

Options Clearing Rules

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CHAPTER 1

DEFINITIONS AND INTERPRETATION

Definitions

101. In these Clearing Rules, unless the context otherwise requires:-

“Bank Business Day” means, in relation to a jurisdiction, any day (except Saturdays, Sundays, and public holidays) on which banks in that jurisdiction are open for business;

“CCMS”	means the Common Collateral Management System, a common sub-system of CCASS and DCASS, operated by HKSCC, HKCC and SEOCH, which enables SEOCH Participants to manage their collateral paid or delivered to SEOCH;
“Chairman of the SEOCH Board”	means the person from time to time holding the office of Chairman of the SEOCH Board or his designee;
“Defaulter”	means a Defaulting SEOCH Participant which has been declared as a Defaulter by SEOCH pursuant to Clearing Rule 703A;
“Defaulting SEOCH Participant”	means a SEOCH Participant that gives rise to an event of default pursuant to Clearing Rule 701;
“Initial Contribution”	means an amount of SEOCH Collateral required to be delivered by a SEOCH Participant in respect of the Reserve Fund pursuant to Clearing Rule 310;
“Marks, Margin and Concentration Collateral”	has the same meaning as “Mark”, “Margin” and “Concentration Collateral” in the CCASS Rules collectively;
“Replenishment Contribution”	means a contribution required to be made by a SEOCH Participant pursuant to Clearing Rules 413C to 413E (inclusive) to replenish its Reserve Fund Contributions in the event that the Reserve Fund has been applied or depleted;
“Reserve Fund Contributions”	means, in respect of a SEOCH Participant, both its Initial Contribution and Variable Contribution;
“Variable Contribution”	means an amount of SEOCH Collateral required to be delivered by a SEOCH Participant in addition to its Initial Contribution in order to satisfy its Reserve Fund Requirement;

The definition of “amount of margin required to be deposited” has been repealed.

SEOCH Management of SEOCH Collateral

110. Without prejudice to any other rights of SEOCH in respect of the amounts standing to the credit of a SEOCH Participant's CCMS Collateral Account (including the Reserve Fund Contributions), SEOCH may invest such amounts or any part thereof in such manner and to such extent as the SEOCH Board considers expedient and financially prudent. For the avoidance of doubt, any obligation of SEOCH to redeliver or release such amounts to the SEOCH Participant and any interest SEOCH may pay or charge the SEOCH Participant in accordance with these Clearing Rules and the Operational Clearing Procedures shall not be affected by any gain or loss arising from the investment activities. Any such gain or loss in respect of amounts other than Reserve Fund Contributions is for SEOCH; and any such gain or loss in respect of Reserve Fund Contributions is for the Reserve Fund.

CHAPTER 2

CLEARING BY SEOCH

OCH Contracts and NCP Contracts

202. (2) An Options Contract that is executed as a Block Trade shall, by operation of this Clearing Rule and the First Schedule to these Clearing Rules, be replaced by OCH Contracts and/or NCP Contracts in accordance with the substitution and novation process laid out in the First Schedule to these Clearing Rules only upon SEOCH being satisfied that the Block Trade recorded in the Transaction Register of the Options Trading System is a valid Block Trade and all criteria applicable to the Block Trade, including but not limited to the payment of any Special Block Trade Margin, have been satisfied. Unless a SEOCH Participant receives any oral or written notice from the Exchange or SEOCH that a Block Trade is not valid or not all criteria have been satisfied or the Block Trade shall not be cleared for any other reason, the Block Trade shall be deemed to have been validly made and subject to the process of substitution and novation upon the recording of such Block Trade in the Transaction Register. The Exchange will endeavour to notify the SEOCH Participant of any issue concerning any criteria set forth in Regulation 2 of the Third Schedule to the Options Trading Rules within 30 minutes of the execution by the SEOCH Participant of the Block Trade.
- (3) In the event that an Options Trading Exchange Participant or its GCP (if the Options Trading Exchange Participant is an NCP) has been notified by SEOCH or the Exchange that a Block trade executed by the Options Trading Exchange Participant on the Options Trading System is not valid or has not satisfied all the criteria applicable to the Block Trade or the Block Trade will not be registered or cleared by SEOCH for any reason or in the event that the Options Trading Exchange Participant or its GCP (if the Options Trading Exchange Participant is an NCP) fails to pay any Special Block Trade Margin required by SEOCH by the stipulated time, the Exchange in conjunction with SEOCH will, without being required to give further notice to the Options Trading Exchange Participant or its GCP, delete the Block Trade from the Options System as if the Block Trade had never been executed.

