

Operational Clearing Procedures for Options Trading Exchange Participants

PREFACE

Other Documentation

The DCASS User Guide is a reference manual containing explanations of various functions and reports of DCASS.

For trading functions and Participantship matters which are not related to clearing, please refer to the *Operational Trading Procedures* and the *HKATS User's Guide*.

For margin calculation, please refer to the manual entitled "*PRIME Margining Guide*" which describes in detail the portfolio risk margining system ("PRIME"), the methodology adopted by SEOCH for calculating margin, and examples of the calculation of margin requirements of SEOCH Participants using such methodology.

For CCMS operations, please refer to the manual entitled "*CCMS Terminal User Guide*" relating to the operation of CCMS.

I. INTRODUCTION TO OPERATIONAL CLEARING PROCEDURES

1. INTRODUCTION

1.3 SEOCH Participants

SEOCH will maintain a register of its Participants in accordance with the Clearing Rules.

There are two categories of SEOCH Participantship:

A **Direct Clearing Participant (DCP)** is entitled to clear options contracts traded in HKATS on the instructions, in its capacity as an Options Trading Exchange Participant, of its clients, as well as trades for its own account.

A **General Clearing Participant (GCP)** is entitled to clear options contracts traded in HKATS on the instructions, in its capacity as an Options Trading Exchange Participant, of its clients, as well as trades for its own account. In addition, a GCP is entitled to clear options contracts on behalf of other Options Trading Exchange Participants with whom it has entered into a Clearing Agreement.

An Options Trading Exchange Participant which is not a SEOCH Participant is referred to as a **Non-Clearing Options Trading Participant (NCP)**. An NCP cannot clear trades on its own, but has to rely on a GCP to clear on its behalf.

1.5 Types of Accounts Maintained in DCASS and CCMS for SEOCH Participants

1.5.1 DCASS Accounts

SEOCH maintains for each SEOCH Participant different types of clearing accounts in DCASS. These accounts are registered under the name of the SEOCH Participant and are identified as the SEOCH Participant's (1) House Account, (2) Omnibus Client Account, (3) Individual Client Account, (4) Client Offset Claim Account, (5) Market Maker Account, (6) Daily Account, (7) APT Account, and (8) Sink Account.

House Account

The House Account is for the recording of a SEOCH Participant's proprietary trades and positions. Positions in the House Account are maintained on a net basis and margined, together with positions propagated from any Market Maker Account, on a net basis.

Omnibus Client Account

The Omnibus Client Account is for the recording, on an omnibus basis, of trades and positions of clients of a SEOCH Participant. Positions in the Omnibus Client Account are maintained and margined on a gross basis.

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 submit to SEOCH an application for the opening, maintenance and termination of Individual Client Accounts in such manner and using such form as may be prescribed by SEOCH from time to time. 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, 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 submit to SEOCH an application for the opening, maintenance and termination of Client Offset

Claim Accounts in such manner and using such form as may be prescribed by SEOCH from time to time. 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.

Market Maker Account

The Market Maker Account is for the recording of trades and positions of a SEOCH Participant arising from its market making activities. Separate Market Maker Accounts may also be opened and maintained for designated traders of the SEOCH Participant and NCPs of the SEOCH Participant which are Market Makers. Positions in a Market Maker Account are maintained and margined on a net basis. Other than positions in the Market Maker Account of a designated trader, which will be margined separately, and other than positions in the Market Maker Account of an NCP of a SEOCH Participant, which will be propagated to the relevant Individual Client Account of the SEOCH Participant maintained for such NCP as if they were positions in such account for margin calculation purposes, positions in the Market Maker Account of a SEOCH Participant will be propagated to its House Account as if they were the positions in its House Account for margin calculation purposes.

Daily Account

The Daily Account serves as an account to which trades can be transferred on a temporary basis for average price trade calculation or other purposes prescribed by SEOCH from time to time. Trades and positions in the Daily Account are treated for all purposes as trades and positions belonging to the House Account with the exception that positions recorded in the Daily Account on any Business Day will be maintained on a gross basis prior to the System Input Cutoff Time on each Business Day. A SEOCH Participant shall transfer all trades in its Daily Account to its other accounts in DCASS (other than the Sink Account) prior to the System Input Cutoff Time. Any trades and positions remaining in the Daily Account after the System Input Cutoff Time will be automatically transferred to the Sink Account of the SEOCH Participant.

