

**Operational Clearing Procedures for Options Trading Exchange Participants**

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**1. INTRODUCTION**

**1.6 Segregation of Accounts**

For the purpose of assisting SEOCH Participants in keeping separate records of options contracts transacted on behalf of their clients, SEOCH will:

- i. calculate the following margin requirements on a SEOCH Participant's house positions (i.e., those recorded in that SEOCH Participant's House Account, Market Maker Accounts, Daily Account and Sink Account) and its client positions (i.e., those recorded in that SEOCH Participant's Omnibus Client Account, Client Offset Claim Accounts and Individual Client Accounts) separately:<sup>13</sup>

(a) the margin requirements;

(b) the amount of MTM Flow Adjustment in the Loss Distribution Process;

(c) the amount of Termination Value Payable and Termination Value Receivable in the contract termination process;

- (d) the amount of Limited Recourse Interim CP Payables, Limited Recourse Final CP Payables and Limited Recourse CP Receivables in a Clearing Service Termination Event; and
  - (e) the amount of SEOCH Default Interim CP Payables, SEOCH Default Final CP Payables and SEOCH Default CP Receivables pursuant to Section 20.1 of the Operational Clearing Procedures.
- ii. regard the various types of collateral designated in the House CCMS Collateral Account independent of those designated in its Client CCMS Collateral Account when determining the following in respect of a SEOCH Participant:
- (e) whether SEOCH Collateral provided by the SEOCH Participant is adequate; **and**
  - (f) whether SEOCH Collateral provided by the SEOCH Participant should be redelivered to it;<sup>2</sup>
- (g) the amount of MTM Flow Adjustment in the Loss Distribution Process;
  - (h) the amount of Termination Value Payable and Termination Value Receivable in the contract termination process;
  - (i) the amount of Limited Recourse Interim CP Payables, Limited Recourse Final CP Payables and Limited Recourse CP Receivables in a Clearing Service Termination Event; and
  - (j) the amount of SEOCH Default Interim CP Payables, SEOCH Default Final CP Payables and SEOCH Default CP Receivables pursuant to Section 20.1 of the Operational Clearing Procedures.

## 2. SEOCH PARTICIPANT

### 2.4 Resignation of SEOCH Participantship

#### 2.4.3 Resignation Procedure

The following procedure will apply to the resignation of SEOCH Participantship :

- ii. From the date the resignation request is received by SEOCH, the SEOCH Participant may be obliged to make further additional contributions to the Reserve Fund subject to Clearing Rule 413J and provide Assessments requested by SEOCH for an amount up to a limit determined by SEOCH in accordance with 11.6.
  
- vii. Upon payment of all fees accrued from options positions, and the re-calculated Variable Contribution and any Replenishment replenishment of Reserve Fund Contributions up to the Business Day before the effective date of termination of its SEOCH Participantship and Assessments up to the limit pursuant to Clearing Rule 413CA, the resigning SEOCH Participant will have no further obligations to SEOCH. Subject to Clearing Rules 723H and 1303, two months after the effective date of termination, its Reserve Fund Contributions will be refunded in accordance with Clearing Rule 722. SEOCH may deliver or return to SEOCH Participant assets in such form and in such amount, as SEOCH deems appropriate, equivalent to the assets recorded as part of its Reserve Fund Contributions Balance.

## 11. RESERVE FUND

### 11.1 Use of the Reserve Fund

SEOCH may apply any amounts standing to the credit of the Reserve Fund as a short-term source of liquid funds to meet any immediate obligations in respect of SEOCH's liabilities which arise under OCH Contracts cleared by

it, regardless of the order of priority set out in Clearing Rule 413.

The Reserve Fund is financed primarily from the SEOCH Participants' own resources in the form of Initial Contributions and Variable Contributions, and the resources which may be appropriated by SEOCH as contributions to the Reserve Fund, but insurance and other coverage may also be used from time to time. The size of the Reserve Fund is made up of the basic elements (including Initial Contributions, interest income, any guarantee, facility and insurance policy), the resources which may be appropriated by SEOCH as contributions to the Reserve Fund and Variable Contributions.

## **11.2 SEOCH Participants' Reserve Fund Contributions**

### **11.2.2 Variable Contributions and Resources which may be Appropriated by SEOCH as Contributions to the Reserve Fund**

In addition to making the Initial Contributions under 11.2.1, SEOCH may demand Variable Contributions from SEOCH Participants through a “Top-up” process such that the existing size of the Reserve Fund after making the Top-up payment will cover all the risk exposures of the Reserve Fund throughout the most recent 60 Business Days. It is designed to ensure that the existing size of the Reserve Fund, which shall be the sum of the basic elements of the Reserve Fund, the resources which may be appropriated by SEOCH as contributions to the Reserve Fund and the Variable Contributions, remains in proportion with the size and volatility of the market.

Subject to Clearing Rule 413F, ~~F~~the first Business Day of every month will be the Top-up calculation date and it is on this day that the re-calculation of the Variable Contributions is carried out. The process works as follows:

On the Top-up calculation date, SEOCH calculates the daily risk exposure of the Reserve Fund on each Business Day, which is the greater of the upside or downside risk exposure of the Reserve Fund on that day, and Variable Contributions and the resources which may be appropriated by SEOCH as contributions to the Reserve Fund will be recalculated (and in

the case of Variable Contributions demanded) such that 90% of the size of the Reserve Fund after the injection of the Variable Contributions and the resources which may be appropriated by SEOCH as contributions to the Reserve Fund will cover all the risk exposures of the Reserve Fund throughout the most recent 60 Business Days. If the size of Reserve Fund determined above is higher than the Reserve Fund Threshold, it shall be reduced to an amount equal to the Reserve Fund Threshold.

