

## CHAPTER 6

### RISK MANAGEMENT AND PAYMENT PROCEDURES

#### Premium and Settlement Amounts

601. Each SEOCH Participant shall pay, on demand by SEOCH and in accordance with these Clearing Rules, such amounts in respect of Premium and Settlement Amounts as SEOCH may from time to time require.
602. All amounts payable by SEOCH Participants in respect of Premium and Settlement Amounts shall be settled by cash in the Settlement Currency and in accordance with these Clearing Rules and the Operational Clearing Procedures.

#### Margin and SEOCH Collateral

603. Each SEOCH Participant shall pay or provide, on demand by SEOCH and in accordance with these Clearing Rules, SEOCH Collateral in respect of margin having regard to, amongst other things, its open positions and its delivery obligations as SEOCH may from time to time require.
604. SEOCH will determine the amount of Daily Margin required from each SEOCH Participant using such methods and assumptions as it may from time to time determine to be appropriate.
605. Each SEOCH Participant shall settle all Daily Margin payable by it by delivery of SEOCH Collateral in accordance with these Clearing Rules and the Operational Clearing Procedures. The SEOCH Board may at any time restrict or add to the types of SEOCH Collateral, or impose a minimum or maximum on the amount of each type of SEOCH Collateral, which shall constitute good delivery for the purposes of settling Daily Margin.
606. SEOCH may attribute such value as it shall consider to be appropriate to any SEOCH Collateral. SEOCH may charge each SEOCH Participant fees in respect of any such SEOCH Collateral provided by the SEOCH Participant including any charges which may be levied by HKSCC in respect thereof and any other disbursements and expenses that may be incurred by SEOCH in connection with such SEOCH Collateral.
- 606A. All rights, title and interest in any non-cash SEOCH Collateral delivered by a SEOCH Participant to SEOCH (other than securities accepted as General Collateral, Specific Securities Collateral and To-be-Released Collateral over which SEOCH has a fixed charge) shall pass to SEOCH, and each SEOCH Participant shall ensure and hereby warrants and represents that it is absolutely entitled to pass full legal and beneficial ownership of all such SEOCH Collateral to SEOCH free from all liens, charges and encumbrances. For the purposes of these Clearing Rules, SEOCH shall be free to redeliver or transfer any SEOCH Collateral to SEOCH Participants (or other persons) in such form and in such equivalent amount as SEOCH deems appropriate and for the avoidance of doubt, in relation to any non-cash SEOCH Collateral, SEOCH is not under any obligation to redeliver the original SEOCH Collateral to the SEOCH Participant.
607. SEOCH may prescribe margin requirements on a SEOCH Participant in any amount and manner it may determine and at any time.

#### Margin, Premium and Settlement Amounts Calculation

608. After the System Input Cutoff Time on each Business Day, SEOCH will determine the amount of Premium and Settlement Amounts payable by or to each SEOCH Participant and the amount of Daily Margin payable by each SEOCH Participant.

609. SEOCH will endeavour at all times to ensure that not later than 8:00 a.m. on the Business Day immediately following each trading day, appropriate information on: -
- (1) the amount of Premium and Settlement Amounts due from or to a SEOCH Participant; and
  - (2) the amount of Daily Margin due from a SEOCH Participant, or appropriate information necessary for a SEOCH Participant to compute such amount,
- will be available for retrieval by that SEOCH Participant from the Options System, or will be provided to that SEOCH Participant through such other channels as SEOCH considers appropriate.
610. SEOCH may net the Premium, Settlement Amount and Daily Margin requirements of a SEOCH Participant using such methods and assumptions as it may from time to time determine to be appropriate.
- 610A. In addition to any other rights SEOCH may have under these Clearing Rules, where SEOCH has an obligation to make a net payment under Clearing Rule 610 in a Settlement Currency, notwithstanding that the Settlement Currency may be available, SEOCH may in lieu of making payment in that Settlement Currency make payment to the SEOCH Participant concerned, in full or in part, in such other currency or currencies and at such conversion rate(s) as SEOCH may in its absolute discretion determine to be fair and reasonable having regard to all the circumstances of the case. SEOCH shall only exercise its powers under this Clearing Rule in circumstances when SEOCH considers in its reasonable opinion that the Settlement Currency is not freely available or convertible in the market.