APT Account

The APT Account serves as an account to which a selected group of trades can be transferred on a temporary basis for the purpose of performing average price trade calculation. No positions will be recorded or maintained in the APT Account.

Sink Account

The Sink Account is for the recording of trades and positions automatically transferred from the Daily Account. Trades and positions in the Sink Account are treated for all purposes as trades and positions belonging to the House Account with the exception that positions in the Sink Account will be maintained and margined on a gross basis, separate from the House Account. A SEOCH Participant shall transfer all trades and positions in its Sink Account to its other accounts in DCASS (other than the Daily Account).

1.7 Separate DCASS Accounts for Designated Traders

1.7.2 Account Opening and Subsequent Maintenance Procedures

A Market Maker shall submit to SEOCH an application 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 in such manner and using such form as may be prescribed by SEOCH from time to time.

1.7.4 Termination of Services by SEOCH

SEOCH may at any time terminate the service of keeping a separate Market Maker Account for a designated trader in respect of his market making activities in one or more option classes if:

- i. the designated trader has failed for a consecutive two months to meet at least 50% of the performance target as laid down in the Second Schedule of the Options Trading Rules; or
- ii. the Market Maker permit to make a market expires or is revoked by the Exchange; or
- iii. the Market Maker submits to SEOCH an application to terminate a Market Maker Account in such manner and using such form as may be prescribed by SEOCH from time to time; or
- iv. the Market Maker ceases to be an Options Trading Exchange Participant; or
- v. the designated trader ceases to be an Authorized User.

Upon termination, open positions, if any, of the designated trader will be transferred to the Market Maker or other Account of the Market Maker as appropriate.

1.8 DCASS Account in respect of Options Broker Exchange Participants' Transactions Carried by a SEOCH Participant

1.8.2 Structure and Operation of OBEP Individual Client Accounts

For position recording purposes, two OBEP Individual Client Accounts may be maintained in DCASS for an OBEP, one Individual Client Account for the recording of positions from trades executed by the carrying SEOCH Participant for the OBEP's own proprietary account and one Omnibus Client Account for the recording on an omnibus basis of positions from trades executed for clients of the OBEP.

The carrying SEOCH Participant can, after execution of a trade, allocate the trade directly into the relevant OBEP Individual Client Account of the OBEP via DCASS.

Position and various trading and clearing reports / information generated by DCASS in respect of an OBEP Individual Client Account will only be available to the carrying SEOCH Participant.

1.8.4 Application for OBEP Individual Client Accounts

A SEOCH Participant shall submit to SEOCH an application for the opening of an OBEP Individual Client Account in such manner and using such form as may be prescribed by SEOCH from time to time. 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

SEOCH may at any time terminate an OBEP Individual Client Account for a SEOCH Participant if:

- i. the carrying SEOCH Participant notifies SEOCH of the termination of a particular OBEP Individual Client Account in such manner and using such form as may be prescribed by SEOCH from time to time provided that there are no open positions in the OBEP Individual Client Account to be terminated in such manner and using such form. 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
- ii. the OBEP ceases to be an OBEP of the Exchange; or
- iii. the carrying SEOCH Participant ceases to be a SEOCH Participant; or
- iv. if SEOCH considers it appropriate to do so; or
- v. upon SEOCH terminating this service completely.

II. SEOCH PARTICIPANTSHIP

2. SEOCH PARTICIPANT

2.2 Registration

SEOCH will maintain a register containing the full names and addresses of all SEOCH Participants, particulars of the category of SEOCH Participantship under which each SEOCH Participant is registered and the date of admission of each SEOCH Participant.

III. CLEARING SERVICES

4. SERVICE SCHEDULES

The clearing services of DCASS will be available 30 minutes prior to market open until the System Input Cutoff Time on each Business Day, except for trade adjustment requests in respect of Block Trades which shall be input via DCASS no later than 30 minutes prior to the System Input Cutoff Time. Details of the DCASS service schedules are set forth in the *DCASS User Guide*.

4.1 Daily Schedule for Clearing Functions

The following are various clearing functions available to SEOCH Participants via DCASS. Details of such functions and their daily schedule are set forth in the *DCASS User Guide*.

