

**CHAPTER 6 CLEARING PROCEDURES**

**6.01 Presentation of Market Contracts for registration**

- (1) The particulars of each Market Contract must be presented in such manner as is prescribed by the Clearing House, by the Buyer and Seller to such Market Contract, or by an Exchange on behalf of such Buyer and Seller, for registration by the Clearing House.
- (2) The Clearing House is entitled to rely on the particulars of Market Contracts presented in accordance with Rule 6.01(1) as being correct and is not bound to recognise any actual or alleged error or omission in relation to such particulars.

**6.02 Errors in recording**

- (1) Despite Rule 6.01(2), if on notification from an Exchange on behalf of the Buyer and the Seller to a Market Contract, the Clearing House is satisfied that the details of the Market Contract were incorrectly or incompletely presented by the Exchange or the Exchange failed to present particulars of a Market Contract, the Clearing House at its absolute discretion may impose any conditions, including requiring the payment of Margin, and may:
  - (a) in the case of incorrect or incomplete details of a Market Contract having been presented to the Clearing House and registered, take all such action necessary to correct the registration;
  - (b) in the case of all particulars of a Market Contract not having been presented to the Clearing House, take all such action necessary to register the Market Contract.
- (2) If the Clearing House exercises its discretion under Rule 6.02(1)(a) the Market Contract is deemed to have been registered reflecting any such amendments or corrections and these Rules apply accordingly.

**6.03 Registration**

- (1) The Clearing House may, without being required to give reasons, before the end of the day on which the Market Contract has been accepted for registration:
  - (a) at any time decline to register any Market Contract or impose conditions including the payment of Margin on the registration of any Market Contract; or
  - (b) reject such Market Contract from being cleared through the Clearing House if the Clearing House is of the view that such rejection is necessary to protect the integrity of the Clearing House.
- (2) Any rejection of such Market Contract under Rule 6.03(1)(b) will result in the reinstatement of the Market Contract between the Buyer and the Seller and the Clearing House will have no obligations or liability with respect to or in connection with such Market Contract or with the rejection of such Market Contract.
- (3) The Clearing House will notify the relevant Exchange of any decision taken by the Clearing House under Rule 6.03(1) and may take any action as may be necessary in respect of such Market Contract in consultation with the Exchange.
- (4) Immediately upon acceptance of a Market Contract for registration by the Clearing House:
  - (a) an Open Contract comes into existence between the Clearing House and the Buyer to the Market Contract upon terms identical to those of the Market Contract and the Clearing House will be Seller to such Open Contract;

- (b) an Open Contract comes into existence between the Clearing House and the Seller to the Market Contract upon terms identical to those of the Market Contract and the Clearing House will be Buyer to such Open Contract; and
  - (c) the Market Contract is extinguished.
- (5) Each Clearing Participant must provide the Clearing House with such information within such time as may be prescribed by the Clearing House in connection with the registration of a Market Contract.
  - (6) Each Open Contract has effect and is valid and enforceable in accordance with its terms as established under these Rules.
  - (7) A Clearing Participant must not bring any claim or proceedings to invalidate or render void or that has the effect, partial or otherwise, of invalidating or avoiding any Open Contract, or its obligations in connection with such Open Contract, to which it is a party.
  - (8) The terms of each Open Contract are subject to these Rules.

#### **6.04 Parties to Open Contract**

- (1) Regardless of whether an Open Contract is recorded in an Unsegregated Account or a Segregated Account of a Clearing Participant, such Open Contract is between the Clearing House and the Clearing Participant as principals.
- (2) A Clearing Participant may exercise its rights and is liable to perform its obligations under and in connection with such Open Contract at all times as principal subject to these Rules.
- (3) The Clearing House does not recognise any legal, equitable, contingent, future or partial interest in any Open Contract except the interest of the Clearing Participant who is party to the Open Contract.

