4 Exercise

<u>Note</u>:

This section is only applicable for SEOCH options products.

The Exercise Handling category provides functions for exercising open long option positions.

Submitted exercise requests will be assigned with a unique exercise request number and can be enquired via the "Exercise Overview" view. The exercise requests and assignment process will take place after SEOCH Batch.

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			×
ACCOUNT MANAGEMENT	CLEARING	DEAL/TRADE MANAGEMENT	EXERCISE HANDLING
Accounts Account Propagation Position Closeout Position Transfer Positions	Clearing Information Covered Call Requests Reports	Pending Give Ups/Take Ups Pending Rectify Trades Trade Error Log Trade History Cross Product Netting Simulate Fee	Automatic Exercise Limits Exercise Overview Import Automatic Exercise Limits Request Exercise Deny Exercise
	GENERAL IN Clearing Messages	STRUMENTS MARGIN King Values Hargin Requireme	ints

Currently Clearing Participants can only submit exercise requests for Stock Options which are American–styled and physically settled options on Hong Kong stocks.

On expiration day, SEOCH will auto-exercise those long positions in spot month options which meet the prescribed exercise criterion prescribed (i) by SEOCH, i.e. in-the-money by or above 1.5%; or (ii) the valid criterion prescribed by the Clearing Participant via "Automatic Exercise Limits". Automatic Exercise Information report showing only those spot month series which are expired and to be exercised automatically based on SEOCH's prescribed criterion, i.e. 1.5% will be available shortly after market close. SEOCH Participants should enquire via "Exercise Overview" for a complete list of automatically generated exercise request.

4.1 Request Exercise

To exercise an option, a request should be submitted to DCASS via the Request Exercise function. This function can be accessed directly in the "Exercise Handling" category.

AC Ac Po Po	CCOUNT MANAGEM ecounts ecount Propagation position Closeout position Transfer positions	<u>MENT</u>	CLEARING Clearing Informati Covered Call Reg Reports	ion juests	DEAL/TRAD Pending Give Pending Recti Trade Error Lo Trade History Cross Product Simulate Fee	E MANAGEMEN Ups/Take Ups fy Trades g Netting	Auton Exerc Impor Requi	CISE HANDLING natic Exercise Limits ise Overview t Automatic Exercise Lim est Exercise Exercise	iits	
			GENERAL Clearing Messages	INS Fixin Inst	TRUMENTS ng Values ruments	MARGIN Margin Requiren	nents			
Reques	st Exercise		<u>R</u> equest a	all	Add <u>p</u> osition	s <u>C</u> lear a	I <u>I</u> mp	ort 0 rows 👱 ;	¢ =	= ×
CCOUNT	COUNT INSTRUMENT LONG SHORT REQUEST QUANTITY					STATUS				

- 1. Click <Add positions...>
- 2. Specify an account in the "Account" field (wildcards can be used)
- 3. Specify the instrument in the "Instrument' field (wildcards can be used)
- 4. Select "Current trading day in the "Date" field. All the positions fitting the search criteria will be shown.
- 5. Tick [Nettable only] to display all nettable positions.
- 6. Select the rows to input exercise request. Right-click and select "Add selected rows" to add new rows.

<u>Note</u>: As an alternative to steps 1-6, Clearing Participants can set exercise request by:-

- a) Importing a file, i.e. click <Import> and select the file to be imported for inputting exercise request. The import template can be downloaded by clicking the export button * . A maximum of 100 records can be imported for each file.
- b) Right-click a position from the "Positions" view.
- 7. In the "Request Quantity" field, enter the quantity to input exercise request for.
- 8. Check that the details are correct and click the <Request all> button to input exercise request. To only input exercise request for selected positions, right-click and select "Request exercise".

9. After the exercise requests are confirmed, the exercise requests in the data table become green.

Request	Exercise						Bequest all Add positions Clear all Import 4 rows ± ‡
ACCOUNT	INSTRUMENT	LONG	SHORT	REQUEST QUANTITY	ERROR REASON	STATUS	
HK CGA1 A1	HEX290.00H8	10	10	5		Successfully submitted	ed l
HK CGA1 A1	HEX290.0018	20	20	10		Successfully submitted	ed
HK CGA1 A1	HEX290.00J8	15	15	15		Successfully submitted	ed la
HK CGA1 A1	HEX290.00K8	5	5	5		Successfully submitted	ed

For those stock options contracts which are out-of-the-money ("OTM") i.e. exercise price is greater / smaller than the prevailing underlying stock price for call / put options contracts, there is an alert message prompt requiring a Clearing Participant to confirm upon input of an exercise request of an OTM contract via DCASS. No alert message will be displayed for stock options contracts being in-the-money or at-the-money.

e.g. The following warning message will be displayed if the contracts being exercised are OTM.