4.1.1 Enquiry Function

SEOCH Participants can perform online enquiry to view information relating to trades, positions, accounts, exercise requests, assignments, series, fees, deliveries, margin requirements as well as messages broadcast by SEOCH.

4.1.2 Trade Rectification

SEOCH Participants can perform various types of rectification on trades executed during the day, including open/close adjustments, trade account transfers, average price trades and trade splitting.

4.1.3 Trade Give-up / Take-up

SEOCH Participants can give-up trades executed during the day to other SEOCH Participants or confirm the take-up of trades from other SEOCH Participants.

4.1.4 Exercise Request / Deny Auto

SEOCH Participants can input exercise requests or rejections or deny exercise requests automatically generated for spot month series on the expiry day on their long open positions.

4.1.5 Securities Collateral Cover / De-cover

SEOCH Participants can input instructions to cover or de-cover their short call positions with the specific underlying to minimize the margin requirement on such positions.

4.1.6 Position Maintenance

SEOCH Participants can perform various types of rectification on their open positions, including position netting and transfer between different internal accounts.

4.1.7 Repealed

4.5 DCASS Reports

DCASS will generate clearing reports and data files, after the completion of day end process. For details of the DCASS reports and data files, please refer to the *DCASS User Guide*.

5. TRADE AND POSITION MANAGEMENT

5.2 Position Management

Accounts in which positions are held gross

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

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

are eligible for margin offset. Positions in a Client Offset Claim Account will be maintained on a gross basis but margined on a net basis.

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

Opening Sale : increases short position

Closing Sale : reduces long position

Opening Buy : increases long position

Closing Buy : reduces short position

Effects of gross position-holding on margin calculation and assignment

Gross holding of positions has no effect on accounts with net margin calculation. However, it does potentially affect the SEOCH Participant's likelihood of being assigned. This is because all of its short contracts will be included in the random assignment, even though they may in fact be offset by long contracts in the same account of the SEOCH Participant. To avoid assignment of contracts which have in fact been closed, it is therefore important to ensure that DCASS records accurately reconcile to the actual position.

Trade closing errors

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

Position netting

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

Accounts with net positions

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

5.3 Position Inquiry

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

5.4 Trade Adjustments

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

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

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

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

5.4.1 Trade Separation

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

5.4.2 Trade Open/Close Adjustment

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

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

5.4.4 Give-Up and Take-Up

5.4.4.2 Give-up Process

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

5.4.4.3 Take-Up Process

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

5.4.6 Average Price Trades (APT)

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

5.5 Position Adjustments

5.5.1 Internal Position Adjustment

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

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

5.5.1.3 Claiming Margin Offset on Client Positions

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

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

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

5.5.2 External Position Transfers

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

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

5.5.3 Annulment of Position Netting

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

6. EXERCISE CRITERIA, EXERCISE AND ASSIGNMENT

The Exercise function allows a SEOCH Participant to exercise its or its client's right as an option holder to buy or sell the underlying shares, according to the terms of the OCH Contract.

Exercise requests for OCH Contracts can be input via DCASS at any time prior to the System Input Cutoff Time on any Business Day, including the last trading day on which the option trades. It is also possible to purchase an option and exercise it on the same day. Exercise requests can be input during the day but the actual assignment process will only be performed after the System Input Cutoff Time.

SEOCH Participants can prescribe their own in-the-money exercise criteria, i.e. the difference between the strike and fixing price as a percentage of the strike or a fixed amount, via DCASS at any time prior to the close of trading on any Business Day. Acceptance of such exercise criteria by SEOCH will be at the discretion of SEOCH and subject to such conditions and limits as SEOCH may from time to time specify. SEOCH Participants shall prescribe their exercise criteria by account and instrument type. Once setup in DCASS, such exercise criteria will override SEOCH's prescribed exercise criteria and take effect immediately. SEOCH Participants should review their prescribed exercise criteria and make necessary adjustments from time to time.

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 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.

6.1.1 Input of Exercise Requests

Open long positions can be exercised regardless of whether they are in-the-money, at-the-money or out-of-the-money.

