

Operational Clearing Procedures for Options Trading Exchange Participants

6. EXERCISE CRITERIA, EXERCISE AND ASSIGNMENT

6.1 No Automatic Exercise Except on Expiry

A SEOCH Participant shall input its exercise requests through DCASS in respect of each and every OCH Contract it wishes to exercise. DCASS will not automatically generate exercise requests in respect of in-the-money spot month contracts on behalf of SEOCH Participants except on an expiry day.

On an expiry day, DCASS will automatically generate exercise requests in respect of each and every open long position in spot month contracts which meets 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. A report showing only those spot month series which are expired and to be exercised automatically based on SEOCH's prescribed criteria will be available shortly after the close of the underlying market on each Business Day. SEOCH Participants shall enquire via DCASS for a complete list of automatically generated exercise requests, including those generated based on the exercise criteria prescribed by themselves. SEOCH Participants may elect to deny any automatically generated exercise requests for positions in any particular series at any time prior to the System Input Cutoff Time on the expiry day (see 6.1.3). For the purposes of the Clearing Rules and these 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.

Exercise requests will not be automatically generated by DCASS for those spot month series which do not meet the exercise criterion prescribed (i) by the relevant SEOCH Participant; or (ii) by SEOCH as aforesaid. SEOCH Participants shall exercise such series by input of exercise requests themselves via DCASS (see 6.1.1).

SEOCH will determine the in-the-money percentage criteria for automatic generation of exercise requests for spot month series in its absolute discretion from time to time and inform SEOCH Participants of such in-the-money percentage.

The in-the-money criterion is the difference between the strike and fixing price as a percentage of the strike or a fixed amount. For this purpose, the fixing price of the underlying stock will be determined by SEOCH at its absolute discretion and, under normal circumstances, it will be the closing price quoted on the Exchange of the underlying stock on the expiry day.

The automatic exercise feature of spot month series described above will be applicable on any expiry day which is a normal Business Day. In the case of a typhoon day, Extreme Conditions (as defined in the Options Clearing Rules) day or rainstorm day on which the expiry day becomes a non trading day, the expiry day of the spot month series affected and the automatic exercise feature will be deferred to the next Business Day.

15. TYPHOONS, EXTREME CONDITIONS AND RAINSTORMS

Upon the hoisting or the lowering of a Typhoon Signal No. 8 or above, announcement or cancellation of Extreme Conditions or the issuance or cancellation of a Black Rainstorm Warning, trading in the options market will be operated in accordance with that in the cash market of the Exchange as described in the Rules of the Exchange. For details, please refer to the Exchange Rules and Operational Trading Procedures.

15.1 Clearing Functions

15.1.1 Typhoons and Extreme Conditions

- i. If a Typhoon Signal No. 8 or above is hoisted or Extreme Conditions are announced before 9:00 a.m. on a Business Day and the Typhoon is not lowered or Extreme Conditions are not cancelled at 12:00 noon on the same day, no clearing function will be available for the day.
- ii. If a Typhoon Signal No. 8 or above is hoisted or Extreme Conditions are announced before 9:00 a.m. on a Business Day and the Typhoon is lowered and Extreme Conditions are cancelled (where applicable) at or before 12:00 noon on the same day, all clearing functions will be available two hours after the lowering of the Typhoon Signal and cancellation of Extreme Conditions (where applicable).
- iii. If a Typhoon Signal No. 8 or above is hoisted or Extreme Conditions are announced at or after 9:00 a.m. on a Business Day, all clearing functions will continue to be available within two hours after the hoisting of the Typhoon Signal or announcement of Extreme Conditions but all such functions will be terminated upon expiry of the two hours period.

15.2 Money Settlement

For the purposes of this section, references to the terms (i) Daily Settlement Call and (ii) intra-day margin or Special Block Trade Margin call shall mean amounts due from SEOCH Participants for settlement not later than 9:15 a.m. on a Business Day pursuant to Clearing Rule 611(1) and amounts due from SEOCH Participants resulting from a demand issued by SEOCH to SEOCH Participants on a Business Day for settlement within one hour respectively.

In cases where a demand for Reserve Fund contribution from a SEOCH Participant is due for settlement on a Business Day which is affected by the hoisting or lowering of Typhoon Signal No. 8 or above, the announcement or cancellation of Extreme Conditions or the issuance or cancellation of a Black Rainstorm Warning, the settlement process will be handled in the same manner as that for Daily Settlement Call as described below.

