**Operational Trading Procedures for Options Trading Exchange Participants**

# Preface

**Notation**

By its operational nature, this document makes reference to many specific names and descriptions defined elsewhere.

For consistency within this document, names of ~~standard forms (samples provided in Appendix D) are printed in~~ **bold,** ~~and names of~~ documents are printed in *italics* and standard forms referred to in this document are published on the HKEX website.

~~Enquiries~~
~~All enquiries about these procedures should be directed to:~~

> ~~Traded Options Division~~
> ~~The Stock Exchange of Hong Kong Limited~~
> ~~11/F, One International Finance~~
> ~~Centre 1 Harbour View Street~~
> ~~Central, Hong Kong~~
>
> ~~Hot line:        2840 3580~~
> ~~Fax number:     2530 2911~~

# Chapter 1
# The Options System: Operational and Service Schedule

**1.3     Stock Options Clearing**

The SEHK Options Clearing House Limited ("SEOCH"), a wholly-owned subsidiary of HKEX, is solely responsible for stock options clearing. It acts as the counterparty to all trades and guarantees contract performance in terms of money settlement and stock delivery.

As soon as a trade has been validly created in HKATS, the trade will be transmitted to DCASS and will be registered in DCASS as a position and thereafter monitored by SEOCH for the purposes of risk management through to delivery or expiry.

SEOCH Participants can enter exercise requests for Market Maker, house or client (including NCP) positions via ~~their~~ DCASS ~~terminals~~. SEOCH will do the assignment and novation and the resultant stock transactions will be passed to CCASS for settlement, with SEOCH Participants and SEOCH itself as counterparties. On an expiry day, DCASS will automatically generate exercise requests in respect of all open long positions in spot month contracts which meet 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. ~~are in the money by or above a certain percentage as specified by SEOCH will be automatically exercised, unless~~ SEOCH Participants can elect to deny such automatically generated ~~have specifically denied the~~ exercise requests ~~automatically generated by~~ via DCASS at any time prior to the System Input Cutoff Time on the expiry day ~~in respect of such positions~~. For details please refer to the *Operational Clearing Procedures*.

# Chapter 2： Access to HKATS

## 2.1 Means of Access

An Options Trading Exchange Participant can access HKATS for trading in stock options through its connection to HKATS. Options Trading Exchange Participants should complete and return the **CLICK Workstation Installation/Termination Request Form** and the **HKATS Usernames for Access to HKATS Form** where installation or termination of HKATS workstations is intended.

## 2.4 Passwords

A password must be entered with a HKATS Username in order to access HKATS.

The Exchange will distribute HKATS Username(s) and password(s) to the Options Trading Exchange Participant and its Authorized Person for gaining access to HKATS. Upon logging on for the first time, an Authorized Person should change the password to one he chooses and keep it strictly confidential.

An Options Trading Exchange Participant may request the Exchange to reset the password or to reissue the password notification letter subject to the payment of a fee specified by the Exchange. Such request shall be made by completing the such form as may be prescribed by the Exchange from time to time**Request For Resetting Password Form** or the **Request For Re- issuing Password Notification Letter** whichever is appropriate.

## 2.5 Application For HKATS Username

An Options Trading Exchange Participant must apply through by completing such form as may be prescribed by the Exchange from time to time **Form CA** for assignment of HKATS Username(s) and password(s) for accessing HKATS.

The Options Trading Exchange Participant shall notify the Exchange on of any change in the information provided on **Form CA**, including any deletion of HKATS Username(s). For deletion of HKATS Username(s), the Exchange will endeavor to terminate the access of the HKATS username(s) to HKATS on the effective date as indicated on the form**Form CA**.

# Chapter 3： Trading Functionalities

## 3.1A Trade Record

An Options Trading Exchange Participant can check details of its trades using the Company TradesOrder History Window and the Clearing Trades History Window. The Order History Company Trades Window shows trade information of an Options Trading Exchange Participant's login users. Information shown in this window is stored only in an Options Trading Exchange Participant's local workstations. In the event that the connection between the Exchange's central system and an Options Trading Exchange Participant's local workstations is interrupted, information in the Company Trades Window may not be readily updated after system recovery.

