

**(I) CLEARING PROCEDURES**

**INDEX**

1.	Systems .....	2
2.	Trade Clearing and Position Management .....	4
3.	Financial Accounts .....	10
4.	Margin Procedures .....	13
5.	Options Exercise and Expiry .....	15
6.	Customer Clearing .....	21
7.	Terms Applicable to Position Transfers.....	25

## 4. MARGIN PROCEDURES

### 4.1 General

The matters described in this paragraph 4 will be recorded through ECS and will form part of the Clearing House's daily Margin processes. Margin requirements will determine whether funds are needed to be paid to, or received from, the relevant Clearing Member. Any required payments will be effected through Approved Financial Institutions that participate in the assured payment system (APS), as described in the Finance Procedures.

### 4.2 Original Margin, Initial Margin and FX Original Margin

- (a) Original Margin, Initial Margin and FX Original Margin calculations are made separately in respect of each of a Clearing Member's Proprietary Accounts and Customer Accounts. No Margin offset is possible between any of these accounts. Original Margin, Initial Margin and FX Original Margin calculations for each Proprietary Account will be based on the net positions for each Contract Set, rather than the sum of the gross positions for a Set. Customer Accounts are margined either on the basis of the net risk position across all Customers with related positions in the Account or on the basis of the gross positions of each Customer with related positions in the Account, in each case based on the records submitted by the relevant Clearing Member under Rule 401 and in the way set out in paragraph 2.3(b).
- (b) Original Margin, Initial Margin and FX Original Margin parameters are set by the Clearing House within the framework of the policy reviewed by the relevant product risk committee.
- (c) The Clearing House will notify Clearing Members of any change to Original Margin, Initial Margin or FX Original Margin parameters by Circular no later than the day before calls are made based on the new parameters. For routine changes, the Clearing House will provide five Business Days' advance notice of changes to Margin parameters, unless another period is specified in the relevant Circular.
- (d) Original Margin, Initial Margin and FX Original Margin requirements will be calculated at close of business on a daily basis, for both Proprietary Accounts and Customer Accounts. Original Margin is calculated using the ICE® Risk Model.

### 4.3 Variation Margin, Mark-to-Market Margin and FX Mark-to-Market Margin

With the exception of Premium Up-Front Options (discussed in paragraph 4.4(c) below), all open Contracts are marked to market daily in accordance with the Contract Terms (which includes any applicable Market Rules). Profits and losses are credited to or debited from the relevant Nominated Customer Bank Account or Nominated Proprietary Bank Account of each Clearing Member as set out in the Finance Procedures.

### 4.4 Options Premium

- (a) The Clearing House clears two types of Options, both of which are types of F&O Contracts, with different margining methodology, "**Premium Up-Front**" and "**Future-Style**".
- (b) Future-Style Options (e.g. Brent) are marked to market and subject to Variation Margin calls daily in the same way as for Future Contracts.
- (c) Premium Up-Front Options (e.g. emissions) are subject to a full premium charge or credit on the day on which the Option Contract first arises under the Rules (i.e. the day of trading) as part of the overnight margining process. After the premium has been paid, net liquidating value ("**NLV**") will be calculated on each Business Day based on relevant Exchange Delivery Settlement Prices. For persons who are Long in respect of an Option, any positive value in respect of NLV will be applied against the requirement for Original Margin. For persons who

are Short in respect of an Option, any negative value in respect of NLV shall contribute to the requirement for Original Margin. For the accounts listed at paragraphs 2.3(b)(4) to (5) which use a gross margin model, NLV will be held on a gross basis and there will be no offset between different Customers interested in such account.

- (d) Clearing Members are referred to the applicable Contract Terms for details on the premium types for the Options currently cleared by the Clearing House as well as their exercise style (discussed further in paragraph 5).

#### 4.5 Cash Settlement

- (a) When it reaches maturity, a Contract can give rise either to cash settlement (if determined by the Contract Terms or, where permitted by the Contract Terms for F&O Contracts, if the Clearing Member opts out of the delivery via EFP) or delivery obligations.
- (b) Cash settlement for F&O Contracts entered into prior to the last day of trading, will be determined by the difference between the Exchange Delivery Settlement Price and the previous day's Exchange Delivery Settlement Price, as determined in accordance with Part 7 of the Rules.
- (c) Cash settlement for F&O Contracts entered into on the last day of trading, will be determined by the difference between the trade price and the Exchange Delivery Settlement Price, as determined in accordance with Part 7 of the Rules.
- (d) Details relating to deliveries for F&O Contracts are set out in the Delivery Procedures.

#### 4.6 Contingent Variation Margin

- (a) A contingent Variation Margin amount will be calculated and called daily for certain Contracts under tender, ~~for example, Gasoil Futures, Soft Commodities~~. This contingent Variation Margin will result from the difference between the Exchange Delivery Settlement Price for the Contract under tender and the Exchange Delivery Settlement Price for the next maturing Contract Set of otherwise equivalent specifications, or by other method prescribed by the Clearing House from time to time.
- (b) Clearing Members will not receive ~~repayment~~ in respect of any credit contingent Variation Margin in cash. However, they will be able to use any excess against Margin requirements on the Contracts in respect of which contingent Variation Margin is called and other Contracts. If contingent Variation Margin is a debit, it will be possible for Clearing Members to use assets, as permitted by these Procedures and updated by Circular, as Permitted Cover.
- (c) Contingent Variation Margin will be released:
  - (i) for the Buyer, on payment of the Buyer's security; and
  - (ii) for the Seller, once all relevant deliveries are completed,as detailed or as otherwise specified in the Delivery Procedures.

#### 4.7 ~~Not used. Contingent Credit~~

~~When a Seller satisfies its daily delivery obligations under Market Rules for Natural Gas Futures and Electricity Futures Contracts, the Clearing House will take into account a "Contingent Credit" equivalent to the amount or number of underlying Commodities already delivered in respect of which payment has not been made to the Seller. This credit will not be made available to the Seller in cash but may be used to cover Original Margin requirements on the Contracts in respect of which the contingent credit is applicable and other Contracts.~~

#### 4.8 Buyer's security and Seller's security

In accordance with Market Rules and where specified in the Delivery Procedures, Clearing Members will be liable for Buyer's security and Seller's security in respect of Contracts undergoing deliveries. Such amounts will be included in the Margin call process.

#### 4.9 Intra-day or *ad hoc* margin calls

If market conditions dictate, the Clearing House may decide to proceed to an intra-day or *ad hoc* Margin call for certain, or all, Contract Sets or for all or particular Clearing Members. In the event of an intra-day or *ad hoc* call applying, any increased Margin requirements will be reflected in ECS. If there is a shortfall, ECS will generate a call which must be met in accordance with the Finance Procedures. Affected Clearing Members will be informed of the call by the Clearing House and such call will be confirmed by email to a designated e-mail account of each affected Clearing Member.

#### 4.10 Contingency Holidays

If there is a bank holiday in the country of a particular currency, the Clearing House will call cash in another currency, as described in the Finance Procedures.