15.2.1 Typhoons and Extreme Conditions

- i. If a Typhoon Signal No. 8 or above is hoisted or Extreme Conditions are announced before 9:00 a.m. on a Business Day and the Typhoon is not lowered or Extreme Conditions are not cancelled at 12:00 noon on the same day:
 - generally, cash settlement transactions including collection of Daily Settlement Call, intra-day margin call and cash delivery or cash redelivery requests by

SEOCH Participants will not be effected for the day. In such event, the amount of the Daily Settlement Call will be collected on the first Business Day on which banks in Hong Kong resume services to the public (the “first business day”) and will be due for settlement by no later than 9:15 a.m. if the first business day is a full banking day or one hour after resumption of money settlement services if the first business day is not a full banking day; and

- as CCMS will not be available, money settlement services such as processing of cash delivery or cash redelivery request from SEOCH Participants will not be available for the day; nor would SEOCH issue any intra-day margin or Special Block Trade Margin call for the day.
- ii. If a Typhoon Signal No. 8 or above is hoisted or Extreme Conditions are announced before 9:00 a.m. on a Business Day and the Typhoon is lowered and Extreme Conditions are cancelled (where applicable) at or before 12:00 noon on the same day:
- money settlement services will normally be available two hours after the lowering of the Typhoon Signal and cancellation of Extreme Conditions (where applicable);
 - the collection of Daily Settlement Call will be effected and due for settlement one hour after the resumption of money settlement services;
 - normally, intra-day margin or Special Block Trade Margin call, if any, will be issued two hours after the lowering of the Typhoon Signal and cancellation of Extreme Conditions (where applicable). The intra-day margin or Special Block Trade Margin call, if any, once issued will be due for settlement by no later than one hour after the call is issued as in the case of a normal Business Day; and
- iii. If a Typhoon Signal No. 8 or above is hoisted or Extreme Conditions are announced at or after 9:00 a.m. on a Business Day:
- the collection of Daily Settlement Call will be effected as normal and will be due for settlement by SEOCH Participants not later than 9:15 a.m. on the same day;
 - any intra-day margin or Special Block Trade Margin call issued one hour or more before the Typhoon Signal is hoisted or Extreme Conditions are announced will remain due for settlement within one hour after the intra-day margin or Special Block Trade Margin call is issued;

15.3 Requests from SEOCH Participants for the Transfer of Collateral Securities between CCMS Collateral Accounts and CCASS Stock Accounts

15.3.1 Typhoons and Extreme Conditions

- i. If a Typhoon Signal No. 8 or above is hoisted or Extreme Conditions are announced before 9:00 a.m. on a Business Day and the Typhoon is not lowered or Extreme Conditions are not cancelled at 12:00 noon on the same day, no request for the transfer of collateral securities between CCMS Collateral Accounts and CCASS Stock Accounts will be processed for the day.
- ii. If a Typhoon Signal No. 8 or above is hoisted or Extreme Conditions are announced

before 9:00 a.m. on a Business Day and the Typhoon is lowered and Extreme Conditions are cancelled (where applicable) at or before 12:00 noon on the same day, requests for the transfer of collateral securities between CCMS Collateral Accounts and CCASS Stock Accounts will be processed on a best effort basis and subject to the availability of applicable services of CCMS and CCASS.

- iii. If a Typhoon Signal No. 8 or above is hoisted or Extreme Conditions are announced at or after 9:00 a.m. on a Business Day, requests for the transfer of collateral securities between CCMS Collateral Accounts and CCASS Stock Accounts will be processed on a best effort basis and subject to the availability of applicable services of CCMS and CCASS.

15.4 Stock Settlement

Generally, the stock settlement process of SEOCH will follow the practice adopted in CCASS regarding the underlying market with respect to Business Days affected by typhoons, Extreme Conditions or rainstorms.

15.4.1 Typhoons and Extreme Conditions

- i. If a Typhoon Signal No. 8 or above is hoisted or Extreme Conditions are announced before 9:00 a.m. on a Business Day and the Typhoon is not lowered or Extreme Conditions are not cancelled at 12:00 noon on the same day, the day will not be treated as a Settlement Day for stock settlement purposes. In such event, SEOCH will extend by one Settlement Day for the settlement of pending stock transactions resulting from exercise or assignment transactions effected two Business Days prior to the day.
- ii. If a Typhoon Signal No. 8 or above is hoisted or Extreme Conditions are announced before 9:00 a.m. on a Business Day and the Typhoon is lowered and Extreme Conditions are cancelled (where applicable) at or before 12:00 noon on the same day, the day will be treated as a Settlement Day for stock settlement purposes and settlement process will be effected as usual.
- iii. If a Typhoon Signal No. 8 or above is hoisted or Extreme Conditions are announced at or after 9:00 a.m. on a Business Day, the day will be treated as a Settlement Day for stock settlement purposes and settlement process will be effected as usual.