Admission Criteria and Operational Requirements for Becoming a Participant of The SEHK Options Clearing House Limited

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The SEHK Options Clearing House Limited

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

CONTENTS

THE SEHK OPTIONS CLEARING HOUSE LIMITED

Becoming a SEOCH Participant

Page

I. Background information 3

A. HKEX 3

B. DCASS..... 3

II. Information for potential applicants for SEOCH Participantship 4

A. Participantship categories 4
Admission criteria
Financial requirements
Operational requirements

B. Mandatory operational requirements 7

C. Optional services and their requirements 10

D. Other operations-related information 11

III Application procedures 12

A. How and where to apply 12

B. Agreements..... 12

C. Documents for SEOCH operations 13

D. Enquiries 13

Appendix –
Overall schedule and lead-time required for SEOCH Participantship application 14

Glossary 15

I. BACKGROUND INFORMATION

A. HKEX

Hong Kong Exchanges and Clearing Limited (HKEX) is the holding company of two Exchanges, The Stock Exchange of Hong Kong Limited (SEHK) and Hong Kong Futures Exchange Limited (HKFE). It also owns three clearing houses, namely Hong Kong Securities Clearing Company Limited (HKSCC), HKFE Clearing Corporation Limited (HKCC) and The SEHK Options Clearing House Limited (SEOCH), and operates two clearing and settlement systems, Central Clearing and Settlement System (CCASS) and Derivatives Clearing and Settlement System (DCASS).

HKEX went public in June 2000 following the integration of the securities and derivatives markets of SEHK and HKFE. As a listed company, answerable to its shareholders, HKEX competes vigorously for opportunities in the region and around the world. It is a market-driven business, operating business-driven markets.

The mission of HKEX is to operate a world-class marketplace for Hong Kong and Mainland China securities and derivatives products. By offering access to international capital markets for issuers and an open, secure, fair, orderly, efficient and transparent marketplace for investors, issuers and intermediaries, HKEX contributes to Hong Kong's status as an international financial centre and the premier capital market for China. By servicing China's substantial long-term demand for capital and exchange services in accordance with international standards and practices, HKEX will further enhance its position as one of the world's pre-eminent exchanges.

B. DCASS

Both HKCC and SEOCH use DCASS to clear and settle their derivatives products. DCASS is a fully electronic and automated system capable of supporting many types of derivatives products. It is on the same technology platform and the same operational infrastructure as Hong Kong Futures Automated Trading System (HKATS). This provides seamless operational environment for derivatives trading and clearing. The Application Programming Interface connectivity provided by DCASS allows participants to connect their back-office applications on a host-to-host basis, thereby facilitating straight through processing for improved operational efficiency and reduced risk. DCASS also processes clearing transactions in real-time and provides extensive access to clearing data to support the risk management functions.

DCASS comprises the core derivatives clearing and settlement functionality, the margining engine and the common collateral management system (CCMS). CCMS supports the management of collateral for the cash and derivatives markets. It is available to both SEOCH and CCASS Participants. It accommodates a wide range of collateral types and has cross-market collateral management capability.

II. INFORMATION FOR POTENTIAL APPLICANTS FOR SEOCH PARTICIPANTSHIP

A. Participantship categories

Under SEOCH, there are two categories of Participantship, namely, Direct Clearing Participant and General Clearing Participant. The table below summarises their admission criteria / financial requirements / operational requirements.

		Direct Clearing Participant (DCP)	**General Clearing Participant (GCP)**
1	Provisions	In addition to clear Contracts traded for its own account, a DCP can clear Contracts traded on behalf of its clients.	In addition to clearing Contracts traded for its own account and on behalf of its clients, a GCP can also clear Contracts on behalf of its non-clearing participants with whom it has entered into a Clearing Agreement.
Admission Criteria and Requirements			
2	Pre-requisite for admission as a participant	Be an Options Trading Exchange Participant of the Exchange; and Be a Participant of CCASS; or have a valid, binding and effective CCASS Clearing Agreement with a CCASS General Clearing Participant (CCASS GCP) if it intends to settle its delivery obligations through a CCASS GCP.	Be an Options Trading Exchange Participant of the Exchange or a registered institution (RI) which is registered to carry on Type 1 regulated activity under the Banking Ordinance (Chapter 155 of the laws of Hong Kong); and Be a Participant of CCASS; or have a valid, binding and effective CCASS Clearing Agreement with a CCASS General Clearing Participant (CCASS GCP) if it intends to settle its delivery obligations through a CCASS GCP.
3	Execution of Agreement	The applicant has to sign a SEOCH Participantship Agreement which creates the legal contractual relationship between the applicant and SEOCH regarding the applicant's participation in SEOCH.	
Financial Requirements			
4	Initial Contribution to the Reserve Fund	HK$1,500,000	HK$5,000,000 (Pursuant to Rule 405, a GCP is required to pay an additional contribution of HK$1,500,000 in respect of every Clearing Agreement entered into if that GCP is a party to three or more other Clearing Agreements.)

