

Operational Clearing Procedures for Options Trading Exchange Participants

III. CLEARING SERVICES

7. COLLATERAL

SEOCH may accept cash and non-cash assets as SEOCH Collateral for margin purposes and for making Variable Contributions to the Reserve Fund in such form and manner, and in the case of non-cash assets and cash denominated in a currency other than the Settlement Currency, up to such limit as may be approved by the SEOCH Board from time to time. Where the Settlement Currency of a Contract is not the same as the Currency of the Contract, the margin payable on such Contract will be converted by SEOCH from the Currency of the Contract into the Settlement Currency at the exchange rate determined by SEOCH as soon as practicable after the margin arose from such source and on such basis as it shall consider appropriate. Unless otherwise determined by the SEOCH Board, the amount of cash in the Settlement Currency covering the margin requirement for each CCMS Collateral Account of a SEOCH Participant shall not fall below the minimum level prescribed by the SEOCH Board. Normally, a SEOCH Participant's margin requirements will first be satisfied by cash in the Settlement Currency, then cash in any other currency from time to time approved by the SEOCH Board (see Appendix H for the current list of approved currencies) and then by any non-cash collateral maintained in the SEOCH Participant's CCMS Collateral Account, or any other order of application as prescribed by the SEOCH Board from time to time. In relation to Variable Contributions to the Reserve Fund where cash and non-cash collateral may be used, the order of application of such collaterals may be in any order as prescribed by the SEOCH Board from time to time.

This chapter sets out the procedures for handling non-cash collateral. For the processing of cash collateral, refer to Chapter 10 - Money Settlement.

Collateral management, including cash and non-cash collateral of SEOCH Participants, is handled by CCMS. For a detailed description of the collateral management functions in CCMS, please refer to the *CCMS Terminal User Guide*.

Any SEOCH Participant using non cash collateral in settlement of the SEOCH Participant's margin requirement will be subject to an accommodation charge at a rate or rates as prescribed by the SEOCH Board from time to time on the amount of margin requirement which is settled by non-cash collateral (see Appendix I).

IV. DUTIES AND OBLIGATIONS OF SEOCH PARTICIPANTS

9. MARGIN REQUIREMENT

9.7 Intra-Day Margin

SEOCH has full discretion to call for intra-day margin from all SEOCH Participants and/or selected SEOCH Participants.

Please refer to Section 10.5 - The Intra-Day Cash Settlement Process for a description of how an intra-day margin call can be met.

Failure to meet an intra-day margin call within one hour may cause SEOCH to consider the initiation of the default proceedings.

10. MONEY SETTLEMENT

10.1 Introduction

Unless otherwise specified by SEOCH, the Money Settlement process of SEOCH will be effected by cash in the Settlement Currency transferred between the bank accounts of SEOCH maintained with Settlement Banks and bank accounts of SEOCH Participants maintained with either Designated Banks or Settlement Banks. All such cash transfers, whether for amounts collected from or payable to a SEOCH Participant, are initiated by SEOCH issuing a Direct Debit Instruction (“DDI”) to the Designated Bank or Settlement Bank (as the case may be); or a Direct Credit Instruction (“DCI”) to the Settlement Bank.

Every SEOCH Participant must maintain bank account(s) for each applicable Settlement Currency with one of the Designated Banks or Settlement Banks for money settlement purpose. For the avoidance of doubt, a SEOCH Participant which has not opened the bank account(s) in the Settlement Currency of a Contract as aforesaid will not be allowed to record, register and clear that Contract. As money settlement transactions recorded in the House and Client CCMS Collateral Accounts are processed separately, every SEOCH Participant must maintain at least two bank accounts in the applicable Settlement Currency with a Designated Bank or a Settlement Bank (as the case may be) and properly identify which of these accounts is for the handling of money settlement transactions recorded in the House CCMS Collateral Account and which of these is for the handling of money settlement transactions recorded in the Client CCMS Collateral Account.

SEOCH Participants should note that timely settlement of the money obligations due to SEOCH is extremely important. Failure to make timely settlement could result in disciplinary measures and default proceedings. It is important that SEOCH Participants provide SEOCH with the names of at least two emergency contact persons who can be reached before or during office hours for all money settlement matters. SEOCH must also be kept informed of any changes in the details of such emergency contact persons.