SEOCH will determine the resources which may be appropriated by SEOCH as contributions to the Reserve Fund using the following formulae:

If MEX is higher than 90% of the Reserve Fund Threshold:

CHA = 10% of the Reserve Fund Threshold

If MEX is higher than or equal to BEF but lower than 90% of the Reserve Fund Threshold:

CHA = 10% x (MEX ÷ 90%)

If MEX is lower than BEF:

CHA = 10% x (BEF ÷ 90%)

where

MEX = the maximum daily risk exposure of the Reserve Fund during the most recent 60 Business Days

BEF = the basic elements of the Reserve Fund (including Initial Contributions, interest income, any guarantee, facility and insurance policy)

CHA = the resources which may be appropriated by SEOCH as contributions to the Reserve Fund, which should amount to 10% or such other percentage of the Reserve Fund size as determined by SEOCH from time to time, in which case the percentage in the formulae above shall be adjusted accordingly.

SEOCH will deduct the basic elements of the Reserve Fund and the total resources which may be appropriated by SEOCH as contributions to the Reserve Fund from the Reserve Fund size to arrive at the Variable Contributions.

The share of the Variable Contributions that each SEOCH Participant must contribute will be calculated. Each SEOCH Participant's share of the Variable Contributions will be equal to that SEOCH Participant's share of the average **total margin requirement** and **net premium paid** over the most recent 60 Business Days. For the purpose of calculating the Variable Contribution of each SEOCH Participant, the total margin requirement and net premium of all Contracts will be measured in Hong Kong dollars or its non-Hong Kong dollar currency equivalent based on the exchange rate determined by SEOCH for each type of Settlement Currency. Any SEOCH Participant that is declared as a Defaulter ~~on or~~ preceding the Top-up calculation date will be excluded from the calculation.

For each SEOCH Participant, SEOCH will compare the share of the Variable Contributions required with the actual share currently provided, and determine the amount, if any, by which the SEOCH Participant's share should be increased. This amount will be the SEOCH Participant's Top-up payment to the Variable Contributions. For the avoidance of doubt, the size of the actual Variable Contribution of each SEOCH Participant shall take into account any Variable Contribution applied ~~and any monies recovered from Defaulters that have been credited to the Reserve Fund as its Variable Contribution~~ in accordance with the Clearing Rules preceding the Top-up calculation date.

The SEOCH Participant will be required to pay on demand the difference if the size of the actual Variable Contribution currently in place is lower than the required level. The Top-up payment which maintains the SEOCH Participant's share of the Variable Contributions (other than any Assessment or Voluntary Recap Amount) may be in cash or in such other form of non-cash collateral as approved by SEOCH from time to time. If the size of the actual Variable Contribution currently in place exceeds the new required

level, Variable Contribution will be reduced and the excess refunded.

### **11.2.3 Maintenance of the Reserve Fund**

Subject to Clearing Rule 413F, Aad hoc recalculation of the Variable Contributions, and associated demands for payment, may be made from time to time separate from the regular monthly calculations, if:

- (a) the daily risk exposure of the Reserve Fund calculated on each Business Day exceeds 90% of; and
- (b) Reserve Fund Threshold is higher than

the existing Reserve Fund size or if SEOCH considers it appropriate to do so in any other circumstances. If the ad hoc recalculation is required, Variable Contributions and the resources which may be appropriated by SEOCH as contributions to the Reserve Fund will be recalculated (and in the case of Variable Contributions demanded) such that 90% of the existing size of the Reserve Fund after the injection of the Variable Contributions and the resources which may be appropriated by SEOCH as contributions to the Reserve Fund will cover all the risk exposures of the Reserve Fund throughout the most recent 60 Business Days. If the size of Reserve Fund determined above is higher than the Reserve Fund Threshold, it shall be reduced to an amount equal to the Reserve Fund Threshold.

Notwithstanding the above or any other provisions of these Procedures, SEOCH may assess the adequacy of the Reserve Fund and recalculate the requirements for Variable Contributions based on the abovementioned formula or on such other basis as SEOCH may consider appropriate at its absolute discretion from time to time and following the Capped Liability Period pursuant to Clearing Rule 413~~Fan event of default~~, SEOCH may further at its absolute discretion determine the appropriate aggregate value of the Reserve Fund for the purpose of calculating any Variable Contributions required ~~taking into account the estimated loss arising from any actions taken by SEOCH in respect of such event of default under Chapter 7 of the Clearing Rules~~, and in each of the aforementioned

circumstances, SEOCH Participants shall pay to SEOCH such Variable Contributions as may from time to time be demanded by SEOCH.

### 11.3 Methods of Contribution

Variable Contributions (other than any Assessment or Voluntary Recap Amount) can be made in cash in Hong Kong dollars or in any other currency prescribed by SEOCH from time to time or in an approved form of non-cash collateral.

