

CHAPTER 1

DEFINITIONS AND INTERPRETATION

Definitions

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

“affiliate”	means a company that is either a subsidiary of an Options Exchange Participant (or vice versa) or shares a parent company with the Options Exchange Participant and that parent company owns at least 40 percent of both companies;
“AFRC Transaction Levy”	means the levy payable to the Accounting and Financial Reporting Council pursuant to the provisions of section 50A of the Accounting and Financial Reporting Council Ordinance;
“After Business Period”	means the time period after trading but before batch processing on each Business Day when input of clearing functions into DCASS by SEOCH Participants is no longer allowed;
“Articles”	has the same meaning as in the Exchange Rules;
“Authorized Person”	means a person employed or engaged by an Options Trading Exchange Participant to gain access to HKATS and for the purpose of gaining access to HKATS via the HKATS Risk Functions to establish, monitor and implement Prescribed Risk Controls, an Authorized Person may include a person appointed for such purpose by the GCP which clears the Options Trading Exchange Participant’s trades if it is an NCP;
“Block Trade”	means any trade which is executed via the Block Trade Facility;
“Block Trade Contract”	means an option class designated by the Board as an option class that may be executed as a Block Trade pursuant to these Options Trading Rules and the Operational Trading Procedures;
“Block Trade Facility”	means the function of HKATS as specified by the Exchange to be used for Block Trades execution;
“Board”	has the same meaning as in the Exchange Rules;
“Business Day”	means a day on which the Exchange is open for trading stock options;

“CCASS”	has the same meaning as in the Exchange Rules;
“CCMS”	has the same meaning as in the Clearing Rules;
“Central Orderbook”	means a file resident in the Options Trading System which contains the records of all unmatched orders to buy or sell Options Contracts through the Options Trading System;
“Chief Executive”	has the same meaning as in the Exchange Rules;
“Clearing Agreement”	means a written agreement between a GCP and an NCP as required by Options Trading Rule 302(4)(b);
“Clearing Rules”	means the clearing rules of SEOCH as from time to time in effect;
“Client Account”	means the account of an Options Trading Exchange Participant, designated “A1” by HKATS;
“Client Contract”	has the same meaning as in Options Trading Rule 411 or 411A(b), as the context may require;
“Client Identity Guidance Note”	has the same meaning as in the Exchange Rules;
“closing contract”	means a short (long) Contract, resulting from an Options Contract which was designated as a closing contract by a person, the effect of which is the elimination of the rights and obligations arising under an identical but long (short) Contract in the same option series entered into by the same person comprised in an open position, and which decreases that open position, and “closing”, “close” and “closed” shall be construed accordingly;
“Commission”	has the same meaning as in the Exchange Rules;
“Contract”	means an Options Contract, a Client Contract, an Options Broker Client Contract, an OCH Contract or an NCP Contract, as the context may require;
“controller”	has the meaning assigned to it by section 18(1) of the Ordinance;
“Currency of the Contract”	has the same meaning as in the Clearing Rules;
“Daily Margin”	has the same meaning as in the Clearing Rules;
“DCASS”	has the same meaning as in the Clearing Rules;
“delivery obligation”	has the same meaning as in the Clearing Rules;

“designated GCP”	means, in relation to an Options Contract executed by an NCP, the GCP designated by the NCP to clear such Contract;
“designated HKEX staff”	has the same meaning as in the Exchange Rules;
“Error Trade”	has the meaning ascribed to it in Options Trading Rule 540;
“Exchange”	has the same meaning as in the Exchange Rules;
“Exchange Participant”	has the same meaning as in the Exchange Rules;
“Exchange Participant Admission Appeals Committee”	means a committee convened to review decisions of the Board in respect of application for Exchange Participantship in accordance with the Exchange Participant Admission Appeals Procedures as prescribed by the Exchange from time to time;
“Exchange Rules”	means “the Rules of The Stock Exchange of Hong Kong Limited” ;
“Exchange Traded Options Business”	means business related to Options Contracts and all matters incidental to Options Contracts, including Contracts arising from Options Contracts pursuant to these Options Trading Rules and the Clearing Rules, exercise of Contracts, delivery obligations, Premium settlement and delivery of SEOCH Collateral;
“exercise”	means the process carried out in accordance with the Clearing Rules and these Options Trading Rules pursuant to which delivery obligations arise;
“Fee Schedule”	means the list of fees attached to the Operational Trading Procedures or the Operational Clearing Procedures;
“GCP”	has the same meaning as in the Clearing Rules;
“give-up”	means a process whereby Contracts may be either discharged and novated into new Contracts or cancelled and replaced by a new Contract pursuant to these Options Trading Rules and the Clearing Rules;
“HKATS”	means the automated trading system made available by the Exchange for trading in Options Contracts and which is operated by HKFE;
“HKATS Risk Functions”	means such HKATS software as each Options Trading Exchange Participant is required by the Exchange to install, and if it is an NCP, to arrange for the GCP which clears its trades to install, in order to establish, monitor and implement Prescribed Risk