Request	Exercise						Bequ	est all	Add position	s	<u>C</u> lear all	Import	4 rows	± a	> =	×
ACCOUNT	INSTRUMENT	LONG	SHORT	REQUEST QUANTITY	ERROR REASON	STATUS										
HK CGA1 A1	HEX290.00H8	10	10	5		Not submitted										
HK CGA1 A1	HEX290.0018	20	20	10		Not submitted										
HK CGA1 A1	HEX290.00J8	15	15	10		Not submitted		•								
HK CGA1 A1	HEX290.00K8	5	5	5		Not submitted										
The instrumen	it requested to b	e exercis	ed is curr	ently out of the money o	r No price could be	e found. Please o	onfirm the exer	cise reque	st.							
													OF		Cance	

List Columns

Field	Description
Account	Display the account in which the positions are held.
Instrument	Display the instrument of the positions being held.
Long	Display the number of long positions being held. Blank indicates nil.
Short	Display the number of short positions being held. Blank indicates nil.
Request Quantity	Display the number of positions request to exercise.
Error Reason	Display the reason of error, if applicable.
Status	Display the status of the exercise request.

<u>Notes:</u>

- 1) Exercise requests from daily account will be rejected by DCASS. For exercise requests with accounts without position, error message "an internal error has occurred" will be displayed.
- 2) DCASS will not prohibit Clearing Participants to enter "excessive" exercise requests. A warning message "Quantity too large" will be displayed; then the submitted request will be pending for the actual exercise and assignment process. DCASS will check the availability of long position when it is performing the exercise and assignment process during SEOCH Batch. However, if there is no long position

available (i.e. 0), DCASS will be unable to process the request. Therefore, Clearing Participants MUST check via the "Exercise Overview" view to ensure that their exercise requests are input into DCASS properly.

4.2 Exercise Overview

The "Exercise Overview" view can be used to view the exercise and assignment records within 6 clearing days.

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				×
	ACCOUNT MANAGEMENT	CLEARING	DEAL/TRADE MANAGEMENT	EXERCISE HANDLING
	Accounts Account Propagation Position Closeout Position Transfer Positions	Clearing Information Covered Call Requests Reports	Pending Give Ups/Take Ups Pending Rectify Trades Trade Error Log Trade History Cross Product Netting Simulate Fee	Automatic Exercise Limits Exercise Overview Import Automatic Exercise Limits Request Exercise Deny Exercise
		GENERAL INS Clearing Messages Fixi	ng Values rruments	nts

The "Type" indicates whether the record is subject to Exercise or Assignment. The "Exercise Request Number" refers to the reference of the requests submitted before the exercise and assignment process.

In the example shown below, exercise requests with "Exercise Request Number" of 34, 35, 36 and 37 were exercised in the account of HK CGA1 A1 after SEOCH Batch. For SEOCH Batch end time, please refer to Section 1.3.1 – "Operation Timeline".

Exercise	Overview	Account * HK C	GA1 * Erom * 8/	20/18 <u>T</u> o '	* 8/20/18 Pending 🗸	Rejected 🖌 Completed		10 n	ows 🛨 🏟 🚍	×	
GENERAL	REQUEST INFORMATION										
ACCOUNT	INSTRUMENT	түре	MARKET	STATE	TOTAL QUANTITY DENIED	CREATED	REQUESTED QUANTITY	EXERCISE REQUEST NUMBER	REJECTED BY	REG	
HK CGA1 A1	HEX290.00H8	Manual request	STOCK OPTIONS	Rejected		8/20/2018 3:17:42 PM	5	34	HK CGA1 B_103	HK	
HK CGA1 A1	HEX290.0018	Manual request	STOCK OPTIONS	Completed		8/20/2018 3:17:42 PM	10	35		HK	
HK CGA1 A1	HEX290.00J8	Manual request	STOCK OPTIONS	Completed		8/20/2018 3:17:42 PM	15	36		HK	
HK CGA1 A1	HEX290.00K8	Manual request	STOCK OPTIONS	Completed		8/20/2018 3:17:43 PM	5	37		HK	

To view exercise history, check the [Completed] checkbox.

Exercis	e Overvie	W Acc	count * H	K CGA1	* Erom * 7/31/18 Io	* 7/31/18	Pending Rejected			۹
GENERAL							REQUEST INFORMATION			
ACCOUNT	INSTRUMENT	TYPE	MARKET	STATE	TOTAL QUANTITY DENIED	CREATED	REQUESTED QUANTITY	EXERCISE REQUEST NUMBER	REJECTED BY	REQ

Two fields can be used to identify if the exercised trades (not assigned trades) are resulted from on-behalf-of request or general exercise on expiration day:

Before general exercise:

i) If "Type" is marked by "Manual request" and "Confirmed By" is NOT blank, the exercise trade is created by SEOCH based on Clearing Participant's on-behalf-request.

ii) If "Type" is marked by "Manual request" and "Confirmed By" is blank, the exercise trade is created by Clearing Participant via "Request Exercise".

