

## **10. MONEY SETTLEMENT**

### **10.1 Introduction**

Unless otherwise specified by SEOCH, the money settlement process of SEOCH will be effected by cash in the Settlement Currency transferred between the bank accounts of SEOCH maintained with Settlement Banks and bank accounts of SEOCH Participants maintained with either Designated Banks or Settlement Banks. All such cash transfers, whether for amounts collected from or payable to a SEOCH Participant, are initiated by SEOCH issuing a Direct Debit Instruction (“DDI”) to the Designated Bank or Settlement Bank (as the case may be); or a Direct Credit Instruction (“DCI”) to the Settlement Bank.

Every SEOCH Participant must maintain bank account(s) for Hong Kong dollars and each applicable non-Hong Kong dollar Settlement Currency with one of the Designated Banks or Settlement Banks for money settlement purpose. For the avoidance of doubt, a SEOCH Participant which has not opened bank account(s) in the Settlement Currency of a Contract (and Hong Kong dollars if the Settlement Currency is not Hong Kong dollars) as aforesaid will not be allowed to record, register and clear that Contract. As money settlement transactions recorded in the House and Client CCMS Collateral Accounts are processed separately, every SEOCH Participant must maintain at least two bank accounts in Hong Kong dollars and each applicable non-Hong Kong dollar Settlement Currency with a Designated Bank or a Settlement Bank (as the case may be) and properly identify which of these accounts is for the handling of money settlement transactions recorded in the House CCMS Collateral Account and which of these is for the handling of money settlement transactions recorded in the Client CCMS Collateral Account.

SEOCH Participants should note that timely settlement of the money obligations due to SEOCH is extremely important. Failure to make timely settlement could result in disciplinary measures and default proceedings. It is important that SEOCH Participants provide SEOCH with the names of at least two emergency contact persons who can be reached before or during office hours for all money settlement matters. SEOCH must also be kept informed of any changes in the details of such emergency contact persons.

All amounts payable by each SEOCH Participant will normally be settled in the manner described in these Procedures. Where such amounts payable are not settled in the manner described in these Procedures, SEOCH will render a debit advice in respect of the amount due and may debit the amount contained in any such debit advice from the SEOCH Participant’s account with the Designated Bank or Settlement Bank on the due date specified in such debit advice.

**10.1.1** Repealed

#### **10.1.2 Direct Debit Mandate**

In order to facilitate the money settlement process as described, every SEOCH Participant must execute the uniform Direct Debit Mandate with the Designated Bank or Settlement Bank (as the case may be) authorising the bank to release funds to SEOCH’s account upon request. The Direct Debit Mandate will become effective only when the Designated Bank or Settlement Bank confirms its acceptance. Direct Debit Mandates are available from SEOCH, Designated Banks or Settlement Banks.

#### **10.1.3 Change of Designated Bank or Settlement Bank**

If there is a change of Designated Bank or Settlement Bank used by a SEOCH Participant, the SEOCH Participant is required to give a written notice and deliver it to the office of SEOCH together with a properly executed Direct Debit Mandate of the new Designated Bank or Settlement Bank (as the case may be) at least fourteen Business Days prior to its effective date.

SEOCH will advise the SEOCH Participant when the arrangement with the new Designated Bank or Settlement Bank can become effective.

#### **10.1.4** Repealed

### **10.2 The Daily Cash Settlement Component**

The Daily Cash Settlement Component consists of up to four components namely Premium, margin, fees and if necessary, Settlement Amount which are all to be settled by cash in the Settlement Currency unless otherwise specified by SEOCH, with the exception of margin which may also be settled by cash in an approved currency other than the Settlement Currency and non-cash collateral acceptable to SEOCH.

