

5. TRADE AND POSITION MANAGEMENT

Options trades concluded during the trading day will be updated on-line to various accounts of the SEOCH Participant in DCASS. The following information will be kept in relation to a position in each option series and in each account type:

- i. Repealed
- ii. the DCASS Customer Code of the SEOCH Participant that is responsible for clearing this position
- iii. the DCASS account (see 5.1 below)
- iv. details of the option series i.e.
 - underlying stock
 - expiry month
 - exercise price
 - put/call
- v. the number of long option contracts held by this SEOCH Participant for this option series in this account
- vi. the number of short option contracts held by this SEOCH Participant for this option series in this account
- vii. the number of contracts exercised by this SEOCH Participant for this option series in this account
- viii. the number of contracts assigned to this SEOCH Participant for this option series in this account

5.1 Types of Position Accounts

DCASS can provide separate accounts for various house, market maker and client positions. Please refer to 1.5 for a detailed description of the different types of position accounts supported by DCASS.

5.2 Position Management

Accounts in which positions are held gross

This means that the total number of short contracts and the total number of long contracts in a series are recorded separately, and are not combined into a single net position, long or short.

Positions in an Omnibus Client Account are held on a gross basis because, as an omnibus account, it holds the positions of many clients. The long positions of one client cannot be netted off against the short positions of another. If necessary, SEOCH Participants can request SEOCH to set up Individual Client Accounts to record positions for individual clients. Positions in an Individual Client Account will be maintained and margined on a net basis. SEOCH Participants can also request SEOCH to set up Client Offset Claim Accounts to record short positions of clients which are eligible for margin offset. Positions in a Client Offset Claim Account will be maintained on a gross basis but margined on a net basis.

A consequence of holding positions gross in an Omnibus Client Account is that DCASS must be told whether a given purchase or sale is an opening or a closing trade. Designating a given buy or sell order opening or closing will, upon matching and generation of a trade, update the position in the following manner:

Opening Sale : increases short position
Closing Sale : reduces long position
Opening Buy : increases long position
Closing Buy : reduces short position

Effects of gross position-holding on margin calculation and assignment

Gross holding of positions has no effect on accounts with net margin calculation. However, it does potentially affect the SEOCH Participant's likelihood of being assigned. This is because all of its short

contracts will be included in the random assignment, even though they may in fact be offset by long contracts in the same account of the SEOCH Participant. To avoid assignment of contracts which have in fact been closed, it is therefore important to ensure that DCASS records accurately reconcile to the actual position.

Trade closing errors

If a closing trade is concluded for a quantity greater than the existing open position in that series, DCASS will close the existing positions in that series and create a new open position with the contracts in excess. This occurrence is known as a closing error and is displayed in the error log screen of DCASS.

Position netting

Whenever positions are kept in an account without an auto-netting attribute (e.g. Omnibus Client Account), DCASS will not apply position netting to such accounts. Where necessary, SEOCH Participants must input instructions via DCASS to maintain their open positions at a correct level. Apart from rectifying trades from open to close on a trade by trade basis, SEOCH Participants can also perform position netting to close positions in their accounts.

Accounts with net positions

Some accounts will be set with an auto-netting attribute. This means long and short contracts in the same series are automatically consolidated into a single net long or short position after the System Input Cutoff Time. Examples of such account include the House Account, Market Maker Account and the Individual Client Account, which record positions on a net basis after the System Input Cutoff Time. It is therefore not necessary for SEOCH Participants to designate orders as “opening” or “closing” for the House, Market Maker or Individual Client Account or to net down the positions.

5.3 Position Inquiry

SEOCH Participants can enquire the current status of their positions by series and by account type and the trade history of a particular position.

5.4 Trade Adjustments

Trade adjustments are limited to valid trades of non-expired series which were concluded on the previous trading day as well as those on the current day and which have been subject to the process of substitution and novation by operation of Clearing Rule 202 and the First Schedule to the Clearing Rules. Trade adjustments can be executed by SEOCH Participants via DCASS. Position Accounts are updated immediately for the following adjustments:

- i. Trade separation
- ii. Trade open/close adjustment
- iii. Trade account transfer
- iv. Trade give-up/take-up
- v. Average price trade.