Exercise	Overview	Account * HK C	GA1 * Erom * 2	2/26/18	Io * 3/1/18 Pending	Rejected 🗸 Completed 🖌				2 rov	ws 🛓 🏟 🗮 🗙
GENERAL						EXERCISE INFORMATION	GENERAL	EXERCISE INFORMA	TION	F	REQUEST INFORMATIC
ACCOUNT	INSTRUMENT	TYPE	MARKET	STATE	TOTAL QUANTITY DENIED	ASSIGNED/EXERCISED QUANTITY	CREATED	EXERCISE NUMBER	CONFIRMED BY	F	REQUESTED QUANTIT
HK CGA1 A1	HEX240.00N8	Manual request	STOCK OPTIONS	Pending			3/1/2018 1:10:17 PM	0			
HK CGA1 A1	HEX240.00B8	Manual request	STOCK OPTIONS	Pending			3/1/2018 1:50:19 PM	0	HK HKEX LHAIC		

After general exercise:

- If "Requested By" is marked by "HK CYYY XXXXX" where CYYY is DCASS Code and "Confirmed by" field is <u>NOT</u> blank, the exercise trade is created by SEOCH based on Clearing Participant's on-behalf request.
- ii) If "Requested By" is marked by "HK CYYY XXXXX" where CYYY is DCASS Code and "Confirmed by" field is blank, the exercise trade is created by Clearing Participant via "Request Exercise".

Exercise	Exercise Overview Account * (HK CGA1 *) Erom * (228/18) To * (31/18) Pending @ Rejected @ Completed @ (2000) * 🕸 🚍 5												
GENERAL							REQUEST INFORMATION	l.	EXERCISE INFORMATION				
ACCOUNT	INSTRUMENT	TYPE	MARKET	STATE	TOTAL QUANTITY DENIED	CREATED	REQUESTED QUANTITY	EXERCISE REQUEST NUMBER	REJECTED BY	REQUESTED BY	ASSIGNED/EXERCISED QUANTITY	EXERCISE NUMBER	CONFIRMED BY
HK CGA1 A1	HEX290.00B8	Exercised	STOCK OPTIONS	Completed		2/28/2018 7:16:20 PM		0		HK CGA1 XXXXX	30	1778	
HK CGA1 A1	HEX290.00B8	Assigned	STOCK OPTIONS	Completed		2/28/2018 7:16:20 PM		0		HK CGA1 XXXXX	30	1779	

Below is a summary of exercised trades (not assigned trades) before & after general exercise on expiration day (Table A):

Creation of	Before Gene	eral Exercise	After General I	Exercise
exercise request	Туре	Confirmed By	Requested By	Confirmed by
On-behalf input	Manual request	NOT blank	HK CYYY XXXXX	NOT blank
Clearing Participant's own input	Manual request	blank	НК СҮҮҮ ХХХХХ	blank
SEOCH's Auto-Exercise	Not avai "Exercise	lable via Overview"	HK CYYY XXXXX	blank

Selection Filters:

Filter	Description
Account	Specify a particular account, or use the wildcards (* and ?) to retrieve the matching accounts.
From / To	Display the from and to date for the period of exercise requests being processed. Default as current business date. Clearing Participant should use "Exercise Overview" to enquire exercise requests of current business date only.
Checkboxes	Only the exercise record of the states checked will be displayed: Pending, Rejected, Completed

List Columns (General)

Field	Description
Account	Display the account in which the positions are being exercised or assigned.
Instrument	Display the instrument of the exercise record.

Field	Description
Туре	Display the exercise type, the following text would be shown:
	Manual request: Long positions manually requested to exercise General request: Long positions to be automatically exercised
	Exercised: Long positions being exercised
	Assigned: Short positions being assigned
Market	Display the market of the instrument
State	Display the status of the exercise request:
	Pending: The exercise request is pending
	Rejected: The exercise request is rejected
	Completed: The exercise request is completed
Total Quantity Denied	Display the quantity which was denied for exercise
Created	Display the date and time on which the exercise request was created.

