

CHAPTER 1

DEFINITIONS AND INTERPRETATION

Definitions

101. In these Clearing Rules, unless the context otherwise requires:-

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| "affiliate" | has the same meaning as in the Options Trading Rules; |
| " After Business Period" | means the time period after trading but before batch processing on each Business Day when input of clearing functions into DCASS by SEOCH Participants is no longer allowed; |
| "Articles" | has the same meaning as in the Exchange Rules; |
| "Authorized Person" | has the same meaning as in the Options Trading Rules; |
| "Bank Business Day" | means, in relation to a jurisdiction, any day (except Saturdays, Sundays, and public holidays) on which banks in that jurisdiction are open for business; |
| "Block Trade" | has the same meaning as in the Options Trading Rules; |
| "Board" | has the same meaning as in the Exchange Rules; |
| "Business Day" | means a day on which the Exchange is open for trading stock options; |
| "CCASS" | has the same meaning as in the Exchange Rules; |
| "CCASS Clearing Agreement" | has the same meaning as in the Exchange Rules; |
| "CCASS Clearing Participant" | has the same meaning as in the Exchange Rules; |
| "CCASS DCP" | has the same meaning as in the Exchange Rules; |
| "CCASS GCP" | has the same meaning as in the Exchange Rules; |
| "CCASS Rules" | has the same meaning as in the Exchange Rules; |
| "CCMS" | means the Common Collateral Management System, a common sub-system of CCASS and DCASS, operated by HKSCC, HKCC and SEOCH, which enables SEOCH Participants to manage their collateral paid or delivered to SEOCH; |

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| "CCMS Collateral Account" | means an account established in CCMS for each SEOCH Participant for debiting and crediting collateral. For the purposes of these Clearing Rules and the Operational Clearing Procedures, unless otherwise specified, the term "CCMS Collateral Account" does not include an account established in CCMS by HKSCC or by HKCC under their respective rules; |
| "CCMS Terminal User Guide" | means the manual entitled "CCMS Terminal User Guide" relating to the operation of CCMS, as amended from time to time by SEOCH; |
| "Chairman of the SEOCH Board" | means the person from time to time holding the office of Chairman of the SEOCH Board or his designee; |
| "Clearing Agreement" | has the same meaning as in the Options Trading Rules; |
| "Clearing Rules" | means these rules of SEOCH, as from time to time in effect; |
| "Client Contract" | has the same meaning as in the Options Trading Rules; |
| "closing contract" | has the same meaning as in the Options Trading Rules; |
| "CNS System" | has the same meaning as in the CCASS Rules; |
| "Commission" | has the same meaning as in the Exchange Rules; |
| "Contract" | has the same meaning as in the Options Trading Rules; |
| "controller" | has the same meaning as in Part III of the Securities and Futures Ordinance; |
| "Currency of the Contract" | means the currency in which a Contract is traded; |
| "Daily Margin" | means the aggregate amount determined by SEOCH after System Closure on each trading day to be payable in respect of a SEOCH Participant's open positions and delivery obligations as determined by SEOCH;; |
| "DCASS" | means the Derivatives Clearing and Settlement System operated by SEOCH and HKCC; |
| "DCASS Agreement" | means the subscription and license agreement in such form as may be prescribed by SEOCH from time to time and which is entered into between SEOCH and a SEOCH Participant entitling the SEOCH Participant to participate in DCASS in accordance with Chapter 11; |

