

CHAPTER 4

OPTIONS EXCHANGE PARTICIPANTS AND THEIR CLIENTS

Options Broking Agreement

401. (1) [Repealed]

(2) [Repealed]

401A. No Options Trading Exchange Participant shall accept any instructions from an Options Broker Exchange Participant in relation to the transaction of any Exchange Traded Options Business for the account of the clients of that Options Broker Exchange Participant, unless and until:-

- (1) the Options Trading Exchange Participant is a Direct Clearing Participant of SEOCH or a GCP;
- (2) the Options Trading Exchange Participant has entered into an Options Broking Agreement with that Options Broker Exchange Participant, and such Options Broking Agreement must incorporate the principles underlying the Uniform Options Broking Agreement prescribed by the Board from time to time and set out in the First Schedule to these Options Trading Rules;
- (3) the Options Trading Exchange Participant has lodged with the Exchange one copy of the Options Broking Agreement executed pursuant to Options Trading Rule 401A(2) and such copy shall be certified by a Responsible Officer of that Options Trading Exchange Participant;
- (4) the Options Trading Exchange Participant has delivered to such Options Broker Exchange Participant a written statement of the full name and address of the Options Trading Exchange Participant and the full name and contact details of the Responsible Officer who will be primarily responsible for that Options Broker Exchange Participant's affairs as a client of that Options Trading Exchange Participant;
- (5) the Options Trading Exchange Participant has opened a separate DCASS account with SEOCH in respect of the transactions carried by it for the Options Broker Exchange Participant.

401B. An Options Broker Exchange Participant shall only be a party to one Options Broking Agreement at any time. The Exchange may impose limits on the number of Options Broking Agreements into which an Options Trading Exchange Participant may enter.

401C. For the avoidance of doubt, an Options Broker Exchange Participant that has entered into an Options Broking Agreement with an Options Trading Exchange Participant will be a client of that Options Trading Exchange Participant for the purposes of these Options Trading Rules, the Operational Trading Procedures, the Clearing Rules, the Operational Clearing Procedures and, to the extent applicable, the Exchange Rules and the HKSCC Rules.

402. Any change in the details contained in the statement supplied to an Options Broker Exchange Participant pursuant to Options Trading Rule 401(A)(4) must, wherever

possible, be notified to the Options Broker Exchange Participant prior to such change taking effect.

403. [Repealed]

Disclosure of Client's Information

404. An Options Exchange Participant shall, upon the request of the Exchange or any designated HKEX staff disclose (or where appropriate, cause its clients to disclose) to the Exchange or such designated HKEX staff, all information regarding the identity of a client about which the Options Exchange Participant is required to be satisfied on reasonable grounds in accordance with the SFC Code of Conduct and the Client Identity Guidance Note, within such period as is specified in the Client Identity Guidance Note. Such information includes the identity, address and contact details of the person or entity (legal or otherwise) ultimately responsible for originating the instruction in relation to a transaction (and the instruction given) and of the person or entity (legal or otherwise) that stands to gain the commercial or economic benefit of the transaction and/or bear its commercial or economic risk and such other information as the Exchange or any designated HKEX staff may request.

405. [Repealed]

406. [Repealed]

407. [Repealed]

Restrictions on Client Business

408. [Repealed]

409. An Options Exchange Participant shall not accept as a client, or otherwise effect any Exchange Traded Options Business for, any Exchange Participant which is not an Options Exchange Participant unless the Options Exchange Participant receives a written undertaking from the Exchange Participant that all such Exchange Traded Options Business effected by the Options Exchange Participant for the Exchange Participant will be transacted for the Exchange Participant's own account as principal (and not for the account of any of the Exchange Participant's clients).

