

香港聯合交易所期權結算所有限公司

(香港交易及結算所有限公司全資附屬公司)

**THE SEHK OPTIONS CLEARING HOUSE LIMITED**

(A wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited)

## 通告 CIRCULAR

Subject: Market Readiness Related Information for Severe Weather Trading

Enquiry: DCASS Hotline<sup>1</sup> at 2979 7222 / Email: [clearingpsd@hkex.com.hk](mailto:clearingpsd@hkex.com.hk)

Reference is made to the Consultation Conclusion for Severe Weather Trading (“SWT”) of Hong Kong Securities and Derivatives Markets published on 18 June 2024 (“[Consultation Conclusions](#)”). SWT will be implemented on 23 September 2024, subject to regulatory approval. Clearing Participants (“CP”) of The SEHK Options Clearing House Limited (“the Clearing House” or “SEOCH”) are requested to note and/or observe the following:

### **A) Readiness Declaration**

#### **(Except for CPs approved under the Assistance Scheme as stated in Section B of this Circular)**

Upon the implementation of SWT, clearing and settlement of stock option contracts in SEOCH will remain available during severe weather (“SW”) conditions<sup>2</sup> (“SWT Day”)<sup>3</sup>. All CPs are required to support the clearing and settlement activities during SW conditions as they normally would do on a regular trading day. CPs can refer to Appendix II of the Consultation Conclusions for a summary of the SWT operational arrangements.

There will be no system change in the stock option market due to the launch of SWT. All CPs are required to declare its Exchange Participants in the Stock Exchange of Hong Kong Limited (“the Exchange” or “SEHK”) (“EP”) and CP SWT readiness by completing the same form available at

<sup>1</sup> All calls to and from the Enquiry Hotline may be recorded. HKEX Privacy Policy Statement is available [here](#).

<sup>2</sup> Including Typhoon Signal No. 8 or above or the Black Rainstorm Warning issued by the Hong Kong Observatory, or “Extreme Conditions” announcement by the HKSAR Government

<sup>3</sup> With reference to international standards and practices on the operation of the securities and derivatives markets, HKEX will assess specific circumstances in consultation with the HKSAR Government and the Securities and Futures Commission (“SFC”) to decide whether there is an exceptional situation that warrants the markets to be closed. HKEX will make relevant advance announcements to the market as required.

the SWT [web corner](#) and submit it through Electronic Communication Platform (“ECP”) (<https://ecp2.hkex.com.hk/>) on or before 30 August 2024.

To allow CPs to verify their system and operational flow setup under SWT, as well as to facilitate declaration, CPs are encouraged to participate in the following optional market testing sessions:

1. **DCASS Testing Environment and OAPI Certification Test:** To allow CPs to verify their DCASS OAPI programs if any changes are needed for preparation of SWT, the OAPI certification test fee and the fee for access to the DCASS testing environment will be waived from 16 July 2024 until 23 August 2024.
2. **Practice Session:** A Practice Session will be held on 24 August 2024. Participation in the Practice Session is **optional** and further details will be announced in due course.

### **B) Assistance for Qualified Exchange Participants and Qualified Clearing Participants (“the Scheme”)**

As mentioned in the Consultation Conclusions, for CPs<sup>4</sup> (except for General Clearing Participants) with EP’s capacity which need additional preparation time for their operations under SWT, they may consider applying for the Scheme which is a transitional arrangement for a specified period between 23 September 2024 and 31 December 2024 (both days inclusive) (“Assistance Period”).

An application by a CP must have its EP making the application simultaneously in the same form (i.e. a CP cannot apply for the Scheme without its EP’s application, and vice versa). Applicants that are admitted to the Scheme will be considered as Qualified Exchange Participants (“QEPs”) and Qualified Clearing Participants (“QCPs”) and QCPs will be entitled to waivers from certain requirements and obligations under SEOCH. To ensure robustness of HKEX’s risk management arrangements, QEPs will be subject to certain trading restrictions on a SWT Day during the Assistance Period.

Details of the Scheme, including the eligibility requirements, waivers and trading restrictions are set out in Attachment 1.

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<sup>4</sup> Except for General Clearing Participants

Applicants of the Scheme should complete the form at the [web corner](#) and submit it through the [ECP](#) on or before 29 July 2024. Any late submission will not be accepted. The applications will be subject to vetting and approval process and the result will be notified to the applicants on or before 2 August 2024. Each QEP and QCP will be required to sign an undertaking in prescribed form that they will comply with all the requirements for participation in the Scheme after receiving the notice of approval from the Exchange and the Clearing House.

For market transparency, HKEX will publish the list of QEPs and QCPs as well as the list of other EPs and CPs which have declared not fully ready for SWT at the [web corner](#).

