

**Options Clearing Rules**

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**CHAPTER 1**

**DEFINITIONS AND INTERPRETATION**

**Definitions**

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

~~“Replenishment  
Contribution Assessments”~~ means ~~a additional contributions to the Reserve Fund  
provided or~~ required to be ~~made~~provided 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;~~

“Base Currency” means Hong Kong dollars, or such other currency as designated by SEOCH and notified to SEOCH Participants from time to time;

“Capped Liability Period” means the period beginning from the date on which SEOCH declares a SEOCH Participant to be a Defaulter for an event of default and ending on the 5th Business Day following such declaration, provided that each time another SEOCH Participant is declared a Defaulter for an event of default during a prevailing Capped Liability Period, such Capped Liability Period shall be extended until the 5th Business Day following each such declaration and no new Capped Liability Period will be established for such declaration;

“Clearing Account Cum MTM(t)” means, with respect to each clearing account and each Business Day t during the Loss Distribution Period, the sum of Currency Cum MTM(t) in all Settlement Currencies in respect of such clearing account;

“Clearing Account Gain” means, with respect to each Clearing Account Gainer and

a Business Day during the Loss Distribution Period, the amount of positive Clearing Account Cum MTM in respect of such Clearing Account Gainer on such Business Day;

“Clearing Account Gainer”

means, with respect to any Business Day during the Loss Distribution Period, each clearing account of a non-defaulting SEOCH Participant in respect of which the value of the Clearing Account Cum MTM on such Business Day is greater than zero;

“Clearing Account Loser”

means, with respect to any Business Day during the Loss Distribution Period, each clearing account of a non-defaulting SEOCH Participant in respect of which the value of the Clearing Account Cum MTM on such Business Day is equal to or less than zero;

“Clearing Service Termination Event”

means an event in relation to the winding down of clearing and settlement services by SEOCH in relation to OCH Contracts pursuant to Clearing Rule 1301;

“Currency Cum MTM(t)”

means, with respect to each Business Day t during the Loss Distribution Period and a Settlement Currency, the sum of Currency MTM Chg relating to the Currency MTM Amount in such Settlement Currency for each Business Day from (and including) the date on which SEOCH declares a SEOCH Participant to be a Defaulter for an event of default to (and including) such Business Day t;

“Currency Cum MTM Flow(t)”

means, with respect to each Business Day t during the Loss Distribution Period and a Settlement Currency, the total sum of Currency MTM Flow which would be a gain to a non-defaulting SEOCH Participant (expressed as a positive number) or a loss to a non-defaulting SEOCH Participant (expressed as a negative number) in such

Settlement Currency from (and including) the date on which SEOCH declares a SEOCH Participant to be a Defaulter for an event of default to (and including) such Business Day t. Currency Cum MTM Flow(t-1) shall be the value for Currency Cum MTM Flow(t) calculated on the Business Day immediately preceding Business Day t during the Loss Distribution Period, provided that where Business Day t is the day of event of default, Currency Cum MTM Flow(t-1) shall be zero;

“Currency MTM Amount”

means, in respect of any Business Day and a Settlement Currency, the aggregated amount of mark-to-market gains or losses in respect of all option positions and pending stock positions of a non-defaulting SEOCH Participant. SEOCH will calculate the mark-to-market gains or losses for each option series for a Business Day (t) as follows:

$\sum$  contract size x [net positions (t) x price (t) – net positions (t-1) x price (t-1)] - net Premium paid – net Settlement Amount paid

where:

net positions refers to net long option positions (expressed as a positive number) or net short option positions (expressed as a negative number) in the case of the options positions; and net pending long stock positions (expressed as a positive number) or net pending short stock positions (expressed as a negative number) in the case of the pending stock positions. For the purpose of this calculation, SEOCH shall calculate the Currency MTM Amount in respect of (i) every option position until the Business Day following the date on which such position is closed or expired; and (ii) every pending stock position until the Business Day immediately

preceding the Settlement Day or in the case of a pending stock position to be settled under the Isolated Trade System, the Settlement Day.

price refers to the fixing price in the case of the options positions; and the market closing price of the underlying security in the case of the pending stock positions

net Premium paid refers to Premium paid less Premium received on such Business Day (t)

net Settlement Amount paid refers to Settlement Amount paid less Settlement Amount received and for the purpose of this calculation, Settlement Amounts calculated to be due to be paid or received as a result of the exercise or assignment of such option positions shall be included in the Currency MTM Amount on the day of the exercise or assignment of such option positions regardless of the fact that they have not yet been paid or received

It would be a gain to a non-defaulting SEOCH Participant (expressed as a positive number) or a loss to a non-defaulting SEOCH Participant (expressed as a negative number) in such Settlement Currency on such Business Day without application of the MTM Gains Haircut; and for the purpose of the calculations and adjustments conducted under the Loss Distribution Process, the gains or losses on settlement of the Identified OCH Contracts will be included;

“Currency MTM Chg(t)” means, with respect to each Business Day t during the Loss Distribution Period and a Settlement Currency, the Currency MTM Amount in such Settlement Currency (converted, where applicable, into the Base Currency at

the exchange rate determined by SEOCH on such Business Day t) which would be a gain to a non-defaulting SEOCH Participant (expressed as a positive number) or a loss to a non-defaulting SEOCH Participant (expressed as a negative number) on such Business Day;

“Currency MTM Flow(t)”

means, with respect to each Business Day t during the Loss Distribution Period and a Settlement Currency, an amount equal to the net Currency MTM Amount in such Settlement Currency for that Business Day after taking into account the amount payable to SEOCH or the amount received from SEOCH pursuant to Clearing Rule 413I(2)(b) or 413I(2)(c);

“Early Termination Date”

means, in respect of an OCH Contract registered in the name of a SEOCH Participant, the date determined as an Early Termination Date for such OCH Contract in accordance with Clearing Rule 723F or 723G, as the case may be. An OCH Contract shall be terminated or novated with effect from the Early Termination Date relating to it;

“event of default”

means an event relating to a SEOCH Participant as referred to in Clearing Rule 701; and in the case of a SEOCH Participant being declared a Defaulter because of an event of default, the date of occurrence of the event of default refers to the date the SEOCH Participant is declared to be a Defaulter;

“Failure to Pay Notice”

means a written notification provided by a SEOCH Participant to SEOCH pursuant to Clearing Rule 723F upon the failure by SEOCH to make, when due, any payment to a SEOCH Participant (other than a Defaulter) under an OCH Contract;

“Former SEOCH Participant”

means, at any time, a person who was a SEOCH Participant but whose participantship had been terminated prior to such time;

“Gainer MTM Flow Adjustment(t)”

means the Gainer MTM Flow Adjustment Base Currency(t) converted into the Settlement Currency of the relevant Currency MTM Amount at the exchange rate determined by SEOCH on Business Day t;

“Gainer MTM Flow Adjustment Base Currency(t)”

means an amount determined in the Base Currency on the relevant Business Day t for each Currency MTM Amount relating to a clearing account as follows:

$Currency\ MTM\ Chg(t) - [Currency\ Cum\ MTM(t) \times (1 - MTM\ Gains\ Haircut(t)) - Currency\ Cum\ MTM\ Flow(t-1)]$

“Identified OCH Contracts”

means the OCH Contracts (including the OCH Contracts of a Defaulter and those of any non-defaulting SEOCH Participants so determined by SEOCH pursuant to Clearing Rule 723B) to be terminated under the contract termination process as referred to in Clearing Rules 723A to 723E;

