

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

**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 or, in the case of GCPs which are Registered Institutions, Adjusted Capital. For the purpose of this Chapter, the term “liquid capital” or “Adjusted Capital” shall, where applicable, be construed as the “apportioned liquid capital” or “apportioned Adjusted Capital” respectively under 12.3A.

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

*Net Limit* = 3 x LC or AC (i.e. 3 x LC or AC  $\geq$  NRM)

*Gross Limit* = 6 x LC or AC (i.e. 6 x LC or AC  $\geq$  GRM)

*TMR Limit* = 10 x LC or AC (i.e. 10 x LC or AC  $\geq$  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 = in respect of a SEOCH Participant other than a GCP which is a Registered Institution, 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
- AC = in respect of a GCP which is a Registered Institution, the apportioned amount or percentage of its Adjusted Capital notified to SEOCH under 12.3A.

### **12.3A Apportionment of Liquid Capital or Adjusted Capital**

Where a SEOCH Participant is also a CCASS Clearing Participant or HKCC Participant or conducts 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) or in the case of a GCP which is a Registered Institution a designated amount or percentage of its Adjusted Capital as notified to SEOCH 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 or Adjusted Capital, as appropriate, as notified to SEOCH. Notification of a SEOCH Participant's initial liquid capital or Adjusted 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 or Adjusted Capital, as appropriate, on behalf of the SEOCH Participant.

### **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 or otherwise increase their liquid capitals or, in the case of GCPs which are Registered Institutions, their Adjusted Capital to bring the limits into line.

## **12.5 Remedies in Case of Breach**

A SEOCH Participant whose positions have breached the net, gross and/or total limit assigned to it by SEOCH on a daily basis under 12.2 will be given 10 Business Days to comply with the limit(s) provided that during such time, the SEOCH Participant pays SEOCH an additional margin equivalent to 25% of:

- i. its NRM in excess of its net limit;
- ii. its GRM in excess of its gross limit; or
- iii. its TMR in excess of its total limit;

whichever is the highest.

If the SEOCH Participant fails to pay or deliver any such additional margin, the breach must be remedied immediately.

A SEOCH Participant whose positions have breached any limit set out under 12.2 may remedy the breach by increasing its liquid capital or, in the case of a GCP which is a Registered Institution, its Adjusted Capital, whether by revising the amount or percentage of liquid capital or Adjusted Capital apportioned or otherwise. If the SEOCH Participant's declared remedy of the breach is to increase its liquid capital or Adjusted Capital, SEOCH may demand proof to the satisfaction of SEOCH that the increase in the SEOCH Participant's liquid capital or Adjusted Capital actually has been achieved.

If the SEOCH Participant cannot comply with SEOCH's requirement by the specified time, the SEOCH Participant must, or failing which SEOCH may, close out or transfer to any other SEOCH Participant or SEOCH Participants all positions in excess of the capital based position limit.