

# OPTIONS CLEARING RULES

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## CHAPTER 1

### DEFINITIONS AND INTERPRETATION

#### Definitions

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

"Adjusted Capital"	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;
"affiliate"	has the same meaning as in the Options Trading Rules;
"Articles"	has the same meaning as in the Exchange Rules;
"Assessments"	means additional contributions to the Reserve Fund provided or required to be provided by a SEOCH Participant pursuant to Clearing Rules 413C to 413E (inclusive);
"Authorized Person"	has the same meaning as in the Options Trading Rules;
"Base Currency"	means Hong Kong dollars, or such other currency as designated by SEOCH and notified to SEOCH Participants from time to time;
"Bank Business Day"	means, in relation to a jurisdiction, any day (except Saturdays, Sundays, and public holidays) on which banks in that jurisdiction are open for business;
"Block Trade"	has the same meaning as in the Options Trading Rules;
"Board"	has the same meaning as in the Exchange Rules;
"Business Day"	means a day on which the Exchange is open for trading stock options;
"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;
"CCASS"	has the same meaning as in the Exchange Rules;

“CCASS Clearing Agreement”	has the same meaning as in the Exchange Rules;
“CCASS Clearing Participant”	has the same meaning as in the Exchange Rules;
“CCASS DCP”	has the same meaning as in the Exchange Rules;
“CCASS GCP”	has the same meaning as in the Exchange Rules;
“CCMS”	means the Common Collateral Management System, a common sub-system of CCASS and DCASS, operated by HKSCC, HKCC and SEOCH, which enables SEOCH Participants to manage their collateral paid or delivered to SEOCH;
“CCMS Collateral Account”	means an account established in CCMS for each SEOCH Participant for debiting and crediting collateral. For the purposes of these Clearing Rules and the Operational Clearing Procedures, unless otherwise specified, the term “CCMS Collateral Account” does not include an account established in CCMS by HKSCC or by HKCC under their respective rules;
“CCMS Terminal User Guide”	means the manual entitled “CCMS Terminal User Guide” relating to the operation of CCMS, as amended from time to time by SEOCH;
“Chairman of the SEOCH Board”	means the person from time to time holding the office of Chairman of the SEOCH Board or his designee;
“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 Agreement”	has the same meaning as in the Options Trading Rules;

"Clearing Rules"	means these rules of SEOCH, as from time to time in effect;
"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;
"Client Contract"	has the same meaning as in the Options Trading Rules;
"closing contract"	has the same meaning as in the Options Trading Rules;
"CNS System"	has the same meaning as in the HKSCC Rules;
"Commission"	has the same meaning as in the Exchange Rules;
"Contract"	has the same meaning as in the Options Trading Rules;
"controller"	has the same meaning as in Part III of the Securities and Futures Ordinance;
"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 of the Contract"	means the currency in which a Contract is traded;

“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:

$$\Sigma \text{ contract size} \times [\text{net positions (t)} \times \text{price (t)} - \text{net positions (t-1)} \times \text{price (t-1)}] - \text{net Premium paid} - \text{net Settlement Amount paid}$$

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);
"Daily Margin"	means the aggregate amount determined by SEOCH after System Closure on each trading day to be payable in respect of a SEOCH Participant’s open positions and delivery obligations as determined by SEOCH, and for the purposes of the Options Trading Rules, these Clearing Rules and the Operational Clearing Procedures, references to “Daily Margin” include, unless the context requires otherwise, any additional margin payable by a SEOCH Participant under 9.2.4, 9.2.5 and 12.5 of the Operational Clearing Procedure;
“DCASS”	means the Derivatives Clearing and Settlement System operated by SEOCH and HKCC;
“DCASS Agreement”	means the subscription and license agreement in such form as may be prescribed by SEOCH from time to time and which is entered into between SEOCH and a SEOCH Participant entitling the SEOCH Participant to participate in DCASS in accordance with Chapter 11;
“DCASS User Guide”	means the manual entitled “DCASS User Guide” relating to the operation of DCASS via online access, as amended from time to time by SEOCH;
“Default Information”	means any information provided by SEOCH to a Receiving SEOCH Participant relating to a Defaulting SEOCH Participant including any information given relating to any action carried out pursuant to Clearing Rule 703;
“Defaulter”	means a Defaulting SEOCH Participant which has been declared as a Defaulter by SEOCH pursuant to Clearing Rule 703A;
“Defaulting SEOCH Participant”	means a SEOCH Participant that gives rise to an event of default pursuant to Clearing Rule 701;



"delivery obligation"	means an obligation arising as a result of the exercise of a Contract;
"Designated Bank"	means a bank designated by a SEOCH Participant and appointed by SEOCH from time to time as being eligible for money settlements in relation to clearing services provided by SEOCH through fund transfers to and from a Settlement Bank;
"Direct Clearing Member"	means an SEOCH Member registered as a direct clearing member pursuant to these Clearing Rules effective immediately prior to the Scheme Effective Date;
"Direct Clearing Participant"	means a SEOCH Participant registered as a Direct Clearing Participant pursuant to Chapter 3 of these Clearing Rules, and "Direct Clearing Participanship" shall be construed accordingly;
"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;
"Error Trade"	has the same meaning as in the Options Trading Rules;
"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;
"Exchange"	has the same meaning as in the Exchange Rules;
"Exchange Participant"	has the same meaning as in the Options Trading Rules;
"Exchange Rules"	has the same meaning as in the Options Trading Rules;
"Exchange Traded Options Business"	has the same meaning as in the Options Trading Rules;
"Exchange Trading System"	means the automatic order matching and execution system as installed and operated by the Exchange for securities trading;

“Extreme Conditions”	means the occurrence of “extreme conditions” as announced by any government authority of Hong Kong due to serious disruption of public transport services, extensive flooding, major landslides, large-scale power outage or any other adverse conditions before Typhoon Signal No. 8 or above is replaced with Typhoon Signal No. 3 or below;
“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;
"Fee Schedule"	means the lists of fees attached to the Operational Trading Procedures and the Operational Clearing Procedures;
"Financial Resources Rules"	has the same meaning as in the Exchange Rules;
“Former SEOCH Participant”	means, at any time, a person who was a SEOCH Participant but whose participation 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: $\text{Currency MTM Chg}(t) - [\text{Currency Cum MTM}(t) \times (1 - \text{MTM Gains Haircut}(t)) - \text{Currency Cum MTM Flow}(t-1)]$
"GCM"	means an SEOCH Member registered as a general clearing member pursuant to the Clearing Rules effective immediately prior to the Scheme Effective Date;
"GCP"	means a SEOCH Participant registered as a General Clearing Participant pursuant to Chapter 3 of these Clearing Rules;
“General Collateral”	means collateral (other than Specific Securities Collateral and To-be-Released collateral) in a CCMS Collateral Account that can be used to cover margin requirement;
"give-up"	has the same meaning as in the Options Trading Rules;
“HKATS”	has the same meaning as in the Options Trading Rules;
“HKATS Risk Functions”	has the same meaning as in the Options Trading Rules;

"HKCC"	means HKFE Clearing Corporation Limited;
"HKCC Participant"	means a person duly registered as a participant of HKCC under one of the categories of participantship specified in the HKCC Rules;
"HKCC Rules"	means the rules and procedures of HKCC, as from time to time in effect;
"HKEX"	means Hong Kong Exchanges and Clearing Limited;
"HKEX staff" or "HKEX's staff"	means staff of HKEX or staff of a company of which HKEX is a controller, including without limitation, staff of the Exchange;
"HKEX website"	means the official website of HKEX at <a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a> or at such other website address specified by HKEX from time to time;
"HKFE"	has the same meaning as in the Options Trading Rules;
"HKSCC"	has the same meaning as in the Exchange Rules;
"HKSCC Rules"	has the same meaning as in the Exchange Rules;
"Hong Kong dollars" or "HK\$"	has the same meaning as in the Options Trading Rules;
"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;
"Initial Contribution"	means an amount of SEOCH Collateral required to be delivered by a SEOCH Participant in respect of the Reserve Fund pursuant to Clearing Rule 310;
"initial margin requirement"	has the same meaning as in the Exchange Rules;
"Intra-day Margin"	means an amount demanded by SEOCH pursuant to these Clearing Rules and which is required to be satisfied within one hour of such demand;
"Isolated Trades System"	has the same meaning as in the HKSCC Rules;
"Last Exercise Day"	has the same meaning as in the Standard Contract;

“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;
"liquid capital"	has the meaning assigned to it by the Financial Resources Rules;
“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: Currency MTM Chg(t) – [Currency Cum MTM(t) – 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"	has the same meaning as in the Options Trading Rules;
“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;
“Marks, Margin and Concentration Collateral”	has the same meaning as “Mark”, “Margin” and “Concentration Collateral” in the HKSCC Rules collectively;
“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;
"NCP"	has the same meaning as in the Options Trading Rules;
"NCP Contract"	means a contract between a GCP and an NCP made pursuant to these Clearing Rules;
"Negative Interest Rate Currency"	means a currency in respect of which its central bank or other relevant authority has adopted a negative interest rate policy and is specified by SEOCH as such;
"Notice of Assessment"	means a written notification provided by SEOCH to SEOCH Participants of any demand for Assessments pursuant to Clearing Rule 413E;
"OCH Contract"	means a contract between SEOCH and a SEOCH Participant pursuant to a novation in accordance with these Clearing Rules;
"open position"	has the same meaning as in the Options Trading Rules;
"opening contract"	has the same meaning as in the Options Trading Rules;
"Operational Clearing Procedures"	means the practices, procedures and administrative requirements prescribed by SEOCH from time to time in effect relating to the Options Clearing System and clearing services provided by SEOCH;
"option class"	has the same meaning as in the Options Trading Rules;
"option series"	has the same meaning as in the Options Trading Rules;
"Options Clearing System"	has the same meaning as in the Options Trading Rules;
"Options Contract"	has the same meaning as in the Options Trading Rules;
"Options System"	has the same meaning as in the Options Trading Rules;
"Options System Operator"	has the same meaning as in the Options Trading Rules;
"Options Trading Exchange Participant"	has the same meaning as in the Options Trading Rules;

"Options Trading Rules"	Means the options trading rules of the Exchange, as from time to time in effect;
"Options Trading System"	has the same meaning as in the Options Trading Rules;
"order"	has the same meaning as in the Options Trading Rules;
"Participant Admission Appeals Committee"	means the committee convened to hear any appeal against the decisions by the SEOCH Board on any application to admit as a SEOCH Participant;
"Permitted Purpose"	means any purpose, the objective of which is to allow the Receiving SEOCH Participant to assist SEOCH in any actions SEOCH chooses to take pursuant to Clearing Rule 703;
"person"	has the same meaning as in the Options Trading Rules;
"Premium"	has the same meaning as in the Options Trading Rules;
"Prescribed Risk Controls"	has the same meaning as in the Options Trading Rules;
"Receiving Clearing Participant"	has the meaning as defined in Clearing Rule 708A(a);
"Receiving SEOCH Participant Affiliates"	means, in relation to a Receiving SEOCH Participant, any subsidiary or holding company, or a subsidiary of a holding company of that Receiving SEOCH Participant. For the purposes of this definition, the terms "holding company" and "subsidiary" shall bear the same respective meanings herein as in the Companies Ordinance (Chapter 622 of the Laws of Hong Kong);
"recognized exchange controller"	has the same meaning as in the Securities and Futures Ordinance;
"Registered Institution"	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;
"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;
"Renminbi" or "RMB"	has the same meaning as in the Options Trading Rules;
"Reserve Fund"	means the fund provided for in Chapter 4 of these Clearing Rules;

“Reserve Fund Contributions”	means, in respect of a SEOCH Participant, both its Initial Contribution and Variable Contribution;
“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 Requirement"	means, at any given time, the amount required to be contributed to the Reserve Fund by a SEOCH Participant pursuant to Chapter 4 of these Clearing Rules;
“Reserve Fund Resources”	means the Reserve Fund and any other amounts specified as forming part of the Reserve Fund Resources in the Clearing Rules;
“Reserve Fund Risk Predefined Limit”	means an amount equal to 50% of the Reserve Fund Threshold or such other percentage as SEOCH deems appropriate from time to time;
“Reserve Fund Threshold”	means the Reserve Fund size prescribed by SEOCH from time to time pursuant to Clearing Rule 404B;
"Scheme Effective Date"	has the same meaning as in the Exchange Rules;
"securities"	has the same meaning as in the Options Trading Rules;
“Securities and Futures Ordinance”	means the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
"SEOCH"	has the same meaning as in the Options Trading Rules;
"SEOCH Board"	means the board of directors of SEOCH and, where the context so permits, any committee of that board;
"SEOCH Collateral"	means money, bankers' drafts, bank cashiers' orders, securities and other property as may, from time to time, be so designated by the SEOCH Board, in each case in such form as may be required by the SEOCH Board;
“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;
“SEOCH Default Final CP Payable”	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;
“SEOCH Default Interim CP Payable”	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;
“SEOCH Failure to Pay Event”	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);
“SEOCH Failure to Pay Grace Period”	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;
“SEOCH Insolvency Event”	means an event relating to the insolvency of SEOCH as referred to in Clearing Rule 723G;
“SEOCH Member”	means a person who is duly registered under one of the categories of SEOCH membership set out in the Clearing Rules effective immediately prior to the Scheme Effective Date;
“SEOCH Participant”	means a person who is duly registered, pursuant to Chapter 3 of these Clearing Rules, under one of the categories of SEOCH Participantship set out in Clearing Rule 302, and “SEOCH Participantship” shall be construed accordingly;
“Settlement Amount”	has the same meaning as in the Standard Contract;

“Settlement Bank”	means a bank appointed by SEOCH from time to time as being eligible for money settlements in relation to clearing services provided by SEOCH through either internal fund transfers or fund transfers to and from a Designated Bank;
“Settlement Currency”	means the currency in which a Contract shall be settled, which currency shall be the Currency of the Contract unless otherwise specified by SEOCH or the Exchange;
“Settlement Day”	has the same meaning as in the HKSCC Rules;
“Special Block Trade Margin”	means the margin required by SEOCH pursuant to Clearing Rule 615A;
“Specific Securities Collateral”	means collateral in a CCMS Collateral Account that is used to cover short call positions to exclude the covered short call positions from calculation of margin requirement and that is provided by a SEOCH Participant to SEOCH in the form of the underlying securities of such positions;
“Standard Contract”	has the same meaning as in the Options Trading Rules;
“Stock Collateral Control Account”	bears the same meaning as in the HKSCC Rules;
“Stock Exchange Trading Right”	has the same meaning as in the Exchange Rules;
“System”	has the same meaning as in the Exchange Rules;
“System Input Cutoff Time”	means 6:45 p.m. or such other time after the close of trading from time to time prescribed by SEOCH as the system input cutoff time of DCASS on each Business Day;
“Tax Information Exchange Framework”	means (i) sections 1471 to 1474 of the United States Internal Revenue Code of 1986, as amended (the “Code”) (ii) any similar or successor legislation to (i) introduced by the United States, (iii) any agreement described in section 1471(b) of the Code, (iv) any regulations or guidance pursuant to any of the foregoing, (v) any official interpretations of any of the foregoing, (vi) any intergovernmental agreement to facilitate the implementation of any of the foregoing (an “ <b>IGA</b> ”), or (vii) any law implementing an IGA;
“Termination Value Payable”	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 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;
“Tier 1 capital”	has the same meaning as set out in the Banking (Capital) Rules (Chapter 155L of the Laws of Hong Kong);
“To-be-Released collateral”	means the collateral in a CCMS Collateral Account resulting from the decovering of covered calls that can neither be withdrawn by a SEOCH Participant nor be used to cover margin requirement but has priority over General Collateral for the purpose of covering call requests;
“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;
"total liabilities"	shall be construed in the same way as it is to be construed under the Financial Resources Rules;
"trade"	has the same meaning as in the Options Trading Rules;
"trading day"	has the same meaning as in the Exchange Rules;
“Transaction Register”	has the same meaning as in the Options Trading Rules;
“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;
“Withholding Tax”	means any withholding or deduction pursuant to the Tax Information Exchange Framework;
“Year 2000 Compliant”	means that neither performance nor functionality of any system is affected by dates prior to, during and after the Year 2000. In particular : no value for current date will cause any interruption in operation; date-based functionality must behave consistently for dates prior to, during and after Year 2000; in all interfaces and data storage, the century in any date must be specified either explicitly or by unambiguous algorithms or inference rules; and Year 2000 must be recognised as a leap year.