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| "DCASS Terminal User Guide" | means the manual entitled "DCASS Terminal User Guide" relating to the operation of DCASS, as amended from time to time by SEOCH; |
| "Defaulter" | means a Defaulting SEOCH Participant which has been declared as a Defaulter by SEOCH pursuant to Clearing Rule 703A; |
| "Defaulting SEOCH Participant" | means a SEOCH Participant that gives rise to an event of default pursuant to Clearing Rule 701; |
| "delivery obligation" | means an obligation arising as a result of the exercise of a Contract; |
| "Designated Bank" | means a bank designated by a SEOCH Participant and appointed by SEOCH from time to time as being eligible for money settlements in relation to clearing services provided by SEOCH through fund transfers to and from a Settlement Bank; |
| "Direct Clearing Member" | means an SEOCH Member registered as a direct clearing member pursuant to these Clearing Rules effective immediately prior to the Scheme Effective Date; |
| "Direct Clearing Participant" | means a SEOCH Participant registered as a Direct Clearing Participant pursuant to Chapter 3 of these Clearing Rules, and "Direct Clearing Partnership" shall be construed accordingly; |
| "Error Trade" | has the same meaning as in the Options Trading Rules; |
| "Exchange" | has the same meaning as in the Exchange Rules; |
| "Exchange Participant" | has the same meaning as in the Options Trading Rules; |
| "Exchange Rules" | has the same meaning as in the Options Trading Rules; |
| "Exchange Traded Options Business" | has the same meaning as in the Options Trading Rules; |
| "Fee Schedule" | means the lists of fees attached to the Operational Trading Procedures and the Operational Clearing Procedures; |
| "Financial Resources Rules" | has the same meaning as in the Exchange Rules; |
| "GCM" | means an SEOCH Member registered as a general clearing member pursuant to the Clearing Rules effective immediately prior to the Scheme Effective Date; |

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| "GCP" | means a SEOCH Participant registered as a General Clearing Participant pursuant to Chapter 3 of these Clearing Rules; |
| "General Collateral" | means collateral (other than Specific Securities Collateral and To-be-Released collateral) in a CCMS Collateral Account that can be used to cover margin requirement; |
| "give-up" | has the same meaning as in the Options Trading Rules; |
| "HKATS" | has the same meaning as in the Options Trading Rules; |
| "HKATS Risk Functions" | has the same meaning as in the Options Trading Rules; |
| "HKCC" | means HKFE Clearing Corporation Limited; |
| "HKCC Participant" | means a person duly registered as a participant of HKCC under one of the categories of participation specified in the HKCC Rules; |
| "HKCC Rules" | means the rules and procedures of HKCC, as from time to time in effect; |
| "HKEX" | means Hong Kong Exchanges and Clearing Limited; |
| "HKEX staff" or "HKEX's staff" | means staff of HKEX or staff of a company of which HKEX is a controller, including without limitation, staff of the Exchange; |
| "HKEX website" | means the official website of HKEX at http://www.hkex.com.hk or at such other website address specified by HKEX from time to time; |
| "HKFE" | has the same meaning as in the Options Trading Rules; |
| "HKSCC" | has the same meaning as in the Exchange Rules; |
| "Hong Kong dollars" or "HK\$" | has the same meaning as in the Options Trading Rules; |
| "Initial Contribution" | means an amount of SEOCH Collateral required to be delivered by a SEOCH Participant in respect of the Reserve Fund pursuant to Clearing Rule 310; |
| "initial margin requirement" | has the same meaning as in the Exchange Rules; |
| "Intra-day Margin" | means an amount demanded by SEOCH pursuant to these Clearing Rules and which is required to be satisfied within one hour of such demand; |
| "Isolated Trades System" | has the same meaning as in the CCASS Rules; |

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| "Last Exercise Day" | has the same meaning as in the Standard Contract; |
| "liquid capital" | has the meaning assigned to it by the Financial Resources Rules; |
| "margin" | has the same meaning as in the Options Trading Rules; |
| "Marks, Margin and Concentration Collateral" | has the same meaning as "Mark", "Margin" and "Concentration Collateral" in the CCASS Rules collectively; |
| "NCP" | has the same meaning as in the Options Trading Rules; |
| "NCP Contract" | means a contract between a GCP and an NCP made pursuant to these Clearing Rules; |
| "OCH Contract" | means a contract between SEOCH and a SEOCH Participant pursuant to a novation in accordance with these Clearing Rules; |
| "open position" | has the same meaning as in the Options Trading Rules; |
| "opening contract" | has the same meaning as in the Options Trading Rules; |
| "Operational Clearing Procedures" | means the practices, procedures and administrative requirements prescribed by SEOCH from time to time in effect relating to the Options Clearing System and clearing services provided by SEOCH; |
| "option class" | has the same meaning as in the Options Trading Rules; |
| "option series" | has the same meaning as in the Options Trading Rules; |
| "Options Clearing System" | has the same meaning as in the Options Trading Rules; |
| "Options Contract" | has the same meaning as in the Options Trading Rules; |
| "Options System" | has the same meaning as in the Options Trading Rules; |
| "Options System Operator" | has the same meaning as in the Options Trading Rules; |
| "Options Trading Exchange Participant" | has the same meaning as in the Options Trading Rules; |
| "Options Trading Rules" | Means the options trading rules of the Exchange, as from time to time in effect; |