**Fig. 1: Examples of the Top-up Process**

Prior to the Top-up Calculation

Current Size of Basic Elements of the Reserve Fund: HK\$130 million

Current Resources which may be appropriated by SEOCH as contributions to the Reserve Fund: HK\$20 million

Current Size of Variable Contributions: HK\$50 million

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Current SEOCH Reserve Fund Size: HK\$200 million

Total Number of SEOCH Participants: 100

Example 1: Size of Reserve Fund Below Reserve Fund Threshold After Top-up Calculation

The Top-up calculation concludes that the Reserve Fund size should be increased to HK\$220 million. There is no change to the basic elements of the Reserve Fund. Therefore the new construction of the Reserve Fund should be as follows:

Required Reserve Fund Size: HK\$220 million

Less: Size of Basic Elements of the Reserve Fund: HK\$130 million

Less: Resources which may be appropriated by SEOCH as contributions to the Reserve Fund: HK\$22 million

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Required Size of Variable Contributions: HK\$68 million

Total Number of SEOCH Participants:	100
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This HK\$68 million will be shared among the 100 SEOCH Participants pro rata on the basis of each SEOCH Participant's share of the average total margin requirement and net premium paid over the most recent 60 Business Days.

If SEOCH Participant A's share of the newly calculated Variable Contributions is HK\$3 million and its current Variable Contribution is HK\$2.5 million, the Top-up payment will be:

HK\$3 million minus HK\$2.5 million = HK\$500,000

If SEOCH Participant B's share of the newly calculated Variable Contributions is HK\$1.8 million and its current Variable Contribution is HK\$2 million, SEOCH will reimburse the excess as follows:

HK\$2 million minus HK\$1.8 million = HK\$200,000

#### Example 2: Size of Reserve Fund Above Reserve Fund Threshold After Top-up Calculation

Using Example 1, if the Reserve Fund Threshold is HK\$210 million, the new construction of the Reserve Fund should be as follows:

Required Reserve Fund Size:	HK\$210 million
Less: Size of Basic Elements of the Reserve Fund:	HK\$130 million
Less: Resources <u>which may be</u> appropriated by SEOCH as contributions to the Reserve Fund:	HK\$21 million
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Required Size of Variable Contributions:	HK\$59 million

The Top-up payment / excess of each SEOCH Participant will then be calculated and demanded from / reimbursed to the SEOCH Participant accordingly.

### **11.3.1 Contributions in Cash and Other Approved Form of Non-Cash Collateral**

SEOCH Participants which are required to top-up their Variable Contributions (other than any Assessment or Voluntary Recap Amount) may pay in cash or in an approved form of non-cash collateral that is readily available and free from encumbrances by the start of trading on the due date specified in the clearing report. For cash contributions, SEOCH will direct debit SEOCH Participants' accounts with the Designated Banks or Settlement Banks by 4:00 p.m. on the first Business Day, unless otherwise specified by SEOCH, after the Top-up calculation date or utilise other means of collection as appropriate.

### **11.6 Limits on Individual SEOCH Participant Reserve Fund Contributions and Assessments**

There shall be no limit to the Reserve Fund Requirement to be demanded from a SEOCH Participant. ~~However a SEOCH Participant could limit its total exposure to the Reserve Fund by resigning as a SEOCH Participant. Subject to Clearing Rule 413J, Any demand for the payment of Reserve Fund Contributions made by SEOCH of a SEOCH Participant on or preceding the effective date of termination of its SEOCH Participantsipthe Business Day SEOCH receives a resignation notice from a SEOCH Participant must be met in full by the resigning SEOCH Participant.—Any demand made by SEOCH for Replenishment Contribution must also be met in full by a SEOCH Participant unless on the date of demand or the next Business Day after the demand is made, SEOCH receives a resignation notice from the SEOCH Participant, in which case its liability will be limited in the manner prescribed in the immediately following paragraph.~~

In respect of one or more events of default occurring during a Capped Liability Period, the aggregate liability of a SEOCH Participant to provide Assessments during a Capped Liability Period pursuant to Clearing Rule 413C shall be limited to an amount which is equal to a SEOCH Participant's Reserve Fund Requirement on the Business Day immediately preceding the start of the Capped Liability Period, plus one time such

amount, as prescribed in Clearing Rule 413CA.

~~Where a SEOCH Participant has submitted a notice to SEOCH resigning as a SEOCH Participant, its liability to provide Reserve Fund Contributions and to make Replenishment Contributions pursuant to any demands made by SEOCH (i) for Reserve Fund Contributions from the Business Day following receipt of its resignation notice and (ii) for Replenishment Contributions from the Business Day immediately preceding the Business Day on which SEOCH receives the SEOCH Participant's resignation notice shall be limited to an amount which equals the aggregate of its Reserve Fund Contributions requirement on the Business Day SEOCH receives the resignation notice, plus two times such aggregated amount.~~

For example, assume that ~~(i) SEOCH issues a notice demanding Replenishment Contribution of HK\$7,000,000 from a SEOCH Participant on a particular Business Day; (ii) SEOCH receives a resignation notice from the SEOCH Participant on the following Business Day; (iii) on the Business Day SEOCH receives the resignation notice, the Initial Contribution of the resigning SEOCH Participant is HK\$1,500,000 and the Variable Contribution already demanded from the resigning SEOCH Participant but remains to be settled by the resigning SEOCH Participant is HK\$500,000 on the Business Day immediately preceding the start of the Capped Liability Period. In this case the maximum liability of the resigning SEOCH Participant to provide Assessments/contribute to the Reserve Fund would be HK\$~~64~~,000,000 (i.e. ~~three~~two times the aggregate of its Initial Contribution of HK\$1,500,000 and its Variable Contribution requirement of HK\$500,000). In other words, it would only be obliged to contribute a further amount of HK\$4,000,000 in addition to its existing Reserve Fund Contributions requirement of HK\$2,000,000.~~

The obligations and liabilities of a SEOCH Participant to provide Assessments in respect of any events of default which occur during a Capped Liability Period which commenced prior to the termination of its SEOCH Participantship shall survive the termination of the SEOCH Participantship notwithstanding the fact that the expiry of such Capped Liability Period occurs after termination, provided that the aggregate

liability of the SEOCH Participant shall be limited as provided for in Clearing Rule 413CA and provided that the SEOCH Participant shall not have any obligations or liabilities to provide Assessments in respect of any events of default which occur during a Capped Liability Period which commences after the termination of its SEOCH Participants.