409A. If an Options Broker Exchange Participant wishes to effect any Exchange Traded Options Business for its own account or for the account of an affiliate, it may do so as a client of the Options Trading Exchange Participant with whom it has entered into an Options Broking Agreement, pursuant to an Options Client Agreement and through an Options Broker Exchange Participant Account. The Options Broker Exchange Participant shall, when giving any instructions to the Options Trading Exchange Participant in respect of Exchange Traded Options Business, identify whether the instruction is in respect of the Omnibus Account or the Options Broker Exchange Participant Account.

409B. Where the Options Trading Exchange Participant carries an Omnibus Account and an Options Broker Exchange Participant Account for the Options Broker Exchange Participant, the Options Trading Exchange Participant shall not accept instructions from the Options Broker Exchange Participant in respect of Exchange Traded Options Business unless the Options Broker Exchange Participant identifies whether the

instruction is in respect of the Omnibus Account or the Options Broker Exchange Participant Account.

- 410. (a) [Repealed]
- (b) [Repealed]
- (c) [Repealed]

Client Contracts

411. Where an Options Trading Exchange Participant enters into an Options Contract pursuant to an Options Client Agreement, there shall arise a contract between that client and that Options Trading Exchange Participant as principals to such contract (a Client Contract). That Client Contract shall be on identical terms to the Options Contract that gave rise to it except that the Options Trading Exchange Participant shall, if buying under that Options Contract, sell to the client under the Client Contract (and vice versa). The Client Contract shall arise by operation of the Options Client Agreement to which the client is a party and this Options Trading Rule.

411A. Where an Options Trading Exchange Participant enters into an Options Contract pursuant to an Options Broking Agreement between that Options Trading Exchange Participant and an Options Broker Exchange Participant, the following shall, by operation of this Options Trading Rule, occur:

- (a) pursuant to, and by operation of, the Options Broking Agreement, there shall arise immediately a contract between the Options Broker Exchange Participant and the Options Trading Exchange Participant as principals to such contract (an Options Broker Client Contract), being on identical terms to the Options Contract that gave rise to it except that the Options Trading Exchange Participant shall, if buying under that Options Contract, sell to the Options Broker Exchange Participant under the Options Broker Client Contract (and vice versa); and
- (b) pursuant to, and by operation of, an Options Client Agreement between that Options Broker Exchange Participant and its client, there shall arise immediately a contract between the Options Broker Exchange Participant and its client as principals to such contract (a Client Contract) being on identical terms to the Options Broker Client Contract that gave rise to it except that the Options Broker Exchange Participant shall, if buying under the Options Broker Client Contract, sell to that client under the Client Contract (and vice versa).

412. Every Client Contract and Options Broker Client Contract shall be validly made at the time when the Options Contract which gave rise to it is validly executed on the Options Trading System.

413. [Repealed]

- 414. (1) [Repealed]
- (2) [Repealed]
- (3) [Repealed]

- (4) [Repealed]
- (5) [Repealed]
- (6) [Repealed]
- (7) [Repealed]
- (8) [Repealed]
- (9) [Repealed]
- (10) [Repealed]
- (11) [Repealed]
- (12) [Repealed]
- (13) [Repealed]
- (14) [Repealed]
- (15) [Repealed]

Exercise of Client Contracts

415. (1) Each Client Contract comprised in a long open position of a client of an Options Trading Exchange Participant may be exercised by an Options Trading Exchange Participant by taking the following actions:-
- (a) if it is an NCP, by requesting its designated GCP to exercise an OCH Contract allocated to the relevant DCASS accounts of the GCP with SEOCH in respect of the Options Trading Exchange Participant's Client Account comprised in a long open position of that Options Trading Exchange Participant in the same option series as that Client Contract; or
 - (b) if it is a SEOCH Participant, by exercising an OCH Contract allocated to its relevant client account in DCASS or by exercising an OCH Contract allocated to its relevant DCASS accounts with SEOCH in respect of an Options Broker Exchange Participant Account comprised in a long open position of that SEOCH Participant in the same option series as that Client Contract.