### **Interpretation**

102. Where the context so permits, words importing the singular number include the plural and vice versa and words importing the masculine gender shall include the feminine and neuter genders and vice versa.
103. Subject to Clearing Rule 101, any definitions of words defined in the Exchange Rules, the Options Trading Rules, the HKSCC Rules, the Securities and Futures Ordinance, the Companies Ordinance or the Articles shall, if not inconsistent with the subject or context, apply to these Clearing Rules.
- 103A. References to any law or regulation in these Clearing Rules shall be construed as references to such law or regulation as in force from time to time.
104. The headings shall not affect the construction hereof.

105. The interpretation by SEOCH of the Clearing Rules and the Operational Clearing Procedures shall be final, conclusive and binding on all SEOCH Participants and the parties to all Contracts.

#### **Amendment**

106. Subject to the Securities and Futures Ordinance and the Articles of Association of SEOCH, the SEOCH Board shall have the power to add to, vary, repeal, enforce or waive any of these Clearing Rules.

#### **Exclusion of Liability**

- 107A. The Options System is complex, and SEOCH, the Exchange, HKFE, HKCC and a recognized exchange controller which is the controller of SEOCH, do not accept any liability whatsoever, and no claim may be brought against any of them or their respective employees, in respect of any error in, or interruption or suspension of the operation of, the Options System, except in the case of wilful misconduct. In particular, neither SEOCH, the Exchange, HKFE, HKCC, a recognized exchange controller which is the controller of SEOCH, nor any person from whom SEOCH, the Exchange, HKFE, HKCC or a recognized exchange controller which is the controller of SEOCH has obtained a licence, directly or indirectly, in connection with use of the Options System shall have any liability in connection with, or arising out of, any ability or inability to use the computer programs involved in the functioning of the Options System (whether based in contract, tort, misrepresentation, warranty or other legal or equitable grounds and without regard to the circumstances giving rise to any purported claim).
- 107B. SEOCH, the Exchange, HKFE, HKCC and a recognized exchange controller which is the controller of SEOCH will not be liable to any SEOCH Participant or to any other person with respect to any action or omission by them in connection with the operations of the Options System, the provision of services and facilities available thereunder, and all other matters as contemplated in these Clearing Rules, except in the case of wilful default.
- 107C. SEOCH, the Exchange, HKFE, HKCC and a recognized exchange controller which is the controller of SEOCH will not be liable for any action taken or for any failure, hindrance or delay in the provision of services or the performance in whole or in part of their obligations under these Clearing Rules or under any OCH Contract if such action, failure, hindrance or delay arises out of causes beyond their control. Such causes may include, but shall not be limited to, acts of God or the public enemy, acts of a civil or military authority, embargoes, fires, floods, explosions, accidents, labour disputes, mechanical breakdowns, computer or system failures or other failures of equipment, failures of or defects in computer or system software, unavailability of or restrictions on any communication media for whatever reason (whether or not such media is used by SEOCH Participants), interruptions (whether in whole or in part) of power supplies or other utility or service, any law, decree, regulation or order of any government, competent authority or any court or tribunal, and any other causes beyond the control of SEOCH, the Exchange (whether or not specified in the Exchange Rules), HKFE, HKCC or a recognized exchange controller which is the controller of SEOCH.
108. Information and statistics provided by SEOCH including, but not limited to market prices, numbers of Contracts cleared and risk management assumptions, are made available on the understanding that SEOCH, the Exchange, HKFE, HKCC and a recognized exchange controller which is the controller of SEOCH will not be liable or accountable to any party for that information's suitability or applicability for any use other than for managing or reporting activities internal to SEOCH.

#### **Governing Law**

109. These Clearing Rules, the Operational Clearing Procedures and all Contracts shall be governed by, and construed in accordance with, the laws of Hong Kong.

### **SEOCH Management of SEOCH Collateral**

110. Without prejudice to any other rights of SEOCH in respect of the amounts standing to the credit of a SEOCH Participant's CCMS Collateral Account (including the Reserve Fund Contributions), SEOCH may invest such amounts or any part thereof in such manner and to such extent as the SEOCH Board considers expedient and financially prudent. For the avoidance of doubt, any obligation of SEOCH to redeliver or release such amounts to the SEOCH Participant in accordance with these Clearing Rules and the Operational Clearing Procedures shall not be affected by any gain or loss arising from the investment activities. Any such gain or loss in respect of amounts other than Reserve Fund Contributions is for SEOCH; and any such gain or loss in respect of Reserve Fund Contributions is for the Reserve Fund. SEOCH may pay or charge a SEOCH Participant interest on the cash balance in the SEOCH Participant's CCMS Collateral Accounts at such positive or negative rate, and may levy costs and charges thereon in such amount, as SEOCH may determine from time to time in accordance with the Operational Clearing Procedures.

### **Notice and Other Communications**

111. Unless otherwise provided in these Clearing Rules, all notices, requests, demands or other communications from SEOCH to SEOCH Participants may be given orally or in writing, in person or by post, by electronic or wire transmission, by telephone or facsimile, by posting on the HKEX website, or by any means of computer data transmission including, but in no way limited to, broadcast messages via HKATS or DCASS or e-mail.
112. Any communication disseminated via DCASS or HKATS or e-mail or posted on the HKEX website will constitute written notice for the purpose of these Clearing Rules and the Options Trading Rules.
113. Unless otherwise provided in these Clearing Rules, the Operational Clearing Procedures and in the Options System, all notices from SEOCH Participants to SEOCH shall be given in writing and sent to SEOCH in person, by facsimile, by post or such other means as may be acceptable to SEOCH. Notice by SEOCH Participants to SEOCH shall be deemed to have been given at the time of receipt by SEOCH.

All instructions and communications to SEOCH by, with the authority of, on behalf of and/or for the account of SEOCH Participants shall be given in such manner and form as may be prescribed by or acceptable to SEOCH from time to time.

SEOCH shall be entitled to accept and rely on any instruction or communication given or purporting to be given to it by, with the authority of, on behalf of or for the account of a SEOCH Participant, whether or not in strict compliance with the prescribed manner or form or any applicable limitation on authority of, which is understood or believed by SEOCH in good faith to have been given to it by, with the authority of, on behalf of or for the account of such SEOCH Participant.

SEOCH shall have no obligation to act on any instruction or communication given or purported to be given by, with the authority of, on behalf of or for the account of a SEOCH Participant if such instruction does not, in the determination of SEOCH, contain sufficient details for SEOCH to act upon it.

### **Transitional Provisions**

114. Without limiting the generality of Clearing Rule 115, with effect from the Scheme Effective Date and unless the context otherwise requires, the terms “SEOCH Member”, “Direct Clearing Member” and “GCM” in the Clearing Rules will have been substituted with the term “SEOCH Participant”, “Direct Clearing Participant”, and “GCP” respectively. Each SEOCH Member, Direct Clearing Member and GCM that was, or was deemed to be, an Exchange Participant under the Exchange Rules or the repealed Exchanges and Clearing Houses (Merger) Ordinance was deemed automatically to have become a SEOCH Participant, Direct Clearing Participant and GCP respectively (provided their rights had not been revoked immediately prior to the Scheme Effective Date) and shall continue to be bound by these Clearing Rules and Operational Clearing Procedures.

115. For the avoidance of doubt:

- (i) these Clearing Rules and Operational Clearing Procedures;
- (ii) all rights, privileges, obligations and liabilities accrued to or incurred by any person (including without limitation a SEOCH Participant, a Direct Clearing Participant and a GCP) prior to the Scheme Effective Date; and
- (iii) all registrations and approvals made or granted to a person (including without limitation a SEOCH Participant, a Direct Clearing Participant and a GCP) which were valid immediately prior to the Scheme Effective Date

shall remain valid and binding on that person whatever capacity in which those rights, privileges, obligations, liabilities, registrations or approvals have been accrued, incurred, made or granted.

## CHAPTER 2

### CLEARING BY SEOCH

#### Acceptance for Clearing of Contracts

201. SEOCH shall have absolute discretion to determine the acceptance or refusal for clearing of OCH Contracts in respect of any option series. In general, SEOCH will accept for clearing pursuant to these Clearing Rules and the Options Trading Rules all OCH Contracts validly made pursuant to Clearing Rule 202. SEOCH shall give notice to the Exchange and all SEOCH Participants of any decision to refuse to clear one or more OCH Contracts in respect of any option series. Any such refusal by SEOCH shall not affect any then existing open positions in the affected option series, which shall continue to be subject to these Clearing Rules and the Options Trading Rules.

#### OCH Contracts and NCP Contracts

202. (1) Unless otherwise specified in the Options Trading Rules, the Operational Clearing Procedures and these Clearing Rules, immediately upon an Options Contract being validly made under Options Trading Rule 513, it shall, by operation of this Clearing Rule and the First Schedule to these Clearing Rules, be replaced by OCH Contracts and/or NCP Contracts in accordance with the substitution and novation process laid out in the First Schedule to these Clearing Rules. Unless otherwise specified in the Options Trading Rules, the Operational Clearing Procedures and these Clearing Rules, every OCH Contract and NCP Contract shall be validly made at the time when the details of the Options Contract from which it is derived are recorded in the Transaction Register of the Options Trading System. The Transaction Register of the Options Trading System or such other record as SEOCH shall in its sole discretion accept, together with the Standard Contract, the Options Trading Rules and these Clearing Rules, shall be conclusive evidence of OCH Contracts and NCP Contracts which have been validly made unless the SEOCH Board otherwise determines in exceptional circumstances.
- (2) An Options Contract that is executed as a Block Trade shall, by operation of this Clearing Rule and the First Schedule to these Clearing Rules, be replaced by OCH Contracts and/or NCP Contracts in accordance with the substitution and novation process laid out in the First Schedule to these Clearing Rules only upon SEOCH being satisfied that the Block Trade recorded in the Transaction Register of the Options Trading System is a valid Block Trade and all criteria applicable to the Block Trade, including but not limited to the payment of any Special Block Trade Margin, have been satisfied. Unless a SEOCH Participant receives any oral or written notice from the Exchange or SEOCH that a Block Trade is not valid or not all criteria have been satisfied or the Block Trade shall not be cleared for any other reason, the Block Trade shall be deemed to have been validly made and subject to the process of substitution and novation upon the recording of such Block Trade in the Transaction Register. The Exchange will endeavour to notify the SEOCH Participant of any issue concerning any criteria set forth in Regulation 2 of the Third Schedule to the Options Trading Rules within 30 minutes of the execution by the SEOCH Participant of the Block Trade.
- (3) In the event that an Options Trading Exchange Participant or its GCP (if the Options Trading Exchange Participant is an NCP) has been notified by SEOCH or the Exchange that a Block trade executed by the Options Trading Exchange Participant on the Options Trading System is not valid or has not satisfied all the criteria applicable to the Block Trade or the Block Trade will not be registered or cleared by SEOCH for any reason or in the event that the Options Trading Exchange Participant or its GCP (if the Options Trading Exchange Participant is an NCP) fails to pay or otherwise satisfy any Special Block Trade Margin required



by SEOCH by the stipulated time, the Exchange in conjunction with SEOCH will, without being required to give further notice to the Options Trading Exchange Participant or its GCP, delete the Block Trade from the Options System as if the Block Trade had never been executed.

(4) [Repealed]

(5) [Repealed]

#### **Terms of OCH Contracts**

203. The parties to each OCH Contract shall contract under the OCH Contract as principals, and not in any other capacity, and shall accordingly be personally bound by, and entitled under, each OCH Contract.

204. Except as provided in Clearing Rules 205 and 206, each OCH Contract shall, other than in respect of the parties to it, be on identical terms to the Options Contract made pursuant to Options Trading Rule 513 from which it is derived.

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 subparagraphs (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.

Without prejudice to the foregoing provisions regarding pro rata payment in circumstances where the aggregate of the assets available to SEOCH referred to in sub-paragraphs (1) to (6) above is insufficient to meet the aggregate liability of SEOCH to SEOCH Participants under all OCH Contracts subsisting at any time, in respect of SEOCH's obligations to deliver securities under OCH Contracts, to the extent that the SEOCH Board determines that it is not possible or reasonably practicable to deliver securities, SEOCH's obligations shall be to make money compensation to SEOCH Participants concerned in substitution for the delivery of securities in whole or in part and in such amount as SEOCH may in its absolute discretion determine by reference to the market value of such securities at the time of payment of compensation by SEOCH (or the value at such other time as SEOCH shall consider fair and reasonable in the circumstances). The money compensation shall be in such currency or currencies (whether in the Settlement Currency, the Currency of the Contract or otherwise) and at such conversion rate(s) as SEOCH may in its absolute discretion determine to be fair and reasonable, taking into account all relevant circumstances as it may consider appropriate.

Without prejudice to the foregoing provisions regarding pro rata payment in circumstances where the aggregate of the assets available to SEOCH referred to in sub-paragraphs (1) to (6) above is insufficient to meet the aggregate liability of SEOCH to SEOCH Participants under all OCH Contracts subsisting at any time, in respect of SEOCH's obligations to make payment to SEOCH Participants under OCH Contracts in the Settlement Currency, to the extent that SEOCH determines that it is not possible or reasonably practicable to make payment in such Settlement Currency, SEOCH's obligations shall be to make payment, in full or in part, in such other currency or currencies and at such conversion rate(s) as SEOCH may in its absolute discretion determine to be fair and reasonable, taking into account all relevant circumstances as it may consider appropriate.