The total margin requirement in respect of either house or client positions of a SEOCH Participant may be covered by the SEOCH Participant's cash and non-cash collateral balance after haircut, if applicable, within its House or Client CCMS Collateral Account provided that the SEOCH Board shall have the absolute right to determine the minimum amount of a SEOCH Participant's margin requirements that must be covered by cash in the Settlement Currency or the maximum amount that may be covered by non-cash collateral or cash denominated in an approved currency other than the Settlement Currency. When the total margin requirement exceeds the total of acceptable cash and non-cash collateral balance after haircut, cash settlement is required for this excess margin requirement and will be collected via the appropriate bank account which the SEOCH Participant maintains with a Designated Bank or a Settlement Bank. The other components are Premium, fees and Settlement Amount and they will be collected via the SEOCH Participant's bank account with a Designated Bank or a Settlement Bank in the aforementioned manner when the sum of these components turns out to be in debit.

#### **10.2.1 Premium Settlement**

The Premium is calculated as the net Premium balance due to or from the SEOCH Participant in respect of trades concluded on the preceding Business Day for house and clients' transactions separately. Where the Settlement Currency of a Contract is not the same as the Currency of the Contract, the Premium payable on such trade will be converted by SEOCH from the Currency of the Contract into the Settlement Currency at the exchange rate determined by SEOCH as soon as practicable after the Premium arose from such source and on such basis as it shall consider appropriate. Any exchange rate risk arising from the conversion will be borne by the SEOCH Participant. A credit arising from house positions will not be used to offset a debit arising from client positions, and vice versa.

Premiums are calculated immediately upon registration of the trade in DCASS. The Premiums payable and receivable are updated in real time and are available for enquiry via DCASS.

#### **10.2.2 Margin Settlement**

The amount of margin required will be calculated during batch processing. This will be compared with the cash and non-cash collateral value. If there is a deficit, it will be collected from the appropriate SEOCH Participant's account with the Designated Bank or a Settlement Bank by DDI. If no margin is required but the SEOCH Participant has cash or non-cash collateral in excess as shown in its CCMS Collateral Account, this excess cash or non-cash collateral will be returned upon request provided that the amount of margin that is covered by cash in the Settlement Currency will not fall below the minimum level prescribed by the SEOCH Board and the return of excess cash will not result in any other requirement regarding cover for the SEOCH Participant's margin requirements not being satisfied. Where the Settlement Currency of a Contract is not the same as the Currency of the Contract, the amount of margin required for such Contract will be converted by SEOCH from the Currency of the Contract into the Settlement Currency at the exchange rate determined by SEOCH as soon as practicable after the amount of margin required arose from such source and on such basis as it shall consider appropriate.

### **10.2.3 Fee Settlement**

The various options trading and clearing fees are also collected through the SEOCH money settlement process. In the normal course of events, the aggregate amount of fees payable by a SEOCH Participant will be debited from its CCMS Collateral Account. All such fees will be collected from the SEOCH Participant's account with the Designated Bank or Settlement Bank nominated to be used for the money settlement of house positions or client positions, as appropriate.

### **10.2.4 Settlement Amount**

The Settlement Amount will be the amount, exclusive of stamp duty, FRC Transaction Levy ("FRC Transaction Levy") payable pursuant to the Financial Reporting Council Ordinance, and SFC Transaction Levy ("SFC Transaction Levy") and Investor Compensation Levy ("Investor Compensation Levy") payable pursuant to the Securities and Futures Ordinance and its subsidiary legislation and trading fee, required to settle pending stock transactions on T+2. Depending on how the pending stock position is settled, the payment of the Settlement Amount will be handled differently as described in the following paragraphs.

#### **10.2.4.1 Repealed**

#### **10.2.4.2 Settlement via CCASS under the CNS System**

Money settlement for pending stock positions arising from the exercise or assignment of options contracts settled through CCASS under the CNS System is effected through CCASS in the same way as any other CNS stock positions arising from stock transactions in the cash market.

If a SEOCH Participant has made an arrangement with SEOCH to collect and pay Marks, Margin and Concentration Collateral demanded by HKSCC in respect of pending stock positions to be settled through CCASS under the CNS System, the amount required, less any excess cash collateral standing to the credit of the House CCMS Collateral Account designated by the SEOCH Participant, will be collected by SEOCH by the money settlement process via the SEOCH Participant's account with the Designated Bank or Settlement Bank as part of the daily cash settlement described in 10.3.1 – Daily Cash Settlement.