Terms of OCH Contracts

205. The obligations of SEOCH to a SEOCH Participant under each OCH Contract shall be limited exclusively to:-

- (2) any property including, but not limited to, SEOCH Collateral in respect of margin, Premium, securities, bank guarantees and amounts standing to the credit of a Defaulting SEOCH Participant available for the purpose of discharging that SEOCH Participant's obligations to SEOCH;
- (4) the amount of any guarantees or facilities available to SEOCH and arranged expressly for the purpose of providing financial resources to support the Reserve Fund and which is available to support the obligations of SEOCH under that OCH Contract;

CHAPTER 3

SEOCH PARTICIPANTSHIP

Approval

310. Upon receipt of a notice of approval, an applicant shall deliver SEOCH Collateral to SEOCH (or as SEOCH may direct) in respect of its Initial Contribution to the Reserve Fund as follows:-

- (1) HK\$5,000,000 if the application is to be a GCP (together with such additional amount as may be required pursuant to Clearing Rule 405); or
- (2) HK\$1,500,000 if the application is for Direct Clearing Participantship,

or such other amount as may for the time being be stipulated by the SEOCH Board.

The SEOCH Board may vary the amount of Initial Contribution generally or in respect of any particular SEOCH Participant having regard to, amongst other things, any restrictions applying to that Participant's Exchange Traded Options Business or conditions applying to its Participantship.

311. Initial Contribution to the Reserve Fund shall be delivered in cash in Hong Kong dollars or in any other currency prescribed by SEOCH from time to time.

312. SEOCH will inform the applicant in writing on the day that the approval comes into effect and, on that day, the applicant shall become a SEOCH Participant. Particulars of the applicant will be entered in the register maintained pursuant to Clearing Rule 313 and, upon payment of the required Initial Contribution to the Reserve Fund and upon satisfying the conditions specified, the applicant shall be allowed access to the Options Clearing System.

CHAPTER 4

SEOCH PARTICIPANTS' OBLIGATIONS

Continuing Obligations

403. Each SEOCH Participant shall at all times:-

- (7) deliver all SEOCH Collateral in respect of its Reserve Fund Contributions and Replenishment Contribution when due;
- (15) maintain in force a mandate in such form as may be prescribed by SEOCH authorising SEOCH:
 - (a) to transfer SEOCH Collateral provided by the SEOCH Participant to HKSCC (as required by HKSCC) in relation to the settlement of the delivery obligations

of the SEOCH Participant or the CCASS GCP, where applicable, under the CNS System; and

- (b) to pay Settlement Amount in relation to stock delivery obligations settled by securities collateral already provided to SEOCH to the cash account of the SEOCH Participant or the CCASS GCP, where applicable, maintained with HKSCC.

