

## **Operational Clearing Procedures for Options Trading Exchange Participants**

### **7. COLLATERAL**

#### **7.1 Bank Guarantees**

SEOCH may, subject to the provisions set out below, accept bank guarantees for the purpose of meeting in part but not in whole, the margin requirements of a SEOCH Participant. The SEOCH Board shall have the sole and absolute discretion to determine the maximum amount of a SEOCH Participant's margin requirements that may be satisfied in the form of bank guarantees.

SEOCH may also, subject to the provisions set out below, accept bank guarantees for the purpose of meeting in part or in whole the Variable Contribution of a SEOCH Participant to the Reserve Fund. The SEOCH Board shall have the sole and absolute discretion to determine the maximum amount of a SEOCH Participant's Variable Contribution that may be satisfied in the form of bank guarantees.

Bank guarantees that are eligible for these purposes must be issued by a bank which is registered and licensed in Hong Kong and approved by the SEOCH Board. In addition, the guarantee must be irrevocable and provide for unconditional payment upon demand by SEOCH. The guarantee must also be in a form prescribed by the SEOCH Board. A form of acceptable guarantee is available from SEOCH upon request.

SEOCH has the final discretion in deciding whether to accept a particular eligible bank guarantee from a particular SEOCH participant as collateral. SEOCH reserves the right to modify the list of approved banks at any time and determine the maximum amount of guarantees that may be accepted from any bank. Notwithstanding the foregoing, SEOCH will not accept a guarantee issued by any bank which holds or controls (whether directly or indirectly) 20 percent or more of the issued share capital or voting power of a SEOCH Participant or which, in SEOCH's absolute opinion, is closely associated with or related to the SEOCH Participant.

#### **7.2 Securities Collateral**

SEOCH may, subject to the provisions below, accept securities designated by the SEOCH Board as acceptable General Collateral or Specific Securities Collateral (i.e. "the underlying") for the purpose of meeting in part or in whole the margin requirement of a SEOCH Participant. Securities may be accepted as General Collateral and/or Specific Securities Collateral in respect of a SEOCH Participant's House CCMS Collateral Account, provided always that the SEOCH Board shall have the sole and absolute discretion to determine the maximum amount of a SEOCH Participant's margin requirements that may be satisfied in the form of securities. For the Client CCMS Collateral Account, securities collateral will be accepted for Specific Securities Collateral purpose only.

SEOCH has the final discretion in deciding whether and how much of a particular issue of securities to accept as General Collateral from a particular SEOCH participant. SEOCH reserves the right to modify the list of approved securities at any time and determine the maximum amount of securities that may be accepted from an issuer. Notwithstanding the foregoing, SEOCH will not accept, as General Collateral, any securities issued by an issuer which holds or controls (whether directly or indirectly) 20 percent or more of the issued share capital or voting power of a SEOCH Participant or which, in SEOCH's absolute opinion, is closely associated with or related to the SEOCH Participant.

#### **7.4 Exchange Fund Bills/Notes**

Exchange Fund Bills/Notes (EFBN) refers to the debt instruments issued for the account of the Exchange Fund of Hong Kong. SEOCH may, subject to the provisions set out below, accept these EFBN as General Collateral for the purpose of meeting in part but not in whole, the margin obligations of a SEOCH Participant in respect of its house or client positions. The SEOCH Board shall have the sole and absolute discretion to determine the maximum amount of a SEOCH Participant's margin obligations that may be satisfied in the form of EFBN.

SEOCH may also, subject to the provisions set out below, accept EFBN for the purpose of meeting in part or in whole the Variable Contribution of a SEOCH Participant to the Reserve Fund. The SEOCH Board shall have the sole and absolute discretion to determine the maximum amount of a SEOCH Participant's Variable Contribution that may be satisfied in the form of EFBN.