another HKCC Participant is declared a Defaulter for an event of default during a prevailing Capped Liability Period, such Capped Liability Period shall be extended until the 5th Business Day following each such declaration and no new Capped Liability Period will be established for such declaration;

"Cash Compensation"	means the amount payable upon a delivery or settlement failure under a Physically Settled Metal Futures Contract as calculated in accordance with section 2A.3.3 of the Clearing House Procedures;
"Cash Settled Contract"	means a Contract which shall be performed by cash settlement rather than by delivery of the underlying commodity;
"Cash Settled Metal Futures Contract"	means a Metal Futures Contract which is a Cash Settled Contract;
"CCASS"	means the Central Clearing and Settlement System established and operated by HKSCC;
"CCMS"	means the Common Collateral Management System, a common sub-system of CCASS and DCASS, operated by HKSCC, HKCC and SEOCH, which enables HKCC Participants to manage their collateral paid or delivered to the Clearing House;
"CCMS Collateral Account"	means an account established in CCMS for each HKCC Participant for debiting and crediting collateral. For the purposes of the Clearing House Rules and the Clearing House Procedures, unless otherwise specified, the term "CCMS Collateral Account" does not include an account established in CCMS for an HKCC Participant by another Recognized Clearing House under its rules;
"CCMS Terminal User Guide"	means the manual entitled "CCMS Terminal User Guide" relating to the operation of CCMS, as amended from time to time by the Clearing House;
"Chairman"	means the person from time to time holding the office of Chairman of the Board or his designee;
"Clearing Account Cum MTM(t)"	means, with respect to each clearing account and each Business Day t during the Loss Distribution Period, the sum of Currency Cum MTM(t) in all Settlement Currencies in respect of such clearing account;

"Clearing Account Gain"	means, with respect to each Clearing Account Gainer and a Business Day during the Loss Distribution Period, the amount of positive Clearing Account Cum MTM in respect of such Clearing Account Gainer on such Business Day;
"Clearing Account Gainer"	means, with respect to any Business Day during the Loss Distribution Period, each clearing account of a non-defaulting HKCC Participant in respect of which the value of the Clearing Account Cum MTM on such Business Day is greater than zero;
"Clearing Account Loser"	means, with respect to any Business Day during the Loss Distribution Period, each clearing account of a non-defaulting HKCC Participant in respect of which the value of the Clearing Account Cum MTM on such Business Day is equal to or less than zero;
"Clearing Agreement"	means an agreement between a Non-Clearing Participant and a General Clearing Participant in the terms provided for in Rules 314 to 319;
"Clearing House" or "HKCC"	means HKFE Clearing Corporation Limited;
"Clearing House margin"	means the margin required by the Clearing House pursuant to Rule 402;
"Clearing House Procedures"	means the procedures prescribed by the Clearing House as from time to time in force;
"Clearing Official"	means an employee of HKEX designated by the Chairman pursuant to the Clearing House Procedures;
"Clearing Participant"	means an HKCC Participant registered under the category of "Clearing Participant" pursuant to Chapter II of these Rules;
"Clearing Service Termination Event"	means an event in relation to the winding down of clearing and settlement services by the Clearing House in relation to Futures/Options Contracts pursuant to Rule 1101;

"Client"	bears the same meaning as in the Exchange Rules;
"closed out Contract"	means either :- (a) any Contract in respect of which an HKCC Participant (either voluntarily or compulsorily under these Rules) enters into a second Contract in identical terms as the first-mentioned Contract except:- (i) that the price may not be the same as the price specified in the first-mentioned Contract; and (ii) that the HKCC Participant takes the opposite side to the side he holds under the first-mentioned Contract for the express purpose of crystallizing the profit or loss on that first-mentioned Contract; or (b) a Contract deemed to be a closed out Contract pursuant to these Rules; and "closing out" or "closed out" shall be construed accordingly;
"Closing Quotation"	means the price determined by the Clearing House in accordance with Rule 412;
"Commission"	means the Securities and Futures Commission which was established under the repealed Securities and Futures Commission Ordinance and whose existence continued by virtue of section 3(1) of the Ordinance or any other body which assumes in whole or in part the powers and functions of the Securities and Futures Commission and has jurisdiction over the Exchange under the Ordinance;
"commodity"	bears the same meaning as in the Exchange Rules;

"Common Participant"	means a person duly registered as a participant of the Clearing House and one or more of the other Recognized Clearing Houses and "Common Participantship" shall be construed accordingly;
"Compliance Department"	has the same meaning as in the Exchange Rules;
"Contract"	means an F/O Contract concluded by an HKCC Participant or a Non-Clearing Participant on any Market operated by the Exchange pursuant to the Exchange Rules or, as the context requires, a new contract arising pursuant to the provisions of Rule 308A(e), 309, 313 or 408(a);
"Contract Specifications"	bears the same meaning as in the Exchange Rules;
"controller"	has the same meaning as in Part III of the Ordinance;
"Currency Cum MTM(t)"	means, with respect to each Business Day t during the Loss Distribution Period and a Settlement Currency, the sum of Currency MTM Chg relating to the Currency VA Payment in such Settlement Currency for each Business Day from (and including) the date on which the Clearing House declares an HKCC Participant to be a Defaulter for an event of default to (and including) such Business Day t;
"Currency Cum VA Flow(t)"	means, with respect to each Business Day t during the Loss Distribution Period and a Settlement Currency, the total sum of Currency VA Flow which would be a gain to a non-defaulting HKCC Participant (expressed as a positive number) or a loss to a non-defaulting HKCC Participant (expressed as a negative number) in such Settlement Currency from (and including) the date on which the Clearing House declares an HKCC Participant to be a Defaulter for an event of default to (and including) such Business Day t. Currency Cum VA Flow(t-1) shall be the

	value for Currency Cum VA Flow(t) calculated on the Business Day immediately preceding Business Day t during the Loss Distribution Period, provided that where Business Day t is the day of event of default, Currency Cum VA Flow(t-1) shall be zero;
"Currency Futures Contract"	means a Futures Contract whose underlying commodity is a specified currency and which is traded in the Currency Futures Market operated by the Exchange;
"Currency MTM Chg(t)"	means, with respect to each Business Day t during the Loss Distribution Period and a Settlement Currency, the Currency VA Payment in such Settlement Currency (converted, where applicable, into the Base Currency at the exchange rate determined by the Clearing House on such Business Day t) which would be a gain to a non-defaulting HKCC Participant (expressed as a positive number) or a loss to a non-defaulting HKCC Participant (expressed as a negative number) on such Business Day;
"Currency of the Contract"	means the currency in which a Contract is traded;
"Currency Option Contract"	means an Exchange Contract which is an Option Contract and whose underlying commodity is a specified currency;
"Currency VA Flow(t)"	means, with respect to each Business Day t during the Loss Distribution Period and a Settlement Currency, an amount equal to the net Currency VA Payment in such Settlement Currency for that Business Day after taking into account the additional amount payable to the Clearing House or the amount received from the Clearing House pursuant to Rule 711(b) or 711(c);
"Currency VA Payment"	means, in respect of any Business Day and a Settlement Currency, the aggregated amount of variation adjustment (including the profits or losses on final settlement of Cash Settled Contracts and/or Identified Contracts) which would be a gain to a non-defaulting HKCC

	Participant (expressed as a positive number) or a loss to a non-defaulting HKCC Participant (expressed as a negative number) in such Settlement Currency on such Business Day without application of the VA Haircut; and for the purpose of the calculations and adjustments conducted under the Loss Distribution Process, the unrealized profits or losses in respect of Physical Delivery Contracts pursuant to section 2.3.3.2 of the Clearing House Procedures will be included;
"DCASS"	means the Derivatives Clearing and Settlement System operated by the Clearing House and SEOCH;
"DCASS Agreement"	means the subscription and license agreement in such form as may be prescribed by the Clearing House from time to time and which is entered into between the Clearing House and an HKCC Participant entitling the HKCC Participant to participate in DCASS in accordance with Chapter IX;
"DCASS User Guide"	means the manual entitled "DCASS User Guide" relating to the operation of DCASS via online access, as amended from time to time by the Clearing House;
"Default Information"	means any information provided by the Clearing House to a Receiving HKCC Participant relating to a Defaulting HKCC Participant including any information given relating to any action carried out pursuant to Rule 510;
"Defaulter"	means a Defaulting HKCC Participant which has been declared as a Defaulter by the Clearing House pursuant to Rule 510;
"Defaulting HKCC Participant"	means an HKCC Participant that gives rise to an event of default pursuant to Rule 509;
"Deliverable Metal"	means, in respect of a Physically Settled Metal Futures Contract, the metal underlying such contract which is to be delivered by the Seller to the Buyer;

"Delivery Agent"	in respect of a Physically Settled Metal Futures Contract, an HKCC Participant appointed as such by another HKCC Participant for the delivery of Deliverable Metal underlying such Physically Settled Metal Futures Contract for such other HKCC Participant under the terms of a Delivery Agreement;
"Delivery Agreement"	means an agreement between an HKCC Participant and its Delivery Agent containing such terms as may be specified by the Clearing House;
"Delivery Assets"	has the meaning given to it in section 2A.3.4(f)(iii)(C) of the Clearing House Procedures;
"delivery month" or "contract month"	bears the same meaning as in the Exchange Rules;
"Delivery Notice"	means any notice to be provided by a Seller under a Physically Settled Metal Futures Contract in a form prescribed and published by the Clearing House from time to time;
"Delivery Representations"	has the meaning given to it in section 2A.3.5(f) of the Clearing House Procedures;
"Delivery Warranties"	has the meaning given to it in section 2A.3.5(g) of the Clearing House Procedures;
"Derivatives Pricing Methodology"	means the manual entitled "Derivatives Pricing Methodology" of the Clearing House setting forth, inter alia, details of the methodology for determining the Closing Quotation for each Futures/Options Contract, as may be in force from time to time;
"Designated Bank"	means a bank designated by HKCC from time to time as being eligible for money settlements in relation to clearing services provided by HKCC through fund transfers to and from a Prime Settlement Bank or settlement account of HKCC maintained with the Hong Kong Monetary Authority;
"Designated Compliance Department Staff"	has the same meaning as in the Exchange Rules;
"designated HKEX staff"	has the same meaning as in the Exchange Rules;

"Disciplinary Appeals Committee"	means any disciplinary appeals committee of the Exchange or such other committee to which the Board has from time to time delegated its power to consider disciplinary appeals;
"Disciplinary Committee"	means the disciplinary committee of the Exchange or such other committee to which the Board has from time to time delegated its power to adjudicate disciplinary matters;
"Dispute"	has the meaning given to it in section 2A.3.5(k) of the Clearing House Procedures;
"Disputing Party"	has the meaning given to it in of section 2A.3.5(j) of the Clearing House Procedures;
"Early Termination Date"	means, in respect of an open Contract registered in the name of an HKCC Participant, the date determined as an Early Termination Date for such Contract in accordance with Rule 547(a), 549(a) or 550, as the case may be. An open Contract shall be terminated or novated with effect from the Early Termination Date relating to it;
"Euro" or "EUR"	means the lawful currency of the member states of the European Union that adopt the single currency; in accordance with the Treaty establishing the European Community (signed in Rome on March 25, 1957), as amended by the Treaty on European Union (signed in Maastricht on February 7, 1992), the Treaty of Amsterdam (signed in Amsterdam on October 2, 1997), the Treaty of Nice (signed in Nice on February 26, 2001) and the Treaty of Lisbon (signed in Lisbon on December 13, 2007) and as further amended from time to time;
"event of default"	means an event relating to an HKCC Participant as referred to in Rule 509; and in the case of an HKCC Participant being declared a Defaulter because of an event of default, the date of occurrence of the event of default refers to the date the HKCC Participant is declared to be a Defaulter;

"the Exchange"	means Hong Kong Futures Exchange Limited;
"Exchange Contract"	bears the same meaning as in the Exchange Rules;
"Exchange Participant"	bears the same meaning as in the Exchange Rules and "Exchange Participantship" shall be construed accordingly;
"Exchange Rules" or "Rules of the Exchange"	means collectively the Rules, Regulations and Procedures of the Exchange; and any amendments, supplements, variations or modifications thereto from time to time in force;
"expiry"	means the Last Trading Day or Expiry Day, as the case may be;
"Expiry Day"	means the last or only Trading Day, as the case may be, on which an option can be traded or exercised and shall, subject to section 901 of the Rules of the Exchange, be described in the applicable Contract Specifications;
"Failure to Pay Notice"	means a written notification provided by an HKCC Participant to the Clearing House pursuant to Rule 545 upon the failure by the Clearing House to make, when due, any payment to an HKCC Participant (other than a Defaulter) under an open Contract;
"Final Settlement Day"	means, in relation to a Contract, the day specified in the applicable Contract Specifications as the Final Settlement Day for the settlement of such Contract;
"Financial Resources Rules"	bears the same meaning as in the Exchange Rules;
"Former HKCC Participant"	means, at any time, a person who was an HKCC Participant but whose participantship had been terminated prior to such time;
"Futures/Options Contract" or "F/O Contract"	bears the same meaning as in the Exchange Rules;

“Futures Contract” or “future”	bears the same meaning as in the Exchange Rules;
“Gainer VA Flow Adjustment(t)”	means the Gainer VA Flow Adjustment Base Currency (t) converted into the Settlement Currency of the relevant Currency VA Payment at the exchange rate determined by the Clearing House on Business Day t;
“Gainer VA Flow Adjustment Base Currency(t)”	means an amount determined in the Base Currency on the relevant Business Day t for each Currency VA Payment relating to a clearing account as follows: Currency MTM Chg(t) – [Currency Cum MTM(t) X (1-VA Haircut(t)) – Currency Cum VA Flow(t-1)]
“General Clearing Participant”	means an HKCC Participant registered under the category of "General Clearing Participant" pursuant to Chapter II of these Rules;
“General Collateral”	means collateral in a CCMS Collateral Account that can be used to cover Clearing House margin and outstanding debit;
“HKATS"	formerly known as the “ATS”, means the automated trading system operated by the Exchange;
“HKATS Risk Functions”	has the same meaning as in the Exchange Rules;
“HKCC Default Applicable Percentage”	means, in respect of an HKCC Failure to Pay Event or an HKCC Insolvency Event, a percentage applied by the Clearing House to determine the HKCC Default CP Receivable with respect to a clearing account of an HKCC Participant and the amount payable by the Clearing House in respect of the Reserve Fund Deposits Balance of an HKCC Participant pursuant to section 8.1 of the Clearing House Procedures;
“HKCC Default CP Receivable”	means, in respect of an HKCC Failure to Pay Event or an HKCC Insolvency Event, the amount payable by the Clearing House to each relevant HKCC Participant with respect

	to each of its clearing accounts pursuant to section 8.1.2.2 of the Clearing House Procedures;
"HKCC Default Final CP Payable"	means, in respect of an HKCC Failure to Pay Event or an HKCC Insolvency Event, the final net amount payable by each relevant HKCC Participant to the Clearing House with respect to each of its clearing accounts after taking into account the operation of sections 8.1.2.1(a) and 8.1.2.1(b) of the Clearing House Procedures;
"HKCC Default Interim CP Payable"	means, in respect of an HKCC Failure to Pay Event or an HKCC Insolvency Event, the amount payable by each relevant HKCC Participant to the Clearing House with respect to each of its clearing accounts, after taking into account any Margin Balance applied pursuant to section 8.1.2.1(a) of the Clearing House Procedures;
"HKCC Failure to Pay Event"	means an event arising from the failure of the Clearing House to make all relevant payments under an open Contract to an HKCC Participant by the end of the relevant HKCC Failure to Pay Grace Period, provided that no such event shall occur if (1) such failure to pay arises as a result of technical or administrative reasons beyond the control of the Clearing House; or (2) during the HKCC Failure to Pay Grace Period, the Clearing House has exercised its powers under Rules 547(a) and/or 547(b);
"HKCC Failure to Pay Grace Period"	means the period from (but excluding) the day on which the Clearing House receives a Failure to Pay Notice from an HKCC Participant to (and including) the 21st Business Day following such day;
"HKCC Insolvency Event"	means an event relating to the insolvency of the Clearing House as referred to in Rule 550;
"HKCC Member" or "Member"	means a person duly registered as a member of the Clearing House prior to the Scheme Effective Date under one of the categories of

	Clearing House membership then existing and "HKCC Membership" or "Membership" shall be construed accordingly;
"HKCC Participant" or "Participant of the Clearing House"	means a person duly registered as a participant of the Clearing House under one of the categories of Participantship specified in Chapter II of these Rules and "HKCC Participantship" shall be construed accordingly;
"HKCC Participant Additional Deposit"	means (i) an additional deposit required to be made by an HKCC Participant pursuant to Rule 705A; (ii) where any Assessment has been demanded by the Clearing House, any Assessment provided or required to be provided by the HKCC Participant; and (iii) where any Voluntary Recap Amount has been requested by the Clearing House, any Voluntary Recap Amount provided by the HKCC Participant which will not be refunded by the Clearing House to such HKCC Participant in accordance with Rule 709(d);
"HKCC Participant Additional Deposits Credit"	means a credit limit in respect of HKCC Participant Additional Deposits (other than any Assessment or Voluntary Recap Amount) that may be allowed to each HKCC Participant pursuant to Rule 701(ac);
"HKCC Participant's Deposit"	means a deposit required to be made by an HKCC Participant pursuant to Rule 210;
"HKEX"	means Hong Kong Exchanges and Clearing Limited;
"HKEX website"	means the official website of HKEX at http://www.hkex.com.hk or at such other website address specified by HKEX from time to time;
"HKIAC"	has the meaning given to it in section 2A.3.5(k) of the Clearing House Procedures;
"HKSCC"	means Hong Kong Securities Clearing Company Limited;

"holder"	an HKCC Participant which holds a long position in an option;
"Holiday Trading Exchange Contract"	bears the same meaning as in the Exchange Rules;
"Hong Kong dollars" or "HK$"	bears the same meaning as in the Exchange Rules;
"Identified Contracts"	means the open Contracts (including the open Contracts of a Defaulter and those of any non-defaulting HKCC Participants so determined by the Clearing House pursuant to Rule 515A(b)) to be terminated under the contract termination process as referred to in Rule 515A;
"in writing" and "written"	include printing, lithography and other modes of representing or reproducing words in a permanent and visible form;
"Japanese Yen" or "JPY"	means the lawful currency of Japan;
"Last Trading Day"	means the last day for trading in an Exchange Contract, as specified in the Contract Specifications;
"Limited Recourse Applicable Percentage"	means, in respect of a Clearing Service Termination Event, a percentage applied by the Clearing House to determine the Limited Recourse CP Receivable with respect to a clearing account of an HKCC Participant and the amount payable by the Clearing House in respect of the Reserve Fund Deposits Balance of an HKCC Participant pursuant to section 7.1 of the Clearing House Procedures;
"Limited Recourse CP Receivable"	means, in respect of a Clearing Service Termination Event, the amount payable by the Clearing House to each relevant HKCC Participant with respect to each of its clearing accounts pursuant to section 7.1.2.2 of the Clearing House Procedures;
"Limited Recourse Final CP Payable"	means, in respect of a Clearing Service Termination Event, the final net amount payable by each relevant HKCC Participant to the Clearing House with respect to each of

	its clearing accounts, after taking into account the operation of sections 7.1.2.1(a) and 7.1.2.1(b) of the Clearing House Procedures;
"Limited Recourse Interim CP Payable"	means, in respect of a Clearing Service Termination Event, the amount payable by each relevant HKCC Participant to the Clearing House with respect to each of its clearing accounts, after taking into account any Margin Balance applied pursuant to section 7.1.2.1(a) of the Clearing House Procedures;
"Liquid Capital"	has the meaning assigned to it by the Financial Resources Rules;
"Loser VA Flow Adjustment(t)"	means the Loser VA Flow Adjustment Base Currency(t) converted into the Settlement Currency of the relevant Currency VA Payment at the exchange rate determined by the Clearing House on Business Day t;
"Loser VA Flow Adjustment Base Currency(t)"	means an amount determined in the Base Currency on the relevant Business Day t for each Currency VA Payment relating to a clearing account as follows: Currency MTM Chg(t) – [Currency Cum MTM(t) – Currency Cum VA Flow(t-1)]
"Loss Distribution Period"	means the period beginning from the date on which the Clearing House declares an HKCC Participant to be a Defaulter for an event of default to (but excluding) the Business Day on which all open Contracts registered in that Defaulter's name have been successfully transferred, closed out, sold or settled and all receivables, payments and/or delivery obligations in respect of such Contracts have been discharged in full by the relevant party provided that each time another HKCC Participant is declared a Defaulter for an event of default during a prevailing Loss Distribution Period, such Loss Distribution Period shall, where applicable, be extended until the Business Day on which all open Contracts registered in such subsequent Defaulter's name have been successfully transferred, closed out, sold or settled and the

	related receivables, payments and/or delivery obligations have been discharged in full by the relevant party and no new Loss Distribution Period will be established for such subsequent Defaulter;
"Loss Distribution Process"	means the process of applying any VA Flow Adjustment to each clearing account of each HKCC Participant as described in Rules 710 to 714;
"Managing Director"	means the person from time to time holding the office of Managing Director of the Clearing House;
"mandatory intra-day variation adjustment and margin"	means the intra-day variation adjustment and Clearing House margin that is required by the Clearing House pursuant to Rule 410C ;
"margin"	means Clearing House margin, Special Block Trade Margin, and/or additional margin;
"Margin Balance"	means, in respect of an HKCC Participant and a clearing account, the aggregate value of variation adjustment, margin and collateral (including any excess collateral) provided by such HKCC Participant, in each case, as recorded in the corresponding CCMS Collateral Account;
"Market"	bears the same meaning as in the Exchange Rules;
"Market close"	means the close of trading of the T Session on each Trading Day;
"Metal Futures Contract"	has the meaning given to it in the Regulations for Trading Metal Futures Contracts of the Exchange Rules;
"Non-Clearing Participant"	means an Exchange Participant which is not an HKCC Participant;
"Non-delivery HKCC Participant"	in respect of a Physically Settled Metal Futures Contract, an HKCC Participant which neither has itself entered into, nor has entered into a Delivery Agreement with another HKCC Participant which has entered

	into, an Approved Depository Account Agreement with each of the Approved Depositories relating to the Deliverable Metal underlying such Physically Settled Metal Futures Contract;
"Non-serious Offence"	means any offence which does not involve or result in any of the following: (a) the interests of the Clearing House or any other HKCC Participant or any Client being jeopardised; (b) fraudulent, dishonest or criminal activity; (c) conduct which may impair the reputation, dignity or welfare of the Clearing House; (d) conduct inconsistent with just and equitable principles of trade; or (e) non-compliance by the HKCC Participant with any applicable financial requirements under the Ordinance or any other ordinances, these Rules, the Regulations, any procedures of the Clearing House or the Exchange Rules provided however that the Compliance Department may in its absolute discretion determine that an offence does not constitute a Non-serious Offence notwithstanding that such offence satisfies the criteria referred to above if, having considered the nature, frequency, persistence of the offence or any other circumstances applicable, the Compliance Department is of the view that such offence should not be considered as a Non-serious Offence;
"Notice of Assessment"	means a written notification provided by the Clearing House to HKCC Participants of any demand for Assessments pursuant to Rule 707A;
"Official Settlement Price" or "Final Settlement Price"	means, in relation to a Contract, the number as determined and calculated by the Clearing

	House in the manner as set out in the applicable Contract Specifications;
"open Contract"	means every Contract except a closed out Contract;
"option series"	means all options relating to the same underlying commodity and of the same option type and with the same Strike Price and Expiry Day;
"option type"	describes whether an option is a Put Option or Call Option as those terms are described in the Rules of the Exchange;
"Ordinance"	means the Securities and Futures Ordinance and any subsidiary legislation made thereunder;
"Participant Admission Appeals Committee"	means the committee convened to hear any appeal against the decisions by the Board on any application to admit as an HKCC Participant;
"Permitted Purpose"	means any purpose, the objective of which is to allow the Receiving HKCC Participant to assist the Clearing House in any actions HKCC chooses to take pursuant to Rule 510;
"Physical Delivery Contract"	a Contract that may be performed by physical delivery of the underlying commodity or instrument;
"Physical Delivery Participant"	means, in respect of a Physically Settled Metal Futures Contract, an HKCC Participant other than a Non-delivery HKCC Participant;
"Physically Settled Metal Futures Contract"	means a Metal Futures Contract which is a Physical Delivery Contract;
"Physically Settled Options on Futures Contract"	means an Option Contract which is a Physical Delivery Contract and whose underlying is a Futures Contract;
"Prescribed Risk Controls"	has the same meaning as in the Exchange Rules;
"Price Differential"	has the meaning given to it in section

	2A.3.3(a)(iii), 2A.3.3(a)(iv) or 2A.3.3(b)(ii) of the Clearing House Procedures, as the case may be;
"PRiME"	means the Portfolio Risk Margining System of HKEX, which is the margining methodology adopted by the Clearing House for the calculation of Clearing House margin;
"PRiME Margining Guide"	means the manual entitled "PRiME Margining Guide" setting forth, inter alia, details of PRiME and examples of the calculation of Clearing House margin using the PRiME methodology, as amended by the Clearing House from time to time;
"Prime Settlement Bank"	means a bank at which HKCC has opened an account and designated by HKCC from time to time as being eligible for money settlements in relation to clearing services provided by HKCC through either internal fund transfers or fund transfers to and from an Approved Settlement Bank, a Designated Bank or settlement account of HKCC maintained with the Hong Kong Monetary Authority;
"Receiving HKCC Participant"	has the meaning given to it in Rule 513A(a);
"Receiving HKCC Participant Affiliates"	means, in relation to a Receiving HKCC Participant, any subsidiary or holding company, or a subsidiary of a holding company of that Receiving HKCC Participant. For the purposes of this definition, the terms "holding company" and "subsidiary" shall bear the same respective meanings herein as in the Companies Ordinance (Chapter 622 of the Laws of Hong Kong);
"Recognized Assayer"	means, in respect of a Physically Settled Metal Futures Contract, an assayer for precious metals which is included on the list of Recognized Assayers published by the Exchange from time to time;
"Recognized Clearing House"	means Hong Kong Securities Clearing Company Limited, HKFE Clearing Corporation Limited or The SEHK Options Clearing House Limited;

"Recognized Depository"	means, in respect of a Physically Settled Metal Futures Contract, a depository for precious metals which is included on the list of Recognized Depositories published by the Exchange from time to time;
"recognized exchange controller"	has the same meaning as in the Ordinance;
"Recognized Forwarder"	means, in respect of a Physically Settled Metal Futures Contract, a transportation firm specializing in transporting precious metals which is included on the list of Recognized Forwarders published by the Exchange from time to time;
"Recognized Refiner"	means, in respect of a Physically Settled Metal Futures Contract, a precious metal refinery which is included on the list of Recognized Refiners published by the Exchange from time to time;
"Reference Price"	has the meaning given to it in section 2A.3.3(a)(ii) of the Clearing House Procedures;
"Registered Institution"	means an authorized institution under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) which is registered to carry on Type 2 regulated activity under the Ordinance;
"Regulations"	bears the same meaning as in the Exchange Rules;
"Relevant CP Contracts"	means the open Contracts of the relevant HKCC Participant to be terminated under an HKCC Failure to Pay Event as referred to in Rule 547 or 549;
"Renminbi" or "RMB"	bears the same meaning as in the Exchange Rules;
"Re-novated Contract"	has the meaning given to it in Rule 309A and "Contract Re-novation" shall be construed accordingly;
"Reserve Fund"	means the reserve fund referred to in Chapter

	VII of these Rules;
"Reserve Fund Deposits"	means, in respect of an HKCC Participant, both its HKCC Participant's Deposit and HKCC Participant Additional Deposit;
"Reserve Fund Deposits Balance"	means, on any Business Day, with respect to each HKCC Participant, the aggregate value of the HKCC Participant's Deposits and HKCC Participant Additional Deposits provided by the HKCC Participant, as reduced by payments out of the Reserve Fund allocated to such HKCC Participant's Deposits and/or HKCC Participant Additional Deposits, as applicable, in accordance with Rule 706;
"Reserve Fund Resources"	means the Reserve Fund and any other amounts specified as forming part of the Reserve Fund Resources in the Rules;
"Reserve Fund Risk Predefined Limit"	means an amount equal to 50% of the Reserve Fund Threshold or such other percentage as the Clearing House deems appropriate from time to time;
"Reserve Fund Threshold"	means the Reserve Fund size prescribed by the Clearing House from time to time pursuant to Rule 701(ab);
"Resignation Notice"	means a notice of intention to resign from HKCC Participantship given in accordance with Rule 217;
"Rules" or "Clearing House Rules" or "HKCC Rules"	means collectively these rules and the Clearing House Procedures and any amendments, supplements, variations or modifications thereto from time to time in force;
"Secretary"	means the company secretary for the time being of the Clearing House;
"Seller"	means the HKCC Participant registered as the seller of an F/O Contract pursuant to these Rules;
"SEOCH"	means The SEHK Options Clearing House

Limited;

"Settlement Agent"	means, following the Contract Re-novation in respect of a Physically Settled Metal Futures Contract, the Clearing House acting in its role as settlement agent for the buying HKCC Participant and the selling HKCC Participant under that Re-novated Contract to facilitate the settlement of that Re-novated Contract, as further described in section 2A.3.2.3(b) of the Clearing House Procedures;
"Settlement Currency"	means the currency in which a Contract shall be settled, which currency shall be as specified in the applicable Contract Specifications, or if not so specified, shall be the Currency of the Contract provided that: (a) in respect of any Currency Futures Contract which is a Physical Delivery Contract: (i) in the case of the Buyer, the Settlement Currency shall be the currency in which the Currency Futures Contract shall be settled by the Buyer; and (ii) in the case of the Seller, the Settlement Currency for final settlement shall be the currency underlying the Currency Futures Contract which shall be delivered by the Seller and the Settlement Currency for payment of Clearing House margin, variation adjustment and any other form of margin or fees which may be imposed by the Clearing House or the Exchange shall be the currency in which the Currency Futures Contract is traded; (b) in respect of any Currency Option Contract which is a Physical Delivery Contract: (i) in the case of the holder of a Call Option or writer of a Put Option, the

	Settlement Currency shall be the currency in which the Currency Option Contract shall be settled by the holder of a Call Option or the writer of a Put Option; and (ii) in the case of the writer of a Call Option or the holder of a Put Option, the Settlement Currency for final settlement shall be the currency underlying the Currency Option Contract which shall be delivered by the writer of a Call Option or the holder of a Put Option and the Settlement Currency for payment of Clearing House margin, variation adjustment and any other form of margin or fees which may be imposed by the Clearing House or the Exchange shall be the currency in which the Currency Option Contract is traded;
"Singapore Dollars" or "SGD"	means the lawful currency of the Republic of Singapore;
"Special Block Trade Margin"	means the margin required by the Clearing House pursuant to Rule 411A;
"Strike Price" or "Exercise Price"	means the agreed price, or level, of the underlying commodity at which an option may, subject to these Rules, the Exchange Rules and Regulations governing that Contract, be exercised;
"System Input Cutoff Time"	means 8:30 p.m. or such other time as may be prescribed by the Clearing House as the cutoff time for system input after the T Session;
"Tax Information Exchange Framework"	means (i) sections 1471 to 1474 of the United States Internal Revenue of 1986, as amended (the "Code"), (ii) any similar or successor legislation to (i) introduced by the United States, (iii) any agreement described in section 1471(b) of the Code, (iv) any regulations or guidance pursuant to any of the foregoing, (v) any official interpretations of

	any of the foregoing, (vi) any intergovernmental agreement to facilitate the implementation of any of the foregoing (an "IGA"), or (vii) any law implementing an IGA;
"Termination Value Payable"	means, under the contract termination process, the amount payable by each relevant HKCC Participant to the Clearing House with respect to each of its clearing accounts pursuant to section 2.13.1 of the Clearing House Procedures;
"Termination Value Receivable"	means, under the contract termination process, the amount payable by the Clearing House to each relevant HKCC Participant with respect to each of its clearing accounts pursuant to section 2.13.1 of the Clearing House Procedures;
"Third Party Service Provider"	means an Approved Depository, Recognized Assayer, Recognized Depository, Recognized Forwarder, Recognized Refiner or any other third party which performs or which is responsible for any service in connection with the clearing and settlement of Physically Settled Metal Futures Contracts under these Rules and/or the Exchange Rules;
"Tier 1 capital"	has the same meaning as set out in the Banking (Capital) Rules (Chapter 155L of the Laws of Hong Kong);
"Trading Day"	bears the same meaning as in the Exchange Rules;
"T Session"	has the same meaning as in the Exchange Rules;
"T+1 Session"	has the same meaning as in the Exchange Rules;
"T+1 Session Cutoff Time"	means the time specified in Appendix B to these Rules or such other time as may be prescribed by the Clearing House as the cutoff time for system input after the T+1 Session (if applicable);

"Total Clearing Accounts Cum MTM(t)"	means, with respect to any Business Day t during the Loss Distribution Period, the sum of the Total Clearing Accounts Currency Cum MTM(t) in all Settlement Currencies;
"Total Clearing Accounts Currency Cum MTM(t)"	means, with respect to each Business Day t during the Loss Distribution Period, the sum of the Total Clearing Accounts Currency MTM for each Business Day from (and including) the date on which the Clearing House declares an HKCC Participant to be a Defaulter for an event of default to (and including) such Business Day t;
"Total Clearing Accounts Currency MTM(t)"	means, with respect to each Business Day t during the Loss Distribution Period, the sum of Currency MTM Chg(t) in respect of all clearing accounts of all non-defaulting HKCC Participants;
"Total Gains(t)"	means, with respect to each Business Day t during the Loss Distribution Period, the sum of all Clearing Account Gains in respect of all Clearing Account Gainers on such Business Day t;
"Unadjusted HKCC Default CP Receivable"	means, in respect of an HKCC Failure to Pay Event or an HKCC Insolvency Event, the amount determined to be payable by the Clearing House to each relevant HKCC Participant with respect to each of its clearing accounts, without taking into account any adjustment pursuant to section 8.1.2.2 of the Clearing House Procedures;
"Unadjusted Limited Recourse CP Receivable"	means, in respect of a Clearing Service Termination Event, the amount determined to be payable by the Clearing House to each relevant HKCC Participant with respect to each of its clearing accounts, without taking into account any adjustment pursuant to section 7.1.2.2 of the Clearing House Procedures;
"underlying commodity"	means the commodity by reference to which a Contract is made;
"underlying instrument"	means the instrument by reference to which a

	Contract is made or the instrument which is allowed for delivery as specified in the Exchange Rules or prescribed by the Clearing House, as the case may be;
"US Dollars" or "USD"	means the lawful currency of the United States of America;
"VA Flow Adjustment(t)"	means either the Gainer VA Flow Adjustment(t) or Loser VA Flow Adjustment(t), as applicable;
"VA Haircut(t)"	means, on each Business Day t during the Loss Distribution Period, an amount equal to the (1) VA Shortfall(t) divided by (2) Total Gains(t), expressed as a percentage figure;
"VA Shortfall(t)"	means, in respect of Business Day t, the greater of (1) zero and (2) an amount equal to (i) Total Clearing Accounts Cum MTM(t) plus (ii) any costs, interests or other expenses incurred by the Clearing House in effecting the transfer, closing out, sale or settlement of any Contract under Rule 510 less (iii) resources available to the Clearing House including those available to be applied under Rules 510(e), 510(g) and 706 with respect to all such events of default but excluding any Assessments which have not been deposited with the Clearing House by such day;
"variation adjustment"	means an amount payable by or to the Clearing House calculated at least once daily in accordance with Rules 408 to 411; and
"Voluntary Recap Amount"	means a voluntary contribution to the Reserve Fund, as requested by the Clearing House pursuant to a Voluntary Recap Request Notice;
"Voluntary Recap Request Notice"	means a written notification provided by the Clearing House pursuant to Rule 709 to an HKCC Participant requesting for a Voluntary Recap Amount;
"Withholding Tax"	means any withholding or deduction pursuant to the Tax Information Exchange Framework.

"writer"	an HKCC Participant which holds a short position in an option;

References to any law or regulation in these Rules shall be construed as references to such law or regulation as in force from time to time.

Words importing the singular number only include the plural and vice versa, where the context so permits. Words importing masculine gender shall include feminine and neuter gender.

Headings are inserted for convenience only and shall not affect the construction of these Rules.

Interpretation

102. Unless in these Rules it is expressly provided to the contrary, all questions concerning the interpretation or application of or any other matter in connection with these Rules, shall be determined by the Board whose decision shall be final and binding on all parties.

Transitional provisions

103. Without limiting the generality of Rule 104, with effect from the Scheme Effective Date (as defined in the Exchange Rules) and unless the context requires otherwise, the terms "HKCC Member" and "Member" in the HKCC Rules prior to the Scheme Effective Date have been substituted with the term "HKCC Participant" or "Participant of the Clearing House" and the term "HKCC Participantship" shall be construed accordingly. Each HKCC Member immediately prior to the Scheme Effective Date which was or was deemed to be an Exchange Participant under the Exchange Rules or the repealed Exchanges and Clearing Houses (Merger) Ordinance was deemed to have automatically become an HKCC Participant and shall continue to be bound by these Rules as an HKCC Participant.

104. For the avoidance of doubt,

(i) these Rules;

(ii) all rights, privileges, obligations and liabilities accrued to or incurred by any person (including without limitation an HKCC Participant) prior to the Scheme Effective Date;

(iii) all registrations and approvals made or granted to a person (including without limitation an HKCC Participant) which were valid immediately prior to the Scheme Effective Date

shall continue to be valid and binding on that person whatever capacity in which those rights, privileges, obligations, liabilities, registrations or approvals have been accrued, incurred, made or granted.

Notice and other communications

105. Unless otherwise provided in these Rules, all notices, requests, demands or other communications from HKCC to HKCC Participants may be given orally or in writing, in person or by post, by electronic or wire transmission, by telephone or facsimile, by posting on the HKEX website, or by any means of computer data transmission including, but in no way limited to, broadcast messages via HKATS or DCASS or e-mail.

106. Any communication disseminated via DCASS or HKATS or e-mail or posted on the HKEX website will constitute written notice for the purpose of these Rules.

106A. Unless otherwise provided in these Rules, all notices from HKCC Participants to HKCC shall be given in writing and sent to HKCC in person, by facsimile, by post or such other means as may be acceptable to HKCC. Notice by HKCC Participants to HKCC shall be deemed to have been given at the time of receipt by HKCC.

All instructions and communications to HKCC by, with the authority of, on behalf of and/or for the account of HKCC Participants shall be given in such manner and form as may be prescribed by or acceptable to HKCC from time to time.

HKCC shall be entitled to accept and rely on any instruction or communication given or purporting to be given to it by, with the authority of, on behalf of or for the account of an HKCC Participant, whether or not in strict compliance with the prescribed manner or form or any applicable limitation on authority of, which is understood or believed by HKCC in good faith to have been given to it by, with the authority of, on behalf of or for the account of such HKCC Participant.

HKCC shall have no obligation to act on any instruction or communication given or purported to be given by, with the authority of, on behalf of or for the account of an HKCC Participant if such instruction does not, in the determination of HKCC, contain sufficient details for HKCC to act upon it.

Exclusions of Liabilities

107. The Clearing House, the Exchange and a recognized exchange controller which is the controller of the Clearing House, do not accept any liability whatsoever, and no claim may be brought against any of them or their respective employees, in respect of any error in, or interruption or suspension of the operation of any system operated by the Clearing House, except in the

case of wilful misconduct. In particular, neither the Clearing House, the Exchange or a recognized exchange controller which is the controller of the Clearing House, nor any person from whom the Clearing House, the Exchange or a recognized exchange controller which is the controller of the Clearing House has obtained a licence, directly or indirectly, in connection with the use of any system operated by the Clearing House shall have any liability in connection with, or arising out of, any ability or inability to use the computer programs involved in the functioning of any system operated by the Clearing House (whether based in contract, tort, misrepresentation, warranty or other legal or equitable grounds and without regard to the circumstances giving rise to any purported claim).

108. The Clearing House, the Exchange and a recognized exchange controller which is the controller of the Clearing House will not be liable to any HKCC Participant or to any other person with respect to any action or omission by them in connection with the operations of any system operated by the Clearing House, the provision of services and facilities available thereunder, and all other matters as contemplated in these Clearing House Rules, except in the case of wilful default.

109. The Clearing House, the Exchange and a recognized exchange controller which is the controller of the Clearing House will not be liable for any action taken or for any failure, hindrance or delay in the provision of services or the performance in whole or in part of their obligations under these Clearing House Rules or under any Contract if such action, failure, hindrance or delay arises out of causes beyond their control. Such causes may include, but shall not be limited to, acts of God or the public enemy, acts of a civil or military authority, embargoes, fires, floods, explosions, accidents, labour disputes, mechanical breakdowns, computer or system failures or other failures of equipment, failures of or defects in computer or system software, unavailability of or restrictions on any communication media for whatever reason (whether or not such media is used by HKCC Participants), interruptions (whether in whole or in part) of power supplies or other utility or service, any law, decree, regulation or order of any government, competent authority or any court or tribunal, and any other causes beyond the control of the Clearing House, the Exchange (whether or not specified in the Exchange Rules) or a recognized exchange controller which is the controller of the Clearing House.

110. Information and statistics provided by the Clearing House including, but not limited to market prices, numbers of Contracts cleared and risk management assumptions, are made available on the understanding that the Clearing House, the Exchange and a recognized exchange controller which is the controller of the Clearing House will not be liable or accountable to any party for that information's suitability or applicability for any use other than for managing or reporting activities internal to the Clearing House.

CHAPTER II

HKCC PARTICIPANTSHIP

Requirements for Participantship

201. Every HKCC Participant must be registered under one of the categories of Participantship prescribed by these Rules and, unless it is a General Clearing Participant which is a Registered Institution, must be an Exchange Participant.

202. HKCC Participants may be registered under either of the following categories:-

(a) General Clearing Participant; or

(b) Clearing Participant.

Register of HKCC Participants

202A. The Secretary shall maintain a register of HKCC Participants containing the full names and addresses of all HKCC Participants, particulars of the category of HKCC Participantship under which each HKCC Participant is registered and the date of admission of each HKCC Participant.