Reserve Fund Requirements

- 405. In addition to the amount of Initial Contribution required pursuant to Clearing Rule 310, each GCP shall deliver SEOCH Collateral in respect of an Initial Contribution of HK\$1,500,000 (or such other amount as the SEOCH Board may from time to time prescribe) for every subsequent Clearing Agreement entered into by that GCP where the GCP already has three valid Clearing Agreements in place. A GCP shall not clear any OCH Contracts pursuant to such a Clearing Agreement until that contribution has been paid.
- 406. Each SEOCH Participant must at all times maintain a level of Reserve Fund Contributions which SEOCH in its absolute discretion determines to be appropriate having regard (without limitation) both to the Reserve Fund size which is needed given aggregate open positions and estimated market volatility, and to any minimum Reserve Fund size needed regardless of those positions and that volatility. The amount for the time being calculated by SEOCH and required to be contributed to the Reserve Fund by each SEOCH Participant in order to maintain the Reserve Fund at the size so determined to be appropriate is referred to in these Clearing Rules as the "Reserve Fund Requirement" of a SEOCH Participant.
- 407. When, in its judgement, it is necessary to do so, SEOCH will re-calculate the Reserve Fund Requirement of each SEOCH Participant. SEOCH will make such recalculations at least monthly. SEOCH may re-calculate the Reserve Fund Requirement of one or more SEOCH Participants more frequently than this. Following each such re-calculation, each affected SEOCH Participant will be notified of his re-calculated Reserve Fund Requirement.
- 408. If for any reason (including due to a recalculation pursuant to Clearing Rule 407 or the use of the Reserve Fund pursuant to Clearing Rule 412) the value, as determined by SEOCH, of the SEOCH Collateral provided by a SEOCH Participant in respect of its Reserve Fund Contributions is less than the then current Reserve Fund Requirement of that SEOCH Participant, that SEOCH Participant shall deliver additional SEOCH Collateral to SEOCH in accordance with these Clearing Rules.
- 409. Each SEOCH Participant shall deliver additional SEOCH Collateral in respect of its Reserve Fund Requirement as notified to it by SEOCH and by the time specified in the notification from SEOCH and in accordance with the Operational Clearing Procedures.
- 410. If the value of the SEOCH Collateral provided by a SEOCH Participant in respect of its Reserve Fund Contributions exceeds that SEOCH Participant's then current Reserve Fund Requirement, that SEOCH Participant may request SEOCH to redeliver to it such excess. SEOCH will redeliver SEOCH Collateral in such form and amount as it determines in accordance with the Operational Clearing Procedures. SEOCH may withhold or deduct from the SEOCH Collateral to be redelivered to a SEOCH Participant such sum SEOCH regards as appropriate in relation to any obligation the SEOCH Participant owes to SEOCH or if the SEOCH Participant is not in compliance with these Clearing Rules.

Maximum Current Liability to Contribute to the Reserve Fund

411. There shall be no limit on the Reserve Fund Requirement to be maintained by a SEOCH Participant at any given time. A SEOCH Participant may limit its liability in respect of the Reserve Fund by resigning as a SEOCH Participant in accordance with Clearing Rules 419 to 426 (inclusive).

SEOCH Use and Order of Application of the Reserve Fund

412. Except as provided in Clearing Rule 413B, amounts standing to the credit of the Reserve Fund may be applied in respect of SEOCH's liabilities which arise by virtue of its being counterparty to every OCH Contract cleared by it including, but not limited to, the costs and expenses involved in making recoveries against Defaulters to those OCH Contracts. If, in the opinion of SEOCH, the resources of the Reserve Fund are at any time liable to be fully depleted or are at any time at a level which is unlikely to satisfy all such liabilities, the resources of the Reserve Fund shall be applied to all such liabilities on a pro rata basis or in such other manner as SEOCH may consider fair and appropriate.
413. Without prejudice to SEOCH's rights to draw on any other resources available to the Reserve Fund including those stated in Clearing Rule 205 (4), (5) or (6), the amounts standing to the credit of the Reserve Fund will be applied towards any payment permitted by Clearing Rule 412 in the following order of priority:-
- (1) SEOCH Collateral held by SEOCH in respect of the Reserve Fund Contributions of the Defaulter(s) (if applicable);
 - (2) interest income credited to the Reserve Fund;
 - (3) SEOCH Collateral held by SEOCH in respect of other SEOCH Participants' Initial Contributions;
 - (4) SEOCH Collateral held by SEOCH in respect of other SEOCH Participants' Variable Contributions;
 - (5) the proceeds of insurance policies arranged pursuant to Clearing Rule 205; and
 - (6) the proceeds of guarantees or facilities arranged pursuant to Clearing Rule 205.

SEOCH will notify the affected SEOCH Participants of any amounts applied pursuant to this Clearing Rule and, where applicable, notify SEOCH Participants of any obligations to deliver additional SEOCH Collateral in respect of their Reserve Fund Requirements pursuant to Clearing Rule 408.