At the time at which such OCH Contract is validly exercised pursuant to the Clearing Rules, that Client Contract shall, by operation of this Options Trading Rule, be treated for all purposes as having been validly exercised.

- (2) A Client Contract comprised in a long open position of a client of an Options Broker Exchange Participant may be exercised by the Options Broker Exchange Participant requesting its designated Direct Clearing Participant or GCP to exercise an OCH Contract allocated to the Direct Clearing Participant or GCP's relevant DCASS accounts with SEOCH in respect of that Options Broker

Exchange Participant's Omnibus Account, being an OCH Contract comprised in a long open position of that Direct Clearing Participant or GCP in the same option series as the Client Contract. At the time at which such OCH Contract is validly exercised pursuant to the Clearing Rules, that Client Contract shall, by operation of this Options Trading Rule, be treated for all purposes as having been validly exercised.

415A. On an expiry day, DCASS will automatically generate exercise requests in respect of all open long positions in expiring 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. Any automatically generated exercise requests, except those denied by the Options Trading Exchange Participant (if it is a SEOCH Participant) or any of its designated GCPs (if it is an NCP) before the System Input Cutoff Time on the expiry day in accordance with the Operational Clearing Procedures, are deemed as exercise requests validly entered by that Options Trading Exchange Participant (if it is a SEOCH Participant) or its designated GCPs (if it is an NCP) pursuant to the Clearing Rules. At the time at which an OCH Contract allocated to any of its designated GCP's relevant DCASS accounts with SEOCH in respect of the Options Trading Exchange Participant's Client Account (if it is an NCP) or to any of its client accounts in DCASS, or to any of its relevant DCASS accounts with SEOCH in respect of an Options Broker Exchange Participant (if it is a Direct Clearing Participant or GCP) is so exercised by the automatically generated exercise request pursuant to the Clearing Rules:

- (1) in the case of allocation to any of its designated GCP's relevant DCASS accounts with SEOCH in respect of the Options Trading Exchange Participant's Client Account (if it is an NCP) or to any of its client accounts in DCASS, or to any of its relevant DCASS accounts with SEOCH in respect of an Options Broker Exchange Participant Account (if it is a Direct Clearing Participant or GCP), the relevant Client Contract shall, by operation of this Options Trading Rule, be treated for all purposes as having been validly exercised.
- (2) in the case of allocation to any of the relevant DCASS accounts of a Direct Clearing Participant or a GCP with SEOCH in respect of an Options Broker Exchange Participant's Omnibus Account, the relevant Client Contract shall, by operation of this Options Trading Rule, be treated for all purposes as having been validly exercised. Where any such Client Contract representing an underlying Options Broker Client Contract is so exercised, the matching Client Contract effected in accordance with Options Trading Rule 411A between the Options Broker Exchange Participant and its client shall also be treated as having been validly exercised.

416. Following notification of exercise pursuant to Clearing Rule 505 in respect of an OCH Contract comprised in a short open position of an Options Trading Exchange Participant allocated to any of its client accounts in DCASS (if it is a Direct Clearing Participant or GCP) or to any of its designated GCP's relevant DCASS accounts with SEOCH in respect of the Options Trading Exchange Participant's Client Account (if it is an NCP), that Options Trading Exchange Participant shall select a Client Contract from among all Client Contracts comprised in short open positions of clients in the same option series as that Contract. The Client Contract so selected shall, by operation of the Options Client Agreement and this Options Trading Rule, for all purposes be treated as having been validly exercised at the time of such selection.