206. All OCH Contracts shall incorporate the following terms:-

- (1) SEOCH shall have no liability for any brokerage, commission or levy;
- (2) SEOCH shall have no liability for consequential loss of any kind;
- (3) subject to the Securities and Futures Ordinance, SEOCH shall be entitled to treat all monies paid to it by, and property received by it from, a SEOCH Participant as monies paid or property delivered to it by a principal, and no monies or property in the hands of SEOCH shall be impressed with a trust or other equitable interest in favour of any person; and
- (4) any payment or delivery by SEOCH to a SEOCH Participant in accordance with these Clearing Rules and the Operational Clearing Procedures shall constitute a good and sufficient discharge of the obligations in respect of which such payment or delivery is made.

207. The benefit of the performance by SEOCH of its obligations under each OCH Contract is conferred upon SEOCH Participants as principals and upon no other persons whatsoever.

#### **Terms of NCP Contracts**

208. The parties to each NCP Contract shall contract under the NCP Contract as principals, and not in any other capacity, and shall accordingly be bound by, and entitled under, each NCP Contract.
209. Each NCP Contract shall be on identical terms to the Options Contract from which it arises pursuant to Clearing Rule 202 and the First Schedule to these Clearing Rules.

#### **Effect of Give-ups on OCH Contracts and NCP Contracts**

210. OCH Contracts and NCP Contracts which are the subject of give-ups shall be replaced by new Contracts as set out in the Second Schedule to these Clearing Rules.

#### **Effect of Novation or Discharge**

211. Following any novation or discharge of a Contract as provided in these Clearing Rules or the Options Trading Rules, the rights and obligations of the parties to that Contract under that Contract shall be completely discharged and of no further force or effect.

#### **Error Trades**

212. SEOCH may, in conjunction with the Exchange and in accordance with the Options Trading Rules dealing with Error Trades, cancel any Error Trade in accordance with the Options Trading Rules. SEOCH shall require the payment of Premium, fees and SEOCH Collateral in respect of margin from the relevant Options Trading Exchange Participant until the cancellation of the Error Trade has been effected.

#### **Adjustments to Contracts**

213. Where there is a change in the capital structure or composition of the issuer of the underlying securities of an option class or in any other exceptional circumstances, the Exchange may make such adjustments to the terms of the Contracts of that option class in accordance with the Options Trading Rules as are, in its opinion, necessary or desirable to ensure that all parties to Contracts comprised in open positions in that option class are treated fairly. All such adjustments shall be binding upon all such affected parties.

#### **SEOCH Price Determinations**

214. SEOCH's determination as to any prices used in the Options System or in connection with any of its clearing, settlement or margining processes shall be final and conclusive. SEOCH shall not be responsible to the person who wishes to use such information for the accuracy or suitability for use of any market prices or other information related to the options market, whether calculated or provided by the Exchange, SEOCH, HKFE, HKCC or any other person.

## CHAPTER 3

### SEOCH PARTICIPANTSHIP

#### Categories of SEOCH Participantship

301. The SEOCH Board shall have the power to establish categories of Participantship of SEOCH for participation in clearing services provided by SEOCH and to attach different rights, benefits, obligations and liabilities to each category established.
302. A SEOCH Participant may be registered under any one of the following categories:-
- (1) [Repealed]
  - (2) as a Direct Clearing Participant – which, in addition to clearing OCH Contracts traded for its own account, may clear OCH Contracts traded on behalf of its clients; or
  - (3) as a GCP – which, in addition to clearing OCH Contracts traded for its own account or on behalf of its clients, may clear OCH Contracts on behalf of NCPs with whom it has entered into a Clearing Agreement,

the clearing of such OCH Contracts in each case to be carried out subject to, and in accordance with, these Clearing Rules.

#### Qualification

303. To be eligible for registration as a SEOCH Participant, an applicant must enter into an agreement with SEOCH as prescribed by SEOCH from time to time and must be able to comply at all times with each of the requirements set out in Clearing Rule 403 and must be able to demonstrate, to the satisfaction of SEOCH, the ability to comply at all times with such requirements.

#### Applications

304. All applications for admission as a SEOCH Participant, or to change the category of SEOCH Participantship under which a SEOCH Participant is registered, shall be submitted in writing in accordance with the Operational Clearing Procedures, and be accompanied by the administrative processing charges, as prescribed by the SEOCH Board from time to time.
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.
306. [Repealed]
307. Each applicant shall provide the SEOCH Board with such certifications, declarations, representations, undertakings, documents and further information, as the SEOCH Board may require for dealing with the application.

#### Approval

308. The SEOCH Board has the right to reject any application made under Clearing Rule 304. If the SEOCH Board rejects an application to admit as a SEOCH Participant, the applicant may, within 14 Business Days after it is notified of the SEOCH Board's

decision, appeal in writing to the Participant Admission Appeals Committee whose decision will be final and conclusive.

309. The SEOCH Board will give written notice of approval or rejection to each applicant. Any approval may be granted subject to such conditions as the SEOCH Board thinks fit and in particular to those conditions in Clearing Rule 403. If such conditions are not satisfied within the time period specified in the notice of approval (or such longer period as the SEOCH Board may allow), the approval may be suspended or revoked without further notice. SEOCH may also restrict the SEOCH Participant to a certain type and/or quantity of Exchange Traded Options Business if SEOCH, in its absolute discretion, forms the view that the SEOCH Participant's operational capabilities make it necessary.
310. Upon receipt of a notice of approval, an applicant shall deliver SEOCH Collateral to SEOCH (or as SEOCH may direct) in respect of its Initial Contribution to the Reserve Fund as follows:
- (1) HK\$5,000,000 if the application is to be a GCP (together with such additional amount as may be required pursuant to Clearing Rule 405); or
  - (2) HK\$1,500,000 if the application is for Direct Clearing Participantship,
- or such other amount as may for the time being be stipulated by the SEOCH Board.

The SEOCH Board may vary the amount of Initial Contribution generally or in respect of any particular SEOCH Participant having regard to, amongst other things, any restrictions applying to that Participant's Exchange Traded Options Business or conditions applying to its Participantship.

311. Initial Contribution to the Reserve Fund shall be delivered in cash in Hong Kong dollars or in any other currency prescribed by SEOCH from time to time.
312. SEOCH will inform the applicant in writing on the day that the approval comes into effect and, on that day, the applicant shall become a SEOCH Participant. Particulars of the applicant will be entered in the register maintained pursuant to Clearing Rule 313 and, upon payment of the required Initial Contribution to the Reserve Fund and upon satisfying the conditions specified, the applicant shall be allowed access to the Options Clearing System.

#### **Registration**

313. SEOCH will maintain a register containing the full names and addresses and contact details of all SEOCH Participants, particulars of the category of SEOCH Participantship under which each SEOCH Participant is registered and the date of admission of each SEOCH Participant.

#### **Publication of a list of SEOCH Participants**

314. SEOCH shall maintain and keep up to date at regular intervals a list of SEOCH Participants in each category in existence at the time. SEOCH shall publish such lists on the HKEX website or by such other means as it considers appropriate.

## 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 Participantship; 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 and, to the extent applicable, the Exchange Rules and the HKSCC 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 with the applicable financial resources requirements prescribed under Clearing Rule 403(9), 403(9)(A) or 403A.

- 402A. (1) It is the duty of every SEOCH Participant to ensure that any systems it uses for the purposes of conducting its Exchange Traded Options Business, including accounting system and back-office clearing and settlement systems, shall be Year 2000 Compliant.
- (2) SEOCH Participant shall immediately report any failure, error or defect in his or its systems which is directly or indirectly caused by its systems not being Year 2000 Compliant and rectify such failure, error or defect. All losses, damages, demands, costs (including legal costs) and expenses arising out of directly or indirectly as a result of or in connection with any failure, error or defect shall be borne by the SEOCH Participant concerned.
  - (3) SEOCH, HKFE and a recognized exchange controller which is the controller of SEOCH shall have no liability for any losses, damages, demands, costs (including legal costs) and expenses suffered or incurred directly or indirectly as a result of or in connection with the Options System or any system upon which the Exchange, SEOCH, HKFE or a recognized exchange controller which is the controller of SEOCH is/are reliant in the operations of the Options System is not Year 2000 Compliant.

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;

- (3) (a) be in good standing as a CCASS Clearing Participant and be in compliance with the HKSCC Rules; or
  - (b) have a valid, binding and effective CCASS Clearing Agreement with a CCASS GCP if it intends to settle its delivery obligations through a CCASS GCP.
- (4) [Repealed]
- (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;
- (6) meet all its delivery obligations when due;
- (7) deliver all SEOCH Collateral in respect of its Reserve Fund Contributions and Assessments when due;
- (8) pay all levies, duties, charges and fees payable from time to time by it in its capacity as a SEOCH Participant when due;
- (9) unless it is a GCP which is a Registered Institution and notwithstanding Clearing Rule 402, maintain 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\$100,000,000 for a GCP provided that if it has entered into valid clearing agreements with no more than five NCPs, an additional HK\$20,000,000 for each NCP after the fifth NCP with which it has entered into a valid clearing agreement, subject to a maximum of HK\$390,000,000;
    - (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, maintain Tier 1 capital of not less than HK\$390,000,000;
- (10) have two bank accounts for Hong Kong dollars and each applicable non-Hong Kong dollar Settlement Currency with a Designated Bank or a Settlement Bank, as the case may be, and maintain in force a mandate in favour of SEOCH in such form as may be prescribed by SEOCH in relation to each bank account pursuant to which SEOCH may debit or credit such bank account and if a SEOCH Participant does not open bank accounts in the Settlement Currency of a Contract (and Hong Kong dollars if the Settlement Currency is not Hong Kong dollars) and provide mandates to the bank as aforesaid, it will not be allowed to record, register and clear that Contract;

- (11) have, to the satisfaction of SEOCH, adequate personnel, back office systems and unless exempted by SEOCH (which exemption may be granted on such conditions as SEOCH considers appropriate), have installed such computer hardware and software for gaining access to DCASS and CCMS as may be specified by SEOCH for its category of SEOCH Participants and its Exchange Traded Options Business and ensure that such hardware and software are maintained in accordance with the requirements as prescribed by SEOCH from time to time.
  - (12) comply with any procedures or enter into any documentation from time to time prescribed by the SEOCH Board and which relate to the business of SEOCH;
  - (13) keep all books, records or documents relating to each Contract registered in its name 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;
  - (14) be able to demonstrate, to the satisfaction of SEOCH, the ability to comply with the above at all times;
  - (15) maintain in force a mandate in such form as may be prescribed by SEOCH authorising SEOCH:
    - (a) to transfer SEOCH Collateral provided by the SEOCH Participant to HKSCC (as required by HKSCC) in relation to the settlement of the delivery obligations of the SEOCH Participant or the CCASS GCP, where applicable, under the CNS System; and
    - (b) to pay Settlement Amount in relation to stock delivery obligations settled by securities collateral already provided to SEOCH to the cash account of the SEOCH Participant or the CCASS GCP, where applicable, maintained with HKSCC;
  - (16) comply with any law, decree, rule, regulation, or order of any government, regulatory authority, competent authority, court or tribunal anywhere in the world, applicable to it or to its status, the conduct of its business and the performance of its obligations as a SEOCH Participant, including, for the avoidance of doubt, all applicable laws, decrees, rules, regulations, and orders of any government, regulatory authority, competent authority, court, or tribunal relating to the prevention of bribery, money laundering, tax evasion, financial crimes and terrorist financing; and
  - (17) notify SEOCH of any change in the details supplied to SEOCH at the time of admission and thereafter, including but not limited to anything relating to such SEOCH Participant, its directors or employees which would render inaccurate, incomplete or superseded a statement or information previously furnished by such SEOCH Participant to SEOCH in connection with either (a) such SEOCH Participant's application for admission to be a SEOCH Participant or (b) the status of such SEOCH Participant under the Tax Information Exchange Framework, the documentation previously furnished by such SEOCH Participant on such status or the meeting by SEOCH under Rule 403E of any obligations relating to the Tax Information Exchange Framework.
- 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.

- 403B. SEOCH shall ensure that changes in the prevailing minimum financial resources requirements determined pursuant to Clearing Rule 403A are promptly notified to all relevant SEOCH Participants in such manner as SEOCH may specify.
- 403C. SEOCH shall ensure that the Commission is notified of all prevailing minimum financial resources requirements as determined by SEOCH pursuant to Clearing Rule 403A and shall notify the Commission immediately of any changes in the minimum financial resources requirements prevailing from time to time.
- 403D. 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.
- 403E. Each SEOCH Participant shall provide SEOCH with sufficient information so as to enable SEOCH to determine whether any payments to be made by SEOCH under these Rules are withholdable payments pursuant to the Tax Information Exchange Framework and to enable SEOCH to meet any applicable obligations relating to the Tax Information Exchange Framework.
- 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.

- 404.
- (1) Every SEOCH Participant must set Prescribed Risk Controls for itself (as Options Trading Exchange Participant) and every GCP must set Prescribed Risk Controls for each Options Trading Exchange Participant for whom it clears, including its or such Options Trading Exchange Participant's Authorized Persons and any other person who is allowed to trade through HKATS via its or such Options Trading Exchange Participant's connection or any connection granted by the Exchange through it or such Options Trading Exchange Participant.
  - (2) Every SEOCH Participant must provide SEOCH with such information as it may request from time to time to enable SEOCH to assess whether the Prescribed Risk Controls set by the SEOCH Participant are reasonable.
  - (3) Every SEOCH Participant must notify SEOCH forthwith upon the execution by any of its Authorized Persons of an order blocking or cancellation function using the HKATS Risk Functions or any other function as prescribed by SEOCH from time to time.

- (4) Every SEOCH Participant is responsible for the Prescribed Risk Controls set by it. SEOCH, the Exchange and a recognized exchange controller of SEOCH shall in no case be liable for the sufficiency or effectiveness of the Prescribed Risk Controls set by a SEOCH Participant or any failure or unavailability of, or error or defect in the HKATS Risk Functions, the SEOCH Participant's connection to HKATS or any Prescribed Risk Controls-related reports, warnings or notifications that may be provided to the SEOCH Participant by SEOCH.
- (5) Every SEOCH Participant agrees to use the HKATS Risk Functions for the purpose of establishing, monitoring and implementing Prescribed Risk Controls only and not for any other purpose. Every SEOCH Participant shall ensure that only its Authorized Person shall gain access to HKATS through the HKATS Risk Functions.

### **Reserve Fund Purpose**

404A. The purpose of the Reserve Fund is to provide resources to support the obligations of SEOCH as counterparty under OCH Contracts and shall only be used in accordance with these Clearing Rules.

