

Operational Clearing Procedures for Options Trading Exchange Participants

I. INTRODUCTION TO OPERATIONAL CLEARING PROCEDURES

1. INTRODUCTION

1.2 [Repealed]

1.5.1 DCASS Accounts

Individual Client Account

In order to facilitate net margining on positions of a SEOCH Participant's client, SEOCH (upon the request of a SEOCH Participant) may in its absolute discretion establish and maintain one or more Individual Client Accounts for the SEOCH Participant. SEOCH may prescribe a maximum number of Individual Client Accounts for a SEOCH Participant. The Individual Client Account is for the recording, on an individual client basis, of trades and positions of a client of a SEOCH Participant. Positions in an Individual Client Account are maintained and margined on a net basis. SEOCH Participants shall ensure that all trades and positions maintained in an Individual Client Account belong to one client only and such trades and positions are not held by a client of a SEOCH Participant operating an omnibus account. SEOCH Participants shall complete the DCASS Account Maintenance Form set forth in the DCASS Terminal User Guide for the opening, maintenance and termination of Individual Client Accounts. SEOCH may in its absolute discretion accept or reject the opening of any account and any maintenance request. The Individual Client Account is to facilitate separate position keeping in order to achieve net margin calculation for SEOCH Participants but should not be treated as recognising any trust or other equitable interest arising from such Individual Client Account.

Client Offset Claim Account

Upon the request of a SEOCH Participant, SEOCH may, in its absolute discretion, and subject to the payment of any fees prescribed by SEOCH, establish and maintain one or more Client Offset Claim Accounts for the SEOCH Participant. The Client Offset Claim Account is for the recording of eligible short positions of individual clients of a SEOCH Participant which are of an offset nature only. No long positions are permitted. Positions in each portfolio for an offset claim must belong to the same client (please refer to 9.3.1.2) and no positions of a client may be allocated to the Client Offset Claim Account except with the client's prior consent. Positions in the Client Offset Claim Account are maintained on a gross basis but margined on a net basis. SEOCH Participants shall ensure that all positions maintained in the Client Offset Claim Account for margin offset can be reconciled with their internal records. SEOCH Participants shall complete the DCASS Account Maintenance Form set forth in the DCASS Terminal User Guide for the opening, maintenance and termination of Client Offset Claim Accounts. SEOCH may in its absolute discretion accept or reject the opening of any account and any maintenance request. The Client Offset Claim Account is to facilitate separate position keeping in order to achieve net margin

calculation for SEOCH Participants but should not be treated as recognising any trust or other equitable interest arising from such Client Offset Claim Account.

1.7.2 Account Opening and Subsequent Maintenance Procedures

A Market Maker shall complete the Opening / Maintenance of Market Maker Account for Designated Trader Form set forth in the DCASS Terminal User Guide for the opening of a Market Maker Account and/or other accounts for each designated trader and the subsequent maintenance thereof viz., cancellation of account, addition or deletion of class(es) which the designated trader is permitted to make market.

1.7.4 Termination of Services by SEOCH

- iii. the Market Maker requests SEOCH to terminate a Market Maker Account by submitting to SEOCH a properly authorised and completed Opening / Maintenance of Market Maker Account for Designated Trader Form set forth in the DCASS Terminal User Guide; or

1.8.4 Application for OBEP Individual Client Accounts

A SEOCH Participant shall submit to SEOCH a completed Maintenance of OBEP Individual Client Account Form set forth in the DCASS Terminal User Guide for the opening of an OBEP Individual Client Account. It will be within the absolute discretion of SEOCH to decide whether to open and maintain an OBEP Individual Client Account for an OBEP, and all OBEP Individual Client Accounts shall be governed by the terms and conditions as the SEOCH Board may prescribe from time to time.

1.8.5 Termination of OBEP Individual Client Accounts

- i. the carrying SEOCH Participant submits a completed Maintenance of OBEP Individual Client Account Form set forth in the DCASS Terminal User Guide notifying SEOCH of the termination of a particular OBEP Individual Client Account provided that there are no open positions in the OBEP Individual Client Account to be terminated. If there are any open positions, the carrying SEOCH Participant must provide to SEOCH a plan of how to close out such open positions and the plan must be acceptable to SEOCH before it will process the termination; or

III. CLEARING SERVICES

5. TRADE AND POSITION MANAGEMENT

5.5.2 External Position Transfers

An external position transfer is initiated by a SEOCH Participant submitting to SEOCH an External Position Transfer Request Form set forth in the DCASS Terminal User Guide. External position transfer requests are effected by and subject to the approval of SEOCH.