All amounts payable by each SEOCH Participant will normally be settled in the manner described in these Procedures. Where such amounts payable are not settled in the manner described in these Procedures, SEOCH will render a debit advice in respect of the amount due and may debit the amount contained in any such debit advice from the SEOCH Participant’s account with the Designated Bank or Settlement Bank on the due date specified in such debit advice.

10.2 The Daily Cash Settlement Component

The Daily Cash Settlement Component consists of up to four components namely Premium, margin, fees and if necessary, stock settlement amount which are all to be settled by cash in the Settlement Currency unless otherwise specified by SEOCH, with the exception of margin which may also be settled by cash in an approved currency other than the Settlement Currency and non-cash collateral acceptable to SEOCH.

The total margin requirement in respect of either house or client positions of a SEOCH Participant may be covered by the SEOCH Participant’s cash and non-cash collateral balance after haircut, if applicable, within its House or Client CCMS Collateral Account provided that the SEOCH Board shall have the absolute right to determine the minimum amount of a SEOCH Participant’s margin requirements that must be covered by cash in the Settlement Currency or the maximum amount that may be covered by non-cash collateral or cash denominated in an approved currency other than the Settlement Currency. When the total margin requirement exceeds the total of acceptable cash and non-cash collateral balance after haircut, cash settlement is required for this excess margin requirement and will

be collected via the appropriate bank account which the SEOCH Participant maintains with a Designated Bank or a Settlement Bank. The other components are Premium, fees and stock settlement amounts and they will be collected via the SEOCH Participant's bank account with a Designated Bank or a Settlement Bank in the aforementioned manner when the sum of these components turns out to be in debit.

10.2.1 Premium Settlement

The Premium settlement amount is calculated as the net Premium balance due to or from the SEOCH Participant in respect of trades concluded on the preceding trading day for house and clients' transactions separately. Where the Settlement Currency of a Contract is not the same as the Currency of the Contract, the Premium settlement amount payable on such trade will be converted by SEOCH from the Currency of the Contract into the Settlement Currency at the exchange rate determined by SEOCH as soon as practicable after the Premium settlement amount arose from such source and on such basis as it shall consider appropriate. Any exchange rate risk arising from the conversion will be borne by the SEOCH Participant. A credit arising from house positions will not be used to offset a debit arising from client positions, and vice versa.

Premiums are calculated immediately upon registration of the trade in DCASS. The Premiums payable and receivable are updated in real time and are available for enquiry via DCASS terminals.

10.2.2 Margin Settlement

The amount of margin required will be calculated based on PRiME during batch processing. This will be compared with the cash and non-cash collateral value. If there is a deficit, it will be collected from the appropriate SEOCH Participant's account with the Designated Bank or a Settlement Bank by DDI. If no margin is required but the SEOCH Participant has cash or non-cash collateral in excess as shown in its CCMS Collateral Account, this excess cash or non-cash collateral will be returned upon request provided that the amount of margin that is covered by cash in the Settlement Currency will not fall below the minimum level prescribed by the SEOCH Board and the return of excess cash will not result in any other requirement regarding cover for the SEOCH Participant's margin requirements not being satisfied. Where the Settlement Currency of a Contract is not the same as the Currency of the Contract, the amount of margin required for such Contract will be converted by SEOCH from the Currency of the Contract into the Settlement Currency at the exchange rate determined by SEOCH as soon as practicable after the amount of margin required arose from such source and on such basis as it shall consider appropriate.

10.3 The Cash Settlement Process

Once the cash requirement has been established, money settlement occurs as follows:

10.3.2 Cash Withdrawal by SEOCH Participants

A SEOCH Participant can withdraw cash credited to its CCMS Collateral Account during the day provided that there is sufficient cash collateral balance available in its CCMS Collateral Account, its total collateral balance after such cash withdrawal is not less than the SEOCH Participant's total margin requirement on its open positions immediately prior to such cash withdrawal, the amount of cash in the Settlement Currency covering the margin requirement of the SEOCH Participant does not fall below the minimum level prescribed by the SEOCH Board and the withdrawal will not result in any other requirement regarding cover for the SEOCH Participant's margin requirements not being satisfied.