- 413AA. For the purposes of Clearing Rules 413 (3) and (4), if after the date of default of a Defaulter, a SEOCH Participant has itself been declared as a Defaulter, any prevailing amounts standing to the credit of its Initial Contribution and Variable Contribution shall be applied towards the default of the other Defaulter and its own default in such manner as SEOCH may consider appropriate.

- 413AB. The amount of Initial Contribution and Variable Contribution in respect of each SEOCH Participant to be applied pursuant to Clearing Rules 413 (3) and (4) respectively shall be

calculated on a pro rata basis by reference to the SEOCH Participant's share of the total Initial Contributions or total Variable Contributions, as the case may be, immediately before the default, excluding the portions contributed by any Defaulter and any SEOCH Participant whose SEOCH Participantship has been effectively terminated. Notwithstanding the aforesaid, if on or before the date of the default of a Defaulter, the SEOCH Participantship of a SEOCH Participant is effectively terminated, its Initial Contribution and Variable Contribution will not be applied towards the default, and if on or before the date of the default, a SEOCH Participant has itself been declared as a Defaulter, its Initial Contribution and Variable Contribution will only be applied towards its own default.

Accounts of Reserve Fund

413A. SEOCH shall maintain a separate record of all amounts standing to the credit of and all guarantees, facilities or policies arranged or taken out for the purpose of providing financial resources to support the Reserve Fund from time to time. Without prejudice to the aforesaid, SEOCH shall maintain a separate account in respect of all the contributions made or required to be made by SEOCH Participants to the Reserve Fund.

413B. SEOCH may apply any amounts standing to the credit of the Reserve Fund (other than SEOCH Collateral delivered to SEOCH in respect of SEOCH Participants' Reserve Fund Contributions) which are in the opinion of SEOCH surplus to the Reserve Fund Requirement in such manner as SEOCH thinks fit, including appropriation of such monies out of the Reserve Fund temporarily or permanently for the following purposes including, but not limited to:-

- (1) payment of any interest or money obligations as may be determined from time to time by the SEOCH Board arising from or in respect of the SEOCH Collateral delivered to meet the demand for Reserve Fund Requirement; and
- (2) payment for costs and expenses incurred in establishing, maintaining, managing, administering and terminating any arrangements such as guarantees, facilities and policies of insurance as SEOCH may from time to time consider appropriate for the purpose of providing additional resources to the Reserve Fund.

Replenishment of Reserve Fund Contributions

413C. In circumstances where all or part of the Initial Contributions and Variable Contributions are applied pursuant to Clearing Rule 413, the SEOCH Participant (excluding any SEOCH Participant specified under Clearing Rule 413D) shall on demand by SEOCH provide Replenishment Contribution to the Reserve Fund (i) to ensure that its Reserve Fund Contributions are replenished to the same level as that before any application is made; and (ii) to provide such additional resources as SEOCH may require to meet any liabilities that remain outstanding.

413D. Replenishment Contributions shall not be required from SEOCH Participants which have been declared as a Defaulter or whose SEOCH Participantships have been effectively terminated on the day such Replenishment Contributions are demanded.

413E. SEOCH shall notify SEOCH Participants of any demand for Replenishment Contributions verbally or in writing as SEOCH considers appropriate. SEOCH may demand such Replenishment Contributions to be satisfied after or at the same time that an application is made under Clearing Rule 413. All demands for Replenishment Contributions must be met by cash payment in Hong Kong dollars or in any other currency prescribed by SEOCH from time to time no later than the third Business Day after the demand is made by SEOCH or within such other time period as may be specified by SEOCH.

Recoveries

414. If any amount paid out of the Reserve Fund pursuant to Clearing Rule 413 is subsequently recovered by SEOCH, SEOCH may credit such amount (less any costs and expenses of recovery) to the Reserve Fund in the reverse order of priority and on the same pro rata basis (if applicable) as the order or basis in which the resources of the Reserve Fund were paid out pursuant to Clearing Rules 413 to 413AB. It may be a term of any guarantee, facility or insurance policy that recoveries from the Defaulter be applied in a particular fashion other than in replenishment of the Reserve Fund.