Publication of a list of HKCC Participants

202B. The Clearing House shall maintain and keep up to date at regular intervals a list of HKCC Participants in each category in existence at the time. The Clearing House shall publish such lists on the HKEX website or by such other means as it considers appropriate.

Rights to record, register, and clear

203. Every HKCC Participant is entitled in accordance with the HKCC Rules to record, register, and clear Contracts entered into by itself provided that it (i) has opened a House and a Client bank account with a Designated Bank, an Approved Settlement Bank or a Prime Settlement Bank for each applicable Settlement Currency; and (ii) has satisfied such additional eligibility criteria as may from time to time be prescribed by the Clearing House and notified to HKCC Participants. In addition:-

(a) a General Clearing Participant is entitled to record, register, and clear Contracts in accordance with the HKCC Rules on behalf of those Non-Clearing Participants with which it has entered into a Clearing Agreement, and also for Clearing Participants; and

(b) at the discretion of the Clearing House a Clearing Participant may be entitled to record, register, and clear Contracts in accordance with the HKCC Rules for other Clearing Participants.

204. A Non-Clearing Participant is not entitled to record, register, or clear Contracts in accordance with the HKCC Rules but must procure that each Contract entered into by it is recorded, registered, and cleared on its behalf in accordance with the HKCC Rules by a General Clearing Participant.

Procedure on application

205. In applying for HKCC Participantship, or in applying to change the category of HKCC Participantship under which it is registered, any person so applying shall follow the procedures from time to time prescribed by the Board.

206. (a) The Board shall decide on each application.

(b) The decision as to whether or not a person should be admitted as an HKCC Participant or should be permitted to change its category of HKCC Participantship is entirely in the discretion of the Board.

207. No person shall be registered as an HKCC Participant unless it satisfies the financial resources requirements applicable to the category of HKCC Participantship from time to time prescribed by the Clearing House.

208. Every applicant shall apply for registration as an HKCC Participant under the same name as that under which it is registered as an Exchange Participant or, in the case of an application for registration as a General Clearing Participant which is a Registered Institution, the same name as that under which it is registered as such under the Ordinance. The applicant shall provide the Clearing House with such certifications, declarations, representations, undertakings, documents and further information as the Clearing House may require for dealing with the application.

209. (a) Every applicant shall be informed by notice in writing within 7 Business Days after the relevant meeting as to whether its application is approved or refused.

(b) A copy of every notice of approval shall be sent to the Exchange and the Commission.

(c) Any notice of approval issued pursuant to this Rule may be subject to such conditions as the Board thinks fit.

(d) If the Board refuses an application to admit as an HKCC Participant, the applicant may, within 14 Business Days after it is notified of the Board's decision, appeal in writing to the Participant Admission Appeals

Committee in accordance with Rules 227 to 244. The decision of the Participant Admission Appeals Committee will be final and conclusive.

210. An applicant approved pursuant to Rule 209 shall not be registered as an HKCC Participant unless and until it shall have satisfied all of the following conditions:-

(a) (deleted)

(b) paid in full its HKCC Participant's Deposit in Hong Kong dollars or in any other currency prescribed by the Clearing House from time to time (or such initial instalment on account of its HKCC Participant's Deposit as the Clearing House may stipulate);

(c) executed an undertaking in the prescribed form to be bound by the HKCC Rules and delivered to the Clearing House a certified copy of a board minute authorizing a director to sign the undertaking on behalf of the company;

(d) become registered as an Exchange Participant (unless it is a Registered Institution approved as a General Clearing Participant); and

(e) complied with any other conditions specified in the notice of approval.

211. The conditions in Rule 210 must be satisfied within the time specified in the notice of approval, or, if no such time is specified, within six weeks of such notice. If the conditions are not so satisfied and the period for satisfaction is not extended by the Board, the approval in question will lapse and the application will be deemed to have been refused.

212. Forthwith upon the later of the issue of a notice of approval or the satisfaction of the conditions in Rule 210, the Secretary will register the applicant as an HKCC Participant under the relevant category. Registration of an HKCC Participant on the register of HKCC Participants shall be proof of its participantship and the register of HKCC Participants shall be conclusive as to the information registered thereon.

213. The Clearing House will no longer issue any certificate of Participantship to a new HKCC Participant or re-issue any certificate of Participantship issued to an HKCC Participant prior to 1 January 2021 that has been defaced, lost or destroyed.

Continuing obligations of HKCC Participants

214. Every HKCC Participant must at all times during the currency of its HKCC Participantship:-

(a) comply with the Financial Resources Rules, unless it is a General Clearing Participant which is a Registered Institution, and where applicable the financial resources requirements made under Rule 215 or 215A;

(b) comply strictly with the HKCC Rules and any conditions stipulated in the notice of approval of its HKCC Participantship given pursuant to Rule 209;

(c) make such regular financial returns as may from time to time be prescribed by the Clearing House;

(d) keep in good standing its Exchange Participantship or, in the case of a General Clearing Participant which is a Registered Institution, keep in good standing its registration as a Registered Institution and demonstrate to the satisfaction of the Clearing House its capability to manage the portfolio of a defaulting NCP for which it clears;

(e) maintain and keep current any registration required by the Ordinance;

(f) observe any position limits imposed pursuant to these Rules or the Exchange Rules;

(g) comply with any procedures from time to time prescribed by the Board and relating to the business of the Clearing House;

(h) not sell, transfer, pledge, charge or otherwise encumber or deal with its HKCC Participantship;

(i) adhere strictly to the provisions of the Ordinance;

(ia) comply with any law, decree, rule, regulation, or order of any government, regulatory authority, competent authority, court or tribunal anywhere in the world, applicable to it or to its status, the conduct of its business and the performance of its obligations as an HKCC Participant, including, for the avoidance of doubt, all applicable laws, decrees, rules, regulations, and orders of any government, regulatory authority, competent authority, court or tribunal relating to the prevention of bribery, money laundering, tax evasion, financial crimes and terrorist financing;

(j) accept as final and obey at all times, the decisions and directions of the Board, the Managing Director and any other person or body of persons in the lawful execution of their powers pursuant or incidental thereto;

(ja) pay when due all amounts required by the Clearing House including but not limited to Gainer VA Flow Adjustment in the Loss Distribution Process, Termination Value Payable in the contract termination process,

Limited Recourse Interim CP Payable or Limited Recourse Final CP Payable upon a Clearing Service Termination Event and HKCC Default Interim CP Payable or HKCC Default Final CP Payable pursuant to section 8.1 of the Clearing House Procedures;

(k) meet all requirements to provide such HKCC Participant Additional Deposits, Assessments and replenishment of Reserve Fund Deposits as may from time to time be demanded by the Clearing House;

(ka) (deleted)

(l) unless exempted by the Clearing House (which exemption may be granted on such conditions as the Clearing House considers appropriate), have installed such computer equipment and software as may be specified by the Clearing House for gaining access to DCASS and CCMS and ensure that such computer equipment and software is operated and maintained in accordance with the requirements as prescribed from time to time by the Clearing House;

(m) provide the Clearing House with sufficient information so as to enable the Clearing House to determine whether any payments to be made by the Clearing House under these Rules are withholdable payments pursuant to the Tax Information Exchange Framework and to enable the Clearing House to meet any applicable obligations relating to the Tax Information Exchange Framework;

(n) notify the Clearing House of any change in the details supplied to the Clearing House at the time of admission and thereafter, including but not limited to anything relating to such HKCC Participant, its directors or employees which would render inaccurate, incomplete or superseded a statement or information previously furnished by such HKCC Participant to the Clearing House in connection with either (a) such HKCC Participant's application for admission to be an HKCC Participant or (b) the status of such HKCC Participant under the Tax Information Exchange Framework, the documentation previously furnished by such HKCC Participant on such status or the meeting by the Clearing House under clause (m) of any obligations relating to the Tax Information Exchange Framework; and

(o) keep all books, records or documents relating to each Contract registered in its name for the term of such Contract and for at least seven years following the termination of each such Contract.

214A. Every HKCC Participant shall:

(a) provide to the Clearing House:

(i) as soon as reasonably practicable subsequent to any

reorganisation of its corporate group, an updated group organisation chart;

(ii) on an annual basis, a list of each of its direct and indirect shareholders holding 10% or more of the share capital or voting rights of the HKCC Participant;

(iii) as soon as reasonably practicable following a change (direct or indirect) of 10% or more in the share capital or voting rights of the HKCC Participant (including any change in the interest of an existing shareholder who holds an interest (direct or indirect) of 10% or more in the share capital or voting rights of the HKCC Participant and any new shareholder acquiring an interest (direct or indirect) of 10% or more in the share capital or voting rights of the HKCC Participant), the relevant information setting out such change; and

(iv) within the time frame specified by the Clearing House, such information as the Clearing House may request from time to time including changes to its financial condition; and

(b) upon the Board's direction, provide the Exchange with any information requested by an exchange, clearing house, governmental, regulatory or other competent authority or an organization (whether within or outside Hong Kong) with which HKEX, the Clearing House or the Exchange has entered into an information arrangement or agreement or pursuant to the Tax Information Exchange Framework.

214B. (a) Every HKCC Participant which is an Exchange Participant must set Prescribed Risk Controls for itself (as Exchange Participant) and every General Clearing Participant must set Prescribed Risk Controls for each Exchange Participant for whom it clears, including its or such Exchange Participant's Authorized Persons and any other person who is allowed to trade through HKATS via its or such Exchange Participant's connection or any connection granted by the Exchange through it or such Exchange Participant.

(b) Every HKCC Participant must provide the Clearing House with such information as it may request from time to time to enable the Clearing House to assess whether the Prescribed Risk Controls set by the HKCC Participant are reasonable.

(c) Every HKCC Participant must notify the Clearing House forthwith upon the execution by any of its Authorized Persons of an order blocking or cancellation function using the HKATS Risk Functions or any other function as prescribed by the Clearing House from time to time.

(d) Every HKCC Participant is responsible for the Prescribed Risk Controls set by it. The Clearing House, the Exchange and a recognized exchange controller of the Clearing House shall in no case be liable for the sufficiency or effectiveness of the Prescribed Risk Controls set by an HKCC Participant or any failure or unavailability of, or error or defect in the HKATS Risk Functions, the HKCC Participant's connection to HKATS or any Prescribed Risk Controls-related reports, warnings or notifications that may be provided to the HKCC Participant by the Clearing House.

(e) Every HKCC Participant agrees to use the HKATS Risk Functions for the purpose of establishing, monitoring and implementing Prescribed Risk Controls only and not for any other purpose. Every HKCC Participant shall ensure that only its Authorized Person shall gain access to HKATS through the HKATS Risk Functions.

214C. Each General Clearing Participant which is a Registered Institution shall notify the Clearing House in writing without delay providing full particulars known to it of:

(a) any failure to maintain Tier 1 capital in an amount not less than that set out in Rule 215;

(b) a decrease in Tier 1 capital by more than 10% from the amount of Tier 1 capital shown on its most recent financial information as provided to the Clearing House pursuant to Rule 214D;

(c) any events or matters which relate to its clearing activities and exposure to general and financial risks as from time to time specified in these Rules or as the Clearing House may from time to time specify or notify to General Clearing Participants which are Registered Institutions;

(d) any material breach, infringement of or non-compliance with any provisions of these Rules, or where it has reason to suspect any such breach, infringement or non-compliance whether by itself, or any other persons acting on its behalf; and

(e) within the time frame specified by the Clearing House, submit to the Clearing House such statements, books, records, accounts, other documents or information which relate to its clearing activities or its exposure to general and financial risks as the Clearing House may reasonably demand, and shall promptly respond to all queries from the Clearing House.

214D. Each General Clearing Participant which is a Registered Institution must provide the following information to the Clearing House:

(a) audited financial statements and audited consolidated financial statements, including balance sheet and profit and loss accounts, with the auditor's report drawn up in accordance with applicable law and accounting standards within 120 days of the end of the General Clearing Participant's fiscal year;

(b) quarterly balance sheet and profit and loss statements that are signed by authorized signatory or signatories of such General Clearing Participant, drawn up in accordance with applicable law and accounting standards, within 30 days of its quarter-end date, together with evidence of signing authority and specimen signatures. Save and except for any changes made to a General Clearing Participant's list of authorized signatory(ies), a General Clearing Participant is only required to provide evidence of signing authority and specimen signatures for the first time its quarterly balance sheet and profit and loss statements are delivered to the Clearing House;

(c) copies of all financial returns made by a General Clearing Participant to its regulator as soon as reasonably practicable following such returns having been submitted to the relevant regulator; and

(d) such financial or other relevant information which relates to the General Clearing Participant's clearing activities or its exposure to general and financial risks, in addition to what is required by this Rule 214D, as may be requested by the Clearing House at its reasonable discretion from time to time.

Financial resources requirements

215. The minimum financial resources requirements applicable to HKCC Participants shall be those stipulated by the Clearing House from time to time by reference to, among other things, the nature and category of HKCC Participantship. Without prejudice to Rule 215A,

(I) every HKCC Participant (other than a General Clearing Participant which is a Registered Institution) shall maintain Liquid Capital of no less than:-

(a) its required Liquid Capital under the Financial Resources Rules; or

(b) the following amount, as appropriate:-

(i) HK$100,000,000 for a General Clearing Participant provided that if it has entered into valid clearing agreements with no more than five Non-Clearing Participants, an additional HK$20,000,000 for each Non-Clearing Participant after the fifth Non-Clearing Participant with which it has entered into a valid clearing agreement, subject to a maximum of HK$390,000,000;

(ii) HK$5,000,000 for a Clearing Participant,

whichever is greater; and

(II) every General Clearing Participant which is a Registered Institution shall maintain Tier 1 capital of not less than HK$390,000,000.

215A. Notwithstanding the Financial Resources Rules and Rule 215, the Clearing House may increase the requirements thereunder in respect of any HKCC Participant to suit the circumstances of a particular case or of HKCC Participants generally, if it deems that circumstances so justify. Such increased requirements may be subsequently varied by the Clearing House as various circumstances may exist which require the Clearing House to make ad hoc decisions. However, every HKCC Participant must still comply with the Financial Resources Rules.

215B. The Clearing House shall ensure that changes in the prevailing minimum financial resources requirements determined pursuant to Rule 215A are promptly notified to all relevant HKCC Participants in such manner as the Clearing House may specify.

215C. The Clearing House shall ensure that the Commission is notified of all prevailing minimum financial resources requirements as determined by the Clearing House pursuant to Rule 215A and shall notify the Commission immediately of any changes in the minimum financial resources requirements prevailing from time to time.

215D. If any discrepancy exists between the level of Liquid Capital or other financial resources requirements as set forth or determined by the Clearing House pursuant to these Rules and that set forth in the Financial Resources Rules, the level which is higher or more stringent shall prevail.

Transfer of HKCC Participantship

216. HKCC Participantship is personal to an HKCC Participant and shall not be transferable.

Resignation and reimbursement of HKCC Participants' Deposits and HKCC Participant Additional Deposits

217. (a) An HKCC Participant which wishes to resign its HKCC Participantship must give the Clearing House notice in writing of its intention to resign.

(aa) A resigning HKCC Participant's HKCC Participantship will be terminated at such time as may be specified by the Clearing House and notified to the resigning HKCC Participant.

(ab) The liability of a resigning HKCC Participant to provide Reserve Fund Deposits and to provide Assessments shall be limited in accordance with Rule 707D and the Clearing House Procedures.

(b) Two months after the effective date of termination of its HKCC Participantship, an HKCC Participant has a right to reimbursement of an amount equal to its HKCC Participant's Deposit, without interest, subject to the following provisions of this Rule.

(c) If all or part of the HKCC Participant's Deposit of the resigning HKCC Participant is applied towards any payment in accordance with Rule 706, the HKCC Participant's right to reimbursement shall be reduced by an equivalent amount and if any amount so applied is recovered from Defaulters under Rule 701(b) as determined on the effective date of termination of its HKCC Participantship, monies recovered from the Defaulter (less any uncovered costs and expenses of recovery) shall be repaid to the resigning HKCC Participant pursuant to Rule 701(b).

(d) (deleted)

(e) Until the effective date of termination of its HKCC Participantship, an HKCC Participant shall remain bound by all the provisions of these Rules.

(f) A Resignation Notice may only be revoked before the effective date of termination of its HKCC Participantship with the prior written consent of the Clearing House. The resigning HKCC Participant is required to submit a written request to the Clearing House giving reasons for the revocation and to fulfill its liabilities under the Rules as if the Resignation Notice had not been given to the Clearing House before the resignation can be revoked.

(g) Every HKCC Participant which has given a Resignation Notice:

(i) is under a duty immediately to submit to the Clearing House a program for the winding down of all positions held by it, by closing out, trading out or transferring all the open Contracts held or controlled by it and, except with the prior consent of the Clearing House, shall adhere to that program until the effective date of termination of its HKCC Participantship; and

(ii) shall not, except with the consent of, or as directed by, the Clearing House, create any open positions.

(h) The Clearing House may require any HKCC Participant which has given a Resignation Notice to close out a Contract pursuant to Rule 512, to settle a Contract pursuant to Rule 514, or to transfer a Contract pursuant to Rules 513 and 313 and may impose position limits or revise any position limits already imposed on such HKCC Participant.

(i) If the Clearing House is satisfied that an HKCC Participant is resigning its HKCC Participantship pursuant to a reorganisation of the group of companies of which the HKCC Participant is a member and in circumstances where another company in the same group is to become an HKCC Participant and to continue the business of the existing HKCC Participant in place of the existing HKCC Participant; and for this purpose a company shall be in the same group as another company if, in the opinion of the Clearing House, the ultimate beneficial owners of both companies are the same or substantially the same, then, upon written application of the resigning HKCC Participant, the Clearing House may issue a written notice exempting that HKCC Participant from compliance with paragraphs (g) and (h) of this Rule 217 and, if the Clearing House thinks fit, allowing the resigning HKCC Participant's Deposit and any Participant Additional Deposit to be credited to the new HKCC Participant with effect from a date stipulated by the Clearing House (such date not to be later than the date upon which the new HKCC Participant becomes an HKCC Participant). Any such notice may be issued on such conditions as the Clearing House thinks fit. The Clearing House shall have an absolute discretion to determine whether or not the ultimate beneficial ownership of companies is "the same or substantially the same" and the Clearing House's decision in relation to the same shall be final and binding.

(j) Reimbursement of HKCC Participant Additional Deposits will be made in accordance with the Clearing House Procedures.

(k) The Clearing House may deliver or return to HKCC Participant assets in such form and in such amount, as the Clearing House deems appropriate, equivalent to the assets recorded as part of its Reserve Fund Deposits Balance.

Transitional

218. The Board may prescribe transitional provisions applicable to the HKCC Participants which become HKCC Participants immediately upon, or which have already given a Resignation Notice to the Clearing House upon, the adoption of these Rules. In particular, the Board may prescribe rules or procedures whereby HKCC Participants' Deposits may be paid by instalments (including provisions whereby interest shall accrue on any overdue instalment).

Disclosure of information

219. All information in the possession of the Clearing House relating to an HKCC Participant shall be kept confidential by the Chairman, Managing Director, staff or officers of the Clearing House or HKEX having access to the same, except that:-

(a) those persons may disclose such information to their immediate senior officer of the Clearing House or HKEX, the Managing Director, or to the chief executive or the chief operating officer of HKEX for the time being appointed or deemed to have been appointed in accordance with the Ordinance or, as the context may require, their designees;

(b) those persons may disclose such information to any other officer of the Clearing House or HKEX who in the opinion of the Managing Director or Chairman needs to know the information;

(c) the Clearing House may disclose any information at any time:-

(i) to the Exchange;

(ii) at the discretion of the Managing Director, to the Commission;

(iii) to any insurer, insurance broker or banker in connection with the arrangement of support for the Reserve Fund;

(iv) to any exchange, clearing house, governmental, regulatory or other competent authority or any organization (whether within or outside Hong Kong) with which HKEX, the Clearing House or the Exchange has entered into an information sharing arrangement or agreement or pursuant to the Tax Information Exchange Framework;

(v) to any recognized exchange controller; and

(vi) to any company of which a recognized exchange controller which is the controller of the Clearing House is a controller.

(d) the Clearing House shall disclose information in response to a request from the Commission or if ordered by a court of competent jurisdiction so to do;

(e) the Clearing House may disclose information to any body or person responsible for determining disciplinary matters pursuant to these Rules or to whom the Clearing House may be required by Chapter V of these Rules to disclose information;

(f) the Clearing House may disclose and report any information at any time if so required pursuant to any requirement or request of any governmental, regulatory or other competent authority whether within or outside Hong Kong (including but not limited to the Commission, the Hong Kong Monetary Authority and the Inland Revenue Department of the Hong Kong government) or by or in accordance with the Tax Information Exchange Framework; and

(g) the Clearing House may disclose on an aggregated and/or anonymised basis any information concerning or in connection with an HKCC Participant at any time, including disclosure to specified persons or to the public if so required for the Clearing House to comply with any local or international regulatory standards applicable to it.

220. (a) The surveillance of HKCC Participants' compliance with the HKCC Rules is performed by the Compliance Department at the request of the Clearing House. Accordingly any and all information relating to an HKCC Participant's business, trading and affairs will, subject to the HKCC Rules, be exchanged with the Exchange and HKEX.

(b) Only the Managing Director, the Chairman or other senior staff of the Clearing House or HKEX authorized by the Managing Director or the Chairman shall be entitled to have access to information referred to the Clearing House by the Exchange or HKEX.

221. Except where (i) it is required by a court in Hong Kong or by applicable law, decree, regulation, rule, code, guidance, order, published practice or concession, judgment or decision of a governmental, regulatory or other competent authority so to do, or (ii) it is permitted under these Rules, neither the Clearing House nor any of its officers shall disclose any information to any person.

Commencement of clearing business

222. The Clearing House will notify HKCC Participants and the Commission of the date with effect from which a new HKCC Participant is entitled to register and clear Contracts by such means as the Clearing House thinks fit.

Limits on numbers

223. The Clearing House shall, at the direction of the Commission, prescribe a minimum number of HKCC Participants to apply in such manner and over such period as the Commission thinks fit; the Commission shall be entitled to issue directions pursuant to this paragraph if in its view the risk management (including management of the Reserve Fund) and other control systems of the Clearing House are deemed to be inadequate given the number of HKCC Participants.

Tax

224. The Clearing House shall make any payments due to an HKCC Participant net of any Withholding Tax (whether withheld by the Clearing House or any other parties), and the Clearing House shall have no obligation to gross-up any such payment or to pay any additional amount as a result of such Withholding Tax. The Clearing House shall be entitled to deduct Withholding Tax from payments to an HKCC Participant.

225. In the event that any payment made by an HKCC Participant to the Clearing House is subject to deduction or withholding (either at the time of such payment or in the future) for or on account of any Withholding Tax, then the HKCC Participant shall pay to the Clearing House an amount, in addition to the payment to which the Clearing House is otherwise entitled, necessary to ensure that the net amount actually received by the Clearing House (free and clear of any such deduction or withholding for or on account of any such Withholding Tax), will be equal to the full amount the Clearing House would have received in the absence of any such deduction or withholding.

226. Each HKCC Participant shall indemnify the Clearing House, the Exchange, and a recognized exchange controller which is the controller of the Clearing House and keep the Clearing House, the Exchange, and a recognized exchange controller which is the controller of the Clearing House indemnified from and against any loss, cost (including cost of enforcement), interests, liability (including any tax or other fiscal liability), claim, damage, cost or expenses of whatever nature which the Clearing House, the Exchange, and a recognized exchange controller which is the controller of the Clearing House incurred or suffered in connection with any actions taken by the Clearing House or any actions that the Clearing House is required to take to comply with any obligations relating to the Tax Information Exchange Framework (or fails to take relating to Withholding Tax obligations) with respect to such HKCC Participant.

Appeal to the Participant Admission Appeals Committee

227. The Participant Admission Appeals Committee shall have 3 members, and all 3 members must attend the hearing to form a quorum. The three members shall be:

(a) the chairman of the Participant Admission Appeals Committee who shall be an independent non-executive director of HKEX to be appointed by the chairman of HKEX;

(b) a director of the Board who is not involved in the day to day operations of the Clearing House to be appointed by the chairman of the Participant Admission Appeals Committee; and

(c) an independent non-executive director of HKEX to be appointed by the chairman of the Participant Admission Appeals Committee.

228. The Participant Admission Appeals Committee shall have a secretary to carry out any administrative functions.

229. If the Board refuses an application to admit as an HKCC Participant, the applicant may appeal to the Participant Admission Appeals Committee by

service of a notice in writing to the secretary within 14 Business Days of being notified of the Board's decision.

230. A notice of appeal shall set out the name of the appellant, the decision appealed against, the grounds of appeal, all material facts and attaching copies of all documents relevant to the appeal.

231. The appellant shall provide the Clearing House with all information for the application to admit as an HKCC participant before seeking to appeal against the rejection.

232. The appellant shall not seek to present to the Participant Admission Appeals Committee new information or evidence that was not previously submitted with its application to admit as an HKCC Participant.

233. If the secretary upon receipt of the appeal application discovers that the appellant seeks to adduce any new information, the secretary shall request the appellant to withdraw its appeal application and re-submit an application to admit as an HKCC Participant.

Participant Admission Appeals Proceedings by the Participant Admission Appeals Committee

234. The Participant Admission Appeals Committee shall fix a date for the hearing within 30 Business Days after receipt of the appellant's written application together with the information required under Rule 230 and the secretary shall notify the appellant of the date of hearing.

235. A notice under the above paragraph shall set out the time, date and place of the hearing and shall be delivered to the business address of the appellant by hand or by registered mail no later than 14 Business Days before the hearing.

236. The hearing will be held in private.

237. The appellant can attend the hearing by the personal attendance of an appropriate and authorised representative.

238. The appellant shall have the right to be represented by a solicitor and/or counsel at the hearing before the Participant Admission Appeals Committee. If the appellant wishes to be represented by a solicitor and/or counsel at the hearing before the Participant Admission Appeals Committee, it shall notify the secretary of the name of the solicitor and/or counsel representing it at least 7 Business Days before the hearing takes place.

239. The Participant Admission Appeals Committee may seek external legal representation at the hearing.

240. At least 3 Business Days before the hearing, the appellant shall provide the secretary with a list of all persons attending the hearing and the respective capacity in which such persons will attend the hearing.

241. If the appellant fails to attend the hearing before the Participant Admission Appeals Committee, the Participant Admission Appeals Committee hearing may proceed in the absence of the appellant and dispose of the matter in whatever manner as it sees fit.

242. The appellant and/or its legal representatives may make an oral presentation or submission before the Participant Admission Appeals Committee in the hearing. The Participant Admission Appeals Committee may ask any persons attending the hearing any questions relevant to the admission application.

243. At any hearing, the Participant Admission Appeals Committee may, at its full discretion, admit or reject any evidence adduced, whether oral or written, and attach such weight to the evidence as the Participant Admission Appeals Committee considers appropriate in its discretion.

244. The Participant Admission Appeals Committee will consider the evidence, written and oral, presented to it in coming to its decision. The secretary shall notify the appellant in writing of the decision of the Participant Admission Appeals Committee as soon as practicable and in any event no later than 30 Business Days after the hearing. The decision of the Participant Admission Appeals Committee shall be final and conclusive.

CHAPTER III

REGISTRATION, CLEARING, RISK

General

301. (a) Every HKCC Participant shall at all times procure that every Contract transacted by it or on its behalf or which it has agreed to clear shall be registered and cleared in accordance with the provisions of the HKCC Rules.

(b) The Board may from time to time prescribe procedures to be followed by HKCC Participants in the registration and clearing of Contracts.

302. The Clearing House shall be open for business whenever any of the Markets of the Exchange are open for business, including on public holidays.

303. – 308. (deleted)

Timing of registration

308A. (a) Unless otherwise specified in the Exchange Rules, these Rules or the Clearing House Procedures, the registration of a Contract validly executed through HKATS shall occur immediately upon the recording of such Contract in accordance with the Exchange Rules. The parties to such registration will be determined as follows:

(i) where the original parties to a Contract are General Clearing Participants or Clearing Participants, that Contract will be registered in the respective names of the relevant HKCC Participants; or

(ii) where an original party to a Contract is a Non-Clearing Participant, that Contract will be registered in the name of the General Clearing Participant with which that Non-Clearing Participant has executed a Clearing Agreement and which has been designated by that Non-Clearing Participant to clear the Contract and the General Clearing Participant will be treated for all purposes as the party to the Contract for registration and novation purposes.

(b) The registration of a Contract executed during the Pre-Market Opening Period of a Market shall not occur until the opening of the Market.

(c) The registration of a Block Trade executed through HKATS shall not occur until the Clearing House is satisfied that the Block Trade recorded in the Transaction Register of HKATS is a valid Block Trade and all criteria applicable to the Block Trade, including but not limited to the payment of any Special Block Trade Margin, have been satisfied. Unless

an HKCC Participant receives any oral or written notice from the Exchange or the Clearing House that a Block Trade is not valid or not all criteria have been satisfied or the Block Trade shall not be registered for any other reason, the Block Trade shall be deemed to have been registered with the Clearing House upon the recording of such Block Trade in the Transaction Register of HKATS. The Exchange will endeavour to notify the HKCC Participant of any issue concerning any criteria set forth in Exchange Rule 815A within 30 minutes of the execution by the HKCC Participant of the Block Trade.

(d) Notwithstanding any provisions to the contrary in the Exchange Rules, these Rules or the Clearing House Procedures, the Clearing House shall have absolute discretion to determine the acceptance or refusal for registering and clearing any Contract executed through HKATS or otherwise. The Clearing House shall give notice to the Exchange and to the relevant HKCC Participants of any decision to refuse to register and clear any Contract. Any such refusal by the Clearing House shall not affect any then existing open positions in the relevant Exchange Contract, which shall continue to be subject to these Rules and the Clearing House Procedures.

(e) In respect of Contracts which are not executed through HKATS but which arise from the exercise of Physically Settled Options on Futures Contracts, the registration of such Contracts shall occur immediately upon the exercise of the Physically Settled Options on Futures Contracts as described in section 2A.5 of the Clearing House Procedures.

308B. (deleted)

Dispute resolution

308C. All matters relating to the resolution of disputes in respect of Contracts may be referred to and performed by the Exchange in accordance with the Exchange Rules and Procedures. For the avoidance of doubt, in this regard the Exchange shall be authorised to interpret the HKCC Rules and render determinations in respect thereto. The Clearing House shall recognise and where applicable enforce any such determinations rendered by the Exchange and HKCC Participants shall be bound thereby.

Legal effect of registration

309. After registration of every Contract (other than a Contract registered pursuant to Rule 308A(e)), the registered Contract shall be novated and there shall arise two separate Contracts:-

(a) one of them subsisting between the HKCC Participant registered as the Buyer of the Contract and the Clearing House in lieu of the original counterparty to such HKCC Participant; and

(b) the other of them subsisting between the HKCC Participant registered as the Seller of the Contract and the Clearing House in lieu of the original counterparty to such HKCC Participant,

each of these two separate Contracts being identical to the registered Contract except as to the parties thereto and except as provided in Rules 310 and 311 so that the obligations and rights of the parties to the two new Contracts shall entirely supersede and replace the obligations and rights of the parties to the novated Contract and (in particular) so that the Clearing House shall be bound by the terms of such new Contracts as principal.

After registration of every Contract arising from the exercise by an HKCC Participant of a Physically Settled Options on Futures Contract pursuant to Rule 308A(e), the HKCC Participant and the Clearing House shall continue to be bound by the terms of the Contract as principal, and for the avoidance of doubt, such Contract shall be a market contract for the purposes of the Securities and Futures Ordinance (Cap 571 of the Laws of Hong Kong).

309A. In respect of Contracts in Physically Settled Metal Futures Contracts which have been novated to the Clearing House pursuant to Rule 309 and which have the same Final Settlement Day, following:

(a) the completion of the Matching Process described in section 2A.3.2.1(c) of the Clearing House Procedures in respect of such Physically Settled Metal Futures Contracts;

(b) the giving of notice of the results of such Matching Process and relevant settlement details by the Clearing House to the relevant HKCC Participants as described in section 2A.3.2.1(c)(vii) of the Clearing House Procedures;

(c) receipt by the Clearing House of notice from the relevant Approved Depository that the Approved Depository has successfully earmarked the required quantity of Deliverable Metal to be delivered by a matched Seller to the corresponding matched Buyer pursuant to section 2A.3.2.2(b) of the Clearing House Procedures; and

(d) receipt by the Clearing House of payment to the prescribed settlement account of the amount of the payment obligation which is payable by the matched Buyer to the corresponding matched Seller in respect of the Matched Contract pursuant to section 2A.3.2.3(a) of the Clearing House Procedures,

any such Contracts arising pursuant to Rule 309 between (i) the relevant Buyer or Buyers and the Clearing House and (ii) the Clearing House and the relevant Seller or Sellers (each a "**Pending Contract**") shall immediately be novated without further notice to or action by any party, with the result that new

contracts (each a "**Re-novated Contract**") shall arise directly between the matched Buyers and the corresponding matched Sellers on the terms and as further described in section 2A of the Clearing House Procedures.

Under each Re-novated Contract:

(i) all rights and obligations between the Clearing House and the relevant Buyer or Seller, as the case may be, under each relevant Pending Contract shall be simultaneously discharged and replaced by the rights and obligations between the relevant Buyer and relevant Seller under the corresponding Re-novated Contract; and

(ii) thereafter the Clearing House shall be fully and finally released and discharged from all its obligations and liabilities as a central counterparty to the relevant Buyer and Seller under each relevant Pending Contract.

For the avoidance of doubt, a Re-novated Contract shall be a market contract for the purposes of the Securities and Futures Ordinance (Cap 571 of the Laws of Hong Kong).

310. The obligations of the Clearing House to HKCC Participants under a Contract registered pursuant to Rule 308A(e) or arising pursuant to Rule 309 and for the time being extant shall be limited exclusively to:-

(a) amounts received by the Clearing House from HKCC Participants on the settlement of any Contract including variation adjustments and any underlying commodity or instrument;

(b) amounts recovered by the Clearing House from any Defaulting HKCC Participant (whether on enforcement of non-cash collateral, realization of assets or otherwise);

(c) the amount from time to time standing to the credit of the Reserve Fund, including the relevant amount received under Rules 707A and 709, which is available to support the Clearing House's obligations under that particular Contract or class of Contract;

(d) the amount received pursuant to any claim under any insurance policy taken out by the Clearing House for the purpose of providing financial resources to support the Reserve Fund and which is available to support the Clearing House's obligations under that particular Contract or class of Contract;

(e) the amount of any guarantees or facilities available to the Clearing House and arranged expressly for the purpose of providing financial resources to support the Reserve Fund and which are available to

support the Clearing House's obligations under that Contract or class of Contract; and

(f) any HKCC Participant Additional Deposits Credit which may be made available and utilized by HKCC Participants and which, if actually applied to satisfy any liabilities of the Clearing House as a result of the default of a Defaulting HKCC Participant, shall be repayable by the Defaulting HKCC Participant to the Clearing House.

No other assets of the Clearing House shall be available to meet any such obligation.

For the avoidance of doubt it is hereby declared that to the extent that the aggregate of the funds or assets of the Clearing House referred to in sub-paragraphs (a) to (f) above are insufficient at any time to meet the aggregate of the Clearing House's liabilities to HKCC Participants under all Contracts subsisting at any time, each HKCC Participant to which the Clearing House is liable shall, subject to Rules 515A, 545 to 554, 710 to 713 and 1101 to 1103, only be entitled to receive payment pro rata according to the amount due to it as compared with the aggregate due to all HKCC Participants. Without prejudice to the foregoing:

(i) in respect of the Clearing House's obligations to deliver the underlying commodity or instrument under Physical Delivery Contracts, to the extent that the Chairman determines that it is not possible or reasonably practicable to deliver the underlying commodity or instrument, the Clearing House's obligations shall be to make money compensation to HKCC Participants concerned in substitution for the delivery of the underlying commodity or instrument in whole or in part and in such amount as the Chairman may in his absolute discretion considers appropriate in consultation with the Commission by reference to the market value of such underlying commodity or instrument at the time of payment of compensation by the Clearing House (or the value at such other time as the Chairman shall, in consultation with the Commission, consider fair and reasonable in the circumstances). The money compensation shall be in such currency or currencies (whether in the Settlement Currency, the Currency of the Contract or otherwise) and at such conversion rate(s) as the Clearing House may in its absolute discretion determine to be fair and reasonable, taking into account all relevant circumstances as it may consider appropriate; and

(ii) in respect of the Clearing House's obligations to make payment to HKCC Participants under Contracts in the Settlement Currency, to the extent that the Clearing House determines that it is not possible or reasonably practicable to make payment in such Settlement Currency, the Clearing House's obligations shall be to make payment, 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,

taking into account all relevant circumstances as it may consider appropriate.

Subject to Rules 515A(e), 555, 714 and 1104, the Clearing House shall remain liable on all Contracts which remain to be settled by the Clearing House, but payment of the balance of any amounts due and delivery of the balance of any underlying commodity or instrument (or payment of money compensation in substitution therefor) shall only be made as and when, and to the extent that, the amounts, funds or assets referred to in sub-paragraphs (a) to (e) are subsequently replenished. The Clearing House shall only exercise its powers to defer making payment to HKCC Participants under this Rule in consultation with the Commission.

Terms of Contracts where the Clearing House is counterparty

311. Each Contract registered pursuant to Rule 308A(e) or arising pursuant to Rule 309 shall incorporate the following terms:-

(a) the Clearing House shall have no liability for any brokerage, commission or levy;

(b) the Clearing House shall have no liability for consequential loss of any kind;

(c) in every case the HKCC Participant which is a party to such a Contract shall deal with the Clearing House as principal and not as agent, and the Clearing House shall take no legal notice of any agency or other arrangement whether or not it has actual notice of the same. In particular (but without limitation), the Clearing House shall have no contractual relationship with any Non-Clearing Participant or any client of an HKCC Participant. Accordingly the Clearing House shall be entitled to treat all monies and non-cash collateral paid to it by an HKCC Participant as monies and non-cash collateral paid to it by a principal, and no monies or non-cash collateral in the hands of the Clearing House shall be impressed with a trust or other equitable interest in favour of any person, and payment by the Clearing House to an HKCC Participant shall constitute a good and sufficient discharge of the indebtedness represented thereby; and

(d) the Clearing House shall not be responsible for the accuracy of any Official Settlement Price or Final Settlement Price as the case may be or other settlement price calculated by the Exchange or any other person including the Clearing House in the case of any Contract.

Fees, etc.

312. (a) On registration of each Contract under these Rules, HKCC Participants shall pay:-

Clearing fees

(i) to the Clearing House for its own account the fee(s) from time to time prescribed by the Clearing House; and

Exchange fees

(ii) to the Clearing House for transmission to the Exchange all such fees, levies and other dues as HKCC Participants are required to pay under the Exchange Rules, the Ordinance or any other relevant ordinances.

(b) Every HKCC Participant shall pay to the Clearing House such other fees in respect of accommodation charges, delivery, exercise, settlement, its connection to or use of DCASS or CCMS, or other matters as the Clearing House may from time to time prescribe.

(c) The fees imposed by the Clearing House on or after the Scheme Effective Date (as defined in the Exchange Rules) in its capacity as a recognized clearing house within the meaning of the Ordinance shall, unless otherwise specified in these Rules, be specified in Appendix A.

(d) In addition to the fees specified in these Rules, the Clearing House reserves the right to charge HKCC Participants for any disbursements and out-of-pocket expenses it incurs in the delivery of services and facilities to HKCC Participants. Such disbursements and out-of-pocket expenses may or may not be specified in Appendix A or these Rules.

Transfer of Contracts after registration

313. (a) Registered Contracts are not transferable except in accordance with this Rule.

(b) Where a Contract made by one HKCC Participant for another HKCC Participant has been registered in the name of the former, or where an HKCC Participant becomes compelled by reason of Rule 508(a), Rule 518(a)(iv), Rule 519(c), Rule 606 or Rule 606B to transfer a Contract registered in its name and another HKCC Participant agrees to accept a transfer of that Contract, the Clearing House may at its absolute discretion and at the joint request of both such HKCC Participants and subject to any conditions it may think fit to impose, transfer the registration of the Contract into the name of the second HKCC Participant.

(c) Without prejudice to paragraph (a) or paragraph (b) above, the Clearing House may at any time and for any reason transfer the registration of a Contract from the name of one HKCC Participant to the name of another HKCC Participant or from one account of an HKCC Participant to another account of such HKCC Participant, and may do so in its absolute discretion and subject to any conditions it may think fit to impose, subject only to obtaining the consent thereto of both HKCC Participants (or, in the case of a transfer between a single HKCC Participant's accounts, the HKCC Participant concerned) and of the Exchange and to any conditions imposed by the Exchange.

(d) A transfer made pursuant to paragraph (b) or (c) above (other than a transfer between a single HKCC Participant's accounts) will take effect by means of a novation of the Contract between the transferor, the transferee and the Clearing House. Every transfer made pursuant to paragraph (b) or (c) above will be recorded in a statement or summary issued by the Clearing House to the transferor and the transferee (or, in the case of a transfer between a single HKCC Participant's accounts, to that HKCC Participant). With effect from the issue of such statement or summary, the transferee (if any) shall be deemed for all purposes of these Rules to be a principal party to the Contract to the exclusion of the transferor.

Clearing agreements

314. (a) Each General Clearing Participant shall enter into a Clearing Agreement in such form and containing such provisions as may from time to time be required by the Clearing House with each Non-Clearing Participant for which it proposes to clear trades. Except as otherwise prescribed by the Clearing House, no General Clearing Participant may clear trades for a Non-Clearing Participant until such Clearing Agreement has been signed by both parties.

(b) Each General Clearing Participant shall notify the Clearing House forthwith on the execution of each Clearing Agreement, identifying the name of the relevant Non-Clearing Participant. Such notification shall be in such form as the Clearing House may from time to time specify. The General Clearing Participant shall, at the request of the Clearing House, supply it with a certified copy of the executed Clearing Agreement.