10.4 Cash Withdrawal/Deposit Procedures

10.4.1 Cash Withdrawal Procedures by SEOCH Participants

10.4.1.1 Settlement Currencies

If a SEOCH Participant wishes to withdraw any cash amount in a Settlement Currency, the following procedures apply:

- i. the SEOCH Participant should check if there is a surplus cash balance in the Settlement Currency in its CCMS Collateral Account available for withdrawal;
- ii. the SEOCH Participant shall input a withdrawal order via its CCMS terminal before the cash movement cut-off time, which is 11:00 a.m. each Business Day, for the amount to be withdrawn and such amount will be deducted from the SEOCH Participant's CCMS Collateral Account. CCMS will restrict the withdrawal order input after the prescribed cut-off time; and
- iii. if the withdrawal order is accepted by SEOCH, SEOCH will issue a Direct Credit Instruction to pay the withdrawal amount to the SEOCH Participant's account with the Designated Bank or Settlement Bank for same day value.

10.4.1.2 Approved Currencies other than Applicable Settlement Currencies

If a SEOCH Participant wishes to withdraw any cash amount in an approved currency referred to in Appendix H which is other than an applicable Settlement Currency referred to in 10.1, the following procedures apply:

- i. the SEOCH Participant should check if there is a surplus cash balance in the approved currency in its CCMS Collateral Account available for withdrawal;
- ii. the SEOCH Participant may request the release of any excess amount in the approved currencies on deposit with SEOCH by notifying SEOCH of the proposed withdrawal in writing or by other means acceptable to SEOCH by 11:00 a.m. on each Business Day; and
- iii. in the event that SEOCH, in its sole discretion, agrees to release such excess amount, the request will be processed by SEOCH as soon as practicable. The release of the requested excess amount will not be effected on the same day as the date of the request as set out in 10.4.1.2 (iii) (a) and (b) below, and the requesting SEOCH Participants will earn interest on the excess amount being released at such positive or negative rate as it may determine from time to time in accordance with prevailing bank savings rates until the release is effected. The value date for the release of excess amount is as follows:
 - (a) Japanese Yen

The value date for the release of the excess amount in Japanese Yen is the second (Hong Kong) bank business day after the date on which the release request is received by SEOCH. If that day is a bank holiday in Japan, then the value date shall be on the next bank business day in Japan.

(b) Approved Currencies other than Japanese Yen

The value date for the release of any excess amount in an approved currency other than the Japanese Yen is the next (Hong Kong) bank business day after the date on which the release request is received by SEOCH. If that day is a bank holiday in the country where the SEOCH Participant's bank is located or where the approved currency is cleared, then the value date shall be on the next bank business day in that country.

10.4.2 Cash Deposit Procedures by SEOCH Participants

10.4.2.1 Settlement Currencies

If a SEOCH Participant wishes to deposit any cash amount in the Settlement Currency to SEOCH e.g. to meet future margin calls, the following procedures apply:

- i. the SEOCH Participant shall input a deposit order via its CCMS terminal before the cash movement cut-off time, which is 11:00 a.m. each Business Day, for the amount to be deposited to SEOCH. CCMS will restrict the deposit order input after the prescribed cut-off time;
- ii. if the deposit order is accepted by SEOCH, SEOCH will collect the amount by issuing a Direct Debit Instruction to the SEOCH Participant's Designated Bank or Settlement Bank for the deposit amount. The SEOCH Participant must ensure that there are sufficient good funds in its account with the Designated Bank or Settlement Bank for effecting such debit; and
- iii. upon the bank's confirmation that the Direct Debit Instruction has been effected successfully, SEOCH will update the cash balance for the deposit amount in the SEOCH Participant's CCMS Collateral Account for same day value.

10.4.2.2 Approved Currencies other than Applicable Settlement Currencies

If a SEOCH Participant wishes to deposit any cash amount in an approved currency referred to in Appendix H which is other than an applicable Settlement Currency referred to in 10.1 to SEOCH, the following procedures apply:

- i. the SEOCH Participant shall notify SEOCH of the deposit of the approved currency in writing or by other means acceptable to SEOCH by 11:00 a.m. each Business Day;
- ii. upon confirmation of the deposit from SEOCH's bank, SEOCH will update the cash balance for the deposit amount in the SEOCH Participant's CCMS Collateral Account;
- iii. the value date applicable to the transfer of the deposit amount in the approved currency from a SEOCH Participant's account in one bank to SEOCH's account in another bank is normally the next (Hong Kong) bank business day after the date on which the SEOCH Participant's bank receives the SEOCH Participant's instructions to effect such transfer. If that day is a bank holiday in the country where the SEOCH Participant's bank is located or where the approved currency is cleared, the value date shall be on the next (Hong Kong) bank business day which is not a bank holiday in that country. Only after the receipt of the funds is confirmed by SEOCH's bank will SEOCH accept those funds as cover for the SEOCH Participant's margin requirements; and

iv. if the SEOCH Participant's account and SEOCH's account are maintained with the same bank, the transfer may be effected within the same bank business day, in which case the value date for the transfer of the deposit amount shall be the bank business day on which such bank receives the SEOCH Participant's instructions to effect the transfer. Notwithstanding the foregoing, only after the receipt of the funds is confirmed by SEOCH's bank will SEOCH accept those funds as cover for the SEOCH Participant's margin requirements.