SEOCH Participants can input exercise requests for their open long positions via DCASS. Once input in DCASS, the exercise requests will be at pending state until the actual assignment process is performed after the System Input Cutoff Time on the same day. SEOCH Participants can view and reject their pending exercise requests via DCASS before the System Input Cutoff Time on the same day.

6.1.2 Amendment of Exercise Requests

Amendment of exercise requests is only possible on the same day that the request was entered, up to the System Input Cutoff Time. After the System Input Cutoff Time, all exercise requests entered for the day will become final and irrevocable. DCASS will exercise all available long open positions in a particular series if the number of open long positions is equal to or smaller than the requested quantity.

To make an adjustment, a SEOCH Participant will have to reject the original exercise request and input a new exercise request for the correct account, series and quantity. Please refer to the *DCASS User Guide* for details.

6.1.3 Denying Exercise Requests Automatically Generated by DCASS

SEOCH Participants may deny exercise requests automatically generated by DCASS for any spot month series by specifying the quantity of contracts which should not participate in the automatic exercise via DCASS at any time prior to the System Input Cutoff Time on the expiry day. SEOCH Participants can enquire about the result of their denial of automatically generated exercise requests and obtain the report for all positions exercised or assigned which is generated by DCASS.

6.1.4 On Behalf Exercise/Exercise Adjustment/Denying Automatic Exercise Requests by SEOCH

Normally, SEOCH Participants should input their exercise requests, reject pending exercise requests or deny automatically generated exercise requests via DCASS. However, under certain circumstances such as power or equipment failure, a SEOCH Participant may request SEOCH to input such instructions on their behalf. For details, please refer to 17.2.

6.2 Assignment

Each day after the System Input Cutoff Time, all exercise requests recorded during the day will be allocated across open contracts by a random process in DCASS.

6.2.2 Assignment Notice

Once assigned, the relevant SEOCH Participant is required to deliver or buy the underlying securities depending on whether the assigned position is a call or a put. On the evening of the day of exercise, following completion of the assignment process, SEOCH will notify SEOCH Participants of the results of exercise and assignment by means of a DCASS report. SEOCH Participants can also enquire about the results of exercise and assignment via DCASS after completion of the day end processing.

7. COLLATERAL

7.2 Securities Collateral

7.2.1 Deposit of Securities Collateral

A SEOCH Participant or the CCASS GCP with which a SEOCH Participant has entered into a CCASS Clearing Agreement, must input a transfer instruction via a CCASS terminal to transfer securities from one of its Stock Accounts in CCASS other than the Stock Collateral Control Account to the SEOCH Participant's CCMS Collateral Account. Upon successful transfer, the Stock Collateral Control Account of the SEOCH Participant or the CCASS GCP, where applicable, in CCASS and the CCMS Collateral Account of the SEOCH Participant will be updated automatically and the securities balance in the CCMS Collateral Account of the SEOCH Participant will be immediately made available for use as securities collateral of the SEOCH Participant.

To allocate the securities collateral to specifically cover particular short call positions, the SEOCH Participant must input appropriate cover call requests via DCASS. Upon verifying the availability of excess securities collateral in the CCMS Collateral Account, the relevant short call positions that are being covered will be excluded from calculation of margin requirements. Cover call requests can be input before the System Input Cutoff Time on a Business Day. Cover call requests are effected real time provided there are excess available securities. Otherwise, they will be rejected by DCASS. Rejected cover call requests will be purged from DCASS during the day end processing.

7.2.2 Withdrawal of Securities Collateral

Any SEOCH Participant that wishes to withdraw securities collateral should check the current securities collateral balance in its CCMS Collateral Account. A securities collateral withdrawal request will be accepted only to the extent that the value of the General Collateral in the CCMS Collateral Account exceeds the SEOCH Participant's current margin requirement. A SEOCH

Participant's securities withdrawal request will be rejected if the value of the General Collateral in its CCMS Collateral Account does not exceed its current margin requirement.

Upon verifying the availability of excess securities collateral in its CCMS Collateral Account, the SEOCH Participant may withdraw securities held in its CCMS Collateral Account by inputting a transfer instruction via a CCASS terminal to transfer securities from the SEOCH Participant's CCMS Collateral Account to one of the Stock Accounts in CCASS maintained by that SEOCH Participant or the CCASS GCP, where applicable, other than the Stock Collateral Control Account.