#### **10.2.4.3 Settlement via CCASS under the IT System**

Money settlement for pending stock positions settled through CCASS under the IT System will be effected under SEOCH's money settlement process. The Settlement Amount due from a SEOCH Participant will be debited from its House or Client CCMS Collateral Account, as the case may be, and any deficit will be handled by the daily SEOCH money settlement process via the SEOCH Participant's account with the Designated Bank or Settlement Bank. The process is similar to that for daily cash settlement described in 10.3.1 – Daily Cash Settlement.

As to Settlement Amount due to a SEOCH Participant, SEOCH will credit the sum to the SEOCH Participant's House or Client CCMS Collateral Account, as the case may be. The SEOCH Participant can request the redelivery of excess cash balances according to the procedures described in 10.4. If the SEOCH Participant can fully settle the delivery before 11:00 a.m. and submit a redelivery request before the redelivery request cut off time i.e. 11:00 a.m., SEOCH will, upon confirmation of stock settlement, process the request for same day value.

#### **10.2.4.4 Settlement by Specific Securities Collateral**

Money settlement for pending stock positions to be settled by Specific Securities Collateral will be effected through CCASS in the same way as that of settlement via CCASS under the CNS System.

#### **10.2.5 Repealed**

### **10.3 The Cash Settlement Process**

Once the cash requirement has been established, money settlement occurs as follows:

#### **10.3.1 Daily Cash Settlement**

The net amount due from SEOCH Participants will be collected by SEOCH issuing Direct Debit Instructions to the SEOCH Participants' appropriate Designated Bank or Settlement Bank and must be settled in good funds not later than 9:15 a.m. on the next Business Day.

Failure to meet the daily cash settlement will cause SEOCH to consider the commencement of default proceedings. Therefore, it is the SEOCH Participant's responsibility to arrange adequate funding in its bank account with a Designated Bank or a Settlement Bank (as the case may be) on the night before the cash call. SEOCH Participants are expected to be able to make a good estimate of their total cash requirement by means of their back office systems.

#### **10.3.2 Cash Redelivery Requests by SEOCH Participants**

A SEOCH Participant can request for the redelivery of cash credited to its CCMS Collateral Account during the day provided that there is sufficient cash collateral balance available in its CCMS Collateral Account, its total collateral balance after such cash redelivery is not less than the SEOCH Participant's total margin requirement on its open positions immediately prior to such cash redelivery, the amount of cash in the Settlement Currency covering the margin requirement of the SEOCH Participant does not fall below the minimum level prescribed by the SEOCH Board and the redelivery will not result in any other requirement regarding cover for the SEOCH Participant's margin requirements or any other payment or settlement obligations of the SEOCH Participant under the Clearing Rules and these Procedures not being satisfied.

### **10.4 Cash Delivery/Redelivery Procedures**

#### **10.4.1 Cash Redelivery Procedures by SEOCH Participants**

##### **10.4.1.1 Settlement Currencies**

If a SEOCH Participant wishes to request for the redelivery of any cash amount in a Settlement Currency, the following procedures apply:

- i. the SEOCH Participant should check if there is a surplus cash balance in the Settlement Currency in its CCMS Collateral Account available for redelivery;
- ii. the SEOCH Participant shall input a redelivery request via its CCMS terminal before the cash movement cut-off time, which is 11:00 a.m. each Business Day, for the amount to be redelivered and such amount will be deducted from the SEOCH Participant's CCMS Collateral Account. CCMS will restrict the redelivery request input after the prescribed cut-off time; and
- iii. if the redelivery request is accepted by SEOCH, SEOCH will issue a Direct Credit Instruction to pay the requested amount to the SEOCH Participant's account with the Designated Bank or Settlement Bank for same day value.