This maximum liability exposure excludes any trading losses incurred by that SEOCH Participant; it will continue to be fully liable for these, regardless of its resignation.

## **11.9 SEOCH Appropriation**

If as a result of a Top-up calculation described in 11.2.2, additional resources should be appropriated by SEOCH as contributions to the Reserve Fund or surplus resources should be returned to SEOCH, such appropriation or return will under normal circumstances be effected or set aside on the same day as the day of collection from or return to SEOCH Participants of Variable Contributions following such Top-up calculation.

## **13A. CONTRACT TERMINATION**

### **13A.1 Contract Termination Process**

Following the occurrence of an event of default, if SEOCH reasonably believes that it will not be able to close out, sell, exercise, transfer and hedge all or any OCH Contracts of the Defaulter within a reasonable time as determined by SEOCH, SEOCH may, without prejudice to any other rights under the Clearing Rules, invoke the contract termination process as provided for in Clearing Rules 723A to 723E in consultation with the Commission.

If SEOCH invokes contract termination in accordance with Clearing Rule 723A, it shall determine the Identified OCH Contracts under Clearing Rule 723B and notify the relevant SEOCH Participants of its determination, including details of the Identified OCH Contracts and the effective date of

termination of such Identified OCH Contracts. Notwithstanding the above, at any time during the contract termination process but prior to the effective date of termination of the relevant Identified OCH Contracts, SEOCH may instead of proceeding with the termination of such OCH Contracts, declare the occurrence of a Clearing Service Termination Event, and in such case the Identified OCH Contracts shall not be terminated in accordance with the contract termination process but shall be terminated in accordance with Clearing Rule 1301.

#### **13A.1.1 Calculation of termination value**

The termination value for each Identified OCH Contract shall be determined based on the fixing price determined in accordance with Section 9.2.1 of the Operational Clearing Procedures at the time of contract termination, or if such fixing price is not available, the price shall be such price as SEOCH may reasonably determine.

On the basis of the termination value established for each Identified OCH Contract, SEOCH shall, with respect to each relevant clearing account of each relevant SEOCH Participant, determine the resulting net sum payable by such SEOCH Participant to SEOCH for such clearing account (the “Termination Value Payable”) or the resulting net sum receivable by such SEOCH Participant from SEOCH for such clearing account (the “Termination Value Receivable”). For the avoidance of doubt, an SEOCH Participant may have a Termination Value Payable in respect of one clearing account registered in its name, but a Termination Value Receivable in respect of another clearing account registered in its name. There shall be no combining or set-off between any house clearing account (including any clearing account which is not of a client nature) and client clearing accounts (including any clearing account which is of a client nature).

#### **13A.1.2 Payment of Termination Value Payable and Termination Value Receivable**

### **13A.1.2.1 Termination Value Payable**

SEOCH will notify each relevant SEOCH Participant of its Termination Value Payable(s) and each such SEOCH Participant shall pay the specified Termination Value Payable(s) to SEOCH in full within one Business Day or within such other time specified by SEOCH in the notice. If the relevant SEOCH Participant fails to pay the Termination Value Payable(s) within the time specified in the notice, SEOCH may declare such SEOCH Participant as a Defaulter.

In the event that SEOCH does not receive any part of the Termination Value Payable from a SEOCH Participant, SEOCH shall take reasonable steps to recover such amount. Such SEOCH Participant shall be responsible for any costs SEOCH reasonably incurs in attempting to recover such amounts and accordingly the Termination Value Payable actually received from such SEOCH Participant shall be deemed to be decreased by an amount equal to such costs, unless such costs are paid by such SEOCH Participant.

### **13A.1.2.2 Termination Value Receivable**

SEOCH will notify each relevant SEOCH Participant of its Termination Value Receivable(s) upon determination.

### **13A.1.2.3 Payment**

The amount of Termination Value Payable and Termination Value Receivable will be debited from or credited to (as the case may be) the relevant CCMS Collateral Account of the SEOCH Participant. To the extent that the collateral in the SEOCH Participant's relevant CCMS Collateral Account is insufficient, funds will be collected from the appropriate SEOCH Participant's account with the Designated Bank or Settlement Bank by Direct Debit Instructions. SEOCH Participants shall ensure that there are sufficient funds deposited in their Designated Bank or Settlement Bank accounts for debiting purpose.

The Termination Value Payable and Termination Value Receivable shall be settled in the Settlement Currency. To the extent that SEOCH determines that it is not possible or reasonably practicable to make payment in the Settlement Currency, the obligations of SEOCH shall be to make payment, in full or in part, in such other currency or currencies and at such conversion rate(s) as SEOCH may in its absolute discretion determine to be fair and reasonable, taking into account all relevant circumstances as it may consider appropriate.