#### **6.05 Accounts**

- (1) The Clearing House will maintain the details relating to each Open Contract in the Segregated Account or Unsegregated Account of the Clearing Participant party to such Open Contract as provided by the Clearing Participants.
- (2) The Clearing Participants must open separate Sub-Accounts in the manner prescribed by the Clearing House.
- (3) The Clearing House will calculate the Performance Bond in relation to Open Contracts recorded in a Clearing Participant's Unsegregated Account and each Sub-Account of the Clearing Participant's Segregated Account in accordance with Rule 6.14.

#### **6.06 Designation instructions**

- (1) If the Clearing House has reached agreement with an Exchange, designation instructions may be provided to the Clearing House by such Exchange for and on behalf of the Clearing Participant.
- (2) The designation instructions provided to the Clearing House in accordance with Rule 6.06(1) must indicate:
  - (a) whether an Open Contract arising from registration of a Market Contract is to be recorded in the Segregated Account or the Unsegregated Account of the Clearing Participant;

- (b) if an instruction is given to the Clearing House pursuant to Rule 6.06(2)(a) that an Open Contract is to be recorded in the Segregated Account of the Clearing Participant, the designation instructions must include the identity of the Sub-Account in which such Open Contract is to be recorded.
- (3) If designation instructions are incorrectly or not provided to the Clearing House on the same Business Day that the relevant Market Contract is presented to the Clearing House for registration, the Open Contract arising from such registration will be recorded in the Unsegregated Account of the Clearing Participant.
- (4) If a Clearing Participant has made an error in any designation instruction, it may request the Clearing House to amend the Records maintained by the Clearing House of the Unsegregated Account, Segregated Account or a Sub-Account of that Clearing Participant.
- (5) Acceptance of the request to amend is at the Clearing House's discretion.

#### **6.07 Allocation and Transfers**

The Clearing House may, upon the request of a Clearing Participant, allocate or transfer Open Contracts between accounts within the same Clearing Participant or between Clearing Participants in the manner or subject to such conditions the Clearing House determines.

#### **6.08 Open Positions**

Each Open Contract has effect and remains binding upon the Clearing House and the Clearing Participant who is party to such Open Contract until:

- (a) it is liquidated by offset in accordance with Rule 6.09;
- (b) it is liquidated as the result of a settlement to market in accordance with Rule 6.13;
- (c) in accordance with Rule 6.11, the rights and obligations under such Open Contract have been novated in which case the Open Contract will be binding upon the Clearing House and the Clearing Participant to whom such rights and obligations have been novated;
- (d) it is dealt with in accordance with Rule 2.09(1)(f);
- (e) in the case of an Option Open Contract -
  - (i) it has expired, that is, the rights of the Buyer to such Option have lapsed;
  - (ii) it has been Exercised or Assigned; or
  - (iii) delivery and payment or cash settlement has been effected in accordance with these Rules;
- (f) in the case of an Open Contract which is a Futures Contract, cash settlement or delivery has been effected in accordance with these Rules.

#### **6.09 Liquidation by offset**

- (1) A Clearing Participant who is Buyer to an Open Contract and a Seller to another Open Contract the terms of which are identical in all aspects but not necessarily price and contract date, and both Open Contracts are recorded in the same sub-account within the Unsegregated Account

or in the same Client Account of that Clearing Participant, may request the Clearing House to liquidate by offsetting the rights and obligations under those two Open Contracts.

- (2) Upon two Open Contracts being off-set pursuant to Rule 6.09(1), any settlement difference, as calculated by the Clearing House, becomes immediately due by the Clearing Participant or the Clearing House, as the case may be.
- (3) A request for liquidation by off-set in accordance with this Rule 6.09 must be submitted to the Clearing House in such manner the Clearing House determines.

#### **6.10 Reversal of liquidation**

- (1) The Clearing House may reverse the liquidation of two Open Contracts made pursuant to Rule 6.09 so that two new Open Contracts between the Clearing House and the Clearing Participant are created upon a request from a Clearing Participant.
- (2) The two new Open Contracts created under Rule 6.10(1) will have identical terms to the original two Open Contracts previously liquidated and any settlement difference must be repaid.
- (3) A request by a Clearing Participant to reverse the liquidation of two Open Contracts must be submitted to the Clearing House in the manner the Clearing House determines.