List Columns (Request Information)

Field	Description
Requested Quantity	Display the quantity requested for exercise
Exercise Request Number	Display a unique number assigned to the exercise request
Rejected By	Display the user ID that rejected the request
Requested By	Display the user ID that input the exercise request

List Columns (Exercise Information)

Field	Description
Assigned/ Exercised Quantity	Display the exercised quantity
Exercise Number	Display a unique number assigned to the entry
Confirmed By	Display whether the exercise trade is created by SEOCH's Auto Exercise or by Clearing Participants' own general exercise at expiration. Please refer to Table A for behavior of this field.

List Columns (Instrument Information)

Field	Description
Fixing	Display the fixing price
Fixing Instrument	Display the underlying instrument

Field	Description
OTM / ITM	For records in "Pending" state, display if the exercise request is in-the-money (ITM) or out-of-the-money (OTM), taking into consideration the auto-exercise limit as prescribed by SEOCH. The following text would be shown:
	OTM The instrument is out-of-the-money compared to current day fixing price
	ITM
	The instrument is in-the-money compared to current day fixing price
	ITM excl del limit The instrument is in-the-money compared to current day fixing price if auto-exercise limit is not taken into consideration
Underlying	Display underlying of the instrument
Contract Size	Display number of underlying in a contract
Option Style	Display whether the option is American or European
Option Type	Display whether the option is call or put
Strike Price	Display the strike price of the instrument
Year	Display the expiration year of the instrument
Month	Display the expiration month of the instrument

<u>Note</u>:

i) The following columns are not applicable to DCASS, Clearing Participants are recommended to set them as "hidden" columns:

Instrument	ISIN	Settlement Type
Long Name		

ii) Exercise and assignment records shown in "Exercise Overview" view will be related to the delivery records in "Clearing Information" view. Records shown in the "Exercise Overview" view is created by a randomized exercise and assignment process. Delivery records shown in the "Clearing Information" view will summarize the result and report total figures by account, instrument and event (assignment and exercise). Therefore it is normal to have two assignment trades in the "Exercise Overview" view for an account of a particular instrument whereas only one record is shown in the "Clearing Information" view.

4.3 Pending Exercise

An exercise request can be annulled before the System Input Cutoff Time by selecting the request in the "Exercise Overview" view, right-click and select <Reject pending>. The rejected request will be showed as "Rejected" under the "State" column in the "Exercise Overview" view.

To narrow down the search results, Clearing Participants can select the desired accounts and instrument of the pending requests. Besides, Clearing Participants can select the state of exercise requests by ticking [Pending], [Rejected] and [Completed] checkboxes.

Exercise Overview Account * (HK CGA1 *) Erom * 8/1/18] 10 * 8/1/18 Pepding 🖉 Rejected 🖉 Completed 📄											
GENERAL REQUEST INFORMATION									EXERCISE		
ACCOUNT	INSTRUMENT	ТҮРЕ	MARKET	STATE	TOTAL QUANTITY DENIED	CREATED	REQUESTED QUANTITY	EXERCISE REQUEST NUMBER	REJECTED BY	REQUESTED BY	ASSIGNED
HK CGA1 A1	HEX290.00F9	Manual request	STOCK OPTIONS	Rejected		8/1/2018 11:45:51 AM	3	28	HK CGA1 B_103	HK CGA1 B_103	
HK CGA1 A1	HEX290.0018	Manual request	STOCK OPTIONS	Pending		8/1/2018 11:45:51 AM	25	29		HK CGA1 B_103	
HK CGA1 A1	HEX290.00H8	Manual request	STOCK OPTIONS	Pending		8/1/2018 11:45:51 AM	35	30		HK CGA1 B_103	
HK CGA1 A1	HEX290.00C9	Manual request	STOCK OPTIONS	Pending		8/1/2018 11:45:52 AM	5	31		HK CGA1 B_103	

In this example, CGA1 submitted 4 exercise requests (with "Exercise Request Number" of 28, 29, 30, 31). For each of the requests submitted, DCASS will check the long position in the account and exercise the specified quantity. At the time of the exercise and assignment process, if there is insufficient long position, DCASS will exercise as much as possible up to the requested quantity.

Before the SEOCH Batch, the state of the pending exercise requests will be shown as "Pending". Clearing Participants can reject multiple pending exercise requests by right-clicking on the row and choosing <Reject pending>; and re-enter the exercise requests, if needed.