“Limited Recourse Applicable Percentage”

means, in respect of a Clearing Service Termination Event, a percentage applied by SEOCH to determine the Limited Recourse CP Receivable with respect to a clearing account of a SEOCH Participant and the amount payable by SEOCH in respect of the Reserve Fund Contributions Balance of a SEOCH Participant pursuant to Section 19.1 of the Operational Clearing Procedures;

“Limited Recourse CP Receivable”

means, in respect of a Clearing Service Termination Event, the amount payable by SEOCH to each relevant SEOCH Participant with respect to each of its clearing accounts pursuant to Section 19.1.2.2 of the Operational Clearing Procedures;

“Limited Recourse Final CP Payable” means, in respect of a Clearing Service Termination Event, the final net amount payable by each relevant SEOCH Participant to SEOCH with respect to each of its clearing accounts, after taking into account the operation of Sections 19.1.2.1.i and 19.1.2.1.ii of the Operational Clearing Procedures;

“Limited Recourse Interim CP Payable” means, in respect of a Clearing Service Termination Event, the amount payable by each relevant SEOCH Participant to SEOCH with respect to each of its clearing accounts, after taking into account any Margin Balance applied pursuant to Section 19.1.2.1.i of the Operational Clearing Procedures;

“Loser MTM Flow Adjustment(t)” means the Loser MTM Flow Adjustment Base Currency(t) converted into the Settlement Currency of the relevant Currency MTM Amount at the exchange rate determined by SEOCH on Business Day t;

“Loser MTM Flow Adjustment Base Currency(t)” means an amount determined in the Base Currency on the relevant Business Day t for each Currency MTM Amount relating to a clearing account as follows:  
$$\text{Currency MTM Chg}(t) - [\text{Currency Cum MTM}(t) - \text{Currency Cum MTM Flow}(t-1)]$$

“Loss Distribution Period” means the period beginning from the date on which SEOCH declares a SEOCH Participant to be a Defaulter for an event of default to (but excluding) the Business Day on which all OCH Contracts to which the Defaulter is a party have been successfully closed, sold, given-up or exercised and all receivables, payments and/or delivery obligations in respect of such OCH Contracts have been discharged in full by the relevant party provided that each time another SEOCH Participant is declared a Defaulter for an event of default during a prevailing Loss



Distribution Period, such Loss Distribution Period shall, where applicable, be extended until the Business Day on which all OCH Contracts to which the subsequent Defaulter(s) is/are a party have been successfully closed, sold, given-up or exercised and the related receivables, payments and/or delivery obligations have been discharged in full by the relevant party and no new Loss Distribution Period will be established for such subsequent Defaulter;

“Loss Distribution Process”

means the process of applying any MTM Flow Adjustment to each clearing account of each SEOCH Participant as described in Clearing Rule 413I;

“Margin Balance”

means, in respect of a SEOCH Participant and a clearing account, the aggregate value of Premium, margin and collateral (including any excess collateral) provided by such SEOCH Participant, in each case, as recorded in the corresponding CCMS Collateral Account;

“MTM Amount Shortfall(t)”

means, in respect of Business Day t, the greater of (1) zero and (2) an amount equal to (i) Total Clearing Accounts Cum MTM(t) plus (ii) any costs, interests or other expenses incurred by SEOCH in effecting the closing, sale, giving-up or exercise of any OCH Contract under Clearing Rule 703 less (iii) resources available to SEOCH including those available to be applied under Clearing Rules 703(10) and 413 with respect to all such events of default but excluding any Assessments which have not been deposited with SEOCH by such day;

“MTM Flow Adjustment(t)”

means either the Gainer MTM Flow Adjustment(t) or Loser MTM Flow Adjustment(t), as applicable;

“MTM Gains Haircut(t)”

means, on each Business Day t during the Loss Distribution Period, an amount equal to the (1) MTM Amount Shortfall(t) divided by (2) Total Gains(t),

expressed as a percentage figure;

“Notice of Assessment” means a written notification provided by SEOCH to SEOCH Participants of any demand for Assessments pursuant to Clearing Rule 413E;

“Relevant CP Contracts” means the OCH Contracts of the relevant SEOCH Participant to be terminated under a SEOCH Failure to Pay Event as referred to in Clearing Rule 723F;

“Reserve Fund Contributions Balance” means, on any Business Day, with respect to each SEOCH Participant, the aggregate value of the Initial Contribution and Variable Contribution provided by the SEOCH Participant, as reduced by payments out of the Reserve Fund allocated to such Initial Contribution and/or Variable Contribution, as applicable, in accordance with Clearing Rule 413;

“Reserve Fund Resources” means the Reserve Fund and any other amounts specified as forming part of the Reserve Fund Resources in the Clearing Rules;

“SEOCH Default Applicable Percentage” means, in respect of a SEOCH Failure to Pay Event or a SEOCH Insolvency Event, a percentage applied by SEOCH to determine the SEOCH Default CP Receivable with respect to a clearing account of a SEOCH Participant and the amount payable by SEOCH in respect of the Reserve Fund Contributions Balance of a SEOCH Participant pursuant to Section 20.1 of the Operational Clearing Procedures;

“SEOCH Default CP Receivable” means, in respect of a SEOCH Failure to Pay Event or a SEOCH Insolvency Event, the amount payable by SEOCH to each relevant SEOCH Participant with respect to each of its clearing accounts pursuant to Section 20.1.2.2 of the Operational Clearing Procedures;

<u>“SEOCH Default Final CP Payable”</u>	<u>means, in respect of a SEOCH Failure to Pay Event or a SEOCH Insolvency Event, the final net amount payable by each relevant SEOCH Participant to SEOCH with respect to each of its clearing accounts, after taking into account the operation of Sections 20.1.2.1.i and 20.1.2.1.ii of the Operational Clearing Procedures;</u>
<u>“SEOCH Default Interim CP Payable”</u>	<u>means, in respect of a SEOCH Failure to Pay Event or a SEOCH Insolvency Event, the amount payable by each relevant SEOCH Participant to SEOCH with respect to each of its clearing accounts, after taking into account any Margin Balance applied pursuant to Section 20.1.2.1.i of the Operational Clearing Procedures;</u>
<u>“SEOCH Failure to Pay Event”</u>	<u>means an event arising from the failure of SEOCH to make all relevant payments under an OCH Contract to a SEOCH Participant by the end of the relevant SEOCH Failure to Pay Grace Period, provided that no such event shall occur if (1) such failure to pay arises as a result of technical or administrative reasons beyond the control of SEOCH; or (2) during the SEOCH Failure to Pay Grace Period, SEOCH has exercised its powers under Clearing Rules 723F(3)(a) and/or 723F(3)(b);</u>
<u>“SEOCH Failure to Pay Grace Period”</u>	<u>means the period from (but excluding) the day on which SEOCH receives a Failure to Pay Notice from a SEOCH Participant to (and including) the 21st Business Day following such day;</u>
<u>“SEOCH Insolvency Event”</u>	<u>means an event relating to the insolvency of SEOCH as referred to in Clearing Rule 723G;</u>
<u>“Termination Value Payable”</u>	<u>means, under the contract termination process, the amount payable by each relevant SEOCH Participant to SEOCH with respect to each of its clearing accounts pursuant to</u>