		Direct Clearing Participant (DCP)	General Clearing Participant (GCP)
5	Liquid capital Requirement (not applicable to GCP which is a RI)	HK$5,000,000[1]	HK$100,000,000 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.
		Or its required Liquid Capital under the Financial Resources Rules, whichever is the greater.	
6	Tier 1 capital Requirement (GCP which is a RI)	N/A	HK$390,000,000
7	Apportionment of Liquid Capital	Where a SEOCH Participant is a CCASS Clearing Participant (may also be a HKCC Participant) or conduct various types of regulated activities under the Securities and Futures Ordinance, that SEOCH Participant must apportion either a designated amount or a percentage of the Liquid Capital for the purpose of its Exchange Traded Options Business or satisfying its payment or other obligations as a SEOCH Participant to SEOCH. https://www.hkex.com.hk/-/media/HKEX-Market/Services/Rules-and-Forms-and-Fees/Forms/Securities-(Hong-Kong)/Clearing/Operations_Technical/Clearing-Operations-(Including-Buy-In)/Application_Change_LC_Apportionment_20210528.pdf	

[1] SEOCH imposes additional financial/capital requirement on new clearing participantship applications from time to time. Before submitting your firm's application to SEOCH/applying for relevant licence(s) from regulator, your firm is strongly advised to contact DCASS hotline (2979 7222) to understand the latest financial requirement.

		Direct Clearing Participant (DCP)	General Clearing Participant (GCP)
Operational Requirements (Refer to Section II.B for Details)			
8	Back office computer system	Applicant have, to the satisfaction of SEOCH, adequate personnel, back office systems and unless exempted by SEOCH, 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 Participantship and its Exchange Traded Options Business and ensure that such hardware and software are maintained in accordance with requirements as prescribed by SEOCH from time to time.	
9	Settlement/Designated Bank Accounts for Money Settlement Arrangement		
10	Connection to DCASS and Installation of CCMS Terminals		
11	Execution of DCASS Subscription and Licence Agreement		
12	Authorisation Mandate to transfer Collateral and Settlement Amount to HKSCC		
13	Appointment of Delegated Administrators and Authorised Users for CCMS and Client Connect		
14	Appointment of Authorised Signatories and Contact Persons		
15	Execution of “Deed of Charge” (optional)		
16	Fax Indemnity (optional)		
17	Execution/ Termination of Clearing Agreement (optional)		
18	Operations & Risk Control Plan		
19	Form W-8BEN-E - Certificate of Status of Beneficial Owner for United States Tax Withholding and Reporting (Entities) or any relevant form as applicable		

B. Mandatory operational requirements

1. ***Settlement/Designated Bank Accounts for Money Settlement Arrangement***

The money settlement process of SEOCH is effected by funds transferred between the bank account of SEOCH and bank accounts of SEOCH Participants maintained with the Settlement / Designated Bank. All fund transfers, whether for amounts collected from or payable to a SEOCH Participant, are initiated by SEOCH issuing a Direct Debit Instruction or Direct Credit Instruction to the Settlement/Designated Bank as applicable.

For each settlement currency, a SEOCH Participant is required to open bank accounts at the Settlement / Designated Banks appointed by SEOCH for money settlement purpose.

Moreover, each SEOCH Participant must execute the uniform Direct Debit Mandates to its Settlement / Designated Bank authorising the Settlement / Designated Bank to release funds to SEOCH's account upon receipt of direct debit instructions from SEOCH. The Direct Debit Mandates will become effective only when the Settlement / Designated Bank confirms its acceptance. Direct Debit Mandates are available from SEOCH.

The "List of Settlement Banks and Designated Banks for SEOCH Participants" can be found at http://www.hkex.com.hk/eng/market/clr/dvclr/clrarng_hkccseoch/banklist_hkccseoch/SEOCH_Banklist.htm.