Exercise Overview Account* (HK CGA1*) Erom* (8/1/18) Io* (8/1/18) Pending 🖉 Rejected 🖓 Completed 🗌 4 rows 👱 🏚 🚍							¢ ≡ >				
GENERAL REQUEST INFORMATION I					EXERCIS						
ACCOUNT	INSTRUMENT	TYPE	MARKET	STATE	TOTAL QUANTITY DENIER	CREATED	REQUESTED QUANTITY	EXERCISE REQUEST NUMBER	REJECTED BY	REQUESTED BY	ASSIGNI
HK CGA1 A1	HEX290.00F9	Manual request	STOCK OPTIONS	Rejected		8/1/2018 11:45:51 AM	3	28	HK CGA1 B_103	HK CGA1 B_103	
HK CGA1 A1	HEX290.0018	Manual request	STOCK OPTIONS	Pending		8/1/2018 11:45:51 AM	25	29		HK CGA1 B_103	
HK CGA1 A1	HEX290.00H8	Manual request	STOCK OPTIONS	Pending	Reject pending	8/1/2018 11:45:51 AM	35	30		HK CGA1 B_103	
HK CGA1 A1	HEX290.00C9	Manual request	STOCK OPTIONS	Pending	View position	8/1/2018 11:45:52 AM	5	31		HK CGA1 B_103	

Clearing Participants are required to confirm the Rejection requests.

Exercise Overview Account * HK CGA1 * Erom * 8/1/18 To * 8/1/18 Pending 🖉 Rejected 🖉 Completed 🗌 4 rows 호 🏟 🚍 🗙								$a \equiv x$			
GENERAL							REQUEST INFORMATION	4			EXERCISE
ACCOUNT	INSTRUMENT	TYPE	MARKET	STATE	TOTAL QUANTITY DENIED	CREATED	REQUESTED QUANTITY	EXERCISE REQUEST NUMBER	REJECTED BY	REQUESTED BY	ASSIGNED
HK CGA1 A1	HEX290.00F9	Manual request	STOCK OPTIONS	Rejected		8/1/2018 11:45:51 AM	3	28	HK CGA1 B_103	HK CGA1 B_103	
HK CGA1 A1	HEX290.0018	Manual request	STOCK OPTIONS	Pending		8/1/2018 11:45:51 AM	25	29		HK CGA1 B_103	
HK CGA1 A1	HEX290.00H8	Manual request	STOCK OPTIONS	Pending		8/1/2018 11:45:51 AM	35	30		HK CGA1 B_103	
HK CGA1 A1	HEX290.00C9	Manual request	STOCK OPTIONS	Pending		8/1/2018 11:45:52 AM	• 5	31		HK CGA1 B_103	
Please confirm rejection of selected pending exercise requests											
										ОК	Cancel

After the batch processing for SEOCH, the state of the Pending Exercise will be changed from "Pending" to "Completed" or "Rejected", please refer to Section 1.3 – "Operation Timeline" for the processing schedule.

Clearing Participants may select separately under the "State" column to check the state of different pending exercise records.

4.4 Deny Exercise

The Deny Exercise function can be accessed directly in the "Exercise Handling" category or by right-clicking the selected position in the "Positions" view. The purpose of this function is to allow Clearing Participants to specify a spot month instrument of a particular account which they do **not** want to be exercised automatically by SEOCH on expiration day.

ACCOUNT MANAGEMENT	CLEARING	DEAL/TRADE MANAGEMENT	EXERCISE HANDLING
Accounts Account Propagation Position Closeout Position Transfer Positions	Clearing Information Covered Call Requests Reports	Pending Give Ups/Take Ups Pending Rectify Trades Trade Error Log Trade History Cross Product Netting Simulate Fee	Automatic Exercise Limits Exercise Overview Import Automatic Exercise Limit Request Exercise Deny Exercise
	GENERAL IN Clearing Messages Fix	STRUMENTS MARGIN king Values Margin Requirement	nts

A Deny Exercise request is only valid on the day when it is entered, therefore the request **<u>MUST</u>** be submitted on the instrument's expiration day.

- 1. Click <Add positions...>
- 2. Specify an account in the "Account" field (wildcards can be used)
- 3. Specify the instrument in the "Instrument" field (wildcards can be used)
- 4. Select "Current trading day" in the "Date" field. All the positions fitting the search criteria will be shown.
- 5. Tick [nettable only] to display all nettable positions.
- 6. Select the rows to input deny exercise request. Right-click and select "Add selected rows" to add new rows.

<u>Notes:</u>

As an alternative to steps 1-6, Clearing Participants can input deny exercise request by:

- a) Importing a file, i.e. click <import> and select the file to be imported for input deny exercise request. The import template can be downloaded by clicking the export button ¹/₂. A maximum of 100 records can be imported for each file.
- b) Right-click a position from the "Positions" view.

- 7. In the "Deny Quantity" field, enter the quantity to input deny exercise request for.
- 8. Check that the details are correct and click the <Deny all> button to input deny exercise request for all shown positions. To input exercise request for selected rows, right-click and choose "Deny exercise".
- 9. After the deny exercise requests are submitted, the exercise requests in the data table become green.