Section 13A.1.1 of the Operational Clearing Procedures;

“Termination Value Receivable” means, under the contract termination process, the amount payable by SEOCH to each relevant SEOCH Participant with respect to each of its clearing accounts pursuant to Section 13A.1.1 of the Operational Clearing Procedures;

“Total Clearing Accounts Cum MTM(t)” means, with respect to any Business Day t during the Loss Distribution Period, the sum of the Total Clearing Accounts Currency Cum MTM(t) in all Settlement Currencies;

“Total Clearing Accounts Currency Cum MTM(t)” means, with respect to each Business Day t during the Loss Distribution Period, the sum of the Total Clearing Accounts Currency MTM for each Business Day from (and including) the date on which SEOCH declares a SEOCH Participant to be a Defaulter for an event of default to (and including) such Business Day t;

“Total Clearing Accounts Currency MTM(t)” means, with respect to each Business Day t during the Loss Distribution Period, the sum of Currency MTM Chg(t) in respect of all clearing accounts of all non-defaulting SEOCH Participants;

“Total Gains(t)” means, with respect to each Business Day t during the Loss Distribution Period, the sum of all Clearing Account Gains in respect of all Clearing Account Gainers on such Business Day t;

“Unadjusted Limited Recourse CP Receivable” means, in respect of a Clearing Service Termination Event, the amount determined to be payable by SEOCH to each relevant SEOCH Participant with respect to each of its clearing accounts, without taking into account any adjustment pursuant to Section 19.1.2.2 of the Operational Clearing Procedures;

“Unadjusted SEOCH Default CP Receivable” means, in respect of a SEOCH Failure to Pay Event or a SEOCH Insolvency Event, the amount determined to be payable by SEOCH to each relevant SEOCH Participant with respect to each of its clearing accounts, without taking into account any adjustment pursuant to Section 20.1.2.2 of the Operational Clearing Procedures;

“Variable Contribution” means (i) 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; (ii) where any Assessment has been demanded by SEOCH, any Assessment provided or required to be provided by the SEOCH Participant; and (iii) where any Voluntary Recap Amount has been requested by SEOCH, any Voluntary Recap Amount provided by the SEOCH Participant which will not be refunded by SEOCH to such SEOCH Participant in accordance with Clearing Rule 413H(4);

“Voluntary Recap Amount” means a voluntary contribution to the Reserve Fund, as requested by SEOCH pursuant to a Voluntary Recap Request Notice;

“Voluntary Recap Request Notice” means a written notification provided by SEOCH pursuant to Clearing Rule 413H to a SEOCH Participant requesting for a Voluntary Recap Amount;

## CHAPTER 2

### CLEARING BY SEOCH

#### Terms of OCH Contracts

205. The obligations of SEOCH to a SEOCH Participant under each OCH Contract shall be limited exclusively to:-

- (1) amounts and securities received or receivable by SEOCH from SEOCH Participants in respect of Premium and delivery obligations following exercise of OCH Contracts and the amounts received by SEOCH from SEOCH Participants on the settlement of any Identified OCH Contract;
- (2) any property including, but not limited to, SEOCH Collateral in respect of margin, Premium, securities and amounts standing to the credit of a Defaulting SEOCH Participant available for the purpose of discharging that SEOCH Participant's obligations to SEOCH;
- (3) the amount from time to time standing to the credit of the Reserve Fund, including the relevant amount received under Clearing Rules 413C and 413H, which is available to support the obligations of SEOCH under that OCH Contract;
- (4) the amount of any guarantees or facilities available to SEOCH and arranged expressly for the purpose of providing financial resources to support the Reserve Fund and which is available to support the obligations of SEOCH under that OCH Contract;
- (5) the amount received pursuant to any claim under any insurance policy taken out by SEOCH for the purpose of providing financial resources to support the Reserve Fund and which is available to support the obligations of SEOCH under that OCH Contract; and
- (6) any amount SEOCH may in its absolute discretion make available to support its obligations out of the retained earnings of SEOCH,
- (7) [Repealed]

and no other assets available to SEOCH shall be applied to meet any such obligations. To the extent that the aggregate of the assets available to SEOCH referred to in sub-paragraphs (1) to (6) above is insufficient at any time to meet the aggregate liability of SEOCH to SEOCH Participants under all OCH Contracts subsisting at any time, each SEOCH Participant to whom SEOCH is

liable shall, subject to Clearing Rules 413I, 723A to 723D, 723F to 723H and 1301 to 1303, only be entitled to receive payment pro rata according to the amount due to him as compared with the aggregate due to all SEOCH Participants, except in exceptional circumstances where SEOCH determines payment will not be pro rata. Subject to Clearing Rules 413I(5), 723E, 723I and 1304, SEOCH shall remain liable on all such OCH Contracts but payment of the balance of such amounts due shall only be made as and when, and to the extent that, the assets referred to in sub-paragraphs (1) to (6) are subsequently available to SEOCH. SEOCH shall only exercise its powers to defer making payment to SEOCH Participants under this Clearing Rule in consultation with the Commission.

## CHAPTER 4

### SEOCH PARTICIPANTS' OBLIGATIONS

#### Continuing Obligations

403. Each SEOCH Participant shall at all times:-

- (5) pay when due all amounts of margin, Premium, payable by him to SEOCH and amounts required by HKSCC including but not limited to Gainer MTM Flow Adjustment in the Loss Distribution Process, Termination Value Payable in the contract termination process, Limited Recourse Interim CP Payable or Limited Recourse Final CP Payable upon a Clearing Service Termination Event and SEOCH Default Interim CP Payable or SEOCH Default Final CP Payable pursuant to Section 20.1 of the Operational Clearing Procedures and the amounts in relation to the settlement under the CNS system of his delivery obligations arising from exercise of OCH Contracts;
- (7) deliver all SEOCH Collateral in respect of its Reserve Fund Contributions and ~~Replenishment Contribution~~ Assessments when due;

#### Reserve Fund Requirements

407. When, in its judgement, it is necessary to do so, SEOCH will re-calculate the Reserve Fund Requirement of each SEOCH Participant. SEOCH will make such recalculations at least monthly, subject to Clearing Rule 413F. SEOCH may re-calculate the Reserve Fund Requirement of one or more SEOCH Participants more frequently than this. Following each such re-calculation, each affected SEOCH Participant will be notified of his re-calculated Reserve Fund Requirement.
408. If for any reason (including due to a recalculation pursuant to Clearing Rule 407 or a replenishment of the Reserve Fund pursuant to Clearing Rule 413F~~or the use of the Reserve Fund pursuant to Clearing Rule 412~~) the value, as determined by SEOCH, of the SEOCH Collateral provided by a SEOCH Participant in respect of its Reserve Fund Contributions is less than the then current Reserve Fund Requirement of that SEOCH Participant, that SEOCH Participant shall deliver additional SEOCH Collateral to SEOCH in accordance with these Clearing Rules.

**Maximum Current Liability to Contribute to the Reserve Fund and Provide Assessments**

411. There shall be no limit on the Reserve Fund Requirement to be maintained by a SEOCH Participant at any given time. A SEOCH Participant's ~~may limit its~~ liability in respect of Assessments and a resigning SEOCH Participant's liability in respect of the Reserve Fund ~~are set out in by resigning as a SEOCH Participant in accordance with~~ Clearing Rules 413CA and 419 to 426 (inclusive).

