

Options Clearing Rules

CHAPTER 1

DEFINITIONS AND INTERPRETATION

Definitions

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

<u>“Adjusted Capital”</u>	<u>in respect of a GCP which is a Registered Institution, means the minimum of its: (i) High Quality Liquid Assets - Total Net Cash Outflows over the next 30 calendar days (in each case as described in the latest financial information and accounts supplied to SEOCH under Clearing Rule 403H) and (ii) Tier 1 capital;</u>
<u>“Registered Institution”</u>	<u>means an authorized institution under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) which is registered to carry on Type 1 regulated activities under the Securities and Futures Ordinance;</u>
<u>“Securities and Futures Ordinance”</u>	<u>means the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);</u>
<u>“Tier 1 capital”</u>	<u>has the same meaning as set out in the Banking (Capital) Rules (Chapter 155L of the Laws of Hong Kong);</u>

CHAPTER 3

SEOCH PARTICIPANTSHIP

Applications

305. Every applicant who applies for admission as a SEOCH Participant shall do so under the same name as that under which it is registered as an Options Trading Exchange Participant or, in the case of a Registered Institution registered as a GCP, the same name as that under which it is registered under the Securities and Futures Ordinance.

CHAPTER 4

SEOCH PARTICIPANTS' OBLIGATIONS

Compliance with the Clearing Rules

401. Each SEOCH Participant shall at all times:-

- (1) adhere strictly to, and be bound by, these Clearing Rules, the Operational Clearing Procedures and any conditions set out in the notice of approval of its SEOCH Participants; and
- (2) comply with the decisions, directions, directives, determinations, findings of fact and/or interpretation of the Board, the SEOCH Board and/or any other person or body of persons in the exercise or performance of any right, power, privilege, discretion, function, duty or obligation conferred on them by or pursuant to these Clearing Rules, the Operational Clearing Procedures, ~~the Exchange Rules~~ and, to the extent applicable, the Exchange Rules and the CCASS Rules.

Continuing Obligations

402. Each SEOCH Participant shall at all times, unless it is a GCP which is a Registered Institution, comply with the Financial Resources Rules and each SEOCH Participant shall comply at all times where applicable with the applicable financial resources requirements prescribed under Clearing Rule 403(9), 403(9)(A) or 403A.

403. Each SEOCH Participant shall at all times:-

- (1) unless it is a GCP which is a Registered Institution, be in good standing as an Exchange Participant and be in compliance with the Exchange Rules;
- (2) unless it is a GCP which is a Registered Institution, be in good standing as an Options Trading Exchange Participant and be in compliance with the Options Trading Rules;
- (2A) if it is a GCP which is a Registered Institution, be in good standing as a Registered Institution, and demonstrate to the satisfaction of SEOCH its ability to manage the portfolio of a defaulting NCP for which it clears;
- (9) unless it is a GCP which is a Registered Institution and notwithstanding Clearing Rule 402, have liquid capital of no less than:-
 - (a) its required liquid capital under the Financial Resources Rules; or

(b) the following amount, as appropriate:-

- (i) HK\$20,000,000 if a GCP; or
- (ii) HK\$5,000,000 if a Direct Clearing Participant,

whichever is the greater;

(9A) if it is a GCP which is a Registered Institution, have Tier 1 capital of not less than HK\$ 390 million;

- (13) ~~keep/maintain accurate/daily all books, records or documents relating to each of all Contracts registered in its name to which it is or has been party for the term of such Contract and for at least seven years following the termination of each such Contract,~~ and of its Exchange Traded Options Business and make such regular financial and other returns as may from time to time be required by the Commission;

403A. Notwithstanding the Financial Resources Rules and Clearing Rules 403(9) and 403(9)(A), SEOCH may increase the requirements thereunder in respect of any SEOCH Participant to suit the circumstances of a particular case or of SEOCH Participants generally, if it deems that circumstances so justify. Such increased requirements may be subsequently varied by SEOCH as various circumstances may exist which require SEOCH to make ad hoc decisions. However, every SEOCH Participant, unless it is a GCP which is a Registered Institution, must still comply with the Financial Resources Rules.

403D. ~~If~~ In respect of any SEOCH Participant, other than a GCP which is a Registered Institution, if any discrepancy exists between the level of liquid capital or other financial resources requirements as set forth or determined by SEOCH pursuant to these Clearing Rules and that set forth in the Financial Resources Rules, the level which is higher or more stringent shall prevail.

403F. Each SEOCH Participant shall provide to SEOCH:

- (1) as soon as reasonably practicable subsequent to any reorganisation of its corporate group, an updated group organisation chart;
- (2) on an annual basis, a list of each of its direct and indirect shareholders holding 10% or more interest in the share capital or voting rights of the SEOCH Participant;
- (3) as soon as reasonably practicable following a change (direct or indirect) affecting 10% or more in the share capital or voting rights of the SEOCH Participant (including any change in the interest of an existing shareholder who holds an interest (direct or indirect) of 10% or more in the share capital or voting rights of the SEOCH Participant and any new shareholder acquiring an interest (direct or indirect) of 10% or more in the share

capital or voting rights of the SEOCH Participant), the relevant information setting out such change; and

(4) within the time frame specified by SEOCH, such information as SEOCH may request from time to time, including changes to its financial condition.

