

Operational Clearing Procedures for Options Trading Exchange Participants

11. RESERVE FUND

11.2.2 Variable Contributions

In addition to making the Initial Contributions under 11.2.1, SEOCH may demand Variable Contributions from SEOCH Participants through a “Top-up” process such that the existing size of the Reserve Fund after making the Top-up payment will cover all the risk exposures of the Reserve Fund throughout the most recent 60 Business Days. It is designed to ensure that the existing size of the Reserve Fund, which shall be the sum of the basic elements of the Reserve Fund and the Variable Contributions, remains in proportion with the size and volatility of the market.

First, on the Top-up calculation date, SEOCH calculates the daily risk exposure of the Reserve Fund on each Business Day, which is the greater of the upside or downside risk exposure of the Reserve Fund on that day, and Variable Contributions will be recalculated and demanded such that 90% of the existing size of the Reserve Fund after the injection of the Variable Contributions will cover all the risk exposures of the Reserve Fund throughout the most recent 60 Business Days.

Third, the share of the Variable Contributions that each SEOCH Participant must contribute will be calculated. Each SEOCH Participant's share of the Variable Contributions will be equal to that SEOCH Participant's share of the average **total margin requirement** and **net premium paid** over the most recent 60 Business Days. For the purpose of calculating the Variable Contribution of each SEOCH Participant, the total margin requirement and net premium of all Contracts will be measured in Hong Kong dollars or its non-Hong Kong dollar currency equivalent based on the exchange rate determined by SEOCH for each type of Settlement Currency. Any SEOCH Participant that is declared as a Defaulter on or preceding the Top-up calculation date will be excluded from the calculation.

11.2.3 Maintenance of the Reserve Fund

Ad hoc recalculation of the Variable Contributions, and associated demands for payment, may be made from time to time separate from the regular monthly calculations, if the daily risk exposure of the Reserve Fund calculated on each Business Day exceeds 90% of the existing Reserve Fund size or if SEOCH considers it appropriate to do so in any other circumstances. If the ad hoc recalculation is required, Variable Contributions will be recalculated and demanded such that 90% of the existing size of the Reserve Fund after the injection of the Variable Contributions will cover all the risk exposures of the Reserve Fund throughout the most recent 60 Business Days.

11.3 Methods of Contribution

Fig. 1: An Example of the Top-up Process

This HK\$70 million will be shared among the 100 SEOCH Participants pro rata on the basis of each SEOCH Participant's share of the average total margin requirement and net premium paid over the most recent 60 Business Days.

11.3.1 Contributions in Cash and Other Approved Form of Non-Cash Collateral

SEOCH Participants which are required to top-up their Variable Contributions may pay in cash or in an approved form of non-cash collateral that is readily available and free from encumbrances by the start of trading on the due date specified in the clearing report. For cash contributions, SEOCH will direct debit SEOCH Participants' accounts with the Designated Banks or Settlement Banks by 4:00 p.m. on the first Business Day, unless otherwise specified by SEOCH, after the Top-up calculation date or utilise other means of collection as appropriate.

11.4 Refund of Surplus Variable Contributions

Refund of the surplus of a SEOCH Participant's Variable Contribution can occur after a Top-up calculation has been performed. If, after a Top-up calculation, the SEOCH Participant has more collateral in the Reserve Fund than is required, SEOCH will return the surplus to the SEOCH Participant via the SEOCH Participant's account with the Designated Bank or Settlement Bank or other means as determined by SEOCH on the first Business Day after the Top-up calculation date.

11.6 Limits on Individual SEOCH Participant Reserve Fund Contributions

Any demand for the payment of Reserve Fund Contributions on or preceding the Business Day SEOCH receives a resignation notice from a SEOCH Participant must be met in full by the resigning SEOCH Participant. Any demand made by SEOCH for Replenishment Contribution must also be met in full by a SEOCH Participant unless on the date of demand or the next Business Day after the demand is made, SEOCH receives a resignation notice from the SEOCH Participant, in which case its liability will be limited in the manner prescribed in the immediately following paragraph.

Where a SEOCH Participant has submitted a notice to SEOCH resigning as a SEOCH Participant, its liability to provide Reserve Fund Contributions and to make Replenishment Contributions pursuant to any demands made by SEOCH (i) for Reserve Fund Contributions from the Business Day following receipt of its resignation notice and (ii) for Replenishment Contributions from the Business Day immediately preceding the Business Day on which SEOCH receives the SEOCH Participant's resignation notice shall be limited to an amount which equals the aggregate of its Reserve Fund Contributions requirement on the Business Day SEOCH receives the resignation notice, plus two times such aggregated amount.