**Resources which may be appropriated by SEOCH as contributions to Reserve Fund**

- 411A. In the event that payments out of the Reserve Fund under Clearing Rule 413(2a) are required, SEOCH ~~will~~may appropriate ~~any of~~ its resources as contributions to the Reserve Fund. The appropriation should amount to 10% or such other percentage of the Reserve Fund size as SEOCH may determine from time to time.

**SEOCH Use and Order of Application of the Reserve Fund**



413. Without prejudice to SEOCH's rights to draw on any other resources available to the Reserve Fund including those stated in Clearing Rule 205 (4), (5) or (6), the amounts standing to the credit of the Reserve Fund will be applied towards any payment permitted by Clearing Rule 412 in the following order of priority:-

- (1) SEOCH Collateral held by SEOCH in respect of the Reserve Fund Contributions of the Defaulter(s) (if applicable);
- (2) interest income credited to the Reserve Fund;
- (2a) ~~R~~esources appropriated by SEOCH as contributions to the Reserve Fund;
- (3) SEOCH Collateral held by SEOCH in respect of other SEOCH Participants' Initial Contributions;
- (4) SEOCH Collateral held by SEOCH in respect of other SEOCH Participants' Variable Contributions;
- (5) the proceeds of insurance policies arranged pursuant to Clearing Rule 205; and
- (6) the proceeds of guarantees or facilities arranged pursuant to Clearing Rule 205.

SEOCH will notify the affected SEOCH Participants of any amounts applied pursuant to this Clearing Rule and, where applicable, notify SEOCH Participants of any obligations to provide Assessment and deliver additional SEOCH Collateral in respect of their Reserve Fund Requirements pursuant to Clearing Rules 408 and 413C.

413AB. The amount of Initial Contribution and Variable Contribution in respect of each SEOCH Participant to be applied pursuant to Clearing Rules 413 (3) and (4) respectively shall be calculated on a pro rata basis by reference to the

SEOCH Participant's share of the total Initial Contributions or total Variable Contributions, as the case may be, on the Business Day immediately before the start of the Capped Liability Period~~the default~~, excluding the portions contributed by any Defaulter and any SEOCH Participant whose SEOCH Participantship has been effectively terminated at or prior to the start of the Capped Liability Period. Following such application, the Reserve Fund Contributions Balance of each relevant SEOCH Participant shall be reduced by an amount equal to the amount so applied in respect of such SEOCH Participant. Notwithstanding the aforesaid, if ~~on or before~~ at or prior to the date of the default of a Defaulter~~start of the Capped Liability Period~~, the SEOCH Participantship of a SEOCH Participant is effectively terminated, its Initial Contribution and Variable Contribution will not be applied towards the default, and if ~~on or before~~ at or prior to the start of the Capped Liability Period~~date of the default~~, a SEOCH Participant has itself been declared as a Defaulter, its Initial Contribution and Variable Contribution will only be applied towards its own default.

### **Accounts of Reserve Fund**

413A. SEOCH shall maintain a separate record of:-

- (1) all amounts standing to the credit of;
- (2) all resources appropriated or which may under these Clearing Rules be appropriated by SEOCH as contributions to; and
- (3) all guarantees, facilities or policies arranged or taken out for the purpose of providing financial resources to support;

### **Assessments~~Replenishment of Reserve Fund Contributions~~**

413C. Upon the occurrence of an event of default, In circumstances where all or part of the Reserve Fund is~~Initial Contributions and Variable Contributions are~~ applied pursuant to Clearing Rule 413 or SEOCH determines that the resources available to SEOCH under the Reserve Fund and those that may be applied under Clearing Rule 703(10) will not be sufficient to satisfy the

obligations and liabilities of SEOCH in relation to an event of default, SEOCH may demand each, the SEOCH Participant (excluding any SEOCH Participant specified under Clearing Rule 413D) to provide such additional contributions shall on demand by SEOCH provide Replenishment Contribution to the Reserve Fund (i) to ensure that its bring the Reserve Fund Contributions are replenished to the same level as that before any application is made or to be made; and/or (ii) to provide such additional resources contributions as SEOCH may require to meet any obligations and liabilities in relation to an event of default, subject to the limit set out in Clearing Rule 413CA (“Assessments”) that remain outstanding. Any Assessment provided by a SEOCH Participant shall form part of its Reserve Fund Contributions Balance.

413CA. In respect of one or more events of default occurring during a Capped Liability Period, the aggregate liability of a SEOCH Participant to provide Assessments during a Capped Liability Period shall be limited to an amount which is equal to a SEOCH Participant’s Reserve Fund Requirement on the Business Day immediately preceding the start of the Capped Liability Period, plus one time such amount.

413D. Replenishment Contributions Assessments shall not be required from SEOCH Participants which have been declared as a Defaulter on the day such Assessment are demanded or whose SEOCH Participants have been effectively terminated by SEOCH at or prior to the start of the Capped Liability Period on the day such Replenishment Contributions are demanded. For the avoidance of doubt, the obligations and liabilities of a SEOCH Participant to provide Assessments under Clearing Rule 413C in respect of any events of default which occur during a Capped Liability Period which commenced prior to the termination of its SEOCH Participantship shall survive the termination of the SEOCH Participantship notwithstanding the fact that the expiry of such Capped Liability Period occurs after termination, provided that the aggregate liability of the SEOCH Participant shall be limited as provided for in Clearing Rule 413CA.

413E. SEOCH shall notify SEOCH Participants of any demand for Assessments Replenishment Contributions verbally or by issuing a written notice (“Notice of Assessment”) in writing as SEOCH considers appropriate.

SEOCH may demand such ~~Assessments Replenishment Contributions~~ to be satisfied before, after or at the same time that an application is made under Clearing Rule 413. All demands for ~~Assessments Replenishment Contributions~~ must be met by cash payment in Hong Kong dollars or in any other currency prescribed by SEOCH from time to time no later than the first Business Day after the demand is made by SEOCH or within such other time period as may be specified by SEOCH.

### **Replenishment of Reserve Fund**

413F. Following the occurrence of an event of default, any top-up calculation of the Reserve Fund size apart from under Clearing Rule 413C shall be suspended during the relevant Capped Liability Period. Upon the expiry of the relevant Capped Liability Period, SEOCH shall assess the adequacy of the Reserve Fund and recalculate the Reserve Fund Requirement of each SEOCH Participant in accordance with Chapter 11 of the Operational Clearing Procedures. Subject to Clearing Rule 413J, SEOCH will notify the SEOCH Participant of any replenishment amount required as Reserve Fund Contributions as a result of the recalculation. The SEOCH Participant shall make such Reserve Fund Contributions no later than the first Business Day after the date of the notice, or within such other time period as may be specified by SEOCH. Any such Reserve Fund Contributions made by a SEOCH Participant following the expiry of such Capped Liability Period shall only be applied in respect of the events of default which occur after the expiry of the relevant Capped Liability Period and shall not be applied in respect of any event of default that occurred prior to the expiry of such Capped Liability Period.