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| "Options Trading System" | has the same meaning as in the Options Trading Rules; |
| "order" | has the same meaning as in the Options Trading Rules; |
| "Participant Admission Appeals Committee" | means the committee convened to hear any appeal against the decisions by the SEOCH Board on any application to admit as a SEOCH Participant; |
| "person" | has the same meaning as in the Options Trading Rules; |
| "Premium" | has the same meaning as in the Options Trading Rules; |
| "Prescribed Risk Controls" | has the same meaning as in the Options Trading Rules; |
| "recognized exchange controller" | has the same meaning as in the Securities and Futures Ordinance; |
| "Renminbi" or "RMB" | has the same meaning as in the Options Trading Rules; |
| "Replenishment Contribution" | means a contribution required to be made by a SEOCH Participant pursuant to Clearing Rules 413C to 413E (inclusive) to replenish its Reserve Fund Contributions in the event that the Reserve Fund has been applied or depleted; |
| "Reserve Fund" | means the fund provided for in Chapter 4 of these Clearing Rules; |
| "Reserve Fund Contributions" | means, in respect of a SEOCH Participant, both its Initial Contribution and Variable Contribution; |
| "Reserve Fund Requirement" | means, at any given time, the amount required to be contributed to the Reserve Fund by a SEOCH Participant pursuant to Chapter 4 of these Clearing Rules; |
| "Scheme Effective Date" | has the same meaning as in the Exchange Rules; |
| "securities" | has the same meaning as in the Options Trading Rules; |
| "SEOCH" | has the same meaning as in the Options Trading Rules; |
| "SEOCH Board" | means the board of directors of SEOCH and, where the context so permits, any committee of that board; |

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| "SEOCH Collateral" | means money, bankers' drafts, bank cashiers' orders, securities and other property as may, from time to time, be so designated by the SEOCH Board, in each case in such form as may be required by the SEOCH Board; |
| "SEOCH Member" | means a person who is duly registered under one of the categories of SEOCH membership set out in the Clearing Rules effective immediately prior to the Scheme Effective Date; |
| "SEOCH Participant" | means a person who is duly registered, pursuant to Chapter 3 of these Clearing Rules, under one of the categories of SEOCH Participantship set out in Clearing Rule 302, and "SEOCH Participantship" shall be construed accordingly; |
| "Settlement Amount" | has the same meaning as in the Standard Contract; |
| "Settlement Bank" | means a bank appointed by SEOCH from time to time as being eligible for money settlements in relation to clearing services provided by SEOCH through either internal fund transfers or fund transfers to and from a Designated Bank; |
| "Settlement Currency" | means the currency in which a Contract shall be settled, which currency shall be the Currency of the Contract unless otherwise specified by SEOCH or the Exchange; |
| "Settlement Day" | has the same meaning as in the CCASS Rules; |
| "Special Block Trade Margin" | means the margin required by SEOCH pursuant to Clearing Rule 615A; |
| "Specific Securities Collateral" | means collateral in a CCMS Collateral Account that is used to cover short call positions to exclude the covered short call positions from calculation of margin requirement and that is provided by a SEOCH Participant to SEOCH in the form of the underlying securities of such positions; |
| "Standard Contract" | has the same meaning as in the Options Trading Rules; |
| "Stock Collateral Control Account" | bears the same meaning as in the CCASS Rules; |
| "Stock Exchange Trading Right" | has the same meaning as in the Exchange Rules; |
| "System" | has the same meaning as in the Exchange Rules; |
| "System Input Cutoff Time" | means 6:45 p.m. or a time after the close of trading from time to time prescribed by SEOCH as the system input cutoff time of DCASS on each Business Day; |