Lead-time required

SEOCH will send the Direct Debit Mandates to the applicant's Settlement / Designated Bank for system setup for effecting money settlement. The whole process will take about two to six weeks to complete.

2. ***Connection to DCASS and Installation of CCMS Terminals***

2.1 Connection to DCASS

SEOCH Participants can access to DCASS via HKEX's Central Gateway in 2 ways: (i) using the browser based frontend application, namely DCASS Online; and/or (ii) using customized OMnet Application Programme Interface (OAPI).

By using OAPI, SEOCH Participants can connect their back-office system to DCASS with straight-through-processing which can support high clearing volume. As information from DCASS will be updated on real time basis, the direct host-to-host connection alternative provided by OAPI can help SEOCH Participants to improve their operational efficiency and provide better risk management control.

SEOCH Participants will be informed of the relevant procedures when the scheduled network installation date has been confirmed.

Lead-time required

The connectivity test of DCASS will normally be arranged in the week following the telecommunication line installation, where applicable.

For information about DCASS connection, please refer to the DCASS FAQ

2.2 CCMS Terminal Installation

SEOCH Participants can access CCMS, via CCASS Terminal or CCMS Terminal, to input collateral management instructions and perform balance and rates enquiries.

SEOCH Participants should contact the Accredited Vendors directly to apply for line installation and notify SEOCH the details about dedicated date communication links upon submission of prescribed application / order forms to the Accredited Vendors.

Lead-time required

The lead-time for service delivery by Accredited Vendors is normally six weeks subject to the arrangement between SEOCH Participants and the Accredited Vendor.

2.3 Sharing of CCASS Terminal (optional)

SEOCH Participants belonging to the same company group are allowed to share among themselves the use of data lines via CCASS Terminal to access CCMS functions, subject to HKSCC approval. A Participant may seek approval by applying in the prescribed manner to HKSCC.

3. ***Appointment of Delegated Administrators and Authorised Users for CCMS and Client Connect***

Each SEOCH Participant must appoint its own administrators ("Delegated Administrators") to establish and manage, via CCASS or CCMS Terminal, the access of its Authorised Users to CCMS. Only persons approved as the SEOCH Participant's Authorised Users will be granted access to CCMS via CCASS or CCMS Terminals.

In addition, each SEOCH Participant must appoint its own Client Connect Delegated Administrators (CCDAs). The CCDAs can then setup their own Business users to access Client Connect services. Details of Client Connect are found in HKEX website.

4. ***Appointment of Authorised Signatories and Contact Persons***

Authorised Signatories

Each Participant must provide SEOCH with a list of authorised persons as its Authorised Signatories with specimen signatures to give written instructions to SEOCH in connection with any matters relating to its participation and operations in DCASS and CCMS. The appointment of Authorised Signatories should be supported by a copy of Board Resolutions certified by a director or company secretary of the Participant.

Contact Persons

Each Participant must designate contact persons for specific purpose, e.g. DCASS operation, CCMS and Intra-day Margins for contact by SEOCH in case of need in respect of matters relating to such Participant's daily operations in DCASS and CCMS.

5. ***Authorisation Mandate***

Participant should give SEOCH authorization to transfer Collateral and Settlement Account to HKSCC as demanded by HKSCC in relation to the settlement under the Continuous Net Settlement (CNS) system of stock delivery / money obligations.

6. ***Operations and Risk Control Plan***

SEOCH Participant should submit an Operations & Risk Control Plan to SEOCH at the time of application. Guidelines for Contents of Operations & Risk Control Plan are enclosed in the Attachment 2 of Explanatory Notes for Application for Participantship and Trading Right (EN1).
https://www.hkex.com.hk/-/media/HKEX-Market/Services/Rules-and-Forms-and-Fees/Forms/Securities-(Hong-Kong)/Trading/Participantship/Participantship-Admission/EN1.pdf

7. ***FATCA Documentation***

In order to comply with the requirements under the U.S. Foreign Account Tax Compliance Act (FATCA), each SEOCH Participant must submit the latest version of duly completed Form W-8BEN-E published in the U.S. Internal Revenue Service (see III.C.8) or any relevant form as applicable to SEOCH.

C. Optional services and their requirements

1. *DCASS OAPI application*

The OMnet Application Programming Interface (OAPI) connectivity provided by DCASS allows Participants to connect their own back office applications and third-party back office applications on a host-to-host basis. This facilitates straight through processing for improved operational efficiency and reduced risk.