Except for trade give-up/take-up, all other adjustments are internal (within the same SEOCH Participant) and effected real time. Trade give-up/take-up involves the transfer of trades between different SEOCH Participants and the process will be effected only after the take-up party confirms the give-up request.

Briefly described below are trade adjustment functions available to SEOCH Participants via DCASS. Details of these DCASS functions are set forth in the DCASS User Guide.

5.4.1 Trade Separation

SEOCH Participants are allowed to split a single trade into a number of trades.

5.4.2 Trade Open/Close Adjustment

SEOCH Participants are allowed to adjust open trades to close trades or vice versa.

Any adjustment which would lead to an error i.e. not enough positions to be opened or closed cannot occur because on-line update of positions will invoke validity checking.

5.4.3 Trade Account Transfer

Trade account transfer facilitates the transfer of trades between different accounts of a SEOCH Participant.

5.4.4 Give-Up and Take-Up

A SEOCH Participant can transfer a trade to another SEOCH Participant, provided that the take-up SEOCH Participant accepts the trade. The transfer of trades between a SEOCH Participant and another SEOCH Participant is referred to as a give-up (and its acceptance is known as a take-up). A give-up is a request which is not effected real time but will be put in a holding state, pending the take-up SEOCH Participant's confirmation or rejection. Give-up trades not confirmed by the take-up SEOCH Participant are deemed to be rejected and will remain with the give-up SEOCH Participant.

Give-ups and take-ups of trades can be performed by SEOCH Participants on the day of order matching or the Business Day after (i.e. on the trade day T or T+1). Thereafter, the give-up and take-up of positions across SEOCH Participants can only be effected by SEOCH using External Position Transfer as described in 5.5.2.

5.4.4.1 Repealed

5.4.4.2 Give-up Process

In accordance with clients' requests, give-up of a trade can be done via DCASS after a trade has been matched. A trade give-up is successfully completed only if the take-up party has confirmed to take up the trade.

5.4.4.3 Take-Up Process

The take-up SEOCH Participant can choose to confirm or reject a give-up trade.

5.4.4.4 Repealed

5.4.4.5 Repealed

5.4.5 Adjustment to Block Trades

Any trade adjustment request in respect of a Block Trade shall be submitted by SEOCH Participants at any time 30 minutes prior to the System Input Cutoff Time on the same Business Day or 30 minutes prior to the System Input Cutoff Time on the next Business Day.

A trade adjustment request in respect of a Block Trade will be rejected by SEOCH if the Block Trade is determined by SEOCH to be invalid for any reason. In the event that a trade adjustment request relates to Open/Close or Account Transfer adjustment of a valid Block Trade, but the trade adjustment request is subsequently determined by SEOCH or the Exchange to be invalid for any reason (including where the transferring or receiving SEOCH Participant fails to pay or otherwise satisfy any Special Block Trade Margin arising from the trade adjustment request by the prescribed time), such trade adjustment request will be rejected by SEOCH. Notwithstanding the foregoing,

SEOCH has the sole discretion to accept or reject any Block Trade adjustment, in particular but not limited to any trade adjustment request submitted after the prescribed deadline.

5.4.6 Average Price Trades (APT)

SEOCH Participants can select several trades of the same series traded on the current day at different prices and quantities to form a single average price trade.

5.5 Position Adjustments

Position adjustments may be made on accumulated positions in all position accounts. Some position adjustments can only be effected by SEOCH upon receipt of the proper request forms from SEOCH Participants and the adjustments are effective on-line immediately following completion of the adjustments. There are two types of position adjustments - Internal and External Position Adjustments, which are described in paragraphs 5.5.1 and 5.5.2 respectively. Only external position adjustment requests are subject to the approval of SEOCH. The SEOCH Participant must provide a valid reason for each external position adjustment requested.

5.5.1 Internal Position Adjustment

Internal position adjustments involve one or more position accounts of the same SEOCH Participant. Internal position adjustments as listed below, are performed by SEOCH Participants via DCASS:

- i. Position netting
- ii. Internal Position account transfer
- iii. Claiming margin offset on client positions.

5.5.1.1 Position Netting

SEOCH Participants can use the Position Netting function to close open positions in those accounts which maintain positions on a gross basis. (Please see a description of the Position Netting function under 5.2.)