5.5.3 Annulment of Position Netting

In the event that the netting of positions using the Position Netting function is mistakenly made by a SEOCH Participant, the SEOCH Participant may request for an annulment of such position netting by submitting to SEOCH an Annulment of Position Netting Request Form set forth in the DCASS Terminal User Guide 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.

IV. DUTIES AND OBLIGATIONS OF SEOCH PARTICIPANTS

8. SETTLEMENT AND DELIVERY IN RESPECT OF STOCK TRANSACTIONS

8.6.1.3 CCMS Collateral Account Designation for Marks, Margin and Concentration Collateral Collection

Where a SEOCH Participant opts for SEOCH to collect and pay Marks, Margin and Concentration Collateral of pending stock positions to be settled in CCASS under the CNS System through its designated House CCMS Collateral Account in SEOCH, such SEOCH Participant shall submit to SEOCH the **CCMS Collateral Account Designation Form for Marks, Margin and Concentration Collateral Collection by SEOCH** set forth in the DCASS Terminal User Guide by such time as may be specified by SEOCH from time to time. Any completed designation form received by SEOCH before the specified time on a Business Day shall become effective on the next Business Day. Notwithstanding the foregoing, SEOCH reserves the right to accept or reject any submission made under a CCMS Collateral Account Designation Form for Marks, Margin and Concentration Collateral Collection at its sole discretion.

10. MONEY SETTLEMENT

10.5A The Special Block Trade Margin Settlement Process

Where Special Block Trade Margin is called for, SEOCH will issue a Special Block Trade Margin Call Notice set forth in the DCASS Terminal User Guide to the relevant SEOCH Participant. The SEOCH Participant shall arrange sufficient funding in its account with the Designated Bank or Settlement Bank in order to cover the Special Block Trade Margin call within one hour after notification or such shorter period as may from time to time be prescribed by SEOCH. Special Block Trade Margin calls may only be satisfied by payment in cash in the Settlement Currency.

12. POSITION CONTROL

12.3A Apportionment of Liquid Capital

Where a SEOCH Participant is also a CCASS Clearing Participant or HKCC Participant or conduct various types of regulated activities under the Securities and Futures Ordinance, that SEOCH Participant must apportion either a designated

amount or a percentage of the liquid capital (unless otherwise determined by SEOCH, as per its latest monthly return filed with the Commission under the Financial Resources Rules and received by SEOCH from the Commission) for the purpose of its Exchange Traded Options Business or satisfying its payment or other obligations as a SEOCH Participant to SEOCH, and such SEOCH Participant's capital based position limit will be calculated on the basis of its apportioned liquid capital as notified to SEOCH. Notification of a SEOCH Participant's initial liquid capital apportionment or any change thereof shall be made by such SEOCH Participant submitting to SEOCH an **Application/Change Request for Liquid Capital Apportionment Form** set forth in the DCASS Terminal User Guide according to the schedule determined by SEOCH from time to time. Any notification of changes to the apportionment received by SEOCH before a time specified by SEOCH from time to time, shall become effective on the same Business Day the notification is received by SEOCH. Otherwise, changes to the apportionment shall become effective on the commencement of the next Business Day following receipt of the notification by SEOCH. Notwithstanding the foregoing, SEOCH reserves the right to accept or reject any initial apportionment or change of apportionment notified to it at its sole discretion. If no apportionment is notified to SEOCH, SEOCH reserves the right to apportion the liquid capital on behalf of the SEOCH Participant.

Appendix A1 – [Repealed]

Appendix A2 – [Repealed]

Appendix A3 – [Repealed]

Appendix A4 – [Repealed]

Appendix A5 – [Repealed]

Appendix A6 – [Repealed]

Appendix A7 – [Repealed]

Appendix A8 – [Repealed]

Appendix A9 – [Repealed]

Appendix A10 – [Repealed]

Appendix A11 – [Repealed]

Appendix B9 – [Repealed]

Appendix B10 – [Repealed]

Appendix C5 – [Repealed]

**APPENDIX D. PORTFOLIO RISK MARGINING SYSTEM OF HKEX (PRiME)
INTRODUCTION**

This appendix describes the calculation algorithm of the Portfolio Risk Margining System of HKEX (PRiME) -- the margining technique that will be used by SEOCH (for a detailed description, please refer to the PRiME Margining Guide). The process is run each day, after the close of trading or whenever it is required on an intra-day basis. It consists of the following step