

## Operational Clearing Procedures for Options Trading Exchange Participants

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#### 1. INTRODUCTION

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

###### 1.5.2 CCMS Accounts

All cash and non-cash collateral provided by a SEOCH Participant to SEOCH will be recorded in the SEOCH Participant's CCMS Collateral Account. Collateral kept in the CCMS Collateral Account may comprise (a) cash; (b) approved securities available as General Collateral, To-be-Released collateral or Specific Securities Collateral for covering short call positions; ~~(c) bank guarantees;~~ ~~(d)~~ Exchange Fund Bills and Notes; and ~~(e)~~ such other types of collateral as may from time to time be accepted by SEOCH for crediting to the CCMS Collateral Account.

#### 7. COLLATERAL

##### 7.1 ~~Bank Guarantees~~Repealed

~~SEOCH may, subject to the provisions set out below, accept bank guarantees for the purpose of meeting in part but not in whole, the margin requirements of a SEOCH Participant. The SEOCH Board shall have the sole and absolute discretion to determine the maximum amount of a SEOCH Participant's margin requirements that may be satisfied in the form of bank guarantees.~~

~~SEOCH may also, subject to the provisions set out below, accept bank guarantees for the purpose of meeting in part or in whole the Variable Contribution of a SEOCH Participant to~~

~~the Reserve Fund. The SEOCH Board shall have the sole and absolute discretion to determine the maximum amount of a SEOCH Participant's Variable Contribution that may be satisfied in the form of bank guarantees.~~

~~Bank guarantees that are eligible for these purposes must be issued by a bank which is registered and licensed in Hong Kong and approved by the SEOCH Board. In addition, the guarantee must be irrevocable and provide for unconditional payment upon demand by SEOCH. The guarantee must also be in a form prescribed by the SEOCH Board. A form of acceptable guarantee is available from SEOCH upon request.~~

~~SEOCH has the final discretion in deciding whether to accept a particular eligible bank guarantee from a particular SEOCH participant as collateral. SEOCH reserves the right to modify the list of approved banks at any time and determine the maximum amount of guarantees that may be accepted from any bank. Notwithstanding the foregoing, SEOCH will not accept a guarantee issued by any bank which holds or controls (whether directly or indirectly) 20 percent or more of the issued shares or voting power of a SEOCH Participant or which, in SEOCH's absolute opinion, is closely associated with or related to the SEOCH Participant~~

## **7.1.1 Use of Bank Guarantees**

~~The following procedures will apply to the use of bank guarantees:~~

- ~~i. A SEOCH Participant wishing to meet its margin or Variable Contribution requirements by means of a bank guarantee must notify and seek prior approval from SEOCH in writing or by other means acceptable to SEOCH. Such notification must include the specific purpose for which the bank guarantee is being used.~~
- ~~ii. SEOCH will notify the SEOCH Participant whether the use of a bank guarantee is acceptable. If acceptable, the SEOCH Participant must arrange for the issuance of the guarantee within such period of time as may be specified by SEOCH at the time when the SEOCH Participant is notified (or if no such period is specified, within two weeks) and the original guarantee documents must be delivered to SEOCH.~~
- ~~iii. Upon receipt of the guarantee documents, SEOCH will confirm the validity of the guarantee with the issuing bank.~~
- ~~iv. Upon confirmation of the validity of the guarantee presented, SEOCH will update the SEOCH Participant's CCMS Collateral Account. Any guarantee accepted shall remain valid until it is revoked in accordance with its terms.~~

## **7.1.2 Repealed**

## **12. POSITION CONTROL**

### **12.2 Capital Based Position Limit**

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

$$\text{Net Limit} = 3 \times (\text{LC} + \text{BG}) \quad (\text{i.e. } 3 \times (\text{LC} + \text{BG}) \geq \text{NRM})$$

$$\text{Gross Limit} = 6 \times (\text{LC} + \text{BG}) \quad (\text{i.e. } 6 \times (\text{LC} + \text{BG}) \geq \text{GRM})$$

$$TMR\ Limit = 10 \times (LC + BG) \quad (i.e. 10 \times (LC + BG) \geq TMR)$$

where

NRM = the sum of the Risk Margin (determined on a net basis and after offsetting any Mark-to-Market margin credit, where applicable) 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 and after offsetting any Mark-to-Market margin credit, where applicable) for all accounts of the SEOCH Participant in DCASS

TMR = the Total Margin Requirement of the SEOCH Participant

LC = the apportioned amount or percentage of its liquid capital (calculated as per the Financial Resources Rules) notified to SEOCH under 12.3A, as adjusted upwards by any contribution to the Reserve Fund paid in cash by the SEOCH Participant as of the date of its latest monthly return filed with the Commission under the Financial Resources Rules and received by SEOCH from the Commission

~~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 Mark-to-Market Margin, 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 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 and Mark-to-Market Margin of these two types of accounts; the short positions in its Sink Account will be margined together on a net basis to determine the Risk Margin and Mark-to-Market Margin of its Sink Account; and the long positions in its Omnibus Client Account and Sink Account will be treated as nil and disregarded in the calculation.

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 and Mark-to-Market 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 following steps will be performed:

- i. The Mark-to-Market Margin, Risk Margin and Total Margin Requirement of all accounts (individually or aggregated if accounts are margined together) of the SEOCH Participant in DCASS will be calculated.
- ii. If the Risk Margin of any account (or accounts if margined together) after offsetting any Mark-to-Market Margin credit or the Total Margin Requirement is a credit, it shall be set to zero.
- iii. The respective Risk Margin and Total Margin Requirements of all accounts will be summed up for the determination of its NRM, GRM and TMR.

~~The maximum amount of bank guarantees that may be used by a SEOCH Participant at any time is limited to 150% 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 150% 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.~~

#### 12.4 Monitoring of the Capital Based Position Limit

It is the responsibility of each SEOCH Participant to monitor its capital based position limits as conditions and positions change from time to time. It is in the interests of SEOCH Participants to ensure that they monitor their capital based position limits so as to give themselves the opportunity to make changes to their financing structure and/or trading positions well in advance of the limits being breached, since it may take time for SEOCH Participants to close out their positions, ~~arrange additional bank guarantees~~ or otherwise increase their liquid capitals to bring the limits into line.

#### 12.5 Remedies in Case of Breach

A SEOCH Participant whose positions have breached any limit set out under 12.2 may remedy the breach by increasing its liquid capital, whether by revising the amount or percentage of liquid capital apportioned or otherwise, ~~or by arranging one or more bank guarantees in accordance with the requirements and conditions specified under 12.2.~~ If the SEOCH Participant's declared remedy of the breach is to increase its liquid capital, SEOCH may demand proof to the satisfaction of SEOCH that the increase in the SEOCH Participant's liquid capital actually has been achieved.

### **APPENDIX I. INTEREST AND ACCOMMODATION CHARGE STRUCTURE**

#### **Interest and Accommodation Charge Structure**

##### 2. ACCOMMODATION CHARGES PAYABLE BY SEOCH PARTICIPANTS

Margin Requirement covered by <del>bank guarantee</del> / Securities Collateral/ Exchange Fund Bills/Notes/ Other non-cash collateral	—	to be determined by SEOCH from time to time in its absolute discretion
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