(c) Each General Clearing Participant shall be responsible for all the trades that each of its Non-Clearing Participants has concluded and designated to it for clearing and a General Clearing Participant shall not be entitled to decline to verify or (except in the case of a Contract transferred in accordance with these Rules) otherwise refuse to accept registration, as

the case may be, in its name by the Clearing House of each relevant Contract made by the relevant Non-Clearing Participant.

(d) Each General Clearing Participant shall notify the Clearing House forthwith of any failure of a Non-Clearing Participant to meet its obligations under the Clearing Agreement, in which case the Clearing House may disclose such information to any other General Clearing Participant of the Non-Clearing Participant. Such notification shall be in such form as the Clearing House may from time to time specify.

315. (deleted)

316. (deleted)

317. The form of Clearing Agreement must facilitate the performance of, and be consistent with, the obligations of the General Clearing Participant under these Rules.

318. (deleted)

319. (a) A General Clearing Participant shall give prior written notice to the Clearing House if it or any of its Non-Clearing Participants intends to terminate the Clearing Agreement between them, unless the Non-Clearing Participant has already given notice to terminate the Clearing Agreement to the Exchange in accordance with the Exchange Rules.

(b) When the Clearing House receives a termination notice from the General Clearing Participant or when HKCC receives notification from the Exchange that notice to terminate the Clearing Agreement had been given by a Non-Clearing Participant, the Clearing House will issue a confirmation of termination to the General Clearing Participant (with a copy to the Non-Clearing Participant concerned) in writing and unless and until written acknowledgement has been issued to the General Clearing Participant, the Clearing Agreement shall be treated as valid, binding and effective by the Clearing House for the purposes of these Rules notwithstanding any provision to the contrary in the Clearing Agreement and/or the termination notice from the General Clearing Participant or the Non-Clearing Participant and the General Clearing Participant shall continue to be bound by the Clearing Agreement and responsible for all the Contracts that such Non-Clearing Participant has concluded and designated to the General Clearing Participant for clearing.

(c) Notwithstanding the above, the Clearing Agreement is deemed to be terminated when the General Clearing Participant has resigned or is suspended or revoked from HKCC Participantship or when its access to DCASS and/or CCMS is suspended or revoked under the HKCC Rules.

(d) The termination of the Clearing Agreement between a General Clearing Participant and a Non-Clearing Participant will not affect any of their rights or liabilities arising out of matters which have taken place prior to the termination of the Clearing Agreement and for the purpose of settlement of any such rights or liabilities of the General Clearing Participant and Non-Clearing Participant, the Clearing House may continue to treat the General Clearing Participant as the General Clearing Participant of the Non-Clearing Participant.

Holiday Trading Exchange Contracts

320. The Clearing House may in its absolute discretion specify, and shall notify HKCC Participants of, the clearing arrangements applicable to Holiday Trading Exchange Contracts from time to time.

321. An HKCC Participant that wishes to clear Holiday Trading Exchange Contracts shall apply to the Clearing House and comply with such terms, conditions and requirements as prescribed by the Clearing House from time to time, including but not limited to:

(a) having an arrangement with a Designated Bank, an Approved Settlement Bank, or a Prime Settlement Bank for settlement on all Trading Days, including Trading Days which are public holidays in Hong Kong; and

(b) being able to comply with any margin and other payment obligations required by the Clearing House on a Trading Day which may be a public holiday in Hong Kong.

322. An HKCC Participant which is not approved by the Clearing House to clear Holiday Trading Exchange Contracts is prohibited from clearing Holiday Trading Exchange Contracts on all Trading Days, regardless of whether such Trading Days are Business Days.

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.

CHAPTER V

LIMITS AND DEFAULTS

Position limits

501. The Clearing House may at any time in its absolute discretion:-

(a) prescribe the maximum number or value of long or short open Contracts in respect of any of the Markets operated by the Exchange in respect of any or all futures expiries or option series which may at any time be registered in the name of all HKCC Participants or any particular HKCC Participant; or

(b) regulate or limit the net long or net short position in any of the Markets operated by the Exchange which HKCC Participants or any particular HKCC Participant may hold, or control in respect of any or all futures expiries or option series over such a period as the Clearing House may specify.

502. The Clearing House may at any time impose, increase, reduce or remove any position limits pursuant to Rule 501 by giving notice to the Exchange and the HKCC Participant in question. Notice may be given verbally or in writing as the Clearing House considers appropriate in the circumstances and any imposition, removal or change in position limits so notified shall take effect as stipulated in the notice.

503. In deciding whether or not to exercise its powers pursuant to Rule 501, the Clearing House shall have regard to the minimum financial resources requirement applicable to such HKCC Participant, the Liquid Capital of the HKCC Participant or, in the case of a General Clearing Participant which is a Registered Institution, the Adjusted Capital of such HKCC Participant, the volume of trading currently conducted by the HKCC Participant and whether the HKCC Participant is a General Clearing Participant or a Clearing Participant, and, if the latter, whether it has been given permission to clear for other Clearing Participants.

504. If the Clearing House forms the view that the position limits imposed under Rule 501 might be relaxed or lifted if an HKCC Participant's level of Liquid Capital or, in the case of a General Clearing Participant which is a Registered Institution, Adjusted Capital, were to be increased, it shall notify the HKCC Participant of the same in order to give the HKCC Participant an opportunity to reorganize its affairs and may stipulate the position limits which apply pending such reorganization.

505. The Clearing House may at any time increase, reduce or remove any position limits imposed pursuant to Rule 501 by giving five Business Days' notice in

writing to the Exchange and the HKCC Participant in question, or, in cases where the Clearing House thinks the same necessary or expedient, by giving fewer than 5 Business Days' notice in writing to the Exchange and the HKCC Participant in question.

506. The Clearing House shall not be required to give any reasons for its decision to impose, increase, reduce or remove any position limits pursuant to Rules 501 and 502.

506A. Notwithstanding the above, any position limit from time to time imposed by the Clearing House on an HKCC Participant pursuant to Rule 501 or 502 in respect of the maximum number or value of long or short open Contracts of a particular Market operated by the Exchange shall be, at all times, at least as stringent as that imposed by the Exchange under the Rules of the Exchange.

Position limits and reporting requirements imposed by the Exchange or the Commission

507. (a) The Clearing House will, on receipt of a written request from either the Exchange or the Commission, impose position limits of the level and nature requested by either of them (including speculative position limits) on such HKCC Participants as the Exchange or the Commission may designate in such request.

(b) Without prejudice to the power of the Clearing House to impose position limits on HKCC Participants pursuant to Rules 501, 502 and 507(a), no person shall hold or control positions in any Exchange Contract that exceed the position limit prescribed from time to time by the Exchange in the relevant Contract Specifications unless it has been authorized under the Exchange Rules or by the Commission under subsection 4(3) of the Securities and Futures (Contracts Limits and Reportable Positions) Rules to hold or control futures and/or options in excess of such prescribed position limits and in the latter case, notified the Exchange in writing of such authorization from the Commission. Unless so authorized, every HKCC Participant which is an Exchange Participant shall comply with the position limits prescribed therein, and every HKCC Participant which is not an Exchange Participant shall be required to comply with the position limits prescribed therein as if it were an Exchange Participant.

(c) Every HKCC Participant which is an Exchange Participant shall comply with the relevant reporting requirements for Large Open Positions prescribed under the Rules of the Exchange, and every HKCC Participant which is not an Exchange Participant shall be required to comply with the relevant reporting requirements for Large Open Positions prescribed therein as if it were an Exchange Participant.

Exceeding position limits

508. (a) If an HKCC Participant exceeds any position limit imposed by the Clearing House under Rule 501 or Rule 507, the Clearing House shall be entitled to require that HKCC Participant to close out or to effect the transfer to another HKCC Participant of such number of open positions as will in the opinion of the Clearing House result in the HKCC Participant complying with the position limits.

(b) If an HKCC Participant fails to comply with any requirement of the Clearing House to close out or transfer open positions pursuant to this Rule, the Clearing House may transfer such open positions on the HKCC Participant's behalf in accordance with Rules 313 and 513 or close out such open positions on the HKCC Participant's behalf in accordance with Rule 512.

(c) Where an HKCC Participant (or, in the case of a General Clearing Participant, any Non-Clearing Participant for whom it clears) has failed to comply with any requirement of the Chief Executive of the Exchange to close out or transfer open positions pursuant to Rule 631 or Rule 632 of the Exchange Rules and the Clearing House receives a request from the Exchange to that effect, the Clearing House shall close out or transfer such open positions as may be directed by the Chief Executive of the Exchange on behalf of the Defaulting HKCC Participant (or, in the case of a General Clearing Participant, require the General Clearing Participant to close out or transfer to another HKCC Participant such open positions, and if it fails to comply with such requirement, the Clearing House shall close out or transfer such open positions on the General Clearing Participant's behalf), in accordance with Rules 313, 512 and 513.

(d) A HKCC Participant shall indemnify the Clearing House, the Exchange, and a recognized exchange controller which is the controller of the Clearing House in respect of any costs, loss or other expenses arising by reason of any Contract being closed out or transferred by the Clearing House on the HKCC Participant's behalf pursuant to this Rule.

(e) The exercise by the Clearing House of any right pursuant to this Rule is without prejudice to and does not preclude the Clearing House from exercising any other right (including any powers under Rule 510) in respect of any default by an HKCC Participant.

Events of default

509. Any of the following events or circumstances shall constitute an event of default upon its occurrence or if the Clearing House in its absolute discretion determines that it has occurred:

(a) (deleted)

(b) a petition is presented or a proceeding is commenced or an order is made or an effective resolution is passed or any other step is taken by any person for the winding-up, re-organisation, reconstruction, amalgamation or dissolution of an HKCC Participant or for the appointment of a provisional liquidator, liquidator, receiver or similar officer over all or any part of the HKCC Participant's business or assets;

(c) an HKCC Participant compounds with its creditors;

(d) an HKCC Participant is unable to pay its debts as they fall due;

(e) an HKCC Participant fails to comply with any of the following:

(i) any provision of the Financial Resources Rules or any financial resources requirement prescribed by the Clearing House;

(ii) any position limits imposed by the Clearing House or the Exchange;

(iii) any payment obligations in respect of its HKCC Participant Additional Deposit any Assessments demanded by the Clearing House pursuant to Rule 707A or any replenishment of Reserve Fund Deposits pursuant to Rule 707B;

(iv) margin calls or demands for variation adjustment, mandatory intra-day variation adjustment and margin, additional margin or intra-day variation adjustment;

(v) any payment obligations in respect of the Gainer VA Flow Adjustment pursuant to Rule 711;

(vi) any payment obligations in respect of the Termination Value Payable pursuant to section 2.13 of the Clearing House Procedures;

(vii) any payment obligations in respect of the Limited Recourse Interim CP Payable or Limited Recourse Final CP Payable pursuant to section 7.1 of the Clearing House Procedures; or

(viii) any payment obligations in respect of the HKCC Default Interim CP Payable or HKCC Default Final CP Payable pursuant to section 8.1 of the Clearing House Procedures;

(f) an HKCC Participant defaults in any of its delivery or payment obligations in relation to the settlement of a Physical Delivery Contract

including, without limitation, the payment of any Cash Compensation and non-delivery charge;

(g) an HKCC Participant's Exchange Participantship has been suspended or revoked by the Exchange or, in the case of a General Clearing Participant which is a Registered Institution, its registration as a Registered Institution has been suspended or revoked by the Commission or is no longer valid for any reason;

(ga) failure by a General Clearing Participant which is a Registered Institution to demonstrate to the satisfaction of the Clearing House its capability to manage the portfolio of a defaulting NCP for which it clears. Such capability might include, for example, having a valid, binding and effective Clearing Agreement with more than one NCP for which it provides clearing services which permits such General Clearing Participant to close out trades of an NCP in the event of a default by such NCP under the Exchange Rules;

(h) an HKCC Participant is charged with or convicted of any offence relating to fraud or dishonesty or any act of bad faith;

(i) in respect of an HKCC Participant which is also a participant or member of any clearing and settlement system operated by HKEX or its affiliates:

(i) failure to meeting any obligation owed by it to the central counterparty or operator of such system;

(ii) breach of the rules or terms of participation or membership of such system; or

(iii) declaration of default by, or suspension or expulsion from participation or membership of such system by the central counterparty; and

(j) the Clearing House becomes aware of circumstances affecting a client, associate or affiliate of a HKCC Participant which might, in the opinion of the Clearing House, result in that HKCC Participant being unable to meet any of its obligation under these Rules or any Contract to which it is a party.

509A. Notwithstanding Rule 509(f) and in the absence of any other event of default set forth in Rule 509, if a Seller fails in any of its delivery obligations in relation to a Physically Settled Metal Futures Contract but continues to perform all of its payment obligations in relation to the Physically Settled Metal Futures Contract and all of its delivery and payment obligations under all its other Contracts, the Clearing House may in its discretion determine that such failure does not constitute an Event of Default and instead require the Seller to settle its delivery

obligations by paying Cash Compensation to the affected Buyer and the non-delivery charge to the Clearing House and to return any amount paid by the Buyer to the Clearing House (in accordance with Rule 309A(d)).

Powers of the Chairman on default

510. Notwithstanding any other provision of these Rules, the Clearing House may by decision of the Chairman declare an HKCC Participant to be a Defaulter and/or take any of the following actions or such other action as the Chairman may think fit against the HKCC Participant upon the occurrence of an event of default without the need for any prior notice to or consent of the HKCC Participant:

(a) to close out any or all of the open Contracts registered in that HKCC Participant's name;

(b) to settle any or all of the open Contracts registered in that HKCC Participant's name;

(ba) to sell any or all of the open Contracts registered in that HKCC Participant's name by auction and/or private arrangement on-market or off-market and to appoint any person as its agent to conduct the sale;

(c) to suspend its HKCC Participantship on such terms and for such period as the Chairman shall think fit;

(ca) to prohibit or restrict the HKCC Participant from having access to and/or using any or all of the Clearing House's facilities, including the suspension, withdrawal or revocation of the right of the HKCC Participant's access to DCASS and/or CCMS on such terms and for such period as the Chairman shall think fit;

(d) without prior written notice to the HKCC Participant and without having to obtain from the HKCC Participant or any other person any power of attorney, consent or document, to realize any non-cash collateral delivered by the HKCC Participant pursuant to Rule 404 by public or private sale and to do such acts and things and execute such documents as the Clearing House may consider necessary or expedient for such purpose and (subject to Rule 415(b) and Rule 416) to apply the proceeds of any such non-cash collateral in or towards the satisfaction of any amount due to the Clearing House;

(e) subject to Rule 415(b) and Rule 416 to apply amounts standing to the credit of any account of the HKCC Participant in or towards meeting any liability of the HKCC Participant to the Clearing House;

(f) to transfer any open Contracts registered in the name of the HKCC Participant into the name of another HKCC Participant who agrees to accept such transfer, and to cause to be paid or transferred any margin, variation adjustments or non-cash collateral in respect of such Contracts to that other HKCC Participant;

(g) subject to Rule 415(b) and Rule 416 to apply any funds or the proceeds of any non-cash collateral delivered by the HKCC Participant pursuant to Rule 404 in or towards the satisfaction of any amount due to the Clearing House;

(h) to hedge the risk posed by any or all of the open Contracts registered in the name of the HKCC Participants by appointing any person to take appropriate positions via auction and/or private arrangement or by the Clearing House taking appropriate positions directly in any markets, including those Markets operated by the Exchange, on behalf of such Defaulting HKCC Participant;

(i) to regulate or limit the net long or net short position which the HKCC Participant may hold or control or to prescribe the maximum number or value of long or short open Contracts which may be registered in the name of the HKCC Participant in respect of any of the Markets operated by the Exchange in respect of any or all futures expiries or option series;

(j) to refer the matter to the Compliance Department for instigating disciplinary action against the HKCC Participant in accordance with Rule 520;

(k) to execute a buy-in or effect a borrowing, or to instruct a designated agent to execute a buy-in or effect a borrowing of the underlying commodity or instrument up to the quantity required to be delivered by the HKCC Participant and to disclose the name and other details of the HKCC Participant and the details of the relevant Contracts to such designated agent as the Chairman deems fit; or

(l) to purchase or borrow, or to instruct a designated agent to purchase or borrow the currency in which payment is required to be made by the HKCC Participant under any open Contract registered in the name of the HKCC Participant up to the amount required to be paid by the HKCC Participant and to disclose the name and other details of the HKCC Participant and the details of the relevant Contracts to such designated agent as the Chairman or his designee deems fit.

511. (deleted)

Compulsory closing out, transfer, sale and settlement

512. (a) Where the Clearing House exercises its powers under these Rules to close out a Contract compulsorily, it may close out the Contract itself or it may request an Exchange Participant to conclude on behalf of the Defaulting HKCC Participant a Contract (the "new Contract") on exactly the same terms as the Contract to be closed out, except that the price may not be the same as the price specified in the Contract to be closed out and the side which the Defaulting HKCC Participant shall take in respect of the new Contract shall be opposite to the side it holds under the Contract to be closed out.

(b) The price of the new Contract executed through HKATS shall be the price at which the new Contract is matched through HKATS.

(c) (deleted)

(d) On the execution of the new Contract through HKATS, the Defaulting HKCC Participant shall be deemed to have agreed to all of the terms of the new Contract and the new Contract will be registered accordingly.

(e) For the avoidance of doubt, compulsory closing out may only be effected at prevailing market prices and the Clearing House has no power to determine the price of any Contract.

513. Where the Clearing House exercises its powers under these Rules:

(a) to transfer a Contract compulsorily or to require an HKCC participant to transfer a Contract, such transfer shall be effected pursuant to Rule 313; or

(b) to sell Contracts by auction or private arrangement, the Clearing House shall have the absolute discretion to determine the selling price of such Contract

and the Defaulting HKCC Participant shall be deemed to have given its consent to such transfer or sale.

513A. (a) Each HKCC Participant agrees and undertakes that, in consideration of it being provided with Default Information (in such capacity a "**Receiving HKCC Participant**") it shall: (i) keep the Default Information strictly confidential and secure; (ii) only use the Default Information for the Permitted Purpose; and (iii) only disclose the Default Information to its employees, officers, representatives, advisers or Receiving HKCC Participant Affiliates for the Permitted Purpose (and to that extent only) and on a strict need to know basis.

(b) Upon demand by the Clearing House and to the extent reasonably practicable, and in any event upon conclusion of the actions set out in Rule 510, the Receiving HKCC Participant shall promptly return to the Clearing House all or any part of the Default Information in its

possession or the possession of any of its employees, officers, representatives, adviser or Receiving HKCC Participant Affiliates in whatever form it may be by a secure method or destroy or procure the destruction of any copies or reproductions of any material, paper, programme or record incorporating the Default Information including the destruction or expungement thereof from any memory device or medium, provided that the Receiving HKCC Participant may retain copies of any Default Information as required by law. Upon demand by the Clearing House, the Receiving HKCC Participant shall provide to the Clearing House a written confirmation that it has fully complied with the foregoing.

(c) Each Receiving HKCC Participant shall establish adequate procedures and mechanisms to ensure that the Default Information is, at all times, solely used for the Permitted Purpose by it and any of its employees, officers, representatives, advisers or Receiving HKCC Participant Affiliates.

(d) Nothing in these Rules shall prohibit disclosure or use of the Default Information if and to the extent: (i) it becomes publicly available other than as a result of a breach of these Rules by the Receiving HKCC Participant; (ii) the Receiving HKCC Participant is required to do so by order of a court of competent jurisdiction which arises as a result of the application of a third party; (iii) the Receiving HKCC Participant is required or requested to do so by any governmental authority which exercises a regulatory or supervisory function over the Receiving HKCC Participant; or (iv) the Clearing House has given prior written approval to the disclosure.

514. The reference in Rule 510(b) to the settling of Contracts means settling in accordance with the following provisions:

(a) where a Defaulting HKCC Participant has registered in its name with the Clearing House Contracts for the purchase and sale of an equal quantity of a particular underlying commodity or instrument for:

(i) futures with the same expiry; or

(ii) option series with the same expiry,

(but not necessarily at the same price), the Clearing House shall be entitled to treat each of those Contracts as if it had been closed out at the applicable Closing Quotation on the date of default.

515. (a) Every Defaulting HKCC Participant shall indemnify the Clearing House, the Exchange and a recognized exchange controller which is the controller of the Clearing House in respect of any costs, loss, interests or other expenses incurred by it in effecting the transfer, closing out, sale

or settlement of any Contract in pursuance of the powers of the Clearing House.

(b) Where the Clearing House determines that it is necessary and appropriate to take action against a Defaulting HKCC Participant in relation to all open Contracts of that HKCC Participant, the Clearing House may conduct the following process under the Ordinance :

(i) provide for there to be payable by or to the HKCC Participant a sum of money in relation to each open Contract if this is required after taking into account all the rights and liabilities of the HKCC Participant under or in respect of the Contract concerned;

(ii) provide for all sums of money payable by or to the HKCC Participant as determined in accordance with subparagraph (i) to be aggregated or set-off so as to produce a net sum (if any) payable by or to the HKCC Participant;

(iii) if any net sum referred to in subparagraph (ii) is payable by the HKCC Participant, provide for that net sum to be set-off against all property of the HKCC Participant which is either subject to a market charge or which has been provided as market collateral (or set-off against the proceeds of the realization of such property) so as to produce a further net sum (if any) payable by or to the HKCC Participant (for the purpose of this subparagraph and subparagraph (iv), the terms "market charge" and "market collateral" bear the meanings set out in section 18 of the Ordinance;

(iv) if any net sum referred to in subparagraph (iii) is payable to the HKCC Participant, provide that all property of the HKCC Participant which is either subject to a market charge or which has been provided as market collateral shall cease to be subject to the market charge (but without prejudice to any other form of charge to which it may be subject) or to be market collateral (but without prejudice to its provision as any other form of collateral) (as the case may be); and

(v) provide for the certification by the Clearing House of any net sum referred to in subparagraph (ii) payable to the HKCC Participant, or of any further net sum referred to in subparagraph (iii) payable by or to the HKCC Participant (as the case may be) or, if there is no such sum, the certification by the Clearing House of that fact.

Contract Termination

515A. (a) Following the occurrence of an event of default, if the Clearing House reasonably believes that it will not be able to close out, settle, sell, transfer, hedge or conclude a new Contract in respect of all or any open Contracts of the Defaulter within a reasonable time as determined by the Clearing House, the Clearing House may, without prejudice to Rules 310, 545 to 551, 710 and 1101, invoke the contract termination process as provided for in this Rule 515A in consultation with the Commission.

(b) The Clearing House will terminate all remaining open Contracts of the Defaulter and will determine which open Contracts of the non-defaulting HKCC Participants shall be terminated under this Rule (such open Contracts of the Defaulter and those of the non-defaulting HKCC Participants so determined by the Clearing House shall collectively be referred to as "Identified Contracts"). The Clearing House will notify relevant HKCC Participants of its determination, including details of the Identified Contracts and the effective date of termination of such Identified Contracts. In making this determination, the Clearing House may:

(i) select those Contracts which are in the same Market with the same underlying commodity or instrument as, but whose side is opposite to, the open Contracts to which the Defaulter is a party. The Contracts to be terminated shall, to the extent practicable, be allocated among the clearing accounts of the non-defaulting HKCC Participants holding such open Contracts on a pro-rata basis with reference to the open Contracts in the relevant Market with the same underlying commodity or instrument held by such non-defaulting HKCC Participants; or

(ii) select some or all of the open Contracts in one or more Markets, regardless of whether the side of such open Contracts is the same as or opposite to that of the open Contracts to which the Defaulter is a party; or

(iii) select all of the open Contracts in all Markets which are to be cleared and settled by the Clearing House.

(c) Upon termination of one or more Identified Contracts under this Rule, all prevailing obligations of the Clearing House and the relevant HKCC Participant in respect of each such Identified Contract between them (including the obligation to deliver any underlying commodities or instruments under the Identified Contracts) shall cease and be replaced with the obligation of the Clearing House or the relevant HKCC Participant, as the case may be, to pay the other party with respect to each clearing account registered in the name of such HKCC Participant a net sum equal to the aggregate termination value of each Identified Contract between them, as determined by the Clearing House under this Rule 515A and section 2.13 of the Clearing House Procedures.

(d) The termination value for each Identified Contract shall be determined based on the Closing Quotation determined in accordance with section 2.3 of the Clearing House Procedures at the time of contract termination, or if such Closing Quotation is not available, the price shall be such price as the Clearing House may reasonably determine.

(e) Payment by the Clearing House of the Termination Value Receivable with respect to each clearing account of each relevant HKCC Participant arising from its Identified Contracts pursuant to this Rule 515A and section 2.13 of the Clearing House Procedures discharges in full the obligations of the Clearing House in respect of these Identified Contracts and no HKCC Participant or client of an HKCC Participant shall have any recourse against the Clearing House or to any fund or other entity, including without limitation any affiliate or recognized exchange controller which is the controller of the Clearing House in relation to any Identified Contract.

(f) Notwithstanding the above, at any time during the contract termination process but prior to the effective date of termination of the relevant Identified Contracts, the Clearing House may instead of proceeding with the termination of such open Contracts, declare the occurrence of a Clearing Service Termination Event, and in such case the Identified Contracts shall not be terminated in accordance with the contract termination process but shall be terminated in accordance with Rule 1101.

Circumstances giving rise to disciplinary proceedings

516. Any HKCC Participant which:

(a) in any manner contravenes the HKCC Rules, the Ordinance, any conditions stipulated in the notice of approval of its HKCC Participantship or any other rules, regulations or procedures as may from time to time be prescribed by the Clearing House;

(b) makes any false return to the Clearing House or knowingly provides information which is untrue to the Clearing House;

(c) makes a material misstatement to the Clearing House or the Exchange or their respective officials;

(d) refuses to appear before the Disciplinary Committee, a Disciplinary Appeals Committee or any other committee of the Board duly constituted under these Rules to deal with disciplinary matters, at or during the course of any disciplinary investigation or proceedings;

(e) refuses to answer fully questions or produce books, records or other documents as may be required at or during the course of any disciplinary investigation or proceedings, or testifies falsely;

(f) acts in a manner which is likely to affect adversely the business reputation or other interests of the Clearing House or prejudice the interests of another HKCC Participant;

(g) is disciplined for any reason by the Exchange;

(h) fails to meet or comply with any disciplinary sanction or other requirement imposed on it; or

(i) fails to provide information requested by an exchange, clearing house, regulatory authority or an organization (whether within or outside Hong Kong) with which HKEX, the Clearing House or the Exchange has entered into an information sharing arrangement or agreement or pursuant to Rule 214(m) or (n).

may be liable to disciplinary proceedings pursuant to Rule 520.

Disciplinary powers

517. Any of the following disciplinary powers may be exercised against an HKCC Participant in respect of any matter which may be the subject of disciplinary proceedings:

(i) revocation of its HKCC Participantship;

(ii) suspension of its HKCC Participantship on such terms and for such period as may be considered fit to impose;

(iii) issuance of a reprimand;

(iv) issuance of a public censure;

(v) imposition of a fine;

(vi) issuance of a warning, including, as appropriate, a requirement that certain actions be taken within the period specified in the warning and specifying the sanction (including a fine, suspension or revocation) in the event that such actions are not taken within the specified period;

(vii) prohibition or restriction from having access to and/or using any or all of the Clearing House's facilities, including the suspension, withdrawal or revocation of the right of an HKCC Participant's access to DCASS and/or CCMS on such terms and for such period as may be considered fit to impose;

(viii) imposition of any other restriction or condition on the rights of an HKCC Participant or the manner in which an HKCC Participant may carry on its activities, functions and/or operations including for the

avoidance of doubt any restriction or condition regarding the capacity in and extent to which any employee or director of an HKCC Participant may be involved in that HKCC Participant's activities, functions and/or operations;

(ix) imposition of any restriction, prohibition or requirement regarding the disposal or holding by an HKCC Participant of, or the dealing by an HKCC Participant with, any monies or assets of its Clients; and

(x) requirement for rectification or other remedial action or restitutionary measures to be taken within a stipulated period, including, if appropriate, the appointment of independent accountants, solicitors, consultants or other professionals in connection therewith.

Effect of suspension

518. (a) An HKCC Participant whose HKCC Participantship or right to access DCASS and/or CCMS is suspended for any reason:

(i) shall not be entitled to register or clear any new open Contracts with the Clearing House;

(ii) shall remain liable for any payments, fees and charges owing or due by the HKCC Participant to the Clearing House as if the suspension had not occurred;

(iii) shall remain liable for any agreement, transaction or arrangement in relation to any Contracts held by the HKCC Participant before the suspension;

(iv) shall, in accordance with the directions of the Clearing House, instruct and appoint another HKCC Participant to close out all the open positions held by it at the date of suspension or to effect the transfer to another HKCC Participant (subject to the approval of the Clearing House) of its open positions, together with the money or non-cash collateral standing to the credit of the CCMS Collateral Account in respect of those open positions and shall notify the Clearing House in writing of such appointment or transfer immediately; and

(v) shall remain bound by the HKCC Rules while suspended.

(b) Where an HKCC Participant is required by the Clearing House pursuant to Rule 518(a)(iv) to close out or transfer any open positions held by the HKCC Participant, the Clearing House shall be entitled to close out or transfer such open positions on behalf of the HKCC Participant (to the exclusion of the HKCC Participant if the Clearing House considers appropriate). Such HKCC Participant shall indemnify

and hold the Clearing House, the Exchange and a recognized exchange controller which is the controller of the Clearing House harmless in respect of any costs or other expenses arising by reason of such closing out or transfer and shall indemnify the Clearing House, the Exchange and a recognized exchange controller which is the controller of the Clearing House in respect of any loss suffered by the Clearing House in respect of such closing out or transfer.

(c) An HKCC Participant whose HKCC Participantship, right to access DCASS and/or CCMS or other rights are suspended may at any time thereafter apply to the person or body which imposed the suspension for the lifting of such suspension by submitting to such person or body such information including any information as to the financial condition of the HKCC Participant as such person or body may require in order for it to be satisfied that it is proper in all the circumstances to lift the suspension. Such suspension may be lifted conditionally or unconditionally.

Revocation and effect of revocation

519. (a) Upon the liquidation of an HKCC Participant, its HKCC Participantship shall automatically cease and shall be deemed to have been revoked and, for the avoidance of doubt, its HKCC Participantship shall not:

(i)-(iii) (deleted)

(iv) vest in the liquidator of the HKCC Participant.

(b) An HKCC Participant whose HKCC Participantship is revoked for any reason:

(i) shall not be entitled to register or clear any new open Contracts with the Clearing House;

(ii) shall remain liable for any payments, fees and charges owing or due by the HKCC Participant to the Clearing House as if the revocation had not occurred;

(iii) shall remain liable for any agreement, transaction or arrangement in relation to any Contracts held by the HKCC Participant before the revocation;

(iv) shall be under a duty immediately to instruct and appoint another HKCC Participant to close out all the open positions held by it at the date of revocation or to effect the transfer to another HKCC Participant (subject to the approval of the Clearing House) of its open positions, together with the money or non-cash collateral

standing to the credit of that account in respect of those open positions and shall notify the Clearing House in writing of such appointment or transfer immediately; and

(v) shall remain bound by the HKCC Rules until such time as all Contracts held by that HKCC Participant have been closed out or transferred.

(c) Where an HKCC Participant is required by the Clearing House pursuant to Rule 519(b)(iv) to close out or transfer any open positions held by the HKCC Participant, the Clearing House shall be entitled to close out or transfer such open positions on behalf of the HKCC Participant (to the exclusion of the HKCC Participant if the Clearing House considers appropriate). Such HKCC Participant shall indemnify and hold the Clearing House, the Exchange and a recognized exchange controller which is the controller of the Clearing House harmless in respect of any costs or other expenses arising by reason of such closing out or transfer and shall indemnify the Clearing House, the Exchange and a recognized exchange controller which is the controller of the Clearing House in respect of any loss suffered by the Clearing House in respect of such closing out or transfer.

(d) The HKCC Participant shall be entitled to reimbursement, without interest, of an amount in respect of its HKCC Participant's Deposit and for the purpose of calculating the amount to be reimbursed, the HKCC Participant shall be deemed to have given, on the date on which the revocation takes effect, an irrevocable Resignation Notice and the provisions of Rule 217(c) (but no other provisions of Rule 217) shall be applied accordingly. All references in Rule 217(c), howsoever phrased, to the effective date of termination of its HKCC Participantship shall be construed as references to the date on which the revocation takes effect. Reimbursement shall be made two months after the Clearing House has determined the remaining balance standing to the credit of the HKCC Participant's Deposit of the HKCC Participant. Reimbursement of HKCC Participant Additional Deposit will be made in accordance with the Clearing House Procedures.

(e) In addition to any other grounds for revocation, the Clearing House shall have the power to revoke any HKCC Participantship if, in the opinion of the Clearing House, the HKCC Participant is not suitable to remain as an HKCC Participant.

Disciplinary action against an HKCC Participant

520. Subject to the provisions of Rules 509 and 510 and without prejudice to the powers of the Clearing House to take action against an HKCC Participant as provided for in the Rules, allegations of Rule violations shall be investigated by the Compliance Department and shall be adjudicated by the Designated

Compliance Department Staff and the Disciplinary Committee, and the exercise of disciplinary powers herein shall where appropriate be dealt with, in accordance with the Rules set out in this Chapter V and such other rules and procedures as may from time to time be prescribed by the Board.

521. If the Compliance Department is of the opinion that grounds exist for the exercise of disciplinary action against an HKCC Participant, the Compliance Department shall give notice (the "Notice") thereof to the HKCC Participant identifying the grounds upon which such opinion is based.

522. The HKCC Participant may, within such period as may be specified in the Notice, submit to the Clearing House an explanation of its conduct in regard to the matter, together with any supporting documentary evidence.

523. If, having considered the submissions made by the HKCC Participant in response to the Notice, or in the absence of any such submissions from the HKCC Participant within the time specified in the Notice, the Compliance Department remains of the opinion that grounds exist for the exercise of disciplinary action, the Compliance Department shall:

(a) prepare a Report specifying the matter(s) in respect of which the Compliance Department is of the opinion that disciplinary powers should be exercised against the HKCC Participant and the evidence upon which the Compliance Department will rely in presenting the case to the Designated Compliance Department Staff or the Disciplinary Committee (as the case may be); and

(b) determine whether the offence in question is a Non-serious Offence.

<u>Disciplinary matters referred to the Designated Compliance Department Staff</u>

524. If an offence is determined by the Compliance Department to be a Non-serious Offence, the Compliance Department shall refer the matter to the Designated Compliance Department Staff and shall serve on the HKCC Participant and the Designated Compliance Department Staff a copy of the Report referred to in Rule 523(a).

525. The Designated Compliance Department Staff may at any time request the production of such documents as the Designated Compliance Department Staff deems appropriate. Copies of all such documents produced shall be served on both the Compliance Department and the HKCC Participant.

526. Where the disciplinary matter is referred to the Designated Compliance Department Staff pursuant to Rule 524, the Designated Compliance Department Staff shall, on the basis of the Report and any other documents which may be requested to be produced by the Designated Compliance Department Staff pursuant to Rule 525, adjudicate the matter(s) specified in the Report and,

subject to Rule 527, impose such sanctions on the HKCC Participant as the Designated Compliance Department Staff may consider appropriate.

527. In respect of Non-serious Offences, the Designated Compliance Department Staff shall be entitled to exercise the disciplinary powers set out in Rules 517 (iii), (v) and (vi) provided that the Designated Compliance Department Staff shall not have any powers to impose on an HKCC Participant any fine which is in excess of HK$25,000 for each Non-serious Offence or which is in excess of HK$100,000 in aggregate if more than one Non-serious Offence is involved. Any offence which will or is likely to subject an HKCC Participant to a fine of more than HK$25,000, or, if more than one offence is involved, any offences which in aggregate will or are likely to subject an HKCC Participant to a fine of more than HK$100,000, shall be adjudicated by the Disciplinary Committee.

528. Subject to any decision on appeal made by the Chairman pursuant to Rule 537(h), any decision made by the Designated Compliance Department Staff pursuant to Rule 526 shall be final and binding on the HKCC Participant.

Disciplinary matters referred to the Disciplinary Committee

529. If an offence is determined by the Compliance Department not to be a Non-serious Offence, the Compliance Department shall refer the matter to the Disciplinary Committee and shall serve on the HKCC Participant and the Disciplinary Committee a copy of the Report referred to in Rule 523(a).

530. Where the disciplinary matter is referred to the Disciplinary Committee pursuant to Rule 529, the Disciplinary Committee shall meet for the adjudication of the disciplinary matter, adjourn and otherwise regulate its meetings in accordance with following procedures, these Rules and such other rules and procedures as may from time to time be prescribed by the Board:

(a) Upon receipt by the HKCC Participant of the Report, the HKCC Participant may, within such period as may be specified in the Report, make further submissions and provide further documentary evidence to the Disciplinary Committee in respect of the matter(s) specified in the Report. Copies of all such further submissions and documentary evidence shall be served on the Compliance Department.

(b) The Disciplinary Committee may at any time request the production of such documents as the Disciplinary Committee deems appropriate to any paper or oral hearing. Copies of all such documents produced shall be served on both the Compliance Department and the HKCC Participant.

(c) The Disciplinary Committee shall adjudicate the disciplinary matter on the basis of the Report, any further submissions or documentary evidence provided pursuant to Rule 530(a), and any other documents which may be required by the Disciplinary Committee to be produced pursuant to Rule 530(b) (i.e., as a paper hearing) unless in the opinion of

the Disciplinary Committee, it is inappropriate for the disciplinary matter to be adjudicated by way of a paper hearing. At any paper or oral hearing, a legal counsel of the Clearing House may attend for the purpose of giving legal advice to the Disciplinary Committee.

(d) If the Disciplinary Committee decides that it is inappropriate for a disciplinary matter to be adjudicated by way of a paper hearing, the Disciplinary Committee shall fix a date and time for an oral hearing and notify the Compliance Department and the HKCC Participant of the date and time of the hearing.

(e) At any oral hearing, the HKCC Participant and any Compliance Department staff shall have the right to attend and make submissions. The HKCC Participant may be accompanied by its legal counsel at any oral hearing provided that notice of the intention of the HKCC Participant to be accompanied by its legal counsel is given to the Disciplinary Committee at least ten Business Days before the hearing date giving such details in relation to the legal counsel as the Disciplinary Committee may require, including his qualifications.

(f) The Disciplinary Committee may at any time request the attendance of such persons as the Disciplinary Committee deems appropriate at any oral hearing.

(g) If the HKCC Participant or any other person(s) requested by the Disciplinary Committee to attend an oral hearing fails to appear at the oral hearing, the Disciplinary Committee may, upon proof of service on the HKCC Participant or the other person of the notice of the hearing, proceed to hear and determine the proceedings in its/his absence.

(h) Rules of evidence do not apply to the conduct by the Disciplinary Committee of any disciplinary hearing. The Disciplinary Committee may attach such weight as it thinks appropriate to any material produced to it, notwithstanding that such material may not be admissible in civil or criminal proceedings.

(i) The Disciplinary Committee shall, on the basis of the Report, any further submissions or documentary evidence which may be provided by the HKCC Participant, any other documents which may be requested to be produced by the Disciplinary Committee and any evidence as may be given by any persons who may be requested to attend an oral hearing by the Disciplinary Committee, adjudicate the matter(s) specified in the Report and impose such sanctions on the HKCC Participant as it considers appropriate provided that no member of the Disciplinary Committee shall participate in the adjudication of the matter(s) if he has a personal or financial interest in the case or is materially interested in the outcome of the case.

(j) The Disciplinary Committee shall submit its findings to the Clearing House after any decision has been made, specifying any sanction to be imposed on the HKCC Participant. The Clearing House shall as soon as practicable after receipt of the decision of the Disciplinary Committee notify the HKCC Participant in writing of the Disciplinary Committee's decision.

(k) Subject to any decision on appeal made by the Disciplinary Appeals Committee pursuant to Rule 537(h), any decision made by the Disciplinary Committee shall be final and binding on the HKCC Participant.

Disciplinary Appeals Committee

531. Subject to the provisions of Rule 533, a Disciplinary Appeals Committee consisting of such persons as the Board of the Exchange thinks fit shall be appointed by the Board of the Exchange from time to time to determine a particular disciplinary appeal or disciplinary appeals.

532. (deleted)

533. No individual shall be eligible to serve on a Disciplinary Appeals Committee if he has a personal or financial interest in the case, is materially interested in the outcome of the case or has been involved in any prior consideration or determination of the case.

Appeal procedures

534. (a) The Disciplinary Appeals Committee shall be the appellate body in respect of any decisions made by the Chairman pursuant to Rule 510;

(b) the Chairman shall be the appellate body in respect of any decisions made by the Designated Compliance Department Staff pursuant to Rule 526; and

(c) the Disciplinary Appeals Committee shall be the appellate body in respect of any decisions made by the Disciplinary Committee pursuant to Rule 530(i).

535. An HKCC Participant may, by giving notice in writing to the Clearing House within ten Business Days of service thereon of the written notice of any decision referred to in Rule 534, appeal to the Chairman (in the case of a decision made by the Designated Compliance Department Staff pursuant to Rule 526) or the Disciplinary Appeals Committee (in the case of a decision made by the Chairman pursuant to Rule 510 or the Disciplinary Committee pursuant to Rule 530(i)) against that decision on grounds falling within one or more of the following categories only:

(a) the Chairman, the Designated Compliance Department Staff or the Disciplinary Committee (as the case may be) materially misdirected or misconducted himself/itself contrary to the Rules so as to cause prejudice to the HKCC Participant;

(b) the decision of the Chairman, the Designated Compliance Department Staff or the Disciplinary Committee (as the case may be) was wholly irrational;

(c) the decision of the Chairman, the Designated Compliance Department Staff or the Disciplinary Committee (as the case may be) was based on a serious error of law or misinterpretation of the Rules; and

(d) the penalty imposed on the HKCC Participant was manifestly excessive.

Such notice of appeal shall set out full details of the grounds of the appeal, including the reasons why the HKCC Participant considers that it was aggrieved by the decision being appealed against and the relief which the HKCC Participant is seeking.

536. The Chairman or the Disciplinary Appeals Committee (as the case may be) may refuse to entertain any appeal it deems to be frivolous or without merit.