Controls for the Exchange Participant;

“HKATS Username”	means a unique set of numbers and characters which identifies the Options Trading Exchange Participant or, with regard to HKATS Risk Functions, the SEOCH Participant gaining access to HKATS;
“HKCC”	has the same meaning as in the Exchange Rules;
“HKCC Participant”	has the same meaning as in the Exchange Rules;
“HKEX”	means Hong Kong Exchanges and Clearing Limited;
“HKEX staff”	means staff of HKEX or staff of a company of which HKEX is a controller, including without limitation, staff of, the Exchange;
“HKEX website”	means the official website of HKEX at http://www.hkex.com.hk or at such other website address specified by HKEX from time to time;
“HKFE”	means Hong Kong Futures Exchange Limited;
“HKSCC”	has the same meaning as in the Exchange Rules;
“HKSCC Rules”	has the same meaning as in the Exchange Rules;
“holder”	has the same meaning as in the Standard Contract;
“Hong Kong dollars” or “HK\$”	means the lawful currency of Hong Kong;
“House Account”	means the accounts of an Options Trading Exchange Participant, designated “P1” or “M1” (Market Maker account) by HKATS;
“Intra-day Margin”	has the same meaning as in the Clearing Rules;
“Investor Compensation Levy”	means the levy payable to the Commission pursuant to the provisions of section 4 of the Securities and Futures (Investor Compensation - Levy) Rules;
“Limit Order”	means an order where a bid or offer/ask price is specified, which can be executed at the specified price or a better price;
“liquid capital”	has the meaning assigned to it by the Securities and Futures (Financial Resources) Rules;
“Long-Only Restriction”	has the same meaning as in Options Trading Rule 207;

“lot”	has the same meaning as in the Standard Contract;
“margin”	means Daily Margin or Intra-day Margin and any amount to be paid by a client calculated pursuant to Options Trading Rule 424 or by an NCP calculated pursuant to Options Trading Rule 536, as the context may require;
“Market Maker”	means an Options Trading Exchange Participant which is registered as market maker by the Exchange, as more particularly described in Chapter 6, the Second Schedule to these Options Trading Rules and the Operational Trading Procedures. For the purposes of these Options Trading Rules and Operational Trading Procedures, the term “Market Maker” shall include “Primary Market Maker” and “Regular Market Maker”;
“Market Maker jobbing transaction”	has the same meaning as in the Exchange Rules;
“Minimum Volume Threshold”	means the minimum volume that an order must satisfy in order for it to be executed as a Block Trade, and unless otherwise determined by the Board, the minimum volume threshold for each Block Trade Contract shall be 500 lots;
“NCP”	means an Options Trading Exchange Participant which is not a SEOCH Participant;
“NCP Contract”	has the same meaning as in the Clearing Rules;
“nominal price”	has the same meaning as in the Exchange Rules;
“OCH Contract”	has the same meaning as in the Clearing Rules;
“Omnibus Account”	means an options trading account opened with an Options Exchange Participant by a client in respect of which the Options Exchange Participant is notified that the account is to be operated for a customer, or a number of customers, of the client and not the client itself;
“opening contract”	means a Contract, resulting from an Options Contract which was designated by a person as an opening contract, the effect of which is the creation or increase of an open position;