#### **6.11 Novation of Open Contracts**

- (1) Rights and obligations under an Open Contract of a Clearing Participant (the “transferor”) may be novated in full to another Clearing Participant (the “transferee”) if:
  - (a) the Clearing House has been advised of the offer and acceptance of a transfer of an Open Contract between two Clearing Participants pursuant to Rule 6.07; or
  - (b) the transferor becomes a wholly-owned subsidiary of the transferee; or
  - (c) the transferor gives notice of its intention to resign its Participantship or its Participantship is suspended or terminated or it ceases to be an Affiliate of an Exchange due to termination of its participantship by such Exchange or its participantship of an Exchange is suspended; or
  - (d) there exists some other reason for the proposed novation that is not inconsistent with these Rules, the relevant Exchange Rules or the Act.
- (2) Any request for the novation of an Open Contract must be made in such manner and on such terms the Clearing House determines.
- (3) The Clearing House may in its absolute discretion without giving any reason decline to effect a novation of all rights and obligations of an Open Contract or to effect such novation subject to any terms and conditions including the payment of Margin which in its absolute discretion the Clearing House may determine. Any such decisions must be promptly notified to the transferor and transferee.

#### **6.12 Daily settlement price**

- (1) The Clearing House will determine the Daily Settlement Price for each Open Contract in accordance with the procedures the Clearing House determines.
- (2) The procedures will provide for consideration to be given to any bids, offers and traded prices quoted by an Exchange and any other information the Clearing House deems relevant.

**6.13 Settlement variation**

- (1) The Clearing House will calculate the change in value of each Open Contract of a Clearing Participant based on the Daily Settlement Price at the times the Clearing House determines to establish the settlement variation.
- (2) Settlement variation and any adjustments made to the settlement variation (where relevant) as calculated by the Clearing House must be paid in cash by the relevant Clearing Participant.

**6.14 Performance Bond**

- (1) The Clearing House will determine the Performance Bond required for the purpose of managing foreseeable risk using a risk based algorithm or such other method the Clearing House determines.
- (2) A Clearing Participant's Performance Bond will be held as security against the non-performance of contractual obligations of that Clearing Participant under its Open Position and will be applied in such manner as determined by the Clearing House upon any default by the Clearing Participant of such obligations.
- (3) The Clearing House will determine the Performance Bond required from each Clearing Participant having regard to the Open Position of that Clearing Participant.
- (4) A Clearing Participant must lodge the Performance Bond with the Clearing House in accordance with the directions of the Clearing House.
- (5) The Performance Bond may be in the form of cash or Approved Collateral or both.

**6.15 Payment to the Clearing House**

- (1) On each Business Day, the Clearing House will make available to each Clearing Participant a statement advising the Clearing Participant of funds (if any) which must be paid to the Clearing House and showing the Performance Bond which must be lodged with the Clearing House.
- (2) A Clearing Participant must make payment to the Clearing House within the times prescribed by the Clearing House from time to time.
- (3) The Clearing House is entitled to set off any amount due from a Clearing Participant to the Clearing House against any amount due from the Clearing House to the Clearing Participant.

**6.16 Call for additional funds**

- (1) The Clearing House may call for payment of additional funds from one or more Clearing Participants as additional security against the non-performance of obligations by such Clearing Participant(s) under Open Contracts after taking into consideration the changes in market price, price volatility, trading activity and any other matters which in the opinion of the Clearing House may affect the risks to which the Clearing House is exposed to.
- (2) The Clearing Participant concerned must pay additional funds requested within one hour or such time as determined by the Clearing House.

**6.17 Approved Collateral**

- (1) Approved Collateral is property the Clearing House prescribes as Approved Collateral for any purpose under these Rules.