413G. Following the expiry of a Capped Liability Period following an event of default, if the whole or any part of SEOCH's appropriation to the Reserve Fund is applied in accordance with Clearing Rule 413, SEOCH shall make appropriations for the deficiency of its appropriation to the Reserve Fund following the same replenishment time period as specified in Clearing Rule 413F, subject to the approval of the SEOCH Board and regulatory capital requirements applicable to SEOCH. Any part of SEOCH's appropriation to the Reserve Fund following the expiry of such Capped Liability Period shall

only be applied in respect of the events of default which occur after the expiry of the relevant Capped Liability Period and shall not be applied in respect of any event of default that occurred prior to the expiry of such Capped Liability Period.

### **Voluntary Recapitalization**

413H. (1) If SEOCH determines at any stage that the loss arising from an event of default is expected to exceed the financial resources available including the Reserve Fund and the relevant amount received or to be received under Clearing Rule 413C and those available to be applied under Clearing Rule 703(10), SEOCH may issue a written notice (the “Voluntary Recap Request Notice”) requesting each SEOCH Participant to make a payment of funds (each a “Voluntary Recap Amount”) to SEOCH.

(2) Upon receipt of a Voluntary Recap Request Notice issued by SEOCH in accordance with Clearing Rule 413H(1), a SEOCH Participant may, but is not obliged to, provide its Voluntary Recap Amount to SEOCH within one Business Day following receipt of the Voluntary Recap Request Notice. The Voluntary Recap Amount provided by SEOCH Participants must be met by cash payment in Hong Kong dollars or in any other currency prescribed by SEOCH from time to time. Any Voluntary Recap Amount made by a SEOCH Participant to SEOCH may not be withdrawn.

(3) Any Voluntary Recap Amount received by SEOCH from a SEOCH Participant shall form part of the Reserve Fund Contributions Balance of such SEOCH Participant after such Voluntary Recapitalization is declared successful by SEOCH, and the application of such amount will be subject to Clearing Rule 413.

(4) If the total Voluntary Recap Amount received by SEOCH is less than the aggregate of the Voluntary Recap Amounts requested by SEOCH from the SEOCH Participants, any amounts received will be refunded to the relevant SEOCH Participants on the next Business Day and will not form

part of the Variable Contributions or Reserve Fund Contributions Balances of the relevant SEOCH Participants.

### **Loss Distribution Process**

413I. (1) On each Business Day during the Loss Distribution Period, SEOCH will determine whether the loss resulting from an event of default will exceed the resources available to SEOCH including the relevant amount received under Clearing Rule 413H and those available to be applied pursuant to Clearing Rules 703(10) and 413 with respect to such event of default. If it does, then SEOCH will consult with the Commission and may either invoke the “Loss Distribution Process” set out in Clearing Rule 413I or invoke the Clearing Service Termination Event as set out in Clearing Rules 1301 to 1304.

(2) If the Loss Distribution Process applies, then on each Business Day during the Loss Distribution Period:

(a) SEOCH will determine whether a clearing account registered in the name of a non-defaulting SEOCH Participant is a Clearing Account Gainer or a Clearing Account Loser;

(b) if the clearing account registered in the name of a non-defaulting SEOCH Participant is a Clearing Account Gainer, and the Gainer MTM Flow Adjustment calculated for a Currency MTM Amount in respect of that clearing account for that Business Day is a positive number, the relevant non-defaulting SEOCH Participant shall pay an amount equal to such Gainer MTM Flow Adjustment to SEOCH. If the clearing account registered in the name of a non-defaulting SEOCH Participant is a Clearing Account Gainer and the Gainer MTM Flow Adjustment calculated for a Currency MTM Amount in respect of that clearing account for that Business Day is a negative number, SEOCH shall pay to the relevant non-defaulting SEOCH Participant an amount equal to the absolute value of such Gainer MTM Flow Adjustment; and

(c) if the clearing account registered in the name of a non-defaulting SEOCH Participant is a Clearing Account Loser, SEOCH shall pay to the relevant non-defaulting SEOCH Participant an amount equal to the absolute value of such negative Loser MTM Flow Adjustment calculated for a Currency MTM Amount in respect of that clearing account for that Business Day.

For the purpose of the calculations and adjustments conducted under the Loss Distribution Process, each clearing account of a non-defaulting SEOCH Participant will be treated separately.

(3) On each Business Day during the Loss Distribution Period, SEOCH will apply the exchange rate determined by SEOCH from such source and on such basis as it shall consider appropriate, in making the calculations required to be made under the Loss Distribution Process, including components which relate to payments made, or falling due, on previous days.

(4) On each loss distribution day, SEOCH shall apply set-off with respect to any payment or receipt of any MTM Flow Adjustment on such day against any payments denominated in the same Settlement Currency as such MTM Flow Adjustment payable to, or receivable from, the relevant SEOCH Participant.

(5) Without prejudice to Clearing Rules 205, 723A, 723F, 723G and 1301, in the absence of manifest error, any MTM Flow Adjustment determined by SEOCH shall be final and conclusive. Any application of a Gainer MTM Flow Adjustment resulting in a reduction of payment by SEOCH to a non-defaulting SEOCH Participant shall not constitute a failure to pay by SEOCH.

**Resignation of SEOCH Participantship for limiting liability following the expiry of the Capped Liability Period**

413J. (1) Where a SEOCH Participant wishes to resign its participantship to limit its liability to any subsequent events of default that may occur following the expiry of the applicable Capped Liability Period, it must:

- (a) submit a notice of resignation to SEOCH and receive an acknowledgement from SEOCH.
  - (b) successfully close out, transfer, sell or otherwise discharge its liabilities in respect of all OCH Contracts registered in its house clearing account and any clearing account which is not of a client nature in accordance with the Clearing Rules prior to the expiry of the Capped Liability Period; and
  - (c) either: (i) successfully close out, transfer, sell or otherwise discharge its liabilities in respect of all OCH Contracts registered in its client clearing accounts and any clearing account which is of a client nature in accordance with the Clearing Rules prior to the expiry of the applicable Capped Liability Period or (ii) notify SEOCH that it wishes to extend the period for the winding down of OCH Contracts registered in its client clearing accounts and any clearing account which is of a client nature until the date which falls 5 Business Days from the date of expiry of the applicable Capped Liability Period. If a SEOCH Participant sends a notification pursuant to Clearing Rule 413J(1)(c)(ii) above it must provide collateral, by way of additional margin, which is at least equal to the net projected loss (projected aggregate loss less General Collateral and any margin) arising from such OCH Contracts registered in the client clearing accounts and any clearing account which is of a client nature as communicated by SEOCH until the time at which any remaining open positions in its client clearing accounts and any clearing account which is of a client nature have been successfully closed out, transferred, sold or any liabilities in respect of such open positions have been discharged in accordance with the Clearing Rules.
- (2) If the conditions set out in Clearing Rule 413J(1) are not met, the SEOCH Participant will be subject to the replenishment of Reserve Fund Contributions pursuant to Clearing Rule 413F (and liabilities thereto) upon the expiry of the applicable Capped Liability Period.