“open position”	means, in relation to an option series, a position that arises if a person is a party to a Contract which has not been closed or exercised, and which will be regarded as:- (1) “short” if he is the writer of that Contract; or (2) “long” if he is the holder of that Contract;
“Operational Clearing Procedures”	has the same meaning as in the Clearing Rules;
“Operational Trading Procedures”	means the practices, procedures and administrative requirements prescribed by the Exchange from time to time relating to the trading of Options Contracts on the Exchange;
“option class”	means the set of all possible option series on the same underlying security;
“option series”	means the underlying security, expiry, strike price, option type (put or call) capable of being specified in HKATS by an Options Trading Exchange Participant pursuant to these Options Trading Rules;
“Options Broker Client Contract”	has the same meaning as in Options Trading Rule 411A;
“Options Broker Exchange Participant”	means a person registered as such by the Exchange pursuant to Chapter 2 of these Options Trading Rules and “Options Broker Exchange Participantship” shall be construed accordingly;
“Options Broker Exchange Participant Account”	means an options trading account opened in accordance with Options Trading Rule 409A with an Options Trading Exchange Participant by an Options Broker Exchange Participant for its own account or for the account of one or more affiliates;
“Options Broker Member”	means a person registered as such by the Exchange pursuant to the Options Trading Rules effective immediately prior to the Scheme Effective Date and “Options Broker Membership” shall be construed accordingly;
“Options Broking Agreement”	means a written agreement between an Options Trading Exchange Participant and an Options Broker Exchange Participant as required by Options Trading Rule 401A;

“Options Clearing System”	means DCASS, CCMS and/or any other facility provided by the Exchange or SEOCH for the clearing of Contracts;
“Options Client Agreement”	means a written agreement between an Options Exchange Participant and a client as required by the Code Of Conduct for Persons Licensed by or Registered with the Commission made under the Ordinance in force from time to time (SFC Code of Conduct);
“Options Contract”	means a contract made pursuant to Options Trading Rule 513 incorporating the terms and conditions of the Standard Contract for a particular option series;
“Options Exchange Participant”	means a person registered by the Exchange as either an Options Trading Exchange Participant or an Options Broker Exchange Participant, as the context may require and “Options Exchange Participantship” shall be construed accordingly;
“Options Hedging Short Selling”	has the same meaning as in the Exchange Rules;
“Options Hedging Transaction”	has the same meaning as in the Exchange Rules;
“Options Member”	means a person registered by the Exchange as either an Options Trading Member or an Options Broker Member effective immediately prior to the Scheme Effective Date, as the context may require and “Options Membership” shall be construed accordingly;
“Options System”	means the Options Trading System and the Options Clearing System and any other facility provided by the Exchange or SEOCH for the transaction of Exchange Traded Options Business;
“Options System Operator”	means the Exchange, SEOCH or such person(s) as may from time to time be the operator of the Options Trading System and/or the Options Clearing System;
“Options System User Test”	means the examination by that name as may from time to time be approved by the Board;
“Options Trade Confirmation”	means a written confirmation by which an Options Exchange Participant notifies each client of the details of each Client Contract and each Options Broker Client Contract;

“Options Trading Exchange Participant”	means a person registered as such by the Exchange pursuant to Chapter 2 of these Options Trading Rules and “Options Trading Exchange Participantship” shall be construed accordingly;
“Options Trading Member”	means a person registered as such by the Exchange pursuant to the Options Trading Rules effective immediately prior to the Scheme Effective Date and “Options Trading Membership” shall be construed accordingly;
“Options Trading Rules”	means these rules, as from time to time in effect;
“Options Trading System”	means HKATS, the system provided by the Exchange for the trading of Options Contracts;
“order”	means a Limit Order;
“Ordinance”	means the Securities and Futures Ordinance and any subsidiary legislation made thereunder;
“person”	includes an individual, a partnership, an incorporated company and an unincorporated association;
“Premium”	means the amount payable by a holder and payable to a writer of a Contract in respect of the writing of that Contract;
“Prescribed Risk Controls”	means such prescribed controls and limits as the Exchange and SEOCH may from time to time require Options Trading Exchange Participants and SEOCH Participants to establish using the HKATS Risk Functions in order to manage the risks associated with orders placed and trades executed through their own connections to HKATS or connections granted by the Exchange through them, and in the case of a GCP which clears trades for NCP, its NCPs’ connection to HKATS or connections granted by the Exchange through such NCP;
“price”	has the same meaning as in the Standard Contract;
“Primary Market Maker”	means a Market Maker which is registered as a Primary Market Maker by the Exchange, as more particularly described in Chapter 6, the Second Schedule to these Options Trading Rules and the Operational Trading Procedures;