An Options Trading Exchange Participant should also check the ~~Clearing~~ Trade~~s~~ History Window for details of trades executed by ~~him~~it. Information shown in the ~~Clearing~~ Trade~~s~~ History Window is retrieved from the central system at login and is updated on a real-time basis.

Upon an Options Trading Exchange Participant noticing any discrepancy between the Order History~~Company Trades~~ Window and the ~~Clearing~~ Trade~~s~~ History Window, it is required to report the discrepancy to the Exchange via the HKATS Hotline immediately.

### 3.3 Class Codes

~~Unlike AMS, which uses numbers to denote a stock, e~~Each option class will be allocated a unique 3 to 5 - letter class code by the Exchange. The same class code will be adopted by HKATS and DCASS for the same underlying stock.

In the event that the contract specifications of an option class need to be adjusted as a result of capital adjustment, HKATS will assign a new class code for the adjusted option class unless otherwise determined by the Exchange. New options classes generated after the capital adjustment may carry a different class code. Exchange Participants will be notified from time to time of any class codes or new class codes that are allocated by HKATS and DCASS for an option class via DCASS, the Market Messages Window of HKATS, e-mail, HKEX website or such other means deemed appropriate by the Exchange.

### 3.4 Notation of Contract Specifications

An options contract on HKATS is represented by the following:

<Class ><Strike><Month><Year>

where   <Class >      denotes the 3 to 5-character code allocated to an options class in HKATS

      <Strike>      denotes the 4-digit strike price with 2 decimal places

      <Month>      denotes the 1-character expiry month code

      <Year>      denotes the 1-digit contract year code.

For example, a put option on a stock of which the class code is HKZ and adjusted class code is HKY after one capital adjustment, and of which the expiry is in September and strike price is HK$10.00 is denoted as "HKY10.00U1" in HKATS.

Appendix B sets out the detailed contract specifications.

# Chapter 4：Market Making

### 4.11 Market Maker Accounts

Such trades recorded in the Market Maker's "M1" account in HKATS will be transmitted to its corresponding Market Maker Account in DCASS. Positions in a Market Maker Account in DCASS are recorded on a net basis after the ~~After Business Period~~System Input Cutoff Time, meaning long and short positions on the same option series will be consolidated to become a net long or short position. Please refer to the *Operational Clearing Procedures* for details.

# Chapter 5： Client Services Support

**5.6**      **Collection of Client Margin**

*Options Trading Rules* stipulate when client margin should be collected.

If sufficient collateral is not collected when due, the Options Trading Exchange Participant must notify the Exchange immediately via such form as may be prescribed by the Exchange from time to time  ~~Form OP401~~, and may take any steps as defined in Options Trading Rule 431 in respect of the defaulting client position.

The PRiME calculation algorithm is there to protect the Options Exchange Participant from suffering a final loss in liquidating a defaulting client position. If in doubt, an Options Exchange Participant is advised to collect sufficient margin up front before the order is executed.

**5.7**      **Entry and Adjustment of Exercise Requests**

A client can instruct his Options Exchange Participant to exercise a long position. The instruction can take the form of telephone, fax, letter or whatever means are laid down in the Client Agreement. Before the end of the Post-Trading Period subject also to the Client Agreement, a client can also give instructions to his Options Exchange Participant to reverse or modify an exercise instruction given earlier the same day.