### **Reserve Fund Threshold**

404B. For the purpose of calculating the Reserve Fund size under 11.2.2 of the Operational Clearing Procedures, SEOCH may, from time to time in its absolute discretion, prescribe an amount which is projected to be the maximum required size for the time being of the Reserve Fund, known as the Reserve Fund Threshold, taking into account such relevant factors as it shall consider appropriate, including any historical data and prevailing market conditions.

### **Reserve Fund Requirements**

405. In addition to the amount of Initial Contribution required pursuant to Clearing Rule 310, each GCP shall deliver SEOCH Collateral in respect of an Initial Contribution of HK\$1,500,000 (or such other amount as the SEOCH Board may from time to time prescribe) for every subsequent Clearing Agreement entered into by that GCP where the GCP already has three valid Clearing Agreements in place. A GCP shall not clear any OCH Contracts pursuant to such a Clearing Agreement until that contribution has been paid.
406. Each SEOCH Participant must at all times maintain a level of Reserve Fund Contributions which SEOCH in its absolute discretion determines to be appropriate having regard (without limitation) to the Reserve Fund size which is needed given aggregate open positions and estimated market volatility, any minimum Reserve Fund size needed regardless of those positions and that volatility and the Reserve Fund Threshold. The amount for the time being calculated by SEOCH and required to be contributed to the Reserve Fund by each SEOCH Participant in order to maintain the Reserve Fund at the size so determined to be appropriate is referred to in these Clearing Rules as the "Reserve Fund Requirement" of a SEOCH Participant.
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) 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.

409. Each SEOCH Participant shall deliver additional SEOCH Collateral in respect of its Reserve Fund Requirement as notified to it by SEOCH and by the time specified in the notification from SEOCH and in accordance with the Operational Clearing Procedures.
410. If the value of the SEOCH Collateral provided by a SEOCH Participant in respect of its Reserve Fund Contributions exceeds that SEOCH Participant's then current Reserve Fund Requirement, that SEOCH Participant may request SEOCH to redeliver to it such excess. SEOCH will redeliver SEOCH Collateral in such form and amount as it determines in accordance with the Operational Clearing Procedures. SEOCH may withhold or deduct from the SEOCH Collateral to be redelivered to a SEOCH Participant such sum SEOCH regards as appropriate in relation to any obligation the SEOCH Participant owes to SEOCH or if the SEOCH Participant is not in compliance 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 liability in respect of Assessments and a resigning SEOCH Participant's liability in respect of the Reserve Fund are set out in 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 appropriate 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**

412. Except as provided in Clearing Rule 413B, amounts standing to the credit of the Reserve Fund may be applied in respect of SEOCH's liabilities which arise by virtue of its being counterparty to every OCH Contract cleared by it including, but not limited to, the costs and expenses involved in making recoveries against Defaulters to those OCH Contracts. If, in the opinion of SEOCH, the resources of the Reserve Fund are at any time liable to be fully depleted or are at any time at a level which is unlikely to satisfy all such liabilities, the resources of the Reserve Fund shall be applied to all such liabilities on a pro rata basis or in such other manner as SEOCH may consider fair and appropriate.
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) resources 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.

413AA. For the purposes of Clearing Rules 413 (3) and (4), if after the date of default of a Defaulter, a SEOCH Participant has itself been declared as a Defaulter, any prevailing amounts standing to the credit of its Initial Contribution and Variable Contribution shall be applied towards the default of the other Defaulter and its own default in such manner as SEOCH may consider appropriate.

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, excluding the portions contributed by any Defaulter and any SEOCH Participant whose SEOCH Participants'hip 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 at or prior to the start of the Capped Liability Period, the SEOCH Participants'hip of a SEOCH Participant is effectively terminated, its Initial Contribution and Variable Contribution will not be applied towards the default, and if at or prior to the start of the Capped Liability Period, 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;

the Reserve Fund from time to time. Without prejudice to the aforesaid, SEOCH shall maintain a separate account in respect of all the contributions made or required to be made by SEOCH Participants to the Reserve Fund.

413B. SEOCH may apply any amounts standing to the credit of the Reserve Fund (other than SEOCH Collateral delivered to SEOCH in respect of SEOCH Participants' Reserve Fund Contributions) which are in the opinion of SEOCH surplus to the Reserve Fund Requirement in such manner as SEOCH thinks fit, including appropriation of such monies out of the Reserve Fund temporarily or permanently for the following purposes including, but not limited to:-

- (1) payment of any interest or money obligations as may be determined from time to time by the SEOCH Board arising from or in respect of the SEOCH Collateral delivered to meet the demand for Reserve Fund Requirement; and
- (2) payment for costs and expenses incurred in establishing, maintaining, managing, administering and terminating any arrangements such as guarantees, facilities and policies of insurance as SEOCH may from time to time consider appropriate for the purpose of providing additional resources to the Reserve Fund.

### **Assessments**

413C. Upon the occurrence of an event of default, where all or part of the Reserve Fund is 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 SEOCH Participant (excluding any SEOCH Participant specified under Clearing Rule 413D) to provide such additional contributions (i) to bring the Reserve Fund to the same level as that before any application is made or to be made; and/or (ii) to provide such additional 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"). 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. 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 Participantships have been effectively terminated by SEOCH at or prior to the start of the Capped Liability Period. 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 by issuing a written notice ("Notice of Assessment") as SEOCH considers appropriate. SEOCH may demand such Assessments to be satisfied before, after or at the same time that an application is made under Clearing Rule 413. All demands for Assessments 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 (excluding any excess 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 (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. 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 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.

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.

#### **No Transfer of SEOCH Participants**

415. SEOCH Participants shall not be capable of being transferred and no SEOCH Participant shall attempt to sell or transfer its SEOCH Participants.
416. A SEOCH Participant shall not pledge or mortgage, or create any trust, charge, lien or other encumbrance over, its SEOCH Participants.
417. A SEOCH Participant shall not assign any of its rights, benefits or privileges as a SEOCH Participant and such rights, benefits and privileges shall be incapable of assignment.
418. SEOCH shall not be bound or in any way compelled to recognise (even if it has notice of the same) any purported dealing or disposition made in contravention of Clearing Rule 415, 416 or 417.

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

419. If a SEOCH Participant wishes to resign its SEOCH Participants, it shall do so by giving written notice at any time to SEOCH and, if it is a GCP, then to its NCPs of its intention to do so.
420. A notice of resignation may only be revoked before the effective date of termination of its SEOCH Participants with the prior written consent of SEOCH. The resigning SEOCH Participant is required to submit a written request to SEOCH giving reasons for the revocation.
421. Unless otherwise determined by the SEOCH Board, every SEOCH Participant who gives notice of resignation of its SEOCH Participants 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 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;
  - (2) at the time it gives such notice or within such time period specified by SEOCH, submit for approval to SEOCH a plan for the orderly winding down of its affairs in relation to Exchange Traded Options Business, including, but not limited to, the closing or give-up, in accordance with these Clearing Rules and the Options Trading Rules, of all OCH Contracts to which it is party, and shall, upon approval of such plan by SEOCH, and unless otherwise agreed by SEOCH, adhere to that plan until the expiry of its SEOCH Participantship;
  - (3) not (except with the consent of, or as directed by, SEOCH) enter into any opening contracts; and
  - (4) if SEOCH is satisfied that a SEOCH Participant is resigning its SEOCH Participantship pursuant to a reorganisation of the group of companies of which the SEOCH Participant is a member and in circumstances where another company in the same group is to become a SEOCH Participant and to continue the business of the existing SEOCH Participant in place of the existing SEOCH Participant; and for this purpose a company shall be in the same group as another company if, in the opinion of SEOCH, the ultimate beneficial owners of both companies are the same or substantially the same, then, upon written application of the resigning SEOCH Participant, SEOCH may issue a written notice exempting that SEOCH Participant from compliance with Clearing Rules 421(2), 421(3) and 422 and, if SEOCH thinks fit, allowing the resigning SEOCH Participant's Reserve Fund Contributions to be credited to the new SEOCH Participant with effect from a date stipulated by SEOCH (such date not to be later than the date upon which the new SEOCH Participant becomes a SEOCH Participant). Any such notice may be issued on such conditions as SEOCH thinks fit. SEOCH shall have an absolute discretion to determine whether or not the ultimate beneficial ownership of companies is "the same or substantially the same" and SEOCH's decision in relation to the same shall be final and binding.
422. SEOCH may take any of the steps set out in Clearing Rule 703 in order to ensure the orderly winding down of a resigning SEOCH Participant's Exchange Traded Options Business and may, in addition, impose position limits or revise any position limits already imposed on that SEOCH Participant.
423. A resigning SEOCH Participant shall, until the effective date of termination of its SEOCH Participantship, remain bound by all the provisions of these Clearing Rules.
424. A resigning SEOCH Participant's SEOCH Participantship will be terminated at such time as may be specified by SEOCH and notified to the resigning SEOCH Participant.
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, 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.

426. Any SEOCH Participant which, in its capacity as an Options Trading Exchange Participant, gives notice of resignation of its Options Trading Participantship or is treated, pursuant to the Options Trading Rules, as having given any such notice, shall be treated as having given on the same day notice of resignation as a SEOCH Participant and these Clearing Rules shall apply accordingly.
427. A SEOCH Participant which resigns, whether under the provisions of Clearing Rule 411 or otherwise, may be required to provide additional SEOCH Collateral in respect of its Reserve Fund Requirement or otherwise compensate SEOCH in order to be eligible for re-admission as a SEOCH Participant.

### **Confidentiality**

428. All information in the possession of SEOCH relating to a SEOCH Participant will be kept confidential by the directors and other staff or officers of SEOCH having access to the same in accordance with procedures made by SEOCH. SEOCH, however, may disclose any information at any time:-
- (1) to the Exchange;
  - (2) to the Commission;
  - (3) to HKSCC;
  - (4) to HKFE;
  - (5) to any insurer, insurance broker or banker in connection with the arrangement of support for the Reserve Fund;
  - (6) to any professional advisers or consultants of SEOCH;
  - (7) as required by the laws of Hong Kong;
  - (8) to any exchange, clearing house, governmental, regulatory or competent authority or any organization (whether in Hong Kong or elsewhere) with whom HKEX, SEOCH or the Exchange has entered into an information sharing arrangement or agreement or pursuant to the Tax Information Exchange Framework;
  - (9) to any recognized exchange controller;
  - (10) to any company of which a recognized exchange controller which is a controller of the Exchange is a controller;
  - (11) to the chief executive or the chief operating officer of HKEX for the time being appointed or deemed to have been appointed in accordance with the Securities and Futures Ordinance or, as the context may require, their designees;
  - (12) if so required pursuant to any requirement or request of any governmental, regulatory or other competent authority whether within or outside Hong Kong (including, but not limited to, the Commission, Hong Kong Monetary Authority and the Inland Revenue Department of the Hong Kong government) or by or in accordance with the Tax Information Exchange Framework; or
  - (13) to specified persons or to the public if required for SEOCH to comply with any local or international regulatory standards applicable to it,

provided that, in any such case other than under sub-paragraphs (7), (8), (12) and (13) above, the confidentiality of the information is made known to the recipient (it being understood that, if a case is described in multiple sub-paragraphs of this sentence that include sub-paragraphs (7), (8), (12) or (13) above, then the confidentiality of the information need not be made known to the recipient) and provided that, in case of disclosure of information concerning or in connection with a SEOCH Participant under sub-paragraph (13), it shall be on an aggregated and/or anonymised basis.

428A. The Board may direct a SEOCH Participant to provide it with any information required or requested by an exchange, clearing house, governmental, regulatory or other competent authority or any organization (whether in Hong Kong or elsewhere) with whom HKEX, SEOCH or the Exchange has entered into an information sharing arrangement or agreement or pursuant to the Tax Information Exchange Framework.

### **Clearing Agreements**

429. Every GCP shall enter into a Clearing Agreement in such form or containing such provisions as may from time to time be required by SEOCH with each NCP for whom it proposes to accept Options Contracts for clearing. Except where a non-defaulting GCP consents to accept a give-up of OCH Contracts pursuant to Clearing Rule 715, a GCP shall not accept for clearing any such Options Contracts for an NCP until a Clearing Agreement has been signed by both parties.

430. [Repealed]

431. A GCP shall notify SEOCH immediately of the execution of each Clearing Agreement to which that GCP is party, identifying the name of the relevant NCP. Such notification shall be in such form as SEOCH may from time to time specify.

432. The form of Clearing Agreement proposed to be entered into by a GCP with NCPs must facilitate the performance of, and be consistent with, the GCP's obligations under these Clearing Rules and the Operational Clearing Procedures.

433. A GCP shall, at the request of SEOCH, supply it and the Exchange with a certified copy of any executed Clearing Agreement to which that GCP is or has been party.

434. A GCP shall be bound by, and shall comply strictly with, the terms of each Clearing Agreement to which it is party, to the extent that those Clearing Agreements are consistent with these Clearing Rules.

434A. (1) A GCP shall give prior written notice to SEOCH if it or an NCP intends to terminate the Clearing Agreement between them, unless the NCP has already given notice to terminate the Clearing Agreement to the Exchange in accordance with the Options Trading Rules.

(2) When SEOCH receives a termination notice from the GCP or when SEOCH receives notification from the Exchange that notice to terminate the Clearing Agreement had been given by an NCP, SEOCH will issue a confirmation of termination to the GCP (with a copy to the NCP concerned) in writing and unless and until written confirmation has been issued to the GCP, the Clearing Agreement shall be treated as valid, binding and effective by SEOCH for the purposes of these Clearing Rules notwithstanding any provision to the contrary in the Clearing Agreement and/or the termination notice from the GCP or the NCP and the GCP shall continue to be bound by the Clearing Agreement and responsible for all the OCH Contracts concluded by such NCP.

- (3) Notwithstanding the above and without prejudice to the rights of SEOCH under Clearing Rules 714 to 717, the Clearing Agreement is deemed to be terminated when the GCP has resigned or is suspended or expelled from SEOCH Participantship or when its access to the Options Clearing System is suspended or terminated under these Clearing Rules.
- (4) The termination of the Clearing Agreement between a GCP and an NCP will not affect any of their rights or liabilities arising out of matters which have taken place prior to the termination of the Clearing Agreement and for the purpose of settlement of any such rights or liabilities of the GCP and NCP, SEOCH may continue to treat the GCP as the GCP of the NCP.

#### **Monitoring by GCPs**

435. Every GCP must monitor the ability of each NCP with whom it has entered into a Clearing Agreement to satisfy promptly all demands for SEOCH Collateral in respect of margin, all demands for Premium and all delivery obligations. A GCP must forthwith notify the Exchange of any failure by any such NCP to meet such a demand, identifying the NCP concerned.
436. A GCP shall not extend any credit or other financial accommodation or give any rebate of any kind to any NCP on whose behalf it accepts Options Contracts for clearing for the purpose, or which has the effect, of circumventing or evading the margin requirements set out in the Options Trading Rules.
437. Each GCP shall collect margin from each NCP with whom it has entered into a Clearing Agreement in an amount not less than the amount calculated in accordance with the Operational Trading Procedures.

