

**Practice Notes XXX****DAILY SETTLEMENT PRICE METHODOLOGY**

<b>Issue date</b>	<b>Cross Reference</b>	<b>Enquiries</b>
dd/mm/yy	Trading Rules Rule 4.1.13  Clearing Rules Rule 7.11.1.2	Please contact International Products at Telephone No.: 6236 5166

**1. INTRODUCTION**

Rule 4.1.13 of the Trading Rules states that the Daily Settlement Price for each Contract shall be determined by the Exchange in accordance with the relevant formula and procedures applicable to each Contract as set forth in the Clearing Rules. “**Daily Settlement Price**” refers to the daily price at which the Clearing House clears all trades and open positions.

Rule 7.11.1.2 of the Clearing Rules states that the Daily Settlement Price for Contracts other than OTC Contracts shall be determined by the Clearing House in accordance with the relevant formula and procedures applicable to each Contract. In arriving at such formula, the Clearing House may, in consultation with the Exchange, take into account factors, including but not limited to:

- a) the last traded price;
- b) bid and offer spread at the close of market;
- c) price data derived from pricing models, as selected or established by the Clearing House from time to time.

This Practice Note sets out the formulas and methodologies used by the Clearing House to compute the Daily Settlement Price as contemplated in the above rules.

**2. METHODOLOGY FOR COMPUTATION OF DAILY SETTLEMENT PRICE**

2.1 Most Commonly Adopted Methodology. Save for exceptional situations, the Clearing House shall use any one of the following methodologies, in descending order of preference, to compute the Daily Settlement Price:

- a) a price determined by a pre-closing routine; or
- b) the average of the highest and lowest prices in the closing range; or
- c) a price determined by theoretical pricing models selected by the Clearing House.

2.2 Exceptional Situations. In exceptional cases when none of the methodologies set forth in paragraph 2.1 above yields a Daily Settlement Price that is reflective of market conditions, the Clearing House may use any of the following alternative methodologies for the computation of the Daily Settlement Price:

- a) for Option Contracts, the Daily Settlement Price shall be the last traded price, or, if there is no trade during the day, the last Daily Settlement Price, unless there is a higher bid or lower offer in existence at the close. In such case, the higher bid or lower offer may be the Daily Settlement Price; and
- b) for Futures Contracts, the Daily Settlement Price may be set at a price which when compared to the Daily Settlement Price of the next Contract month reflects the same differential that existed between the two Contract months on the previous day, unless there is a higher bid or lower offer in existence at the close. In such case, the higher bid or lower offer may be the Daily Settlement Price; or
- c) such other price that the Clearing House determines to be reflective of prevailing market conditions. “**Option Contracts**” and “**Futures Contracts**” shall have the meaning ascribed to them in the Trading Rules.

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