537. Where a notice of appeal is given by an HKCC Participant to the Clearing House pursuant to Rule 535, the Chairman or the Disciplinary Appeals Committee (as the case may be) shall consider the appeal, adjourn and otherwise regulate its meetings in accordance with the following procedures, these Rules and such other rules and regulations as may from time to time prescribed by the Board. For the purpose of this Rule 537, the Chairman or the Disciplinary Appeals Committee appointed shall be referred to as the "Relevant Appellate Body".

(a) An appeal hearing shall not be a full review of the matter. No new evidence shall be considered by the Relevant Appellate Body unless such evidence is introduced to substantiate whether any of the grounds referred to in Rule 535 upon which the appeal is based are meritorious.

(b) The Relevant Appellate Body shall consider the appeal as a paper hearing unless in the opinion of the Relevant Appellate Body, it is inappropriate for the appeal to be considered by way of a paper hearing or unless the HKCC Participant requests that the appeal be considered by way of an oral hearing. At any paper or oral hearing, a legal counsel of the Clearing House may attend for the purpose of giving legal advice to the Relevant Appellate Body.

(c) If the Relevant Appellate Body decides that it is inappropriate for the appeal to be considered by way of a paper hearing or if the HKCC

Participant requests an oral hearing, the Relevant Appellate Body shall fix a date and time for an oral hearing and notify the involved parties of the date and time of the hearing.

(d) At any oral hearing, the HKCC Participant, the Compliance Department and the Chairman, the Designated Compliance Department Staff or any member of the Disciplinary Committee (as the case may be) shall have the right to attend and, subject to the restriction on the introduction of evidence referred to in Rule 537(a) above, make submissions concerning the grounds upon which the appeal is based. The HKCC Participant may be accompanied by its legal counsel at any oral hearing provided that notice of the intention of the HKCC Participant to be accompanied by its legal counsel is given to the Disciplinary Appeals Committee at least ten Business Days before the hearing date giving such details in relation to the legal counsel as the Disciplinary Appeals Committee may require, including his qualifications.

(e) The Relevant Appellate Body may at any time request the attendance of such persons as the Relevant Appellate Body deems appropriate at any oral hearing.

(f) If the HKCC Participant or any other person(s) requested by the Relevant Appellate Body to attend an oral hearing fails to appear at the oral hearing, the Relevant Appellate Body may, upon proof of service of the notice of the hearing, proceed to consider the appeal in its/his absence.

(g) Rules of evidence do not apply to the conduct of any appeal hearing. The Relevant Appellate Body may attach such weight as it thinks appropriate to any material presented before it, notwithstanding that such material may not be admissible in civil or criminal proceedings.

(h) The Relevant Appellate Body shall, on the basis of any evidence presented to it pursuant to Rule 537(a) above, and such submissions as may be given by any persons requested to attend an oral hearing by the Relevant Appellate Body pursuant to Rule 537(e) above, consider the appeal and exercise any of the powers set out in Rule 517 as it may consider appropriate under the circumstances.

(i) The Relevant Appellate Body shall announce its decision to the Clearing House dismissing or allowing the appeal, confirming, varying or revoking any decision made or sanctions imposed on the HKCC Participant by the Chairman, the Designated Compliance Department Staff or the Disciplinary Committee (as the case may be) or specifying such additional sanctions on the HKCC Participant as the Relevant Appellate Body shall consider appropriate. The Clearing House shall as soon as practicable after receipt of the decision of the Relevant

Appellate Body notify the HKCC Participant in writing of the Relevant Appellate Body's decision.

(j) The decision of the Relevant Appellate Body shall be conclusive and binding on the HKCC Participant.

538. Pending the outcome of any appeal to the Chairman or the Disciplinary Appeals Committee (as the case may be), the decision being appealed against shall remain in force and be valid and binding upon the HKCC Participant.

Co-operation

539. During the course of any disciplinary proceedings or appeals, the HKCC Participant concerned shall offer its fullest co-operation to the Clearing House, the Chairman, the Compliance Department, the Designated Compliance Department Staff, the Disciplinary Committee, the Disciplinary Appeals Committee or any other committee or other body or person to whom the task of investigation or adjudication of any disciplinary matter or consideration of any appeal may be entrusted, and shall supply to them such information and documents in its possession or under its control as any of them may require.

Settlement

540. At any time prior to the issuance of a decision by the Disciplinary Committee, the HKCC Participant that is the subject of the disciplinary matter may submit an offer of settlement to the Compliance Department for its acceptance, subject to approval by the Disciplinary Committee of such offer. The Compliance Department may, but is not obliged to, submit any such offer to the Disciplinary Committee if it does not accept the terms of the offer. In the event that an offer of settlement is not submitted to the Disciplinary Committee or if it is not approved by the Disciplinary Committee, adjudication procedures shall proceed in accordance with the applicable Exchange Rules.

Principles of natural justice

541. The Clearing House shall have regard to the principles of natural justice in the application of these Rules.

Liability of the Clearing House, the Exchange and a recognized exchange controller which is the controller of the Clearing House

542. The Clearing House, the Exchange, a recognized exchange controller which is the controller of the Clearing House, and their respective officers, directors, employees, agents or representatives or any other person or entity associated with the Clearing House, the Exchange or a recognized exchange controller which is the controller of the Clearing House shall have no liability whatsoever for any losses, damages, claims, legal costs or other expenses that

the HKCC Participant may suffer or incur, whether directly or indirectly (including any loss of profit or any damage to reputation) by reason of any action taken in respect of an event of default or disciplinary proceedings instituted or disciplinary measures taken pursuant to these Rules or applicable Exchange Rules.

Notice of decisions

543. (a) Promptly after any action is taken in respect of any event of default or any decision is made in respect of any disciplinary proceedings instituted against an HKCC Participant, notification of the default action or disciplinary decision and any sanctions imposed shall be sent to the HKCC Participant. Except where the offence concerned is a Non-serious Offence, a copy of the notice shall also be sent by the Secretary to:

(i) the Commission;
(ii) the Exchange; and
(iii) any other person who, in the Chairman's opinion, should be sent a copy of such notice.

(b) Where the HKCC Participantship, right to access DCASS and/or CCMS or other rights of an HKCC Participant are suspended or revoked, in addition to any other notice given by the Secretary pursuant to this Rule, notice thereof may be sent by the Secretary to all HKCC Participants in the manner specified by the Chairman from time to time, including by publication in any newspapers or circulars or via electronic or computer data transmission to HKCC Participants. An HKCC Participant shall have no cause of action against the Chairman, the Secretary, the Clearing House, the Exchange, a recognized exchange controller which is the controller of the Clearing House or any other person associated with the Clearing House, the Exchange or a recognized exchange controller which is the controller of the Clearing House in respect of any such publication or notification.

Transitional provision

544. Notwithstanding

(i) that HKCC Members are deemed to be or became HKCC Participants with effect from the Scheme Effective Date (as defined in the Exchange Rules) and the substitution of the terms "Member" and "HKCC Member" in these Rules in force prior to the Scheme Effective Date by the term "HKCC Participant" or "Participant of the Clearing House" in these Rules;

(ii) the amendments that were made to these Rules with effect from the Scheme Effective Date; and

(iii) that an HKCC Member has ceased to be an HKCC Participant

all investigations, disciplinary proceedings and actions instigated against any person (including without limitation an HKCC Participant which was an HKCC Member prior to the Scheme Effective Date) in respect of any violation of Rules then prevailing (including those which may have been amended or repealed with effect from the Scheme Effective Date) may be instituted, continued, enforced and adjudicated in accordance with the procedures set forth in these Rules.

HKCC Failure to Pay Event

545. Notwithstanding Rule 310, if the Clearing House fails to make, when due, any payment to an HKCC Participant (other than a Defaulter) under an open Contract, the relevant HKCC Participant may provide written notification (the "Failure to Pay Notice") to the Clearing House formally informing the Clearing House of such failure pursuant to this Rule 545.

546. An "HKCC Failure to Pay Event" shall be deemed to occur if after the receipt of the Failure to Pay Notice by the Clearing House, the Clearing House has not made all relevant payments to the HKCC Participant by the end of the relevant HKCC Failure to Pay Grace Period, provided that no HKCC Failure to Pay Event shall occur if (1) such failure to pay arises as a result of technical or administrative reasons beyond the control of the Clearing House; or (2) during the HKCC Failure to Pay Grace Period, the Clearing House has exercised its powers under Rules 547(a) and/or 547(b). The exercise by the Clearing House of its rights pursuant to the Loss Distribution Process, a Clearing Service Termination Event or contract termination pursuant to Rule 515A shall not constitute an HKCC Failure to Pay Event. During the HKCC Failure to Pay Grace Period, the relevant HKCC Participant shall continue to be obliged to pay when due all amounts required by the Clearing House in accordance with the Rules and Clearing House Procedures and shall satisfy in full all its other obligations under the Rules and Clearing House Procedures.

547. During the HKCC Failure to Pay Grace Period, the Clearing House may take the following action or actions:

(a) designate an Early Termination Date in respect of all the open Contracts of the relevant HKCC Participant (each a "Relevant CP Contract") by delivering a notice to the relevant HKCC Participant whereupon all the Relevant CP Contracts shall be novated with effect from the day that falls on the second Business Day following the date of delivery of such notice by the Clearing House. Upon the delivery of such notice, the relevant HKCC Participant agrees that the Clearing House shall novate all the Relevant CP Contracts on the designated Early Termination Date by terminating such Relevant CP Contracts and registering in the name of any other HKCC Participant (other than a Defaulter) Contracts on substantially

similar terms as any Relevant CP Contract with the agreement of such other HKCC Participant, and the provisions as set out in Rules 552 to 555 shall apply; or

(b) declare and notify all HKCC Participants of the occurrence of a Clearing Service Termination Event pursuant to the terms set out in Rule 1101, whether or not the Clearing House has, prior to such declaration of Clearing Service Termination Event, exercised its power pursuant to sub-paragraph (a) above. Upon the occurrence of a Clearing Service Termination Event, the clearing and settlement services in relation to Futures/Options Contracts, including the Relevant CP Contracts, will be wound down in accordance with Rules 1101 to 1104.

548. Upon the occurrence of an HKCC Failure to Pay Event, if the Clearing House has not taken any action under Rule 547(a) or Rule 547(b) above, the relevant HKCC Participant may terminate and liquidate all the Relevant CP Contracts by delivering a notice to the Clearing House.

549. In the event that the relevant HKCC Participant delivers a notice to the Clearing House to terminate all the Relevant CP Contracts pursuant to Rule 548, the Clearing House shall:

(a) terminate all the Relevant CP Contracts on the day that falls on the second Business Day following the date of delivery of such notice by the relevant HKCC Participant (such day being the "Early Termination Date" for the purpose of this Rule 549) by registering in the name of any other HKCC Participant (other than a Defaulter) one or more Contracts on substantially similar terms as any Relevant CP Contract with the agreement of such other HKCC Participant on the Early Termination Date and Rules 552 to 555 shall apply; or

(b) declare and notify all HKCC Participants of the occurrence of a Clearing Service Termination Event, upon which the clearing and settlement services in relation to Futures/Options Contracts, including the Relevant CP Contracts, will be wound down in accordance with Rules 1101 to 1104.

<u>HKCC Insolvency Event</u>

550. An "HKCC Insolvency Event" shall occur if the Clearing House voluntarily commences a procedure seeking or proposing liquidation, administration, receivership, judicial management or a scheme of arrangement, or other similar relief with respect to itself or its debts under any bankruptcy, insolvency, regulatory, supervisory or similar law, or if any of the foregoing case or procedure (other than one that is frivolous or vexatious in nature) is commenced in relation to the Clearing House by any other person and either:

(a) results in a judgment of insolvency or bankruptcy or the entry of an order for relief or the making of an order for the winding-up or liquidation of the Clearing House; or

(b) such case or procedure is not dismissed, discharged, stayed or restrained in each case within 21 Business Days of the institution or presentation thereof.

Upon the occurrence of an HKCC Insolvency Event, a non-defaulting HKCC Participant may by written notice to the Clearing House declare the HKCC Insolvency Event and designate an Early Termination Date for the termination and liquidation of all open Contracts then registered in its name.

551. In the event that a non-defaulting HKCC Participant delivers a notice to the Clearing House to terminate all of its open Contracts then registered with the Clearing House pursuant to Rule 550 as a result of the occurrence of an HKCC Insolvency Event, then all open Contracts of all HKCC Participants will be terminated with effect from (and including) the day that falls on the second Business Day following the date of delivery of such notice by the non-defaulting HKCC Participant (such day being the "Early Termination Date" for the purpose of this Rule 551) and Rules 552 to 555 will apply to each HKCC Participant. Upon receipt of a notice from a non-defaulting HKCC Participant declaring the occurrence of an HKCC Insolvency Event, the Clearing House will notify all HKCC Participants of (1) the occurrence of such event and (2) the Early Termination Date with respect to all open Contracts registered in the name of all HKCC Participants.

Calculations of Net Payments under an HKCC Failure to Pay Event or an HKCC Insolvency Event

552. Upon the designation of an Early Termination Date pursuant to either Rule 547(a) or Rule 549(a) in respect of an HKCC Failure to Pay Event or pursuant to Rule 550 in respect of an HKCC Insolvency Event, every open Contract between the Clearing House and the relevant HKCC Participant shall be terminated and all prevailing obligations of the Clearing House and such HKCC Participant in respect of each such Contract between them (including the obligations to deliver any underlying commodities or instruments under such Contract) shall cease and be replaced with the obligation of the Clearing House or the relevant HKCC Participant, as the case may be, to pay the other party with respect to each clearing account registered in the name of such HKCC Participant a net sum which shall take into account the termination value and any unpaid amounts of each such Contract registered in the relevant clearing account as determined by the Clearing House under this Rule and section 8.1 of the Clearing House Procedures. The termination value for each open Contract shall be determined based on the Closing Quotation determined in accordance with section 2.3 of the Clearing House Procedures on the Early Termination Date, or if such Closing Quotation is not available, the price shall be such price as the Clearing House may reasonably determine. The Clearing House may also take into account any unpaid amounts that have become due

and payable in respect of any Contract on or prior to the designation of the Early Termination Date.

553. Following the payment by each relevant HKCC Participant of the HKCC Default Interim CP Payable or HKCC Default Final CP Payable with respect to each clearing account of each relevant HKCC Participant arising from such Contracts, the Clearing House shall pay an amount equal to the Margin Balance in respect of an HKCC Participant to such HKCC Participant in accordance with section 8.1 of the Clearing House Procedures; and the Clearing House shall pay an amount equal to the Reserve Fund Deposits Balance in respect of an HKCC Participant or Former HKCC Participant to such HKCC Participant or Former HKCC Participant in accordance with section 8.1 of the Clearing House Procedures.

554. The Clearing House will, as soon as reasonably practicable, inform the Commission of the occurrence of an HKCC Failure to Pay Event or HKCC Insolvency Event upon becoming aware of the same.

Liability of the Clearing House under an HKCC Failure to Pay Event or an HKCC Insolvency Event

555. Notwithstanding the provisions of Rule 310, settlement (by payment, set-off or otherwise) of the HKCC Default CP Receivable with respect to the clearing accounts of each relevant HKCC Participant arising from such Contracts pursuant to Rule 552 and section 8.1 of the Clearing House Procedures discharges in full the obligations of the Clearing House in respect of these Contracts and no HKCC Participant or client of an HKCC Participant shall have any recourse against the Clearing House or to any fund or other entity, including without limitation any affiliate or recognized exchange controller which is the controller of the Clearing House in relation to any Contract once the resources available to the Clearing House including those available to be applied under Rules 510(e), 510(g) and 706 have been exhausted. In particular, no HKCC Participant or client of an HKCC Participant shall be entitled to instigate any action for the winding-up or the appointment of a receiver or manager over any property of the Clearing House.

CHAPTER VI

CASH SETTLEMENT, DELIVERY AND EXCHANGE OF FUTURES

Cash Settled Contracts and Physical Delivery Contracts

601. (a) Cash Settled Contracts shall be settled by payment of cash in the Settlement Currency.

(b) Physical Delivery Contracts that are Futures Contracts shall be settled by delivery of the underlying commodity or instrument by their Sellers and the payment of cash by their Buyers, 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 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.

(c) In respect of Physically Settled Options on Futures Contracts, 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.

Cash settlement and delivery governed by Exchange Rules, these Rules and the Clearing House Procedures

602. The obligations of HKCC Participants to make cash payment under a Cash Settled Contract or make and/or take delivery under a Physical Delivery Contract and the timing of the foregoing shall be governed by the Exchange Rules, these Rules and the Clearing House Procedures.

Rights of the Clearing House against an HKCC Participant under a Cash Settled Contract

602A. In addition to any other rights the Clearing House may have under these Rules, where the Clearing House has an obligation to make payment to an HKCC Participant under a Cash Settled Contract in its 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.

Assignment process

603. After Market close on the Last Trading Day of a Physical Delivery Contract (other than a deliverable Currency Futures Contract, a deliverable Currency Option Contract or a Physically Settled Options on Futures Contract), the Clearing House will allocate all short positions in such Contract to long positions in such Contract by an assignment process set forth in the Clearing House Procedures. In respect of a Physical Delivery Contract which is Physically Settled Metal Futures Contract, any outstanding open position in the relevant spot month Physically Settled Metal Futures Contract held by any HKCC Participant will be included in the Matching Process pursuant to section 2A.3.2.1(c) of the Clearing House Procedures. Each Physical Delivery Participant acknowledges and accepts that they may be matched, through the Matching Process, with a Non-delivery HKCC Participant. In such circumstances, the Physical Delivery Participant will receive a payment of Cash Compensation instead of completing the sale or purchase of, and delivering or taking delivery of, Deliverable Metal, as the case may be. The Physical Delivery Participant accepts and acknowledges such risk, and shall have no claim against the Clearing House, the relevant Non-delivery HKCC Participant or any other person resulting from it receiving payment of Cash Compensation instead of delivering or taking delivery of Deliverable Metal, as the case may be.

604. The Clearing House will notify relevant HKCC Participants of the settlement details by facsimile, phone or such other means as the Clearing House may consider appropriate as soon as practicable after the assignment process is completed.

605. Once a short position of an HKCC Participant is allocated to a long position of another HKCC Participant under the assignment process stipulated in Rule 603, (except where either the selling or buying HKCC Participant is a Non-delivery HKCC Participant) the selling HKCC Participant shall deliver the underlying commodity or instrument to the buying HKCC Participant and the buying HKCC Participant shall make payment to the selling HKCC Participant in accordance with the settlement details provided by the Clearing House under Rule 604 and the procedures set forth in the Clearing House Procedures. An HKCC Participant which has short positions in one account may be assigned against the long positions in another account of the HKCC Participant, in such a case, the HKCC Participant shall make and/or take the underlying commodity or instrument and the relevant payment between these accounts in accordance with the settlement details notified by the Clearing House.

605A. Notwithstanding any other provision of these Rules or the Exchange Rules, the Clearing House shall have no liability of any nature whatsoever to an HKCC Participant or any other person in connection with, or the exercise by the Clearing House of its functions under, any assignment process pursuant to Rules 603 – 605 and applicable Clearing House Procedures including without

limitation any claims by an HKCC Participant matched with another HKCC Participant in connection with:

(a) a failure by either HKCC Participant to make payment or delivery, as the case may be, under the relevant Re-novated Contract;

(b) a delivery by either HKCC Participant of an underlying commodity or instrument which does not comply with the applicable Contract Specifications for that Re-novated Contract, these Rules or the Exchange Rules; and/or

(c) any breach by either such HKCC Participant of any other provision of these Rules or the Exchange Rules.

Information regarding an HKCC Participant's delivery obligations

606. The Clearing House may from time to time require an HKCC Participant to provide to the Clearing House such information regarding the underlying commodity or instrument that is to be delivered by the HKCC Participant, such evidence of the HKCC Participant's ability to deliver the underlying commodity or instrument and such other information relating to the HKCC Participant's delivery obligations under a Physical Delivery Contract as the Clearing House considers appropriate. If at any time the Clearing House has reason to believe that an HKCC Participant may not be able to comply with its delivery obligations under a Physical Delivery Contract, the Clearing House shall have the right to restrict the HKCC Participant from opening new positions in such Physical Delivery Contract and/or require the HKCC Participant to close out or transfer to another HKCC Participant open positions in such Physical Delivery Contract.

Open positions of a Non-delivery HKCC Participant under a Physically Settled Metal Futures Contract

606A. A Non-delivery HKCC Participant shall not:

(i) have any open position in any spot month Physically Settled Metal Futures Contract at or after the System Input Cutoff Time on the Trading Day before the Last Trading Day in respect of such Contract and shall close out or transfer any such open position to another HKCC Participant before such time;

(ii) trade (and where applicable, shall procure that its Non-Clearing Participants will not trade) any spot month Physically Settled Metal Futures Contract during or after the T+1 Session on the Trading Day before the Last Trading Day unless such trade serves to close out an existing open position of the Non-delivery HKCC Participant;

(iii) perform any trade adjustment or position adjustment in any spot month Physically Settled Metal Futures Contract relating to trades registered with the Clearing House during the T+1 Session on the Trading Day before the Last Trading Day unless such trade adjustment or position

adjustment serves to close out an existing open position of the Non-delivery HKCC Participant; or

(iv) perform any trade adjustment or position adjustment in any spot month Physically Settled Metal Futures Contract on the Last Trading Day unless such trade adjustment or position adjustment serves to close out an existing open position of the Non-delivery HKCC Participant.

Action of the Clearing House against a Non-delivery HKCC Participant under a Physically Settled Metal Futures Contract

606B. If a Non-delivery HKCC Participant fails to comply with Rule 606A, the Clearing House shall have the right to impose a fine as set out in section 2A.3.3.A of the Clearing House Procedures and the Non-delivery HKCC Participant shall submit to the Clearing House within one month of the Last Trading Day a rectification plan setting out an explanation of the non-compliance and the measures that it will put in place to ensure that non-compliance will not recur. If there is any breach by the Non-delivery HKCC Participant by virtue of the Non-delivery HKCC Participant failing to comply with Rule 606A(i), 606A(ii), 606A(iii) or 606A(iv), or maintaining open positions by the end of the Last Trading Day in more than one month during any continuous 12-month period, the Clearing House shall have the right to restrict the Non-delivery HKCC Participant from opening new positions in all Contract Months of the Physically Settled Metal Futures Contract and/or require the Non-delivery HKCC Participant to close out or transfer to another HKCC Participant open positions in such Physically Settled Metal Futures Contract for such period as the Clearing House considers fit.

Failure to comply with delivery and/or payment obligations

607. In the event that an HKCC Participant ("defaulting selling HKCC Participant") fails to comply with its delivery obligations under the settlement of a Physical Delivery Contract by the prescribed time in accordance with the Exchange Rules, these Rules and the Clearing House Procedures, the Clearing House reserves the right at any time:

(i) to impose a penalty on the defaulting selling HKCC Participant for any late settlement, such penalty to be of such amount and to be payable at such time as shall be specified by the Clearing House; and/or

(ii) to execute on behalf of the defaulting selling HKCC Participant a buy-in to purchase the underlying commodity or instrument up to the quantity required to be delivered by the defaulting selling HKCC Participant; and/or

(iii) to effect on behalf of the defaulting selling HKCC Participant a borrowing of the underlying commodity or instrument up to the quantity required to be delivered by the defaulting selling HKCC Participant.

607A. In the event that an HKCC Participant ("defaulting buying HKCC Participant") fails to comply with its payment obligations under the settlement of a Physical Delivery Contract by the prescribed time in accordance with the Exchange Rules, these Rules and the Clearing House Procedures, the Clearing House reserves the right at any time:

(i) to impose a penalty on the defaulting buying HKCC Participant for any late settlement, such penalty to be of such amount and to be payable at such time as shall be specified by the Clearing House; and/or

(ii) to purchase or borrow on behalf of the defaulting buying HKCC Participant the currency in which payment is required to be made up to the amount required to be paid by the defaulting buying HKCC Participant.

608. The Clearing House may instruct its designated agent to execute a buy-in or effect a purchase or borrowing under Rule 607 or 607A. The Clearing House shall have the right to disclose the name and other details of the defaulting selling HKCC Participant or the defaulting buying HKCC Participant and details of the relevant Contracts to such designated agent as the Clearing House deems fit.

609. Each defaulting selling HKCC Participant and defaulting buying 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 by the Clearing House in executing a buy-in and/or effecting a purchase or borrowing on its behalf under Rule 607 or 607A or taking any other action as the Clearing House considers appropriate as a result of the failure by the HKCC Participant to settle the Physical Delivery Contract in accordance with the Exchange Rules, these Rules and the Clearing House Procedures.

<u>Rights of the Clearing House against an HKCC Participant under a Physical Delivery Contract</u>

610. If more than one particular type or issue of underlying commodity or instrument is allowed for delivery as specified in the Exchange Rules or prescribed by the Clearing House, the Clearing House may deliver such type(s) or issue(s) of underlying commodity or instrument as it in its absolute discretion considers appropriate to the buying HKCC Participant to which the defaulting selling HKCC Participant was allocated under the random assignment process.

611. In addition to any other rights the Clearing House may have under these Rules:-

(a) where the Clearing House has an obligation to deliver the underlying commodity or instrument to the buying HKCC Participant in relation to a Physical Delivery Contract (other than a Physically Settled Metal Futures Contract or a Physically Settled Options on Futures Contract), the Clearing House may, in lieu of delivering the underlying commodity or instrument in whole or in part, make compensation to the buying HKCC Participant notwithstanding that such underlying commodity or instrument may be available in the market. The Chairman shall exercise his powers under this Rule 611(a) only in circumstances when the Chairman considers in his reasonable opinion that the underlying commodity or instrument is not freely available in the market. The money compensation shall be in such amount and in such currency or currencies (whether in the Settlement Currency, the Currency of the Contract or otherwise) as the Chairman considers, in consultation with the Commission, to be fair and reasonable having regard to all the circumstances of the case. The Chairman's decision on the amount of payment is final and there shall be no appeal for any reason;

(aa) notwithstanding any other provision of these Rules, where the Clearing House has an obligation to deliver any Deliverable Metal to the buying HKCC Participant in relation to a Physically Settled Metal Futures Contract, the Clearing House may, in lieu of delivering the Deliverable Metal, pay Cash Compensation to the buying HKCC Participant and such payment shall constitute full and final settlement of the Clearing House's obligations under the relevant Contract;

(b) where the Clearing House has an obligation to make payment to the selling HKCC Participant in relation to a Physical Delivery Contract in its 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 selling 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; and

(ba) notwithstanding any other provision of these Rules, where the Clearing House has an obligation to make payment to the selling HKCC Participant in relation to a Physically Settled Metal Futures Contract, the Clearing House may, in lieu of paying the Final Settlement Value to the selling HKCC Participant, not take delivery of the Deliverable Metal but instead pay Cash Compensation to the selling HKCC Participant and such payment shall constitute full and final settlement of the Clearing House's obligations under the relevant Contract.

611A. The Clearing House shall not be liable to an HKCC Participant in respect of any loss or damage, in contract, tort or otherwise and whether direct, indirect, consequential or otherwise, arising from any late settlement as a result of the failure by the defaulting selling HKCC Participant or the defaulting buying HKCC Participant to satisfy its delivery or payment obligations by the prescribed time.

611B. In respect of Physically Settled Metal Futures Contracts, notwithstanding any other provision of these Rules or the Exchange Rules, the Clearing House makes no representation or warranty as to whether, and is under no obligation to investigate or verify that, any Deliverable Metal complies with the terms of these Rules, the Exchange Rules, or any Re-novated Contract, including, without limitation, that such metal complies with the Delivery Warranties. The Clearing House shall have no liability to any person of any nature whatsoever in connection with any dispute or claim relating to the delivery (or non-delivery) of Deliverable Metal, or that Deliverable Metal does not comply with the Delivery Warranties, these Rules, the Exchange Rules or the terms of a Re-novated Contract.

"Exchange of futures"

612. (a) Where two HKCC Participants enter into a contract with each other for the sale and purchase of an underlying commodity which is to be settled by physical delivery and not by a cash settlement and those two HKCC Participants are each parties to open Contracts of which one is a seller and one is a buyer under the terms of those Contracts, the HKCC Participants may jointly request an "exchange of futures".

(b) With effect from the acceptance by the Clearing House of a request for an exchange of futures, each of the two open Contracts in question shall be deemed for all purposes to have been closed out at the Closing Quotation prevailing on the date of receipt of the notice.

(c) A request for exchange of futures shall be in such form as the Clearing House may from time to time require.

(d) The two HKCC Participants shall, if required by the Clearing House, produce evidence of the physical contract.

(e) The Clearing House may refuse to accept a request for exchange of futures without assigning any reasons therefor.

(f) The Clearing House may levy a fee in respect of an exchange of futures.

CHAPTER VII

THE RESERVE FUND AND LOSS DISTRIBUTION PROCESS

General

701. (a) The Clearing House shall establish a fund to provide resources to assist the Clearing House in meeting its obligations under Contracts registered pursuant to Rule 308A(e) or arising pursuant to Rule 309 or Rule 313. That fund shall constitute the Reserve Fund which shall be used only if the Clearing House is unable to meet its liabilities under Contracts by reason of defaults by HKCC Participants and shall be used only in accordance with the following Rules.

(aa) (deleted)

(ab) For the purpose of calculating the Reserve Fund size under Section 4.1 of the Clearing House Procedures, the Clearing House may, from time to time in its absolute discretion, prescribe an amount which is projected to be the maximum required size for the time being of the Reserve Fund, known as the Reserve Fund Threshold, taking into account such relevant factors as it shall consider appropriate, including any historical data and prevailing market conditions.

(ac) In addition to establishing the Reserve Fund, the Clearing House may put in place an arrangement in the form of an HKCC Participant Additional Deposits Credit to each HKCC Participant, up to such limit as the Clearing House may from time to time determine in its absolute discretion. For the avoidance of doubt, such limit may be determined by the Clearing House on an HKCC Participant basis. The HKCC Participant Additional Deposits Credit shall only be utilized for the purpose of reducing the amount of HKCC Participant Additional Deposits (other than any Assessment and Voluntary Recap Amount) payable by an HKCC Participant to the Clearing House in accordance with the Clearing House Procedures. The amount of HKCC Participant Additional Deposits Credit utilized by an HKCC Participant may be applied by the Clearing House towards satisfaction of an HKCC Participant's share of liabilities in accordance with Rule 706, subject to the following:

(i) The arrangement of allowing an HKCC Participant Additional Deposits Credit to each HKCC Participant is put in place by the Clearing House with the financial support of HKEX. Neither HKEX nor the Clearing House shall be required to make any actual payment to an HKCC Participant at any time in respect of the whole or any part of the HKCC Participant Additional

Deposits Credit that has been utilized and/or applied as above mentioned.

(ii) Unless otherwise determined by the Clearing House, where the whole or any part of the amount of HKCC Participant Additional Deposits Credit utilized by an HKCC Participant is applied by the Clearing House towards satisfaction of an HKCC Participant's share of the remaining liabilities pursuant to Rule 706, the HKCC Participant Additional Deposits Credit to be allowed to an HKCC Participant thereafter will correspondingly be reduced by the amount applied.

(b) Notwithstanding that the Reserve Fund and other resources and credits may be utilized and applied to satisfy any obligations and liabilities in relation to an event of default, this shall in no way prejudice the Clearing House's right to recover such sums in full, including the following, from the Defaulter as a result of its event of default:

(i) any amount paid out of the Reserve Fund pursuant to Rule 706;

(ii) any amount of HKCC Participant Additional Deposits Credit utilized and applied to satisfy any obligations and liabilities pursuant to Rule 706;

(iii) any Voluntary Recap Amount applied pursuant to Rule 709;

(iv) any amount of Gainer VA Flow Adjustment paid by the non-defaulting HKCC Participants pursuant to Rules 710 to 714; and

(v) any unpaid amount of Termination Value Payable by the Defaulter pursuant to section 2.13 of the Clearing House Procedures.

Monies recovered from the Defaulter (less any uncovered costs and expenses of recovery) may, but need not necessarily, be repaid to the relevant HKCC Participants and the Clearing House, subject to the terms of any relevant guarantee, bank facility or policy of insurance. If the amounts recovered are repaid to the relevant HKCC Participants and the Clearing House, it would be in the reverse order of priority and on the same pro rata basis with reference to the amounts and credits that have been utilized and applied to satisfy the liabilities and obligations in relation to an event of default including:

(i) any amount paid out of the Reserve Fund pursuant to Rule 706;

(ii) any amount of HKCC Participant Additional Deposits Credit utilized and applied to satisfy any obligations and liabilities pursuant to Rule 706;

(iii) any Voluntary Recap Amount applied pursuant to Rule 709; and

(iv) any amount of Gainer VA Flow Adjustment paid by the non-defaulting HKCC Participants pursuant to Rules 710 to 714.

It may be a term of any guarantee, facility or insurance policy that recoveries from the Defaulter be applied in a particular fashion other than repaid to the relevant HKCC Participants or the Clearing House, in which case the recoveries shall be applied in accordance with such term.

To the extent that the amount repaid to the Clearing House represents the financial support provided by HKEX, the Clearing House will pay the relevant amount received by it to HKEX.

Accounts and accounting

702. (a) The Clearing House shall earmark the Reserve Fund in its accounts and maintain a separate record in respect of the Reserve Fund so that –

(i) all amounts standing to the credit of;

(ii) all resources appropriated or which may under these Rules be appropriated by the Clearing House as contributions to; and

(iii) all guarantees, facilities or policies inuring for the benefit of

the Reserve Fund from time to time shall be apparent from the accounts and so that it is apparent whether any of such amounts, guarantees, facilities or policies are of limited application, being available to support the Clearing House's obligations only under particular Contracts or classes of Contract. Without prejudice to the aforesaid, the Clearing House shall maintain a separate account in respect of all the HKCC Participant's Deposits and HKCC Participant Additional Deposits made or required to be made by HKCC Participants to the Reserve Fund.

(b) Simultaneously with the annual audit of the accounts of the Clearing House, the Clearing House shall request its auditors to prepare a report on the Reserve Fund for circulation to the Commission and, upon request, to HKCC Participants.

Notify resources of Reserve Fund

703. The Clearing House shall notify HKCC Participants and the Commission on a regular basis of the resources available to the Reserve Fund, comprising the amounts standing to the credit of the Reserve Fund and the policies, guarantees and facilities available to support the Reserve Fund, and shall notify HKCC Participants and the Commission as to whether any part or parts of such

resources is or are limited in application, being available to support the Clearing House's obligations only under particular Contracts or classes of Contracts.

Appropriations to Reserve Fund

704. (a) In the event that payments out of the Reserve Fund under sub-paragraph (iv) of Rule 706(c) are required, the Clearing House will appropriate its resources as contributions to the Reserve Fund. The appropriation should amount to 10% or such other percentage of the Reserve Fund size as the Clearing House may determine from time to time.

(b) All HKCC Participant's Deposits and HKCC Participant Additional Deposits shall be credited to the Reserve Fund promptly upon receipt.

Support for Reserve Fund

705. The Clearing House may arrange insurance policies, guarantees or any other facilities or source of revenue for the purpose of providing additional resources to the Reserve Fund. Any such policy or guarantee or other facility may be expressed to be available to support the Clearing House's obligations under all Contracts, or only under particular Contracts or classes of Contract.

705A. For the purpose of providing further additional resources to the Reserve Fund, the Clearing House shall from time to time require HKCC Participants to pay such amounts by way of HKCC Participant Additional Deposits as the Clearing House determines necessary in accordance with the Clearing House Procedures. HKCC Participant Additional Deposits shall be applied by the Clearing House to the Reserve Fund in accordance with the HKCC Rules. For the avoidance of doubt, the HKCC Participant Additional Deposits Credit arrangements put in place by the Clearing House are not an (i) additional arrangement for the purposes of providing additional resources to the Reserve Fund; or (ii) appropriation of the Clearing House's resources to the Reserve Fund.

Use and order of application of Reserve Fund and application of HKCC Participant Additional Deposits Credit

706. (a) Except as provided in Rule 708, amounts standing to the credit of the Reserve Fund may be applied only in respect of the Clearing House's liabilities which arise by virtue of its being a counterparty to every Contract registered with and cleared by it (including but not limited to the expenses involved in making recoveries against Defaulters). If, in the opinion of the Clearing House, the resources of the Reserve Fund are at any time liable to be fully depleted or are at any time at a level which is unlikely to satisfy all such liabilities, the resources of the Reserve Fund shall be applied to all such liabilities on a pro rata basis or in such other manner as the Clearing House may consider fair and appropriate.

(b) The Clearing House may agree or arrange with any person (including but not limited to HKCC Participants) that any of the amounts standing to the credit of the Reserve Fund shall be available to support the Clearing House's obligations only under particular Contracts or classes of Contract or that any such amounts shall be applied in a particular order of priority.

(c) Subject to any agreement or arrangement pursuant to Rule 706(b), the amounts standing to the credit of the Reserve Fund shall be applied towards any payment permitted by Rule 706(a) in the following order of priority: -

(i) First, the HKCC Participant's Deposit and HKCC Participant Additional Deposit of the Defaulter;

(ii) Second, interest income credited to the Reserve Fund;

(ii) Third, the proceeds of any insurance policy arranged pursuant to Rule 705;

(iv) Fourth, the Clearing House's resources appropriated as contributions to the Reserve Fund from time to time;

(v) Fifth, the HKCC Participant's Deposits of other HKCC Participants;

(vi) Sixth, the proceeds of any guarantee or facility arranged pursuant to Rule 705; and

(vii) Seventh, the HKCC Participant Additional Deposits of other HKCC Participants

(d) (deleted)

(da) For the purposes of sub-paragraphs (v) and (vii) of Rule 706(c), if after the date of default of a Defaulter, an HKCC Participant has itself been declared as a Defaulter, any prevailing amounts standing to the credit of its HKCC Participant's Deposit and HKCC Participant Additional Deposit shall be applied towards the default of the other Defaulter and its own default in such manner as the Clearing House may consider appropriate.

(db) In the event that there are outstanding liabilities of the Clearing House remaining after the application under sub-paragraph (i) of Rule 706(c), the Clearing House will first apply the amount of HKCC Participant Additional Deposits Credit utilized by the Defaulter on the Business Day immediately before the start of the Capped Liability Period to satisfy the outstanding liabilities, prior to making any further payments out of the

Reserve Fund in accordance with the order set out in sub-paragraphs (ii) to (vii) of Rule 706(c).

(e) The amount of HKCC Participant's Deposit in respect of each HKCC Participant to be applied pursuant to sub-paragraph (v) of Rule 706(c) shall be calculated on a pro rata basis by reference to the HKCC Participant's share of the total HKCC Participant's Deposits on the Business Day immediately before the start of the Capped Liability Period, excluding the portions contributed by any Defaulter and any HKCC Participant whose HKCC Participantship has been effectively terminated or revoked by the Clearing House at or prior to the start of the Capped Liability Period. The amount of HKCC Participant Additional Deposit in respect of each HKCC Participant to be applied pursuant to sub-paragraph (vii) of Rule 706(c) shall be calculated in accordance with sub-paragraph (f) below. Following such application, the Reserve Fund Deposits Balance of each relevant HKCC Participant shall be reduced by an amount equal to the amount so applied in respect of such HKCC Participant. Notwithstanding the aforesaid, if at or prior to the start of the Capped Liability Period, the HKCC Participantship of an HKCC Participant is effectively terminated or revoked, its HKCC Participant's Deposit and HKCC Participant Additional Deposit will not be applied towards the default, and if at or prior to the start of the Capped Liability Period, an HKCC Participant has itself been declared as a Defaulter, its HKCC Participant's Deposit and HKCC Participant Additional Deposit will only be applied towards its own default.

(f) The amount of HKCC Participant Additional Deposits in respect of each HKCC Participant to be applied pursuant to sub-paragraph (vii) of Rule 706(c) shall be determined as follows:

(i) The Clearing House will first calculate the HKCC Participant's share of the outstanding liabilities by reference to the HKCC Participant's share of the sum of HKCC Participant Additional Deposits and HKCC Participant Additional Deposits Credit utilized in respect of all the HKCC Participants on the Business Day immediately before the start of the Capped Liability Period, excluding the portions contributed by any Defaulter and any HKCC Participant whose HKCC Participantship has been effectively terminated or revoked at or prior to the start of the Capped Liability Period; and

(ii) The HKCC Participant's share of the outstanding liabilities calculated under sub-paragraph (i) above shall be borne by way of (a) payment of its HKCC Participant Additional Deposits out of the Reserve Fund pursuant to paragraph (vii) of Rule 706(c) and (b) the application by the Clearing House of the HKCC Participant Additional Deposits Credit utilized by such HKCC Participant on a pro-rata basis, by reference to their respective

proportions as compared to the sum of its HKCC Participant Additional Deposits and HKCC Participant Additional Deposits Credit utilized on the Business Day immediately before the start of the Capped Liability Period, provided that the amount borne by the HKCC Participant Additional Deposits Credit utilized shall not exceed the HKCC Participant Additional Deposits Credit allowed to such HKCC Participant. Any amount in excess of the HKCC Participant Additional Deposits Credit allowed to such HKCC Participant shall be borne by the HKCC Participant by way of the HKCC Participant Additional Deposits.

(g) Where the whole or any part of the amount(s) of HKCC Participant Additional Deposits Credit utilized is applied to satisfy the outstanding liabilities pursuant to this Rule 706, the Defaulter shall be liable to repay to the Clearing House the relevant amounts and the Clearing House shall be entitled to recover the amounts from such Defaulter, without prejudice to any other rights which the Clearing House may have. To the extent that the amount recovered by the Clearing House from such Defaulter represents the financial support provided by HKEX, the Clearing House will pay the amount received by it to HKEX.

706A. (deleted)

706B. (deleted)

706C. (deleted)

706D. (deleted)

Assessments

707. (a) (deleted)

(b) (deleted)

707A. (a) Upon the occurrence of an event of default, where all or part of the Reserve Fund is applied pursuant to Rule 706 or the Clearing House determines that the resources available to the Clearing House under the Reserve Fund and those that may be applied under Rules 510(e) , 510(g) and 706 will not be sufficient to satisfy the obligations and liabilities of the Clearing House in relation to an event of default, the Clearing House may demand each HKCC Participant (excluding any HKCC Participant specified under Rule 707A(b)) to provide such additional contributions (i) to bring the Reserve Fund to the same level as that before any application is made or to be made; and/or (ii) to provide such additional contributions as the Clearing House may require to meet any obligations and liabilities in relation to an event of default, subject to the limit set out in Rule 707A(aa) ("Assessments"). Any Assessment provided by an HKCC

Participant shall form part of its Reserve Fund Deposits Balance.