#### **Right to Demand Documents**

438. Every SEOCH Participant shall, within a period as the SEOCH Board may specify, submit to it such statements, books, records, accounts and other documents as the SEOCH Board may demand.

#### **Power to Make Inspections**

439. Officers or employees of SEOCH or such persons appointed by the SEOCH Board may from time to time inspect and copy the statements, books, records, accounts and other documents maintained by the SEOCH Participant relating to the clearing of Contracts. Every SEOCH Participant shall provide or allow those officers or employees or appointed persons access to its premises, statements, books, records, accounts and other documents necessary for the discharging of their duty, with or without prior notice.
440. Any costs and expenses incidental to or consequential upon an inspection ordered under Clearing Rule 439 by SEOCH shall be borne by the SEOCH Participant concerned, unless the SEOCH Board otherwise determines.
441. A SEOCH Participant shall not be entitled to claim against SEOCH, a recognized exchange controller which is the controller of SEOCH, the SEOCH Board, officers or employees of SEOCH or any appointed person for any loss or damages whatsoever relating to any inspection ordered under Clearing Rule 439.

#### **Power of SEOCH to Modify the Terms of Continued Participantship**

442. SEOCH may form the view that its best interests are served by a SEOCH Participant's continued SEOCH Participantship 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.

443. [Repealed]

#### **Tax**

444. SEOCH shall make any payments due to a SEOCH Participant net of any Withholding Tax (whether withheld by SEOCH or any other parties), and SEOCH shall have no obligation to gross-up any such payment or to pay any additional amount as a result of such Withholding Tax. SEOCH shall be entitled to deduct Withholding Tax from payments to a SEOCH Participant.

445. In the event that any payment made by a SEOCH Participant to SEOCH is subject to deduction or withholding (either at the time of such payment or in the future) for or on account of any Withholding Tax, then the SEOCH Participant shall pay to SEOCH an amount, in addition to the payment to which SEOCH is otherwise entitled, necessary to ensure that the net amount actually received by SEOCH (free and clear of any such deduction or withholding for or on account of any such Withholding Tax), will be equal to the full amount SEOCH would have received in the absence of any such deduction or withholding.

446. Each SEOCH Participant shall indemnify SEOCH, the Exchange, and a recognized exchange controller which is the controller of SEOCH and keep SEOCH, the Exchange, and a recognized exchange controller which is the controller of SEOCH indemnified from and against any loss, cost (including cost of enforcement), interests, liability (including any tax or other fiscal liability), claim, damage, cost or expenses of whatever nature which SEOCH, the Exchange, and a recognized exchange controller which is the controller of SEOCH incurred or suffered in connection with any actions taken by SEOCH or any actions that SEOCH is required to take to comply with any obligations relating to the Tax Information Exchange Framework (or fails to take relating to Withholding Tax obligations) with respect to such SEOCH Participant.

## CHAPTER 5

### EXERCISE, DELIVERY AND SETTLEMENT

#### Exercise

501. An OCH Contract comprised in a long open position of a SEOCH Participant shall be validly exercised if, upon the System Input Cutoff Time on any day up to and including the Last Exercise Day for that option series, an exercise request in respect of that long open position, entered in accordance with the Operational Clearing Procedures, is recorded in the Options Clearing System.
502. An NCP Contract comprised in a long open position of an NCP shall be validly exercised if, upon the System Input Cutoff Time on any day up to and including the Last Exercise Day for that option series, an exercise request in respect of that long open position, entered by its designated GCP in accordance with the Operational Clearing Procedures, is recorded in the Options Clearing System. Where an NCP Contract is so validly exercised, an OCH Contract in the same option series comprised in a long open position of the GCP which is party to that NCP Contract shall at the same time, and by operation of this Clearing Rule, be treated as having been validly exercised.
503. An exercise request may, in accordance with the Operational Clearing Procedures, be altered or withdrawn at any time prior to the System Input Cutoff Time on the day on which it is entered. Those exercise requests not so altered or withdrawn shall become irrevocable and binding in accordance with these Clearing Rules.
- 503A. The Options Clearing System will not automatically generate exercise requests in respect of in-the-money contracts on behalf of SEOCH Participants except on an expiry day. On an expiry day, the Options Clearing System will automatically generate exercise requests in respect of each and every open long position in spot month contracts which meets the exercise criterion prescribed (i) by the relevant SEOCH Participant, or (ii) if no such exercise criterion is prescribed by the SEOCH Participant, by SEOCH. An Options Trading Exchange Participant may elect, or if it is an NCP, may instruct its designated GCP, to deny such automatically generated exercise requests for any spot month series via DCASS in accordance with the Operational Clearing Procedures at any time prior to the System Input Cutoff Time on the expiry day. Those automatically generated exercise requests not so denied are deemed as exercise requests entered by that SEOCH Participant and shall become irrevocable and binding in accordance with these Clearing Rules.
504. SEOCH shall have no liability whatsoever or howsoever arising in respect of the exercise or purported exercise of any OCH Contract comprised in a long open position of a SEOCH Participant which has not been exercised in accordance with Clearing Rule 501 or 502
505. After the System Input Cutoff Time on each Business Day, all validly exercised OCH Contracts shall, by a random assignment process conducted by SEOCH, be allocated against OCH Contracts comprised in short open positions of SEOCH Participants in each option series in respect of which those exercise requests have been so recorded. Each SEOCH Participant party to OCH Contracts comprised in a short open position in respect of which an exercise request is so allocated will be notified of such allocation by SEOCH, which notice shall specify the SEOCH Participant and the affected DCASS account of such SEOCH Participant.
506. At the time of allocation by SEOCH pursuant to Clearing Rule 505, the OCH Contract selected by SEOCH in relation to a short open position in the SEOCH Participant's affected DCASS account shall be treated as having been validly exercised.



507. The exercise of Contracts by operation of Clearing Rules 501 to 506 (inclusive) shall immediately result in a corresponding reduction in the long open position and short open position, as the case may be, of the affected SEOCH Participants and NCPs.

#### **Delivery and Settlement Under OCH Contracts**

508. Delivery obligations shall arise under an OCH Contract which has been validly exercised. Unless the SEOCH Board determines that delivery obligations under such OCH Contracts are to be performed in some other way ( including determining that obligations be settled in cash in lieu of delivery) or at some other time and notifies SEOCH Participants of such determination, under normal circumstances, delivery obligation shall be settled in the manner described under paragraph (1) and (2) below:-

- (1) through CCASS under the CNS System pursuant to the HKSCC Rules on the second Settlement Day immediately following the day on which the OCH Contract is exercised; or
- (2) at SEOCH's or HKSCC's discretion, through CCASS under the Isolated Trades System.

508A. Where settlement of and Settlement Amount arising from a validly exercised OCH Contract through CCASS is performed under the Isolated Trades System, these delivery obligations shall be performed in the following manner:-

- (1) where SEOCH is obliged to purchase securities under the relevant OCH Contract:-
  - (a) the SEOCH Participant party to that OCH Contract shall deliver or arrange through a CCASS GCP to deliver securities to the CCASS account of SEOCH on the second Settlement Day immediately following the day of exercise; and
  - (b) SEOCH will pay the Settlement Amount (following or against delivery of such securities) no later than the third Settlement Day immediately following the day of exercise; or
- (2) where SEOCH is obliged to deliver securities under the relevant OCH Contract:-
  - (a) the SEOCH Participant party to that OCH Contract shall pay the Settlement Amount in immediately available funds no later than 9:15 a.m. on the second Settlement Day immediately following the day of exercise; and
  - (b) following or against payment, SEOCH will use its best endeavours to procure delivery of such securities to the CCASS account designated by the SEOCH Participant, or the CCASS GCP, where applicable, to such OCH Contract on the second Settlement Day immediately following the day of exercise.

508B. In addition to any other rights SEOCH may have under these Clearing Rules:-

- (1) where SEOCH has an obligation to deliver securities arising from a validly exercised OCH Contract, SEOCH may, in lieu of delivering securities in whole or in part, make compensation to the SEOCH Participant concerned notwithstanding that such securities may be available in the market. The SEOCH Board shall only exercise its powers under this Clearing Rule in circumstances when the SEOCH Board considers in its reasonable opinion that the securities are not freely available in the market. The money compensation

shall be in such amount and in such currency or currencies (whether in the Settlement Currency, the Currency of the Contract or otherwise) as SEOCH considers to be fair and reasonable having regard to all the circumstances of the case; and

- (2) where SEOCH has an obligation to pay any Settlement Amount arising from a validly exercised OCH Contract in the Settlement Currency, notwithstanding that the Settlement Currency may be available, SEOCH may in lieu of making payment of the Settlement Amount in that Settlement Currency make payment to the SEOCH Participant concerned, in full or in part, in such other currency or currencies and at such conversion rate(s) as SEOCH may in its absolute discretion determine to be fair and reasonable having regard to all the circumstances of the case. SEOCH shall only exercise its powers under this Clearing Rule in circumstances when SEOCH considers in its reasonable opinion that the Settlement Currency is not freely available or convertible in the market.
509. All delivery obligations under OCH Contracts shall be performed in accordance with these Clearing Rules and the Operational Clearing Procedures.
  510. SEOCH may net the obligations of SEOCH and a SEOCH Participant to deliver securities or funds using such methods and assumptions as it may from time to time determine to be appropriate.
  511. Delivery obligations under NCP Contracts shall be performed as specified in the Options Trading Rules.
  512. [Repealed]

#### **Indemnity**

513. If a SEOCH Participant fails to deliver securities or pay any amount to SEOCH in respect of the performance of the delivery obligations of that SEOCH Participant in accordance with these Clearing Rules, SEOCH, the Exchange and a recognized exchange controller which is the controller of SEOCH shall be indemnified by that SEOCH Participant in respect of all liabilities, costs and expenses incurred by SEOCH in order to discharge the related delivery obligations of SEOCH (including, without limitation, in respect of all liabilities, costs and expenses incurred in obtaining alternative securities and in respect of all borrowing and financing costs incurred in making payment of any equivalent amount).

## CHAPTER 6

### RISK MANAGEMENT AND PAYMENT PROCEDURES

#### Premium and Settlement Amounts

601. Each SEOCH Participant shall pay, on demand by SEOCH and in accordance with these Clearing Rules, such amounts in respect of Premium and Settlement Amounts as SEOCH may from time to time require.
602. All amounts payable by SEOCH Participants in respect of Premium and Settlement Amounts shall be settled by cash in the Settlement Currency and in accordance with these Clearing Rules and the Operational Clearing Procedures.

#### Margin and SEOCH Collateral

603. Each SEOCH Participant shall pay or provide, on demand by SEOCH and in accordance with these Clearing Rules, SEOCH Collateral in respect of margin having regard to, amongst other things, its open positions and its delivery obligations as SEOCH may from time to time require.
604. SEOCH will determine the amount of Daily Margin required from each SEOCH Participant using such methods and assumptions as it may from time to time determine to be appropriate.
605. Each SEOCH Participant shall settle all Daily Margin payable by it by delivery of SEOCH Collateral in accordance with these Clearing Rules and the Operational Clearing Procedures. The SEOCH Board may at any time restrict or add to the types of SEOCH Collateral, or impose a minimum or maximum on the amount of each type of SEOCH Collateral, which shall constitute good delivery for the purposes of settling Daily Margin.
606. SEOCH may attribute such value as it shall consider to be appropriate to any SEOCH Collateral. SEOCH may charge each SEOCH Participant fees in respect of any such SEOCH Collateral provided by the SEOCH Participant including any charges which may be levied by HKSCC in respect thereof and any other disbursements and expenses that may be incurred by SEOCH in connection with such SEOCH Collateral.
- 606A. All rights, title and interest in any non-cash SEOCH Collateral delivered by a SEOCH Participant to SEOCH (other than securities accepted as General Collateral, Specific Securities Collateral and To-be-Released Collateral over which SEOCH has a fixed charge) shall pass to SEOCH, and each SEOCH Participant shall ensure and hereby warrants and represents that it is absolutely entitled to pass full legal and beneficial ownership of all such SEOCH Collateral to SEOCH free from all liens, charges and encumbrances. For the purposes of these Clearing Rules, SEOCH shall be free to redeliver or transfer any SEOCH Collateral to SEOCH Participants (or other persons) in such form and in such equivalent amount as SEOCH deems appropriate and for the avoidance of doubt, in relation to any non-cash SEOCH Collateral, SEOCH is not under any obligation to redeliver the original SEOCH Collateral to the SEOCH Participant.
607. SEOCH may prescribe margin requirements on a SEOCH Participant in any amount and manner it may determine and at any time.

#### Margin, Premium and Settlement Amounts Calculation

608. After the System Input Cutoff Time on each Business Day, SEOCH will determine the amount of Premium and Settlement Amounts payable by or to each SEOCH Participant and the amount of Daily Margin payable by each SEOCH Participant.

609. SEOCH will endeavour at all times to ensure that not later than 8:00 a.m. on the Business Day immediately following each trading day, appropriate information on: -
- (1) the amount of Premium and Settlement Amounts due from or to a SEOCH Participant; and
  - (2) the amount of Daily Margin due from a SEOCH Participant, or appropriate information necessary for a SEOCH Participant to compute such amount,
- will be available for retrieval by that SEOCH Participant from the Options System, or will be provided to that SEOCH Participant through such other channels as SEOCH considers appropriate.
610. SEOCH may net the Premium, Settlement Amount and Daily Margin requirements of a SEOCH Participant using such methods and assumptions as it may from time to time determine to be appropriate.
- 610A. In addition to any other rights SEOCH may have under these Clearing Rules, where SEOCH has an obligation to make a net payment under Clearing Rule 610 in a Settlement Currency, notwithstanding that the Settlement Currency may be available, SEOCH may in lieu of making payment in that Settlement Currency make payment to the SEOCH Participant concerned, in full or in part, in such other currency or currencies and at such conversion rate(s) as SEOCH may in its absolute discretion determine to be fair and reasonable having regard to all the circumstances of the case. SEOCH shall only exercise its powers under this Clearing Rule in circumstances when SEOCH considers in its reasonable opinion that the Settlement Currency is not freely available or convertible in the market.