An Options Broker Exchange Participant or an Options Trading Exchange Participant that is an NCP may, upon request of its clients, request its Options Trading Exchange Participant or designated GCP, as the case may be, to input exercise requests for its clients. Normally, an Options Trading Exchange Participant shall input, or, if it is an NCP, shall request its designated GCP to input, its exercise requests through DCASS in respect of each and every contract it wishes to exercise. DCASS 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, DCASS will automatically generate exercise requests in respect of all~~each and every~~ open long position~~s~~ in spot month contracts which meet 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~~is in the money by or above the  percentage prescribed by SEOCH from time to time~~. SEOCH Participants can elect to deny such automatically generated exercise requests ~~for positions in any particular series~~ via DCASS at any time prior to the ~~start of the After Business Period~~System Input Cutoff Time on the expiry day. For the purposes of the *Options Clearing Rules* and the *Operational Clearing Procedures*, exercise requests automatically generated by DCASS, if not so denied, are deemed as exercise requests input by SEOCH Participants and shall be binding and irrevocable. Please refer to the *Operational Clearing Procedures* for more details.

Options Exchange Participants should ensure their clients are aware that there is a possibility that their open long positions could be automatically exercised unless elected otherwise. Options Exchange Participants and their clients should note that on an expiry day, all open long positions expiring on that expiry day will expire worthless unless these

positions have been exercised, either by exercise requests automatically generated by DCASS or via manual input of exercise requests by the Options Trading Exchange Participant or, if it is an NCP, by its designated GCP. Therefore an Options Exchange Participant shall ensure that it obtains timely instructions from its clients in respect of exercise of Options Contracts.

Instructions relating to exercise, exercise adjustment or the denying of an automatic exercise instruction on client or house positions must be entered before the ~~start of the After Business Period~~ System Input Cutoff Time on the expiry day in order to be processed.

NCPs will not have access to screens for entry of exercise requests and adjustments and must therefore instruct their designated GCPs to enter exercised requests and adjustments on their behalf. The *Operational Clearing Procedures* set out the details.

If an out-of-the-money client position is to be exercised, the Exchange advises the SEOCH Participant to obtain written exercise instructions from the client before input.

### 5.11 Reporting Excess in Reporting Level

3. Any Options Exchange Participant holding positions in excess of the reporting level for its own account or for any client shall file a written report with the Exchange using such form as may be prescribed by the Exchange from time to time ~~using the Position Limit Reporting Form (Appendix J)~~, no later than 12:00 noon of the next business day after the positions are opened or accumulated, and continue to file a ~~notice~~ report for as long as the Options Exchange Participant holds positions in excess of the reporting level.

   ~~The completed form should be marked "Confidential" and sent to:~~

   ~~The Stock Exchange of Hong Kong Limited~~
   ~~17/F Worldwide House~~
   ~~19 Des Voeux Road Central~~
   ~~Hong Kong~~

   ~~Ref. PAS~~

   ~~An Options Exchange Participant may provide the **Position Limit Reporting Form** to a client for reporting purposes.~~

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Example

The reporting level for CKH is 1,000 contracts. A client buys 1,100 September CKH calls on Day 1. These positions will have to be reported by no later than 12:00 noon of Day 2. However, the client does not need to file a written report on or before Day 2 if he sells 150 September CKH calls on Day 1, thereby reducing his positions to below the reporting level.

So long as the client holds more than 1,000 September CKH calls on Day 2 or succeeding days, he will need to report his positions daily even though his positions remain unchanged.

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# Chapter 7 : Contingency Procedures

**7.1C    Equipment Failure**

In case of a failure, error or defect in any of the equipment relating to the trading of an Options Trading Exchange Participant on HKATS (including but not limited to ~~terminals,~~ network equipment and communication lines), whether installed at the Options Trading Exchange Participant's office premises or any other location, the Options Trading Exchange Participant shall report the incident to the HKATS hotline immediately. Options Trading Exchange Participants are requested to follow the procedures stipulated in the HKATS User's Guide regarding equipment failure.