(aa) In respect of one or more events of default occurring during a Capped Liability Period, the aggregate liability of an HKCC Participant to provide Assessments during a Capped Liability Period shall be limited to an amount which is equal to its HKCC Participant's Deposit required and its HKCC Participant Additional Deposit calculated pursuant to Chapter 4 of the Clearing House Procedures on the Business Day immediately preceding the start of the Capped Liability Period, plus one time such amount.

For example, assume that the HKCC Participant's Deposit required is HK$1,500,000 and the HKCC Participant Additional Deposit calculated is HK$1,000,000 on the Business Day immediately preceding the start of the Capped Liability Period. In this case, the maximum liability of the HKCC Participant to provide Assessments during a Capped Liability Period would be HK$5,000,000 (i.e. two times the aggregate of its HKCC Participant's Deposit of HK$1,500,000 and HKCC Participant Additional Deposit of HK$1,000,000).

(b) Assessments shall not be required from HKCC Participants which have been declared as a Defaulter on the day such Assessments are demanded or whose HKCC Participantships have been effectively terminated or revoked by the Clearing House at or prior to the start of the Capped Liability Period. For the avoidance of doubt, the obligations and liabilities of an HKCC Participant to provide Assessments under Rule 707A in respect of any events of default which occur during a Capped Liability Period which commenced prior to the termination of its HKCC Participantship shall survive the termination of the HKCC Participantship notwithstanding the fact that the expiry of such Capped Liability Period occurs after termination, provided that the aggregate liability of the HKCC Participant shall be limited as provided for in Rule 707A(aa).

(c) The Clearing House shall notify HKCC Participants of any demand for Assessments by issuing a written notice ("Notice of Assessment") as the Clearing House considers appropriate. The Clearing House may demand such Assessments to be satisfied before, after or at the same time that an application is made under Rule 706. All demands for Assessments must be met by cash payment in Hong Kong dollars or in any other currency prescribed by the Clearing House from time to time no later than the first Business Day after the demand is made by the Clearing House or within such other time period as may be specified by the Clearing House.

Replenishment of Reserve Fund

707B. Following the occurrence of an event of default, any recalculation of the Reserve Fund size apart from under Rule 707A shall be suspended during the relevant Capped Liability Period. Upon the expiry of the relevant Capped

Liability Period, the Clearing House shall assess the adequacy of the Reserve Fund and determine the Reserve Fund Deposits requirement of each HKCC Participant in accordance with Chapter 4 of the Clearing House Procedures. Subject to Rule 707D, the Clearing House will notify the HKCC Participant of any replenishment amount required as Reserve Fund Deposits as a result of the recalculation. The HKCC Participant shall make such Reserve Fund Deposits no later than the first Business Day after the date of the notice, or within such other time period as may be specified by the Clearing House. Any such Reserve Fund Deposits made by an HKCC Participant following the expiry of such Capped Liability Period shall only be applied in respect of the events of default which occur after the expiry of the relevant Capped Liability Period and shall not be applied in respect of any event of default that occurred prior to the expiry of such Capped Liability Period.

707C. Following the expiry of a Capped Liability Period following an event of default, if the whole or any part of the Clearing House's appropriation to the Reserve Fund is applied in accordance with Rule 706, the Clearing House shall make appropriations for the deficiency of its appropriation to the Reserve Fund following the same replenishment time period as specified in Rule 707B, subject to the approval of the Board and regulatory capital requirements applicable to the Clearing House. Any part of the Clearing House's appropriation to the Reserve Fund following the expiry of such Capped Liability Period shall only be applied in respect of the events of default which occur after the expiry of the relevant Capped Liability Period and shall not be applied in respect of any event of default that occurred prior to the expiry of such Capped Liability Period.

<u>Resignation of HKCC Participantship for limiting liability following the expiry of the Capped Liability Period</u>

707D. (a) Where an HKCC Participant wishes to resign its participantship to limit its liability to any subsequent events of default that may occur following the expiry of the applicable Capped Liability Period, it must:

(i) submit a Resignation Notice to the Clearing House and receive an acknowledgement from the Clearing House;

(ii) successfully close out, trade out, transfer, settle or otherwise discharge its liabilities in respect of all open Contracts registered in its house clearing account and any clearing account which is not of a Client nature in accordance with the Rules prior to the expiry of the Capped Liability Period; and

(iii) either: (a) successfully close out, trade out, transfer, settle or otherwise discharge its liabilities in respect of all open Contracts registered in its Client clearing accounts and any clearing account which is of a Client nature in accordance with the Rules prior to the expiry of the applicable Capped Liability Period or (b) notify the Clearing House

that it wishes to extend the period for the winding down of open Contracts registered in its Client clearing accounts and any clearing account which is of a Client nature until the date which falls 5 Business Days from the date of expiry of the applicable Capped Liability Period. If an HKCC Participant sends a notification pursuant to Rule 707D(a)(iii)(b) above it must provide collateral, by way of additional margin, which is at least equal to the net projected loss (projected aggregate loss less General Collateral (excluding any excess collateral) and any margin) arising from such open Contracts registered in the Client clearing accounts and any clearing account which is of a Client nature as communicated by the Clearing House until the time at which any remaining open positions in its Client clearing accounts and any clearing account which is of a Client nature have been successfully closed out, traded out, transferred, settled or any liabilities in respect of such open positions have been discharged in accordance with the Rules.

(b) If the conditions set out in Rule 707D(a) are not met, the HKCC Participant will be subject to the replenishment of Reserve Fund Deposits pursuant to Rule 707B (and liabilities thereto) upon the expiry of the applicable Capped Liability Period.

Payments out of Reserve Fund

708. (a) In addition to its power to make payments out of the Reserve Fund in respect of the liabilities referred to in Rule 706(a), the Clearing House may make payments out of the Reserve Fund in accordance with the following provisions of this Rule.

(aa) The Clearing House may apply any amounts standing to the credit of the Reserve Fund as a short-term source of liquid funds to meet any immediate obligations under Contracts registered pursuant to Rule 308A(e) or arising pursuant to Rule 309 or Rule 313 on a temporary basis, regardless of the order of priority set out in Rule 706.

(b) The Clearing House may apply any amounts standing to the credit of the Reserve Fund (other than any amount representing HKCC Participant's Deposits and any HKCC Participant Additional Deposits) which are in the opinion of the Clearing House surplus to the requirements of the Reserve Fund in such manner as the Clearing House thinks fit, including appropriation of such moneys out of the Reserve Fund temporarily or permanently.

(c) For the purposes of Rules 217 and 519(d) the Clearing House may withdraw from the Reserve Fund and reimburse to an HKCC Participant an amount equal to an HKCC Participant's Deposit and any HKCC Participant Additional Deposit (or such lesser amount as is payable in accordance with the provisions of those Rules).

Voluntary Recapitalization

709. (a) If the Clearing House determines at any stage that the loss arising from an event of default is expected to exceed the financial resources available including the Reserve Fund and the relevant amount received or to be received under Rule 707A and those available to be applied under Rules 510(e), 510(g) and 706, the Clearing House may issue a written notice (the "Voluntary Recap Request Notice") requesting each HKCC Participant to make a payment of funds (each a "Voluntary Recap Amount") to the Clearing House.

(b) Upon receipt of a Voluntary Recap Request Notice issued by the Clearing House in accordance with Rule 709(a), an HKCC Participant may, but is not obliged to, provide its Voluntary Recap Amount to the Clearing House within one Business Day following receipt of the Voluntary Recap Request Notice. The Voluntary Recap Amount provided by HKCC Participants must be met by cash payment in Hong Kong dollars or in any other currency prescribed by the Clearing House from time to time. Any Voluntary Recap Amount made by an HKCC Participant to the Clearing House may not be withdrawn.

(c) Any Voluntary Recap Amount received by the Clearing House from an HKCC Participant shall form part of the Reserve Fund Deposits Balance of such HKCC Participant after such Voluntary Recapitalization is declared successful by the Clearing House, and the application of such amount will be subject to Rule 706.

(d) If the total Voluntary Recap Amount received by the Clearing House is less than the aggregate of the Voluntary Recap Amounts requested by the Clearing House from the HKCC Participants, any amounts received will be refunded to the relevant HKCC Participants on the next Business Day and will not form part of the HKCC Participant Additional Deposits or Reserve Fund Deposits Balances of the relevant HKCC Participants.

Loss Distribution Process

710. On each Business Day during the Loss Distribution Period, the Clearing House will determine whether the loss resulting from an event of default will exceed the resources available to the Clearing House including the relevant amount received under Rule 709 and those available to be applied pursuant to Rules 510(e), 510(g) and 706 with respect to such event of default. If it does, then the Clearing House will consult with the Commission and may either invoke the "Loss Distribution Process" set out in Rules 710 to 714 or invoke the Clearing Service Termination Event as set out in Rules 1101 to 1104.

711. If the Loss Distribution Process applies, then on each Business Day during the Loss Distribution Period:

(a) the Clearing House will determine whether a clearing account registered in the name of a non-defaulting HKCC Participant is a Clearing Account Gainer or a Clearing Account Loser;

(b) if the clearing account registered in the name of a non-defaulting HKCC Participant is a Clearing Account Gainer, and the Gainer VA Flow Adjustment calculated for a Currency VA Payment in respect of that clearing account for that Business Day is a positive number, the relevant non-defaulting HKCC Participant shall pay an amount equal to such Gainer VA Flow Adjustment to the Clearing House. If the clearing account registered in the name of a non-defaulting HKCC Participant is a Clearing Account Gainer and the Gainer VA Flow Adjustment calculated for a Currency VA Payment in respect of that clearing account for that Business Day is a negative number, the Clearing House shall pay to the relevant non-defaulting HKCC Participant an amount equal to the absolute value of such Gainer VA Flow Adjustment; and

(c) if the clearing account registered in the name of a non-defaulting HKCC Participant is a Clearing Account Loser, the Clearing House shall pay to the relevant non-defaulting HKCC Participant an amount equal to the absolute value of such negative Loser VA Flow Adjustment calculated for a Currency VA Payment in respect of that clearing account for that Business Day.

For the purpose of the calculations and adjustments conducted under the Loss Distribution Process, each clearing account of a non-defaulting HKCC Participant will be treated separately.

712. On each Business Day during the Loss Distribution Period, the Clearing House will apply the exchange rate determined by the Clearing House from such source and on such basis as it shall consider appropriate, in making the calculations required to be made under the Loss Distribution Process, including components which relate to payments made, or falling due, on previous days.

713. On each loss distribution day, the Clearing House shall apply set-off with respect to any payment or receipt of any VA Flow Adjustment on such day against any payments denominated in the same Settlement Currency as such VA Flow Adjustment payable to, or receivable from, the relevant HKCC Participant.

714. Without prejudice to Rules 310, 515A, 545 to 551 and 1101, in the absence of manifest error, any VA Flow Adjustment determined by the Clearing House shall be final and conclusive. Any application of a Gainer VA Flow Adjustment resulting in a reduction of Currency VA Payment by the Clearing House to a non-defaulting HKCC Participant shall not constitute a failure to pay by the Clearing House.

CHAPTER VIII

EMERGENCIES

801. In the event of substantial fluctuations in the markets operated by the Exchange, the Clearing House and the Exchange may jointly require all Exchange Participants and HKCC Participants not to transact or register any new open positions and to close out all their existing open Contracts within a period stipulated by them and for this purpose the Exchange may be open "for liquidation orders only", and only Contracts identified as closing out other Contracts will be accepted for registration and clearing by the Clearing House.

801A. If in the opinion of the Managing Director, the Board or the HKEX board an emergency (including but not limited to fire, epidemic or other casualty or accident, severe weather conditions, earthquake, natural disaster, power failures, communications breakdowns, computer malfunction, war, riot, civil commotion, labour strike, terrorist attack and other similar events) is imminent or threatened or has occurred or developed, and in consequence no orderly operation of the clearing, settlement and collateral management services can take place, the Managing Director (with prior reference to the Board) and the Board shall have full authority (in consultation with the Commission) to suspend the whole or any part of the Clearing House's facilities or services and to take such other action as the Managing Director and the Board may, in their absolute discretion, deem necessary or appropriate to deal with such emergency or as directed by the HKEX board. Notwithstanding the foregoing, the Managing Director may suspend the Clearing House's facilities or services under this Rule without prior reference to the Board if, but only if, in his opinion it is not possible for a meeting of the Board to be convened immediately. The Managing Director may not otherwise suspend the Clearing House's facilities or services under this Rule and whenever the Clearing House's facilities or services are suspended by the Managing Director in accordance with this Rule, he shall arrange for a meeting of the Board to be held as soon as practicable after the suspension. Under no circumstances shall the Clearing House or HKEX be responsible for damages arising from any such emergency or any action taken by the Clearing House in respect thereof.

802. (deleted)

803. (deleted)

CHAPTER IX

DCASS

Introduction

901. HKCC Participants shall ensure that DCASS is operated, and Contracts are cleared and settled through DCASS, in accordance with these Rules, the Clearing House Procedures, the DCASS User Guide and such other procedures and requirements as may be specified by the Clearing House from time to time, including those specified in the DCASS Agreement.

Connection to DCASS

902. Prior to the establishment of an electronic connection of an HKCC Participant to DCASS ("DCASS connection"), a DCASS Agreement in a form prescribed by the Clearing House from time to time shall be entered into.

902A. An HKCC Participant shall establish its DCASS connections via the central gateway provided by the Clearing House.

903. The Clearing House reserves the right to limit the number of DCASS connections per HKCC Participant.

904. The Clearing House reserves the right immediately to disconnect a DCASS connection and prohibit any person (whether an HKCC Participant or not) from having access to DCASS on such conditions as the Clearing House thinks fit.

905. HKCC Participants shall follow such security procedures pertaining to their DCASS connections as are from time to time specified by the Clearing House.

906. HKCC Participants shall notify the Clearing House immediately if their DCASS connections or clearing activities on DCASS are affected by any disruptions, whether technical or otherwise.

907. The Clearing House may from time to time impose such requirements on HKCC Participants as to the operation of and access to DCASS as the Clearing House may think fit.

DCASS equipment and software

908. Equipment and software which are required for DCASS connection shall be specified by the Clearing House from time to time.

909. The Clearing House reserves the right to approve any equipment and software not specified by the Clearing House in accordance with Rule 908. In the

event that an HKCC Participant wishes to use any equipment and software other than that specified by the Clearing House, the Clearing House may require prior to DCASS connection that such equipment and software are thoroughly tested by the HKCC Participant and determined by the Clearing House not to have any detrimental impact on the operation of DCASS.

910. HKCC Participants shall install all applicable software specified by the Clearing House in the latest version in force together with system program software in the latest version specified by the Clearing House. HKCC Participants shall not alter, modify, reverse engineer, change or copy programs or software supplied by the Clearing House without the Clearing House's prior written permission.

911. HKCC Participants shall grant the Clearing House access for the inspection of equipment, software or applications relating to their DCASS connections. Such inspections shall take place wherever practicable at an agreed time and in the presence of the HKCC Participant in question.

912. (deleted)

Backup Centre for DCASS

912A. In case HKCC Participants cannot perform post-trade functions via DCASS due to technical or other reasons, they can request the use of the backup centre provided by the Clearing House to perform such functions. For the service hours of the backup centre and other details, please refer to the DCASS User Guide.

912B. (deleted)

Liability of HKCC Participants

913. Each HKCC Participant shall be responsible and liable for all instructions and clearing and settlement activities arising from its DCASS connection, and any unstable condition, breakdown or damage to DCASS or other consequences resulting from the use of such DCASS connection, whether by the HKCC Participant or any other person.

914. No action shall lie against and no liability whatsoever nature and howsoever arising, whether in contract, tort or otherwise, shall be incurred by the Clearing House, the Exchange, the Board, any Director, the Chairman, any HKEX staff or a recognized exchange controller which is the controller of the Clearing House directly or indirectly in connection with any failure, error or defect in, or unavailability of, DCASS or any other equipment, systems, services or facilities of the Clearing House.

CHAPTER X

CCMS

Introduction

1001. HKCC Participants shall ensure that CCMS is operated in accordance with these Rules, the Clearing House Procedures, the CCMS Terminal User Guide and such other procedures and requirements as may be specified by the Clearing House from time to time.

Connection to CCMS

1002. The Clearing House reserves the right immediately to disconnect the electronic connection of an HKCC Participant to CCMS ("CCMS connection") and prohibit any person (whether an HKCC Participant or not) from having access to CCMS on such conditions as the Clearing House thinks fit.

1003. HKCC Participants shall follow such security procedures pertaining to their CCMS connections as are from time to time specified by the Clearing House in the CCMS Terminal User Guide. It is the responsibility of each HKCC Participant to ensure the security of its access to CCMS at all times.

1004. HKCC Participants shall notify the Clearing House immediately if their CCMS connections or collateral management activities on CCMS are affected by any disruptions, whether technical or otherwise.

1005. The Clearing House may from time to time impose such requirements on HKCC Participants as to the operation of and access to CCMS as the Clearing House may think fit.

CCMS equipment and software

1006. Equipment and software which are required for connection to CCMS shall be specified by the Clearing House from time to time.

1007. The Clearing House reserves the right to approve any equipment and software not specified by the Clearing House in accordance with Rule 1006. In the event that an HKCC Participant wishes to use any equipment and software other than that specified by the Clearing House, the Clearing House may require prior to CCMS connection that such equipment and software are thoroughly tested by the HKCC Participant and determined by the Clearing House not to have any detrimental impact on the operation of CCMS.

1008. HKCC Participants shall install all applicable software specified by the Clearing House in the latest version in force together with system program software in the latest version specified by the Clearing House. HKCC

Participants shall not alter, modify, reverse engineer, change or copy programs or software supplied by the Clearing House without the Clearing House's prior written permission.

1009. HKCC Participants shall grant the Clearing House access for the inspection of equipment, software or applications relating to their CCMS connections. Such inspections shall take place wherever practicable at an agreed time and in the presence of the HKCC Participant in question.

1010. The cost for the requisite equipment supplied by the Clearing House and the installation and maintenance thereof as detailed in Appendix A shall be borne by the HKCC Participant.

Backup Centre for CCMS

1011. In case HKCC Participants cannot perform collateral management functions via CCMS due to technical or other reasons, they can request the use of the backup centre provided by the Clearing House to perform such functions. For the service hours of the backup centre and other details, please refer to the CCMS Terminal User Guide.

Liability of HKCC Participants

1012. Each HKCC Participant shall be responsible and liable for all instructions and activities arising from its CCMS connection, and any unstable condition, breakdown or damage to CCMS or other consequences resulting from the use of such CCMS connection, whether by the HKCC Participant or any other person.

1013. No action shall lie against and no liability whatsoever nature and howsoever arising, whether in contract, tort or otherwise, shall be incurred by the Clearing House, the Exchange, HKSCC, the Board, any Director, the Chairman, any HKEX staff or a recognized exchange controller which is the controller of the Clearing House directly or indirectly in connection with any failure, error or defect in, or unavailability of, CCMS or any other equipment, systems, services or facilities of the Clearing House.

CHAPTER XI

CLEARING SERVICE TERMINATION EVENT

Clearing Service Termination Event

1101. Notwithstanding Rules 310, 515A and 545 to 551, if the Clearing House, in consultation with the Commission, determines at any stage that:

(a) the losses resulting from one or more events of default occurring within the same Capped Liability Period will exceed the resources available to it including those available to be applied under Rules 510(e), 510(g) and 706 with respect to all such events of default; or

(b) the clearing and settlement services in relation to Futures/Options Contracts shall cease to be provided,

the Clearing House shall notify all HKCC Participants of its determination to cease providing clearing and settlement services in relation to Futures/Options Contracts (a "Clearing Service Termination Event") and the clearing and settlement services will be wound down in accordance with Rules 1101 to 1104.

1102. Upon the occurrence of a Clearing Service Termination Event, every open Contract between the Clearing House and an HKCC Participant shall be automatically terminated and all prevailing obligations of the Clearing House and such HKCC Participant in respect of each such Contract between them (including the obligations to deliver any underlying commodities or instruments under such Contract) shall cease and be replaced with the obligation of the Clearing House or the relevant HKCC Participant, as the case may be, to pay the other party with respect to each clearing account registered in the name of such HKCC Participant a net sum which shall take into account the termination value and any unpaid amounts of each such Contract registered in the relevant clearing account as determined by the Clearing House under this Rule and section 7.1 of the Clearing House Procedures. The termination value for each open Contract shall be determined based on the Closing Quotation determined in accordance with section 2.3 of the Clearing House Procedures at the time of contract termination, or if such Closing Quotation is not available, the price shall be such price as the Clearing House may reasonably determine. The Clearing House may also take into account any unpaid amounts that have become due and payable in respect of any Contract on or prior to the occurrence of the Clearing Service Termination Event.

1103. Following the payment by each relevant HKCC Participant of the Limited Recourse Interim CP Payable or Limited Recourse Final CP Payable with respect to each clearing account of each relevant HKCC Participant arising from such Contracts, the Clearing House shall pay an amount equal to the Margin Balance in respect of an HKCC Participant to such HKCC Participant

in accordance with section 7.1 of the Clearing House Procedures; and the Clearing House shall pay an amount equal to the Reserve Fund Deposits Balance in respect of an HKCC Participant or Former HKCC Participant to such HKCC Participant or Former HKCC Participant in accordance with section 7.1 of the Clearing House Procedures.

Liability of the Clearing House under a Clearing Service Termination Event

1104. Notwithstanding the provisions of Rule 310, settlement (by payment, set-off or otherwise) of the Limited Recourse CP Receivable with respect to the clearing accounts of each relevant HKCC Participant arising from such Contracts pursuant to Rule 1102 and section 7.1 of the Clearing House Procedures discharges in full the obligations of the Clearing House in respect of these Contracts and no HKCC Participant or client of an HKCC Participant shall have any recourse against the Clearing House or to any fund or other entity, including without limitation any affiliate or recognized exchange controller which is the controller of the Clearing House in relation to any Contract once the resources available to the Clearing House including those available to be applied under Rules 510(e), 510(g) and 706 have been exhausted. In particular, no HKCC Participant or client of an HKCC Participant shall be entitled to instigate any action for the winding-up or the appointment of a receiver or manager over any property of the Clearing House.

APPENDIX A

Fees

Description	Amount[1]
Settlement Fees (Futures), Exercise Fees and Assignment Fees (Options)	
Equity products	
Hong Kong Stock Futures	2.00/Lot
US Stock Futures	USD1.30/Lot
Japanese Stock Futures	USD1.30/Lot
Korean Stock Futures	USD1.30/Lot
Taiwan Stock Futures	USD1.30/Lot
Options on US Stock Futures	USD0.25/Lot
Options on Japanese Stock Futures	USD0.25/Lot
Options on Korean Stock Futures	USD0.45/Lot
Options on Taiwan Stock Futures	USD0.45/Lot
Equity index products	
HSI Futures	10.00/Lot
HSI Options	10.00/Lot
HSI Futures Options	10.00/Lot
HSCEI Futures Options	3.50/Lot
Mini-HSI Futures	3.50/Lot
Mini-HSI Options	2.00/Lot
HSCEI Futures	3.50/Lot
HSCEI Options	3.50/Lot
Mini-HSCEI Futures	2.00/Lot
Mini-HSCEI Options	1.00/Lot
Weekly HSI Options	10.00/Lot
Weekly HSCEI Options	3.50/Lot
Hang Seng SCHK China Financials Index Futures	5.00/Lot
HSI Dividend Point Index Futures	3.00/Lot
HSCEI Dividend Point Index Futures	1.50/Lot
HSI Volatility Index Futures	10.00/Lot
CES China 120 Index Futures	10.00/Lot
Hang Seng Mainland Banks Index Futures	2.00/Lot
MSCI AC Asia ex Japan Net Total Return Index Futures	USD0.50/Lot
MSCI Australia Net Total Return (USD) Index Futures	USD0.60/Lot
MSCI China A 50 Connect (USD) Index Futures	USD1.00/Lot
MSCI China (USD) Index Futures	USD1.00/Lot
MSCI China Net Total Return (USD) Index Futures	USD0.60/Lot
MSCI Emerging Markets (USD) Index Futures	USD0.60/Lot
MSCI Emerging Markets Asia ex China Net Total Return (USD) Index Futures	USD0.60/Lot
MSCI Emerging Markets Asia ex Korea Net Total Return (USD) Index Futures	USD0.60/Lot
MSCI Emerging Markets Asia Net Total Return (USD) Index Futures	USD0.60/Lot
MSCI Emerging Markets EMEA Net Total Return (USD) Index Futures	USD0.60/Lot
MSCI Emerging Markets ex China Net Total Return (USD) Index Futures	USD0.60/Lot

Description	Amount[1]
MSCI Emerging Markets ex Korea Net Total Return (USD) Index Futures	USD0.60/Lot
MSCI Emerging Markets Latin America Net Total Return (USD) Index Futures	USD0.60/Lot
MSCI Emerging Markets Net Total Return (USD) Index Futures	USD0.60/Lot
MSCI Hong Kong Net Total Return (USD) Index Futures	USD0.60/Lot
MSCI India (USD) Index Futures	USD1.00/Lot
MSCI India Net Total Return (USD) Index Futures	USD0.60/Lot
MSCI Indonesia (USD) Index Futures	USD1.00/Lot
MSCI Indonesia Net Total Return (USD) Index Futures	USD0.60/Lot
MSCI Japan Net Total Return (USD) Index Futures	USD0.60/Lot
MSCI Malaysia (USD) Index Futures	USD1.00/Lot
MSCI Malaysia Net Total Return (USD) Index Futures	USD0.60/Lot
MSCI New Zealand Net Total Return (USD) Index Futures	USD0.60/Lot
MSCI Pacific ex Japan Net Total Return (USD) Index Futures	USD0.60/Lot
MSCI Pacific Net Total Return (USD) Index Futures	USD0.60/Lot
MSCI Philippines (USD) Index Futures	USD1.00/Lot
MSCI Philippines Net Total Return (USD) Index Futures	USD0.60/Lot
MSCI Singapore Free (SGD) Index Futures	SGD1.40/Lot
MSCI Singapore Free Net Total Return (USD) Index Futures	USD0.60/Lot
MSCI Singapore Net Total Return (USD) Index Futures	USD0.60/Lot
MSCI Taiwan (USD) Index Futures	USD1.00/Lot
MSCI Taiwan (USD) Index Options	USD1.00/Lot
MSCI Taiwan Net Total Return (USD) Index Futures	USD0.60/Lot
MSCI Taiwan 25/50 (USD) Index Futures	USD1.00/Lot
MSCI Taiwan 25/50 Net Total Return (USD) Index Futures	USD0.60/Lot
MSCI Thailand (USD) Index Futures	USD1.00/Lot
MSCI Thailand Net Total Return (USD) Index Futures	USD0.60/Lot
MSCI Vietnam (USD) Index Futures	USD1.00/Lot
MSCI Vietnam Net Total Return (USD) Index Futures	USD0.60/Lot
Hang Seng Index (Gross Total Return Index) Futures	30.00/Lot
Hang Seng Index (Net Total Return Index) Futures	30.00/Lot
Hang Seng China Enterprises Index (Gross Total Return Index) Futures	10.00/Lot
Hang Seng China Enterprises Index (Net Total Return Index) Futures	10.00/Lot
Hang Seng TECH Index Futures	2.50/Lot
Hang Seng TECH Index Options	2.50/Lot
Hang Seng TECH Index Futures Options	2.50/Lot
Weekly Hang Seng TECH Index Options	2.50/Lot
Hang Seng Biotech Index Futures	5.00/Lot
Interest rate products	
EFN Futures	8.00/Lot
HIBOR Futures	5.00/Lot
Five-Year CGB Futures	RMB5.00/Lot
Metal products	
CNH Gold Futures	RMB12.00/Lot
CNH Silver Futures	RMB12.00/Lot
CNH London Aluminium Mini Futures	RMB1.20/Lot

Description	Amount[1]
CNH London Zinc Mini Futures	RMB1.20/Lot
CNH London Copper Mini Futures	RMB1.20/Lot
CNH London Nickel Mini Futures	RMB1.20/Lot
CNH London Tin Mini Futures	RMB1.20/Lot
CNH London Lead Mini Futures	RMB1.20/Lot
USD Gold Futures	USD2.00/Lot
USD Silver Futures	USD2.00/Lot
USD London Aluminium Mini Futures	USD0.20/Lot
USD London Zinc Mini Futures	USD0.20/Lot
USD London Copper Mini Futures	USD0.20/Lot
USD London Nickel Mini Futures	USD0.20/Lot
USD London Tin Mini Futures	USD0.20/Lot
USD London Lead Mini Futures	USD0.20/Lot
Currency products	
AUD/CNH Futures	RMB5.00/Lot
EUR/CNH Futures	RMB5.00/Lot
JPY/CNH Futures	RMB5.00/Lot
USD/CNH Futures	RMB8.00/Lot
Mini USD/CNH Futures	RMB1.60/Lot
CNH/USD Futures	USD0.60/Lot
USD/CNH Options	RMB8.00/Lot
DCASS-Related Fees	
Connection fee for DCASS online access via the central gateway	2,600/month/connection
Sub-license fee for DCASS OAPI via the central gateway	2,600/month/connection
Access to the DCASS testing environment	100/day or part thereof provided that no access fee will be charged for the first 5 Business Days
Performance of login test or transaction test outside of HKCC's normal working hours	1,000/day or part thereof regardless of test results
OAPI certification	2,000/test regardless of test results
On-behalf-of processing	50/transaction (minimum fee of 500/day)
Re-print of reports	5/page up to 1,000 per report or per diskette

Description	Amount[1]
CCMS-Related Fees	
Re-print of reports	5/page up to 1,000 per report or per diskette
Establishment of CCMS users or delegated administrators[2]	250 each

[1] *Unless otherwise specified, the amounts listed in this appendix are in HK dollars*
[2] *Refer to CCMS Terminal User Guide for description of CCMS users and delegated administrators*

Note: In addition to the fees specified herein, the Clearing House reserves the right to charge HKCC Participants for any disbursements and out-of-pocket expenses it incurs in the delivery of services and facilities to HKCC Participants.

APPENDIX B

T+1 Session Cutoff Time

Products	Time
Equity Index Products	
HSI Futures	3:00 a.m.
HSI Options	3:00 a.m.
HSI Futures Options	3:00 a.m.
HSCEI Futures Options	3:00 a.m.
Mini-HSI Futures	3:00 a.m.
Mini-HSI Options	3:00 a.m.
HSCEI Futures	3:00 a.m.
HSCEI Options	3:00 a.m.
Mini-HSCEI Futures	3:00 a.m.
Mini-HSCEI Options	3:00 a.m.
Weekly HSI Options	3:00 a.m.
Weekly HSCEI Options	3:00 a.m.
MSCI AC Asia ex Japan Net Total Return Index Futures	3:00 a.m.
MSCI Australia Net Total Return (USD) Index Futures	3:00 a.m.
MSCI China A 50 Connect (USD) Index Futures	3:00 a.m.
MSCI China (USD) Index Futures	3:00 a.m.
MSCI China Net Total Return (USD) Index Futures	3:00 a.m.
MSCI Emerging Markets (USD) Index Futures	3:00 a.m.
MSCI Emerging Markets Asia ex China Net Total Return (USD) Index Futures	3:00 a.m.
MSCI Emerging Markets Asia ex Korea Net Total Return (USD) Index Futures	3:00 a.m.
MSCI Emerging Markets Asia Net Total Return (USD) Index Futures	3:00 a.m.
MSCI Emerging Markets EMEA Net Total Return (USD) Index Futures	3:00 a.m.
MSCI Emerging Markets ex China Net Total Return (USD) Index Futures	3:00 a.m.
MSCI Emerging Markets ex Korea Net Total Return (USD) Index Futures	3:00 a.m.
MSCI Emerging Markets Latin America Net Total Return (USD) Index Futures	3:00 a.m.
MSCI Emerging Markets Net Total Return (USD) Index Futures	3:00 a.m.
MSCI Hong Kong Net Total Return (USD) Index Futures	3:00 a.m.
MSCI India (USD) Index Futures	3:00 a.m.
MSCI India Net Total Return (USD) Index Futures	3:00 a.m.
MSCI Indonesia (USD) Index Futures	3:00 a.m.
MSCI Indonesia Net Total Return (USD) Index Futures	3:00 a.m.
MSCI Japan Net Total Return (USD) Index Futures	3:00 a.m.
MSCI Malaysia (USD) Index Futures	3:00 a.m.
MSCI Malaysia Net Total Return (USD) Index Futures	3:00 a.m.
MSCI New Zealand Net Total Return (USD) Index Futures	3:00 a.m.
MSCI Pacific ex Japan Net Total Return (USD) Index Futures	3:00 a.m.
MSCI Pacific Net Total Return (USD) Index Futures	3:00 a.m.
MSCI Philippines (USD) Index Futures	3:00 a.m.
MSCI Philippines Net Total Return (USD) Index Futures	3:00 a.m.
MSCI Singapore Free (SGD) Index Futures	3:00 a.m.
MSCI Singapore Free Net Total Return (USD) Index Futures	3:00 a.m.
MSCI Singapore Net Total Return (USD) Index Futures	3:00 a.m.

Products	Time
MSCI Taiwan (USD) Index Futures	3:00 a.m.
MSCI Taiwan Net Total Return (USD) Index Futures	3:00 a.m.
MSCI Taiwan 25/50 (USD) Index Futures	3:00 a.m.
MSCI Taiwan 25/50 Net Total Return (USD) Index Futures	3:00 a.m.
MSCI Thailand (USD) Index Futures	3:00 a.m.
MSCI Thailand Net Total Return (USD) Index Futures	3:00 a.m.
MSCI Vietnam (USD) Index Futures	3:00 a.m.
MSCI Vietnam Net Total Return (USD) Index Futures	3:00 a.m.
Hang Seng Index (Gross Total Return Index) Futures	3:00 a.m.
Hang Seng Index (Net Total Return Index)Futures	3:00 a.m.
Hang Seng China Enterprises Index (Gross Total Return Index) Futures	3:00 a.m.
Hang Seng China Enterprises Index (Net Total Return Index) Futures	3:00 a.m.
Hang Seng TECH Index Futures	3:00 a.m.
Hang Seng TECH Index Options	3:00 a.m.
Hang Seng TECH Index Futures Options	3:00 a.m.
Weekly Hang Seng TECH Index Options	3:00 a.m.
Hang Seng Biotech Index Futures	3:00 a.m.
Metal products	
CNH Gold Futures	3:00 a.m.
CNH Silver Futures	3:00 a.m.
CNH London Aluminium Mini Futures	3:00 a.m.
CNH London Zinc Mini Futures	3:00 a.m.
CNH London Copper Mini Futures	3:00 a.m.
CNH London Nickel Mini Futures	3:00 a.m.
CNH London Tin Mini Futures	3:00 a.m.
CNH London Lead Mini Futures	3:00 a.m.
USD Gold Futures	3:00 a.m.
USD Silver Futures	3:00 a.m.
USD London Aluminium Mini Futures	3:00 a.m.
USD London Zinc Mini Futures	3:00 a.m.
USD London Copper Mini Futures	3:00 a.m.
USD London Nickel Mini Futures	3:00 a.m.
USD London Tin Mini Futures	3:00 a.m.
USD London Lead Mini Futures	3:00 a.m.
Currency products	
AUD/CNH Futures	3:00 a.m.
EUR/CNH Futures	3:00 a.m.
JPY/CNH Futures	3:00 a.m.
USD/CNH Futures	3:00 a.m.
Mini USD/CNH Futures	3:00 a.m.
CNH/USD Futures	3:00 a.m.

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

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

The Clearing House Procedures below outline the registration, settlement, clearing and margining procedures for the Futures / Options Contracts (in these procedures, referred to as "Contracts") traded on HKATS. These procedures are divided into the following chapters:- Chapter 1 – Registration Procedures; Chapter 2 – Clearing and Settlement Procedures; Chapter 2A – Settlement of Physical Delivery Contracts; Chapter 3 – Clearing Documentation; Chapter 4 – Reserve Fund Contribution; Chapter 5 – Capital-Based Position Limits; Chapter 6 – (deleted); Chapter 7 – Clearing Service Termination Event and Chapter 8 - HKCC Failure to Pay Event and HKCC Insolvency Event.

Chapter 1 Registration Procedures

1.1 Trade Capture and Registration

Trade details of a Contract executed on HKATS are electronically transmitted from HKATS to the Clearing House once they have been validated, matched and recorded in the Transaction Register of the system. Unless otherwise specified in the Exchange Rules, the Clearing House Rules or these Clearing House Procedures, the Contract will be immediately registered with the Clearing House upon the recording of such Contract in accordance with the Exchange Rules. Notwithstanding the foregoing, any such Contract registered with the Clearing House during the T+1 Session on a Trading Day shall for the purposes of clearing and settlement, be treated as a trade executed by the relevant HKCC Participant on the next Trading Day, unless otherwise specified in the Clearing House Rules or these Clearing House Procedures.

In respect of Contracts which are not executed on HKATS but which arise from the exercise of Physically Settled Options on Futures Contracts, the registration of such Contracts shall occur immediately upon the exercise of the Physically Settled Options on Futures Contracts as described in section 2A.5 of these Clearing House Procedures.

1.2 Types of Clearing Accounts in DCASS

The Clearing House maintains for each HKCC Participant different types of clearing accounts in DCASS. These accounts are registered under the name of the HKCC Participant and are identified as the HKCC Participant's (1) House Account, (2) Omnibus Client Account, (3) Individual Client Account, (4) Client Offset Claim Account, (5) Market Maker Account, (6) Daily Account, (7) APT Account, and (8) Sink Account.

1.2.1 House Account

The House Account is for the recording of an HKCC Participant's proprietary trades and positions. Positions in the House Account are maintained and margined on a net basis.

1.2.2 Omnibus Client Account

The Omnibus Client Account is for the recording, on an omnibus basis, of trades and positions of Clients of an HKCC Participant. Positions in the Omnibus Client Account are maintained and margined on a gross basis. Unless the Clearing House determines otherwise, the Omnibus Client Account shall be prescribed as the default account for trades of an HKCC Participant that are without account designation or with incomplete or invalid account information except that trades of a Market Maker that are with incomplete or invalid account information shall be defaulted to its Market Maker Account in DCASS.

1.2.3 Individual Client Account

In order to facilitate net margining on positions of a Client of an HKCC Participant, the Clearing House (upon the request of an HKCC Participant) may, in its absolute discretion, establish and maintain one or more Individual Client Accounts for the HKCC Participant. The Clearing House may prescribe a maximum number of Individual Client Accounts for an HKCC Participant. The Individual Client Account is for the recording, on an individual Client basis, of trades and positions of a Client of an HKCC Participant. Positions in an Individual Client Account are maintained and margined on a net basis. HKCC Participants shall ensure that all trades and positions maintained in an Individual Client Account belong to one Client only and such trades and positions are not held by a Client operating an Omnibus Account.

1.2.4 Client Offset Claim Account

Upon the request of an HKCC Participant, the Clearing House may, in its absolute discretion, establish and maintain one or more Client Offset Claim Account(s) for the HKCC Participant. The Client Offset Claim Account is for recording positions of individual Clients of an HKCC Participant which are of an offset nature. Positions in each portfolio for offset claim must belong to the same Client and no positions of a Client may be allocated to the Client Offset Claim Account except with the Client's prior consent. Positions in the Client Offset Claim Account are maintained on a gross basis but margined on a net basis. HKCC Participants shall ensure that all positions maintained in the Client Offset Claim Account for margin offset can be reconciled with their internal records.

1.2.5 Market Maker Account

The Market Maker Account is for the recording of trades and positions arising from market making activities conducted by an HKCC Participant itself or under any market making arrangement of the HKCC Participant. Positions in a Market Maker Account are maintained and margined on a net basis. For this purpose, "market making activities" and "market making arrangement" shall include "liquidity providing activities" and "liquidity providing arrangement" in relation to an HKCC Participant appointed by the Exchange to provide liquidity as referred to in the Exchange Rules, unless the Exchange otherwise specifies.

1.2.6 Daily Account

The Daily Account serves as an account to which trades can be transferred on a temporary basis for average price trade calculation or other purposes prescribed by the Clearing House from time to time. Trades and positions in the Daily Account are treated for all purposes as trades and positions belonging to the House Account with the exception that positions recorded in the Daily Account will be maintained on a gross basis up to the System Input Cutoff Time. An HKCC Participant shall transfer all trades in its Daily Account to its other accounts in DCASS (other than the Sink Account) prior to the System Input Cutoff Time. Any trades and positions remaining in the Daily Account after the System Input Cutoff Time will be automatically transferred to the Sink Account of the HKCC Participant.

1.2.7 Sink Account

The Sink Account is for the recording of trades and positions automatically transferred from the Daily Account as referred to in section 1.2.6 above. Trades and positions in the Sink Account are treated for all purposes as trades and positions belonging to the House Account with the exception that positions in the Sink Account will be maintained and margined on a gross basis, separate from the House Account. An HKCC Participant shall transfer all trades and positions in its Sink Account to its other accounts in DCASS (other than the Daily Account).

1.2.8 APT Account

The APT Account serves as an account to which a selected group of trades can be transferred on a temporary basis for the purpose of performing average price trade calculation. No positions will be recorded or maintained in the APT Account.

Any request for the opening, maintenance or termination of accounts shall be made by an HKCC Participant to the Clearing House in such manner and using such form as may be prescribed by the Clearing House from time to time. The Clearing House may in its absolute discretion accept or reject any account opening and maintenance request.

1.3 Types of Clearing Accounts in CCMS

Transactions of an HKCC Participant with HKCC in respect of its delivery or redelivery of collateral, whether cash or non-cash, are referred to as "collateral movement transactions" for the purpose of this section.

