

6. EXERCISE AND ASSIGNMENT

The Exercise function allows a SEOCH Participant to exercise its or its client's right as an option holder to buy or sell the underlying shares, according to the terms of the OCH Contract.

Exercise requests for OCH Contracts can be input via DCASS at any time prior to the System Input Cutoff Time on any Business Day, including the last trading day on which the option trades. It is also possible to purchase an option and exercise it on the same day. Exercise requests can be input during the day but the actual assignment process will only be performed during the After Business Period (AB).

6.1 No Automatic Exercise Except on Expiry

A SEOCH Participant shall input its exercise requests through DCASS in respect of each and every OCH Contract it wishes to exercise. DCASS will not automatically generate exercise requests in respect of in-the-money spot month contracts on behalf of SEOCH Participants except on an expiry day.

On an expiry day, DCASS will automatically generate exercise requests in respect of each and every open long position in spot month contracts which is in-the-money by or above the percentage prescribed by SEOCH from time to time. Information regarding series in respect of which exercise requests have been automatically generated by DCASS is shown in the Automatic Exercise Information Report which is available for download from DCASS terminals shortly after the close of the underlying market. SEOCH Participants may elect to deny such automatically generated exercise requests for positions in any particular series at any time prior to the start of AB on the expiry day (see 6.1.3). For the purposes of the Clearing Rules and these Procedures, exercise requests automatically generated by DCASS, if not so denied, are deemed as exercise requests input by SEOCH Participants and shall be binding and irrevocable.

Exercise requests will not be automatically generated by DCASS for those spot month series which do not meet the in-the-money percentage criteria for automatic generation of exercise requests. SEOCH Participants can only exercise such series by input of exercise requests themselves via DCASS terminals (see 6.1.1).

The in-the-money percentage criteria for automatic generation of exercise requests for spot month series will be determined by SEOCH in its absolute discretion and SEOCH will inform SEOCH Participants from time to time what the in-the-money percentage is. The in-the-money percentage is the difference between the strike and fixing price as a percentage of the strike. For this purpose, the fixing price of the underlying stock will be determined by SEOCH at its absolute discretion and, under normal circumstances, it will be the closing price quoted on the Exchange of the underlying stock on the expiry day.

The automatic exercise feature of spot month series described above will be applicable on any expiry day which is a normal Business Day. In the case of a typhoon day or black rainstorm day on which the expiry day becomes a non trading day, the expiry day of the spot month series affected and the automatic exercise feature will be deferred to the next Business Day.

6.1.1 Input of Exercise Requests

Open long positions can be exercised regardless of whether they are in-the-money, at-the-money or out-of-the-money.

The Exercise Request function allows the exercise of all in-the-money positions. If the series is out of the money, DCASS will notify the SEOCH Participant to confirm or cancel the request. All exercise requests will be in the pending state until the start of AB when the actual assignment will be

processed. All pending exercise requests input by the SEOCH Participant can be viewed via the Pending Exercise Window and can be rejected before the start of AB.

6.1.2 Amendment of Exercise Requests

Amendment of exercise requests is only possible on the day that the request was entered, up to the start of AB. Once AB starts, all exercise requests entered for the day will become final and irrevocable. DCASS will exercise all available long open positions in a particular series if the number of open long positions is equal to or smaller than the requested quantity.

To make an adjustment, a SEOCH Participant will have to reject the original exercise request in the Pending Exercise Window and input a new exercise request for the correct account, series and quantity. Please refer to the *DCASS Terminal User Guide* for details.

6.1.3 Denying Exercise Requests Automatically Generated by DCASS

SEOCH Participants may deny exercise requests automatically generated by DCASS for any spot month series by specifying the quantity of contracts which should not participate in the automatic exercise by using the Deny Automatic Exercise function at any time prior to the start of AB on the expiry day. The result can be checked from the “Denies auto” column in the Account Position Window. The EXERCISE AND ASSIGN SUMMARY REPORT will list out all positions exercised or assigned.

6.1.4 On Behalf Exercise/Exercise Adjustment/Denying Automatic Exercise Requests by SEOCH

Normally, SEOCH Participants should input their exercise requests, reject pending exercise requests or deny general exercise requests automatically generated by DCASS through their DCASS terminals. However, under certain circumstances such as power or equipment failure, a SEOCH Participant may request SEOCH to input such instructions on their behalf. For details, please refer to 17.2.

6.2 Assignment

Each day after the start of AB, all exercise requests recorded during the day up to the start of AB will be allocated across open contracts by a random process in DCASS.

6.2.1 Assignment Mechanism

The random assignment process works by first locating all short positions in the series and arranging them in a list. The exercise routine selects the short positions by selecting a **short contract** randomly from the applicable list of short positions as a starting position and allocating a fixed number of exercised contracts down the list from that position until the allocation of that fixed number of exercise contracts has been completed. If exercise contracts remain to be allocated after going down the list, this process (draw short contract and allocate) is repeated until the allocation of all exercise requests has been completed.

It is possible that a SEOCH Participant will be assigned against series that it has exercised itself or on behalf of its clients. These are termed internally assigned contracts. Internal assignment can be mapped across various Position Accounts of the SEOCH Participant.

Stock transactions resulting from internal assignment will be reported and settled in the same manner as those assigned to other SEOCH Participants.

After assignment by DCASS, SEOCH Participants must perform a random assignment of their clients' positions, through their back office systems.

6.2.2 Assignment Notice

Once assigned, the relevant SEOCH Participant is required to deliver or buy the underlying securities depending on whether the assigned position is a call or a put. On the evening of the day of exercise, following completion of the AB process, SEOCH will notify SEOCH Participants of the results of exercise and assignment by means of the report EXERCISE AND ASSIGN SUMMARY. SEOCH Participants can also enquire about the results of exercise and assignment via the Exercise History and the Clearing Information Window after the AB process is completed.