“quote”	means a Limit Order to buy and a Limit Order to sell Options Contracts in the same option series simultaneously entered into the Options Trading System by a Market Maker, as more particularly described in the Operational Trading Procedures;
“quote request”	means an instruction issued through the Options Trading System, in response to which Market Makers are obliged to provide quotes, as more particularly described in the Operational Trading Procedures;
“recognized exchange controller”	has the meaning assigned to it by section 1 of Part 1 of Schedule 1 to the Ordinance;
“registered business address”	has the same meaning as in the Exchange Rules;
“Regular Market Maker”	means a Market Maker which is not a Primary Market Maker;
“Renminbi” or “RMB”	means the lawful currency of the People’s Republic of China excluding, for the purposes of this definition only, Hong Kong, Macau and Taiwan;
“Responsible Officer”	has the same meaning as in the Exchange Rules;
“Scheme Effective Date”	has the same meaning as in the Exchange Rules;
“securities”	has the meaning assigned to it by section 1 of Part 1 of Schedule 1 to the Ordinance;
“SEHK-HKATS Agreement”	means the agreement in such form as may be prescribed by the Exchange from time to time which is entered into between the Exchange and an Options Trading Exchange Participant entitling such Options Trading Exchange Participant to participate in the trading of Options Contracts on HKATS in accordance with Chapter 5 of these Options Trading Rules;
“Self-match Prevention” or “SMP”	means the prevention of the matching in the Options Trading System during the trading hours of orders that are tagged with the same SMP ID whereby the relevant order(s) will be automatically cancelled in accordance with the specified SMP Instruction;
“SEOCH”	means The SEHK Options Clearing House Limited;
“SEOCH Board”	means the board of directors of SEOCH, and where the context so permits, any committee of that board;
“SEOCH Collateral”	has the same meaning as in the Clearing Rules;

“SEOCH Participant”	has the same meaning as in the Clearing Rules;
“Settlement Amount”	has the same meaning as in the Standard Contract;
“Settlement Currency”	has the same meaning as in the Clearing Rules;
“SFC Transaction Levy”	means the levy payable to the Commission pursuant to the provisions of section 394 of the Ordinance;
“SMP ID”	means a code, number or identifier to be used for tagging orders entered into the Options Trading System for the account of the same Options Trading Exchange Participant, client or other person in such manner as the Exchange may from time to time prescribe for the purpose of SMP;
“SMP Instruction”	<p>means either of the following instructions specified by the relevant Options Trading Exchange Participant for an SMP ID in relation to new and existing orders in separate order queues that are tagged with such SMP ID that might otherwise have been matched:-</p> <p>(a) “Cancel Aggressive”, that is, the newly entered order or, if such newly entered order is partially matched before any existing order with the same SMP ID is at the top of the order queue, the remaining unmatched part of such newly entered order will be cancelled by the Options Trading System; or</p> <p>(b) “Cancel Passive”, that is, the existing order or, if such existing order is partially matched before the newly entered order with the same SMP ID is at the top of the order queue, the remaining unmatched part of such existing order will be cancelled by the Options Trading System;</p>
“Standard Contract”	means the standard terms and conditions applicable to an Options Contract as specified by the Exchange from time to time as set out in the Sixth Schedule to these Options Trading Rules;
“Stock Exchange Trading Right”	has the same meaning as in the Exchange Rules;
“strike price”	has the same meaning as in the Standard Contract;
“System”	has the same meaning as in the Exchange Rules;

“System Input Cutoff Time”	means 6:45 p.m. or such other time after the close of trading from time to time prescribed by SEOCH as the system input cutoff time of DCASS on each Business Day;
“trade”	means a purchase or sale of one or more Options Contracts, in accordance with these Options Trading Rules, carried out on the Options Trading System unless otherwise prescribed by the Exchange, and “traded” and “trading” shall be construed accordingly;
“trading day”	has the same meaning as in the Exchange Rules;
“Transaction Levy”	means the levy payable pursuant to the provisions of section 394 of the Ordinance;
“Transaction Register”	means the log-b file resident in the Options Trading System which contains the records of all Options Contracts arising from the matching of orders in the Options Trading System;
“underlying security”	means the security comprised in the lot the subject of a Contract;
“Unusual Market Condition”	means in relation to any option class(es), any unusual trading activity or volume in such option class(es) or such other conditions as the Chief Executive may determine which deviate from the normal operation of such option class(es);
“writer”	has the same meaning as in the Standard Contract; and
“Year 2000 Compliant”	means that neither performance nor functionality of any system is affected by dates prior to, during and after the Year 2000. In particular : no value for current date will cause any interruption in operation; date-based functionality must behave consistently for dates prior to, during and after Year 2000; in all interfaces and data storage, the century in any date must be specified either explicitly or by unambiguous algorithms or inference rules; and Year 2000 must be recognized as a leap year.