In addition, if the securities collateral to be withdrawn have been assigned as Specific Securities Collateral to cover particular series, the relevant SEOCH Participant must de-cover that particular series via DCASS on the Business Day before the day the SEOCH Participant intends to withdraw such securities collateral. Upon settlement of the SEOCH Participant's money obligations the next morning, the SEOCH Participant will be able to effect the withdrawal via a CCASS terminal.

7.2.4 Securities Collateral Coverage Assignment

All securities collateral designated for SEOCH in CCMS will be allocated as General Collateral by default. It is the responsibility of the SEOCH Participant to input cover requests via DCASS to allocate securities collateral as Specific Securities Collateral in CCMS. This function is available before the System Input Cutoff Time. The SEOCH Participant should check the balance of the securities collateral available as either General Collateral or To-be-Released collateral in its CCMS Collateral Account and ensure that it is sufficient for covering short call positions before effecting the cover requests via DCASS.

A SEOCH Participant can input a cover call request via DCASS for a quantity of the underlying securities collateral in its House or Client CCMS Collateral Account to cover an open short call position in a particular series in its DCASS House, Market Maker, Individual or Omnibus Client Account, as the case may be. No cover call request however, shall be input to cover any open short call positions in the Client Offset Claim Account. The cover call request will be confirmed via DCASS if the quantity of underlying securities available in its CCMS Collateral Account is sufficient and upon confirmation, such underlying securities will be used as Specific Securities Collateral in CCMS. Short call positions covered by Specific Securities Collateral will not be marginable. For the allocation algorithm of covered securities collateral in covering particular series, please see 8.6.2.

7.2.5 Securities Collateral De-cover

Similarly, SEOCH Participants can de-cover any covered short call position via DCASS. Any de-cover request will trigger the allocation of securities collateral to be de-covered from Specific Securities Collateral to To-be-Released collateral in a SEOCH Participant's CCMS Collateral Account. To-be-Released collateral can neither be withdrawn by a SEOCH Participant nor be used to meet margin requirement, but will have priority over General Securities Collateral in covering other options series in the relevant DCASS account. All To-be-Released collateral are DCASS account specific and will be released as General Collateral in the SEOCH Participant's CCMS Collateral Account after day-end processing and settlement of next day margin call, if any.

IV. DUTIES AND OBLIGATIONS OF SEOCH PARTICIPANTS

8. SETTLEMENT AND DELIVERY IN RESPECT OF STOCK TRANSACTIONS

8.3 Timing for Settlement of Exercised Options Trades

All exercised options trades are due for settlement on the second Settlement Day immediately following the trade day, i.e., on a T+2 basis.

SEOCH Participants should note that results of assignments of OCH Contracts are available only after the completion of the day end processing on the exercise day, which will be after the close of the underlying Exchange cash market. Until then, SEOCH Participants having short call positions should be aware of the assignment. Since the exercise day is the trade day (T) of the resulting exercised options trades, it may not be possible for a SEOCH Participant to settle its delivery obligations on T+2 by acquiring the underlying securities in the underlying cash market on T+1. SEOCH Participants may need to have stock borrowing or other arrangements in place to effect timely delivery on T+2.

8.5 Records of Exercised Options Trades and Pending Stock Positions

Particulars of each exercised options trade and the resulting pending stock positions are detailed in a report generated by DCASS after the day end processing on the exercise day (i.e., T). SEOCH Participants can also enquire about exercise and assignment information via DCASS.

After the day end processing on the exercise day (i.e., T), particulars of the resulting pending stock positions will be transferred to CCASS for settlement on T+2. An entry in the Final Clearing Statement (FCS) issued by HKSCC to the SEOCH Participant or the CCASS GCP, where applicable, on T+1 is confirmation of acceptance by HKSCC that an exercised options trade will be settled under the CNS or IT System. SEOCH Participants can also enquire about the particulars of exercised options trades to be settled by Specific Securities Collateral provided to SEOCH via DCASS.

8.6 Margin Settlement of Pending Stock Positions

8.6.1 Pending Stock Positions to be Settled via CCASS under the CNS System

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 a request to SEOCH by such time, in such manner and using such form as may be specified by SEOCH from time to time. Any request 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 request made at its sole discretion.