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| "Tax Information Exchange Framework" | means (i) sections 1471 to 1474 of the United States Internal Revenue Code of 1986, as amended (the "Code") (ii) any similar or successor legislation to (i) introduced by the United States, (iii) any agreement described in section 1471(b) of the Code, (iv) any regulations or guidance pursuant to any of the foregoing, (v) any official interpretations of any of the foregoing, (vi) any intergovernmental agreement to facilitate the implementation of any of the foregoing (an "IGA"), or (vii) any law implementing an IGA; |
| "To-be-Released collateral" | means the collateral in a CCMS Collateral Account resulting from the discovering of covered calls that can neither be withdrawn by a SEOCH Participant nor be used to cover margin requirement but has priority over General Collateral for the purpose of covering call requests; |
| "total liabilities" | shall be construed in the same way as it is to be construed under the Financial Resources Rules; |
| "trade" | has the same meaning as in the Options Trading Rules; |
| "trading day" | has the same meaning as in the Exchange Rules; |
| "Transaction Register" | has the same meaning as in the Options Trading Rules; |
| "Variable Contribution" | means an amount of SEOCH Collateral required to be delivered by a SEOCH Participant in addition to its Initial Contribution in order to satisfy its Reserve Fund Requirement; |
| "Withholding Tax" | means any withholding or deduction pursuant to the Tax Information Exchange Framework; |
| "Year 2000 Compliant" | means that neither performance nor functionality of any system is affected by dates prior to, during and after the Year 2000. In particular : no value for current date will cause any interruption in operation; date-based functionality must behave consistently for dates prior to, during and after Year 2000; in all interfaces and data storage, the century in any date must be specified either explicitly or by unambiguous algorithms or inference rules; and Year 2000 must be recognised as a leap year. |

Interpretation

102. Where the context so permits, words importing the singular number include the plural and vice versa and words importing the masculine gender shall include the feminine and neuter genders and vice versa.
103. Subject to Clearing Rule 101, any definitions of words defined in the Exchange Rules, the Options Trading Rules, the CCASS Rules, the Securities and Futures Ordinance, the Companies Ordinance or the Articles shall, if not inconsistent with the subject or context, apply to these Clearing Rules.

104. The headings shall not affect the construction hereof.
105. The interpretation by SEOCH of the Clearing Rules and the Operational Clearing Procedures shall be final, conclusive and binding on all SEOCH Participants and the parties to all Contracts.

Amendment

106. Subject to the Securities and Futures Ordinance and the Articles of Association of SEOCH, the SEOCH Board shall have the power to add to, vary, repeal, enforce or waive any of these Clearing Rules.

Exclusion of Liability

- 107A. The Options System is complex, and SEOCH, the Exchange, HKFE, HKCC and a recognized exchange controller which is the controller of SEOCH, do not accept any liability whatsoever, and no claim may be brought against any of them or their respective employees, in respect of any error in, or interruption or suspension of the operation of, the Options System, except in the case of wilful misconduct. In particular, neither SEOCH, the Exchange, HKFE, HKCC, a recognized exchange controller which is the controller of SEOCH, nor any person from whom SEOCH, the Exchange, HKFE, HKCC or a recognized exchange controller which is the controller of SEOCH has obtained a licence, directly or indirectly, in connection with use of the Options System shall have any liability in connection with, or arising out of, any ability or inability to use the computer programs involved in the functioning of the Options System (whether based in contract, tort, misrepresentation, warranty or other legal or equitable grounds and without regard to the circumstances giving rise to any purported claim).
- 107B. SEOCH, the Exchange, HKFE, HKCC and a recognized exchange controller which is the controller of SEOCH will not be liable to any SEOCH Participant or to any other person with respect to any action or omission by them in connection with the operations of the Options System, the provision of services and facilities available thereunder, and all other matters as contemplated in these Clearing Rules, except in the case of wilful default.
- 107C. SEOCH, the Exchange, HKFE, HKCC and a recognized exchange controller which is the controller of SEOCH will not be liable for any action taken or for any failure, hindrance or delay in the provision of services or the performance in whole or in part of their obligations under these Clearing Rules or under any OCH Contract if such action, failure, hindrance or delay arises out of causes beyond their control. Such causes may include, but shall not be limited to, acts of God or the public enemy, acts of a civil or military authority, embargoes, fires, floods, explosions, accidents, labour disputes, mechanical breakdowns, computer or system failures or other failures of equipment, failures of or defects in computer or system software, unavailability of or restrictions on any communication media for whatever reason (whether or not such media is used by SEOCH Participants), interruptions (whether in whole or in part) of power supplies or other utility or service, any law, decree, regulation or order of any government, competent authority or any court or tribunal, and any other causes beyond the control of SEOCH, the Exchange (whether or not specified in the Exchange Rules), HKFE, HKCC or a recognized exchange controller which is the controller of SEOCH.
108. Information and statistics provided by SEOCH including, but not limited to market prices, numbers of Contracts cleared and risk management assumptions, are made available on the understanding that SEOCH, the Exchange, HKFE HKCC and a recognized exchange controller which is the controller of SEOCH will not be liable or accountable to any party for that information's suitability or applicability for any use other than for managing or reporting activities internal to SEOCH.