**Recoveries**

414. If SEOCH receives any amounts from a Defaulter, or any other amounts howsoever recovered relating to the event of default of the Defaulter, the amounts recovered ~~If any amount paid out of the Reserve Fund pursuant to Clearing Rule 413 is subsequently recovered by SEOCH, SEOCH may credit such amount~~ (less any uncovered costs and expenses of recovery) may, but need not necessarily, be repaid to the relevant SEOCH Participants and SEOCH, subject to the terms of any relevant guarantee, bank facility or policy of insurance to the Reserve Fund. ~~If the amounts recovered are repaid to the relevant SEOCH Participants and SEOCH, it would be~~ in the reverse order of priority and on the same pro rata basis (if applicable) as the order or basis ~~in which the resources of the Reserve Fund were paid out pursuant to Clearing Rules 413 to 413AB,~~ to the amounts that have been utilized and applied to satisfy the liabilities and obligations in relation to an event of default including:

(1) any amount paid out of the Reserve Fund pursuant to Clearing Rules 413 to 413AB;

(2) any Voluntary Recap Amount applied pursuant to Clearing Rule 413H;  
and

(3) any amount of Gainer MTM Flow Adjustment paid by the non-defaulting SEOCH Participants pursuant to Clearing Rules 413I.

It may be a term of any guarantee, facility or insurance policy that recoveries from the Defaulter be applied in a particular fashion other than repaid to the relevant SEOCH Participants or SEOCH, in which case the recoveries shall be applied in accordance with such term ~~in replenishment of the Reserve Fund.~~

To the extent that the amount repaid to SEOCH represents the financial support provided by HKEX, SEOCH will pay the relevant amount received by it to HKEX.

For the avoidance of doubt, a Defaulter shall be liable to reimburse or repay SEOCH in full for:

- (1) any amount paid out of the Reserve Fund pursuant to Clearing Rules 413 to 413AB;
- (2) any Voluntary Recap Amount applied pursuant to Clearing Rule 413H;
- (3) any amount of Gainer MTM Flow Adjustment paid by the non-defaulting SEOCH Participants pursuant to Clearing Rules 413I; and
- (4) any unpaid amount of Termination Value Payable by the Defaulter pursuant to Section 13A.1 of the Operational Clearing Procedures  
as a result of its default.

### **Resignation as a SEOCH Participant**

421. Unless otherwise determined by the SEOCH Board, every SEOCH Participant who gives notice of resignation of its SEOCH Participantship shall:-
- (1) subject to Clearing Rule 413J, continue to be obligated to deliver SEOCH Collateral in respect of its Reserve Fund Requirement pursuant to these Clearing Rules until the effective date of the termination of its SEOCH Participantship. However, a resigning SEOCH Participant's liability in respect of ~~the Reserve Fund Assessments~~ shall be limited to such maximum amount as may be specified in Clearing Rule 413CA and Section 11.6 of the Operational Clearing Procedures;
425. A resigning SEOCH Participant shall be entitled to the redelivery of any SEOCH Collateral provided to SEOCH in respect of its Reserve Fund Contributions subject to, and in accordance with, the provisions of Clearing Rules 722, ~~and 723,~~ 723H and 1303. SEOCH may deliver or return to SEOCH Participant assets in such form and in such amount, as SEOCH deems appropriate, equivalent to the assets recorded as part of its Reserve Fund Contributions Balance.

**CHAPTER 6**  
**RISK MANAGEMENT AND PAYMENT PROCEDURES**

**Collection of Margin, Premium and Settlement Amounts by SEOCH**

- 613A. (1) SEOCH shall be entitled to apply any sums denominated in any currency standing to the credit of any CCMS Collateral Account with SEOCH of a SEOCH Participant in satisfaction of any sum denominated in any currency due or payable by such SEOCH Participant to SEOCH, whether actual or contingent, and whether solely or jointly with any other person, with the exception that credit balances on a client CCMS Collateral Account or an account which is of a client nature may only be applied to meet liabilities arising in respect of any of those accounts.
- (2) For the purpose of this Clearing Rule, SEOCH is authorised to purchase with sums denominated in any currency standing to the credit of any such CCMS Collateral Account such other currencies as may be necessary to effect such application and any agreement relating to such credit balance shall be deemed to incorporate a provision entitling SEOCH so to apply such credit balance whether or not the same is held on any special terms (including where it shall only be repayable at some future date).
- (3) SEOCH shall not be obliged to exercise its rights under this Clearing Rule.

**CHAPTER 7**  
**DEFAULT PROCEDURES**

**Default**

701. In these Clearing Rules, an “event of default” shall mean any event or circumstance which leads SEOCH to determine that a SEOCH Participant is or appears to be unable, or likely to become unable, to meet its obligations under one or more Contracts to which it is party. Without prejudice to the generality

of the foregoing, SEOCH may take the occurrence of any one or more of the following events or circumstances as sufficient grounds for determining that a SEOCH Participant is or appears to be unable, or likely to become unable, so to meet such obligations:-

(3) failure by a SEOCH Participant to pay all SEOCH Collateral in respect of its Reserve Fund Contributions, Assessments or its replenishment of Reserve Fund Contributions~~Replenishment Contribution~~ when due and to maintain the value of its SEOCH Collateral delivered in respect of its Reserve Fund Contributions so it is at least equal to its Reserve Fund Requirement;

(5a) failure by a SEOCH Participant to pay any Gainer MTM Flow Adjustment pursuant to Clearing Rule 413I;

(5b) failure by a SEOCH Participant to pay the Termination Value Payable pursuant to Section 13A.1 of the Operational Clearing Procedures;

(5c) failure by a SEOCH Participant to pay the Limited Recourse Interim CP Payable or Limited Recourse Final CP Payable pursuant to Section 19.1 of the Operational Clearing Procedures;

(5d) failure by a SEOCH Participant to pay the SEOCH Default Interim CP Payable or SEOCH Default Final CP Payable pursuant to Section 20.1 of the Operational Clearing Procedures;

### **Return of Reserve Fund Contributions of an Expelled or Resigning SEOCH Participant**

722. Subject to Clearing Rules 723H and 1303, SEOCH will return to an expelled or resigning SEOCH Participant any SEOCH Collateral standing to its credit in respect of its Reserve Fund Contributions 2 months after the effective date of termination of that SEOCH Participant's SEOCH Participantship. SEOCH may deliver or return to SEOCH Participant assets in such form and in such amount, as SEOCH deems appropriate, equivalent to the assets recorded as part of its Reserve Fund Contributions Balance. SEOCH may:-

- (4) include any monies recovered from Defaulters ~~that have been credited to the Reserve Fund as an expelled or resigning SEOCH Participant's Initial Contribution or Variable Contribution~~ under Clearing Rule 414, as determined on the effective date of termination of its SEOCH Participants by SEOCH.

### **Contract Termination**

723A. Following the occurrence of an event of default, if SEOCH reasonably believes that it will not be able to close out, sell, exercise, transfer and hedge all or any OCH Contracts of the Defaulter within a reasonable time as determined by SEOCH, SEOCH may, without prejudice to Clearing Rules 205, 413I, 723F, 723G and 1301, invoke the contract termination process as provided for in Clearing Rules 723A to 723E in consultation with the Commission.

723B. SEOCH will terminate all remaining OCH Contracts of the Defaulter and will determine which OCH Contracts of the non-defaulting SEOCH Participants shall be terminated under this Clearing Rule (such OCH Contracts of the Defaulter and those of the non-defaulting SEOCH Participants so determined by SEOCH shall collectively be referred to as "Identified OCH Contracts"). SEOCH will notify relevant SEOCH Participants of its determination, including details of the Identified OCH Contracts and the effective date of termination of such Identified OCH Contracts. In making this determination, SEOCH may:

- (1) select those OCH Contracts which are in the same option class as, but whose side is opposite to, the OCH Contracts to which the Defaulter is a party. The OCH Contracts to be terminated shall, to the extent practicable, be allocated among the clearing accounts of the non-defaulting SEOCH Participants holding such OCH Contracts on a pro-rata basis with reference to the OCH Contracts in the relevant option class held by such non-defaulting SEOCH Participants; or
- (2) select some or all of the OCH Contracts in one or more option classes, regardless of whether the side of such OCH Contracts is the same as or

opposite to that of the OCH Contracts to which the Defaulter is a party; or

(3) select all of the OCH Contracts in all option classes which are to be cleared and settled by SEOCH.