Resignation as a SEOCH Participant

419. If a SEOCH Participant wishes to resign its SEOCH Participantship, it shall do so by giving written notice at any time to SEOCH and, if it is a GCP, then to its NCPs of its intention to do so.
420. A notice of resignation may only be revoked before the effective date of termination of its SEOCH Participantship with the prior written consent of SEOCH. The resigning SEOCH Participant is required to submit a written request to SEOCH giving reasons for the revocation.
421. Unless otherwise determined by the SEOCH Board, every SEOCH Participant who gives notice of resignation of its SEOCH Participantship shall:-
- (1) continue to be obligated to deliver SEOCH Collateral in respect of its Reserve Fund Requirement pursuant to these Clearing Rules until the effective date of the termination of its SEOCH Participantship. However, a resigning SEOCH Participant's liability in respect of the Reserve Fund shall be limited to such maximum amount as may be specified in the Operational Clearing Procedures;
 - (2) at the time it gives such notice or within such time period specified by SEOCH, submit for approval to SEOCH a plan for the orderly winding down of its affairs in relation to Exchange Traded Options Business, including, but not limited to, the closing or give-up, in accordance with these Clearing Rules and the Options Trading Rules, of all OCH Contracts to which it is party, and shall, upon approval of such plan by SEOCH, and unless otherwise agreed by SEOCH, adhere to that plan until the expiry of its SEOCH Participantship;
 - (3) not (except with the consent of, or as directed by, SEOCH) enter into any opening contracts; and
 - (4) if SEOCH is satisfied that a SEOCH Participant is resigning its SEOCH Participantship pursuant to a reorganisation of the group of companies of which the SEOCH Participant is a member and in circumstances where another company in the same group is to become a SEOCH Participant and to continue the business of the existing SEOCH Participant in place of the existing SEOCH Participant; and for this purpose a company shall be in the same group as another company if, in the opinion of SEOCH, the ultimate beneficial owners of both companies are the same or substantially the same, then, upon written application of the resigning SEOCH Participant, SEOCH may issue a written notice exempting that SEOCH Participant from compliance with Clearing Rules 421(2), 421(3) and 422 and, if SEOCH thinks fit, allowing the resigning SEOCH Participant's Reserve Fund Contributions to be credited to the new SEOCH Participant with effect from a date stipulated by SEOCH (such date not to be later than the date upon which the new SEOCH Participant becomes a SEOCH Participant). Any such notice may be issued on such conditions as SEOCH thinks fit. SEOCH shall have an absolute discretion to

determine whether or not the ultimate beneficial ownership of companies is "the same or substantially the same" and SEOCH's decision in relation to the same shall be final and binding.

422. SEOCH may take any of the steps set out in Clearing Rule 703 in order to ensure the orderly winding down of a resigning SEOCH Participant's Exchange Traded Options Business and may, in addition, impose position limits or revise any position limits already imposed on that SEOCH Participant.
423. A resigning SEOCH Participant shall, until the effective date of termination of its SEOCH Participantship, remain bound by all the provisions of these Clearing Rules.
424. A resigning SEOCH Participant's SEOCH Participantship will be terminated at such time as may be specified by SEOCH and notified to the resigning SEOCH Participant.
425. A resigning SEOCH Participant shall be entitled to the redelivery of any SEOCH Collateral provided to SEOCH in respect of its Reserve Fund Contributions subject to, and in accordance with, the provisions of Clearing Rules 722 and 723.
426. Any SEOCH Participant which, in its capacity as an Options Trading Exchange Participant, gives notice of resignation of its Options Trading Participantship or is treated, pursuant to the Options Trading Rules, as having given any such notice, shall be treated as having given on the same day notice of resignation as a SEOCH Participant and these Clearing Rules shall apply accordingly.
427. A SEOCH Participant which resigns, whether under the provisions of Clearing Rule 411 or otherwise, may be required to provide additional SEOCH Collateral in respect of its Reserve Fund Requirement or otherwise compensate SEOCH in order to be eligible for re-admission as a SEOCH Participant.