The Clearing House maintains for each HKCC Participant different types of clearing accounts in CCMS for recording collateral movement transactions between that HKCC Participant and the Clearing House. These accounts are registered in the name of the HKCC Participant and are identified as the HKCC Participant's (1) House CCMS Collateral Account, (2) Client CCMS Collateral Account(s), and (3) Market Maker CCMS Collateral Account(s). Each of these accounts is mapped with one or more clearing accounts of the HKCC Participant in DCASS. For the purposes of the Clearing House Rules and these Clearing House Procedures, the term CCMS Collateral Account will mean the House CCMS Collateral Account, Client CCMS Collateral Account(s) and Market Maker CCMS Collateral Account(s) unless otherwise specified or the context requires otherwise.

Unless otherwise specified by the Clearing House or an HKCC Participant, all cash and non-cash collateral paid or delivered by the HKCC Participant to the Clearing House will be recorded in the HKCC Participant's CCMS Collateral Account as General Collateral and will be eligible for use as cover for the HKCC Participant's Clearing House margin liabilities and outstanding debit in accordance with section 2.6. HKCC Participants should refer to the CCMS Terminal User Guide for a detailed description of the collateral management functions of CCMS.

1.4 Trade and Position Adjustment

1.4.1 Trade Adjustment

The types of trade adjustment available to an HKCC Participant include (1) internal trade transfer between different accounts of the HKCC Participant, (2) external trade transfer from an account of the HKCC Participant to an account of another HKCC Participant, (3) separation of a trade into smaller trades, (4) trade open/close adjustment and (5) grouping of separate trades into an average price trade. Unless otherwise specified in these Clearing House Procedures, HKCC Participants may directly submit trade adjustment to the Clearing House using DCASS.

For trades (other than Block Trades) executed during the T Session on a Trading Day, trade adjustment requests may be submitted at any time prior to the System Input Cutoff Time on the same Trading Day or, except for requests relating to the grouping of separate trades into an average price trade, at any time prior to the System Input Cutoff Time on the next Trading Day. For trades (other than Block Trades) executed during the T+1 Session on a Trading Day, trade adjustment requests may be submitted at any time prior to the System Input Cutoff Time on the next Trading Day.

For Block Trades executed during the T Session on a Trading Day, trade adjustment requests may be submitted at any time 30 minutes prior to the System Input Cutoff Time on the same Trading Day or 30 minutes prior to the System Input Cutoff Time on the next Trading Day. For Block Trades executed during the T+1 Session on a Trading Day, trade adjustment requests may be submitted at any time prior to the T+1 Session Cutoff Time of that T+1 Session or 30 minutes prior to the System Input Cutoff Time on the next Trading Day.

An HKCC Participant may also submit external trade transfer requests on HKATS at the time the orders are entered on HKATS. Regardless of whether the requests for external trade transfer are submitted through HKATS or DCASS, any transfer submitted must be confirmed by the receiving HKCC Participant on DCASS prior to the next System Input Cutoff Time. Any trade, the external transfer of which is not confirmed or rejected by the receiving HKCC Participant on DCASS will remain as a trade of the transferring HKCC Participant.

Trade adjustment requests in respect of a Block Trade will be rejected by the Clearing House if the Block Trade is determined by the Clearing House to be invalid for any reason. In the event that a trade adjustment request relates to the internal or external transfer of a valid Block Trade, but the trade adjustment request is subsequently determined by the Clearing House or the Exchange to be invalid for any reason (including where the transferring or receiving HKCC Participant fails to pay or otherwise satisfy any Special Block Trade Margin arising from the trade adjustment request by the prescribed time), such trade adjustment request will be rejected by the Clearing House.

Notwithstanding the foregoing, the Clearing House has the sole discretion to accept or reject any trade adjustment request of an HKCC Participant, in particular but not limited to any trade adjustment request submitted after the prescribed deadline which relates to the internal or external transfer of a Block Trade.

1.4.2 (deleted)

1.4.3 Position Adjustment

The types of position adjustment available to an HKCC Participant include (1) position closing and re-opening (as more particularly described in section 1.5 below), (2) internal position transfer between different accounts of the HKCC Participant, (3) external position transfer from an account of the HKCC Participant to an account of another HKCC Participant and (4) position netting within an account. Unless otherwise specified in these Clearing House Procedures, HKCC Participants may directly submit position adjustment requests to the Clearing House using DCASS.

An HKCC Participant may submit position adjustment requests to the Clearing House at any time prior to the System Input Cutoff Time on a Trading Day and, if the T+1 Session is applicable to an Exchange Contract, position adjustment requests in respect of positions in such Exchange Contract and any other Exchange Contract which is specified in its Contract Specifications to be fungible to such Exchange Contract may also be submitted from the completion of batch processing after the T Session to any time prior to the T+1 Session Cutoff Time, except for requests relating to position closing between option series of Flexible Options and standard series which have the same underlying commodity with the same option type, Strike Price and Expiry Day ("position closing between Flexible and standard Option series"), which must be made by the HKCC Participant completing and submitting to the Clearing House the relevant form available from the HKEX website or such other channels as HKCC may from time to time notify HKCC Participants, no later than such deadlines as may be prescribed by the Clearing House from time to time and stated in the relevant form.

If the HKCC Participant wishes to have the position adjustment for position closing between Flexible and standard Option series processed on the same Trading Day, the relevant position adjustment request form must be received by the Clearing House no later than the System Input Cutoff Time on that Trading Day. If the T+1 Session is applicable, the relevant position adjustment request form received by the Clearing House after the System Input Cutoff Time but before the T+1 Session Cutoff Time will be processed by the Clearing House on the same Trading Day on a best efforts basis.

With regard to requests for external position transfers, both the transferring and receiving HKCC Participant must submit and confirm such transfer requests. Any request for external position transfer will become effective when such request has been accepted by the Clearing House. Any position the transfer of which is not confirmed by the receiving HKCC Participant or the transfer request of which is rejected by the Clearing House will remain as the position of the transferring HKCC Participant. With regard to any request for external position

transfer of positions in a Client Offset Claim Account of an HKCC Participant upon the occurrence of an event of default, the transfer must be for all, but not part, of the positions in that account.

With regard to position netting within an account, DCASS allows HKCC Participants to specify and close out any number of long and short positions in a series within any account other than the Sink Account and Daily Account.

Notwithstanding the foregoing, the Clearing House may in its absolute discretion accept or reject any position adjustment request.

1.5 Position Closing and Re-opening

Unless otherwise specified in these Clearing House Procedures, HKCC Participants may directly submit position closing and transfer requests to the Clearing House using DCASS.

1.5.1 Closing of Positions

Except for position closing between Flexible and standard Option series, position close adjustments only apply to Omnibus Client Accounts as positions in Omnibus Client Accounts are maintained on a gross long and short basis, and HKCC Participants do not need to instruct the Clearing House to close positions in the House, Individual Client and Market Maker Accounts since positions in these accounts are netted automatically after the System Input Cutoff Time on each Trading Day.

The Clearing House will consider all positions in the Omnibus Client Account of an HKCC Participant as "open" positions unless the HKCC Participant instructs the Clearing House otherwise.

Except for position closing between Flexible and standard Option series, HKCC Participants wishing to close out positions in the Omnibus Client Account may submit position adjustment requests to the Clearing House at any time prior to the System Input Cutoff Time on a Trading Day and, if the T+1 Session is applicable, from the completion of batch processing after the T Session to any time prior to the T+1 Session Cutoff Time.

Except for position closing between HSI Futures and Mini-HSI Futures Contracts at the ratio of one HSI Futures Contract against five Mini-HSI Futures Contracts, for position closing between HSI Option and Mini-HSI Option Contracts at the ratio of one HSI Option Contract against five Mini-HSI Option Contracts, for position closing between HSCEI Futures and Mini-HSCEI Futures Contracts at the ratio of one HSCEI Futures Contract against five Mini-HSCEI Futures Contracts and for position closing between HSCEI Option and Mini-HSCEI Option Contracts at the ratio of one HSCEI Option Contract against

five Mini-HSCEI Option Contracts, the closing of positions may only be effected in respect of positions of the same Contract.

Notwithstanding the foregoing, the Clearing House reserves the right to accept or reject any request at any time at its sole discretion.

1.5.2 Re-Opening of Positions

HKCC Participants wishing to re-open positions must submit position re-opening requests to the Clearing House using DCASS no later than such deadline as may be prescribed by the Clearing House from time to time, except for re-opening requests relating to:

(i) positions previously closed under position closing between Flexible and standard Option series; and

(ii) positions previously closed by any trade adjustment or position transfer by an HKCC Participant,

which must be made by the HKCC Participant completing and submitting to the Clearing House the relevant form available from the HKEX website or such other channels as HKCC may from time to time notify HKCC Participants no later than such deadlines as may be prescribed by the Clearing House from time to time and stated in the form.

Any position re-opening requests submitted to the Clearing House using DCASS or the relevant form will become effective when such request has been accepted by the Clearing House. Any position re-opening request which is rejected by the Clearing House will remain as closed.

Each HKCC Participant making a position re-opening request shall provide to the Clearing House such information as it may require relating to the position re-opening, including the reason therefor.

Notwithstanding the foregoing, the Clearing House reserves the right to accept or reject any request at any time at its sole discretion.

1.5.3 (deleted)

1.5.4 Claiming Client Offset Positions

Only positions in the Omnibus Client Account are eligible for offset claim because positions in this account are maintained on a gross long and short basis. HKCC Participants do not need to instruct the Clearing House to claim margin offset for positions in the House Account,

Individual Client Accounts or Market Maker Accounts since positions in these accounts are margined on a net basis automatically.

HKCC Participants wishing to claim margin offset for positions in their Omnibus Client Accounts that are of an offset nature must request the Clearing House to open a Client Offset Claim Account for such purpose (please refer to section 1.2). HKCC Participants will have to transfer such eligible positions from the Omnibus Client Account to the Client Offset Claim Account. Positions in each portfolio for offset claim must belong to the same Client. Positions in the Client Offset Claim Account are maintained on a gross basis but margined on a net basis (please refer to section 2.2.6.3). An HKCC Participant may submit such position transfer requests to the Clearing House at any time prior to the System Input Cutoff Time on a Trading Day and, if the T+1 Session is applicable, from the completion of batch processing after the T Session to any time prior to the T+1 Session Cutoff Time.

All claimed positions in the Client Offset Claim Account will be carried forward to the next Trading Day unless otherwise instructed by HKCC Participants. HKCC Participants wishing to adjust the claimed positions in the Client Offset Claim Account may have to effect position transfer between the Client Offset Claim Account and the Omnibus Client Account by submitting such requests to the Clearing House at any time prior to the System Input Cutoff Time on the same Trading Day or, if the T+1 Session is applicable, from the completion of batch processing after the T Session to any time prior to the T+1 Session Cutoff Time.

If any positions transferred into the Client Offset Claim Account are, or are believed by the Clearing House to be, ineligible for offset claim, the Clearing House may in its absolute discretion, without prior notice to the HKCC Participant, disallow the margin offset and impose such additional margin on such positions as HKCC shall consider appropriate, transfer such positions from the Client Offset Claim Account to the Omnibus Client Account, and/or suspend or terminate the use by the HKCC Participant of the Client Offset Claim Account. No action shall lie against and no liability of whatsoever nature and howsoever arising, whether in contract, tort or otherwise, shall be incurred by the Clearing House directly or indirectly in connection with effecting the transfer of any positions from, or suspending or terminating the use by an HKCC Participant of, any Client Offset Claim Account. Any incorrect recording or transfer of positions in or to the Client Offset Claim Account may also result in disciplinary action being taken against the HKCC Participant.

1.6 On-behalf-of Processing

In case HKCC Participants cannot perform post-trade adjustment functions via DCASS due to technical or other reasons, they may request the Clearing House to input post-trade adjustment requests into DCASS on its behalf by completing and submitting to the Clearing House the relevant forms available from the HKEX website or such other channels as HKCC may from time to time notify HKCC Participants, no later than such deadline as may be prescribed by the Clearing House from time to time and stated in the form.

On-behalf-of processing is provided by the Clearing House subject to the availability of its resources and subject to the payment by the HKCC Participant of such processing fee as may be prescribed by the Clearing House from time to time. In the event that demand on its resources exceeds its capacity to service all requests within a particular time, it may assign priorities in such manner as it in its absolute discretion considers appropriate. The Clearing House does not warrant that a request will be processed by a particular time. Neither the Clearing House, the Exchange, nor a recognized exchange controller which is the controller of the Clearing House shall be liable to any HKCC Participant whether in contract, tort or otherwise for any direct, consequential, special, indirect, punitive or other damages that may be suffered or incurred by the HKCC Participant or any other person as a result of the execution or processing of instructions, or its failing to execute or process instructions, on behalf of the HKCC Participant.

1.7 Backup Centre

In case HKCC Participants cannot perform post-trade adjustment functions via DCASS due to technical or other reasons, they can request the use of the backup centre provided by the Clearing House to perform such functions. For the service hours of the backup centre and other details, please refer to the DCASS User Guide.

Chapter 2 Clearing and Settlement Procedures

2.1 General

After the System Input Cutoff Time on each Trading Day, the Clearing House performs the clearing process by computing each HKCC Participant's liabilities such as Clearing House margin, variation adjustment and trading fees. The total of these liabilities are then compared to the cash balance in each HKCC Participant's CCMS Collateral Account, and any sums outstanding that are not covered by other collateral will be collected through the Direct Margin Debiting System ("DMDS").

2.2 Clearing House Margin

The amount of Clearing House margin for each type of Contract is decided by the Board of the Clearing House. The Clearing House retains the right to increase or decrease Clearing House margins either for the whole Market or for individual HKCC Participants, if this is considered necessary. The Clearing House will calculate the margin requirements of each HKCC Participant based on PRiME. HKCC Participants should refer to the PRiME Margining Guide for details of the margin calculation algorithm adopted by the Clearing House.

2.2.1 Components of Gross Margining

2.2.1.1 Risk Array

PRiME evaluates the maximum likely loss of a Contract that may reasonably occur over one trading day under a set of risk scenarios. The specific set of risk scenarios is defined in terms of (a) the Price Scan Range, which is how much the price of the underlying instrument is expected to change over one trading day, and (b) the Volatility Scan Range, which is how much the volatility of that underlying price is expected to change over one trading day. The result of the calculation for each risk scenario, viz. the amount by which the Contract will gain or lose value over one trading day under that risk scenario, is called the Risk Array value for that scenario.

2.2.1.2 Scan Risk

The Scan Risk of a Contract is the largest loss among a set of Risk Array values of that Contract.

2.2.1.2A Spot Month Charge and Physical Delivery Contract Charge

PRiME applies a Spot Month Charge and/or a Physical Delivery Contract Charge to each applicable spot month Contract to cover additional risks that may arise during the period leading up to the Final Settlement Day. Such Spot Month Charge and Physical Delivery Contract Charge and the Contracts to which they shall be applicable shall be as specified by the Clearing House from time to time.

2.2.1.3 Short Option Minimum Charge

PRiME applies a Short Option Minimum Charge to each short Option Contract. It serves as a lower bound of the margin requirement for such short Option Contract.

2.2.2 Clearing House Margin Liability Calculation for Gross Margining

The method of calculating the amount of cover for Clearing House margin for designated Contracts or accounts margined on a gross basis is as follows:

a) The gross open positions are identified. The number of open positions for each type of Contract is multiplied by the Scan Risk for such Contract.

aa) The gross open positions of each applicable spot month Contract are identified. The number of open positions for each applicable spot month Contract is multiplied by the Spot Month Charge and/or the Physical Delivery Contract Charge, as applicable, for such Contract.

b) The gross open positions of short Option Contracts are identified. The sum of the Scan Risk, Spot Month Charge and Physical Delivery Contract Charge is replaced with the Short Option Minimum Charge for a short Option Contract if the Short Option Minimum Charge is higher than the sum of the Scan Risk, Spot Month Charge and Physical Delivery Contract Charge for such short Option Contract.

c) The Clearing House margin requirement is the aggregated sum of the Scan Risk, Spot Month Charge and Physical Delivery Contract Charge (or, for short Option Contracts, the Short Option Minimum Charge if it is higher) for each type of Contract.

2.2.3 Components of Net Margining

2.2.3.1 Risk Array

PRiME evaluates the maximum likely loss of a portfolio under the same Combined Commodity* that may reasonably occur over one trading day under a set of risk scenarios. The specific set of risk scenarios are defined in terms of (a) the Price Scan Range, which is how much the price of the underlying instrument is expected to change over one trading day, and (b) the Volatility Scan Range, which is how much the volatility of that underlying price is expected to change over one trading day. The result of the calculation for each risk scenario, viz. the amount by which the portfolio will gain or lose value over one trading day under that risk scenario, is called the Risk Array value for that scenario.

**A Combined Commodity refers to a set of Futures/Options Contracts with the same underlying commodity and the same Currency of the Contract. For this purpose, a Physically Settled Options on Futures Contract and its underlying Futures Contract shall be considered to have the same underlying commodity if such underlying Futures Contract is a Stock Index Futures Contract.*

2.2.3.2 Scan Risk

The Scan Risk of a portfolio under the same Combined Commodity is the largest loss among a set of Risk Array values of that portfolio.

2.2.3.3 Intracommodity Spread Charge

As PRiME scans underlying prices within a single underlying instrument, it assumes that price moves correlate perfectly across contracts with different expiries. Since price moves across contracts with different expiries do not generally exhibit perfect correlation, PRiME adds an Intracommodity Spread Charge to the Scan Risk associated with each Combined Commodity under net margining. For each spread formed, PRiME assesses a charge per spread at such charge rate as may be specified by the Clearing House from time to time. The total of all of these charges for a particular Combined Commodity constitutes the Intracommodity Spread Charge for that Combined Commodity.

2.2.3.3A Spot Month Charge and Physical Delivery Contract Charge

PRiME applies a Spot Month Charge and/or a Physical Delivery Contract Charge to each applicable spot month

Contract under the same Combined Commodity to cover additional risks that may arise during the period leading up to the Final Settlement Day. Such Spot Month Charge and Physical Delivery Contract Charge and the Contracts to which they shall be applicable shall be as specified by the Clearing House from time to time.

2.2.3.3B Intercommodity Spread Credit

PRiME generates Intercommodity Spread Credits for Combined Commodities that may from time to time be specified and paired by the Clearing House, taking into consideration their price move correlation and such other factors as it may consider relevant.

An Intercommodity Spread is formed between the Combined Commodities of each specified pair at a delta per spread ratio. For each spread formed, PRiME assesses a credit for each of the Combined Commodities based on a credit rate for the spread. The delta per spread ratio and the credit rate for the spread shall be as specified by the Clearing House from time to time. The total of all of these credits for a particular Combined Commodity constitutes the Intercommodity Spread Credit for that Combined Commodity.

2.2.3.4 Short Option Minimum Charge

PRiME applies a Short Option Minimum Charge to each Combined Commodity comprising short call and/or short put Option Contracts. It serves as a lower bound of the margin requirement for such Combined Commodity comprising short Option Contracts.

2.2.3.5 (deleted)

2.2.4 (deleted)

2.2.5 Clearing House Margin Liability Calculation for Net Margining

The method of calculating the amount of cover for Clearing House margin for designated Contracts or accounts of an HKCC Participant margined on a net basis is as follows:

a) The same type of Futures Contract with the same expiry is each assessed to calculate the total net uncovered Contracts for that expiry.

b) The same type of Option Contract in each series is assessed to calculate the total net uncovered Contracts for that Option series.

c) For Futures/Option Contracts within the same Combined Commodity, the long or short net uncovered Futures Contracts for each expiry, together with the long or short net uncovered Option Contracts in each series, are margined on a portfolio basis.

In calculating margin on a portfolio basis, the Scan Risk, the Intracommodity Spread charge, the Spot Month Charge and the Physical Delivery Contract Charge of the portfolio are added together to determine the Commodity Risk. The Commodity Risk is the total risk of all Futures/Option Contracts within the same Combined Commodity.

ca) Other than a Combined Commodity comprising short Option Contracts referred to in paragraph (d) below, the margin requirement of a Combined Commodity is the Commodity Risk less the Intercommodity Spread Credit.

d) For a Combined Commodity comprising short Option Contracts, the margin requirement is (i) the Commodity Risk less the Intercommodity Spread Credit or (ii) the Short Option Minimum Charge of the Combined Commodity, whichever is greater.

e) (deleted)

f) The total Clearing House margin requirement is the aggregate of the margin requirement for each Combined Commodity in the portfolio.

2.2.6 Clearing House Margin for Different Types of Clearing Accounts in DCASS

The Clearing House maintains for each HKCC Participant in DCASS the different types of clearing accounts set forth in section 1.2 of these Clearing House Procedures. The Clearing House margin calculation for each type of account in DCASS is different depending on whether it is margined on a net or gross basis.

The Clearing House margin for an HKCC Participant's Client accounts is the sum of the margin requirements of its Omnibus Client Account, Individual Client Accounts and Client Offset Claim Account.

The Clearing House margin for an HKCC Participant's House accounts is the sum of the margin requirements of its House Account and Sink Account.

The Clearing House margin for an HKCC Participant's Market Maker accounts is the sum of the margin requirements of its Market Maker Accounts.

2.2.6.1 House (not including positions from the Sink Account), Market Maker or Individual Client Account

Each House Account (not including positions from the Sink Account), Market Maker Account or Individual Client Account is margined on a net basis (see the PRiME Margining Guide).

2.2.6.2 Omnibus Client Account, House positions in the Sink Account

Positions in the Omnibus Client Account and House positions in the Sink Account are margined on a gross basis, i.e., the Clearing House margin is calculated for each individual position separately (see the PRiME Margining Guide).

2.2.6.3 Client Offset Claim Account

Positions of individual Clients of an HKCC Participant which are of an offset nature are margined on a net basis (see the PRiME Margining Guide).

Only positions that are of an offset nature and that are allocated by an HKCC Participant from its Omnibus Client Account to its Client Offset Claim Account on the following basis will be eligible for margin offset (please refer to section 1.5.4):

a) Only positions with the same beneficial owner may be allocated;

b) HKCC Participants shall not allocate positions unless they can identify the beneficial owners of such positions;

c) Positions within the same Combined Commodity or positions within specified pairs of Combined Commodities that are eligible for Intercommodity Spread Credits can be offset according to the following list:

Long Futures	+	Short Futures
Long Futures	+	Short Call
Long Futures	+	Long Put

Long Call	+	Short Futures
Long Call	+	Short Call
Long Call	+	Long Put
Short Put	+	Short Futures
Short Put	+	Short Call
Short Put	+	Long Put

Conversions*
Reversals**

* A Conversion consists of a short call and long put with the same expiry and strike price and a long Futures with the same expiry.

** A Reversal consists of a long call and short put with the same expiry and strike price and a short Futures with the same expiry.

For positions within the same Combined Commodity, offset positions are claimed on a one-to-one basis except those relating to the offset of positions in the (1) HSI Futures/Options, HSIF Option, Weekly HSI Option and Mini-HSI Futures/Options Contracts or (2) HSCEI Futures/Options, HSCEIF Option, Weekly HSCEI Option and Mini-HSCEI Futures/Options Contracts, which are claimed on the basis of (1) one HSI Futures/Options Contract, one HSIF Option Contract or one Weekly HSI Option Contract against a maximum of five Mini-HSI Futures/Options Contracts or (2) one HSCEI Futures/Options Contract, one HSCEIF Option Contract or one Weekly HSCEI Option Contract against a maximum of five Mini-HSCEI Futures/Options Contracts, as the case may be.

For positions within specified pairs of Combined Commodities between which Intercommodity Spreads may be formed, offset positions are claimed at the relevant delta per spread ratio, where one delta refers to one Futures/Options Contract except those relating to the offset of positions involving Mini-HSI Futures/Options Contracts or Mini-HSCEI Futures/Options Contracts where one delta refers to five Mini-HSI Futures/Options Contracts or five Mini-HSCEI Futures/Options Contracts, as the case may be.

However, only those HKCC Participants which have proved to the Clearing House that they have sufficient risk management capabilities to handle risk involved in Option trading are eligible for making such offsetting claims.

2.2.7 Additional Clearing House Margin– concentration margin

2.2.7.1 An additional Clearing House margin will be imposed on an HKCC Participant in respect of its open Futures and Options Contracts which are based on the same or such similar underlying financial instruments as may be determined by the Clearing House and notified to HKCC Participants from time to time in the event that when assessed by reference to the historical data from each of the realized stressed market conditions and/or hypothetical data for each of the unrealized stressed market conditions as the Clearing House may determine:

(a) the projected aggregate loss (less any Clearing House margin) arising from such open Futures and Options Contracts registered in the Omnibus Client, Individual Client, Client Offset Claim, Sink, House and Market Maker Accounts ("Concentrated Net Projected Loss") of the HKCC Participant is greater than 30 percent of the total Concentrated Net Projected Loss of all HKCC Participants; and

(b) the total Concentrated Net Projected Loss of all HKCC Participants arising from such open Futures and Options Contracts based on the same or similar underlying financial instruments exceeds HK$500 million or such other amount as may be determined by the Clearing House and notified to HKCC Participants from time to time.

In addition, the Chairman may impose on the HKCC Participant an additional Clearing House margin on all Futures and Options Contracts registered in the HKCC Participant's account(s) with the Clearing House under other circumstances as he deems appropriate.

2.2.7.2 The additional Clearing House margin to be imposed pursuant to section 2.2.7.1 above shall be a percentage of the otherwise applicable margin requirement based on the following or such other percentage as the Chairman may consider appropriate.

Concentrated Net Projected Loss of the HKCC Participant vs all HKCC Participants	% of applicable margin requirement
More than 30% and equal to or less than 40%	20%
More than 40% and equal to or less than 50%	25%
More than 50% and equal to or less than 60%	30%

More than 60% and equal to or less than 80%	40%
More than 80%	50%

Notwithstanding the above, an HKCC Participant accounting for greater than 80% of the total Concentrated Net Projected Loss is only required to pay 40% (instead of 50%) of the applicable margin requirement during the first five (5) Business Days when such percentage remains greater than 80%. In the event that an HKCC Participant's Concentrated Net Projected Loss remains at a level greater than 80% of the total Concentrated Net Projected Loss for six (6) consecutive Business Days or more, the HKCC Participant must pay 50% of the applicable margin requirement as additional Clearing House margin from the sixth (6^{th}) Business Days onwards.

For the avoidance of doubt, if additional Clearing House margin is required under two or more stressed market conditions, the higher or highest (as the case may be) additional Clearing House margin rate shall be imposed.

2.2.7.3 Notwithstanding sections 2.2.7.1 and 2.2.7.2, no additional Clearing House margin will be imposed on open Futures and Option Contracts other than Physical Delivery Contracts in the spot week or spot month during the last two Trading Days on such spot week or spot month contracts unless the Chairman or his designee determines otherwise. Additional Clearing House margin will be imposed on a Physical Delivery Contract unless an HKCC Participant has provided the underlying commodity or instrument to the Clearing House as collateral for Clearing House margin in sufficient quantity to cover its positions in the Physical Delivery Contract with upside risk.

2.2.7.4 Where additional Clearing House margin is collected pursuant to this section, interest thereon at such positive or negative rate may be paid or charged, and costs and charges thereon in such amount may be levied, by the Clearing House as it may determine from time to time in accordance with Appendix V to these Clearing House Procedures. Any interest, costs and charges accrued or charged shall be posted to or deducted from the HKCC Participant's CCMS Collateral Account on the first Business Day of the following month.

2.2.8 Additional Clearing House Margin – Reserve Fund additional margin

2.2.8.1 An additional Clearing House margin will be imposed on an HKCC Participant in respect of all its open Futures and Options Contracts and notified to HKCC Participants from time to time in the event that when assessed by reference to the historical data from each of the realized stressed market conditions and/or hypothetical data for each of the unrealized stressed market conditions as the Clearing House may determine:

(a) the projected aggregate loss (less General Collateral (excluding any excess collateral) and any margin except additional Clearing House margin collected under this section 2.2.8) arising from all its open Futures and Options Contracts of the HKCC Participant ("Reserve Fund Net Projected Loss") exceeds the Reserve Fund Risk Predefined Limit; and

(b) the prevailing Reserve Fund size is equal to the Reserve Fund Threshold.

2.2.8.2 The additional Clearing House margin to be imposed pursuant to section 2.2.8.1 above shall be the amount by which the Reserve Fund Net Projected Loss exceeds the Reserve Fund Risk Predefined Limit. For the avoidance of doubt, if the additional Clearing House margin is required under two or more stressed market conditions, the higher or highest (as the case may be) additional Clearing House margin amount shall be imposed.

2.2.8.3 Notwithstanding sections 2.2.8.1 and 2.2.8.2, should HKCC accept the HKCC Participant's request to waive the whole or part of the additional Clearing House margin requirement, the HKCC Participant must close out, hedge or transfer to any other HKCC Participant such positions as may reduce the Reserve Fund Net Projected Loss to an amount which is less than the sum of the Reserve Fund Risk Predefined Limit and additional Clearing House margin set forth in section 2.2.8.2 maintained with the Clearing House if any by the end of the same Trading Day as the additional Clearing House margin collection due date, failing which the Clearing House may subsequently close out, hedge or transfer such positions on behalf of the HKCC Participant.

2.2.8.4 Where additional Clearing House margin is collected pursuant to this section, interest thereon at such positive or negative rate may be paid or charged, and costs and charges thereon in such amount may be levied, by the Clearing House

as it may determine from time to time in accordance with Appendix V to these Clearing House Procedures. Any interest, costs and charges accrued or charged shall be posted to or deducted from the HKCC Participant's CCMS Collateral Account on the first Business Day of the following month.

2.3 Variation Adjustment

After Market close on each Trading Day until and including the Trading Day immediately preceding the Last Trading Day or, for those Cash Settled Contracts whose Final Settlement Day is not the first Trading Day after the Last Trading Day, the Last Trading Day, all open positions held at the Clearing House, for the purpose of calculating variation adjustments, are treated as if they were closed out and re-opened at the relevant Closing Quotation. Profits and losses arising from this "mark to market" mechanism are credited to and debited from the relevant HKCC Participant's CCMS Collateral Account each Trading Day as the variation adjustment.

Subject to section 2.6A, variation adjustment arising from trades executed in all Markets shall be settled using cash in the Settlement Currency only, unless otherwise permitted by the Clearing House.

2.3.1 [Repealed]

2.3.2 [Repealed]

2.3.2A Closing Quotation

2.3.2A.1 Unless otherwise determined by the Clearing House under special circumstances, the Closing Quotation of a Futures/Options Contract shall, subject to sections 2.3.2A.2 to 2.3.2A.5, be determined in accordance with the Derivatives Pricing Methodology.

2.3.2A.2 In determining the Closing Quotation of a Futures/Options Contract, the Clearing House may take into account such relevant factors as it considers appropriate, including any of the following:

(a) last traded price;

(b) bid and offer prices;

(c) volatilities prevailing in the market, where applicable;

(d) other price source deemed reliable by the Clearing House, such as the price of the underlying commodity or

underlying instrument;

(e) any other input data that the Clearing House considers appropriate, such as data from third party providers and dividends.

2.3.2A.3 Block Trade prices and prices in the T+1 Session will not be used by the Clearing House in determining the Closing Quotation.

2.3.2A.4 The Closing Quotation so determined shall be within the Maximum Fluctuation of the Futures/Options Contract where applicable.

2.3.2A.5 Notwithstanding the above, the Clearing House may, in its discretion, adjust or otherwise determine the Closing Quotation of a Futures/Options Contract.

2.3.3 Physical Delivery Contracts on or after the Last Trading Day

2.3.3.1 For the purpose of calculating realized profits and losses, after Market close on the Last Trading Day, all open positions in Physical Delivery Contracts held at the Clearing House are treated as if they were closed out at the final settlement price (for Futures Contracts) or at zero value (for Option Contracts). Profits and losses arising from this "mark to market" mechanism will be credited to and debited from the relevant HKCC Participant's CCMS Collateral Account as the variation adjustment. Subject to section 2.6A, such variation adjustment shall be settled using cash in the Settlement Currency only.

2.3.3.2 For the purpose of calculating unrealized profits and losses, after Market close on each Trading Day from and including the Last Trading Day to but excluding, (i) in the case of a Physical Delivery Contract where the obligations of HKCC Participants to HKCC for the final settlement will complete at or before 9:15 a.m. on the Final Settlement Day, the Trading Day immediately preceding the Final Settlement Day; or (ii) in the case of other Physical Delivery Contract, the Final Settlement Day, such Contract shall be deemed to be closed out and re-opened at the spot price of its underlying commodity or instrument, or at such price with reference to a similar local/overseas commodity or instrument that the Clearing House considers appropriate. If more than one particular type or issue of underlying commodity or instrument is allowed for delivery as specified in the Exchange Rules or prescribed by the Clearing House, reference would be made to the type or

issue that would create the greatest variation adjustment for the relevant Physical Delivery Contract.

Profits arising from the above "mark to market" mechanism will be used to offset against, while losses arising from such mechanism will be added to and collected as, Clearing House margin payable in respect of the relevant CCMS Collateral Account of the HKCC Participant. Any profits in excess of the Clearing House margin requirement will not be credited to the relevant CCMS Collateral Account of the HKCC Participant.

2.4 Fees and Charges

All Exchange and Clearing House fees and charges will be calculated after the Market close and debited from HKCC Participants' CCMS Collateral Accounts on a daily basis. Subject to section 2.6A, trading fees arising from trades executed in all Markets shall be settled using cash in the Settlement Currency only.

2.5 Calculation of Daily Cover Required

In determining the amount of daily cover required from an HKCC Participant, the Clearing House will first calculate the HKCC Participant's cash amount in its CCMS Collateral Account as follows:-

cash amount = (confirmed amount) +/- (variation adjustment) - (fees)

where:

(i) variation adjustment may either be a debit or a credit, except that those arising from Physical Delivery Contracts after the Last Trading Day will be treated in accordance with section 2.3; and

(ii) confirmed amount is the cash amount brought forward.

2.5.1 Outstanding Debit

Should the "cash amount" in the above calculation result in a negative figure (hereinafter referred to as "outstanding debit"), the amount of cover required from the HKCC Participant equals:

Amount of cover required = (outstanding debit) + (Clearing House margin liability)

2.5.2 Cash Balance

Should the "cash amount" calculated under section 2.5 show a positive value (hereinafter referred to as "cash balance"), the following comparisons will be made and the consequent actions taken:

(a) If (cash balance) = (Clearing House margin liability), the cash balance will be used as cover for the HKCC Participant's Clearing House margin liability and there will not be any action required;

(b) If (cash balance) is less than (Clearing House margin liability), amount of cover required = (shortfall); and

(c) If (cash balance) is greater than (Clearing House margin liability), amount that may be redelivered = (cash balance) – (Clearing House margin liability).

The comparisons referred to in paragraphs (a) to (c) above are made on the basis that Clearing House margin liability is not covered by any other acceptable means. To the extent that Clearing House margin liability is covered by other acceptable means, any shortfall in the amount of cover required (as calculated in paragraph (b) above) will be reduced accordingly and any cash amount that may be redelivered will be increased accordingly, provided that (i) it is not used by the Clearing House as cover for the HKCC Participant's Clearing House margin liability; (ii) the amount of Clearing House margin liability that is covered by any acceptable means other than cash in the Settlement Currency will not exceed the maximum level(s) prescribed by the Clearing House; and (iii) the redelivery will not result in any other requirement regarding cover for the HKCC Participant's Clearing House margin liability not being satisfied.

2.6 Methods of Providing Cover for Clearing House Margin

The payment of cover for Clearing House margin is operated through the DMDS as referred to in sections 2.7 and 2.8B. Where the Settlement Currency of a Contract is not the same as the Currency of the Contract, Clearing House margin payable on such Contract will be converted by the Clearing House from the Currency of the Contract into the Settlement Currency at the exchange rate determined by the Clearing House from such source and on such basis as it shall consider appropriate as soon as practicable after the Clearing House margin liabilities arose. An HKCC Participant may also provide cover for its Clearing House margin liabilities in one or more of the ways set forth in sections 2.6.1, 2.6.2, 2.6.4 and 2.6.6 below ("approved collateral") provided that the amount of Clearing House margin liability that is covered by approved collateral other than cash in the Settlement Currency does not exceed the maximum level(s) prescribed by the Clearing House with respect to the HKCC Participant and/or each CCMS Collateral Account of the HKCC Participant, as the case may be. Normally, an HKCC Participant's

margin liabilities will first be satisfied by cash in the Settlement Currency, then cash in any other currency from time to time approved by the Clearing House and then by any non-cash collateral maintained in the HKCC Participant's CCMS Collateral Account, or any other order of application prescribed by the Clearing House from time to time.

2.6.1 Cover provided by means of Cash in the Settlement Currency

Any cash balance in the Settlement Currency in excess of the amount required to cover an HKCC Participant's Clearing House margin liability shall automatically be used by the Clearing House as cover for any subsequent increase in the Clearing House margin liability of the HKCC Participant without the HKCC Participant's prior consent. Interest on cash balance in the Settlement Currency at such positive or negative rate may be paid or charged, and costs and charges thereon in such amount may be levied, by the Clearing House as it may determine from time to time in accordance with Appendix V to these Clearing House Procedures.

If an HKCC Participant delivers cash in the Settlement Currency to cover outstanding debit, the Clearing House will neither pay interest nor levy accommodation charges on such delivered amount.

Any HKCC Participant wishing to deliver cash with the Clearing House as excess cover for Clearing House margin liability or as cover for outstanding debit shall input a delivery order via a CCMS terminal and the amount to be delivered will be forthwith debited from the HKCC Participant's DMDS bank account. The HKCC Participant shall ensure that there are sufficient funds delivered in its relevant DMDS bank account for debiting purpose.

2.6.2 Cover provided by means of Cash in an Approved Currency other than the Settlement Currency

Subject to the prior agreement of the Clearing House, an HKCC Participant may provide cover for its Clearing House margin liabilities by means of a delivery to the Clearing House of cash in an approved currency other than the Settlement Currency or by way of surplus balance on Contracts which are settled in a different Settlement Currency provided that the Clearing House shall have the absolute right to determine the maximum amount of an HKCC Participant's Clearing House margin liability which may be so covered. The types of approved currencies that may be provided by HKCC Participants may be determined by the Clearing House from time to time (see Appendix V – (5) for the current list of approved currencies). The value of any cash in an approved currency other than the Settlement Currency allowed to be used as cover for Clearing House margin liabilities shall be determined on a daily basis based on the prevailing market value as determined by the Clearing House after deducting a haircut of such

percentage as determined from time to time by the Clearing House.

Interest on the cash balance in an approved currency other than the Settlement Currency at such positive or negative rate may be paid or charged, and costs and charges thereon in such amount may be levied, by the Clearing House as it may determine from time to time in accordance with Appendix V to these Clearing House Procedures. The rate of interest may be varied from time to time by the Clearing House without prior notice.

No accommodation charge will be levied on Clearing House margin liabilities covered by surplus cash balance in an approved currency other than the Settlement Currency.

Any HKCC Participant wishing to deliver cash in an approved currency other than the Settlement Currency shall notify the Clearing House in writing or by other means acceptable to the Clearing House by 11:00 a.m. or any time specified by the Clearing House.

2.6.3 (deleted)

2.6.4 Exchange Fund Bills/Notes

HKCC Participants may provide cover for their Clearing House margin liabilities by means of Exchange Fund Bills/Notes issued by the Hong Kong Special Administrative Region Government for the account of the Exchange Fund ("Exchange Fund Bills/Notes") provided that the Clearing House shall have the absolute right to determine the maximum amount of an HKCC Participant's Clearing House margin liability which may be so covered.

Any HKCC Participant wishing to use Exchange Fund Bills/Notes to cover calls for Clearing House margin or to request for the redelivery of Exchange Fund Bills/Notes shall notify the Clearing House by 11:00 a.m. on a Trading Day which is a Business Day of its intention in writing or by such other means as may be acceptable to the Clearing House and shall instruct its Recognized Dealer (or its clients' Recognized Dealers in the manner set forth below) to transfer Exchange Fund Bills/Notes to the Clearing House's account with the Hong Kong Monetary Authority ("HKMA"). The Clearing House will accept Exchange Fund Bills/Notes as cover for Clearing House margin liabilities only when confirmation of the transfer is received by the Clearing House from HKMA. To receive same-day credit for Exchange Fund Bills/Notes, the HKCC Participant must transfer Exchange Fund Bills/Notes to the Clearing House's account with HKMA by such transfer cutoff time as may from time to time be specified by HKMA.

An HKCC Participant may meet its Clearing House margin liabilities through the transfer of Exchange Fund Bills/Notes directly from the

HKCC Participant's clients ("direct transfer") provided that the HKCC Participant notifies the Clearing House of the details of the direct transfer in advance. Upon receipt of such direct transfer, the Clearing House will update the HKCC Participant's CCMS Collateral Account and any Exchange Fund Bills/Notes provided under such direct transfer shall be considered to be delivered by the HKCC Participant. In the event any such direct transfer fails to be made with the result that the HKCC Participant fails to meet any margin call, the HKCC Participant shall remain liable to the Clearing House in respect of such margin call and will be placed in default under the Clearing House Rules.

The value of the Exchange Fund Bills/Notes allowed to be used as cover for Clearing House margin liabilities shall be the closing value or the market value of the Exchange Fund Bills/Notes at a specified time published by the HKMA at the close of each Business Day, after deducting a haircut of such percentage as determined from time to time by the Clearing House.

An HKCC Participant may make a request for redelivery of surplus Exchange Fund Bills/Notes in its CCMS Collateral Account by inputting an order for redelivery via a CCMS terminal, by notifying the Clearing House in writing or by other means acceptable to the Clearing House by 11:00 a.m. on a Trading Day which is a Business Day. If the Clearing House accepts such redelivery request, the Clearing House will, subject to Rule 407A, on the express instructions of the HKCC Participant, transfer Exchange Fund Bills/Notes to the account of the HKCC Participant or such other account as the HKCC Participant may specify provided that the HKCC Participant provides confirmation to the Clearing House that the holder of such account is a client of the HKCC Participant. The Clearing House will accept such request for redelivery only if and to the extent that it will not result in any requirement regarding cover for the HKCC Participant's Clearing House margin liability not being satisfied. Any Exchange Fund Bills/Notes so transferred by the Clearing House shall be deemed to have been transferred to the HKCC Participant insofar as the satisfaction of any liability of the Clearing House towards the HKCC Participant is concerned.