- 416A. The Options Trading Exchange Participant shall notify an Options Broker Exchange Participant of details of exercise pursuant to Clearing Rule 505 in respect of an OCH Contract allocated to any of the relevant DCASS accounts maintained by it with SEOCH for that Options Broker Exchange Participant promptly.
- 416B. Where an Options Broker Exchange Participant receives notification pursuant to Options Trading Rule 416A the exercise of an Options Broker Client Contract, the Options Broker Exchange Participant shall select a Client Contract from among all Client Contracts comprised in short open positions of clients in the same option series as that Options Broker Client Contract. The Client Contract so selected shall also be treated for all purposes as having been validly exercised.
417. Upon exercise of a Client Contract or Options Broker Client Contract pursuant to Options Trading Rule 415, 415A, 416 or 416B, delivery obligations shall arise. Such delivery obligations shall be performed in accordance with the Options Client Agreement and (as between an Options Trading Exchange Participant and an Options Broker Exchange Participant) the Options Broking Agreement and in a manner which enables the performance of related delivery obligations under the OCH Contracts in the same option series.
418. [Repealed]
419. [Repealed]
420. [Repealed]
421. [Repealed]

Disclosure

422. Upon the request of the Board, or the Commission, an Options Exchange Participant shall disclose the name of any client, the details of any Exchange Traded Options Business effected by it or the identity of any other person ultimately beneficially interested therein, but shall not otherwise do so without the permission of the client involved unless required by a Court order or by the laws of Hong Kong.

Client Margin Requirements

423. [Repealed]
424. After the start of the After Business Period on each trading day, each Options Exchange Participant shall calculate margin in respect of all open positions and delivery obligations of each of its clients. The margin so calculated in respect of each client shall be no less than the amount calculated in accordance with the methodologies prescribed by the Exchange from time to time and described more particularly in the Operational Trading Procedures. An Options Exchange Participant may submit a claim to SEOCH, either directly or through the Options Trading Exchange Participant with whom it maintains an Omnibus Account, to have the open positions of a client margined by SEOCH on a portfolio basis pursuant to the Operational Clearing Procedures, provided that the Options Exchange Participant has obtained from the client prior written approval to that effect in a manner which is substantially consistent with the wording set out in the First Schedule to these Options Trading Rules.

425. An Options Exchange Participant shall demand SEOCH Collateral of an amount no less than the margin calculated for that client pursuant to Options Trading Rule 424. The Options Exchange Participant may demand such additional SEOCH Collateral as it sees fit, having regard to the Exchange Traded Options Business being or proposed to be transacted by the client and the client's expected Exchange Traded Options Business liabilities.
426. Each Options Exchange Participant shall ensure that each client is notified of his margin calculated and SEOCH Collateral demanded pursuant to Options Trading Rules 424 and 425 promptly. The Options Exchange Participant must also ensure that such margin is (so far as that Options Exchange Participant is reasonably able to ensure the same) settled by the delivery of SEOCH Collateral by each client to the Options Exchange Participant promptly. If an Options Exchange Participant has not received SEOCH Collateral due from a client promptly, it may treat that client as being in default. For the avoidance of doubt, a cheque received by an Options Exchange Participant from a client in good faith which the Options Exchange Participant has no reason to suspect will not be honoured on first presentation may be accepted in payment of margin. The Options Exchange Participant may require a client to maintain SEOCH Collateral with the Options Exchange Participant in advance of accepting instructions from the client or may impose other requirements for the collection of SEOCH Collateral as it thinks fit.
- 426A. Every Options Trading Exchange Participant must monitor the ability of each Options Broker Exchange Participant with whom it has entered into an Options Broking Agreement to satisfy promptly all demands for SEOCH Collateral in respect of margin, or demands for Premium, Settlement Amount and/or delivery obligations. An Options Trading Exchange Participant must forthwith notify the Exchange of any failure by any such Options Broker Exchange Participant to meet those demands or obligations, identifying the Options Broker Exchange Participant concerned.
427. [Repealed]

Premium

428. Each Options Exchange Participant shall ensure that Premium payable by a client is notified to that client on the day on which the Options Contract in respect of which the Premium is required is made. The Options Exchange Participant shall also ensure that all such amounts are settled in cash promptly. If an Options Exchange Participant has not received Premium from a client promptly, it may treat that client as being in default. For the avoidance of doubt, a cheque received by an Options Exchange Participant from a client in good faith which the Options Exchange Participant has no reason to suspect will not be honoured on first presentation may be accepted in payment of Premium. The Options Exchange Participant may require a client to make arrangements for payment of Premium in advance of accepting instructions from the client or may impose other requirements for the collection of Premium as it thinks fit.