- (2) Approved Collateral may only be deposited or pledged with or assigned to the Clearing House in such manner and on such conditions as the Clearing House determines.
- (3) The Clearing House will value the Approved Collateral in such manner as the Clearing House determines.
- (4) The Clearing House may invest, manage and mobilise such Approved Collateral in such manner as the Clearing House deems fit or expedient.
- (5) Any benefit, interest or gain received or accrued on any Approved Collateral:
  - (a) belongs to the Clearing Participant that deposited or pledged with or assigned to the Clearing House such Approved Collateral; and
  - (b) will be delivered to that Clearing Participant at such times and in such manner as the Clearing House determines.
- (6) Acceptance by the Clearing House of Approved Collateral is at the Clearing House's discretion after giving consideration to matters it considers relevant including, but not limited to its exposure or potential exposure to third parties.
- (7) A Clearing Participant may withdraw Approved Collateral subject to such conditions as the Clearing House determines.
- (8) The Clearing House may charge a fee in respect of the lodgement of Approved Collateral.
- (9) This Rule 6.17 has effect despite anything else contained in these Rules.

**6.18 Interest on cash balances**

The Clearing House may pay interest to each Clearing Participant on all cash balances held by the Clearing House for such Clearing Participant including the Security Deposit, Clearing Fund Contribution, and Direct Clearing Participant Deposit in the manner as the Clearing House determines.

**6.19 Clearing House records**

- (1) The Clearing House will maintain Records in relation to Open Contracts created, liquidated, settled or otherwise dealt with in accordance with these Rules.
- (2) The Records maintained by the Clearing House under this Rule 6.19 constitute prima facie evidence of the matters contained in those Records.
- (3) The Clearing House is entitled to rely without inquiry on all information provided to it by or on behalf of Clearing Participants in creating and in amending such Records.

**6.20 Clearing advice, statement or reports**

- (1) The Clearing House will make available to each Clearing Participant such advice, statement or report in relation to the Clearing Participant's Open Contracts showing details of, among others, the following:
  - (a) the Clearing Participant's Open Position;
  - (b) Approved Collateral lodged by the Clearing Participant;
  - (c) the Clearing Participant's Margin;

- (d) cash deposited by the Clearing Participant with the Clearing House; and
  - (e) cash amounts credited and debited to the Segregated Account and Unsegregated Account of the Clearing Participant.
- (2) Any advice, statement or report made available by the Clearing House to the Clearing Participant is, in the absence of manifest error, (in any event after 1 Business Day after the availability of the said report, advice or statement) conclusive as to its subject matter.
- (3) A Clearing Participant's failure to notify the Clearing House of any error or omission with respect of any advice, statements or report promptly (or within 1 Business Day of the availability of such advice, statement or report) constitutes a waiver in favour of the Clearing House by such Clearing Participant of any rights, claims, damages or losses of any right to require rectification, unless provided otherwise.

#### **6.21 Position and Exercise Limits**

- (1) The Clearing House may determine the limits on the Open Positions which may be held or controlled by any Client or Clearing Participant in any Derivatives ("position limits") or number of Options that can be exercised by any Client or Clearing Participant ("exercise limits").
- (2) A Clearing Participant must ensure that the position limits and exercise limits, which are applicable to any Client or Clearing Participant are adhered to at all times.
- (3) The Clearing House may, in circumstances it deems fit, grant such exemption, modification or variation in relation to the position limits or exercise limits, as the case may be, subject to such terms and conditions prescribed by the Clearing House.
- (4) A Clearing House may establish reporting levels on the Open Positions held, by any Client or a Clearing Participant and may require daily (or other periodic) reports from Clearing Participants on the amount of Open Positions held by, any Client or the Clearing Participant. The Clearing House may require reports even if the amount of Open Positions held, is below the reporting levels prescribed by the Clearing House.
- (5) A Clearing Participant must report promptly to the Clearing House any instance in which the Clearing Participant has reason to believe that it has exceeded or a Client or another Clearing Participant, acting alone or in concert with others, has exceeded or is attempting to exceed any of the limits referred to in Rule 6.21(1) above.
- (6) For the avoidance of any doubt, the Clearing Participant must clear and settle all Open Contracts including those Open Contracts which result in the Client or the Clearing Participant breaching the position limits or exercise limits referred to in this Rule 6.21.
- (7) For the purposes of determining whether a person is in 'control' of another person, the following apply:
- (a) a person is deemed to have control of another person:
    - (i) where the first person, or any related company or companies of the first person, directly or indirectly by any means whatever, holds or beneficially owns 15% or more of the issued or paid up capital or of the voting power of the other person or of a third person which has control (in terms of this definition) of that other person; or
    - (ii) where a partner or director of the first person or of any related company of the first person is also a partner or director of the other person; or
    - (iii) where by reason of any contract, agreement or arrangement of any nature, whether legally enforceable or not, the first person effectively controls the

management, or 15% or more of the voting power, of the other person, or is entitled to nominate or appoint one or more directors of the other person.