~~An Options Trading Exchange Participant can apply to the Exchange for a temporary connection to the contingency gateway in case of any connectivity failure experienced by the Options Trading Exchange Participant using network gateway. The Exchange has the absolute discretion to determine whether or not to approve such application.~~

An Options Trading Exchange Participant experiencing a temporary loss of connectivity to HKATS may also request the Exchange to delete orders from or conduct other processes on HKATS on its behalf ("On-Behalf-Of Processing"). On-Behalf-Of Processing is principally intended for real contingency situations to reduce the financial risk of an Options Trading Exchange Participant when there is an unexpected temporary failure in system access. It is not intended to be a long-term alternative for the Options Trading Exchange Participant. The Options Trading Exchange Participant is expected to restore its access to HKATS in the shortest time practicable. On-Behalf-Of Processing is subject to the availability of the resources of the Exchange at the time of an Options Trading Exchange Participant's request. The Exchange will appraise each request for On-Behalf-Of Processing on a case- by-case basis and shall have the absolute discretion to turn down any request which it deems inappropriate. The Exchange shall not be liable to any Options Trading Exchange Participant for any On-Behalf-Of Processing conducted on its behalf.

A fee shall be payable by an Options Trading Exchange Participant for ~~connecting to the contingency gateway and for~~ any On-Behalf-Of Processing executed by the Exchange on its behalf.

# APPENDIX A:   FEES & COSTS PAYABLE TO THE EXCHANGE

**A4    HKATS-Related Charges**

| Fee Type | Fee |
|---|---|
| HKATS Online fee for connection through the central gateway | HK$2,600 per month/connection |
| ~~CLICK or OAPI sub-license fee for connection through a network gateway~~ | ~~HK$1,750 per month per CLICK or OAPI~~ |
| ~~Installation or termination of CLICK workstations~~ | ~~HK$800 per workstation~~ |

**A5** **Emergency Costs**

| Service | Costs | Remarks |
|---|---|---|
| ~~Temporary connection to HKATS via the contingency gateway~~ | ~~HK$1,000 per connection per day or part thereof~~ | ~~Subject to availability.~~ |
| Re-Print of reports | HK$5 per page up to HK$1,000 per report | Subject to availability. |

# APPENDIX B:   OPTIONS CONTRACT SPECIFICATIONS

**B9** **Clearing and Settlement**

<u>Stocks</u>

Any stock trades resulting from exercise and assignment of options are settled ~~using~~ under CCASS (the clearing and settlement system of ~~Hongkong Clearing~~Hong Kong Securities Clearing Company Limited).  Details are set out in the *Operational Clearing Procedures*.

# APPENDIX D:   ~~STANDARD FORMS~~[Repealed]

~~This appendix contains all forms mentioned in this documentation, of which an Options Trading Exchange Participant can make their own copies. A completed copy can be faxed to the Exchange or SEOCH as instructed on the forms but the Exchange and SEOCH will only act if the Exchange Participant has first signed the requisite fax indemnity (See Appendix F). For some of the forms mentioned in this documentation the Exchange will only accept originals, not copies.~~

**To: THE STOCK EXCHANGE OF HONG KONG LIMITED**
(a wholly owned subsidiary of Hong Kong Exchanges and Clearing Ltd)

# DERIVATIVES MARKET

| | |
|---|---|
| 10/F One International Finance Centre | Hotline : 2211 6360 |
| 1 Harbour View Street | Fax: 2509 0724 / 2877 |
| 0017 Central, Hong Kong | |

## REQUEST FOR ON-BEHALF-OF PROCESSING

### Particulars of Exchange Participant

| Mnemonic / Firm ID | Participant Name |
|---|---|
| | |

### Contact Person

| Name | Tel | Fax |
|---|---|---|
| | | |
| **Position** | **E-mail** | |
| | | |

### Details

| Type of Transaction Processed | Number of Orders |
|---|---|
| | |
| | |
| | |

### Fee
Bulk deletions involving more than 20 orders: HK$1,000 per bulk deletion
Transactions other than bulk deletions: HK$50 per transaction