8.7 Settlement via CCASS under the CNS System

Exercised options trades to be settled under the CNS System are regarded as if they were trades in the cash market which had been effected on the same day as the day of exercise (i.e. T), for the purpose of the CCASS Rules.

SEOCH will send to HKSCC all the particulars of each such exercised options trade, on a trade by trade basis (i.e. no netting and with SEOCH as the counter party to each such trade) upon completion of the day end processing on T. On T+1, if the SEOCH Participant has arranged for SEOCH to collect and pay Marks, Margin and Concentration Collateral in respect of pending stock positions arising from the exercised options trades from its designated House CCMS Collateral Account, SEOCH will transfer to HKSCC an amount which is required to settle the Marks, Margin and Concentration Collateral demanded by HKSCC in respect of these pending stock positions pursuant to the CCASS Rules, such that these exercised options trades can be settled under the CNS System.

Upon confirmation of acceptance for settlement under the CNS System as recorded in the FCS issued by HKSCC on T+1, all exercised options trades will be netted with all other trades executed in the cash market on T by the SEOCH Participant or the CCASS GCP, where applicable, and settled under the CNS System in accordance with the CCASS Rules. SEOCH will deem such exercised options trades settled after acceptance of such trades are confirmed by HKSCC for settlement under the CNS System on T+1.

8.8 Settlement via CCASS under the IT System

8.8.2 Settlement where the SEOCH Participant is the Seller under the IT System

8.8.2.1 Settlement Process

As soon as being notified of any exercised options trades to be settled under the IT System, the affected SEOCH Participant must change or have arrangement in place to change the payment method of such exercised options trades to an FOP basis via CCASS before the first batch run on T+2 and settle the stock delivery obligations via CCASS on T+2. Upon receipt of the underlying securities in full settlement of the pending stock positions, SEOCH will credit the related Settlement Amount to the SEOCH Participant's CCMS Collateral Account on T+2 for same day value.

If the SEOCH Participant or the CCASS GCP, where applicable, can deliver the required underlying securities by DI before 11:00 a.m. and has submitted a cash withdrawal request before the cash withdrawal request cut off time (i.e. 11:00 a.m.), SEOCH will, upon confirmation of stock settlement, process the cash withdrawal for same day value.

8.9 Settlement by Specific Securities Collateral

8.9.1 Withdrawal of Specific Securities Collateral

All covered pending stock positions of a SEOCH Participant are deemed to be settled by Specific Securities Collateral already provided to SEOCH. The relevant underlying stock quantity will be automatically transferred from the Specific Securities Collateral balance of the SEOCH Participant's CCMS Collateral Account (maintained under these Procedures and the Clearing Rules) to:

- i. the SEOCH Participant's CCMS Collateral Account maintained with HKSCC; or
- ii. the CCASS GCP's CCMS Collateral Account maintained with HKSCC if the SEOCH Participant settles its delivery obligation through a CCASS GCP

as Specific Securities Collateral. SEOCH Participants should note that whether such collateral will be used for settlement of the relevant pending stock positions is subject to the netting result of the trades (including the trades of the cash market) to be settled under the CNS System on T+2.

Specific Securities Collateral covering expiring short call positions which have not been assigned will be automatically de-covered after the day end processing on the expiry day. If a SEOCH Participant wishes to use such securities collateral for settlement of its delivery obligations, it could withdraw such securities collateral in accordance with the procedures detailed under 7.2.2.

9. MARGIN REQUIREMENT

9.3 Margin Treatment of SEOCH Participant Positions

9.3.1 Margin Treatment of Open Options Positions

9.3.1.2 Client Positions

Open option positions maintained in the Omnibus Client Account are margined on a gross basis. Open option positions maintained in an Individual Client Account or a Client Offset Claim Account are margined on a net basis.

Margin credits of long positions in the Omnibus Client Account cannot be used to offset the margin debits of any short positions in that account, whether the positions are of the same option series, within an option class or across option classes. For details of gross margining, please refer to Appendix D or the *PRiME Margining Guide*.

Open option positions comprised in an Individual Client Account are margined on a net basis according to the same algorithm as the House Account described in 9.3.1.1. However, any margin credit associated with an Individual Client Account will not be used to offset the margin debit of any other Individual Client Account or any other open option positions maintained in any other account of a SEOCH Participant.