#### **Collection of Margin, Premium and Settlement Amounts by SEOCH**

611. Subject to these Clearing Rules, on the Business Day immediately following each trading day:-
- (1) each SEOCH Participant from whom Premium, Settlement Amount or Daily Margin is due shall pay such Premium or Settlement Amount or deliver SEOCH Collateral in respect of such Daily Margin (other than any additional margin payable pursuant to 9.2.4, 9.2.5 or 12.5 of the Operational Clearing Procedures) to SEOCH not later than 9:15 a.m. and deliver SEOCH Collateral in respect of any additional margin payable pursuant to 9.2.4, 9.2.5 or 12.5 of the Operational Clearing Procedures not later than 11:00 a.m.; and
  - (2) SEOCH will pay Settlement Amount and Premium on the same day on request, and release SEOCH Collateral in accordance with the Operational Clearing Procedures on request and where possible, in respect of Daily Margin, to each SEOCH Participant to whom such Settlement Amount, Premium or SEOCH Collateral is due.
612. To the extent that SEOCH Collateral other than cash denominated in the Settlement Currency is delivered to SEOCH in respect of margin, SEOCH will take such value as it attributes to such SEOCH Collateral into account when determining the amount in respect of Daily Margin required from a SEOCH Participant.
613. SEOCH may, at any time after making available the appropriate information pursuant to Clearing Rule 609, debit or credit the appropriate bank account of a SEOCH Participant maintained with the Designated Bank or Settlement Bank (as the case may be) with the amount required from or due to that SEOCH Participant in respect of Premium, Settlement Amount or Daily Margin.

- 613A. (1) SEOCH shall be entitled to apply any sums denominated in any currency standing to the credit of any CCMS Collateral Account with SEOCH of a SEOCH Participant in satisfaction of any sum denominated in any currency due or payable by such SEOCH Participant to SEOCH, whether actual or contingent, and whether solely or jointly with any other person, with the exception that credit balances on a client CCMS Collateral Account or an account which is of a client nature may only be applied to meet liabilities arising in respect of any of those accounts.
- (2) For the purpose of this Clearing Rule, SEOCH is authorised to purchase with sums denominated in any currency standing to the credit of any such CCMS Collateral Account such other currencies as may be necessary to effect such application and any agreement relating to such credit balance shall be deemed to incorporate a provision entitling SEOCH so to apply such credit balance whether or not the same is held on any special terms (including where it shall only be repayable at some future date).
- (3) SEOCH shall not be obliged to exercise its rights under this Clearing Rule.

#### **Intra-day Margin**

614. SEOCH may, on any trading day, demand Intra-day Margin from one or more SEOCH Participants, the amount of which shall be calculated by SEOCH using such methods as it determines to be appropriate including the possibility that margin may be required in respect of intra-day losses or potential losses arising from the purchase or sale of Options Contracts.
615. A SEOCH Participant which receives a demand for Intra-Day Margin shall, to the extent the full amount of any such demand is not covered by SEOCH Collateral provided to SEOCH at the time of the demand, satisfy such demand by payment in cash in the Settlement Currency or in such other currency as SEOCH may from time to time permit for this purpose, no later than one hour after the time of such demand. Such other currency should be one of the approved currencies as referred to in the Operational Clearing Procedures.

#### **Special Block Trade Margin**

- 615A. (1) If in the opinion of SEOCH or the Exchange, the executed price of a Block Trade is not fair and reasonable or a significant deviation exists between the executed price and the prevailing market price or between the executed price and the theoretical price determined by SEOCH, SEOCH may, within 30 minutes after the Block Trade is executed or after a trade adjustment request in respect of such Block Trade is submitted, demand a Special Block Trade Margin from the relevant SEOCH Participant.
- (2) Special Block Trade Margin shall be collected from SEOCH Participants in accordance with the Operational Clearing Procedures.
- (3) A Block Trade will not be subject to the process of substitution and novation in accordance with the First Schedule to these Clearing Rules unless any Special Block Trade Margin in respect of the Block Trade has been paid or otherwise considered by SEOCH to have been satisfied by the prescribed time. Any trade adjustment request in respect of a Block Trade will not be accepted by SEOCH unless any Special Block Trade Margin arising from such trade adjustment has been paid or otherwise considered by SEOCH to have been satisfied by the prescribed time.

#### **Interest, costs and charges**

616. SEOCH may pay or charge SEOCH Participants interest at such positive or negative rate, and may levy costs and charges in such amount, as may from time to time be determined by the SEOCH Board in accordance with the Operational Clearing Procedures on cash standing to the credit of the accounts kept pursuant to Clearing Rule 621 paid by SEOCH Participants and on cash contributions to the Reserve Fund.