- (b) notwithstanding Rule 6.21(7)(a) above, for purposes of determining the control of Open Positions under Rule 6.21, a person will not be deemed to be in control of another person's Open Positions if both persons:
- (i) do not have knowledge of one another's trading decisions;
  - (ii) trade pursuant to separately developed and independent trading strategies;
  - (iii) have and enforce written procedures which preclude each from having knowledge of, gaining access to, or receiving data concerning, the trades of the other. Such procedures must include document routing and other procedures or security arrangements which would maintain the independence of their activities; and
  - (iv) do not share personnel in control of the respective trading decisions.

*[Refer to Directive No. 6-001]*

## **6.22 Clearing arrangements with Trading Participants**

In order to clear Market Contracts entered into by a Trading Participant ("said Contracts"), a Clearing Participant must:

- (a) inform the Clearing House of the relevant clearing arrangement the Clearing Participant has with such Trading Participant, and if the Clearing House requests, submit such details of the Trading Participant or such other documents relating to the clearing arrangement as the Clearing House may from time to time specify;
- (b) confirm to the Clearing House that it has in place adequate internal control measures and risk management systems, including pre-execution credit control checks to manage the Clearing Participant's risk exposure to the said Contracts; and
- (c) have entered into a written arrangement with the Trading Participant setting out the terms and conditions governing their relationship, which must include risk management provisions such as the right to impose trading limits on the Trading Participant whether for Market Contracts executed for the Trading Participant itself or where relevant, for the Trading Participant's client.

## **6.23 Cessation of Clearing arrangement**

If a Clearing Participant wishes to cease clearing the Market Contracts of a Trading Participant, the Clearing Participant must:

- (a) provide to the Clearing House prior written notice (the duration of such notice to be as determined by the Clearing House) of the Clearing Participant's intention to cease clearing the Market Contracts of that Trading Participant and the proposed date of cessation; and
- (b) comply with any reasonable direction of the Clearing House in relation to the orderly cessation of the clearing of the Trading Participant's Market Contracts.



**6.24 Clearing Participant's obligations in the event of a cessation**

Notwithstanding the cessation of the clearing arrangement, the Clearing Participant must clear and settle all the Market Contracts of the Trading Participant which are done right up to the point when the Trading Participant no longer has the ability to enter into Market Contracts to be cleared by the Clearing Participant.

**6.25 Give up upon a Client's request**

- (1) A Clearing Participant may give up an Open Contract ("give-up Clearing Participant") and another Clearing Participant accept a give up of an Open Contract ("take-up Clearing Participant"). Such give-up arrangement will only take effect upon full compliance by both the give-up Clearing Participant and the take-up Clearing Participant with this Rule and such procedures as the Clearing House may prescribe.
- (2) The Clearing House may without giving any reason:
  - (a) reject the give up arrangement entered into by the Clearing Participants; or
  - (b) allow such give up arrangement subject to conditions being satisfied.
- (3) The take-up Clearing Participant must comply with the conditions imposed by the Clearing House, in order for the give-up arrangement to take effect.
- (4) In relation to all give-up arrangements entered into and which have taken effect pursuant to this Rule 6.25, the take-up Clearing Participant must, in relation to the Open Contract referred to in Rule 6.25(1):
  - (a) clear and settle such Open Contract and comply with all the provisions in the Rules in respect of the Open Contract; and
  - (b) comply with all provisions in Part C of Chapter 4 in respect of the Client referred to in this Rule 6.25.
- (5) Where the give-up arrangement has been rejected by the Clearing House, the give-up Clearing Participant must clear and settle the Open Contract that has been rejected for give-up and comply with all the provisions in the Rules in respect of the Open Contract.

[End of Chapter]