5.5.1.2 Internal Position Account Transfer

The Internal Position Account Transfer function is similar to the Trade Account Transfer described in 5.4.3 except that it is performed on a position rather than a trade.

Internal transfer of positions can be effected between different types of accounts of a SEOCH Participant except the Daily, Sink and APT Accounts.

5.5.1.3 Claiming Margin Offset on Client Positions

Only short positions in the Omnibus Client Account are eligible for margin offset claims because positions in this account are margined on a gross basis. SEOCH Participants wishing to claim margin offset for short positions, that are of an offset nature, in their Omnibus Client Accounts must request SEOCH to open a Client Offset Claim Account for such purpose (please refer to 1.5.1). SEOCH Participants will have to transfer such eligible positions from the Omnibus Client Account to the Client Offset Claim Account. A SEOCH Participant can directly submit such position transfer requests via DCASS at any time prior to the System Input Cutoff Time on a Business Day.

All positions in the Client Offset Claim Account of a SEOCH Participant will be carried forward to the next Business Day unless otherwise instructed by the SEOCH Participant by submitting further position transfer requests between the Client Offset Claim Account and its Omnibus Client Account via DCASS at any time prior to the System Input Cutoff Time. A SEOCH Participant wishing to close out any short position in a Client Offset Claim Account shall transfer such position to its Omnibus Client Account to net down with the appropriate offsetting position.

If any ineligible positions are transferred into the Client Offset Claim Account of a SEOCH Participant, SEOCH may in its absolute discretion, without prior notice to the SEOCH Participant, disallow the margin offset and impose such additional margin on such ineligible positions as SEOCH shall consider appropriate, transfer the ineligible positions from the Client Offset Claim Account to the Omnibus Client Account, and/or suspend or terminate the use by the SEOCH Participant of the Client Offset Claim Account. No action shall lie against and no liability of whatsoever nature and howsoever arising, whether in contract, tort or otherwise, shall be incurred by SEOCH directly or indirectly in connection with effecting the transfer of any ineligible positions from, or suspending or terminating the use by a SEOCH Participant of any Client Offset Claim Account. Any incorrect recording or transfer of positions in or to the Client Offset Claim Account may also result in disciplinary action, including summary disciplinary measures, being taken against the SEOCH Participant by SEOCH.

5.5.2 External Position Transfers

An external position transfer involves the transfer of positions in one or more accounts between different SEOCH Participants. The transfer is effected by SEOCH only upon receipt of proper instructions from SEOCH Participants no later than the System Input Cutoff Time and in the case of any request for the external position transfer of positions in a Client Offset Claim Account of a SEOCH Participant upon the occurrence of an event of default, only if the transfer is for all, but not part, of the positions in that account. SEOCH Participants can verify the effect of external position transfers in position reports and in position inquiry screens via DCASS.

An external position transfer is initiated by a SEOCH Participant by submitting to SEOCH the relevant form available from the HKEX website. External position transfer requests are effected by and subject to the approval of SEOCH.

5.5.2.1 Repealed

5.5.2.2 Repealed

5.5.2.3 Repealed

5.5.2.4 Repealed

5.5.3 Annulment of Position Netting

In the event that a SEOCH Participant needs to annul the position netting input, the SEOCH Participant may request for an annulment of such position netting by submitting to SEOCH the relevant form, available from the HKEX website no later than the System Input Cutoff Time on the fifth Business Day after the original position netting was effected. The annulment request is effected by and subject to the approval of SEOCH.

5.6 Individual Client Accounts

Margin requirements for positions belonging to the same client can be calculated on a net basis according to the same algorithm applicable to positions maintained in the House Account (Please see 9.3.1.1). To effect this, a SEOCH Participant must apply to SEOCH to set up Individual Client Accounts and SEOCH may prescribe a maximum number of Individual Client Accounts for a SEOCH Participant.

A SEOCH Participant is required to ensure that particulars of each Individual Client Account application submitted are in agreement with and supported by the SEOCH Participant's records of their clients' option trading. A SEOCH Participant may be requested to produce such records for SEOCH's inspection and verification. Any unexplained discrepancies may result in disciplinary action by SEOCH.

5.7 Repealed