#### **13A.1.2.4 Liability of SEOCH**

Upon termination of one or more Identified OCH Contracts under Clearing Rules 723A to 723E, all prevailing obligations of SEOCH and the relevant SEOCH Participant in respect of each such Identified OCH Contract between them (including the obligation to deliver any underlying securities under the Identified OCH Contracts) shall cease and be replaced with the obligation of SEOCH or the relevant SEOCH Participant, as the case may be, to pay the other party with respect to each clearing account registered in the name of such SEOCH Participant a net sum equal to the aggregate termination value of each Identified OCH Contract between them, as determined by SEOCH in accordance with Clearing Rule 723C and this Section of the Operational Clearing Procedures.

### **19. CLEARING SERVICE TERMINATION EVENT**

#### **19.1 Calculations of Net Payments following a Clearing Service Termination Event**

If a Clearing Service Termination Event occurs under Clearing Rule 1301, SEOCH shall, without prejudice to any other rights under the Clearing Rules, wind down the clearing and settlement services in accordance with Clearing Rules 1301 to 1304, in consultation with the Commission.

### **19.1.1 Calculation of termination value**

The termination value for each OCH Contract shall be determined based on the fixing price determined in accordance with Section 9.2.1 of the Operational Clearing Procedures at the time of contract termination, or if such fixing price is not available, the price shall be such price as SEOCH may reasonably determine. SEOCH may also take into account any unpaid amounts that have become due and payable in respect of any OCH Contract on or prior to the occurrence of the Clearing Service Termination Event.

As soon as reasonably practicable following a Clearing Service Termination Event, SEOCH shall, with respect to each clearing account registered in the name of each SEOCH Participant, calculate a net sum payable by or to such SEOCH Participant. In calculating such net sum, SEOCH will take into account the termination value determined for each OCH Contract pursuant to Clearing Rule 1302 and this Section of the Operational Clearing Procedures, and the value of all other amounts which are payable to SEOCH from the SEOCH Participant under the Clearing Rules or which are payable to the SEOCH Participant from SEOCH (other than any amounts arising from the obligation of SEOCH to pay an amount equal to (i) the Margin Balance (ii) any income and redemption proceeds on any non-cash collateral that have not already been paid to or withdrawn by the SEOCH Participant and/or (iii) the Reserve Fund Contributions Balance to the relevant SEOCH Participant, or Former SEOCH Participant), whether such amounts are presently payable or not and whether they are liquidated or unliquidated, actual or contingent. Any net sum calculated to be payable by SEOCH is subject to adjustment in accordance with Section 19.1.2.2 below. There shall be no combining or set-off between any house clearing account (including any clearing account which is not of a client nature) and client clearing accounts (including any clearing account which is of a client nature). SEOCH will determine any such net sum payable by, or to, a SEOCH Participant in the Base Currency. For the purpose of the determination under this Section of the Operational Clearing Procedures, SEOCH may convert any amounts denominated in any other currency into the Base Currency at such exchange rate determined by SEOCH from such source and on such basis as it shall consider appropriate.

**19.1.2 Payment of Limited Recourse Interim CP Payable, Limited Recourse Final CP Payable and Limited Recourse CP Receivable**

**19.1.2.1 Limited Recourse Interim CP Payable and Limited Recourse Final CP Payable**

- i. If, pursuant to Section 19.1.1 above, a net sum is determined to be payable by a SEOCH Participant to SEOCH with respect to one of its clearing accounts, SEOCH shall deduct all or part of such sum from the Margin Balance consisting of cash in the Base Currency, if any, relating to the relevant clearing account. If, after applying such Margin Balance relating to the relevant clearing account, there remains an amount payable by the SEOCH Participant to SEOCH for such clearing account (the “Limited Recourse Interim CP Payable”), SEOCH will, as soon as reasonably practicable, notify the relevant SEOCH Participant of the Limited Recourse Interim CP Payable, and the relevant SEOCH Participant shall pay SEOCH the Limited Recourse Interim CP Payable within one Business Day following receipt of such notification or within such other time period as may be specified by SEOCH.
- ii. If the SEOCH Participant fails to pay the Limited Recourse Interim CP Payable within the time frame set out in sub-paragraph i above, SEOCH may declare such SEOCH Participant as a Defaulter. SEOCH may, in satisfaction of any due but unpaid Limited Recourse Interim CP Payable, apply any remaining Margin Balance including any cash in other currencies and the cash proceeds of any non-cash collateral which SEOCH shall be entitled to liquidate relating to the relevant clearing account, and if the Limited Recourse Interim CP Payable of any clearing account of such SEOCH Participant is not satisfied in full following such application, regardless of whether such Limited Recourse Interim CP Payable arises out of a house clearing account or client clearing account belonging to such SEOCH Participant, SEOCH will set-off the Reserve Fund Contributions Balance in respect of such SEOCH Participant against the unpaid Limited Recourse Interim CP Payable. For the avoidance of doubt, if the unpaid Limited Recourse Interim CP Payable arises out of both a

house clearing account (or any clearing account which is not of a client nature) and client clearing accounts (or any clearing account which is of a client nature), SEOCH will set-off the Reserve Fund Contributions Balance in respect of such SEOCH Participant against these clearing accounts on a pro-rata basis.