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

611. Subject to these Clearing Rules, on the Business Day immediately following each trading day:-
- (1) each SEOCH Participant from whom Premium, Settlement Amount or Daily Margin is due shall pay such Premium or Settlement Amount or deliver SEOCH Collateral in respect of such Daily Margin (other than any additional margin payable pursuant to 9.2.4, 9.2.5 or 12.5 of the Operational Clearing Procedures) to SEOCH not later than 9:15 a.m. and deliver SEOCH Collateral in respect of any additional margin payable pursuant to 9.2.4, 9.2.5 or 12.5 of the Operational Clearing Procedures not later than 11:00 a.m.; and
  - (2) SEOCH will pay Settlement Amount and Premium on the same day on request, and release SEOCH Collateral in accordance with the Operational Clearing Procedures on request and where possible, in respect of Daily Margin, to each SEOCH Participant to whom such Settlement Amount, Premium or SEOCH Collateral is due.
612. To the extent that SEOCH Collateral other than cash denominated in the Settlement Currency is delivered to SEOCH in respect of margin, SEOCH will take such value as it attributes to such SEOCH Collateral into account when determining the amount in respect of Daily Margin required from a SEOCH Participant.
613. SEOCH may, at any time after making available the appropriate information pursuant to Clearing Rule 609, debit or credit the appropriate bank account of a SEOCH Participant maintained with the Designated Bank or Settlement Bank (as the case may be) with the amount required from or due to that SEOCH Participant in respect of Premium, Settlement Amount or Daily Margin.

- 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.

### **Intra-day Margin**

614. SEOCH may, on any trading day, demand Intra-day Margin from one or more SEOCH Participants, the amount of which shall be calculated by SEOCH using such methods as it determines to be appropriate including the possibility that margin may be required in respect of intra-day losses or potential losses arising from the purchase or sale of Options Contracts.
615. A SEOCH Participant which receives a demand for Intra-Day Margin shall, to the extent the full amount of any such demand is not covered by SEOCH Collateral provided to SEOCH at the time of the demand, satisfy such demand by payment in cash in the Settlement Currency or in such other currency as SEOCH may from time to time permit for this purpose, no later than one hour after the time of such demand. Such other currency should be one of the approved currencies as referred to in the Operational Clearing Procedures.

### **Special Block Trade Margin**

- 615A. (1) If in the opinion of SEOCH or the Exchange, the executed price of a Block Trade is not fair and reasonable or a significant deviation exists between the executed price and the prevailing market price or between the executed price and the theoretical price determined by SEOCH, or if a Block Trade is executed at such a price that an Intra-day Margin would have been demanded had the trade been executed or as if it has been executed as a normal trade in the Central Orderbook, SEOCH may, within 30 minutes after the Block Trade is executed or after a trade adjustment request in respect of such Block Trade is submitted, demand a Special Block Trade Margin from the relevant SEOCH Participant.
- (2) Special Block Trade Margin shall be collected from SEOCH Participants in accordance with the Operational Clearing Procedures.
- (3) A Block Trade will not be subject to the process of substitution and novation in accordance with the First Schedule to these Clearing Rules unless any Special Block Trade Margin in respect of the Block Trade has been paid or otherwise considered by SEOCH to have been satisfied by the prescribed time. Any trade adjustment request in respect of a Block Trade will not be accepted by SEOCH unless any Special Block Trade Margin arising from such trade adjustment has been paid or otherwise considered by SEOCH to have been satisfied by the prescribed time.

### **Interest, costs and charges**

616. SEOCH may pay or charge SEOCH Participants interest at such positive or negative rate, and may levy costs and charges in such amount, as may from time to time be determined by the SEOCH Board in accordance with the Operational Clearing Procedures on cash standing to the credit of the accounts kept pursuant to Clearing Rule 621 paid by SEOCH Participants and on cash contributions to the Reserve Fund.

### **Fees, Levies and Charges**

617. Each SEOCH Participant shall pay to SEOCH, in respect of every OCH Contract to which that SEOCH Participant is party, such clearing fees as may from time to time be prescribed by SEOCH.
618. Each SEOCH Participant shall pay to SEOCH, for transmission to the Exchange, all such fees, commissions, levies and charges as shall be payable pursuant to the Options Trading Rules.
619. Each SEOCH Participant shall pay to SEOCH such other fees and charges as may from time to time be prescribed by SEOCH in respect of the functions specified in the Fee Schedule. SEOCH may add to, change or withdraw such functions, and the fees and charges payable in respect of them, at any time.
620. All amounts payable by each SEOCH Participant pursuant to Clearing Rules 616 to 619 (inclusive) will normally be settled in accordance with the Operational Clearing Procedures.

### **SEOCH CCMS Collateral Accounts**

621. SEOCH shall maintain one or more accounts in CCMS in respect of SEOCH Collateral delivered to it by each SEOCH Participant and each such account shall bear the name of that SEOCH Participant.
622. SEOCH will reflect the separation in the manner described in the Operational Clearing Procedures of SEOCH Collateral in respect of margin for OCH Contracts in the various CCMS accounts maintained by SEOCH Participants. However, this shall not in any way detract from or otherwise affect the capacity, as principal, of each SEOCH Participant under each OCH Contract or the provisions of Clearing Rule 205 or 206 and shall not give rise to any trust or other equitable interest of any kind in respect of any money or other property standing to the credit of any such separate CCMS accounts.
623. [Repealed]

### **Position Limits**

624. SEOCH may, from time to time in its absolute discretion and for such period as it thinks fit, prescribe the maximum number or value of long or short open positions or combinations of such positions which an SEOCH Participant is permitted to hold at any particular time or hold over any time period in any manner it may determine including, without limitation, in respect of any one option series, in respect of one or more option series combined, in relation to any particular underlying security or across a number of different underlying securities and, in each case, whether on a gross or a net basis.
- 625A. Any position limit from time to time imposed by SEOCH pursuant to Clearing Rule 624, 625 or 627 shall not be less stringent than that prescribed by the Commission under Section 35(1) of the Securities and Futures Ordinance unless the SEOCH Participant in question has been authorised by or notified to the Exchange under the Options Trading

Rules or Operational Trading Procedures to hold or control open positions in excess of such limit.

625. SEOCH may at any time impose, increase, reduce or remove any position limits by giving immediate notice to the Exchange and each affected SEOCH Participant. Notice may be given orally (such oral notice to be followed by a written notice) or in writing as SEOCH considers to be appropriate in the circumstances and any imposition, increase, reduction or removal of position limits shall take effect as stipulated in the notice. SEOCH shall not be required to give any reasons for its decision to impose, increase, reduce or remove any 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.
628. If a SEOCH participant exceeds any position limits imposed, that SEOCH Participant must immediately notify SEOCH and take appropriate steps to ensure that, within such period as SEOCH may specify, it is in compliance with such position limits.
629. SEOCH may, from time to time in its absolute discretion and for such period as it thinks fit, prescribe requirements for a SEOCH Participant to report to SEOCH open positions held by that SEOCH Participant that exceed certain levels with respect to number or value, without limitation in respect of one option series, in respect of one or more option series combined, in relation to any particular underlying security or across a number of underlying securities, in respect of positions held in its House Account, Omnibus Client Account, any Individual Client Account, Client Offset Claim Account or Market Maker Account or any other account in DCASS, and, in each case, whether on a gross or a net basis.
630. SEOCH may require any SEOCH Participant to disclose to SEOCH the identity of clients beneficially interested directly or indirectly in Contracts comprised in positions which are subject to position limits.

### **Exercise Limits**

631. SEOCH may, from time to time and in its absolute discretion, impose limitations on the number and type of Contracts relating to one or more option classes or option series which may be exercised at any one time or for any period of time if, in its view, this will be in the interests of maintaining good risk management and clearing practices.

## 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:-

- (1) failure by a SEOCH Participant to pay Premium when due;
- (2) failure by a SEOCH Participant to deliver SEOCH Collateral in respect of margin when due;
- (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 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;
- (4) failure by a SEOCH Participant to pay any fees, charges, levies or other amounts when due;
- (5) failure by a SEOCH Participant to duly perform or comply with any of its delivery obligations when due;
- (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;
- (6) where a SEOCH Participant is unable to pay its debts as they fall due or any resolution is passed, or order made, for the winding-up of a SEOCH Participant or any steps are taken by, or proceedings instituted against, a SEOCH Participant seeking to render it insolvent or seeking liquidation, winding-up, reorganisation, dissolution, protection or relief from, or composition of, its debts or any receiver, liquidator or other similar official is appointed in respect of the whole or any substantial part of the assets of a SEOCH Participant;
- (7) failure by a SEOCH Participant to comply with any provision of the Financial Resources Rules or any financial resources requirement prescribed by SEOCH, any position limits pursuant to Clearing Rules 624 to 630 (inclusive) or any exercise limits pursuant to Clearing Rule 631 for the time being in effect;



- (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;
- (8) where a SEOCH Participant makes any false return to SEOCH or knowingly or carelessly provides any information or makes any statement which is untrue or misleading to SEOCH, the Exchange, or a recognized exchange controller which is the controller of SEOCH;
- (9) 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;
- (9a) failure by a SEOCH Participant to have a valid, binding and effective CCASS Clearing Agreement with another CCASS GCP in respect of the delivery obligation where the CCASS GCP of the SEOCH Participant is declared as a defaulter or suspended by HKSCC;
- (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;
- (10) failure by a SEOCH Participant, in its capacity as an Options Trading Exchange Participant, to comply with any provision of the Options Trading Rules and, as a result of such failure, any restriction on its ability to enter into Options Contracts is imposed by the Exchange;
- (11) failure by a SEOCH Participant, within any required time period, to take any action required by SEOCH to ensure compliance with these Clearing 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
- (13) where SEOCH becomes aware of circumstances affecting a client, associate or affiliate of a SEOCH Participant which might, in the opinion of SEOCH, result in that SEOCH Participant being unable to meet any of its obligations in relation to its Exchange Traded Options Business.

A SEOCH Participant shall immediately give notice to SEOCH if it is, or if it suspects that it is likely to become, unable to meet its obligations under one or more Contracts to which it is party.

702. Notwithstanding the provisions of Chapter 8 of these Clearing Rules, if SEOCH in its absolute discretion determines that an event of default has occurred in respect of a SEOCH Participant, SEOCH may take such steps including, without limitation, those set

out in Clearing Rule 703, as in the circumstances appear to it, in its absolute discretion, best calculated:-

- (1) to discharge the Defaulting SEOCH Participant's rights, obligations and liabilities under or in respect of one or more or all OCH Contracts to which that SEOCH Participant is party;
- (2) to minimise losses or the potential for losses to SEOCH as a result of the default of that SEOCH Participant; or
- (3) to complete the process set out in Clearing Rule 705.

703. Steps which may be taken by SEOCH in relation to a Defaulting, suspended or resigning SEOCH Participant, without the need for any prior notice to or consent of that SEOCH Participant, include:-

- (1) to limit (on such terms as it shall think fit), suspend or terminate access, in conjunction with the Exchange, of that SEOCH Participant to the Options Clearing System;
- (2) to direct that SEOCH Participant or to act on its behalf, to close any Contracts to which that SEOCH Participant is party;
- (2a) to direct that SEOCH Participant or to act on its behalf, to sell any Contracts to which that SEOCH Participant is party by auction and/or private arrangement on-market or off-market;
- (3) to direct that SEOCH Participant or to act on its behalf, to discharge any delivery obligations of that SEOCH Participant;
- (4) to direct that SEOCH Participant or to act on its behalf, to exercise any OCH Contract to which that SEOCH Participant is party;
- (5) to direct that SEOCH Participant to give-up, or to do so on its behalf, any OCH Contract to which that SEOCH Participant is party to another SEOCH Participant who agrees to accept such give-up and cause to be paid or transferred any SEOCH Collateral in respect of margin for such OCH Contract to that other SEOCH Participant;
- (6) to direct that SEOCH Participant or to act on its behalf, to make or procure the making of any OCH Contracts to which that SEOCH Participant will be party via auction and/or private arrangement, including, without limitation, any OCH Contracts for the purpose of hedging risk to which that SEOCH Participant is exposed;
- (7) to direct that SEOCH Participant or to act on its behalf, to make or procure the making of any contract for the sale, purchase, acquisition or other disposition of any securities, futures contracts or commodities on an exchange or otherwise;
- (8) without prior written notice to that SEOCH Participant and without having to obtain from that SEOCH Participant or any other person any power of attorney, consent or document, to sell or otherwise realize any non-cash SEOCH Collateral provided by that SEOCH Participant to SEOCH or held by any third party on behalf of SEOCH and to do such acts and things and execute such documents as SEOCH may consider necessary or expedient for such purpose;
- (9) without prejudice to any other right of SEOCH, to take such action as SEOCH may consider necessary for its own protection in the name and at the expense of

that SEOCH Participant with regard to any OCH Contract to which that SEOCH Participant is a party;

- (10) subject to Clearing Rule 707, to apply any funds standing to the credit of that SEOCH Participant (including, but not limited to, any Premium, SEOCH Collateral in respect of margin or any Reserve Fund Contributions, the proceeds realised from the closing of long open positions, the proceeds realised from the liquidation of non-cash SEOCH Collateral, the proceeds of the sale of any securities in relation to delivery obligations or funds received under a financial instrument) for the purpose of discharging that SEOCH Participant's obligations in respect of any OCH Contracts to which it is party;
- (11) to effect without entering into any further Contracts, the closing by means of set off of any pair of long and short open positions which exist in the same quantity in respect of the same option series (i) within or between any of the SEOCH Participant's House Account, Market Maker Account, Daily Account and Sink Account; (ii) within any of its Individual Client Account(s); and (iii) other than long open positions in respect of which Premium has been fully paid, within any of its Omnibus Client Account(s) or between any of its Omnibus Client Account(s) and Client Offset Claim Account(s) in DCASS;
- (12) to direct that SEOCH Participant to submit for approval to SEOCH a plan for the orderly winding down of its Exchange Traded Options Business;
- (13) to take any step which in the circumstances is open to SEOCH under the Options Trading Rules; and
- (14) to take any other step calculated by SEOCH to complete the process set out in Clearing Rule 705,

any action taken by SEOCH under this Clearing Rule will be undertaken at what SEOCH determines to be the best prevailing price and terms available in its own discretion (but taking into account that SEOCH may need to act promptly and provided that SEOCH shall have no liability if it acts in good faith).

703A. Upon the occurrence of an event of default under Clearing Rule 701, the Chairman of the SEOCH Board may declare the SEOCH Participant to be a Defaulter.

704. Without prejudice to Clearing Rule 703, following a determination of an event of default in respect of a SEOCH Participant, a SEOCH Participant may lodge an appeal in respect of any such determination, in which case, SEOCH will supply to the SEOCH Participant in written form an account of its reasons for such determination.

705. If SEOCH determines, in its absolute discretion, that an event of default has occurred and that it is necessary or appropriate to take action against a Defaulting SEOCH Participant in relation to all OCH Contracts to which that SEOCH Participant is party, SEOCH may complete the following process:-

- (1) there shall be brought into account all sums payable by or to the Defaulting SEOCH Participant pursuant to these Clearing Rules;
- (2) the sums so payable shall be aggregated or set off so as to produce a net sum or, where required by Clearing Rule 705, two net sums;
- (3) such net sum, or each such net sum:-
  - (a) if payable by the Defaulting SEOCH Participant to SEOCH, shall be set off against any SEOCH Collateral provided by that SEOCH Participant (or

any other property the subject of a market charge) so as to produce a further net sum payable by or to that SEOCH Participant to SEOCH; or

- (b) if payable by SEOCH to the Defaulting SEOCH Participant, SEOCH will redeliver SEOCH Collateral or property which is subject to a market charge so as to produce a further net sum; and
- (4) SEOCH shall certify the sum or each sum finally payable by the Defaulting or resigning SEOCH Participant to SEOCH or by SEOCH to that SEOCH Participant, or the fact that no sum is finally payable by either party to the other, such certificate to be conclusive as to the discharge of that SEOCH Participant's rights and liabilities in respect of the OCH Contracts to which it relates.