CHAPTER 6

RISK MANAGEMENT AND PAYMENT PROCEDURES

Margin and SEOCH Collateral

606. SEOCH may attribute such value as it shall consider to be appropriate to any SEOCH Collateral. SEOCH may charge each SEOCH Participant fees in respect of any such SEOCH Collateral provided by the SEOCH Participant including any charges which may be levied by HKSCC in respect thereof and any other disbursements and expenses that may be incurred by SEOCH in connection with such SEOCH Collateral.
- 606A. All rights, title and interest in any non-cash SEOCH Collateral delivered by a SEOCH Participant to SEOCH (other than securities accepted as General Collateral, Specific Securities Collateral and To-be-Released Collateral over which SEOCH has a fixed charge) shall pass to SEOCH, and each SEOCH Participant shall ensure and hereby warrants and represents that it is absolutely entitled to pass full legal and beneficial ownership of all such SEOCH Collateral to SEOCH free from all liens, charges and encumbrances. For the purposes of these Clearing Rules, SEOCH shall be free to redeliver or transfer any SEOCH Collateral to SEOCH Participants (or other persons) in such form and in such equivalent amount as SEOCH deems appropriate and for the avoidance of doubt, in relation to any non-cash SEOCH Collateral, SEOCH is not under any obligation to redeliver the original SEOCH Collateral to the SEOCH Participant.

Collection of Margin, Premium and Settlement Amounts by SEOCH

612. To the extent that SEOCH Collateral other than cash denominated in the Settlement Currency is delivered to SEOCH in respect of margin, SEOCH will take such value as it attributes to such SEOCH Collateral into account when determining the amount in respect of Daily Margin required from a SEOCH Participant.

Interest

616. SEOCH may pay or charge SEOCH Participants interest at such positive or negative rate as may from time to time be determined by the SEOCH Board on cash standing to the credit of the accounts kept pursuant to Clearing Rule 621 paid by SEOCH Participants and on cash contributions to the Reserve Fund.

CHAPTER 7

DEFAULT PROCEDURES

Default

701. In these Clearing Rules, an “event of default” shall mean any event or circumstance which leads SEOCH to determine that a SEOCH Participant is or appears to be unable, or likely to become unable, to meet its obligations under one or more Contracts to which it is party. Without prejudice to the generality of the foregoing, SEOCH may take the occurrence of any one or more of the following events or circumstances as sufficient grounds for determining that a SEOCH Participant is or appears to be unable, or likely to become unable, so to meet such obligations:-

- (1) failure by a SEOCH Participant to pay Premium when due;
- (2) failure by a SEOCH Participant to deliver SEOCH Collateral in respect of margin when due;
- (3) failure by a SEOCH Participant to pay all SEOCH Collateral in respect of its Reserve Fund Contributions or its Replenishment Contribution when due and to maintain the value of its SEOCH Collateral delivered in respect of its Reserve Fund Contributions so it is at least equal to its Reserve Fund Requirement;

A SEOCH Participant shall immediately give notice to SEOCH if it is, or if it suspects that it is likely to become, unable to meet its obligations under one or more Contracts to which it is party.

702. Notwithstanding the provisions of Chapter 8 of these Clearing Rules, if SEOCH in its absolute discretion determines that an event of default has occurred in respect of a SEOCH Participant, SEOCH may take such steps including, without limitation, those set out in Clearing Rule 703, as in the circumstances appear to it, in its absolute discretion, best calculated:-

- (1) to discharge the Defaulting SEOCH Participant's rights, obligations and liabilities under or in respect of one or more or all OCH Contracts to which that SEOCH Participant is party;
- (2) to minimise losses or the potential for losses to SEOCH as a result of the default of that SEOCH Participant; or