- iii. Following the application by way of set-off of any remaining Margin Balance and any Reserve Fund Contributions Balance as described in sub-paragraph ii above, SEOCH shall determine and notify each relevant SEOCH Participant of the final net sum payable by the SEOCH Participant in respect of its Limited Recourse Interim CP Payable, if any (“Limited Recourse Final CP Payable”) with respect to each clearing account. Each SEOCH Participant that receives a notice to pay any Limited Recourse Final CP Payable shall pay each such amount to SEOCH in full within one Business Day or within such other time period as may be specified by SEOCH.
- iv. In the event that SEOCH does not receive any part of the Limited Recourse Final CP Payable from a SEOCH Participant, SEOCH shall take reasonable steps to recover such amount. Such SEOCH Participant shall be responsible for any costs SEOCH reasonably incurs in attempting to recover such amounts and accordingly the Limited Recourse Final CP Payable actually received from such SEOCH Participant shall be deemed to be decreased by an amount equal to such costs, unless such costs are paid by such SEOCH Participant.

#### **19.1.2.2 Limited Recourse CP Receivable**

Any net sum that is determined to be payable by SEOCH to a SEOCH Participant with respect to one of its clearing accounts pursuant to Section 19.1.1 above shall be known as the “Unadjusted Limited Recourse CP Receivable” and shall be subject to adjustment. The amount payable by SEOCH to each relevant SEOCH Participant with respect to each such clearing account (the “Limited Recourse CP Receivable”) shall be calculated by multiplying the Unadjusted Limited Recourse CP Receivable by a percentage (“Limited Recourse Applicable Percentage”) which is equal

to the lesser of:

(1) 100%; and

(2) (A) the aggregate value of (I) the Reserve Fund Resources then held by SEOCH; (II) any Margin Balance in respect of all clearing accounts applied pursuant to Sections 19.1.2.1.i and 19.1.2.1.ii above; and (III) all Limited Recourse Interim CP Payables and/or Limited Recourse Final CP Payables received by SEOCH, divided by

(B) the aggregate value representing the sum of (I) all Unadjusted Limited Recourse CP Receivables and (II) the Reserve Fund Contributions Balance in respect of all SEOCH Participants or Former SEOCH Participants taking into account the operation of Section 19.1.2.1.ii above;

SEOCH will notify each relevant SEOCH Participant of its Limited Recourse CP Receivable(s) upon determination.

### **19.1.2.3 Payment**

The amount of Limited Recourse Interim CP Payable, Limited Recourse Final CP Payable and Limited Recourse CP Receivable will be debited from or credited to (as the case may be) the relevant CCMS Collateral Account of the SEOCH Participant. To the extent that the collateral in the SEOCH Participant's relevant CCMS Collateral Account is insufficient, funds will be collected from the appropriate SEOCH Participant's account with the Designated Bank or Settlement Bank by Direct Debit Instructions. SEOCH Participants shall ensure that there are sufficient funds deposited in their Designated Bank or Settlement Bank accounts for debiting purpose.

All payments made under this Section of the Operational Clearing Procedures shall be made in the Base Currency. To the extent that SEOCH determines that it is not possible or reasonably practicable to make payment in the Base Currency, the obligations of SEOCH shall be to make

payment, in full or in part, in such other currency or currencies and at such conversion rate(s) as SEOCH may in its absolute discretion determine to be fair and reasonable, taking into account all relevant circumstances as it may consider appropriate.

#### **19.1.2.4 Liability of SEOCH**

Upon the occurrence of a Clearing Service Termination Event, every OCH Contract between SEOCH and a SEOCH Participant shall be automatically terminated and all prevailing obligations of SEOCH and such SEOCH Participant in respect of each such OCH Contract between them (including the obligation to deliver any underlying securities under such OCH Contract) shall cease and be replaced with the obligation of SEOCH or the relevant SEOCH Participant, as the case may be, to pay the other party with respect to each clearing account registered in the name of such SEOCH Participant a net sum which shall take into account the termination value and any unpaid amounts of each such OCH Contract registered in the relevant clearing account as determined by SEOCH and where applicable adjusted in accordance with this Section of the Operational Clearing Procedures.

#### **19.1.3 Return of Margin Balance**

With respect to each SEOCH Participant and each of its clearing account(s), taking into account (if applicable) the operation of Sections 19.1.2.1.i and 19.1.2.1.ii above, SEOCH shall pay an amount equal to the Margin Balance for such clearing account to such SEOCH Participant in accordance with the Clearing Rules.

#### **19.1.4 Return of Reserve Fund Contributions Balance**

With respect to each SEOCH Participant or Former SEOCH Participant which has a positive Reserve Fund Contributions Balance after payment of the Limited Recourse Interim CP Payable or after determination of the Limited Recourse CP Receivable for such clearing account, as the case may be, SEOCH shall pay to each relevant SEOCH Participant or Former

SEOCH Participant an amount equal to its Reserve Fund Contributions Balance multiplied by the Limited Recourse Applicable Percentage provided that the aggregate sum payable by SEOCH in respect of the Reserve Fund Contributions Balance for all SEOCH Participants and Former SEOCH Participants shall not in any event exceed the value of the Reserve Fund Resources then held by SEOCH. SEOCH may deliver or return to a SEOCH Participant or Former SEOCH Participant assets in such form and in such amount, as SEOCH deems appropriate, equivalent to the assets recorded as part of its Reserve Fund Contributions Balance. Once the Reserve Fund Resources have been exhausted, the unpaid balance of the Reserve Fund Contributions Balance shall be extinguished and the relevant SEOCH Participant(s) and Former SEOCH Participant(s) shall have no further recourse to SEOCH (its affiliates, a recognized exchange controller which is the controller of SEOCH, or any of their respective Representatives) in respect thereof.