Field	Description
Account	Display the account in which the positions are held.
Instrument	Display the instrument of the positions being held.
Long	Display the number of long positions being held. Blank indicates nil.
Short	Display the number of short positions being held. Blank indicates nil.
Deny Quantity	Display the number of positions to be denied.
Error Reason	Display the reason of error, if applicable.
Status	Display the status to indicate the result of the deny exercise request.

List Columns

Notes:

- 1) This function is only applicable for Stock Options.
- 2) The quantity submitted is the **total** long position which a user wants to exclude from Auto Exercise. E.g. If the current deny automatic total is 50 and the user wants to add 10 more contracts to be excluded from the automatic exercise, the user should submit "60" as the new deny automatic total.
- 3) The user should check the "Automatic Exercise Information for Stock Options" report about the details of the auto-exercise on expiration date after market close.
- 4) After submission, the Deny Auto Exercise request can be seen in "Positions" view.

4.5 Automatic Exercise Limits

The in-the-money (ITM) triggering percentage for automatic generation of stock option exercise limit is prescribed by SEOCH from time to time, i.e. currently being 1.5% of the strike. The "Create Automatic Exercise Limit" function allows Clearing Participants to configure their own automatic generation exercise limit per Instrument Type per account and/or per company. The "Automatic Exercise Limit" view can be accessed directly in the "Exercise Handling" category. Currently Automatic Exercise Limits can only apply for Stock Options products.

Exercise limit will take effect immediately upon confirmation. SEOCH Participants should take extra cautious and are reminded to have proper internal control when setting up their own exercise limit in DCASS.

	DEAL/TRADE	MANAGEMENT	EXERCISE HANDLING
Clearing Information			
oloaning intointiation	Pending Give L	lps/Take Ups	Automatic Exercise Limits
Covered Call Requests	Pending Rectify	Trades	Exercise Overview
Reports	Trade Error Log	1	Import Automatic Exercise Limit
	Trade History		Request Exercise
	Cross Product	Vetting	Deny Exercise
	Simulate Fee		
	STRUMENTS	MARGIN	
F	Reports	Reports Trade Error Log Trade History Cross Product I Simulate Fee	Reports Trade Error Log Trade History Cross Product Netting Simulate Fee

Clearing Participants can set in-the-money (ITM) limits for all spot month contracts on or before expiry.

- 1. Click <Create>
- 2. Specify the account, instrument type, limit unit (i.e. in percentage up to 4 decimal places or in fixed value up to 3 decimal places) and exercise limit. Once the exercise limit is being setup, it will be applied to all instruments within the specified instrument type. Clearing Participants are recommended to set their exercise limit in percentage. Below are 2 examples of inputting exercise limit:
 - i. An exercise limit of 1% is set up for stock call option for CGA1's house account only

Create Automatic Exercise Limit \times									
Account *	HK CGA1 P1								
Instrument Type *	STOCK CALL OPTION								
Limit <u>u</u> nit *	Percentage								
Exercise_imit *	1.0000								
Create									

ii. An exercise limit of 2% is set up for stock put option for CGA1's omnibus client account only

Create Automatic Exercise Limit								
Account *	HK CGA1 A1							
Instrument Type *	STOCK PUT OPTION							
Limit <u>u</u> nit *	Percentage							
Exercise_imit *	2.0000							

- 3. Click "Create".
- 4. If Clearing Participants want to set an exercise limit that is higher than the default exercise limit, the following warning message will be shown. To proceed, click OK.

Create Automatic Exercise Limit \times									
Account *	HK CGA1 P1								
Instrument Type *	STOCK CALL OPTION								
Limit <u>u</u> nit *	Percentage								
Exercise limit *	2.0000								
C <u>r</u> eate <u>C</u> lear									
The given exercise limit is higher than the default exercise limit, please confirm creation.									
OK Cancel									

5. Once created, a new record will appear in the 'Automatic Exercise Limits" view. The created exercise limit will take effect immediately and apply to <u>ALL</u> instruments within the same instrument type by overriding SEOCH's prescribed limit.

Automatic Exercise Limits Account				ent type	 Q					С	rea <u>t</u> e 3 row	/s 🛓	$ a \equiv x $
ACCOUNT	MARKET	INSTRUMENT TYPE	LIMIT UNIT	LIMIT	DEFAULT LIMIT	DEFAULT-LIMIT UNIT	CREATED	MODIFIED	USER	VERSION	ERROR REASON		
HK CGA1 P	STOCK OPTIONS	STOCK CALL OPTION	Percentage	2.0000	1.5000	Percentage	8/1/2018 11:53:19 AM	8/1/2018 11:53:19 AM	HK CGA1 B_103	1			

6. To edit the created exercise limit, select the row to edit then right-click and select "Edit". Clearing Participants can amend "Limit unit" and "Exercise limit".