10.4.3 Currencies Revaluation and as Substitution for the Settlement Currency

10.4.3.1 Revaluation of Approved Currencies

The value of any approved currency allowed to be used as cover for a SEOCH Participant's margin requirements shall be determined on a daily basis based on the prevailing market prices at the time of revaluation after deducting a haircut of such percentage as determined from time to time by the SEOCH Board.

10.4.3.2 Substitution for the Settlement Currency

- i. SEOCH Participants may elect to deposit approved currencies as cover for SEOCH Participants' margin requirements provided that the minimum level of margin requirements that is required to be satisfied by cash in the Settlement Currency is at all times maintained. If an approved currency is deposited by a SEOCH Participant as substitution for any margin settled by the SEOCH Participant using the Settlement Currency, such approved currency deposit must be received by SEOCH with finality by 9:30 a.m. on a Business Day in order for the SEOCH Participant to have surplus funds resulting from such approved currency deposit refunded to the SEOCH Participant in the Settlement Currency for same-day value.
- ii. If the approved currency deposit is received after 9:30 a.m., any surplus Settlement Currency will be refunded to the SEOCH Participant for value on the next Business Day.

10.5 The Intra-Day Cash Settlement Process

Where intra-day margin is called for, a SEOCH Participant can enquire the call amount via the relevant CCMS report. Please refer to the *CCMS Terminal User Guide* for CCMS report details. All affected SEOCH Participants shall arrange sufficient funding in their accounts with the Designated Banks or Settlement Banks in order to settle the intra-day margin call within one hour after the intra-day margin call is issued or such shorter period as may from time to time be prescribed by SEOCH. Intra-day margin calls may only be satisfied by payment in cash in the Settlement Currency.

10.5A The Special Block Trade Margin Settlement Process

Where Special Block Trade Margin is called for, SEOCH will fax a **Special Block Trade Margin Call Notice** [Appendix C5] 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. If the SEOCH Participant is unable to meet its Special Block Trade Margin call by the prescribed deadline for any reason, the relevant Block Trade shall, without notice being required to be given to the SEOCH Participant, not be subject to the

process of substitution and novation in accordance with the First Schedule to the Clearing Rules or be cleared by SEOCH, and shall be deleted from the Options System as if the Block Trade had never been executed.

11. RESERVE FUND

11.2 SEOCH Participant Contributions to the Reserve Fund

11.2.2 Variable Contribution

In addition to making the Initial Contribution to the Reserve Fund, SEOCH also requires that SEOCH Participants maintain a Variable Contribution. It is designed to ensure that the Reserve Fund remains in proportion with the size of the market. The Reserve Fund Variable Contribution is maintained through a process known as, “Top-up Payment”.

The eighth Business Day prior to the expiration date of every month will be the Top-Up Calculation Date and it is on this day that the re-calculation of the Variable Contribution is carried out. The process works as follows:

First, on the Top-Up Calculation Date, SEOCH determines what the total size of the Reserve Fund should be, given the current size of the market and volatility.

Second, SEOCH will deduct the sum of all the SEOCH Participants’ Initial Contributions from this Reserve Fund size to arrive at the Variable Contribution.

Third, the share of the Variable Contribution that each SEOCH Participant must contribute will be calculated. Each SEOCH Participant’s share of the Variable Contribution will be equal to that SEOCH Participant’s share of the average **total margin requirement** and **net premium paid** over the last 20 trading days. For the purpose of calculating the Variable Contribution, 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.

Fourth, for each SEOCH Participant, SEOCH will compare the share of the Variable Contribution level *required* with the *actual* share currently deposited, 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 to the Variable Contribution.

Fifth, the SEOCH Participant will be required to pay the required amount. The Top-up Payment which maintains the SEOCH Participant’s share of the Variable Contribution 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 Contributions will be reduced and the excess refunded.