## **20. SEOCH FAILURE TO PAY EVENT AND SEOCH INSOLVENCY EVENT**

### **20.1 Calculations of Net Payments under a SEOCH Failure to Pay Event or a SEOCH Insolvency Event**

Upon the designation of an Early Termination Date pursuant to either Clearing Rule 723F(3) or 723F(4) in respect of a SEOCH Failure to Pay Event or pursuant to Clearing Rule 723G in respect of a SEOCH Insolvency Event, SEOCH shall, without prejudice to any other rights under the Clearing Rules, terminate the OCH Contract between SEOCH and the relevant SEOCH Participant in accordance with Clearing Rules 723H to 723I.

#### **20.1.1 Calculation of termination value**

The termination value for each OCH Contract shall be determined based on the fixing price determined in accordance with Section 9.2.1 of the Operational Clearing Procedures on the Early Termination Date, or if such fixing price is not available, the price shall be such price as SEOCH may

reasonably determine. SEOCH may also take into account any unpaid amounts that have become due and payable in respect of any OCH Contract on or prior to the designation of the Early Termination Date.

SEOCH shall on, or as soon as reasonably practicable after, the Early Termination Date, with respect to each clearing account registered in the name of each relevant SEOCH Participant, calculate a net sum payable by or to such SEOCH Participant. In calculating such net sum, SEOCH will take into account the termination value determined for each OCH Contract pursuant to Clearing Rule 723H and this Section of the Operational Clearing Procedures, and the value of all other amounts which are payable to SEOCH from the SEOCH Participant under the Clearing Rules or which are payable to the SEOCH Participant from SEOCH (other than any amounts arising from the obligation of SEOCH to pay an amount equal to (i) the Margin Balance (ii) any income and redemption proceeds on any non-cash collateral that have not already been paid to or withdrawn by the SEOCH Participant and/or (iii) the Reserve Fund Contributions Balance to the relevant SEOCH Participant or Former SEOCH Participant), whether such amounts are presently payable or not and whether they are liquidated or unliquidated, actual or contingent. Any net sum calculated to be payable by SEOCH is subject to adjustment in accordance with Section 20.1.2.2 below. There shall be no combining or set-off between any house clearing account (including any clearing account which is not of a client nature) and client clearing accounts (including any clearing account which is of a client nature). SEOCH will determine any such net sum payable by, or to, a SEOCH Participant in the Base Currency. For the purpose of the determination under this Section of the Operational Clearing Procedures, SEOCH may convert any amounts denominated in any other currency into the Base Currency at such exchange rate determined by SEOCH from such source and on such basis as it shall consider appropriate.

#### **20.1.2 Payment of SEOCH Default Interim CP Payable, SEOCH Default Final CP Payable and SEOCH Default CP Receivable**

##### **20.1.2.1 SEOCH Default Interim CP Payable and SEOCH Default Final CP Payable**

- i If, pursuant to Section 20.1.1 above, a net sum is determined to be payable by a SEOCH Participant to SEOCH with respect to one of its clearing accounts, SEOCH shall deduct all or part of such sum from the Margin Balance consisting of cash in the Base Currency, if any, relating to the relevant clearing account. If, after applying such Margin Balance relating to the relevant clearing account, there remains an amount payable by the SEOCH Participant to SEOCH for such clearing account (the “SEOCH Default Interim CP Payable”), SEOCH will, as soon as reasonably practicable, notify the relevant SEOCH Participant of the SEOCH Default Interim CP Payable, and the relevant SEOCH Participant shall pay SEOCH the SEOCH Default Interim CP Payable within one Business Day following receipt of such notification or within such other time period as may be specified by SEOCH.
- ii If the SEOCH Participant fails to pay the SEOCH Default Interim CP Payable within the time frame set out in sub-paragraph i above, SEOCH may declare such SEOCH Participant as a Defaulter. SEOCH may, in satisfaction of any due but unpaid SEOCH Default Interim CP Payable, apply any remaining Margin Balance including any cash in other currencies and the cash proceeds of any non-cash collateral which SEOCH shall be entitled to liquidate relating to the relevant clearing account, and if the SEOCH Default Interim CP Payable of any clearing account of such SEOCH Participant is not satisfied in full following such application, regardless of whether such SEOCH Default Interim CP Payable arises out of a house clearing account or client clearing account belonging to such SEOCH Participant, SEOCH may set-off the Reserve Fund Contributions Balance in respect of such SEOCH Participant against the unpaid SEOCH Default Interim CP Payable. For the avoidance of doubt, if the unpaid SEOCH Default Interim CP Payable arises out of both a house clearing account (or any clearing account which is not of a client nature) and client clearing accounts (or any clearing account which is of a client nature), SEOCH will set-off the Reserve Fund Contributions Balance in respect of such SEOCH Participant against these clearing accounts on a pro-rata basis.

- iii Following the application by way of set off of any remaining Margin Balance and any Reserve Fund Contributions Balance as described in sub-paragraph ii above, SEOCH shall determine and notify each relevant SEOCH Participant of the final net sum payable by the SEOCH Participant in respect of its SEOCH Default Interim CP Payable, if any (“SEOCH Default Final CP Payable”) with respect to each clearing account. Each SEOCH Participant that receives a notice to pay any SEOCH Default Final CP Payable shall pay each such amount to SEOCH in full within one Business Day or within such other time period as may be specified by SEOCH.
- iv In the event that SEOCH does not receive any part of the SEOCH Default Final CP Payable from a SEOCH Participant, SEOCH shall take reasonable steps to recover such amount. Such SEOCH Participant shall be responsible for any costs SEOCH reasonably incurs in attempting to recover such amounts and accordingly the SEOCH Default Final CP Payable actually received from such SEOCH Participant shall be deemed to be decreased by an amount equal to such costs, unless such costs are paid by such SEOCH Participant.