Upon the completion of the process in this Clearing Rule, SEOCH will make a report as required by the Securities and Futures Ordinance.

### General

- 706. SEOCH shall not have a lien or other interest in long open positions in respect of which Premium has been fully paid and which are held in DCASS in (i) an Omnibus Client Account or (ii) an Individual Client Account which only contains long positions in respect of which Premium has been fully paid. The authority of SEOCH under these Rules in relation to Contracts comprised in such long open positions and the proceeds of their sale will not generally be used to set off liabilities in respect of short open positions in, or liabilities arising from, the same account or any other accounts maintained by the SEOCH Participant in DCASS.
- 707. Any amount standing to the credit of the House Account of a SEOCH Participant may be applied by SEOCH to set off any liabilities of that SEOCH Participant to SEOCH.
- 708. SEOCH may appoint any person to take or assist it in taking any step under these Clearing Rules and to complete or assist it in completing the process set out in Clearing Rules 703 and 705. SEOCH may at any time consult with any person, and act in reliance upon advice received, in relation to any action it takes.
- 708A. (a) Each SEOCH Participant agrees and undertakes that, in consideration of it being provided with Default Information (in such capacity a “**Receiving SEOCH Participant**”) it shall: (i) keep the Default Information strictly confidential and secure; (ii) only use the Default Information for the Permitted Purpose; and (iii) only disclose the Default Information to its employees, officers, representatives, advisers or Receiving SEOCH Participant Affiliates for the Permitted Purpose (and to that extent only) and on a strict need to know basis.
- (b) Upon demand by SEOCH and to the extent reasonably practicable, and in any event upon conclusion of the actions set out in Clearing Rule 703, the Receiving SEOCH Participant shall promptly return to SEOCH all or any part of the Default Information in its possession or the possession of any of its employees, officers, representatives, advisers or Receiving Clearing Participant Affiliates in whatever form it may be by a secure method or destroy or procure the destruction of any copies or reproductions of any material, paper, programme or record incorporating the Default Information including the destruction or expungement thereof from any memory device or medium, provided that the Receiving SEOCH Participant may retain copies of any Default Information as required by law. Upon demand by SEOCH, the Receiving SEOCH Participant shall provide to SEOCH a written confirmation that it has fully complied with the foregoing.

- (c) Each Receiving SEOCH Participant shall establish adequate procedures and mechanisms to ensure that the Default Information is, at all times, solely used for the Permitted Purpose by it and any of its employees, officers, representatives, advisers or Receiving SEOCH Participant Affiliates.
  - (d) Nothing in these Clearing Rules shall prohibit disclosure or use of the Default Information if and to the extent: (i) it becomes publicly available other than as a result of a breach of these Clearing Rules by the Receiving SEOCH Participant; (ii) the Receiving SEOCH Participant is required to do so by order of a court of competent jurisdiction which arises as a result of the application of a third party; (iii) the Receiving SEOCH Participant is required or requested to do so by any governmental authority which exercises a regulatory or supervisory function over the Receiving SEOCH Participant; or (iv) SEOCH has given prior written approval to the disclosure.
709. Without prejudice to the right of SEOCH to take any step, including any of those specified in Clearing Rule 703, SEOCH may, upon determining that an event of default has occurred, issue a cautionary notice to the Defaulting SEOCH Participant including such directions and requirements to be complied with by the Defaulting SEOCH Participant within such time period as SEOCH may think fit.
710. The exercise by SEOCH of any of its rights under these Clearing Rules is without prejudice to and shall not preclude SEOCH from exercising any other rights (including the right to take disciplinary action) in respect of any default by a SEOCH Participant. Furthermore, no delay or omission on the part of SEOCH in exercising any right, power or remedy shall impair such right, power or remedy or operate as any kind of waiver.
711. A receiver, liquidator or other similar official appointed in respect of a SEOCH Participant must comply with any directions given by SEOCH (or by any person appointed by SEOCH) pursuant to these Clearing Rules.
712. If one or more SEOCH Participants fail to meet their delivery obligations and, in so doing, prevent SEOCH from meeting its delivery obligations, SEOCH may borrow or buy securities (although it is under no obligation to do so) or borrow funds in order to meet delivery obligations under any OCH Contract. Any direct or indirect costs incurred by SEOCH in acquiring securities or borrowing of funds will be debited to the account of the SEOCH Participants whose failure to meet their delivery obligations, in the view of SEOCH, necessitated the acquisition of those securities or borrowing funds by SEOCH. SEOCH may demand immediate payment by the SEOCH Participant in respect of such costs in addition to requiring prompt delivery or payment of the outstanding securities or funds pertaining to the OCH Contract.

### **Indemnity**

713. A SEOCH Participant shall indemnify SEOCH, the Exchange and a recognized exchange controller which is the controller of SEOCH and keep SEOCH, the Exchange and a recognized exchange controller which is the controller of SEOCH indemnified from and against any loss, cost (including cost of enforcement), interests, liability (including any tax or other fiscal liability), claim or damage which SEOCH, the Exchange and a recognized exchange controller which is the controller of SEOCH incur or suffer, directly or indirectly, as a consequence of the use of the Options System by that SEOCH Participant or any default by that SEOCH Participant, whether or not SEOCH takes any steps pursuant to Clearing Rule 703 or any other steps under these Clearing Rules.

### **GCP Obligations on Default, Resignation or other Relevant Circumstances**

714. If SEOCH determines that a default has occurred in respect of a GCP, or where a GCP has resigned pursuant to these Clearing Rules, or where any Clearing Agreements entered into by a GCP with NCPs are deemed to be terminated under Clearing Rule 434A(3), SEOCH may direct that GCP to contact as soon as possible NCPs with whom it has entered into Clearing Agreements, with a view to determining what action, having regard to the default or resignation or other relevant circumstances, those NCPs would like to take in relation to NCP Contracts to which they are party.
715. Where any NCP contacted by a GCP pursuant to Clearing Rule 714 has instructed the GCP to exercise, close or allow the expiration of any NCP Contracts or to give-up any NCP Contracts to another GCP, the GCP shall immediately notify SEOCH of such instructions. SEOCH may authorise or direct the GCP to exercise, close, or allow the expiration of any such NCP Contracts or to request the acceptance of another GCP to a give-up of such NCP Contracts.
716. A GCP to whom NCP Contracts and OCH Contracts are given-up pursuant to Clearing Rule 715 shall, as soon as practicable, enter into a Clearing Agreement in such form or containing such provisions as may from time to time be required by SEOCH with that NCP.
717. Clearing Rules 714 to 716 (inclusive) shall be without prejudice to the actions SEOCH may take pursuant to Clearing Rule 703.

#### **Suspension of SEOCH Participantship**

718. SEOCH may suspend the SEOCH Participantship of a Defaulting SEOCH Participant on such terms and for such period as SEOCH may think fit. SEOCH may also suspend the SEOCH Participantship of any SEOCH Participant which is in violation of these Clearing Rules.

Where a SEOCH Participant is suspended:-

- (1) all monies due to SEOCH shall remain due and payable by the SEOCH Participant as if it had not been suspended;
- (2) unless otherwise directed by SEOCH, all the rights and privileges of SEOCH Participantship shall be suspended in relation to that SEOCH Participant and the access of that SEOCH Participant to the trading and clearing functions of the Options System shall, in conjunction with the Exchange, be suspended;
- (3) the suspension shall not in any way affect the validity or enforceability of any Contract or other agreement or arrangement to which that SEOCH Participant was party prior to the suspension;
- (4) SEOCH may take such action pursuant to these Clearing Rules as it, in its absolute discretion, sees fit;
- (5) a suspended SEOCH Participant shall continue to be bound by these Clearing Rules until such time as it receives notice of termination of its SEOCH Participantship; and
- (6) notice of suspension of the SEOCH Participantship of any SEOCH Participant will be given by SEOCH as soon as possible to all SEOCH Participants, the Exchange, HKSCC and the Commission.

718A. The Head of Cash and Derivatives Clearing of HKEX may suspend the SEOCH Participantship of a SEOCH Participant if, in its capacity as an Exchange Participant, it voluntarily suspends its Exchange Participantship or is suspended from Exchange Participantship or accessing the System provided he has first obtained the approval of the Chairman of the SEOCH Board which may be given orally or in writing.

### **Expulsion**

719. Where a SEOCH Participant is expelled:-

- (1) all monies due to SEOCH shall remain due and payable by the SEOCH Participant as if it had not been expelled; and
- (2) all of the rights and privileges of SEOCH Participantship shall be extinguished in relation to that SEOCH Participant and the access of that SEOCH Participant to the Options System shall, in conjunction with the Exchange, be terminated.

720. Notice of expulsion of any SEOCH Participant will be given by SEOCH as soon as practicable to all other SEOCH Participants, to the Exchange, to HKSCC and to the Commission.

721. No SEOCH Participant who has been expelled from SEOCH Participantship shall be eligible for re-admission, unless otherwise agreed by the SEOCH Board in its absolute discretion.

### **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:-

- (1) deduct any amount in respect of which it is indemnified by an expelled or resigning SEOCH Participant pursuant to these Clearing Rules;
- (2) deduct an amount determined by the SEOCH Board to be adequate to satisfy any outstanding contingent liabilities of an expelled or resigning SEOCH Participant;
- (3) deduct any amount of the Initial Contribution or Variable Contribution of an expelled or resigning SEOCH Participant which has been applied towards any payment in accordance with Clearing Rule 413; and
- (4) include any monies recovered from Defaulters under Clearing Rule 414, as determined on the effective date of termination of its SEOCH Participantship by SEOCH.

723. To the extent that resources of the Reserve Fund in excess of the value of an expelled SEOCH Participant's SEOCH Collateral in respect of Reserve Fund Contributions are applied in discharging the rights and liabilities under any OCH Contracts to which it was party, SEOCH may recover in full the amount so applied from that SEOCH Participant as a debt due to SEOCH from it.

### **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 ` 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.

#### **Default Procedures Prevail**

724. The Clearing Rules contained in this Chapter are without prejudice to, but in the case of any conflict take precedence over, any other provision of these Clearing Rules, the Operational Clearing Procedures, the Options Trading Rules, Operational Trading Procedures, the Exchange Rules or the terms and conditions of any Contract.

## CHAPTER 8

### DISCIPLINARY

#### Situations Calling for Disciplinary Action

801. The situations calling for disciplinary action against an Options Trading Exchange Participant under the Options Trading Rules shall apply equally to a SEOCH Participant in its capacity as such, to the extent that such situations are capable of being construed as applicable to the activities of a SEOCH Participant.
802. In addition to the situations calling for disciplinary action against a SEOCH Participant pursuant to Clearing Rule 801, SEOCH may take disciplinary action in relation to SEOCH Participants:-
- (1) if the SEOCH Participant contravenes these Clearing Rules, the Operational Clearing Procedures or any conditions attached to its SEOCH Participantship;
  - (2) if the SEOCH Participant is or has been guilty of any act or omission relating to its clearing activities which may adversely affect the reputation of SEOCH and/or prejudice the interests of any person who trades or may trade in any of the markets for which SEOCH provides clearing services;
  - (3) if the SEOCH Participant makes a material misstatement or omission or misleads or attempts to mislead SEOCH, the Exchange, or a recognized exchange controller which is the controller of SEOCH or their respective employees or officers;
  - (4) if the SEOCH Participant knowingly disseminates, or carelessly allows to be disseminated, false, misleading or inaccurate information which affects or tends to affect the market price of any Options Contract or other securities;
  - (5) if SEOCH has determined an event of default has occurred in relation to that SEOCH Participant; or
  - (6) if the SEOCH participant fails to provide information requested by an exchange, clearing house, governmental, regulatory or other competent authority or an organization (whether within or outside Hong Kong) with whom HKEX, SEOCH or the Exchange has entered into an information sharing arrangement or agreement or pursuant to Clearing Rule 403(17) or Rule 403E.

#### Co-operation

803. In any investigation into a disciplinary matter or into circumstances possibly giving rise to a disciplinary matter, every SEOCH Participant shall co-operate with SEOCH, the SEOCH Board, the Exchange, a recognized exchange controller which is a controller of the SEOCH, the Commission and any other person or body of persons to whom the investigation may be entrusted.

#### Notification

804. Any proposal to take disciplinary proceedings, and the outcome of any disciplinary proceedings, shall be notified to the Exchange, the Commission and HKSCC.

#### Procedures

805. In respect of any disciplinary matter arising in relation to a SEOCH Participant, the conduct of any disciplinary proceedings and any subsequent appeals proceedings shall

be as determined by the SEOCH Board from time to time. The SEOCH Board may delegate any or all of its powers in relation to disciplinary matters to the Board, HKEX's staff, or to any other person or body of persons.

#### **The SEOCH Board's Disciplinary Powers**

806. The SEOCH Board may exercise any of the following disciplinary powers:-

- (1) to expel a SEOCH Participant by serving on it a notice of expulsion;
- (2) to call upon a SEOCH Participant, by written notice, to resign (failing the receipt of notice of such resignation from the SEOCH Participant within 7 days of the date of notice, the SEOCH Board may exercise the power of expulsion);
- (3) to suspend a SEOCH Participant from SEOCH Participantship pursuant to Clearing Rule 718 on such terms and for such period as the SEOCH Board shall think fit;
- (4) to impose a fine on a SEOCH Participant; or
- (5) to censure publicly or privately a SEOCH Participant.

#### **Summary Offences**

807. SEOCH may take summary disciplinary measures against any SEOCH Participant who fails to pay Premium, Settlement Amount or deliver SEOCH Collateral in respect of margin when due or who wrongly records or allocates trades or positions in or to any account of the SEOCH Participant in DCASS. The summary disciplinary measures SEOCH may take without prior notice to the SEOCH Participant are to publicly or privately censure the SEOCH Participant or to impose a fine on the SEOCH Participant in an amount not in excess of HK\$ 100,000.

## **CHAPTER 9**

### **EMERGENCY PROCEDURES**

#### **Suspension of Access to the Options Clearing System**

901. SEOCH may at any time, in conjunction with the Exchange and in prior consultation with the Commission, suspend access of one or more SEOCH Participants to the Options Clearing System on such terms as it may think fit.

#### **Emergency Committee**

902. Any Emergency Committee appointed by the SEOCH Board in accordance with the Articles shall have full power to regulate the affairs of SEOCH if the SEOCH Board decides that circumstances so require.