12. POSITION CONTROL

12.2 Capital Based Position Limit

The capital based position limit is a measure which seeks to ensure that the risk exposures of SEOCH Participants are commensurate with their financial strength in terms of liquid capital. For the purpose of this Chapter, the term “liquid capital” shall, where applicable, be construed as the “apportioned liquid capital” under 12.3A.

Under this measure, gross, net and total limits are assigned to each SEOCH Participant on the basis of its latest reported liquid capital as follows:

<i>Net Limit</i>	= 3 x (LC+BG)	(i.e. 3 x (LC+BG) ≥ NRM)
<i>Gross Limit</i>	= 6 x (LC+BG)	(i.e. 6 x (LC+BG) ≥ GRM)
<i>TMR Limit</i>	= 10 x (LC+BG)	(i.e. 10 x (LC+BG) ≥ TMR)

where

NRM = the sum of the Risk Margin (determined on a net basis) for all accounts of the SEOCH Participant in DCASS

GRM = the sum of the Risk Margin (determined on a net or gross basis as the case may be) for all accounts of the SEOCH Participant in DCASS

TMR = the Total Margin Requirement of the SEOCH Participant

LC = such apportioned amount or percentage of its liquid capital (calculated as per the Financial Resources Rules) as is notified to SEOCH under 12.3A

BG = bank guarantees arranged in accordance with the same requirements and criteria as those set forth in 7.1 for the use of bank guarantees as a means of providing cover for meeting in part the margin requirements of a SEOCH Participant.

The Risk Margin and Total Margin Requirement of the SEOCH Participant 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.

For the purpose of calculating the net limit of a SEOCH Participant, all positions in each of its Individual Client Accounts and Client Offset Claim Accounts will be aggregated with the short positions in its Omnibus Client Account and margined together on a net basis to determine the Risk Margin of its Client Accounts, and the short positions of a SEOCH Participant's Sink Account will be margined together on a net basis to determine the Risk Margin of its Sink Account.

For the purpose of calculating the gross limit of a SEOCH Participant, since positions in the House, Market Maker, Individual Client and Client Offset Claim Accounts are margined on a net basis, the respective resultant Risk Margin of these accounts will be used in calculating the gross limit of the SEOCH Participant.

For the purpose of calculating the net, gross or total limit of a SEOCH Participant, the maximum amount of bank guarantees that may be used by a SEOCH Participant at any time is limited to 50% of the latest liquid capital submitted by it to SEOCH. Under no circumstances will a SEOCH Participant be allowed to use bank guarantees which in aggregate exceed 50% of its liquid capital. Furthermore, a SEOCH Participant's own assets which have been taken into account in calculating its liquid capital are not allowed to be used in any form as security for the purpose of arranging a bank guarantee.

APPENDIX C5. SPECIAL BLOCK TRADE MARGIN CALL NOTICE

THE SEHK OPTIONS CLEARING HOUSE LIMITED

7/F, Vicwood Plaza
199 Des Voeux Road Central
Hong Kong

Fax: 2581 2586
Hotline: 2840 3581

SPECIAL BLOCK TRADE MARGIN CALL

URGENT

Broker Firm ID	SEOCH Participant's Name	For the Attention of	Telephone Number	Fax Number	Margin Call
XXXX	XXXXXXXXXXXX	XXXXXXX	XXXX XXXX	XXXX XXXX	XXX,XXX

The above amount will be debited from your designated bank's account in an hour's time.

Authorised Signature(s)
The SEHK Options Clearing House Limited

Date

APPENDIX H. LIST OF APPROVED CURRENCIES

List of approved currencies (in addition to Hong Kong Dollars) that may be used to satisfy margin requirements

1. US Dollars
2. Euro
3. Japanese Yen
4. Renminbi

APPENDIX I. INTEREST AND ACCOMMODATION CHARGE STRUCTURE

Interest and Accommodation Charge Structure

1. APPROVED CURRENCIES
INTEREST PAYABLE TO OR LEVIED ON SEOCH PARTICIPANTS

Margin requirement covered by cash Cash deposits other than contributions to the Reserve Fund))	to be determined by SEOCH from time to time in accordance with prevailing bank savings rates
Variable Contributions to the Reserve Fund made in cash))	to be determined by SEOCH from time to time in accordance with the prevailing deposit rates