403G. Each GCP which is a Registered Institution shall notify SEOCH in writing without delay providing full particulars known to it of:

(1) any failure to maintain Tier 1 capital in an amount not less than that set out in Clearing Rule 403(9)(A);

(2) a decrease in Tier 1 capital by more than 10% from the amount of Tier 1 capital shown on its most recent financial information as provided to SEOCH pursuant to Clearing Rule 403H;

(3) any events or matters which relate to its clearing activities and exposure to general and financial risks as from time to time specified in the Clearing Rules or as SEOCH may from time to time specify or notify to the GCP;

(4) any material breach, infringement of or non-compliance with any provisions of the Clearing Rules, or where it has reason to suspect any such breach, infringement or non-compliance whether by itself, or any other persons acting on its behalf; and

(5) within the time frame specified by SEOCH, submit to SEOCH such statements, books, records, accounts, other documents or information which relate to its clearing activities or its exposure to general and financial risks as SEOCH may reasonably demand, and shall promptly respond to all queries from SEOCH.

403H. Each GCP which is a Registered Institution must provide the following information to SEOCH:

(1) audited financial statements and audited consolidated financial statements, including balance sheet and profit and loss accounts, with the auditor's report drawn up in accordance with applicable law and accounting standards within 120 days of the end of the GCP's fiscal year;

(2) quarterly balance sheet and profit and loss statements that are signed by authorized signatory or signatories of such GCP, drawn up in accordance with applicable law and accounting standards, within 30 days of its quarter-end date, together with evidence of signing authority and specimen signatures. Save and except for any changes made to a GCP's list of authorized signatory(ies), a GCP is only required to provide evidence of signing authority and specimen signatures for the first time its quarterly balance sheet and profit and loss statements are delivered to SEOCH;

- (3) copies of all financial returns made by a GCP to its regulator as soon as reasonably practicable following such returns having been submitted to the relevant regulator; and
- (4) such financial or other relevant information which relates to the GCP's clearing activities or its exposure to general and financial risks, in addition to what is required by this Clearing Rule 403H, as may be requested by SEOCH at its reasonable discretion from time to time.

Power of SEOCH to Modify the Terms of Continued Participants

442. SEOCH may form the view that its best interests are served by a SEOCH Participant's continued SEOCH Participants being conditional on that SEOCH Participant meeting new financial or operational requirements including but not limited to increased liquid capital (or Tier 1 capital in the case of a GCP which is a Registered Institution), Reserve Fund Requirement or changes to its internal operations in terms of personnel or facilities. Each SEOCH Participant instructed to comply with such special requirements shall comply within SEOCH's stated time frame with any instructions made pursuant to this Clearing Rule.

CHAPTER 6

RISK MANAGEMENT AND PAYMENT PROCEDURES

Position Limits

626. In deciding whether or not to exercise its powers pursuant to Clearing Rule 624, SEOCH shall have regard to any matters it considers to be appropriate, including the liquid capital (or, in the case of a GCP which is a Registered Institution, the Adjusted Capital) required to be maintained by each SEOCH Participant who would be affected, each such SEOCH Participant's actual level of liquid capital (or, in the case of a GCP which is a Registered Institution, Adjusted Capital) and the volume of clearing business currently conducted by each such SEOCH Participant.
627. If SEOCH forms the view that any position limits imposed might be relaxed or lifted if the liquid capital (or, in the case of a GCP which is a Registered Institution, the Adjusted Capital) of a SEOCH Participant were to be increased, it will notify that SEOCH Participant of the same in order to give that SEOCH Participant an opportunity to reorganise its affairs so as to increase its liquid capital (or, in the case of a GCP which is a Registered Institution, its Adjusted Capital) accordingly and may stipulate the position limits which apply pending such reorganisation.

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:-

(7a) in the case of a GCP which is a Registered Institution, its failure to maintain, or the suspension of, its registration as a Registered Institution with the Commission;

(9) ~~failure by~~ in respect of a SEOCH Participant which is also a participant or member of any clearing and settlement system operated by HKEX or any of its affiliates:

(a) failure to meet any obligation owed by it to the central counterparty or operator of such system;

(b) breach of the rules or terms of participation or membership of such system; or

(c) declaration of default by, or suspension or expulsion from participation or membership of such system by the central counterparty-CCASS Clearing Participant to meet any obligation to HKSCC or, if it is also an HKCC Participant, HKCC when due;

(9b) failure by a GCP which is a Registered Institution to demonstrate, to the satisfaction of SEOCH, its ability to manage the portfolio of a defaulting NCP for which it clears. Such capability might include, for example, having a valid, binding and effective Clearing Agreement with more than one NCP for which it provides clearing services which permits such GCP to close out the OCH Contacts of an NCP in the event of a default by such NCP under the Options Trading Rules;

(12) where the Exchange determines that an event of default has occurred in relation to a SEOCH Participant under the Options Trading Rules if it is an Options Trading Exchange Participant or an event of incapacity under the Exchange Rules if it is an Exchange Participant, ~~or, if the SEOCH Participant is also an HKCC Participant, where HKCC determines that an event of default has occurred in relation to the SEOCH Participant in its capacity as an HKCC Participant under the HKCC Rules;~~
or