Where interest or, upon maturity, redemption money, is paid to the Clearing House in relation to Exchange Fund Bills/Notes which are the subject of cover for Clearing House margin liability provided by an HKCC Participant, the Clearing House shall pay to the HKCC Participant, by crediting its CCMS Collateral Account with the Clearing House on the same Trading Day which is a Business Day, a sum equivalent to the amount of such interest or redemption money less any withholding tax that may be required to be deducted pursuant to any applicable tax laws and regulations and/or net of any

Withholding Tax (whether withheld by the Clearing House or any other parties). The Clearing House will have no obligation to gross-up any such interest payment or to pay any additional amount as a result of such deduction or Withholding Tax. Without prejudice to the foregoing, to the extent required by the Tax Information Exchange Framework, the Clearing House shall be entitled to deduct or withhold Withholding Tax (whether withheld by the Clearing House or any other parties) from any payment of interest or redemption money (or payment of any other income) received by the Clearing House on the Exchange Fund Bills/Notes to an HKCC Participant (or from any other payment made by the Clearing House to an HKCC Participant) and shall have no obligation to gross-up any such payment or to pay any additional amount as a result of such Withholding Tax.

An HKCC Participant shall be liable for all disbursements and expenses that may be incurred by the Clearing House in respect of or incidental to its acceptance of Exchange Fund Bills/Notes from the HKCC Participant, including its redelivery or delivery of Exchange Fund Bills/Notes and related sums to the HKCC Participant.

Pursuant to Clearing House Rule 404(c), an accommodation charge as determined from time to time by the Clearing House will be imposed on the amount of Exchange Fund Bills/Notes used as cover for margin liabilities.

2.6.5 (deleted)

2.6.6 U.S. Government Treasury Bills and Notes

HKCC Participants may also deliver U.S. Government Treasury Bills or Notes ("U.S. Treasuries") excluding U.S. Treasury Callable Corpus ("TCAL") and Separate Trading of Registered Interest and Principal of Securities ("STRIPs") to meet Clearing House margin liabilities provided that the Clearing House shall have the absolute right to determine the maximum amount of an HKCC Participant's Clearing House margin liability which may be so covered.

Any HKCC Participant wishing to use U.S. Treasuries to cover calls for Clearing House margin liabilities shall notify the Clearing House by 11:00 a.m. on a Trading Day which is a Business Day of its intention in writing or by such other means as may be acceptable to the Clearing House and the Clearing House will, as soon as practicable, upon receipt of such notice process such request. Any delivery of U.S. Treasuries shall be made to the Clearing House's account with any of the banks or depositories approved by the Clearing House from time to time. The Clearing House will update the HKCC Participant's CCMS Collateral Account and accept U.S. Treasuries as cover for Clearing

House margin liabilities only when confirmation of the transfer is received by the Clearing House from the approved bank or depository.

An HKCC Participant may meet its Clearing House margin liabilities through the transfer of U.S. Treasuries directly from the HKCC Participant's clients ("direct transfer") provided that details of the direct transfer are given by the HKCC Participant to the Clearing House in advance. Upon receipt of such direct transfer, the Clearing House will update the HKCC Participant's CCMS Collateral Account and any U.S. Treasuries provided under such direct transfer shall be considered to be delivered by the HKCC Participant. In the event any such direct transfer fails to be made with the result that the HKCC Participant fails to meet any margin call, the HKCC Participant shall remain liable to the Clearing House in respect of such margin call and will be placed in default under the Clearing House Rules.

The value of U.S. Treasuries allowed to be used as cover for Clearing House margin liabilities shall be the market value quoted by information vendor(s) selected from time to time by the Clearing House at the close of each Trading Day, after deducting a haircut of such percentage as determined from time to time by the Clearing House.

An HKCC Participant may make a request for redelivery of surplus U.S. Treasuries in its CCMS Collateral Account by inputting an order for redelivery via a CCMS terminal, by notifying the Clearing House in writing or by other means acceptable to the Clearing House by 11:00 a.m. on a Trading Day which is a Business Day. If the Clearing House accepts such redelivery request, the Clearing House will, subject to Rule 407A, on the express instructions of the HKCC Participant, transfer U.S. Treasuries to the account of the HKCC Participant or such other account as the HKCC Participant may specify provided that the HKCC Participant provides confirmation to the Clearing House that the holder of such account is a client of the HKCC Participant. The Clearing House will accept such request for redelivery only if and to the extent that it will not result in any requirement regarding cover for the HKCC Participant's Clearing House margin liability not being satisfied. Any U.S. Treasuries so transferred by the Clearing House shall be deemed to have been transferred to the HKCC Participant insofar as the satisfaction of any liability of the Clearing House towards the HKCC Participant is concerned.

Where interest or, upon maturity, redemption money, is paid to the Clearing House in relation to U.S. Treasuries which are the subject of cover for Clearing House margin liability provided by an HKCC Participant, the Clearing House shall pay to the HKCC Participant, by crediting its CCMS Collateral Account with the Clearing House on the same Trading Day, a sum equivalent to the amount of such interest or

redemption money less any withholding tax that may be required to be deducted pursuant to any applicable tax laws and regulations and/or net of any Withholding Tax (whether withheld by the Clearing House or any other parties). The Clearing House will have no obligation to gross-up any such interest payment or to pay any additional amount as a result of such deduction or Withholding Tax. Without prejudice to the foregoing, to the extent required by the Tax Information Exchange Framework, the Clearing House shall be entitled to deduct or withhold Withholding Tax (whether withheld by the Clearing House or any other parties) from any payment of interest or redemption money (or payment of any other income) received by the Clearing House on the U.S. Treasuries to an HKCC Participant (or from any other payment made by the Clearing House to an HKCC Participant) and shall have no obligation to gross-up any such payment or to pay any additional amount as a result of such Withholding Tax. In the event that the HKCC Participant's clearing account is not in U.S. dollars, such amount will be credited to a U.S. dollar bank account designated by the HKCC Participant.

An HKCC Participant shall be liable for all disbursements and expenses that may be incurred by the Clearing House in respect of or incidental to its acceptance of U.S. Treasuries from the HKCC Participant, including its redelivery or delivery of U.S. Treasuries and related sums to the HKCC Participant.

Pursuant to Clearing House Rule 404(c), an accommodation charge as determined from time to time by the Clearing House will be imposed on the amount of U.S. Treasuries used as cover for margin liabilities.

2.6.7 (deleted)

2.6A Settlement of Liabilities including Outstanding Debit & Variation Adjustment

Subject to section 2.6, all liabilities arising from trades executed in any Market, including outstanding debit and variation adjustments must be settled by cash in the Settlement Currency, unless otherwise permitted by the Clearing House.

Where the Settlement Currency of any such trade is not the same as the Currency of the Contract, liabilities arising from such trade will be converted by the Clearing House from the Currency of the Contract into the Settlement Currency at the exchange rate determined by the Clearing House from such source and on such basis as it shall consider appropriate as soon as practicable after the liabilities arose. Any exchange rate risk arising from the conversion will be borne by the HKCC Participant.

Where any liabilities arising from trades executed in any Market, including outstanding debit and variation adjustments, are permitted by the Clearing House to be settled in a currency other than the Settlement Currency, the

Clearing House shall have the absolute right to determine the maximum amount of such liabilities which may be so covered, the duration for which such liabilities may be so covered and the types of approved currencies that may be provided by HKCC Participants (see Appendix V – (5) for the current list of approved currencies). The value of any cash in an approved currency other than the Settlement Currency allowed to be used as cover shall be determined on a daily basis based on the prevailing market value as determined by the Clearing House after deducting a haircut of such percentage as determined from time to time by the Clearing House. Any exchange rate risk arising from the use of a currency other than the Settlement Currency as cover will be borne by the HKCC Participant.

2.7 Payment of Cover - Direct Margin Debiting System

When an HKCC Participant's Clearing House margin liability exceeds the amount of cover provided and/or an HKCC Participant has outstanding debit, the HKCC Participant shall pay such shortfall and any outstanding debit by the next Business Day * through the Direct Margin Debiting System provided that if the HKCC Participant also clears Holiday Trading Exchange Contracts, the HKCC Participant shall pay such shortfall and any outstanding debit through the Direct Margin Debiting System by the next Trading Day, regardless of whether it is a Business Day.

* *This applies to each Exchange Contract regardless of whether there is trading available in the market on which the underlying instrument or commodity of the Exchange Contract is traded.*

Subject to section 2.6, the DMDS will operate as follows:

a) Each HKCC Participant will need to open two bank accounts for House and Client respectively for each applicable Settlement Currency at one of the Designated Banks, Prime Settlement Banks or Approved Settlement Banks from time to time appointed by the Clearing House. For a Market Maker Account, an HKCC Participant need not have separate bank accounts for debiting purpose. The House bank accounts will be used as the designated bank accounts unless the Market Maker Account is of a Client nature, in which case the Client bank accounts shall be used as the designated bank accounts for the Market Maker Account. Any HKCC Participant wishing to use additional Client bank accounts as the designated bank accounts for a Market Maker Account which is of a Client nature must notify the Clearing House in writing. Each HKCC Participant is required to provide the bank via the Clearing House with separate mandates, in such form as shall be approved by the Clearing House, authorizing the transfer, on the Clearing House's instructions, of funds required to satisfy the daily call for Clearing House margins, loss arising from variation adjustment, outstanding debit and any other liabilities due to the Clearing House. For the avoidance of doubt, an HKCC Participant which has not

opened bank accounts in the Settlement Currency of a Contract and provided mandates to the bank as aforesaid will not be allowed to record, register and clear that Contract.

b) The Clearing House will provide to each Designated Bank, Prime Settlement Bank and Approved Settlement Bank, on each Trading Day, a list of amounts due from HKCC Participants having accounts at that bank.

c) On receipt of the list, each Designated Bank and Approved Settlement Bank will debit the amount due from each HKCC Participant from the HKCC Participant's account and transfer the same amount to the Clearing House's account at one of the Prime Settlement Banks designated by the Clearing House.

On receipt of the list, each Prime Settlement Bank will process the transfers internally. Each Prime Settlement Bank will simultaneously debit the amount due from each HKCC Participant from the HKCC Participant's account and credit the same amount to the Clearing House's account maintained with the bank.

d) Each Prime Settlement Bank will notify the Clearing House by 9:15 a.m. (i) of any transfer from the Designated Banks and Approved Settlement Banks and (ii) whether any transfer from the HKCC Participants' accounts maintained with the Prime Settlement Bank cannot be made.

e) HKCC Participants must ensure that their accounts at the Designated Banks, Prime Settlement Banks or Approved Settlement Banks contain sufficient credit balances to meet the Clearing House transfer instructions and/or to negotiate appropriate borrowing facilities with the banks concerned. HKCC Participants maintaining accounts with Designated Banks or Approved Settlement Banks must also ensure that their banks transfer all payments to the designated Prime Settlement Banks by 9:10 a.m. on each payment day.

Written notification to the Clearing House must be given at least 24 hours in advance if HKCC Participants want to nominate another bank or, where applicable, another currency as the medium for the direct debit. Any bank charges arising in connection with the operation of the system shall be borne by HKCC Participants.

2.8 Intra-day Variation Adjustments

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 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 and published on the HKEX website from time to time.

In addition, at the close of the morning trading session of the Hang Seng Index Futures Market on each Business Day and at such other time as may be specified by the Clearing House on a Trading Day which is not a Business Day, the Clearing House will, unless otherwise determined by the Clearing House, perform an intra-day assessment of the gross and net margin liabilities of all the accounts of each HKCC Participant in DCASS in respect of all open Contracts held by the HKCC Participant in all Markets. Where such gross or net margin liability is determined by the Clearing House to have exceeded the gross or net capital-based position limit imposed on the HKCC Participant and calculated in accordance with section 5.1, the Clearing House may make an intra-day variation adjustment in respect of all open Contracts held by the HKCC Participant in all open Markets.

Furthermore, where the price movements in a Market are particularly volatile such that the applicable Clearing House margin in respect of that Market has been eroded by such level as may be prescribed by the Clearing House from time to time or where the Clearing House considers appropriate under any other circumstances, the Clearing House may make an intra-day variation adjustment in respect of all open Contracts held by an HKCC Participant in that Market and/or any other Market.

The Clearing House will generate a report, which will set forth the amount which will be debited from or credited to the relevant CCMS Collateral Account of the HKCC Participant as a result of any intra-day variation adjustment.

To the extent that the collateral in the HKCC Participant's relevant CCMS Collateral Account is insufficient, funds required to satisfy an intra-day variation adjustment will be collected via the DMDS. HKCC Participants shall ensure that there are sufficient funds deposited in their DMDS bank accounts for debiting purpose. Unless otherwise permitted by the Clearing House, all margin calls for intra-day variation adjustments must be settled by cash in the Settlement Currency and must be paid by the HKCC Participant on demand and in any event no later than one hour after the abovementioned report is issued to the HKCC Participant or such shorter period as may from time to time be prescribed by the Clearing House. Where the Settlement Currency of a Contract is not the same as the Currency of the Contract, intra-day variation adjustment payable on such Contract will be converted by the Clearing House from the Currency of the Contract into the Settlement Currency at the exchange rate determined by the Clearing House from such source and on such basis as it shall consider appropriate as soon as practicable after the intra-day variation adjustment arose. Any exchange rate risk arising from the conversion will be borne by the HKCC Participant.

No amount arising from an intra-day variation adjustment made pursuant to an intra-day assessment as mentioned above will be credited to an HKCC Participant. In any other case, for each type of Settlement Currency, where an intra-day variation adjustment is made on any day, any amount to be credited to the HKCC Participant as a result of the intra-day variation adjustment will be made by the Clearing House on the same day except that no payment will be made by the Clearing House (i) if the amount to be credited is HK$1 million or less or its non-Hong Kong Dollar currency equivalent based on the exchange rate determined by the Clearing House; (ii) if the credit arises from Physical Delivery Contracts after the Last Trading Day; or (iii) if the intra-day variation adjustment is made after the cutoff time specified by the Clearing House and notified to HKCC Participant from time to time. Any amount to be credited as aforesaid will be made automatically via the DMDS to the DMDS bank account designated by the HKCC Participant. HKCC Participants shall ensure that standing instructions are given to the Clearing House for this purpose.

Notwithstanding the above, in the case of Physical Delivery Contracts after the Last Trading Day, as long as any cover provided by an HKCC Participant under section 2.6 is sufficient to satisfy an intra-day variation adjustment, no funds will be collected via the DMDS. To the extent that cover provided under section 2.6 is insufficient, the shortfall will be collected via the DMDS. Furthermore, no credit arising from intra-day variation adjustment on Physical Delivery Contracts after the Last Trading Day will be made to any HKCC Participant as mentioned above, or used to offset any Clearing House margin liabilities of the HKCC Participant.

Some of the Markets may remain open on public holidays in Hong Kong. HKCC Participants are advised to arrange additional cover to deal with any potential intra-day variation adjustment call. If an HKCC Participant is unable to meet its intra-day variation adjustment calls by the prescribed deadline for any reason, it shall constitute an event of default. Without prejudice to Rule 510, the Clearing House may restrict such HKCC Participant from opening new positions and may require compulsory close-outs where circumstances warrant such action.

2.8A Special Block Trade Margin

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.

To the extent that the collateral in the HKCC Participant's relevant CCMS Collateral Account is insufficient to satisfy the Special Block Trade Margin,

the Clearing House will generate a Special Block Trade Margin report and any Special Block Trade Margin payable by the HKCC Participant will be debited from its relevant DMDS bank account. The HKCC Participant shall ensure that there are sufficient funds deposited in its DMDS bank account for debiting purpose.

Unless otherwise permitted by the Clearing House, all Special Block Trade Margin must be settled by cash in the Settlement Currency and must be paid by the HKCC Participant on demand and in any event no later than one hour after the abovementioned report is issued to the HKCC Participant or such shorter period as may from time to time be prescribed by the Clearing House. Where the Settlement Currency of a Contract is not the same as the Currency of the Contract, any Special Block Trade Margin payable on such Contract will be converted by the Clearing House from the Currency of the Contract into the Settlement Currency at the exchange rate determined by the Clearing House from such source and on such basis as it shall consider appropriate as soon as practicable after the Special Block Trade Margin arose. Any exchange rate risk arising from the conversion will be borne by the HKCC Participant.

A Block Trade will not be registered with the Clearing House or novated unless the required Special Block Trade Margin and any other criteria applicable to the Block Trade have been satisfied.

For the avoidance of doubt, no amount will be credited to HKCC Participants as a result of any Special Block Trade Margin call.

Some of the Markets may remain open after normal banking hours or on public holidays in Hong Kong. HKCC Participants are advised to arrange additional cover to deal with any potential Special Block Trade Margin.

If an HKCC Participant is unable to pay or otherwise satisfy any Special Block Trade Margin in respect of a Block Trade by the prescribed deadline for any reason (including where the Block Trade is executed during the T+1 Session during which no debit can be made from its relevant DMDS bank account and there is insufficient collateral in its CCMS Collateral Account to satisfy the Special Block Trade Margin), the Block Trade shall, without notice being required to be given to the HKCC Participant, be deleted from HKATS and DCASS as if the Block Trade had never been executed and will not be registered with or novated or cleared by the Clearing House.

If an HKCC Participant is unable to pay or otherwise satisfy any Special Block Trade Margin arising from a trade adjustment request submitted in respect of a Block Trade by the prescribed deadline for any reason (including where the request is submitted between the commencement of the T+1 Session and the T+1 Session Cutoff Time during which no debit can be made from its relevant DMDS bank account and there is insufficient collateral in its CCMS Collateral Account to satisfy the Special Block Trade Margin), the trade adjustment request will be rejected by the Clearing House.

2.8B Mandatory Intra-day Variation Adjustment and Margin

Following Market open of T Session on each Trading Day, the Clearing House will, unless otherwise determined by the Clearing House, call for mandatory intra-day variation adjustment and margin in respect of all open Contracts, including those traded in the preceding T+1 Session, held in all Markets by an HKCC Participant at a time specified by the Clearing House. HKCC Participants are advised to complete all their post-trade adjustments under sections 1.4 and 1.5 for trades executed in the preceding T+1 Session by the time specified by the Clearing House from time to time. Any post-trade adjustments executed thereafter may not be incorporated in the mandatory intra-day variation adjustment and margin calculation.

The amount of cover required to satisfy any call for mandatory intra-day variation adjustment and margin will be determined in accordance with the methodology set forth in section 2.5. The Clearing House will generate a report to each HKCC Participant, which will set forth the amounts of the intra-day variation adjustment component of the mandatory intra-day variation adjustment and margin to be debited from or credited to the relevant CCMS Collateral Account of the HKCC Participant and the amount of liability for the Clearing House margin component for each CCMS Collateral Account of the HKCC Participant.

Funds required to satisfy a mandatory intra-day variation adjustment and margin will be collected via the DMDS. HKCC Participants shall ensure that there are sufficient funds deposited in their DMDS bank accounts for debiting purpose. Unless otherwise permitted by the Clearing House, all margin calls for mandatory intra-day variation adjustment and margin must be settled by cash in the Settlement Currency and must be paid by the HKCC Participant on demand and in any event no later than two hours after the abovementioned report is issued to the HKCC Participant or such shorter period as may from time to time be prescribed by the Clearing House. Where the Settlement Currency of a Contract is not the same as the Currency of the Contract, mandatory intra-day variation adjustment and margin payable on such Contract will be converted by the Clearing House from the Currency of the Contract into the Settlement Currency at the exchange rate determined by the Clearing House from such source and on such basis as it shall consider appropriate as soon as practicable after the mandatory intra-day variation adjustment and margin arose. Any exchange rate risk arising from the conversion will be borne by the HKCC Participant.

For each type of Settlement Currency, any amount of intra-day variation adjustment to be credited to the HKCC Participant, after deducting the additional cover required for Clearing House margin if any, as a result of the mandatory intra-day variation adjustment and margin at or before 12:30 p.m. will be made by the Clearing House on the same day except that no payment will be made by the Clearing House (i) if the amount to be credited, after

deducting the additional cover required for Clearing House margin if any, is HK$1 million or less or its non-Hong Kong Dollar currency equivalent based on the exchange rate determined by the Clearing House; or (ii) if the credit arises from Physical Delivery Contracts after the Last Trading Day. Any amount to be credited as aforesaid will be made automatically via the DMDS to the DMDS bank account designated by the HKCC Participant. HKCC Participants shall ensure that standing instructions are given to the Clearing House for this purpose.

Notwithstanding the above, in the case of Physical Delivery Contracts after the Last Trading Day, as long as any cover provided by an HKCC Participant under section 2.6 is sufficient to satisfy a mandatory intra-day variation adjustment and margin, no funds will be collected via the DMDS. To the extent that cover provided under section 2.6 is insufficient, the shortfall will be collected via the DMDS. Furthermore, no credit arising from mandatory intra-day variation adjustment and margin calls on Physical Delivery Contracts after the Last Trading Day will be made to any HKCC Participant as mentioned above, or used to offset any Clearing House margin liabilities of the HKCC Participant.

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

2.9.1 Delivery of Approved Currencies Other Than Applicable Settlement Currencies

In this section 2.9.1 and in section 2.9.2, references to "Currency Amount" means the amount denominated in an approved currency referred to in section 2.6.2 and Appendix V-(5) which is recorded in an HKCC Participant's CCMS Collateral Account or its account in a bank, where appropriate, other than any amount that is denominated in an applicable Settlement Currency referred to in section 2.7(a); and references to the "Relevant Currency" means an approved currency other than an applicable Settlement Currency.

An HKCC Participant wishing to use any Currency Amount to cover calls for Clearing House margin shall notify the Clearing House by 11:00 a.m. or any time specified by the Clearing House on any Trading Day of its intention in writing or by such other means as may be acceptable to the Clearing House. The value date applicable to the transfer of any Currency Amount from an HKCC Participant's account in one bank to the Clearing House's account in another bank is normally the next Trading Day after the date on which the HKCC Participant's bank receives the HKCC Participant's instructions to effect such transfer. If that day is a bank holiday in the country where the HKCC Participant's bank is located or where the Relevant Currency is cleared, the value date shall be on the next Trading Day which is not a bank holiday in that country. Only after the receipt of

the funds is confirmed by the Clearing House's bank, will the Clearing House accept these funds as cover for the HKCC Participant's Clearing House margin liabilities and/or outstanding debit.

If the HKCC Participant's account and the Clearing House's account are maintained with the same bank in Hong Kong, the transfer may be effected within the same day, in which case the value date for the transfer of Relevant Currency amount shall be the day on which such bank receives the HKCC Participant's instructions to effect the transfer.

2.9.2 Redelivery of Approved Currencies Other Than Applicable Settlement Currencies

In this section, references to "Currency Amount" and "Relevant Currency" have the same meaning as set out in section 2.9.1.

Subject to Rule 407A, an HKCC Participant may request the redelivery of any excess Currency Amount provided to the Clearing House by notifying the Clearing House of its intention in writing or by other means acceptable to the Clearing House by 11:00 a.m. on each Business Day. In the event that the Clearing House, in its sole discretion, agrees to redeliver such excess Currency Amount, the requesting HKCC Participant's CCMS Collateral Account with the Clearing House will be debited immediately. The redelivery of the requested amount will not be effected on the same day as the date of the request as set out in sections 2.9.2.1 and 2.9.2.2 and will depend on whether it is a Bank Business Day in the country where the HKCC Participant's bank is located or where the Currency Amount is cleared. Interest on the excess Currency Amount being redelivered at such positive or negative rate may be paid or charged, and costs and charges in such amount may be levied, by the Clearing House as it may determine from time to time in accordance with Appendix V to these Clearing House Procedures until the redelivery is effected.

2.9.2.1 Japanese Yen

The value date for the redelivery of Currency Amount denominated in Japanese Yen is the second Business Day after the date on which the redelivery request is received by the Clearing House. If that day is a bank holiday in Japan, then the value date shall be on the next Bank Business Day in both Japan and Hong Kong.

2.9.2.2 Currency Amounts not denominated in Japanese Yen

The value date for the redelivery of any Currency Amount not denominated in Japanese Yen is the next Business Day after the date on which the redelivery request is

received by the Clearing House. If that day is a bank holiday in the country or countries where the HKCC Participant's bank is located and where the Relevant Currency (other than Japanese Yen) is cleared, then the value date shall be on the next Bank Business Day in those countries and Hong Kong.

2.9.3 Substitution for the Settlement Currency

HKCC Participants may elect to deliver cash in a currency other than the Settlement Currency approved by the Clearing House as cover for HKCC Participants' Clearing House margin liabilities provided that the amount of Clearing House margin liabilities that is covered by approved collateral other than cash in the Settlement Currency will not exceed the maximum level(s) prescribed by the Clearing House and provided further the delivery will not result in any other requirement regarding cover for HKCC Participant's Clearing House margin liabilities not being satisfied. If cash in a currency other than the Settlement Currency approved by the Clearing House is delivered by an HKCC Participant as substitution for any Clearing House margin settled by the HKCC Participant using the Settlement Currency, such cash must be received by the Clearing House with finality by 9:30 a.m. on each Trading Day in order for the HKCC Participant to have surplus funds resulting from such cash redelivered to the HKCC Participant in the Settlement Currency for same-day value. If such cash is received after 9:30 a.m. on a Trading Day or any time on a Trading Day which is not a Business Day, any surplus in the Settlement Currency will be redelivered to HKCC Participants for value on the next Business Day.

2.10 Redelivery of Surplus Funds in the Settlement Currency

Subject to Rule 407A, an HKCC Participant may request the redelivery of surplus funds in the Settlement Currency in its CCMS Collateral Account by inputting an order for redelivery via a CCMS terminal, by notifying the Clearing House in writing or by other means acceptable to the Clearing House by 11:00 a.m. on each Business Day. It should be noted that the Clearing House will not redeliver any surplus funds if the amount of Clearing House margin liabilities that is covered by approved collateral other than cash in the Settlement Currency will exceed the maximum level(s) prescribed by the Clearing House or if the redelivery will result in any other requirement regarding cover for the HKCC Participant's Clearing House margin liability not being satisfied. If the Clearing House accepts the redelivery request, the Clearing House will pay the requested amount from its settlement account maintained with the Hong Kong Monetary Authority and/or from its account with a Prime Settlement Bank or an Approved Settlement Bank (as applicable) to the HKCC Participant's account with a Prime Settlement Bank, Approved Settlement Bank or Designated Bank (as applicable) for same day value.

2.11 Final Settlement of Futures Contract

2.11.1 Cash Settled Contracts

All Cash Settled Futures Contracts traded on HKATS are cash settled at the Final Settlement Price on the Last Trading Day or other day as determined in accordance with the Contract Specifications. Any profits or losses on cash settlement will be credited to or debited from the relevant CCMS Collateral Account of the HKCC Participant. If there are excess funds as shown in the CCMS Collateral Account, after considering all other liabilities, a payment will be made to the HKCC Participant upon request. If there are insufficient funds as shown in the CCMS Collateral Account to cover the resulting losses, a call will be made via the DMDS. In addition, a cash settlement fee is charged on every open Futures position on the Final Settlement Day.

In respect of any Cash Settled Futures Contract whose Settlement Currency is different from the Currency of the Contract, the amount required to be settled by the HKCC Participant on the Final Settlement Day shall be converted to the Settlement Currency equivalent. The conversion rate to be applied shall be the exchange rate obtained by the Clearing House at such time on the Last Trading Day or other day and from such source as it shall consider appropriate. The Clearing House will promptly announce these rates after they are determined. HKCC Participants must use these rates for conversions at the Client account level.

2.11.2 Physical Delivery Contracts

Physical Delivery Contracts that are Futures Contracts shall be settled in accordance with the Exchange Rules, the Clearing House Rules and Chapter 2A of these Clearing House Procedures.

2.11.3 Hong Kong Interbank Offered Rate Futures ("HIBOR Futures") Contracts

In respect of HIBOR Futures Contracts, if no HKD Interest Settlement Rate is available by The Hong Kong Association of Banks on the Last Trading Day due to typhoon signal no. 8 or above is hoisted, black rainstorm warning is issued or "extreme conditions" are announced by any government authority of Hong Kong, the corresponding clearing services and final settlement will be extended to the next Trading Day on which the Final Settlement Price is available.

2.12 Exercise/Assignment of Option Contracts

2.12.1 Cash Settled Contracts

All the Option Contracts which are Cash Settled Contracts traded on HKATS are settled by cash at the Official Settlement Price on the Expiry Day as determined in accordance with the Contract Specifications. On expiry, any proceeds from the exercise and assignment for the in-the-money Options will be debited from the Option writers' CCMS Collateral Accounts and credited to the Option holders' CCMS Collateral Accounts. If there are excess funds as shown in the CCMS Collateral Account of the relevant HKCC Participant, after considering all other liabilities, a payment will be made to the HKCC Participant upon request. If there are insufficient funds as shown in its CCMS Collateral Account to cover the resulting losses, a call will be made via the DMDS. An exercise and assignment fee is levied on both the Option holder and Option writer for auto-settlement on the Expiry Day.

In respect of any Option Contract whose Settlement Currency is different from the Currency of the Contract, the amount required to be settled by the HKCC Participant on the Final Settlement Day shall be converted to the Settlement Currency equivalent. The conversion rate to be applied shall be the exchange rate obtained by the Clearing House at such time on the Expiry Day or other day and from such source as it shall consider appropriate. The Clearing House will promptly announce these rates after they are determined. HKCC Participants must use these rates for conversions at the Client account level.

2.12.2 Physical Delivery Contracts

Physical Delivery Contracts that are Option Contracts shall be settled in accordance with the Exchange Rules, the Clearing House Rules and Chapter 2A of these Clearing House Procedures.

2.13 Contract Termination

Following the occurrence of an event of default, if the Clearing House reasonably believes that it will not be able to close out, settle, sell, transfer, hedge or conclude a new Contract in respect of all or any open Contracts of the Defaulter within a reasonable time as determined by the Clearing House, the Clearing House may, without prejudice to any other rights under the Rules, invoke the contract termination process as provided for in Rule 515A in consultation with the Commission.

If the Clearing House invokes contract termination in accordance with Rule 515A, it shall determine the Identified Contracts under Rule 515A(b) and notify the relevant HKCC Participants of its determination, including details of the Identified Contracts and the effective date of termination of such Identified Contracts. Notwithstanding the above, at any time during the

contract termination process but prior to the effective date of termination of the relevant Identified Contracts, the Clearing House may instead of proceeding with the termination of such open Contracts, declare the occurrence of a Clearing Service Termination Event, and in such case the Identified Contracts shall not be terminated in accordance with the contract termination process but shall be terminated in accordance with Rule 1101.

2.13.1 Calculation of termination value

The termination value for each Identified Contract shall be determined based on the Closing Quotation determined in accordance with section 2.3 of the Clearing House Procedures at the time of contract termination, or if such Closing Quotation is not available, the price shall be such price as the Clearing House may reasonably determine.

On the basis of the termination value established for each Identified Contract, the Clearing House shall, with respect to each relevant clearing account of each relevant HKCC Participant, determine the resulting net sum payable by such HKCC Participant to the Clearing House for such clearing account (the "Termination Value Payable") or the resulting net sum receivable by such HKCC Participant from the Clearing House for such clearing account (the "Termination Value Receivable"). For the avoidance of doubt, an HKCC Participant may have a Termination Value Payable in respect of one clearing account registered in its name, but a Termination Value Receivable in respect of another clearing account registered in its name. There shall be no combining or set-off between any house clearing account (including any clearing account which is not of a Client nature) and Client clearing accounts (including any clearing account which is of a Client nature).

2.13.2 Payment of Termination Value Payable and Termination Value Receivable

2.13.2.1 Termination Value Payable

The Clearing House will notify each relevant HKCC Participant of its Termination Value Payable(s) and each such HKCC Participant shall pay the specified Termination Value Payable(s) to the Clearing House in full within one Business Day or within such other time specified by the Clearing House in the notice. If the relevant HKCC Participant fails to pay the Termination Value Payable(s) within the time specified in the notice, the Clearing House may declare such HKCC Participant as a Defaulter.

In the event that the Clearing House does not receive any part

of the Termination Value Payable from an HKCC Participant, the Clearing House shall take reasonable steps to recover such amount. Such HKCC Participant shall be responsible for any costs the Clearing House reasonably incurs in attempting to recover such amounts and accordingly the Termination Value Payable actually received from such HKCC Participant shall be deemed to be decreased by an amount equal to such costs, unless such costs are paid by such HKCC Participant.

2.13.2.2 Termination Value Receivable

The Clearing House will notify each relevant HKCC Participant of its Termination Value Receivable(s) upon determination.

2.13.2.3 Payment

The amount of Termination Value Payable and Termination Value Receivable will be debited from or credited to (as the case may be) the relevant CCMS Collateral Account of the HKCC Participant. To the extent that the collateral in the HKCC Participant's relevant CCMS Collateral Account is insufficient, funds will be collected via the Direct Margin Debiting System. HKCC Participants shall ensure that there are sufficient funds deposited in their DMDS bank accounts for debiting purpose.

The Termination Value Payable and Termination Value Receivable shall be settled in the Settlement Currency. To the extent that the Clearing House determines that it is not possible or reasonably practicable to make payment in the Settlement Currency, the obligations of the Clearing House shall be to make payment, 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, taking into account all relevant circumstances as it may consider appropriate.

2.13.2.4 Liability of the Clearing House

Upon termination of one or more Identified Contracts under Rule 515A, all prevailing obligations of the Clearing House and the relevant HKCC Participant in respect of each such Identified Contract between them (including the obligation to deliver any underlying commodities or instruments under the Identified Contracts) shall cease and be replaced with the obligation of the Clearing House or the relevant HKCC Participant, as the case may be, to pay the other party with

respect to each clearing account registered in the name of such HKCC Participant a net sum equal to the aggregate termination value of each Identified Contract between them, as determined by the Clearing House in accordance with Rule 515A and this section of the Clearing House Procedures.

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.3.6 Special arrangements under severe weather conditions

If typhoon signal No. 8 or above is hoisted, black rainstorm warning is issued or "extreme conditions" are announced by any government authority of Hong Kong on a Trading Day which is after the Last Trading Day up to and including the Final Settlement Day of an expiring Physically Settled Metal Futures Contract and physical delivery cannot be effected by an Approved Depository or any other relevant depository or facilities which effects the physical delivery of such Physically Settled Metal Futures Contract, physical delivery service relating to the final settlement of such Physically Settled Metal Futures Contract will be postponed to the next Trading Day on which physical delivery service resumes.

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.

Chapter 3 Clearing Documentation

DCASS and CCMS will generate different types of clearing reports for HKCC Participants after the daily settlement process. Please refer to the DCASS User Guide and CCMS Terminal User Guide for details.

Chapter 4 Reserve Fund Contribution

Pursuant to HKCC Rules, each HKCC Participant is required to contribute to the Reserve Fund in the form of an HKCC Participant's Deposit by cash in Hong Kong dollars or in any other currency prescribed by the Clearing House from time to time upon its HKCC Participantship application being approved. The HKCC Participant's Deposit required from each Clearing Participant is HK$1.5 million while that required from each General Clearing Participant is HK$7.5 million.

Pursuant to HKCC Rules, each HKCC Participant is also required to pay by way of HKCC Participant Additional Deposits such amounts as the Clearing House may from time to time determine to be necessary in response to market fluctuations and increased risk exposures. For the purpose of determining the HKCC Participant Additional Deposit or any other amount payable by an HKCC Participant in respect of the Reserve Fund, positions of the HKCC Participant arising from the T+1 Session on a Trading Day will be incorporated in the determination on the next Trading Day, unless otherwise determined by the Clearing House.

4.1 HKCC Participant Additional Deposits

Subject to Rule 707B, on the first Trading Day which is also a Business Day of every month, the Clearing House will assess the adequacy of the Reserve Fund to cover the maximum daily risk exposure of the Reserve Fund during the most recent 60 Trading Days and will determine whether any HKCC Participant Additional Deposits would be required from HKCC Participants, taking into consideration the risk exposure of the Reserve Fund, the Reserve Fund Threshold and the prevailing market conditions.

As part of such monthly assessment of the adequacy of the Reserve Fund, HKCC Participant Additional Deposits will be recalculated and demanded such that the sum of (i) the existing aggregate value of the Reserve Fund after the injection of the HKCC Participant Additional Deposits and resources which may be appropriated by the Clearing House as contributions to the Reserve Fund; and (ii) the aggregate HKCC Participant Additional Deposits Credit utilized by all the HKCC Participants, will cover 115% of the risk exposures of the Reserve Fund throughout the most recent 60 Trading Days. If the sum determined above is higher than the Reserve Fund Threshold, it shall be reduced to an amount equal to the Reserve Fund Threshold.

The total HKCC Participant Additional Deposits required and the resources which may be appropriated by the Clearing House as contributions to the Reserve Fund can be obtained using the following formulae:

If 115% of *MEX* is lower than *MIN*:

CHA = 10% x (BEF ÷ 90%)
HPAD = 0

If 115% of *MEX* is higher than or equal to *MIN* but lower than the Reserve Fund Threshold:

CHA = 10% x (MEX x 115%)
HPAD = (MEX x 115% - BEF - CHA)

If 115% of *MEX* is higher than the Reserve Fund Threshold:

CHA = 10% of Reserve Fund Threshold
HPAD = Reserve Fund Threshold - BEF - CHA

where:

MEX	*denotes the maximum daily risk exposure of the Reserve Fund during the most recent 60 Trading Days;*
MIN	*denotes the minimum size of the Reserve Fund (i.e. the basic elements of the Reserve Fund and the resources which may be appropriated by the Clearing House as contributions to the Reserve Fund), which should amount to BEF ÷ 90%;*
BEF	*denotes the basic elements of the Reserve Fund (i.e. the existing aggregate value of the Reserve Fund less the total HKCC Participant Additional Deposits and resources which may be appropriated by the Clearing House as contributions to the Reserved Fund);*
HPAD	*denotes the total HKCC Participant Additional Deposits required; and*
CHA	*denotes the resources which may be appropriated by the Clearing House as contributions to the Reserve Fund, which should amount to 10% or such other percentage of the Reserve Fund size as the Clearing House may determine from time to time, in which case the percentage in the formulae above shall be adjusted accordingly.*

Aside from the demands made under regular monthly assessments, subject to Rule 707B, HKCC Participant Additional Deposits will be recalculated and demanded in accordance with the abovementioned formula if

(a) the daily risk exposure of the Reserve Fund as calculated on each Trading Day exceeds 90% of; and

(b) Reserve Fund Threshold is higher than

the sum of (i) the existing aggregate value of the Reserve Fund (i.e. the basic elements of the Reserve Fund plus the total HKCC Participant Additional Deposits and the resources which may be appropriated by the Clearing House as contributions to the Reserve Fund); and (ii) the aggregate HKCC Participant Additional Deposits Credit utilized by all the HKCC Participants, provided that the Chairman may, at his sole discretion, waive the demand of HKCC Participant Additional Deposits where the current risk exposure of the Reserve Fund does not exceed the sum of (i) the existing aggregate value of the Reserve Fund; and (ii) the aggregate HKCC Participant Additional Deposits Credit utilized by all the HKCC Participants by more than 15%.

In respect of the recalculation of HKCC Participant Additional Deposits and notwithstanding the above, if the relevant Trading Day (i.e. day of calculation of the daily risk exposure of the Reserve Fund) falls on a day which is not a Business Day, the Clearing House shall recalculate for HKCC Participant Additional Deposits in accordance with the abovementioned formula on the first Trading Day which is also a Business Day.

Notwithstanding the above or any other provisions of these HKCC Rules, the Clearing House may assess the adequacy of the Reserve Fund and recalculate the requirements for HKCC Participant Additional Deposits based on the abovementioned formula or on such other basis as the Clearing House may consider appropriate at its absolute discretion from time to time and following the Capped Liability Period pursuant to Rule 707B, the Clearing House may further at its absolute discretion determine the appropriate aggregate value of the Reserve Fund for the purpose of calculating any HKCC Participant Additional Deposits required and in each of the aforementioned circumstances, HKCC Participants shall pay to the Clearing House such HKCC Participant Additional Deposits as may from time to time be demanded by the Clearing House.

4.2 Calculation Methodology for each HKCC Participant’s contribution to HKCC Participant Additional Deposits

After each assessment of the requirements for HKCC Participant Additional Deposits as stipulated in section 4.1 or if the Clearing House otherwise determines that HKCC Participant Additional Deposits shall be recalculated or further required from HKCC Participants, the Clearing House will calculate each HKCC Participant’s contribution requirement based on each HKCC Participant’s daily average risk exposure as follows and each HKCC Participant’s share of the total Reserve Fund Deposits shall be proportionate to its relative weighting calculated under section 4.2.4:

4.2.1 The risk exposure of each HKCC Participant will be measured based on its total net margin liabilities. The net margin liabilities of each account shall be the sum of the net margin requirements for each Market in that account. For this purpose, net margin liabilities include Clearing House margin but exclude additional margin.

For comparison purpose, the net margin liabilities of all contracts will be measured in Hong Kong dollars or the equivalent based on the exchange rate determined by the Clearing House for each type of currency. The net margin liabilities of each of the Client, House, Sink and Market Maker account will be computed separately. The total net margin liabilities for each HKCC Participant shall be the sum of the net margin liabilities of each account. For the purpose of calculating the net margin liabilities of an HKCC Participant's Client accounts for each Market, positions in each Individual Client Account will be aggregated with positions in its Omnibus Client Account and Client Offset Claim Account for that Market and margined together on a net basis, and positions of an HKCC Participant's Sink Account in the same Market will be margined together on a net basis to determine the net margin liabilities of its Sink Account for each Market.