Notwithstanding the above, at any time during the contract termination process but prior to the effective date of termination of the relevant Identified OCH Contracts, SEOCH may instead of proceeding with the termination of such OCH Contracts, declare the occurrence of a Clearing Service Termination Event, and in such case the Identified OCH Contracts shall not be terminated in accordance with the contract termination process but shall be terminated in accordance with Clearing Rule 1301.

723C. Upon termination of one or more Identified OCH Contracts under this Clearing Rule, all prevailing obligations of SEOCH and the relevant SEOCH Participant in respect of each such Identified OCH Contract between them (including the obligation to deliver any underlying securities under the Identified OCH Contracts) shall cease and be replaced with the obligation of SEOCH or the relevant SEOCH Participant, as the case may be, to pay the other party with respect to each clearing account registered in the name of such SEOCH Participant a net sum equal to the aggregate termination value of each Identified OCH Contract between them, as determined by SEOCH under Clearing Rule 723D and Section 13A.1 of the Operational Clearing Procedures.

723D. The termination value for each Identified OCH Contract shall be determined based on the fixing price determined in accordance with Section 9.2.1 of the Operational Clearing Procedures at the time of contract termination, or if such fixing price is not available, the price shall be such price as SEOCH may reasonably determine.

723E. Payment by SEOCH of the Termination Value Receivable with respect to each clearing account of each relevant SEOCH Participant arising from its Identified OCH Contracts pursuant to Clearing Rule 723C and Section 13A.1 of the Operational Clearing Procedures discharges in full the obligations of SEOCH in respect of these Identified OCH Contracts and no SEOCH

Participant or client of a SEOCH Participant shall have any recourse against SEOCH or to any fund or other entity, including without limitation any affiliate or recognized exchange controller which is the controller of SEOCH in relation to any Identified OCH Contract.

### **SEOCH Failure to Pay Event**

723F. (1) Notwithstanding Clearing Rule 205, if SEOCH fails to make, when due, any payment to a SEOCH Participant (other than a Defaulter) under an OCH Contract, the relevant SEOCH Participant may provide written notification (the “Failure to Pay Notice”) to SEOCH formally informing SEOCH of such failure pursuant to this Clearing Rule 723F.

(2) A “SEOCH Failure to Pay Event” shall be deemed to occur if after the receipt of the Failure to Pay Notice by SEOCH, SEOCH has not made all relevant payments to the SEOCH Participant by the end of the relevant SEOCH Failure to Pay Grace Period, provided that no SEOCH Failure to Pay Event shall occur if (1) such failure to pay arises as a result of technical or administrative reasons beyond the control of SEOCH; or (2) during the SEOCH Failure to Pay Grace Period, SEOCH has exercised its powers under Clearing Rules 723F(3)(a) and/or 723F(3)(b). The exercise by SEOCH of its rights pursuant to the Loss Distribution Process, a Clearing Service Termination Event or contract termination pursuant to Clearing Rule 723A shall not constitute a SEOCH Failure to Pay Event. During the SEOCH Failure to Pay Grace Period, the relevant SEOCH Participant shall continue to be obliged to pay when due all amounts required by SEOCH in accordance with the Clearing Rules and Operational Clearing Procedures and shall satisfy in full all its other obligations under the Clearing Rules and Operational Clearing Procedures.

(3) During the SEOCH Failure to Pay Grace Period, SEOCH may take the following action or actions:

(a) designate an Early Termination Date in respect of all the OCH Contracts of the relevant SEOCH Participant (each a “Relevant CP

Contract”) by delivering a notice to the relevant SEOCH Participant whereupon all the Relevant CP Contracts shall be novated with effect from the day that falls on the second Business Day following the date of delivery of such notice by SEOCH. Upon the delivery of such notice, the relevant SEOCH Participant agrees that SEOCH shall novate all the Relevant CP Contracts on the designated Early Termination Date by terminating such Relevant CP Contracts and registering in the name of any other SEOCH Participant (other than a Defaulter) OCH Contracts on substantially similar terms as any Relevant CP Contract with the agreement of such other SEOCH Participant, and the provisions as set out in Clearing Rules 723H to 723I shall apply; or

(b) declare and notify all SEOCH Participants of the occurrence of a Clearing Service Termination Event pursuant to the terms set out in Clearing Rule 1301, whether or not SEOCH has, prior to such declaration of Clearing Service Termination Event, exercised its power pursuant to sub-paragraph (a) above. Upon the occurrence of a Clearing Service Termination Event, the clearing and settlement services in relation to OCH Contracts, including the Relevant CP Contracts, will be wound down in accordance with Clearing Rules 1301 to 1304.

(4) Upon the occurrence of a SEOCH Failure to Pay Event, if SEOCH has not taken any action under Clearing Rules 723F(3)(a) or 723F(3)(b) above, the relevant SEOCH Participant may terminate and liquidate all the Relevant CP Contracts by delivering a notice to SEOCH. In the event that the relevant SEOCH Participant delivers a notice to SEOCH to terminate all the Relevant CP Contracts pursuant to this Clearing Rule 723F, SEOCH shall:

(a) terminate all the Relevant CP Contracts on the day that falls on the second Business Day following the date of delivery of such notice by the relevant SEOCH Participant (such day being the “Early Termination Date” for the purpose of this Clearing Rule 723F) by registering in the name of any other SEOCH Participant (other than



a Defaulter) one or more OCH Contracts on substantially similar terms as any Relevant CP Contract with the agreement of such other SEOCH Participant on the Early Termination Date and Clearing Rules 723H to 723I shall apply; or

(b) declare and notify all SEOCH Participants of the occurrence of a Clearing Service Termination Event, upon which the clearing and settlement services in relation to OCH Contracts, including the Relevant CP Contracts, will be wound down in accordance with Clearing Rules 1301 to 1304.

### **SEOCH Insolvency Event**

723G.(1) A “SEOCH Insolvency Event” shall occur if SEOCH voluntarily commences a procedure seeking or proposing liquidation, administration, receivership, judicial management or a scheme of arrangement, or other similar relief with respect to itself or its debts under any bankruptcy, insolvency, regulatory, supervisory or similar law, or if any of the foregoing case or procedure (other than one that is frivolous or vexatious in nature) is commenced in relation to SEOCH by any other person and either:

(a) results in a judgment of insolvency or bankruptcy or the entry of an order for relief or the making of an order for the winding-up or liquidation of SEOCH; or

(b) such case or procedure is not dismissed, discharged, stayed or restrained in each case within 21 Business Days of the institution or presentation thereof.

Upon the occurrence of a SEOCH Insolvency Event, a non-defaulting SEOCH Participant may by written notice to SEOCH declare the SEOCH Insolvency Event and designate an Early Termination Date for the termination and liquidation of all OCH Contracts then registered in its name.