#### **Fees, Levies and Charges**

617. Each SEOCH Participant shall pay to SEOCH, in respect of every OCH Contract to which that SEOCH Participant is party, such clearing fees as may from time to time be prescribed by SEOCH.
618. Each SEOCH Participant shall pay to SEOCH, for transmission to the Exchange, all such fees, commissions, levies and charges as shall be payable pursuant to the Options Trading Rules.
619. Each SEOCH Participant shall pay to SEOCH such other fees and charges as may from time to time be prescribed by SEOCH in respect of the functions specified in the Fee Schedule. SEOCH may add to, change or withdraw such functions, and the fees and charges payable in respect of them, at any time.
620. All amounts payable by each SEOCH Participant pursuant to Clearing Rules 616 to 619 (inclusive) will normally be settled in accordance with the Operational Clearing Procedures.

#### **SEOCH CCMS Collateral Accounts**

621. SEOCH shall maintain one or more accounts in CCMS in respect of SEOCH Collateral delivered to it by each SEOCH Participant and each such account shall bear the name of that SEOCH Participant.
622. SEOCH will reflect the separation in the manner described in the Operational Clearing Procedures of SEOCH Collateral in respect of margin for OCH Contracts in the various CCMS accounts maintained by SEOCH Participants. However, this shall not in any way detract from or otherwise affect the capacity, as principal, of each SEOCH Participant under each OCH Contract or the provisions of Clearing Rule 205 or 206 and shall not give rise to any trust or other equitable interest of any kind in respect of any money or other property standing to the credit of any such separate CCMS accounts.
623. [Repealed]

#### **Position Limits**

624. SEOCH may, from time to time in its absolute discretion and for such period as it thinks fit, prescribe the maximum number or value of long or short open positions or combinations of such positions which an SEOCH Participant is permitted to hold at any particular time or hold over any time period in any manner it may determine including, without limitation, in respect of any one option series, in respect of one or more option series combined, in relation to any particular underlying security or across a number of different underlying securities and, in each case, whether on a gross or a net basis.
- 625A. Any position limit from time to time imposed by SEOCH pursuant to Clearing Rule 624, 625 or 627 shall not be less stringent than that prescribed by the Commission under Section 35(1) of the Securities and Futures Ordinance unless the SEOCH Participant in question has been authorised by or notified to the Exchange under the Options Trading Rules or Operational Trading Procedures to hold or control open positions in excess of such limit.

625. SEOCH may at any time impose, increase, reduce or remove any position limits by giving immediate notice to the Exchange and each affected SEOCH Participant. Notice may be given orally (such oral notice to be followed by a written notice) or in writing as SEOCH considers to be appropriate in the circumstances and any imposition, increase, reduction or removal of position limits shall take effect as stipulated in the notice. SEOCH shall not be required to give any reasons for its decision to impose, increase, reduce or remove any position limits.
626. In deciding whether or not to exercise its powers pursuant to Clearing Rule 624, SEOCH shall have regard to any matters it considers to be appropriate, including the liquid capital (or, in the case of a GCP which is a Registered Institution, the Adjusted Capital) required to be maintained by each SEOCH Participant who would be affected, each such SEOCH Participant's actual level of liquid capital (or, in the case of a GCP which is a Registered Institution, Adjusted Capital) and the volume of clearing business currently conducted by each such SEOCH Participant.
627. If SEOCH forms the view that any position limits imposed might be relaxed or lifted if the liquid capital (or, in the case of a GCP which is a Registered Institution, the Adjusted Capital) of a SEOCH Participant were to be increased, it will notify that SEOCH Participant of the same in order to give that SEOCH Participant an opportunity to reorganise its affairs so as to increase its liquid capital (or, in the case of a GCP which is a Registered Institution, its Adjusted Capital) accordingly and may stipulate the position limits which apply pending such reorganisation.
628. If a SEOCH participant exceeds any position limits imposed, that SEOCH Participant must immediately notify SEOCH and take appropriate steps to ensure that, within such period as SEOCH may specify, it is in compliance with such position limits.
629. SEOCH may, from time to time in its absolute discretion and for such period as it thinks fit, prescribe requirements for a SEOCH Participant to report to SEOCH open positions held by that SEOCH Participant that exceed certain levels with respect to number or value, without limitation in respect of one option series, in respect of one or more option series combined, in relation to any particular underlying security or across a number of underlying securities, in respect of positions held in its House Account, Omnibus Client Account, any Individual Client Account, Client Offset Claim Account or Market Maker Account or any other account in DCASS, and, in each case, whether on a gross or a net basis.
630. SEOCH may require any SEOCH Participant to disclose to SEOCH the identity of clients beneficially interested directly or indirectly in Contracts comprised in positions which are subject to position limits.

#### **Exercise Limits**

631. SEOCH may, from time to time and in its absolute discretion, impose limitations on the number and type of Contracts relating to one or more option classes or option series which may be exercised at any one time or for any period of time if, in its view, this will be in the interests of maintaining good risk management and clearing practices.