4.2.2 The Clearing House will calculate the daily average total net margin liabilities for each HKCC Participant during the most recent 60 Trading Days as follows:

Daily average total net margin liabilities of an HKCC Participant

$$= \frac{\Sigma \text{ Total net margin liabilities for the HKCC Participant on } j^{th} \text{ day}}{60}$$

where j = 1, 2 ,3....., 59, 60

4.2.3 The daily average market total net margin liabilities will then be calculated as follows:

Daily average market total net margin liabilities

= Σ *Daily average total net margin liabilities for each HKCC Participant*

4.2.4 The relative weighting of each HKCC Participant's daily average total net margin liabilities as compared to the daily average market total net margin liabilities is then used to calculate the contribution from the HKCC Participant based on the following formula, rounded up to the nearest dollar:

Calculated contribution from each HKCC Participant

$$= \frac{\textit{Daily average total net margin liabilities for the HKCC Participant}}{\textit{Daily average market total net margin liabilities}} \times \textit{Total HKCC Participant Additional Deposits}$$

4.2.4A The calculated contribution of each HKCC Participant, determined as above, will be compared with the HKCC Participant Additional Deposits Credit allowed to each HKCC Participant to determine the HKCC Participant Additional Deposits required from each HKCC Participant in the following manner:

(a) If the calculated contribution is equal to the HKCC Participant Additional Deposits Credit, no HKCC Participant Additional Deposits will be required and the HKCC Participant Additional Deposits Credit will be treated as fully utilized by the HKCC Participant.

(b) If the calculated contribution exceeds the HKCC Participant Additional Deposits Credit, the excess amount will be the HKCC Participant Additional Deposits required and the HKCC Participant Additional Deposits Credit will be treated as fully utilized by the HKCC Participant.

(c) If the calculated contribution is less than the HKCC Participant Additional Deposits Credit, no HKCC Participant Additional Deposits will be required and the amount of HKCC Participant Additional Deposits Credit will be treated as utilized by the HKCC Participant by an amount equal to the calculated contribution.

4.2.5 Each HKCC Participant's required contribution as calculated under section 4.2.4 will be compared with its existing contribution amount. In determining its existing contribution amount, any HKCC Participant Additional Deposit that has been applied preceding the calculation day shall be taken into account. HKCC Participants with increased contribution requirements will be required to pay any deficit to the Clearing House. HKCC Participants with decreased contribution requirements will be refunded any surplus contribution in accordance with section 4.4.

Notwithstanding the above, each HKCC Participant must maintain at least its HKCC Participant's Deposit (i.e. HK$1.5 million for Clearing Participants and HK$7.5 million for General Clearing Participants) with the Clearing House.

4.2.6 Since the HKCC Participant's Deposit for General Clearing Participants is HK$6 million higher than that for Clearing Participants, this HK$6 million will be taken into account in the calculation of a General Clearing Participant's contributions and a contribution will only be collected if its requirement for HKCC Participant Additional Deposit exceeds HK$6 million.

4.2.7 For the purpose of calculation under this section, the HKCC Participant Additional Deposit of any HKCC Participant which has been declared as a Defaulter or whose HKCC Participantships have been effectively terminated or revoked on or preceding the calculation day shall be excluded.

4.3 (deleted)

4.4 Release of HKCC Participant Additional Deposits

If, after each assessment of the requirements for HKCC Participant Additional Deposits as stipulated in section 4.1 or if the Clearing House otherwise determines that HKCC Participant Additional Deposits shall be recalculated, the existing resources in the Reserve Fund are determined to be sufficient, and if the total amount of HKCC Participant Additional Deposits calculated according to the formula stipulated in section 4.1 is less than the existing total HKCC Participant Additional Deposits, the Clearing House will refund to HKCC Participants any surplus contribution in accordance with the calculation methodology set forth in section 4.2 above, subject to their HKCC Participants' Deposits being maintained and subject to the right of the Clearing House to withhold the release of any such surplus for such period as it in its absolute discretion considers appropriate.

In the event HKCC Participant Additional Deposits collected from HKCC Participants have been applied towards any payment in accordance with HKCC Rule 706 after the determination of any surplus contributions, the amount of HKCC Participant Additional Deposits which can be refunded to HKCC Participants will be reduced by an equivalent amount.

No release of HKCC Participants Additional Deposits will be made on a Trading Day which is not a Business Day.

4.4A Settlement Time for HKCC Participants

In the event HKCC Participant Additional Deposits are recalculated by the Clearing House pursuant to section 4.1 on any Trading Day, a clearing report showing the amount payable or that may be released will be distributed to each HKCC Participant on the same Trading Day. Any HKCC Participant Additional Deposit payable by an HKCC Participant will be debited from its House CCMS Collateral Account via the Direct Margin Debiting System

(DMDS) by 4:00 p.m. on the first Trading Day which is also a Business Day, unless otherwise specified by the Clearing House, after the distribution of the clearing report. HKCC Participants shall ensure that sufficient funds are available in their DMDS House accounts to meet any HKCC Participant Additional Deposit payable by them as demanded in their clearing reports. Any surplus HKCC Participant Additional Deposit will be credited to its House CCMS Collateral Account via the DMDS on the same day. For the avoidance of doubt, any HKCC Participant Additional Deposit settled via the DMDS shall be in Hong Kong dollars or in any other currency prescribed by the Clearing House from time to time.

4.4B Settlement Time for HKCC appropriation

If as a result of an assessment of the adequacy of the Reserve Fund, additional resources should be appropriated by the Clearing House as contributions to the Reserve Fund or surplus resources should be released to the Clearing House, such appropriation or release will under normal circumstances be effected or set aside on the same day as the day of payment by or release to HKCC Participants of HKCC Participant Additional Deposits following such assessment.

4.5 Illustration

The following example illustrates how HKCC Participant Additional Deposits are collected and released. For illustration purposes only, the following parameters will be applied:

(i) the Reserve Fund is hypothetically sized to cover the maximum risk exposure throughout the most recent 3 Trading Days instead of the prescribed 60 Trading Days;

(ii) a regular monthly assessment of the adequacy of the Reserve Fund falls on Day 4, being the first Trading Day which is also a Business Day of the month;

(iii) a hypothetical Reserve Fund size of HK$200,000,000 (comprising the basic elements of the Reserve Fund of HK$180,000,000 and HK$20,000,000 which may be appropriated by the Clearing House to the Reserve Fund with no HKCC Participant Additional Deposits);

(iv) an HKCC Participant Additional Deposits Credit of HK$1,000,000 is allowed to each HKCC Participant; and

(v) a Reserve Fund Threshold of HK$320,000,000.

Total net margin liabilities (HK$ equivalent)

Date	Exposure	HKCC Participant A (GCP)	HKCC Participant B (CP)	HKCC Participant C (CP)
Day 1	150,000,000	50,000,000	30,000,000	20,000,000
Day 2	150,250,000	50,000,000	30,000,000	20,000,000
Day 3	**269,565,217**	50,000,000	30,000,000	20,000,000
Day 4	**306,000,000**	200,000,000	180,000,000	20,000,000

The requirements for HKCC Participant Additional Deposits will be calculated as follows:

4.5.1 On Day 4, the maximum risk exposure during the most recent 3 Trading Days

= HK$269,565,217

The resources which may be appropriated by the Clearing House

= HK$ (269,565,217 x 1.15) x 10%

= HK$31,000,000

Hence, Clearing House shall make available HK$(31,000,000-20,000,000) = HK$11,000,000 more for appropriation to the Reserve Fund on Day 4.

Total requirements for HKCC Participant Additional Deposits

= HK$ (269,565,217 x 1.15 – 180,000,000 – 31,000,000)
= HK$99,000,000

4.5.2 Daily average total net margin liabilities of HKCC Participant A

= HK$ (50,000,000 + 50,000,000+ 50,000,000)/3

= HK$50,000,000

Similarly, the daily average total net margin liabilities of HKCC Participants B and C are HK$30,000,000 and HK$20,000,000 respectively.

4.5.3 Daily average market total net margin liabilities

= HK$ (50,000,000 + 30,000,000 + 20,000,000)

= HK$100,000,000

4.5.4 Since HKCC Participant A is a General Clearing Participant which is only required to contribute when its contribution requirement is greater than HK$6 million, the sum of HK$6 million will need to be added to the total HKCC Participant Additional Deposits figure in the formula set forth in section 4.2.4 in order to obtain the additional HKCC Participant Additional Deposits of HK$99,000,000.

Calculated contribution from HKCC Participant A

$$= \text{HK\$} \left(\frac{50{,}000{,}000}{100{,}000{,}000} \times 105{,}000{,}000\right)$$

= HK$52,500,000

The calculated contribution will then be compared with its HKCC Participant Additional Deposits Credit of HK$1,000,000. Since HKCC Participant A is a General Clearing Participant, it will in effect receive a further HK$6,000,000 credit and its requirement for HKCC Participant Additional Deposit will be reduced by HK$7,000,000 in total to HK$45,500,00.

Similarly, the HKCC Participant Additional Deposits required from HKCC Participants B and C are HK$30,500,000 and HK$20,000,000 respectively.

The total amount of HKCC Participant Additional Deposits that will be demanded from HKCC Participants A, B and C plus the aggregate HKCC Participant Additional Deposits Credit of HK$3,000,000 utilized by all HKCC Participants is HK$99,000,000, which is the amount required to cover the risk exposure as calculated in section 4.5.1.

4.5.5 (deleted)

4.5.6 On Day 5, the condition for recalculation stipulated in section 4.1 is triggered. The maximum risk exposure during the most recent 3 Trading Days is HK$306,000,000.

Since 115% of the maximum risk exposure is above the Reserve Fund Threshold (i.e. HK$306,000,000 x 115% > HK$320,000,000), by applying the formula in section 4.1, the resources which may be appropriated by the Clearing House

= HK$320,000,000 x 10%

= HK$32,000,000

Hence, Clearing House shall make available HK$(32,000,000-31,000,000) = HK$1,000,000 more for appropriation to the Reserve Fund on Day 5.

The new total requirement for HKCC Participant Additional Deposits is:

= HK$ (320,000,000 – 180,000,000 – 32,000,000)

= HK$108,000,000

Using the most recent 3 Trading Days' total net margin liabilities of each HKCC Participant, the average total net margin liabilities of HKCC Participants A, B and C are HK$100,000,000, HK$80,000,000 and HK$20,000,000respectively.

Since HKCC Participant A is a General Clearing Participant, up to HK$6,000,000 of the required amount can be waived. In this case, since its calculated HKCC Participant Additional Deposit is equal to HK$57,000,000, after comparing with its HKCC Participant Additional Deposits Credit, contribution in the amount of HK$50,000,000 will be required from HKCC Participant A.

HKCC Participant	Existing Contribution	Contribution Requirement	Amount to be Collected/(Released)
A	HK$45,500,000	HK$50,000,000	HK$4,500,000
B	HK$30,500,000	HK$44,600,000	HK$14,100,000
C	HK$20,000,000	HK$10,400,000	(HK$9,600,000)

By comparing each HKCC Participant's new contribution requirement with its existing contribution, HKCC Participants A and B will be required to pay HK$4,500,000 and HK$14,100,000 respectively and HKCC Participant C will be refunded HK$9,600,000.

4.6 Termination of HKCC Participantship

The HKCC Participantship of any HKCC Participant can be terminated in any of the following ways:

4.6.1 Resignation

a) As required by HKCC Rule 217, any HKCC Participant wishing to resign from HKCC Participantship must give the Clearing House notice in writing of such intention.

aa) Subject to Rule 707D, any demand for the payment of Reserve Fund Deposits made by the Clearing House of an HKCC Participant preceding the effective date of termination of its HKCC Participantship must be met in full by the resigning HKCC Participant. Any demand made by the Clearing House for Assessments of an HKCC Participant in respect of any events of default which occur during a Capped Liability Period which commenced prior to the termination of its HKCC Participantship shall survive the termination of the HKCC Participantship notwithstanding the fact that the expiry of such Capped Liability Period occurs after termination, provided that the aggregate liability of the HKCC Participant shall be limited as provided for in Rule 707A(aa) and provided that the HKCC Participant shall not have any obligations or liabilities to provide Assessments in respect of any events of default which occur during a Capped Liability Period which commences after the termination of its HKCC Participantship.

ab) (deleted)

b) Subject to Rules 553 and 1103, a resigning HKCC Participant shall be entitled to reimbursement of its HKCC Participant Additional Deposit only to the extent it is entitled to a release of such HKCC Participant Additional Deposit under section 4.4.

c) (deleted)

d) (deleted)

e) Two months after the effective date of termination of its HKCC Participantship, the resigning HKCC Participant has the right to reimbursement of any remaining balance of its HKCC Participant Additional Deposit.

f) (deleted)

4.6.2 Revocation of HKCC Participantship

The HKCC Participantship of an HKCC Participant may be revoked pursuant to disciplinary powers exercised against the HKCC Participant under HKCC Rule 517 or by the Clearing House under HKCC Rule 519(e).

The HKCC Participant Additional Deposit of the HKCC Participant will be refunded according to the conditions described in section 4.6.1 provided that no such refund shall be made until after the Clearing House has determined if all or part of the HKCC Participant Additional Deposit of the HKCC Participant shall be applied under HKCC Rule 706(c).

4.7 Interest on HKCC Participant Additional Deposits

HKCC Participants may be paid or charged interest on HKCC Participant Additional Deposits made in cash at such positive or negative rate as the Clearing House may determine from time to time. Interest will be calculated daily and will be posted to HKCC Participants' House CCMS Collateral Accounts on the first Business Day of each month according to their contributions maintained during the immediately preceding month.

4.8 Other Means of Contribution to HKCC Participant Additional Deposits

HKCC Participant Additional Deposits (other than Assessments and Voluntary Recap Amounts) may be contributed in the form of non-cash collateral including Exchange Fund Bills and Notes which satisfy or are subject to the same requirements and criteria as those set forth in section 2.6.4 for Exchange Fund Bills and Notes that are provided as a means of cover for Clearing House margin liability.

Chapter 5 Capital-Based Position Limits

Pursuant to HKCC Rules, the Clearing House may impose position limits on any HKCC Participant to regulate or limit the maximum number or value of gross and net positions which can be held or controlled by the HKCC Participant.

5.1 Position Limits Prescribed by the Clearing House

Gross and net position limits are assigned to each HKCC Participant on the basis of its Liquid Capital or, in the case of a General Clearing Participant which is a Registered Institution, its Adjusted Capital. The gross and net margin liabilities of all clearing accounts of each HKCC Participant may not exceed its gross and net position limits respectively.

Gross and net position limits are assigned to each HKCC Participant on the basis of its Liquid Capital or, in the case of a General Clearing Participant which is a Registered Institution, its Adjusted Capital. Where an HKCC Participant is a Common Participant or carries on regulated activities under the Ordinance other than Type 1 or Type 2 regulated activity, it must apportion either a designated amount or a percentage of the Liquid Capital (unless otherwise determined by the Clearing House on a case by case basis, as per its latest monthly return filed with the Commission under the Financial Resources Rules and received by the Clearing House from the Commission) or, in the case of a General Clearing Participant which is a Registered Institution, a designated amount or a percentage of the Adjusted Capital as notified to the Clearing House for the purpose of clearing trades concluded or to be concluded on the Exchange or satisfying its payment or other obligations as an HKCC Participant to the Clearing House, and the gross and net position limits will be assigned to such HKCC Participant on the basis of its apportioned Liquid Capital or Adjusted Capital as appropriate as notified to the Clearing House.

Notification of an HKCC Participant's initial Liquid Capital or Adjusted Capital apportionment or any change thereof shall be made by such HKCC Participant in such manner, using such form and according to such schedule as may be prescribed by the Clearing House from time to time. Any notification of changes to the apportionment received by the Clearing House before a time specified by the Clearing House from time to time, shall become effective on the same Trading Day the notification is received by the Clearing House. Otherwise, changes to the apportionment shall become effective on the commencement of the T Session of the next Trading Day following receipt of the notification by the Clearing House. Notwithstanding the foregoing, the Clearing House reserves the right to accept or reject any initial apportionment or change of apportionment notified to it at its sole discretion. If no apportionment is notified to the Clearing House, the Clearing House reserves the right to apportion the Liquid Capital or Adjusted Capital, as appropriate, on behalf of the HKCC Participant.

For the purpose of this Chapter: (1) the term "Liquid Capital" shall, where applicable, be construed as the "apportioned Liquid Capital" and for the purpose of calculating the gross and net limits of an HKCC Participant, its Liquid Capital shall be adjusted to include its cash contribution to the Reserve Fund Deposits as at the date of its latest monthly return filed with the Commission under the Financial Resources Rules and received by the Clearing House from the Commission; and (2) the term "Adjusted Capital" shall, where applicable, be construed as the "apportioned Adjusted Capital".

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

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

(i.e., 6 x Liquid Capital or Adjusted Capital
≥ the sum of the gross margin liabilities of the House, Omnibus Client, Individual Client, Client Offset Claim, Sink and Market Maker ("MM") Accounts; or

Liquid Capital or Adjusted Capital
≥ 16.7% x the sum of the gross margin liabilities of the House, Omnibus Client, Individual Client, Client Offset Claim, Sink and MM Accounts)

Net Limit = 3 x Liquid Capital or Adjusted Capital

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

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

The gross and net margin liabilities of all contracts will be measured in Hong Kong dollars or the equivalent based on the exchange rate determined by the Clearing House for each type of currency.

For the purpose of calculating the gross margin liabilities of an HKCC Participant, since positions in the House, MM, Individual Client and Client Offset Claim Accounts are margined on a net basis, the net margin liabilities (please refer to sections 2.2.1 to 2.2.5) of these clearing accounts will be used in calculating the gross limits of HKCC Participants.

For the purpose of calculating the net margin liabilities of an HKCC Participant, positions in each of its Individual Client Accounts will be

aggregated with positions in its Omnibus Client Account and Client Offset Claim Account and margined together on a net basis to determine the net margin liabilities of its Client Accounts, and positions of an HKCC Participant's Sink Account will be margined together on a net basis to determine the net margin liabilities of its Sink Account.

Unless otherwise determined by the Clearing House, positions of an HKCC Participant arising from the T+1 Session on a Trading Day will be incorporated in its position limit calculations on the next Trading Day.

5.2 Extension of Position Limits

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

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

- within 10 Trading Days (excluding any Trading Day which is not a Business Day) if the HKCC Participant pays or delivers to the Clearing House an additional margin equivalent to 25% of whichever is the higher of:

  - its gross margin liability in excess of its gross position limit; or
  - its net margin liability in excess of its net position limit; or

- immediately in any other case.

Notwithstanding the above, when the applicable time period (as may be extended and subject to such conditions as aforesaid) comes to an end, the HKCC Participant must, or failing which the Clearing House may, close out or transfer to any other HKCC Participant or HKCC Participants all positions in excess of the position limit.

5.3 T+1 Session Position Limit

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

Net Limit = 3 x Liquid Capital or Adjusted Capital

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

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

The net margin liabilities of all contracts will be measured in Hong Kong dollars or the equivalent based on the exchange rate determined by the Clearing House for each type of currency.

For the purpose of calculating the net margin liabilities of an HKCC Participant during the T+1 Session, positions in each of its Individual Client Accounts will be aggregated with positions in its Omnibus Client Account and Client Offset Claim Account and margined together on a net basis to determine the net margin liabilities of its Client Accounts, and positions of an HKCC Participant's Sink Account will be margined together on a net basis to determine the net margin liabilities of its Sink Account.

For the purpose of calculating the net limit of an HKCC Participant, the Liquid Capital shall be upward adjusted by the cash contribution to its HKCC Participant's Deposit and HKCC Participant Additional Deposit as of the date of its latest monthly return filed with the Commission under the Financial Resources Rules and received by the Clearing House from the Commission.

Based on the net margin liabilities calculated during the T+1 Session, if the net position limit is exceeded, an HKCC Participant must, or failing which the Clearing House may, close out, hedge or transfer to any other HKCC Participant or HKCC Participants all positions in excess of the net position limit.

5.4 Extension of T+1 Session Position Limit

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

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

Chapter 6 (deleted)

Chapter 7 Clearing Service Termination Event

7.1 Calculations of Net Payments following a Clearing Service Termination Event

If a Clearing Service Termination Event occurs under Rule 1101, the Clearing House shall, without prejudice to any other rights under the Rules, wind down the clearing and settlement services in accordance with Rules 1101 to 1104, in consultation with the Commission.

7.1.1 Calculation of termination value

The termination value for each Contract shall be determined based on the Closing Quotation determined in accordance with section 2.3 of the Clearing House Procedures at the time of contract termination, or if such Closing Quotation is not available, the price shall be such price as the Clearing House may reasonably determine. The Clearing House may also take into account any unpaid amounts that have become due and payable in respect of any Contract on or prior to the occurrence of the Clearing Service Termination Event.

As soon as reasonably practicable following a Clearing Service Termination Event, the Clearing House shall, with respect to each clearing account registered in the name of each HKCC Participant, calculate a net sum payable by or to such HKCC Participant. In calculating such net sum, the Clearing House will take into account the termination value determined for each Contract pursuant to Rule 1102 and this section of the Clearing House Procedures, and the value of all other amounts which are payable to the Clearing House from the HKCC Participant under the Rules or which are payable to the HKCC Participant from the Clearing House (other than any amounts arising from the obligation of the Clearing House to pay an amount equal to (i) the Margin Balance (ii) any income and redemption proceeds on any non-cash collateral that have not already been paid to or withdrawn by the HKCC Participant and/or (iii) the Reserve Fund Deposits Balance to the relevant HKCC Participant, or Former HKCC Participant), whether such amounts are presently payable or not and whether they are liquidated or unliquidated, actual or contingent. Any net sum calculated to be payable by the Clearing House is subject to adjustment in accordance with section 7.1.2.2 below. There shall be no combining or set-off between any house clearing account (including any clearing account which is not of a Client nature) and Client clearing accounts (including any clearing account which is of a Client nature). The Clearing House will determine any such net sum payable by, or to, an HKCC Participant in the Base Currency. For the purpose of the determination under this section of the Clearing House Procedures, the Clearing House may convert any amounts denominated in any other currency into the Base Currency at such exchange rate determined by the Clearing House from such source and on such basis as it shall consider appropriate.

7.1.2 Payment of Limited Recourse Interim CP Payable, Limited Recourse Final CP Payable and Limited Recourse CP Receivable

7.1.2.1 Limited Recourse Interim CP Payable and Limited Recourse Final CP Payable

(a) If, pursuant to section 7.1.1 above, a net sum is determined to be payable by an HKCC Participant to the Clearing House with respect to one of its clearing accounts, the Clearing House shall deduct all or part of such sum from the Margin Balance consisting of cash in the Base Currency, if any, relating to the relevant clearing account. If, after applying such Margin Balance relating to the relevant clearing account, there remains an amount payable by the HKCC Participant to the Clearing House for such clearing account (the "Limited Recourse Interim CP Payable"), the Clearing House will, as soon as reasonably practicable, notify the relevant HKCC Participant of the Limited Recourse Interim CP Payable, and the relevant HKCC Participant shall pay the Clearing House the Limited Recourse Interim CP Payable within one Business Day following receipt of such notification or within such other time period as may be specified by the Clearing House.

(b) If the HKCC Participant fails to pay the Limited Recourse Interim CP Payable within the time frame set out in sub-paragraph (a) above, the Clearing House may declare such HKCC Participant as a Defaulter. The Clearing House may, in satisfaction of any due but unpaid Limited Recourse Interim CP Payable, apply any remaining Margin Balance including any cash in other currencies and the cash proceeds of any non-cash collateral which the Clearing House shall be entitled to liquidate relating to the relevant clearing account, and if the Limited Recourse Interim CP Payable of any clearing account of such HKCC Participant is not satisfied in full following such application, regardless of whether such Limited Recourse Interim CP Payable arises out of a house clearing account or Client clearing account belonging to such HKCC Participant, the Clearing House will set-off the Reserve Fund Deposits Balance in respect of such HKCC Participant against the unpaid Limited Recourse Interim CP Payable. For the avoidance of doubt, if the unpaid Limited Recourse Interim CP Payable arises out of both a house clearing account (or any clearing account

which is not of a Client nature) and Client clearing accounts (or any clearing account which is of a Client nature), the Clearing House will set-off the Reserve Fund Deposits Balance in respect of such HKCC Participant against these clearing accounts on a pro-rata basis.

(c) Following the application by way of set-off of any remaining Margin Balance and any Reserve Fund Deposits Balance as described in sub-paragraph (b) above, the Clearing House shall determine and notify each relevant HKCC Participant of the final net sum payable by the HKCC Participant in respect of its Limited Recourse Interim CP Payable, if any ("Limited Recourse Final CP Payable") with respect to each clearing account. Each HKCC Participant that receives a notice to pay any Limited Recourse Final CP Payable shall pay each such amount to the Clearing House in full within one Business Day or within such other time period as may be specified by the Clearing House.

(d) In the event that the Clearing House does not receive any part of the Limited Recourse Final CP Payable from an HKCC Participant, the Clearing House shall take reasonable steps to recover such amount. Such HKCC Participant shall be responsible for any costs the Clearing House reasonably incurs in attempting to recover such amounts and accordingly the Limited Recourse Final CP Payable actually received from such HKCC Participant shall be deemed to be decreased by an amount equal to such costs, unless such costs are paid by such HKCC Participant.

7.1.2.2 Limited Recourse CP Receivable

Any net sum that is determined to be payable by the Clearing House to an HKCC Participant with respect to one of its clearing accounts pursuant to section 7.1.1 above shall be known as the "Unadjusted Limited Recourse CP Receivable" and shall be subject to adjustment. The amount payable by the Clearing House to each relevant HKCC Participant with respect to each such clearing account (the "Limited Recourse CP Receivable") shall be calculated by multiplying the Unadjusted Limited Recourse CP Receivable by a percentage ("Limited Recourse Applicable Percentage") which is equal to the lesser of:

(1) 100%; and

(2) (A) the aggregate value of (I) the Reserve Fund Resources then held by the Clearing House; (II) any Margin Balance in respect of all clearing accounts applied pursuant to sections 7.1.2.1(a) and 7.1.2.1(b) above; and (III) all Limited Recourse Interim CP Payables and/or Limited Recourse Final CP Payables received by the Clearing House, divided by

(B) the aggregate value representing the sum of (I) all Unadjusted Limited Recourse CP Receivables and (II) the Reserve Fund Deposits Balance in respect of all HKCC Participants or Former HKCC Participants taking into account the operation of section 7.1.2.1(b) above;

The Clearing House will notify each relevant HKCC Participant of its Limited Recourse CP Receivable(s) upon determination.

7.1.2.3 Payment

The amount of Limited Recourse Interim CP Payable, Limited Recourse Final CP Payable and Limited Recourse CP Receivable will be debited from or credited to (as the case may be) the relevant CCMS Collateral Account of the HKCC Participant. To the extent that the collateral in the HKCC Participant's relevant CCMS Collateral Account is insufficient, funds will be collected via the Direct Margin Debiting System (DMDS). HKCC Participants shall ensure that there are sufficient funds deposited in their DMDS bank accounts for debiting purpose.

All payments made under this section of the Clearing House Procedures shall be made in the Base Currency. To the extent that the Clearing House determines that it is not possible or reasonably practicable to make payment in the Base Currency, the obligations of the Clearing House shall be to make payment, 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, taking into account all relevant circumstances as it may consider appropriate.

7.1.2.4 Liability of the Clearing House

Upon the occurrence of a Clearing Service Termination Event, every open Contract between the Clearing House and an HKCC Participant shall be automatically terminated and all prevailing obligations of the Clearing House and such HKCC Participant in respect of each such Contract between them (including the

obligation to deliver any underlying commodities or instruments under such Contract) shall cease and be replaced with the obligation of the Clearing House or the relevant HKCC Participant, as the case may be, to pay the other party with respect to each clearing account registered in the name of such HKCC Participant a net sum which shall take into account the termination value and any unpaid amounts of each such Contract registered in the relevant clearing account as determined by the Clearing House and where applicable adjusted in accordance with this section of the Clearing House Procedures.

7.1.3 Return of Margin Balance

With respect to each HKCC Participant and each of its clearing account(s), taking into account (if applicable) the operation of sections 7.1.2.1(a) and 7.1.2.1(b) above, the Clearing House shall pay an amount equal to the Margin Balance for such clearing account to such HKCC Participant in accordance with the Rules.

7.1.4 Return of Reserve Fund Deposits Balance

With respect to each HKCC Participant or Former HKCC Participant which has a positive Reserve Fund Deposits Balance after payment of the Limited Recourse Interim CP Payable or after determination of the Limited Recourse CP Receivable for such clearing account, as the case may be, the Clearing House shall pay to each relevant HKCC Participant or Former HKCC Participant an amount equal to its Reserve Fund Deposits Balance multiplied by the Limited Recourse Applicable Percentage provided that the aggregate sum payable by the Clearing House in respect of the Reserve Fund Deposits Balance for all HKCC Participants and Former HKCC Participants shall not in any event exceed the value of the Reserve Fund Resources then held by the Clearing House. The Clearing House may deliver or return to an HKCC Participant or Former HKCC Participant assets in such form and in such amount, as the Clearing House deems appropriate, equivalent to the assets recorded as part of its Reserve Fund Deposits Balance. Once the Reserve Fund Resources have been exhausted, the unpaid balance of the Reserve Fund Deposits Balance shall be extinguished and the relevant HKCC Participant(s) and Former HKCC Participant(s) shall have no further recourse to the Clearing House (its affiliates, a recognized exchange controller which is the controller of the Clearing House, or any of their respective Representatives) in respect thereof.

Chapter 8 HKCC Failure to Pay Event and HKCC Insolvency Event

8.1 Calculations of Net Payments under an HKCC Failure to Pay Event or an HKCC Insolvency Event

Upon the designation of an Early Termination Date pursuant to either Rule 547(a) or Rule 549(a) in respect of an HKCC Failure to Pay Event or pursuant to Rule 550 with respect to an HKCC Insolvency Event, the Clearing House shall, without prejudice to any other rights under the Rules, terminate the open Contracts between the Clearing House and the relevant HKCC Participant in accordance with Rules 552 to 555.

8.1.1 Calculation of termination value

The termination value for each Contract shall be determined based on the Closing Quotation determined in accordance with section 2.3 of the Clearing House Procedures on the Early Termination Date, or if such Closing Quotation is not available, the price shall be such price as the Clearing House may reasonably determine. The Clearing House may also take into account any unpaid amounts that have become due and payable in respect of any Contract on or prior to the designation of the Early Termination Date.

The Clearing House shall on, or as soon as reasonably practicable after, the Early Termination Date, with respect to each clearing account registered in the name of each relevant HKCC Participant, calculate a net sum payable by or to such HKCC Participant. In calculating such net sum, the Clearing House will take into account the termination value determined for each Contract pursuant to Rule 552 and this section of the Clearing House Procedures, and the value of all other amounts which are payable to the Clearing House from the HKCC Participant under the Rules or which are payable to the HKCC Participant from the Clearing House (other than any amounts arising from the obligation of the Clearing House to pay an amount equal to (i) the Margin Balance (ii) any income and redemption proceeds on any non-cash collateral that have not already been paid to or withdrawn by the HKCC Participant and/or (iii) the Reserve Fund Deposits Balance to the relevant HKCC Participant or Former HKCC Participant), whether such amounts are presently payable or not and whether they are liquidated or unliquidated, actual or contingent. Any net sum calculated to be payable by the Clearing House is subject to adjustment in accordance with section 8.1.2.2 below. There shall be no combining or set-off between any house clearing account (including any clearing account which is not of a Client nature) and Client clearing accounts (including any clearing account which is of a Client nature). The Clearing House will determine any such net sum payable by, or to, an HKCC Participant in the Base Currency. For the purpose of the determination under this section of the Clearing House Procedures, the Clearing House may convert any amounts denominated in any other

currency into the Base Currency at such exchange rate determined by the Clearing House from such source and on such basis as it shall consider appropriate.

8.1.2 Payment of HKCC Default Interim CP Payable, HKCC Default Final CP Payable and HKCC Default CP Receivable

8.1.2.1 HKCC Default Interim CP Payable and HKCC Default Final CP Payable

(a) If, pursuant to section 8.1.1 above, a net sum is determined to be payable by an HKCC Participant to the Clearing House with respect to one of its clearing accounts, the Clearing House shall deduct all or part of such sum from the Margin Balance consisting of cash in the Base Currency, if any, relating to the relevant clearing account. If, after applying such Margin Balance relating to the relevant clearing account, there remains an amount payable by the HKCC Participant to the Clearing House for such clearing account (the "HKCC Default Interim CP Payable"), the Clearing House will, as soon as reasonably practicable, notify the relevant HKCC Participant of the HKCC Default Interim CP Payable, and the relevant HKCC Participant shall pay the Clearing House the HKCC Default Interim CP Payable within one Business Day following receipt of such notification or within such other time period as may be specified by the Clearing House.

(b) If the HKCC Participant fails to pay the HKCC Default Interim CP Payable within the time frame set out in sub-paragraph (a) above, the Clearing House may declare such HKCC Participant as a Defaulter. The Clearing House may, in satisfaction of any due but unpaid HKCC Default Interim CP Payable, apply any remaining Margin Balance including any cash in other currencies and the cash proceeds of any non-cash collateral which the Clearing House shall be entitled to liquidate relating to the relevant clearing account, and if the HKCC Default Interim CP Payable of any clearing account of such HKCC Participant is not satisfied in full following such application, regardless of whether such HKCC Default Interim CP Payable arises out of a house clearing account or Client clearing account belonging to such HKCC Participant, the Clearing House may set-off the Reserve Fund Deposits Balance in respect of such HKCC Participant against the unpaid HKCC Default Interim CP Payable.

For the avoidance of doubt, if the unpaid HKCC Default Interim CP Payable arises out of both a house clearing account (or any clearing account which is not of a Client nature) and Client clearing accounts (including any clearing account which is of a Client nature), the Clearing House will set-off the Reserve Fund Deposits Balance in respect of such HKCC Participant against these clearing accounts on a pro-rata basis.

(c) Following the application by way of set-off of any remaining Margin Balance and any Reserve Fund Deposits Balance as described in sub-paragraph (b) above, the Clearing House shall determine and notify each relevant HKCC Participant of the final net sum payable by the HKCC Participant in respect of its HKCC Default Interim CP Payable, if any ("HKCC Default Final CP Payable") with respect to each clearing account. Each HKCC Participant that receives a notice to pay any HKCC Default Final CP Payable shall pay each such amount to the Clearing House in full within one Business Day or within such other time period as may be specified by the Clearing House.

(d) In the event that the Clearing House does not receive any part of the HKCC Default Final CP Payable from an HKCC Participant, the Clearing House shall take reasonable steps to recover such amount. Such HKCC Participant shall be responsible for any costs the Clearing House reasonably incurs in attempting to recover such amounts and accordingly the HKCC Default Final CP Payable actually received from such HKCC Participant shall be deemed to be decreased by an amount equal to such costs, unless such costs are paid by such HKCC Participant.

8.1.2.2 HKCC Default CP Receivable

Any net sum that is determined to be payable by the Clearing House to an HKCC Participant with respect to one of its clearing accounts pursuant to section 8.1.1 above shall be known as the "Unadjusted HKCC Default CP Receivable" and shall be subject to adjustment. The amount payable by the Clearing House to each relevant HKCC Participant with respect to each such clearing account (the "HKCC Default CP Receivable") shall be calculated by multiplying the Unadjusted HKCC Default CP Receivable by a percentage ("HKCC Default Applicable Percentage") which is equal to the lesser of:

(1) 100%; and

(2) (A) the aggregate value of (I) the Reserve Fund Resources then held by the Clearing House; (II) any Margin Balance in respect of all clearing accounts applied pursuant to sections 8.1.2.1(a) and 8.1.2.1(b) above; and (III) all HKCC Default Interim CP Payables and/or HKCC Default Final CP Payables received by the Clearing House, divided by

(B) the aggregate value representing the sum of (I) all Unadjusted HKCC Default CP Receivables and (II) the Reserve Fund Deposits Balance in respect of all HKCC Participants or Former HKCC Participants taking into account the operation of section 8.1.2.1(b) above;

The Clearing House will notify each relevant HKCC Participant of its HKCC Default CP Receivable(s) upon determination.

8.1.2.3 Payment

The amount of HKCC Default Interim CP Payable, HKCC Default Final CP Payable and HKCC Default CP Receivable will be debited from or credited to (as the case may be) the relevant CCMS Collateral Account of the HKCC Participant. To the extent that the collateral in the HKCC Participant's relevant CCMS Collateral Account is insufficient, funds will be collected via the Direct Margin Debiting System (DMDS). HKCC Participants shall ensure that there are sufficient funds deposited in their DMDS bank accounts for debiting purpose.

All payments made under this section of the Clearing House Procedures shall be made in the Base Currency. To the extent that the Clearing House determines that it is not possible or reasonably practicable to make payment in the Base Currency, the obligations of the Clearing House shall be to make payment, 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, taking into account all relevant circumstances as it may consider appropriate.

8.1.2.4 Liability of the Clearing House

Upon the designation of an Early Termination Date pursuant to either Rule 547(a) or Rule 549(a) in respect of an HKCC Failure to Pay Event or pursuant to Rule 550 with respect to an HKCC Insolvency Event, every open Contract between the Clearing House and the relevant HKCC Participant shall be terminated and all prevailing obligations of the Clearing House

and such HKCC Participant in respect of each such Contract between them (including the obligation to deliver any underlying commodities or instruments under such Contract) shall cease and be replaced with the obligation of the Clearing House or the relevant HKCC Participant, as the case may be, to pay the other party with respect to each clearing account registered in the name of such HKCC Participant a net sum which shall take into account the termination value and any unpaid amounts of each such Contract registered in the relevant clearing account as determined by the Clearing House and where applicable adjusted in accordance with this section of the Clearing House Procedures.

8.1.3 Return of Margin Balance

With respect to each relevant HKCC Participant and each of its clearing account(s), taking into account (if applicable) the operation of sections 8.1.2.1(a) and 8.1.2.1(b) above, the Clearing House shall pay an amount equal to the Margin Balance for such clearing account to such HKCC Participant in accordance with the Rules.

8.1.4 Return of Reserve Fund Deposits Balance

With respect to each HKCC Participant or Former HKCC Participant which has a positive Reserve Fund Deposits Balance after payment of the HKCC Default Interim CP Payable or after determination of the HKCC Default CP Receivable for such clearing account, as the case may be, the Clearing House shall pay to each relevant HKCC Participant or Former HKCC Participant an amount equal to its Reserve Fund Deposits Balance multiplied by the HKCC Default Applicable Percentage provided that the aggregate sum payable by the Clearing House in respect of the Reserve Fund Deposits Balance for all HKCC Participants and Former HKCC Participants shall not in any event exceed the value of the Reserve Fund Resources then held by the Clearing House. The Clearing House may deliver or return to an HKCC Participant or Former HKCC Participant assets in such form and in such amount, as the Clearing House deems appropriate, equivalent to the assets recorded as part of its Reserve Fund Deposits Balance. Once the Reserve Fund Resources have been exhausted, the unpaid balance of the Reserve Fund Deposits Balance shall be extinguished and the relevant HKCC Participant(s) and Former HKCC Participant(s) shall have no further recourse to the Clearing House (its affiliates, a recognized exchange controller which is the controller of the Clearing House, or any of their respective Representatives) in respect thereof.

(deleted)

Appendix II

(deleted)

Appendix III

(deleted)

(deleted)

Schedule I

INTEREST AND ACCOMMODATION CHARGE STRUCTURE

1. APPROVED CURRENCIES
INTEREST PAYABLE OR CHARGED TO AND COSTS AND CHARGES LEVIED ON HKCC PARTICIPANTS

Clearing House margin covered by cash Surplus cash Additional margin covered by cash	)))	In respect of each HKCC Participant, interest payable or charged shall be calculated daily by HKCC by multiplying the interest rate with the HK$, USD, RMB, EUR, JPY and SGD cash balance comprising the Margin Balance of each CCMS Collateral Account on such day. In relation to a currency, where the reference rate for such currency is positive and greater than the prevailing handling fee, the applicable interest rate will be the reference rate, less the prevailing handling fee. Where the reference rate for the relevant currency is positive and less than or equal to the prevailing handling fee, no interest payment will be made. Where the reference rate for the relevant currency is negative, HKCC will charge each HKCC Participant an interest rate on that currency which is calculated based on the net costs incurred by HKCC for that currency (including any negative yield, swap costs and charges imposed by banks). Interest payable or charged shall be paid or charged monthly to each HKCC Participant by crediting or debiting, as the case may be, each CCMS Collateral Account of each HKCC Participant on the first Business Day of the following month.

For the purposes of this section, the reference rate for each relevant currency is determined as follows:

Currency	Reference rate
HK$	The prevailing HKD-HIBOR overnight, being the overnight Hong Kong Interbank Offered Rate administered by the Treasury Markets Association
USD	The prevailing USD-SOFR, being the Secured Overnight Financing Rate administered by the Federal Reserve Bank of New York
RMB	The prevailing CNY-SHIBOR, being the Shanghai Interbank Offered Rate for overnight deposits administered by the China Foreign Exchange Trade System & National Interbank Funding Center authorized by the People's Bank of China
EUR	The prevailing EUR-EuroSTR, being the euro short term rate administered by the European Central Bank

JPY	The prevailing JPY-TONA, being the Tokyo Overnight Average Rate administered by the Bank of Japan
SGD	The prevailing SGD-SORA, being the Singapore Overnight Rate Average administered by the Monetary Authority of Singapore

For the purposes of this section, the prevailing handling fee is as follows:

Period	Prevailing handling fee
2 October 2025 – 30 December 2026	0.80%
31 December 2026 - 30 December 2027	0.70%
31 December 2027 - 28 December 2028	0.60%
29 December 2028 onwards	0.50%

HKCC Participant Additional Deposits made in cash	))	to be determined by the Clearing House from time to time based on prevailing deposit rates

2. ACCOMMODATION CHARGES PAYABLE BY HKCC PARTICIPANTS

Clearing House margin covered by Exchange Fund Bills/Notes/U.S. Government Treasury Bills and Notes/ Other non-cash collateral	—	to be determined by the Clearing House from time to time in its absolute discretion

Schedule II

(deleted)

Schedule III

(deleted)

Schedule IV

(deleted)

Schedule V

LIST OF APPROVED CURRENCIES

List of approved currencies is as follows:-

1. Hong Kong dollars
2. US Dollars
3. Euro
4. Japanese Yen
5. Renminbi
6. Singapore Dollars

Appendix VI

(deleted)

Appendix VII

(deleted)

Appendix VIII

(deleted)