##### **10.4.1.2 Approved Currencies other than Applicable Settlement Currencies**

If a SEOCH Participant wishes to request for the redelivery of any cash amount in an approved

currency referred to in Appendix H which is other than an applicable Settlement Currency referred to in 10.1, the following procedures apply:

- i. the SEOCH Participant should check if there is a surplus cash balance in the approved currency in its CCMS Collateral Account;
- ii. the SEOCH Participant may request the redelivery of any excess amount in the approved currencies provided to SEOCH by notifying SEOCH of its intention in writing or by other means acceptable to SEOCH by 11:00 a.m. on each Business Day, which should also be a Bank Business Day in the country or each of the countries where the SEOCH Participant's bank is located and where the approved currency other than applicable Settlement Currency is cleared; and
- iii. in the event that SEOCH, in its sole discretion, accepts the request to redeliver such excess amount, the request will be processed by SEOCH as soon as practicable. The redelivery of the requested excess amount will not be effected on the same day as the date of the request as set out in 10.4.1.2 (iii) (a) and (b) below, and interest at such positive or negative rate may be paid or charged, and costs and charges may be levied, by SEOCH on the excess amount being redelivered as SEOCH may determine from time to time in accordance with Appendix I until the redelivery is effected. The value date for the redelivery of excess amount is as follows:

(a) Japanese Yen

The value date for the redelivery of the excess amount in Japanese Yen is the second Hong Kong Bank Business Day after the date on which the redelivery request is received by SEOCH. If that day is a bank holiday in Japan, then the value date shall be on the next Bank Business Day in both Japan and Hong Kong.

(b) Other Foreign Currencies

The value date for the redelivery of any excess amount in an approved currency other than the Japanese Yen is the next Hong Kong Bank Business Day after the date on which the redelivery request is received by SEOCH. If that day is a bank holiday in the country or countries where the SEOCH Participant's bank is located and where the approved currency is cleared, then the value date shall be on the next Bank Business Day in such country or countries and Hong Kong.

## **10.4.2 Cash Delivery Procedures by SEOCH Participants**

### **10.4.2.1 Settlement Currencies**

If a SEOCH Participant wishes to deliver any cash amount in the Settlement Currency to SEOCH e.g. to meet future margin calls, the following procedures apply:

- i. the SEOCH Participant shall input a delivery request via its CCMS terminal before the cash movement cut-off time, which is 11:00 a.m. on each Business Day, for the amount to be delivered to SEOCH. CCMS will restrict the delivery request input after the prescribed cut-off time;
- ii. if the delivery request is accepted by SEOCH, SEOCH will collect the amount by issuing a Direct Debit Instruction to the SEOCH Participant's Designated Bank or Settlement Bank for the delivery amount. The SEOCH Participant must ensure that there are sufficient good funds in its account with the Designated Bank or Settlement Bank for effecting such debit; and
- iii. upon the bank's confirmation that the Direct Debit Instruction has been effected successfully, SEOCH will update the cash balance for the amount delivered in the SEOCH Participant's

CCMS Collateral Account for same day value.

#### **10.4.2.2 Approved Currencies other than Applicable Settlement Currencies**

If a SEOCH Participant wishes to deliver any cash amount in an approved currency referred to in Appendix H which is other than an applicable Settlement Currency referred to in 10.1 to SEOCH, the following procedures apply:

- i. the SEOCH Participant shall notify SEOCH of the delivery of the approved currency in writing or by other means acceptable to SEOCH by 11:00 a.m. each Business Day;
- ii. upon confirmation of the delivery from SEOCH's bank, SEOCH will update the cash balance for the amount delivered in the SEOCH Participant's CCMS Collateral Account;
- iii. the value date applicable to the transfer of an amount in the approved currency from a SEOCH Participant's account in one bank to SEOCH's account in another bank is normally the next Hong Kong Bank Business Day after the date on which the SEOCH Participant's bank receives the SEOCH Participant's instructions to effect such transfer. If that day is a bank holiday in the country or countries where the SEOCH Participant's bank is located and where the approved currency is cleared, the value date shall be on the next Hong Kong Bank Business Day which is not a bank holiday in such country or countries. Only after the receipt of the funds is confirmed by SEOCH's bank will SEOCH accept those funds as cover for the SEOCH Participant's margin requirements; and
- iv. if the SEOCH Participant's account and SEOCH's account are maintained with the same bank in Hong Kong, the transfer may be effected within the same Bank Business Day, in which case the value date for the transfer of an amount shall be the Bank Business Day on which such bank receives the SEOCH Participant's instructions to effect the transfer. Notwithstanding the foregoing, only after the receipt of the funds is confirmed by SEOCH's bank will SEOCH accept those funds as cover for the SEOCH Participant's margin requirements.