(2) In the event that a non-defaulting SEOCH Participant delivers a notice to SEOCH to terminate all of its OCH Contracts then registered with SEOCH pursuant to Clearing Rule 723G as a result of the occurrence of a SEOCH Insolvency Event, then all OCH Contracts of all SEOCH Participants will be terminated with effect from (and including) the day that falls on the second Business Day following the date of delivery of such notice by the non-defaulting SEOCH Participant (such day being the “Early Termination Date” for the purpose of this Clearing Rule 723G) and Clearing Rules 723H to 723I will apply to each SEOCH Participant. Upon receipt of a notice from a non-defaulting SEOCH Participant declaring the occurrence of a SEOCH Insolvency Event, SEOCH will notify all SEOCH Participants of (1) the occurrence of such event and (2) the Early Termination Date with respect to all OCH Contracts registered in the name of all SEOCH Participants.

#### **Calculations of Net Payments under a SEOCH Failure to Pay Event or a SEOCH Insolvency Event**

723H. (1) Upon the designation of an Early Termination Date pursuant to either Clearing Rule 723F(3) or 723F(4) in respect of a SEOCH Failure to Pay Event or pursuant to Clearing Rule 723G in respect of a SEOCH Insolvency Event, every OCH Contract between SEOCH and the relevant SEOCH Participant shall be terminated and all prevailing obligations of SEOCH and such SEOCH Participant in respect of each such OCH Contract between them (including the obligations to deliver any underlying securities under such OCH Contract) shall cease and be replaced with the obligation of SEOCH or the relevant SEOCH Participant, as the case may be, to pay the other party with respect to each clearing account registered in the name of such SEOCH Participant a net sum which shall take into account the termination value and any unpaid amounts of each such OCH Contract registered in the relevant clearing account as determined by SEOCH under this Clearing Rule and Section 20.1 of Operational Clearing Procedures. The termination value for each OCH Contract shall be determined based on the fixing price determined in accordance with Section 9.2.1 of the Operational Clearing Procedures on the Early Termination Date, or if such fixing price is not available, the

price shall be such price as SEOCH may reasonably determine. SEOCH may also take into account any unpaid amounts that have become due and payable in respect of any OCH Contract on or prior to the designation of the Early Termination Date.

(2) Following the payment by each relevant SEOCH Participant of the SEOCH Default Interim CP Payable or SEOCH Default Final CP Payable with respect to each clearing account of each relevant SEOCH Participant arising from such OCH Contracts, SEOCH shall pay an amount equal to the Margin Balance in respect of a SEOCH Participant to such SEOCH Participant in accordance with Section 20.1 of the Operational Clearing Procedures; and SEOCH shall pay an amount equal to the Reserve Fund Contributions Balance in respect of a SEOCH Participant or Former SEOCH Participant to such SEOCH Participant or Former SEOCH Participant in accordance with Section 20.1 of the Operational Clearing Procedures.

(3) SEOCH will, as soon as reasonably practicable, inform the Commission of the occurrence of a SEOCH Failure to Pay Event or SEOCH Insolvency Event upon becoming aware of the same.

### **Liability of SEOCH under a SEOCH Failure to Pay Event or a SEOCH Insolvency Event**

723I. Notwithstanding the provisions of Clearing Rule 205, settlement (by payment, set-off or otherwise) of the SEOCH Default CP Receivable with respect to the clearing accounts of each relevant SEOCH Participant arising from such OCH Contracts pursuant to Clearing Rule 723H and Section 20.1 of the Operational Clearing Procedures discharges in full the obligations of SEOCH in respect of these OCH Contracts and no SEOCH Participant or client of a SEOCH Participant shall have any recourse against SEOCH or to any fund or other entity, including without limitation any affiliate or recognized exchange controller which is the controller of SEOCH in relation to any OCH Contract once the resources available to SEOCH including those available to be applied under Clearing Rules 703(10) and 413 have been exhausted. In particular, no SEOCH Participant or client of a SEOCH Participant shall be entitled to

instigate any action for the winding-up or the appointment of a receiver or manager over any property of SEOCH.

## **CHAPTER 13**

### **CLEARING SERVICE TERMINATION EVENT**

#### **Clearing Service Termination Event**

1301. Notwithstanding Clearing Rules 205, 723A, 723F and 723G, if SEOCH, in consultation with the Commission, determines at any stage that:

- (1) the losses resulting from one or more events of default occurring within the same Capped Liability Period will exceed the resources available to it including those available to be applied under Clearing Rules 703(10) and 413 with respect to all such events of default; or
- (2) the clearing and settlement services in relation to OCH Contracts shall cease to be provided,

SEOCH shall notify all SEOCH Participants of its determination to cease providing clearing and settlement services in relation to OCH Contracts (a “Clearing Service Termination Event”) and the clearing and settlement services will be wound down in accordance with Clearing Rules 1301 to 1304.

1302. Upon the occurrence of a Clearing Service Termination Event, every OCH Contract between SEOCH and a SEOCH Participant shall be automatically terminated and all prevailing obligations of SEOCH and such SEOCH Participant in respect of each such OCH Contract between them (including the obligations to deliver any underlying securities under such OCH Contract) shall cease and be replaced with the obligation of SEOCH or the relevant SEOCH Participant, as the case may be, to pay the other party with respect to each clearing account registered in the name of such SEOCH Participant a net sum which shall take into account the termination value and any unpaid amounts of each such OCH Contract registered in the relevant clearing account as determined by SEOCH under this Clearing Rule and Section 19.1

of the Operational Clearing Procedures. The termination value for each OCH Contract shall be determined based on the fixing price determined in accordance with Section 9.2.1 of the Operational Clearing Procedures at the time of contract termination, or if such fixing price is not available, the price shall be such price as SEOCH may reasonably determine. SEOCH may also take into account any unpaid amounts that have become due and payable in respect of any OCH Contract on or prior to the occurrence of the Clearing Service Termination Event.

1303. Following the payment by each relevant SEOCH Participant of the Limited Recourse Interim CP Payable or Limited Recourse Final CP Payable with respect to each clearing account of each relevant SEOCH Participant arising from such OCH Contracts, SEOCH shall pay an amount equal to the Margin Balance in respect of a SEOCH Participant to such SEOCH Participant in accordance with Section 19.1 of the Operational Clearing Procedures; and SEOCH shall pay an amount equal to the Reserve Fund Contributions Balance in respect of a SEOCH Participant or Former SEOCH Participant to such SEOCH Participant or Former SEOCH Participant in accordance with Section 19.1 of the Operational Clearing Procedures.

#### **Liability of SEOCH under a Clearing Service Termination Event**

1304. Notwithstanding the provisions of Clearing Rule 205, settlement (by payment, set-off or otherwise) of the Limited Recourse CP Receivable with respect to the clearing accounts of each relevant SEOCH Participant arising from such OCH Contracts pursuant to Clearing Rule 1302 and Section 19.1 of the Operational Clearing Procedures discharges in full the obligations of SEOCH in respect of these OCH Contracts and no SEOCH Participant or client of a SEOCH Participant shall have any recourse against SEOCH or to any fund or other entity, including without limitation any affiliate or recognized exchange controller which is the controller of SEOCH in relation to any OCH Contract once the resources available to SEOCH including those available to be applied under Clearing Rules 703(10) and 413 have been exhausted. In particular, no SEOCH Participant or client of a SEOCH Participant shall be entitled to instigate any action for the winding-up or the appointment of a receiver or manager over any property of SEOCH.