SEOCH provides DCASS testing environment for SEOCH Participants to test their DCASS OAPI program. Each OAPI program must go through the Certification Test arranged by SEOCH before the OAPI program can be used in production environment. Certain charges will be applied to the access to DCASS testing environment, OAPI sub-license fee, certification test and other related matters. For the fee schedule, Participant can refer to Appendix G of the Options Clearing Procedures.

If Participants are interested in conducting DCASS OAPI testing and certification test, they can contact DCASS Hotline at 2979-7222 or email to clearingpsd@hkex.com.hk for details.

2. *Third Party Clearing Services*

A SEOCH Participant can either become a CCASS Clearing Participant or appoint a CCASS GCP to clear its Exchange Trades on SEHK and handle the clearing and settlement of its exercised/assigned stock options contracts from DCASS, i.e. “Clearing Agency Transactions” as defined in CCASS.

A SEOCH Participant appointing a CCASS GCP will have to enter into a CCASS Clearing Agreement with its CCASS GCP. The CCASS GCP must ensure that the CCASS Clearing Agreement does not contain any provision which is inconsistent with the CCASS Rules and has terms and conditions to facilitate the performance of, and be consistent with, the CCASS GCP’s obligations under the CCASS Rules. The CCASS Clearing Agreement shall incorporate any additional conditions prescribed by HKSCC from time to time. A CCASS GCP shall be bound by and comply strictly with the terms of each CCASS Clearing Agreement to which it is a party, to the extent that those CCASS Clearing Agreements are consistent with the CCASS Rules. Once HKSCC is provided with the following documents, the CCASS GCP can commence clearing trades for the SEOCH Participant from the agreement’s effective date:

(a) Form 11 - Notification of Execution of Clearing Agreement and Change of Clearing Relationship; and

(b) Form 12 – Notification of Termination of Clearing Agreement.

D. Other operations-related information

The applicant should be aware that the Options Clearing Rules and Options Clearing Procedures will be binding on it upon admission as a SEOCH Participant.

Following are some useful links for the applicant's easy reference:

Options Clearing Rules of SEOCH
https://www.hkex.com.hk/Services/Rules-and-Forms-and-Fees/Rules/SEOCH/Rules?sc_lang=en#

Operational Clearing Procedures for Options Trading Exchange Participants of SEOCH
https://www.hkex.com.hk/Services/Rules-and-Forms-and-Fees/Rules/SEOCH/Rules?sc_lang=en#

Fees and Cost Payable to SEOCH
https://www.hkex.com.hk/-/media/HKEX-Market/Services/Rules-and-Forms-and-Fees/Rules/SEOCH/Operational-Procedures/APP_G1.pdf?la=en

DCASS Training
https://www.hkex.com.hk/Services/Clearing/Listed-Derivatives/Infrastructure/DCASS-Training-Course?sc_lang=en

Frequently Asked Questions for DCASS and CCMS
https://www.hkex.com.hk/Global/Exchange/FAQ/Derivatives-Market/Clearing-and-Settlement-and-Collateral-Management?sc_lang=en&DCASS

III.APPLICATION PROCEDURES

A. How and where to apply

The application form and relevant documents are obtainable on the HKEX website. Interested parties are required to:

1. Read carefully the "Explanatory Notes for Application for Participantship and Trading Right"

   https://www.hkex.com.hk/-/media/HKEX-Market/Services/Rules-and-Forms-and-Fees/Forms/Securities-(Hong-Kong)/Trading/Participantship/Participantship-Admission/EN1.pdf

2. Submit the "Application for Participantship and Trading Right"
   http://www.hkex.com.hk/eng/market/hkex_part/criteria/partapp/documents/1.pdf

Other application documents can be downloaded from the HKEX website:
http://www.hkex.com.hk/Services/Become-a-Participant/Operational-Setup/Operational-Setup-for-SEOCH-Participants?sc_lang=en

Please submit the completed application form and relevant document(s) to Participant Services, Cash Trading of HKEX.

An overall schedule and lead-time required for SEOCH Participantship application is summarised in the attached Appendix.

B. Agreements

1. SEOCH Participantship Agreement (Refer to Section II.A.3 above)

2. DCASS Subscription and Licence Agreement

   The applicant has to sign a DCASS Subscription and Licence Agreement in prescribed form for DCASS connection. Participants shall ensure that DCASS is operated, and contracts are cleared and settled through DCASS.

