

**Operational Clearing Procedures for Options Trading Exchange Participants**

**7. COLLATERAL**

**7.2 Securities Collateral**

SEOCH may, subject to the provisions below, accept securities designated by the SEOCH Board as acceptable General Collateral or Specific Securities Collateral (i.e. “the underlying”) for the purpose of meeting in part or in whole the margin requirement of a SEOCH Participant. Securities may be accepted as General Collateral and/or Specific Securities Collateral in respect of a SEOCH Participant’s House CCMS Collateral Account, provided always that the SEOCH Board shall have the sole and absolute discretion to determine the maximum amount of a SEOCH Participant’s margin requirements that may be satisfied in the form of securities. For the Client CCMS Collateral Account, securities collateral will be accepted for Specific Securities Collateral purpose only.

SEOCH has the final discretion in deciding whether and how much of a particular issue of securities to accept as General Collateral from a particular SEOCH participant. SEOCH reserves the right to modify the list of approved securities at any time and determine the maximum amount of securities that may be accepted from an issuer. Notwithstanding the foregoing, SEOCH will not accept, as General Collateral, any securities issued by an issuer which holds or controls (whether directly or indirectly) 20 percent or more of the issued shares or voting power of a SEOCH Participant or which, in SEOCH’s absolute opinion, is closely associated with or related to the SEOCH Participant.

SEOCH will not accept securities collateral in physical scrips. Deposit and withdrawal of securities collateral will be effected by transfers of shares representing the securities collateral as book entries between any one of the Stock Accounts of the SEOCH Participant or the CCASS GCP, where applicable, in CCASS other than the Stock Collateral Control Account and the SEOCH Participant’s CCMS Collateral Account.

Please refer to ~~CCASS-HKSCC~~ Rules for the daily cut-off time for submission of securities deposit/withdrawal request via CCMS.

## **8. SETTLEMENT AND DELIVERY IN RESPECT OF STOCK TRANSACTIONS**

### **8.6.1.1 Marks, Margin and Concentration Collateral Settlement through HKSCC**

For SEOCH's margin computation purposes only, pending stock positions to be settled via CCASS under the CNS System will be deemed as settled once such positions are reported in the Provisional Clearing Statement (PCS) on T as positions to be settled under the CNS System. Such pending stock positions will be subject to Marks, Margin and Concentration Collateral requirements of HKSCC pursuant to the ~~HKSCC~~~~CCASS~~ Rules and the SEOCH Participant or the CCASS GCP, where applicable, will be responsible for the settlement of such Marks, Margin and Concentration Collateral in its capacity as a CCASS Clearing Participant. Therefore no margin will be required by SEOCH on such pending stock positions.

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

Exercised options trades to be settled under the CNS System are regarded as if they were trades in the cash market which had been effected on the same day as the day of exercise (i.e. T), for the purpose of the ~~CCASS~~~~HKSCC~~ Rules.

SEOCH will send to HKSCC all the particulars of each such exercised options trade, on a trade by trade basis (i.e. no netting and with SEOCH as the counter party to each such trade) upon completion of the day end processing on T. On T+1, if the SEOCH Participant has arranged for SEOCH to collect and pay Marks, Margin and Concentration Collateral in respect of pending stock positions arising from the exercised options trades from its designated House CCMS Collateral Account, SEOCH will transfer to HKSCC an amount which is required to settle the Marks, Margin and Concentration Collateral demanded by HKSCC in respect of these pending stock positions pursuant to the ~~CCASS~~~~HKSCC~~ Rules, such that these exercised options trades can be settled under the CNS System.

Upon confirmation of acceptance for settlement under the CNS System as recorded in the FCS issued by HKSCC on T+1, all exercised options trades will be netted with all other trades executed in the cash market on T by the SEOCH Participant or the CCASS GCP, where applicable, and settled under the CNS System in accordance with the ~~CCASS~~~~HKSCC~~ Rules. SEOCH will deem such exercised options trades settled after acceptance of such trades are confirmed by HKSCC for settlement under the CNS System on T+1.