Total Fee: HK$_____

_____  _____
Authorized Signature                                                        Date


_____
Name of Signatory

TO: **THE STOCK EXCHANGE OF HONG KONG LIMITED**

| 10/F, One International Finance Centre | Fax: | 2509 0724 |
| 1 Harbour View Street | | 2877 0017 |
| Central, Hong Kong | Hotline: | 2211 6360 |
| (Ref: DMDO) | | |

## REPORT OF CLIENT DEFAULT

From:

| Exchange Participant Name | Exchange Participant Firm ID |
|---|---|
| Defaulting Client (Beneficial Owner) | Date of Default |

Open Client Positions

| SERIES/STOCK | LONG | SHORT |
|---|---|---|
| | | |
| | | |
| | | |
| | | |

Client Collateral

| Cash / Stock | Amount / Number of Shares |
|---|---|
| | |
| | |
| | |

Margin Requirement _____ (currency / amount)

☐ Simplified Formula    ☐ Risk Array Model

Actions to Take

_____

_____

Signature of
Responsible Officer _____    Date_____
(Please affix company chop)

| FOR EXCHANGE USE | | | | |
|---|---|---|---|---|
| SIG. VERIFIED | CONFIRMED | | | |

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**To: THE STOCK EXCHANGE OF HONG KONG LIMITED**
(a wholly owned subsidiary of Hong Kong Exchanges and Clearing Ltd)

## DERIVATIVES MARKET

10/F One International Finance Centre
1 Harbour View Street
0017 Central, Hong Kong
(Ref: DMDO)

Hotline : 2211 6360
Fax: 2509 0724 / 2877

## REQUEST FOR RENTAL OF CLICK WORKSTATION IN SOS CENTRE

### Particulars of Exchange Participant

| Mnemonic / Firm ID | Participant Name |
|---|---|
|  |  |

### Contact Person

| Name | | Tel | | Fax |
|---|---|---|---|---|
| Position | | E-mail | | Mobile |

### Details
Authorized Person(s) working at the SOS Centre

| Name | HKID No. |
|---|---|
|  |  |
|  |  |

| Reason for rental of CLICK workstation in SOS Centre | |
|---|---|
| No. of workstations requested | |
| Date | Time |

### Fee
HK$1,000 per workstation per day

_____    _____
Authorized Signature                                                      Date
with company chop

_____
Name of Signatory

(a wholly owned subsidiary of Hong Kong Exchanges and Clearing Ltd)

| | | |
|---|---|---|
| 10/F, One International Finance Centre | Fax: | 2509 0724 |
| 1 Harbour View Street | Hotline: | 2211 6360 |
| Central, Hong Kong | | |
| (Ref: DMD) | | |

## ERROR TRADES

**Particulars of Options Trading Exchange Participant**

Exchange Participant Name _____

Exchange Participant ID |___|___|___|___|___|___|          HKATS Username _____

Contact Person for this Request _____

Phone No. _____          Fax No. _____

A.    Trade on Single Series

| TRADE DETAILS | |
|---|---|
| Transaction Date (dd-mm-yy) | \|___\|___\|-\|___\|___\|-\|___\|___\| |
| Series ID | |
| Trade ID | \|___\|___\|___\|___\|___\|___\| |
| Bid/Ask | ☐ Bid          ☐ Ask |
| Trade Price | \|___\|___\|___\|.\|___\|___\| |
| Trade Size | \|___\|___\|___\|___\| |
| Trade Time | \|___\|___\|:\|___\|___\| |

B.    Trade Comprising More Than One Series

| STRATEGY TRADE DETAILS | |
|---|---|
| Transaction Date (dd-mm-yy) | |
| Series ID | 1. |
| | 2. |
| | 3. |
| Trade Price | |
| Trade Size | |
| Trade Time | |

I/We hereby declare that I/we have maintained an effective fax indemnity with you and request you to effect the correction of the above trade.