Edit Automatic Exercise Limit $ imes $							
Account	* * *						
Instrument Type	STOCK PUT OPTION						
Limit <u>u</u> nit *	Percentage						
Exercise limit *	3.0000						
Edit							

7. To clone the exercise limit to another account, select the row to be cloned then right-click and select "Clone". Clearing Participants can specify the "Account" to clone the exercise limit.

Account *	HK CGA1 A1
Instrument Type *	STOCK CALL OPTION
Limit <u>u</u> nit *	Percentage
Exercise_imit *	2.0000

8. To delete the exercise limit set, select the row to be deleted then right-click and select "Delete".

Automatic Exercise Limits Account Instrument type											s ± \$ ≡ ×	
ACCOUNT	MARKET	INSTRUMENT TYPE	LIMIT UNIT	LIMIT	DEFAULT LIMIT	DEFAULT LIMIT UNIT	CREATE	D	MODIFIED	USER	VERSION	ERROR REASON
HK CGA1 A	STOCK OPTIONS	STOCK PUT OPTION	Percentage	2.0000	1.5000	Percentage	2/6/2018	3 10:35:53 AM	2/6/2018 10:35:53 AM	HK CGA1 B_103	1	
* * *	STOCK OPTIONS	STOCK PUT OPTION			1.5000	Percentage	2/6/2018	3 10:11:04 AM	2/6/2018 10:11:04 AM		1	
***	STOCK OPTIONS	STOCK CALL OPTION			1.5000	Percentage	2/6/2018	3 10:11:04 AM	2/6/2018 10:11:04 AM		1	
HK CGA1 P	STOCK OPTIONS	STOCK CALL OPTION	Percentage	2.0000	1.5000	Percentage	2/6/2018	10:35:19 AM	2/6/2018 10:35:19 AM	HK CGA1 B_103	1	
								Edit	Alt+Enter			
								Clo <u>n</u> e				
								Delete				

Selection Filters:

Filter	Description
Account	Specify a particular account, or use the wildcards (* and ?) to retrieve the matching accounts.
Instrument type	Specify the instrument type, i.e. Stock Put Option or Stock Call Option

List Columns

Field	Description
Account	Display the account of such automatic exercise limit record.
Market	Display the market of the instrument type.
Instrument Type	Display the instrument type to which the limit applies.
Limit Unit	Indicate whether the limit was defined as percentage or fixed value.

Field	Description
Limit	Display the limit created.
Default Limit	Display the ITM triggering percentage for automatic generation of stock options exercise limit as prescribed by SEOCH from time to time.
Default Limit Unit	Indicate whether the default limit was defined as percentage or fixed value.
Created	Display the time and date on which the setting was created.
Modified	Display the time and date on which the automatic exercise limit setting was last modified. If the state of the setting is changed, the "Modified" date and time will differ from the "Created" date and time.
User	Display the user who created the setting.
Version	Display the number of times the limit was modified.
Error Reason	Display the reason of error, if applicable.

The column not used is:

Currency

Notes:

- a) The "Automatic Exercise Information for Stock Options Report" (TP013) will only show those spot month instruments to be automatically exercised based on SEOCH's prescribed limit, i.e. 1.5% of the strike. Clearing Participants who created their own automatic exercise limits should verify their limits via the "Automatic Exercise Limits" view.
- b) Exercise limit can be set at i) Clearing Participant level, which is applicable to ALL accounts; or ii) account level, which is only applicable to that particular account.
- c) This function is only available 30 minutes before market open of Stock Options trading and up to the close of trading.
- d) As an alternative to setting up exercise limits via the "Automatic Exercise Limits" view, Clearing Participants can import exercise limits via the "Import Automatic Exercise Limits" view under "Exercise Handling" category. The import template can be downloaded by clicking the export button ¹/₂. A maximum of 100 records can be imported per file.



Examples:

Case 1: A Participant defined its own exercise limit, in <u>percentage (%)</u>, for its house account only, i.e. at account level, as follows:

	For CGA1 House Account						Other Accounts					
				On o	or before E	xpiration	Day					
Stock Call Option Set Limit As 1.0000% Stock Put Option Set Limit As 2.0000% Create Automatic Exercise Limit × Account * HK CGA1 P1 Jinstrument Type * STOCK CALL OPTION Limit unit * Percentage Exercise Jimit * 1.0000 Create Automatic Exercise Limit × Account * HK CGA1 P1 Jinstrument Type * STOCK CALL OPTION Limit unit * Percentage Exercise Jimit * 1.0000 Create Create Call OPTION Limit unit * Percentage Exercise Jimit * 1.0000 Create Create Clear						*** No Action Taken ***						
	Un Expiration Day											
Apply pre	Apply preset limit to <u>ALL</u> series in house account					Apply SEOCH predefined exercise limit,						
						i.e. 1.5000% to <u>ALL</u> series in other accounts						
Series X Final Set	tlement Pri	ce = 100.0	Series Y 0 Final Se	ttlement P	rice = 3.00 Stock Put	Series X Final Set	tlement Pri	ice = 100.0	Series 0 Final Se	Y ettlement F	Price = 3.00	
	Option	Option		Option	Option		Option	Option		Option	Option	
ITM Limit	1.0000%	2.0000%	ITM Limit	1.0000%	2.0000%	ITM Limit	1.5000%	1.5000%	ITM Limit	1.5000%	1.5000%	
	Auto-E:	xercise		Auto-E	xercise		Auto-E	xercise		Auto-E	xercise	
Strike	Call	Put	Strike	Call	Put	Strike	Call	Put	Strike	Call	Put	
106.00	×	✓	4.50	×	~	106.00	×	✓	4.50	×	~	
104.00	×	✓	4.00	×	√	104.00	×	×	4.00	×	1	
102.00	×	×	3.50	×	~	102.00	×	 ✓ 	3.50	×	✓	
100.00	×	×	3.00	×	×	100.00	×	×	3.00	×	×	
98.00	~	×	2.50	~	×	98.00	~	×	2.50	~	×	
96.00	1	×	2.00	1	×	96.00	1	×	2.00	1	×	
94.00	~	×	1.50	1	×	94.00	√	×	1.50	~	×	

A series will be auto-exercised:

- Call options: if the Final Settlement Price ≥ (strike * (1 + ITM limit in %))
- Put options: if the Final Settlement Price ≤ (strike * (1 ITM limit in %))

Legend:

- ✓ The series will be automatically exercised
- The series will <u>not</u> be automatically exercised
- The limit preset for house account by the Participant overridden SEOCH's predefined exercise limit. For strike at 102.00, the put options for series X in house account will NOT be auto-exercised, with the preset limit at 2.0000%; while the put options in other accounts will auto-exercise by applying SEOCH's prescribed limit at 1.5000%.

Case 2: A Participant defined its own exercise limit, in <u>fixed value (\$)</u>, for its omnibus client account only, i.e. at account level, as follows:

For CGA1 Omnibus Client Account				Other Accounts					
On or before Expiration Day									
Stock Call Option Set Limit As HKD3.000	Stock Put C Set Limit As H								
Create Automatic Exercise Limit × Account * HK CGA1 A1 Jnstrument Type * STOCK CALL OPTION Limit unit * Fixed value Exercise Jimit * 3.000 Create Qiear Create Qiear		*** No Action Taken ***							
On Expiration Day									
Apply preset Limit to ALL series in omnibus client				Apply SEOCH predefined exercise limit,					
account			i.e. 1.5000% to ALL series in other accounts						
Series X Series Y Final Settlement Price = 100.00 Final Settlement Price = 3.00 Stock Call Stock Put Option Stock Call Stock Put Option		Series X Series Y Final Settlement Price = 100.00 Final Settlement Price = 3.00 Stock Call Stock Put Stock Call Stock Put Option							
ITM Limit HKD3.000 HKD4.000	ITM Limit HKD3.000	HKD4.000	ITM Limit	1.5000%	1.5000%	ITM Limit	1.5000%	1.5000%	
Auto-Exercise	Auto-Ex	Auto-Exercise		Auto-Exercise Auto-Exercise					
Strike Call Put	Strike Call	Put	Strike	Call	Put	Strike	Call	Put	
106.00 × ✓	4.50 ×	×	106.00	×	~	4.50	×	×	
104.00 × ✓	4.00 ×	×	104.00	×	×	4.00	×	×	
102.00 × ×	3.50 ×	×	102.00	×	×	3.50	×	×	
	3.00 ×	×	100.00	×	×	3.00	×	×	
96.00 × ×	2.00 ×	×	98.00	 Image: A set of the set of the	×	2.50	×	×	
90.00	1.50	î.	96.00	×	×	2.00	×	×	
549.00 · · · ·	1.00	Â	94.00	*	×	1.50	✓	×	

A series will be auto-exercised:

- Call options: if the Final Settlement Price ≥ (strike + ITM limit at fixed value)
- Put options: if the Final Settlement Price ≤ (strike ITM limit at fixed value)

Legend:

- The series will be automatically exercised
- The series will <u>not</u> be automatically exercised
- The limit preset for omnibus client account by the Participant overridden SEOCH's predefined exercise limit. Hence, both call & put options for series X and series Y have different auto-exercise results as compared those in other accounts applying SEOCH's prescribed limit at 1.5000%.