Set Off

429. An Options Exchange Participant may set off all amounts due from a client in respect of margin, Settlement Amount and Premium against amounts due to the client in respect of Premium, Settlement Amount and surplus SEOCH Collateral.

Default by Clients

430. If any client of an Options Exchange Participant commits a default in respect of Premium or SEOCH Collateral, or defaults in the performance of delivery obligations pursuant to Options Trading Rules 415 to 417 (inclusive), or in any other way commits a default of his requirements under these Options Trading Rules, the Options Client Agreement or the Options Broking Agreement, steps which may be taken by the Options Exchange Participant, without prior notice to that client, include:-
- (1) to decline to take further instructions from that client in respect of Exchange Traded Options Business;
 - (2) to close, give-up or exercise some or all of the Client Contracts or Options Broker Client Contracts to which that client is party;
 - (3) to enter into any Contracts for the purpose of hedging risk to which it is exposed as a result of that client's default;
 - (4) to make, on an exchange or otherwise, any contract for the sale, purchase or other acquisition or disposal of any securities, futures contracts or commodities for the purpose of meeting obligations, or of hedging risks to which it is exposed, in relation to that client's default;
 - (5) to dispose of some or all of the SEOCH Collateral (other than cash) held for or on behalf of the client and apply the proceeds thereof, plus any cash SEOCH Collateral held for or on behalf of the client to all outstanding balances of that client owing to it, with any monies remaining after such application to be refunded to that client; and
 - (6) to dispose of any or all securities held for or on behalf of that client in order to set off any obligations of that client and to exercise any rights of set off it may have in relation to that client.
431. If any client of an Options Exchange Participant in any way commits a default in respect of its Exchange Traded Options Business, that Options Exchange Participant shall forthwith notify the Exchange of such default. The Exchange may require the Options Exchange Participant to supply such further information in relation to such default as it shall think fit.

Client's Money

432. [Repealed]

433. [Repealed]

433A. Each Options Exchange Participant shall ensure that in respect of each and every claim submitted by it to SEOCH for open positions belonging to a client to be margined on a portfolio basis pursuant to the Operational Clearing Procedures, open positions so identified therein are in fact beneficially held by that client.

Confidentiality by Options Trading Exchange Participants

434. Subject always to any obligation to disclose information under these Options Trading Rules, the Clearing Rules, the Exchange Rules or the laws of Hong Kong, every

Options Exchange Participant shall, unless otherwise permitted by a client, treat as confidential and keep secret all information relating to the business and affairs of its clients which is received by it in its capacity as an Options Exchange Participant.