Authorized Signature _____          Date _____
(Please affix company chop, if applicable)

| For Official Use Only | | | | |
|---|---|---|---|---|
| Signature verified | Trade verified | Claim initiated by | Accepted ☐ | Rejected ☐ |
| Buy Exch Participant \|___\|___\|___\|___\|___\|___\|___\|___\| | | | Sell Exch Participant \|___\|___\|___\|___\|___\|___\|___\|___\| | |
| Reference Price: \|___\|___\|___\|.\|___\|___\|    Source from:   OPM data / E030 / MM quotes / RPTTD810 / Others | | | | |
| Trade Reversal by | Trade #: \|___\|___\|___\|___\|___\| | | Penalty on:   Buyer ☐    Seller ☐ | |

| | |
|---|---|
| 10/F One International Finance Centre | Hotline : 2211 6360 |
| 1 Harbour View Street | Fax : 2509 0724 / 28770017 |
| Central, Hong Kong | Hotline : 2211 6360 |

## REQUEST FOR RESETTING PASSWORD

### Particulars of Exchange Participant

| Mnemonic / Firm ID | Participant Name |
|---|---|
| | |

### HKATS User Information

| Name of Authorized Person | | |
|---|---|---|
| | | |
| HKATS Username | Tel | Fax |
| | | |

### Details

| Reason for resetting password |
|---|
| |

We hereby request for the resetting of password for the Authorized Person stated above and agree to pay the required charges stipulated in the SEHK Rules, Regulations and Procedures.

Authorized Signature(s) of
Exchange Participant_____    Date_____
          (with company chop)

| For Official Use Only | | |
|---|---|---|
| Signature Verified | User Verified | Form NU Prepared |
| | User Informed | Fees Charged |

**To: THE STOCK EXCHANGE OF HONG KONG LIMITED**

**(a wholly owned subsidiary of Hong Kong Exchanges and Clearing Ltd)**

| | | |
|---|---|---|
| 10/F, One International Finance Centre | Fax: | 2509 0724 |
| 1 Harbour View Street | Hotline: | 2211 6360 |
| Central, Hong Kong | | |
| (Ref: DM) | | |

## CLICK WORKSTATION INSTALLATION/TERMINATION REQUEST FORM

| Particulars of Exchange Participant | |
|---|---|
| Exchange Participant | |
| Contact Person | Email |
| Phone No. | Fax No. |

| Services Required (Please tick the box for the appropriate service(s) required.) | |
|---|---|
| ☐ Installation of CLICK | Intended Installation |
| ☐ Termination of CLICK | Intended Termination |
| ☐ Re-installation of CLICK | Intended Re-installation Date |
| Number of CLICK | |
| Address of Service Required | |

| PC Configuration | | |
|---|---|---|
| Host Name (e.g. ABCWA1) | | |
| Type of CPU (e.g. Pentium 4) | | |
| Speed of CPU | | GHz |
| Memory | | GB RAM |
| Hard Disk | | GB |
| Display Card | | MB RAM |

We hereby request for the installation/termination of CLICK workstation(s) and agree to pay the required charges stipulated in the SEHK Rules, Regulations and Procedures.

| Authorized Signature | | Date | |
|---|---|---|---|
| Printed Name/Title | ( | ) | |

| For Official Use | |
|---|---|
| | Remarks |
| Setup Guide Sent On | |
| Click Installed On | |

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## REQUEST FOR RE-ISSUING PASSWORD NOTIFICATION LETTER

**Particulars of Exchange Participant**

| Mnemonic / Firm ID | Participant Name |
|---|---|
| | |

**HKATS User Information**

| Name of Authorized Person | | |
|---|---|---|
| HKATS Username | Tel | Fax |
| | | |

**Details**

| Reason for re-issuing password notification letter |
|---|
| |

We hereby request for the reissuing of the password notification letter for the Authorized Person stated above and agree to pay the required charges stipulated in the SEHK Rules, Regulations and Procedures.

Authorized Signature(s) of
Exchange Participant_____    Date_____
                                (with company chop)

| For Official Use Only | | |
|---|---|---|
| Signature Verified | User Verified | Form NU Prepared |
| Password Reset | User Informed | Fees Charged |

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