#### **20.1.2.2 SEOCH Default CP Receivable**

Any net sum that is determined to be payable by SEOCH to a SEOCH Participant with respect to one of its clearing accounts pursuant to Section 20.1.1 above shall be known as the “Unadjusted SEOCH Default CP Receivable” and shall be subject to adjustment. The amount payable by SEOCH to each relevant SEOCH Participant with respect to each such clearing account (the “SEOCH Default CP Receivable”) shall be calculated by multiplying the Unadjusted SEOCH Default CP Receivable by a percentage (“SEOCH Default Applicable Percentage”) which is equal to the lesser of:

- (1) 100%; and
- (2) (A) the aggregate value of (I) the Reserve Fund Resources then held by

SEOCH; (II) any Margin Balance in respect of all clearing accounts applied pursuant to Sections 20.1.2.1.i and 20.1.2.1.ii above; and (III) all SEOCH Default Interim CP Payables and/or SEOCH Default Final CP Payables received by SEOCH, divided by

(B) the aggregate value representing the sum of (I) all Unadjusted SEOCH Default CP Receivables and (II) the Reserve Fund Contributions Balance in respect of all SEOCH Participants or Former SEOCH Participants taking into account the operation of Section 20.1.2.1.ii above;

SEOCH will notify each relevant SEOCH Participant of its SEOCH Default CP Receivable(s) upon determination.

### **20.1.2.3 Payment**

The amount of SEOCH Default Interim CP Payable, SEOCH Default Final CP Payable and SEOCH Default CP Receivable will be debited from or credited to (as the case may be) the relevant CCMS Collateral Account of the SEOCH Participant. To the extent that the collateral in the SEOCH Participant's relevant CCMS Collateral Account is insufficient, funds will be collected from the appropriate SEOCH Participant's account with the Designated Bank or Settlement Bank by Direct Debit Instructions. SEOCH Participants shall ensure that there are sufficient funds deposited in their Designated Bank or Settlement Bank accounts for debiting purpose.

All payments made under this Section of the Operational Clearing Procedures shall be made in the Base Currency. To the extent that SEOCH determines that it is not possible or reasonably practicable to make payment in the Base Currency, the obligations of SEOCH shall be to make payment, in full or in part, in such other currency or currencies and at such conversion rate(s) as SEOCH may in its absolute discretion determine to be fair and reasonable, taking into account all relevant circumstances as it may consider appropriate.

#### **20.1.2.4 Liability of SEOCH**

Upon the designation of an Early Termination Date pursuant to either Clearing Rule 723F(3) or 723F(4) in respect of a SEOCH Failure to Pay Event or pursuant to Clearing Rule 723G in respect of a SEOCH Insolvency Event, every OCH Contract between SEOCH and the relevant SEOCH Participant shall be terminated and all prevailing obligations of SEOCH and such SEOCH Participant in respect of each such OCH Contract between them (including the obligation to deliver any underlying securities under such OCH Contract) shall cease and be replaced with the obligation of SEOCH or the relevant SEOCH Participant, as the case may be, to pay the other party with respect to each clearing account registered in the name of such SEOCH Participant a net sum which shall take into account the termination value and any unpaid amounts of each such OCH Contract registered in the relevant clearing account as determined by SEOCH and where applicable adjusted in accordance with this Section of the Operational Clearing Procedures.

#### **20.1.3 Return of Margin Balance**

With respect to each relevant SEOCH Participant and each of its clearing account(s), taking into account (if applicable) the operation of Sections 20.1.2.1.i and 20.1.2.1.ii above, SEOCH shall pay an amount equal to the Margin Balance for such clearing account to such SEOCH Participant in accordance with the Clearing Rules.

#### **20.1.4 Return of Reserve Fund Contributions Balance**

With respect to each SEOCH Participant or Former SEOCH Participant which has a positive Reserve Fund Contributions Balance after payment of the SEOCH Default Interim CP Payable or after determination of the SEOCH Default CP Receivable for such clearing account, as the case may be, SEOCH shall pay to each relevant SEOCH Participant or Former SEOCH Participant an amount equal to its Reserve Fund Contributions Balance multiplied by the SEOCH Default Applicable Percentage provided that the aggregate sum payable by SEOCH in respect of the Reserve Fund



Contributions Balance for all SEOCH Participants and Former SEOCH Participants shall not in any event exceed the value of the Reserve Fund Resources then held by SEOCH. SEOCH may deliver or return to a SEOCH Participant or Former SEOCH Participant assets in such form and in such amount, as SEOCH deems appropriate, equivalent to the assets recorded as part of its Reserve Fund Contributions Balance. Once the Reserve Fund Resources have been exhausted, the unpaid balance of the Reserve Fund Contributions Balance shall be extinguished and the relevant SEOCH Participant(s) and Former SEOCH Participant(s) shall have no further recourse to SEOCH (its affiliates, a recognized exchange controller which is the controller of SEOCH, or any of their respective Representatives) in respect thereof.