Position Limits

435. Subject to Options Trading Rule 436A, the Exchange may, from time to time in its absolute discretion, and for such period as it thinks fit, prescribe the maximum number or value of long or short open positions or combinations of such positions which an Options Exchange Participant is permitted to hold at any particular time or hold over any time period in any manner it may determine including, without limitation, in respect of one or more option series combined, in relation to any particular option class or a number of different option classes, in respect of long or (if applicable) short open positions held in its House Account, its Options Broker Exchange Participant Account or its Client Account or those of any NCPs for whom it clears, for individual clients or all clients and, in each case, whether on a gross or a net basis.
436. Subject to Options Trading Rule 436A, the Exchange may at any time impose, increase, reduce or remove any position limits by giving prompt notice to SEOCH and each affected Options Exchange Participant. Notice may be given orally (such oral notification to be followed by a written notice) or in writing as the Exchange considers to be appropriate in the circumstances and any imposition, increase, reduction or removal of position limits shall take effect as stipulated in the notice. The Exchange shall not be required to give any reasons for its decision to impose, increase, reduce or remove any position limits.
- 436A. Notwithstanding the above, any position limit from time to time imposed by the Exchange pursuant to Options Trading Rule 435, 436 or 438 shall not be less stringent than that prescribed by the Commission under section 35(1) of the Ordinance unless the Options Exchange Participant in question is, or is holding positions for, a person specified under section 4A of the Securities and Futures (Contracts Limits and Reportable Positions) Rules, in which case the Exchange may authorize the Options Exchange Participant to hold positions in excess of the limit prescribed by the Commission as the Exchange considers appropriate. Furthermore, an Options Exchange Participant may hold for itself or another person positions in excess of the position limit from time to time imposed by the Exchange if such Options Exchange Participant or person has been authorized by the Commission under subsection 4(3) of the Securities and Futures (Contracts Limits and Reportable Positions) Rules and the relevant Options Exchange Participant has notified the Exchange in writing of such authorization from the Commission.
- 436B. An Options Trading Exchange Participant who is an NCP applying to the Commission or the Exchange to hold positions in excess of the prescribed limit in the Securities and Futures (Contracts Limits and Reportable Positions) Rules must (i) appoint only one GCP to hold its positions in the relevant contracts and (ii) notify the appointed GCP of the application; and (iii) make the application together with the GCP.
437. In deciding whether or not to exercise its powers pursuant to Options Trading Rules 435 and 436, the Exchange shall have regard to any matters it considers to be appropriate, including, but not limited to, the liquid capital required to be maintained by each Options Exchange Participant that would be affected, each such Options Exchange Participant's actual level of liquid capital and the volume of Exchange

Traded Options Business currently conducted by each such Options Exchange Participant.

438. If the Exchange forms the view that any position limits imposed might be relaxed or lifted if the liquid capital of an Options Exchange Participant were to be increased, it shall notify that Options Exchange Participant of the same in order to give that Options Exchange Participant an opportunity to reorganise its affairs so as to increase its liquid capital accordingly and may stipulate the position limits which apply pending such reorganisation.
439. The Exchange may, from time to time and in its absolute discretion, and for such period as it thinks fit, prescribe requirements for an Options Exchange Participant to report to the Exchange long or short open positions held by that Options Exchange Participant that exceed certain levels with respect to number or value, including, without limitation, in respect of one or more option series combined, in relation to any particular option class or a number of different option classes, in respect of long or (if applicable) short open positions held in its House Account, its Options Broker Exchange Participant Account or its Client Account or those of any NCPs for whom it clears, for individual clients or all clients, and, in each case, whether on a gross or net basis.
440. The Exchange may require the Options Exchange Participant to disclose to the Exchange the identity of clients ultimately beneficially interested in the Client Contracts comprised in the open positions which are subject to the reporting requirement of Options Trading Rule 439.
441. An Options Exchange Participant shall, in accordance with the Operational Trading Procedures, immediately notify the Exchange if it exceeds any position limits. The Exchange will require that Options Exchange Participant to close or give-up, in accordance with these Options Trading Rules and the Clearing Rules, such Contracts comprised in the relevant long or short open positions as will, in the opinion of the Exchange, result in the Options Exchange Participant complying with such position limits.
- 441A. For the purpose of calculating whether a Market Maker's positions are in excess of the position limit or reporting level from time to time prescribed by the Exchange, the Exchange shall, in case where its market making positions are held in the account of an affiliate which is registered with the Exchange in accordance with the guidelines and directives from time to time prescribed by the Exchange, consider the positions held in such affiliate's account as positions of the Market Maker.

Exercise Limits

442. The Exchange may, from time to time and in its absolute discretion, impose limitations on the number and type of Contracts relating to one or more option classes or option series which may be exercised at any one time or for any period of time if, in its view, this will be in the interests of maintaining an orderly market.