

Options Trading Rules

CHAPTER 4

OPTIONS EXCHANGE PARTICIPANTS AND THEIR CLIENTS

Position Limits

436A. Notwithstanding the above, any position limit from time to time imposed by the Exchange pursuant to Options Trading Rule 435, 436 or 438 shall not be less stringent than that prescribed by the Commission under section 35(1) of the Ordinance unless the Options Exchange Participant in question is, or is holding positions for, a person specified under section 4A of the Securities and Futures (Contracts Limits and Reportable Positions) Rules, in which case the Exchange may authorize the Options Exchange Participant to hold positions in excess of the limit prescribed by the Commission as the Exchange considers appropriate. Furthermore, an Options Exchange Participant may hold for itself or another person positions in excess of the position limit from time to time imposed by the Exchange if such Options Exchange Participant or person has been authorized by the Commission under subsection 4(3) of the Securities and Futures (Contracts Limits and Reportable Positions) Rules and the relevant Options Exchange Participant has notified the Exchange in writing of such authorization from the Commission.

CHAPTER 6

MARKET MAKERS

Risk Monitoring on an affiliate of a Market Maker holding such Market Maker's positions (a "Market Maker Affiliate")

614E. Rules 614F, 614G and 614H apply to an affiliate who is qualified and registered as a Market Maker Affiliate with the Exchange by way of

satisfying the paid-up capital and shareholders' funds requirements as prescribed by the Exchange from time to time.

- 614F. A Market Maker shall procure its Market Maker Affiliate to (i) submit to the Exchange, through the Market Maker, a monthly financial statement, setting out the Market Maker Affiliate's working capital as at the end of the calendar month by subtracting its current liabilities from its current assets (the "Working Capital"), within three weeks after the end of the relevant calendar month; and (ii) maintain a certain level of Working Capital on a daily basis, which shall be at least equal to (a) one-half of the Net Risk Margin ("NRM"); or (b) one-seventh of the Total Margin Requirement ("TMR"), whichever is higher, where

NRM = the sum of the Risk Margin (determined on a net basis and after offsetting any Mark-to-Market margin credit, where applicable) for the market maker account and the house account of the Options Exchange Participant.

TMR = the sum of the Total Margin Requirement for the market maker account and the house account of the Options Exchange Participant.

For the purpose of this Rule 614F, "Risk Margin" and "Total Margin Requirement" have the same meaning as set out in the Operational Clearing Procedures for Options Trading Exchange Participants of SEOCH.

- 614G. On breaching the Working Capital requirement, the Market Maker shall report to the Exchange as soon as practicable and in any event no later than 4pm on the next Business Day. If the Market Maker repeatedly fails to notify the Exchange, the Exchange may, in its sole and absolute discretion, revoke the permit granted to the Market Maker. The Market Maker shall also forthwith procure the Market Maker Affiliate to reduce its positions or increase its Working Capital within 10 Business Days.

- 614H. If the Market Maker Affiliate fails to remedy the breach of the Working Capital requirement, the Exchange may close out such open positions on

the Market Maker's behalf or may request the Clearing House to effect such closing out on the Market Maker's behalf. The Exchange may also, in its sole and absolute discretion, revoke the permit granted to the Market Maker. None of the Exchange, the Clearing House or a recognized exchange controller which is the controller of the Exchange and the Clearing House shall be liable for any loss suffered by any person or persons in respect of such closing out. The Market Maker shall indemnify and hold the Exchange, the Clearing House, and a recognized exchange controller which is the controller of the Exchange and the Clearing House harmless in respect of any costs or other expenses arising by reason of such closing out.