Interpretation

102. Where the context so permits, words importing the singular number include the plural and vice versa and words importing the masculine gender include the feminine and neuter genders and vice versa.
103. Subject to Options Trading Rule 101, any definitions of words defined in the Exchange Rules, Clearing Rules, HKSCC Rules, the Ordinance, the Companies Ordinance or the

Articles shall, if not inconsistent with these Options Trading Rules or with the subject or context, apply to these Options Trading Rules.

- 104. The headings shall not affect the construction or interpretation hereof.
- 105. The interpretation by the Exchange of the Options Trading Rules and the Operational Trading Procedures shall be final, conclusive and binding on all Options Exchange Participants and the parties to all Contracts.

Applicability of the Exchange Rules

- 106. To the extent capable of being construed as applicable and except as expressly disappplied or modified, the Exchange Rules shall apply to Options Exchange Participants in relation to the carrying on by them of Exchange Traded Options Business.
- 107. In construing these Options Trading Rules, these Options Trading Rules shall prevail over the Exchange Rules where there is any inconsistency in relation to Exchange Traded Options Business. This shall be without prejudice to the right of the Exchange to treat any breach of these Options Trading Rules as a breach of the Exchange Rules (and vice versa).

Amendment

- 108. Subject to the Ordinance and the Articles, the Board shall have the power to add to, vary, repeal, enforce or waive any of these Options Trading Rules.

Exclusion of Liability

- 109A. The Options System is complex and the Exchange, SEOCH, HKFE and a recognized exchange controller which is the controller of the Exchange do not accept any liability whatsoever, and no claim may be brought against any of them or their respective staff, officers, agents and employees, in respect of any error in, or interruption in or suspension of the operation of, the Options System, except in respect of anything not done or not omitted to be done in good faith by the Exchange. In particular, neither the Exchange, SEOCH, HKFE nor a recognized exchange controller which is the controller of the Exchange including their respective staff, officers, agents and employees nor any person from whom the Exchange has obtained a licence, directly or indirectly, in connection with the use of the Options System shall have any liability in connection with, or arising out of, any ability or inability to use the computer programs involved in the functioning of the Options System (whether based in contract, tort, misrepresentation, warranty or other legal or equitable grounds and without regard to the circumstances giving rise to any purported claim).
- 109B. The Exchange, SEOCH, HKFE and a recognized exchange controller which is the controller of the Exchange will not be liable to any Options Trading Exchange Participant or to any other person in respect of anything done or omitted to be done in good faith by it in connection with the operations of the Options System, the provision of services and facilities available thereunder, and all other matters as contemplated in these Options Trading Rules.
- 109C. The Exchange, SEOCH, HKFE and a recognized exchange controller which is the controller of the Exchange will not be liable for any action taken or for any failure,

hindrance or delay in the provision of services or the performance in whole or in part of their obligations under these Options Trading Rules or under any OCH Contract if such action, failure, hindrance or delay arises out of causes beyond their control. Such causes may include, but shall not be limited to, acts of God or the public enemy, acts of a civil or military authority, embargoes, fires, floods, explosions, accidents, labour disputes, mechanical breakdowns, computer or system failures or other failures of equipment, failures of or defects in computer software, unavailability of or restrictions on any communication media for whatever reason (whether or not such media is used by Options Trading Exchange Participants), interruptions (whether in whole or in part) of power supplies or other utility or services, any law decree, regulation or order of any government, competent authority or any court or tribunal, and any other causes beyond the control of the Exchange (whether or not specified in the Exchange Rules), SEOCH, HKFE or a recognized exchange controller which is the controller of the Exchange.

Governing Law

110. The Options Trading Rules, the Operational Trading Procedures and all Contracts shall be governed by, and construed in accordance with, the laws of Hong Kong.

Notice

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

Transitional Provisions

114. Without limiting the generality of Options Trading Rule 115, with effect from the Scheme Effective Date and unless the context otherwise requires, the terms “Options Member”, “Options Trading Member” and “Options Broker Member” in the Options Trading Rules prior to the Scheme Effective Date have been substituted with the terms “Options Exchange Participant”, “Options Trading Exchange Participant” and “Options Broker Exchange Participant” respectively. Each Options Member, Options Trading Member and Options Broker Member immediately prior to the Scheme Effective Date that was, or was deemed to be an Exchange Participant under the Exchange Rules or the repealed Exchanges and Clearing Houses (Merger) Ordinance was deemed automatically to have become an Options Exchange Participant, Options Trading Exchange Participant and Options Broker Exchange Participant respectively and shall continue to be bound by these Options Trading Rules and Operational Trading Procedures.

115. For the avoidance of doubt:

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

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