Governing Law

109. These Clearing Rules, the Operational Clearing Procedures and all Contracts shall be governed by, and construed in accordance with, the laws of Hong Kong.

SEOCH Management of SEOCH Collateral

110. Without prejudice to any other rights of SEOCH in respect of the amounts standing to the credit of a SEOCH Participant's CCMS Collateral Account (including the Reserve Fund Contributions), SEOCH may invest such amounts or any part thereof in such manner and to such extent as the SEOCH Board considers expedient and financially prudent. For the avoidance of doubt, any obligation of SEOCH to redeliver or release such amounts to the SEOCH Participant and any interest SEOCH may pay or charge the SEOCH Participant in accordance with these Clearing Rules and the Operational Clearing Procedures shall not be affected by any gain or loss arising from the investment activities. Any such gain or loss in respect of amounts other than Reserve Fund Contributions is for SEOCH; and any such gain or loss in respect of Reserve Fund Contributions is for the Reserve Fund.

Notice

111. Unless otherwise provided in these Clearing Rules, all notices, requests, demands or other communications from SEOCH to SEOCH Participants may be given orally or in writing, in person or by post, by electronic or wire transmission, by telephone or facsimile, by posting on the HKEX website, or by any means of computer data transmission including, but in no way limited to, broadcast messages via HKATS or DCASS or e-mail.
112. Any communication disseminated via DCASS or HKATS or e-mail or posted on the HKEX website will constitute written notice for the purpose of these Clearing Rules and the Options Trading Rules.
113. Unless otherwise provided in these Clearing Rules, the Operational Clearing Procedures and in the Options System, all notices from SEOCH Participants to SEOCH shall be given in writing and sent to SEOCH in person, by facsimile, by post or such other means as may be acceptable to SEOCH. Notice by SEOCH Participants to SEOCH shall be deemed to have been given at the time of receipt by SEOCH.

Transitional Provisions

114. Without limiting the generality of Clearing Rule 115, with effect from the Scheme Effective Date and unless the context otherwise requires, the terms "SEOCH Member", "Direct Clearing Member" and "GCM" in the Clearing Rules will have been substituted with the term "SEOCH Participant", "Direct Clearing Participant", and "GCP" respectively. Each SEOCH Member, Direct Clearing Member and GCM that was, or was deemed to be, an Exchange Participant under the Exchange Rules or the repealed Exchanges and Clearing Houses (Merger) Ordinance was deemed automatically to have become a SEOCH Participant, Direct Clearing Participant and GCP respectively (provided their rights had not been revoked immediately prior to the Scheme Effective Date) and shall continue to be bound by these Clearing Rules and Operational Clearing Procedures.
115. For the avoidance of doubt:
- (i) these Clearing Rules and Operational Clearing Procedures;

- (ii) all rights, privileges, obligations and liabilities accrued to or incurred by any person (including without limitation a SEOCH Participant, a Direct Clearing Participant and a GCP) prior to the Scheme Effective Date; and
- (iii) all registrations and approvals made or granted to a person (including without limitation a SEOCH Participant, a Direct Clearing Participant and a GCP) which were valid immediately prior to the Scheme Effective Date

shall remain valid and binding on that person whatever capacity in which those rights, privileges, obligations, liabilities, registrations or approvals have been accrued, incurred, made or granted.