#### **Typhoons, Extreme Conditions and Rainstorms**

903. Clearing and settlement services may be temporarily suspended in accordance with the Operational Clearing Procedures in the event that a Typhoon Signal No. 8 or above is hoisted, Extreme Conditions are announced or a Black Rainstorm Warning is issued.

#### **Instructions to SEOCH**

904. In circumstances where access to the Options Clearing System is withdrawn by SEOCH pursuant to these Clearing Rules in relation to one or more SEOCH Participant, SEOCH may allow those SEOCH Participants to provide exercise instructions and other permitted instructions relating to Options Clearing System functions to SEOCH by such means as may be acceptable to SEOCH, and SEOCH will, subject to and in accordance with the Operational Clearing Procedures, perform the relevant Options Clearing System functions on behalf of such SEOCH Participants. All the provisions of these Clearing Rules, other than in relation to entry into the Options Clearing System, shall apply as if the SEOCH Participant had itself entered them into the Options Clearing System.

## CHAPTER 10

### STAMP DUTY

#### Stamp Duty Assessment and Collection

1001. For the purposes only of assessment and collection of stamp duty: -

- (1) immediately upon the valid exercise of an OCH Contract pursuant to Clearing Rule 501 or 502 and the allocation of that OCH Contract to a short open position of a SEOCH Participant pursuant to Clearing Rule 505, there shall arise a contract for the purchase and sale of underlying securities between the SEOCH Participants party to those OCH Contracts and upon the terms of the Standard Contract and the terms of the delivery obligations under the validly exercised OCH Contracts. The contract so arising shall be used to determine the stamp duty payable on such purchase and sale of underlying securities, but shall otherwise immediately be subsumed into the validly exercised OCH Contracts and of no other or further force or effect. SEOCH Participants shall perform delivery obligations under the validly exercised OCH Contracts, which shall not be affected by this Clearing Rule;
- (2) although all Contracts are entered into by the parties to those Contracts as principals, as provided in the Options Trading Rules and these Clearing Rules, the delivery and receipt of underlying securities following exercise of a Contract may be deemed to occur under an agency relationship between Options Trading Exchange Participants as agent for their clients and where applicable between SEOCH Participants as agents for NCPs, but only for the purposes of this Clearing Rule, which shall not otherwise affect the rights and obligations of the parties to Contracts under the Options Trading Rules and these Clearing Rules; and
- (3) SEOCH will act on SEOCH Participants' behalf to input the purchase and sale transactions arising under Clearing Rule 1001(1) into the Exchange Trading System. Such transactions shall be subject to Chapter 13 of the Exchange Rules.

## CHAPTER 11

### DCASS

#### Introduction

1101. SEOCH Participants shall ensure that DCASS is operated, and Contracts are cleared and settled through DCASS, in accordance with these Clearing Rules, the Operational Clearing Procedures, the DCASS User Guide and such other procedures and requirements as may be specified by SEOCH from time to time, including those specified in the DCASS Agreement.

#### Connection to DCASS

1102. Prior to the establishment of an electronic connection of a SEOCH Participant to DCASS ("DCASS connection"), a DCASS Agreement in a form prescribed by SEOCH from time to time shall be entered into.

1102A. A SEOCH Participant shall establish its DCASS connection via the central gateway provided by SEOCH.

1103. SEOCH reserves the right to limit the number of DCASS connections per SEOCH Participant.

1104. SEOCH reserves the right immediately to disconnect a DCASS connection and prohibit any person (whether a SEOCH Participant or not) from having access to DCASS on such conditions as SEOCH thinks fit.

1105. SEOCH Participants shall follow such security procedures pertaining to their DCASS connections as are from time to time specified by SEOCH.

1106. SEOCH Participants shall notify SEOCH immediately if their DCASS connections or clearing activities on DCASS are affected by any disruptions, whether technical or otherwise.

1107. SEOCH may from time to time impose such requirements on SEOCH Participants as to the operation of and access to DCASS as SEOCH may think fit.

#### DCASS Equipment and Software

1108. Equipment and software which are required for DCASS connection shall be specified by SEOCH from time to time.

1109. SEOCH reserves the right to approve any equipment and software not specified by SEOCH in accordance with Clearing Rule 1108. In the event that a SEOCH Participant wishes to use any equipment and software other than that specified by SEOCH, SEOCH may require prior to DCASS connection that such equipment and software are thoroughly tested by the SEOCH Participant and determined by SEOCH not to have any detrimental impact on the operation of DCASS.



1110. SEOCH Participants shall install all applicable software specified by SEOCH in the latest version in force together with system program software in the latest version specified by SEOCH. SEOCH Participants shall not alter, modify, reverse engineer, change or copy programs or software supplied by SEOCH without SEOCH's prior written permission.
1111. SEOCH Participants shall grant SEOCH access for the inspection of equipment, software or applications relating to their DCASS connections. Such inspections shall take place wherever practicable at an agreed time and in the presence of the SEOCH Participant in question.
1112. Repealed

### **Backup Centre for DCASS**

- 1112A. In case SEOCH Participants cannot perform post-trade functions via DCASS due to technical or other reasons, they can request the use of the backup centre provided by SEOCH to perform such functions. For the service hours of the backup centre and other details, please refer to the DCASS User Guide.

### **Liability of SEOCH Participants**

1113. Each SEOCH Participant shall be responsible and liable for all instructions and clearing and settlement activities arising from his DCASS connection, and any unstable condition, breakdown or damage to DCASS or other consequences resulting from the use of such DCASS connection, whether by the SEOCH Participant or any other person.
1114. No action shall lie against and no liability whatsoever nature and howsoever arising, whether in contract, tort or otherwise, shall be incurred by SEOCH, the Exchange, the SEOCH Board, HKCC, HKSCC, any HKEX staff or a recognized exchange controller which is the controller of SEOCH directly or indirectly in connection with any failure, error or defect in, or unavailability of, DCASS or any other equipment, systems, services or facilities of SEOCH.

## CHAPTER 12

### CCMS

#### Introduction

1201. SEOCH Participants shall ensure that CCMS is operated in accordance with these Clearing Rules, the Operational Clearing Procedures, the CCMS Terminal User Guide and such other procedures and requirements as may be specified by SEOCH from time to time.

#### Connection to CCMS

1202. SEOCH reserves the right immediately to disconnect the electronic connection of a SEOCH Participant to CCMS ("CCMS connection") and prohibit any person (whether a SEOCH Participant or not) from having access to CCMS on such conditions as SEOCH thinks fit.
1203. SEOCH Participants shall follow such security procedures pertaining to their CCMS connections as are from time to time specified by SEOCH in the CCMS Terminal User Guide. It is the responsibility of each SEOCH Participant to ensure the security of its access to CCMS at all times.
1204. SEOCH Participants shall notify SEOCH immediately if their CCMS connections or collateral management activities on CCMS are affected by any disruptions, whether technical or otherwise.
1205. SEOCH may from time to time impose such requirements on SEOCH Participants as to the operation of and access to CCMS as SEOCH may think fit.

#### CCMS equipment and software

1206. Equipment and software which are required for connection to CCMS shall be specified by SEOCH from time to time.
1207. SEOCH reserves the right to approve any equipment and software not specified by SEOCH in accordance with Clearing House Rule 1206. In the event that a SEOCH Participant wishes to use any equipment and software other than that specified by SEOCH, SEOCH may require prior to CCMS connection that such equipment and software are thoroughly tested by the SEOCH Participant and determined by SEOCH not to have any detrimental impact on the operation of CCMS.
1208. SEOCH Participants shall install all applicable software specified by SEOCH in the latest version in force together with system program software in the latest version specified by SEOCH. SEOCH Participants shall not alter, modify, reverse engineer, change or copy programs or software supplied by SEOCH without SEOCH's prior written permission.
1209. SEOCH Participants shall grant SEOCH access for the inspection of equipment, software or applications relating to their CCMS connections. Such inspections shall take place wherever practicable at an agreed time and in the presence of the SEOCH Participant in question.

1210. The cost for the requisite equipment supplied by SEOCH and the installation and maintenance thereof as detailed in Appendix G shall be borne by the SEOCH Participant.

### **Backup Centre for CCMS**

1211. In case SEOCH Participants cannot perform collateral management functions via CCMS due to technical or other reasons for in CCMS, they can request the use of the backup centre provided by SEOCH to perform such functions. For the service hours of the backup centre and other details, please refer to the CCMS Terminal User Guide.

### **Liability of SEOCH Participants**

1212. Each SEOCH Participant shall be responsible and liable for all instructions and activities arising from its CCMS connection, and any unstable condition, breakdown or damage to CCMS or other consequences resulting from the use of such CCMS connection, whether by the SEOCH Participant or any other person.

1213. No action shall lie against and no liability whatsoever nature and howsoever arising, whether in contract, tort or otherwise, shall be incurred by SEOCH, the Exchange, the SEOCH Board, HKCC, HKSCC, any HKEX staff or a recognized exchange controller which is the controller of SEOCH directly or indirectly in connection with any failure, error or defect in, or unavailability of, CCMS or any other equipment, systems, services or facilities 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.

## **FIRST SCHEDULE**

### **PROCESS FOR SUBSTITUTION AND NOVATION OF OPTIONS CONTRACTS**

Immediately upon an Options Contract being validly made under Options Trading Rule 513 by operation of Clearing Rule 202 and this First Schedule to these Clearing Rules, either:-

1. the Options Contract shall be replaced by novation with 2 OCH Contracts on the terms of that Options Contract recorded by SEOCH. One OCH Contract shall be between, as seller, SEOCH and, as buyer, the SEOCH Participant that is recorded as buyer of that Options Contract. The other OCH Contract shall be between, as buyer, SEOCH and, as seller, the SEOCH Participant that is recorded as the seller of that Options Contract; or
2. where at least one of the parties to an Options Contract is an NCP:-
  - (a) the GCP of each such NCP that has been designated for clearing Contracts shall, by operation of Clearing Rule 202 and this First Schedule to these Clearing Rules and the Options Trading Rules, become a party to that Options Contract as principal in substitution for, and with exactly the same rights and obligations under that Options Contract as, that NCP immediately upon the details of that Options Contract being recorded in the Transaction Register of the Options Trading System. That Options Contract shall, by operation of Clearing Rule 202 and this First Schedule to these Clearing Rules, be immediately replaced by novation with two OCH Contracts on the terms of that Options Contract recorded by SEOCH. One OCH Contract shall be between, as seller, SEOCH and, as buyer, either the Options Trading Exchange Participant that bought under that Options Contract or, where the Options Trading Exchange Participant is an NCP, the GCP that was substituted for that NCP. The other OCH Contract shall be between, as buyer, SEOCH and, as seller, either the Options Trading Exchange Participant that sold under that Options Contract or, where the Options Trading Exchange Participant is an NCP, the GCP that was substituted for that NCP; and
  - (b) immediately upon novation of that Options Contract, there shall arise, by operation of Clearing Rule 202 and this First Schedule to these Clearing Rules and the Options Trading Rules, a contract between each such NCP and the GCP that was substituted for that NCP as principals to such contract and subject to the terms and conditions of that Options Contract (an NCP Contract). The GCP shall, if buying under the Options Contract, sell to the NCP under the NCP Contract (and vice versa).

## SECOND SCHEDULE

### EFFECT OF GIVE-UPS ON OCH CONTRACTS AND NCP CONTRACTS

1. Immediately upon the recording by the Options Clearing System of the acceptance of a give-up:-
  - (1) if the requesting and accepting Options Trading Exchange Participants are both SEOCH Participants, the OCH Contract specified in the accepted give-up request by the requesting Options Trading Exchange Participant shall, by operation of Clearing Rule 210 and this Second Schedule to these Clearing Rules, be replaced by novation with an OCH Contract on identical terms between the accepting Options Trading Exchange Participant (in its capacity as a SEOCH Participant) and SEOCH;
  - (2) if the give-up request is made by a designated GCP on the instruction of an NCP for whom it clears and the accepting Options Trading Exchange Participant is a SEOCH Participant:-
    - (a) the NCP Contract between the GCP and the NCP specified in the accepted give-up requested by the GCP shall, by operation of Clearing Rule 210 and this Second Schedule to these Clearing Rules and the Options Trading Rules, be discharged and of no further force or effect; and
    - (b) an OCH Contract, in the same option series as that NCP Contract, to which that GCP is party shall, by operation of Clearing Rule 210 and this Second Schedule to these Clearing Rules, be replaced by novation with an OCH Contract on identical terms between the accepting Options Trading Exchange Participant (in its capacity as a SEOCH Participant) and SEOCH;
  - (3) if the requesting Options Trading Exchange Participant is a SEOCH Participant and the give-up is accepted by a designated GCP on the instruction of an NCP for whom it clears:-
    - (a) the OCH Contract specified in the accepted give-up request by the requesting Options Trading Exchange Participant shall, by operation of Clearing Rule 210 and this Second Schedule to these Clearing Rules, be replaced by novation with an OCH Contract on identical terms between SEOCH and the designated GCP; and
    - (b) there shall arise, immediately upon the novation of that OCH Contract and by operation of Clearing Rule 210 and this Second Schedule to these Clearing Rules and the Options Trading Rules, an NCP Contract between the NCP and that GCP under which that GCP shall sell to the NCP if the requesting Options Trading Exchange Participant bought under the OCH Contract specified in its accepted give-up request, or buy from the NCP if the requesting Options Trading Exchange Participant sold under that OCH Contract; and
  - (4) if the give-up is requested by a designated GCP on the instruction of an NCP for whom it clears and the give-up is accepted by another designated GCP on the instruction of an NCP for whom that other designated GCP clears:-
    - (a) the NCP Contract between the requesting GCP and its NCP specified in the accepted give-up request by the requesting GCP shall, by operation of Clearing Rule 210 and this Second Schedule to these Clearing Rules and the Options Trading Rules, be discharged and of no further force or effect;

- (b) an OCH Contract in the same option series as that NCP Contract, to which that requesting GCP is party shall, by operation of Clearing Rule 210 and this Second Schedule to these Clearing Rules, be replaced by novation with an OCH Contract on identical terms between SEOCH and the accepting GCP; and
  - (c) there shall arise, immediately upon the novation of that OCH Contract and by operation of Clearing Rule 210 and this Second Schedule to these Clearing Rules and the Options Trading Rules, an NCP Contract between the accepting GCP and its NCP on identical terms to the discharged NCP Contract between the requesting GCP and its NCP.
- 2. Where, pursuant to these Clearing Rules, an OCH Contract of a Defaulting, suspended or resigning SEOCH Participant is given-up, such give-up shall take place by way of novation by operation of Clearing Rule 210 and this Second Schedule to these Clearing Rules. The OCH Contract which is given-up shall be novated into a new OCH Contract on identical terms to that OCH Contract between the SEOCH Participant accepting the give-up and SEOCH.
- 3. If a give-up is not so accepted, the Contracts which had arisen as a consequence of the original Options Contract shall remain in full force and effect, as if the give-up had never been requested.