



NOTICE OF AUTHORIZATION TO PROVIDE AUTOMATED TRADING SERVICES

Pursuant to section 95(2) of the Securities and Futures Ordinance (**SFO**), the Securities and Futures Commission (**SFC**) hereby authorizes LCH.Clearnet Limited (**LCH**) to provide automated trading services (**ATS**) for the purposes of clearing and settling futures or options contracts executed on the Hong Kong Mercantile Exchange Limited (**HKMEx**) subject to the following conditions –

General

1. LCH shall comply with, and implement and maintain measures appropriate to ensuring compliance with, the law, including in particular the SFO.
2. In providing ATS, LCH shall conduct its business, operations and affairs in a manner that is honest, fair and consistent with the principles, procedures and standards reflected in the SFC's Guidelines on the Regulation of Automated Trading Services.

Operations

3. LCH may only provide ATS –
 - (1) via its Extensible Clearing System, or such other/additional system(s) as is/are approved in writing by the SFC, and
 - (2) for the purpose of clearing and settling futures or options contracts that are executed on HKMEx, and that belong to a class that is approved in writing by the SFC for such purpose.
4. Additionally, in providing ATS, LCH must ensure that –
 - (1) so far as reasonably practicable, there are orderly, fair and expeditious clearing and settlement arrangements for any transactions cleared or settled through its facilities,
 - (2) risks associated with its business and operations are managed prudently,
 - (3) its services are provided and facilities operated in accordance with its constitution and any rules and procedures made in accordance with any applicable legal requirements (collectively **LCH rules**),
 - (4) it formulates and implements appropriate procedures for ensuring that its members/participants comply with LCH rules, and
 - (5) it provides and maintains –
 - (a) adequate and properly equipped premises,
 - (b) competent personnel, and
 - (c) reliable systems with adequate capacity and stability, facilities to meet contingencies or emergencies, security arrangements and technical support, no matter whether owned by LCH itself or provided by an outsourcing party.



5. Where reasonably practicable, LCH must consult with the SFC before taking any action which may limit or otherwise affect the continued or orderly clearing and settlement of contracts for HKMEx. Where prior consultation is not reasonably practicable, LCH must notify the SFC as soon as practicably possible after taking such action.
6. LCH must consult with the SFC before introducing any change to the part of the LCH rules known as the “HKMEx Regulations”, the “HKMEx Procedures” and any other LCH rules that specifically apply to the clearing or settlement of futures or options contracts executed on HKMEx.

Reporting and disclosure requirements

7. LCH must disclose to the SFC, within the time and in the manner specified, such information and documents relating to its business and operations – in so far as they concern or relate to the clearing or settlement of futures or options contracts executed on HKMEx – as the SFC may at any time and from time to time reasonably request.
8. LCH must immediately inform the SFC of the following upon becoming aware of the same –
 - (1) any material change to LCH Default rules,
 - (2) any regulatory enforcement action having been taken against LCH or any of its directors, or senior staff which calls into question their integrity or fitness and propriety to be a director or senior staff of LCH,
 - (3) any system or operational failures or defects affecting the HKMEx Service that are Level 1 incidents (per LCH’s incident definitions) and those Level 2 incidents (per LCH’s incident definitions) which prevent LCH from discharging its regulatory obligations, and any remedial steps taken,
 - (4) any breach or potential breach of any of the conditions of LCH’s authorization to provide ATS, and
 - (5) that any of its members/participants who are clearing members of HKMEx: has failed to comply with LCH’s rules; has failed to meet its legal obligations; is being investigated by LCH in relation to a breach of any legal or regulatory requirement to which it is subject; is to LCH’s knowledge affected by a matter that calls, or may call, into question its financial standing or integrity; or has been or will be declared by LCH as a defaulter under the LCH rules.
9. At regular intervals, LCH must inform the SFC of any material change to information provided in connection with its ATS application. Additionally, LCH and SFC will have periodic information sharing calls to discuss any changes in LCH risk management policies and arrangements impacting the clearing and settlement of contracts executed on HKMEx. LCH will summarise the contents of these calls in writing thereafter if so requested by the SFC.



10. Without prejudice to the obligations under paragraph 8 above, once LCH becomes aware that a member/participant of LCH (which is also a clearing member of HKMEx) is or may be in default, it will endeavour to keep the SFC closely informed of any action it intends to take against such member/participant. Additionally, where reasonably practicable, LCH must consult the SFC before taking any action to deal with any positions or assets held by such member/participant (including in particular any collateral relating to any futures or options contracts executed on HKMEx). Where prior consultation is not reasonably practicable, LCH must notify the SFC as soon as practicably possible after taking such action.

Regulatory action

11. The SFC shall consult LCH about concerns it may have in relation to the LCH rules applicable to the HKMEx Service. LCH must, in good faith, take into account such concerns and will endeavour to amend the LCH rules as reasonably requested by the SFC.
12. Upon the SFC so requesting, LCH must provide all reasonable assistance and access to facilitate a regular review of its business, operations and services by the SFC in so far as they relate to the clearing and settlement of futures or options contracts executed on HKMEx.

Launch

13. LCH shall not launch its services or permit any clearing and settlement through its ATS platform to commence until the SFC has confirmed in writing that all significant systems and operational tests relating to LCH's platform and services from HKMEx have been completed to the satisfaction of the SFC.

Each of the above conditions is independent, and should not be regarded as being limited or affected in any way by any of the other conditions.

DATED: 26 APRIL 2011