### **C) Other Useful Information**

Further information on SWT, including a frequently asked questions section, is now available at the [web corner](#). In addition, a non-exhaustive list of remote solutions providers is provided in Attachment 2 of the SEHK circular (Ref: [MO/DT/160/24](#)) for CPs' reference.

A summary table of the key dates is provided below:

Application period of assistance scheme	15 July 2024 – 29 July 2024
DCASS Testing Environment and OAPI Certification Test	16 July 2024 – 23 August 2024
Application result of assistance scheme	By 2 August 2024
Optional practice session	24 August 2024
Readiness declaration	By 30 August 2024
Launch of SWT	23 September 2024
Assistance scheme period	23 September 2024 – 31 December 2024

**Cyrus Cheung**  
**Senior Vice President**  
**Clearing & Depository**  
**Operations Division**

*This circular has been issued in the English language with a separate Chinese language translation. If there is any conflict in the circulars between the meaning of Chinese words or terms in the Chinese language version and English words in the English language version, the meaning of the English words shall prevail.*

**Attachment 1**

**Details of the SWT Assistance for QEPs and QCPs**

**A) Eligibility Requirements**

EP	<ol style="list-style-type: none"> <li>1. EP which is a DCP and not acting as a GCP for other EPs;</li> <li>2. EP which is not a Market Maker; and</li> <li>3. It demonstrates justifiable needs for the Scheme<sup>5</sup> and has outlined a plan to enable trading services for SWT by the end of the Scheme.</li> </ol>
CP (Note: must be the same entity as the EP)	<ol style="list-style-type: none"> <li>1. CP which is a DCP and not a GCP of SEOCH;</li> <li>2. Its settlement amount does not impose significant risk exposure to SEOCH. As a point of reference, CPs with an average daily initial margin threshold with SEOCH below HK\$150 million in 2023 are generally not to be considered to be imposing significant risk exposure to SEOCH<sup>6</sup>; and</li> <li>3. It demonstrates justifiable needs for the Scheme<sup>7</sup> and has outlined a plan to enable clearing services for SWT by the end of the Scheme.</li> </ol>

**B) Waivers Available for QEPs and QCPs and Corresponding Arrangements**

**For QEPs**

Nil

<sup>5</sup> The applicant needs to indicate which of their operational, functional or system-related areas would impact their ability to provide trading services under SW conditions.

<sup>6</sup> Application by CPs whose average daily initial margin at or above the stated amount will only be considered on a case-by-case basis.

<sup>7</sup> The applicant needs to indicate which of their operational, functional or system-related areas would impact their ability to provide clearing services under SW conditions.

**For QCPs**

Scenario	Waivers and Corresponding Arrangements
<p>If a SW condition is <b><i>in effect at</i></b> 8:30am on a business day<sup>8</sup></p>	<p><b>1. No additional financial cost and disciplinary actions upon failure to fulfill certain payment obligations:</b></p> <p>If, after making best effort to buffer up its designated settlement accounts in anticipation of a SW condition, a QCP still cannot fulfill the payment obligations with respect to its open positions including but not limited to End of day margins, Reserve Fund Variable Contributions, Ad-hoc intra-day margin calls, Additional Margin, Final Settlement and Fee Settlement and other payment obligations owed to the Clearing House, it will not by itself be considered as an Event of Default by SEOCH. The QCP is required to settle the outstanding amount on the next business day immediately after the SWT Day, failing which will constitute an Event of Default and SEOCH will follow business as usual process to consider declaring a defaulting QCP as a defaulter pursuant to SEOCH Rules and Operational Procedures. Trading Restriction will remain in force to the QEP until the payment obligations have been fulfilled by its QCP.</p> <p><b>2. Eligible for buy-in exemption upon failing to deliver shares for settlement after stock option exercised:</b> During the Assistance Period, Hong Kong Securities Clearing Company Limited (“HKSCC”) may grant an exemption from a Buy-in in respect of short CNS position(s) due on the SWT Day on behalf of a short QCP on the next business day immediately after the SWT Day. Such short QCP is required to submit an application form to HKSCC on the next business day immediately after the SWT Day, failing which HKSCC may consider executing on behalf of such Participant a Buy-in on the next business day or at</p>

<sup>8</sup> Applicable where the SW condition remains in effect for the rest of the business day or is cancelled within the business day