Open option positions comprised in a Client Offset Claim Account are margined on a net basis. For more details on net margining, please refer to Appendix D or the *PRiME Margining Guide*. Only positions that are of an offset nature and that are transferred by a SEOCH Participant from its Omnibus Client Account to its Client Offset Claim Account on the following basis will be eligible for margin offset (please refer to 1.5.1):

- (a) only open short positions which the SEOCH Participant can identify as belonging to the same beneficial owner may be allocated; and
- (b) offset on short put and uncovered short call positions may be claimed on a one-to-one basis if their underlying securities are the same.

As no long positions shall be allocated to the Client Offset Claim Account, there will not be any margin credit for such account. Short positions allocated by a SEOCH Participant to a Client Offset Claim Account, same as those in other accounts of the SEOCH Participant in DCASS, may be

assigned during the process of random assignment each day after the System Input Cutoff Time (please refer to 6.2). Such assigned positions will not be margined and cannot be utilised to offset the margin debits of the remaining short positions in the Client Offset Claim Account.

The margin requirement on open option positions maintained for clients of a SEOCH Participant is the aggregated total of margin requirements on all Individual Client Accounts plus the margin requirements in respect of all Omnibus Client Accounts and all Client Offset Claim Accounts.

9.3.1.3 Margin Treatment of Covered Options Positions

A SEOCH Participant may allocate, via DCASS, the securities collateral available as General Collateral in its CCMS Collateral Account as Specific Securities Collateral to cover short call positions of a particular series maintained in its accounts in DCASS. For operational details of allocating securities collateral to cover/de-cover a particular series via DCASS, please refer to the *DCASS User Guide*.

All open short call positions so covered by securities collateral will be treated as non-marginable positions hence no margin will be required.

A SEOCH Participant may de-cover the securities collateral previously allocated to cover a particular series, in which case, the previously covered position will not be covered and will become marginable. SEOCH Participants should ensure that they have sufficient funds in their bank accounts maintained with the Designated Bank or Settlement Bank, as the case may be, to meet margin call requirements in the morning of the next Business Day.

10. MONEY SETTLEMENT

10.2 The Daily Cash Settlement Component

10.2.1 Premium Settlement

The Premium is calculated as the net Premium balance due to or from the SEOCH Participant in respect of trades concluded on the preceding Business 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 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 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.

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 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.

If the SEOCH Participant is unable to pay or otherwise satisfy its Special Block Trade Margin in respect of a Block Trade 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.

If the SEOCH Participant is unable to pay or otherwise satisfy its Special Block Trade Margin arising from a trade adjustment request submitted in respect of a Block Trade by the prescribed deadline for any reason, the relevant trade adjustment request shall be rejected by SEOCH.

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 in such manner, using such form and according to such schedule as may be prescribed 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.

13. Fees, Transaction Levy and Stamp Duty

13.2 Tariff and Clearing Fees

The Exchange and SEOCH charge a number of fees. The various Exchange fees and SEOCH clearing service fees can be found in the Operational Trading Procedures and Appendix G to these Procedures respectively.

All Exchange trading tariffs, levies and SEOCH clearing service fees to be charged are calculated and available for enquiry via DCASS as soon as they are incurred. Charges from transactions in CCMS will be recorded in CCMS instead of DCASS. DCASS and CCMS reports will also be available to provide details of the charges.

V. SPECIAL EVENTS

14. CAPITAL ADJUSTMENTS

14.5 Effect of Capital Adjustment

14.5.1 Adjustment of Contract Terms for Existing Options Contracts

Using the adjustment ratio, the exercise prices and contract sizes of all existing option contracts are adjusted. As a result of rounding, the adjusted contract size result in odd lots as well as fractional shares upon exercise. Particulars of adjusted series are shown in a report generated by DCASS. SEOCH Participants can also enquire about the adjusted contract sizes via DCASS.

While the adjusted series can still be traded, new standard series may be introduced in accordance with the standard procedures for issuing new series. Therefore, in that option class, there may be some series whose contract sizes and strike prices are standard and there may be others whose contract sizes and strike prices are adjusted. While standard series will continue to be traded in HKATS and cleared in DCASS under the original class code specified in the *Operational Trading Procedures*, a new class code will be assigned for adjusted series for trading in HKATS and clearing in DCASS.