## **9. MARGIN REQUIREMENT**

### **9.3.1A.1 Margin Treatment of Pending Stock Positions to be Settled via CCASS under the CNS System**

No margin will be required by SEOCH on pending stock positions to be settled via CCASS under the CNS System, but such pending stock positions will be subject to the Marks, Margin and Concentration Collateral requirements of HKSCC pursuant to the ~~CCASS~~-~~HKSCC~~ Rules and the SEOCH Participant in its capacity as a CCASS Clearing Participant or the CCASS GCP, where applicable, will be responsible for the relevant Marks, Margin and Concentration Collateral demanded by HKSCC.

If a SEOCH Participant has made an arrangement with SEOCH to collect and pay Marks, Margin and Concentration Collateral to HKSCC through a designated SEOCH House CCMS Collateral Account in respect of pending stock positions to be settled via CCASS under the CNS System, SEOCH will collect from the SEOCH Participant on T such amount as may be required to satisfy the Marks, Margin and Concentration Collateral notified to SEOCH by HKSCC as the Marks, Margin and Concentration Collateral payable by the SEOCH Participant (in its capacity as a CCASS Clearing Participant ) in respect of these pending stock positions.

The Marks, Margin and Concentration Collateral payable by the SEOCH Participant would be determined by HKSCC pursuant to the ~~CCASS~~-~~HKSCC~~ Rules and would represent any additional Marks, Margin and Concentration Collateral requirement resulting from the netting of the relevant exercised options trades of the SEOCH Participant with the trades to be cleared by the SEOCH Participant under the CNS System (in its capacity as a CCASS Clearing Participant) in the cash market.

Such Marks, Margin and Concentration Collateral will be collected and paid in the relevant currency specified by the SEOCH Participant pursuant to the ~~CCASS~~-~~HKSCC~~ Rules. If the SEOCH Participant does not have a bank account in the relevant currency for money settlement under SEOCH and does not have sufficient amount of the relevant currency in the designated House CCMS Collateral Account of the SEOCH Participant, the Marks, Margin and Concentration Collateral to be collected will, after deducting any excess cash collateral balance in such relevant currency in the designated House CCMS Collateral Account of the SEOCH Participant, be settled in Hong Kong dollars in such equivalent amount as may be converted from the relevant currency based on such exchange rate as may be determined by SEOCH. Unless the amount of excess cash collateral standing to the credit of the designated House CCMS Collateral Account of the SEOCH Participant is sufficient to meet the amount of Marks, Margin and Concentration Collateral required by HKSCC, a demand for the shortfall will be made by SEOCH on T through the money settlement process of SEOCH.

## **14. CAPITAL ADJUSTMENTS**

### **14.4 Capital Adjustment Process Conducted by SEOCH**

For entitlement events, the capital adjustment process will normally be conducted by SEOCH on the night of the last day the share is traded cum-entitlement, which is also two settlement days prior to

CCASS entitlement processing. Pending stock positions arising from exercise / assignment of existing options contracts on or before capital adjustment day of SEOCH will normally be settled in CCASS on or before the day immediately prior to the book-close day. Hence, the relevant SEOCH Participant will receive its entitlement via CCASS pursuant to the [CCASS-HKSCC Operational Procedures](#).

The capital adjustment process conducted by SEOCH for mergers (with share exchange, whether or not with cash offer), stock splits and consolidations will occur on the night before the corporate action effective date announced by the issuer of the underlying securities, which is also the last trading day in the old shares. Pending stock positions arising from exercise / assignment of existing options contracts on or before the capital adjustment day of SEOCH will undergo corporate action adjustment in CCASS pursuant to the [CCASS-HKSCC Operational Procedures](#).

For mergers (with cash offer only) and privatisations, all existing options contracts will be cash settled based on the share offer price / cancellation price immediately after the last day of dealing on the options contracts as announced by the Exchange.

### 14.5.3 Pending Stock Positions

Pursuant to [CCASS-HKSCC Operational Procedures](#), the CCASS conversion cycles will handle the necessary processing with regard to adjustments on pending stock positions resulting from exercise of options contracts on or before the capital adjustment day, SEOCH will not make adjustments to such pending stock positions.