3. Deed of Charge (optional)

   The applicant intends to lodge securities for collateral purposes must execute a valid "Deed of Charge" which governs SEOCH's fixed charge on such collateral and such other documents as may be required by SEOCH. The Deed of Charge for SEOCH Participant who appoints CCASS GCP or who becomes CCASS Clearing Participants will be different.

C. Documents for SEOCH operations

	Name of Forms	Reference Section
1	Direct Debit Mandates of Settlement/Designated Bank	II.B.1
2	Registration Form for Report Access Platform (RAP)	II.B.2
3	Installation of CCMS Terminals a. CCASS / CCMS SDNet Line Service Notification Form for HKSCC / HKCC / SEOCH Participants / HKSCC Designated Banks (not required if the applicant is going to share the CCASS Terminal) b. Sharing of CCASS / CCMS Terminal to access CCASS / CCMS *(optional and subject to approval by HKSCC)*	II.B.2
4	Appointment of Delegated Administrators and Authorised Users a. User Profile for Delegated Administrator for New Participant b. Client Connect Delegated Administrator Rights Application / Maintenance Form	II.B.3
5	Appointment of Authorised Signatories and Contact Persons for Operation Purpose a. List of Authorised Signatories with Specimen Signatures and Board Resolution (Sample) b. Change of CCMS / DCASS Contact Persons Form	II.B.4
6	Mandate Authorising SEOCH to Transfer Collateral and Settlement Amount to HKSCC - for CCASS Participant - for CCASS NCP	II.B.5
7	Operations & Risk Control Plan	II.B.6
8	Form W-8BEN-E - Certificate of Status of Beneficial Owner for United States Tax Withholding and Reporting (Entities) or any relevant form as applicable	II.B.7

D. Enquiries

DCASS Hotline: 2979 7222
Monday to Friday 9:00 am to 6:00 pm
(excluding public holiday)
Email enquiry address: clearingpsd@hkex.com.hk

Overall schedule and lead-time required for SEOCH Participantship application

	Major Events/Processes	Lead-time Required
1	Submit the standard "Application for Participantship and Trading Right" (Form 1) to Participant Services, Cash Trading of HKEX	The lead-time and processing schedule are subject to completeness of application documents submitted and internal approval process for SEOCH Participantship application.
2	Submit other application documents for Clearing Participantship to HKEX for vetting and approval	
Processing of Application Documents		
3	DCASS Subscription and Licence Agreement	1 – 2 weeks
4	Arrangement of Settlement/Designated Bank Account	2 – 6 weeks
5	Installation of telecommunication line for DCASS (N/A if leverage on HKATS network)	6 weeks
6	Installation of CCMS Terminal (N/A if sharing of terminal is arranged)	6 weeks
7	Appointment of Authorised Signatories and Contact Persons	1 – 2 weeks
8	Setup of Delegated Administrators and Authorised Users for operation of CCMS Terminal and Client Connect	1 – 2 weeks
9	Mandate authorising SEOCH to transfer Collateral and Settlement Account to HKSCC	1 – 2 weeks
10	Fax Indemnity and Deed of Charge (both optional)	1 – 2 weeks
11	Form W-8BEN-E - Certificate of Status of Beneficial Owner for United States Tax Withholding and Reporting (Entities) or any relevant form as applicable	1 – 2 weeks

Remarks:

The overall schedule is for reference only.

Remarks

This document is for information only and in the event of inconsistencies and / or conflicts between this document and the Options Clearing Rules and the Operational Clearing Procedures for Options Trading Exchange Participants of SEOCH (collectively referred to as “Rules and Procedures”), the Rules and Procedures shall prevail. Information about admission criteria for exchange and clearing participantship is also available at HKEX website

https://www.hkex.com.hk/Services/Clearing/Listed-Derivatives/Getting-Started/Becoming-a-SEOCH-Participant?sc_lang=en

Glossary

CCASS	Central Clearing and Settlement System
CCMS	Common Collateral Management System
CNS	Continuous Net Settlement
DCASS	Derivatives Clearing and Settlement System
HKATS	Hong Kong Futures Automated Trading System
HKCC	HKFE Clearing Corporation Limited
HKEX	Hong Kong Exchanges and Clearing Limited
HKFE or the Futures Exchange	Hong Kong Futures Exchange Limited
HKSCC	Hong Kong Securities Clearing Company Limited
SEHK or the Stock Exchange or the Exchange	The Stock Exchange of Hong Kong Limited
SEOCH	The SEHK Options Clearing House Limited