14.5.2 Open Options Positions

The number of open positions in the old series will be transferred to the respective adjusted series. It should be noted that only the exercise price and contract size are being adjusted and there will not be any changes to the number of open positions whatsoever after the adjustment. Open positions in adjusted series can be enquired via DCASS. All such open contracts will be traded and if exercised, will be settled under the adjusted contract terms of adjusted exercise price and adjusted contract size per contract from effective day onwards. As the adjusted series and newly generated series are of different contract terms, there will not be any offsetting between them in respect of options positions or exercise and assignment.

14.5.4 Collateral Held By SEOCH in CCMS During Capital Adjustment

For entitlement events, although the securities collateral of a SEOCH Participant are recorded in its CCMS Collateral Account designated for SEOCH collateral purpose, the entitlements based on the quantity of the underlying securities designated for SEOCH collateral purpose will be handled by CCASS. Any cash entitlement amount, after deducting any necessary CCASS charges, and any stock dividends or bonus shares will be credited to the sub-account of the money ledger and stock accounts in CCASS maintained by that SEOCH Participant or the CCASS GCP, where applicable.

In case of a capital adjustment, the shares used for covering short call positions will be de-covered automatically on the evening on which the capital adjustment is processed. However, margin calculation will not be affected as it occurs before the de-covering action in the day end processing of the Business Day on which the capital adjustment process is conducted. SEOCH Participants should re-input cover call requests via DCASS to cover their short call positions again on the Business Day immediately following the capital adjustment to minimise the margin requirement. Any naked short call positions for which SEOCH Participants have not entered any cover call requests will be subject to intra-day and day end margin calls.

17. SUPPORT SERVICES IN THE EVENT OF LOSS OF ACCESS TO DCASS AND/OR CCMS

If, for technical or other reasons, a SEOCH Participant cannot access DCASS and/or CCMS for clearing services, an affected SEOCH Participant may (i) request SEOCH to perform the clearing functions on its behalf; or (ii) request the use of the backup centre provided by SEOCH.

SEOCH cannot guarantee a particular level of service in these situations but will use its best endeavours to assist SEOCH Participants where necessary. SEOCH will assign priorities in whichever way it feels best protects its interests in the event of the demand on its resources exceeding its capacity to service all requests within a particular time.

17.2 On-Behalf-Of Processing

In case SEOCH Participants cannot perform post-trade adjustment functions via DCASS due to technical or other reasons, they may request SEOCH to input post-trade adjustment requests into DCASS on their behalf by completing and submitting to SEOCH the relevant request forms available from the HKEX website, where applicable, and deliver the request pursuant to the procedure described in 17.3.

The requesting SEOCH Participant shall ensure that its request is received by SEOCH no later than the relevant cut-off time if the request is for same day processing. However, services of On-Behalf-Of processing provided by SEOCH to SEOCH Participants are subject to availability of resources at the time of the request and on a best effort basis.

17.5 Backup Centre for CCMS

In case SEOCH Participants cannot perform collateral management functions via CCMS due to technical or other reasons, they can request the use of the backup centre provided by SEOCH to perform such functions. For the service hours of the backup centre and other details, please refer to the *CCMS Terminal User Guide*.

17.6 Backup Centre for DCASS

In case SEOCH Participants cannot perform post-trade adjustment functions via DCASS due to technical or other reasons, they can request the use of the backup centre provided by SEOCH to perform such functions. For the service hours of the backup centre and other details, please refer to the *DCASS User Guide*.

17.7 Repealed

APPENDIX G. FEES AND COSTS

Fees and Costs Payable to SEOCH

(Unless otherwise specified, the amounts listed in this appendix are in Hong Kong dollars)

G3 DCASS-Related Fees

Fee Type	Fee
Connection fee for DCASS online access via the central gateway	\$2,600/month/connection
Sub-license fee for DCASS OAPI via the central gateway	\$2,600/month/connection
Access to the DCASS testing environment	\$100/day or part thereof provided that no access fee will be charged for the first 5 Business Days
Performance of login test or transaction test outside of SEOCH's normal working hours	\$1,000/day or part thereof regardless of test results
OAPI certification	\$2,000/test regardless of test results