Scenario	Waivers and Corresponding Arrangements
	any time thereafter if it is not practical to do so in accordance with the applicable rules, regulations and procedures.
<p>If a SW condition is <b><u>hoisted after</u></b> 8:30am on a business day<sup>9</sup></p>	<ol style="list-style-type: none"> <li>1. If a QCP cannot fulfill the payment obligations including but not limited to End of day margins, Reserve Fund Variable Contributions, Additional Margin, Final Settlement and Fee Settlement and other payment obligations owed to the Clearing House, it will constitute an Event of Default and SEOCH will follow business as usual process to consider declaring a defaulting QCP as a defaulter pursuant to SEOCH Rules and Operational Procedures.</li> <li>2. If, after making best effort to buffer up its designated settlement accounts in anticipation of a SW condition, a QCP cannot fulfill the intraday payment obligations (including but not limited to Ad-hoc intra-day margin calls), it will not by itself be considered as an Event of Default by SEOCH. The QCP is required to settle the outstanding amount on the next business day immediately after the SWT Day, failing which will constitute an Event of Default and SEOCH will follow business as usual process to consider declaring a defaulting QCP as a defaulter pursuant to SEOCH Rules and Operational Procedures. Trading Restriction will remain in force to the QEP until the payment obligations have been fulfilled by its QCP.</li> <li>3. Per existing practice buy-in may be conducted on failed short CPs unless an exemption is granted by HKSCC upon receiving an application with satisfactory evidence and permissible scenarios in accordance with the General Rules and Operational Procedures of HKSCC on the SWT Day.</li> </ol>

<sup>9</sup> Applicable where the SW condition remains in effect for the rest of the business day or is cancelled within the business day

### C) Trading Restriction to QEPs

QEPs will be subject to certain trading restrictions on a SWT Day during the Assistance Period. Subject to the hoisting time of the SW condition, details of the trading restriction to QEP are as follows. For the avoidance of doubt, failure by any QEP to comply with these trading restrictions (irrespective of whether the trades are proprietary trades or conducted for its clients) will constitute a breach of its undertakings. Given the QCP will be expected to procure the QEP's compliance of the trading restrictions in its undertaking, the QCP will also be in breach. Accordingly, the Exchange and the Clearing House may impose risk management measures and also reserves the right to take disciplinary action against them. It is therefore the responsibility of the QEP and the QCP to put in place appropriate measures to ensure compliance with these trading restrictions, impose appropriate restrictions on their clients.

Scenario	Trading Restrictions
<p>If a SW condition <b><i>is in effect at</i></b> 8:30am on a trading day<sup>10</sup></p>	<p>A QEP can only conduct the following trade types for itself and its clients for the <b><u>whole trading day</u></b> and until all obligations that should have been met during the SW condition are fulfilled by its corresponding QCP on the following trading day without SW conditions. The trade types are as follows:</p> <ol style="list-style-type: none"> <li>1. Each QEP or each client is allowed to close out the corresponding open interest positions which would lead to a general reduction in the QEP's and QCP's corresponding Gross-Margin Liabilities under the Capital-Based Position Limit ("CBPL") utilisation; or</li> <li>2. Other trades allowed by the Exchange or Clearing House on a case-by-case basis from time to time.</li> </ol>
<p>If a SW condition is <b><i>hoisted after</i></b> 8:30am on a trading day</p>	<p>A QEP can only conduct the following trade types for itself and its clients <b><u>from the time a SW condition is in force</u></b> and until all obligations that should have been met during the SW condition are fulfilled by its corresponding QCP on the following trading day without SW condition. The trade types are as follows:</p>

<sup>10</sup> whether it remains in effect for the whole trading day or is cancelled within the trading day

Scenario	Trading Restrictions
	<ol style="list-style-type: none"> <li>Each QEP or each client is allowed to close out the corresponding open interest positions which would lead to a general reduction in the QEP's and QCP's corresponding Gross-Margin Liabilities under the CBPL utilisation; or</li> <li>Other trades allowed by the Exchange or Clearing House on a case-by-case basis from time to time.</li> </ol>

Illustration examples of trade restrictions:

Existing holding before a SW condition is in force	New transactions conducted while the SW condition is in force	Comply with QP's requirement?
Long 10 Oct 2024 call option contracts of Stock ABC at strike HK\$10	Short $\leq 10$ Oct 2024 call option contracts of Stock ABC at strike HK\$10	Comply
	Short $> 10$ Oct 2024 call option contracts of Stock ABC at strike HK\$10	<b>NOT</b> comply
	Short Oct 2024 call options of Stock ABC at any strike except HK\$10 in any quantity	<b>NOT</b> comply
Short 10 Oct 2024 call option contracts of Stock ABC at strike HK\$10	Long $\leq 10$ Oct 2024 call option contracts of Stock ABC at strike HK\$10	Comply
	Long $> 10$ Oct 2024 call option contracts of Stock ABC at strike HK\$10	<b>NOT</b> comply
	Long Oct 2024 call options of Stock ABC at any strike except HK\$10 in any quantity	<b>NOT</b> comply