#### **10.4.3 Currencies Revaluation and as Substitution for the Settlement Currency**

##### **10.4.3.1 Revaluation of Approved Currencies**

The value of any approved currency allowed to be used as cover for a SEOCH Participant's margin requirements shall be determined on a daily basis based on the prevailing market prices at the time of revaluation after deducting a haircut of such percentage as determined from time to time by the SEOCH Board.

##### **10.4.3.2 Substitution for the Settlement Currency**

- i. SEOCH Participants may elect to deliver approved currencies as cover for SEOCH Participants' margin requirements provided that the minimum level of margin requirements that is required to be satisfied by cash in the Settlement Currency is at all times maintained. If an approved currency is delivered by a SEOCH Participant as substitution for any margin settled by the SEOCH Participant using the Settlement Currency, such approved currency must be received by SEOCH with finality by 9:30 a.m. on a Business Day in order for the SEOCH Participant to have surplus funds refunded to the SEOCH Participant in the Settlement Currency for same-day value.
- ii. If the approved currency is received after 9:30 a.m., any surplus Settlement Currency will be redelivered to the SEOCH Participant for value on the next Business Day.

#### **10.5 The Intra-Day Cash Settlement Process**

Where intra-day margin is called for, a SEOCH Participant can enquire the call amount via the relevant CCMS report. Please refer to the CCMS Terminal User Guide for CCMS report details. All

affected SEOCH Participants shall arrange sufficient funding in their accounts with the Designated Banks or Settlement Banks in order to settle the intra-day margin call within one hour after the intra-day margin call is issued or such shorter period as may from time to time be prescribed by SEOCH. Intra-day margin calls may be satisfied by payment in cash in the Settlement Currency or in such other currency as SEOCH may from time to time permit for this purpose. Such other currency should be one of the approved currencies as referred to in Appendix H.

### **10.5A The Special Block Trade Margin Settlement Process**

Where Special Block Trade Margin is called for, SEOCH will issue a Special Block Trade Margin Call Notice set forth in the *DCASS User Guide* to the relevant SEOCH Participant. The SEOCH Participant shall arrange sufficient funding in its account with the Designated Bank or Settlement Bank in order to cover the Special Block Trade Margin call within one hour after notification or such shorter period as may from time to time be prescribed by SEOCH. Special Block Trade Margin calls may only be satisfied by payment in cash in the Settlement Currency.

If the SEOCH Participant is unable to pay or otherwise satisfy its Special Block Trade Margin in respect of a Block Trade by the prescribed deadline for any reason, the relevant Block Trade shall, without notice being required to be given to the SEOCH Participant, not be subject to the process of substitution and novation in accordance with the First Schedule to the Clearing Rules or be cleared by SEOCH, and shall be deleted from the Options System as if the Block Trade had never been executed.

If the SEOCH Participant is unable to pay or otherwise satisfy its Special Block Trade Margin arising from a trade adjustment request submitted in respect of a Block Trade by the prescribed deadline for any reason, the relevant trade adjustment request shall be rejected by SEOCH.

### **10.6 Cash Contribution to the Reserve Fund**

From time to time, SEOCH Participants may be required to top-up their share of Variable Contributions under 11.2.2. Variable Contributions to the Reserve Fund may be satisfied by payment in cash denominated in Hong Kong Dollars. The settlement method of this Top-up payment is similar to the Daily Cash Settlement Process described earlier in this chapter. SEOCH will issue a Direct Debit Instruction to the SEOCH Participant's account with the Designated Bank or Settlement Bank to collect the amount due on the due date specified by SEOCH. However, this Top-up payment may also be collected by other means, distinct from the Daily Cash Settlement Process, at the discretion of SEOCH. The Variable Contribution of a SEOCH Participant will be recorded in the SEOCH Participant's House CCMS Collateral Account.