- (3) to complete the process set out in Clearing Rule 705.
703. Steps which may be taken by SEOCH in relation to a Defaulting, suspended or resigning SEOCH Participant, without the need for any prior notice to or consent of that SEOCH Participant, include:-
- (5) to direct that SEOCH Participant to give-up, or to do so on its behalf, any OCH Contract to which that SEOCH Participant is party to another SEOCH Participant who agrees to accept such give-up and cause to be paid or transferred any SEOCH Collateral in respect of margin for such OCH Contract to that other SEOCH Participant;
- (8) without prior written notice to that SEOCH Participant and without having to obtain from that SEOCH Participant or any other person any power of attorney, consent or document, to sell or otherwise realize any non-cash SEOCH Collateral provided by that SEOCH Participant to SEOCH or held by any third party on behalf of SEOCH and to do such acts and things and execute such documents as SEOCH may consider necessary or expedient for such purpose;
- (10) subject to Clearing Rule 707, to apply any funds standing to the credit of that SEOCH Participant (including, but not limited to, any Premium, SEOCH Collateral in respect of margin or any Reserve Fund Contributions, the proceeds realised from the closing of long open positions, the proceeds realised from the liquidation of non-cash SEOCH Collateral, the proceeds of the sale of any securities in relation to delivery obligations or funds received under a letter of credit, bank guarantee or other financial instrument) for the purpose of discharging that SEOCH Participant's obligations in respect of any OCH Contracts to which it is party;
- 703A. Upon the occurrence of an event of default under Clearing Rule 701, the Chairman of the SEOCH Board may declare the SEOCH Participant to be a Defaulter.
705. If SEOCH determines, in its absolute discretion, that an event of default has occurred and that it is necessary or appropriate to take action against a Defaulting SEOCH Participant in relation to all OCH Contracts to which that SEOCH Participant is party, SEOCH may complete the following process:-
- (1) there shall be brought into account all sums payable by or to the Defaulting SEOCH Participant pursuant to these Clearing Rules;
- (2) the sums so payable shall be aggregated or set off so as to produce a net sum or, where required by Clearing Rule 705, two net sums;
- (3) such net sum, or each such net sum:-
- (a) if payable by the Defaulting SEOCH Participant to SEOCH, shall be set off against any SEOCH Collateral provided by that SEOCH Participant (or any other property the subject of a market charge) so as to produce a further net sum payable by or to that SEOCH Participant to SEOCH; or
- (b) if payable by SEOCH to the Defaulting SEOCH Participant, SEOCH will redeliver SEOCH Collateral or property which is subject to a market charge so as to produce a further net sum; and
- (4) SEOCH shall certify the sum or each sum finally payable by the Defaulting or resigning SEOCH Participant to SEOCH or by SEOCH to that SEOCH Participant, or the fact that no sum is finally payable by either party to the other, such certificate to be conclusive as

to the discharge of that SEOCH Participant's rights and liabilities in respect of the OCH Contracts to which it relates.

General

709. Without prejudice to the right of SEOCH to take any step, including any of those specified in Clearing Rule 703, SEOCH may, upon determining that an event of default has occurred, issue a cautionary notice to the Defaulting SEOCH Participant including such directions and requirements to be complied with by the Defaulting SEOCH Participant within such time period as SEOCH may think fit.

Suspension of SEOCH Participantship

718. SEOCH may suspend the SEOCH Participantship of a Defaulting SEOCH Participant on such terms and for such period as SEOCH may think fit. SEOCH may also suspend the SEOCH Participantship of any SEOCH Participant which is in violation of these Clearing Rules.

Return of Reserve Fund Contributions of an Expelled or Resigning SEOCH Participant

722. SEOCH will return to an expelled or resigning SEOCH Participant any SEOCH Collateral standing to its credit in respect of its Reserve Fund Contributions 2 months after the effective date of termination of that SEOCH Participant's SEOCH Participantship. SEOCH may:-
- (1) deduct any amount in respect of which it is indemnified by an expelled or resigning SEOCH Participant pursuant to these Clearing Rules;
 - (2) deduct an amount determined by the SEOCH Board to be adequate to satisfy any outstanding contingent liabilities of an expelled or resigning SEOCH Participant;
 - (3) deduct any amount of the Initial Contribution or Variable Contribution of an expelled or resigning SEOCH Participant which has been applied towards any payment in accordance with Clearing Rule 413; and
 - (4) include any monies recovered from Defaulters that have been credited to the Reserve Fund as an expelled or resigning SEOCH Participant's Initial Contribution or Variable Contribution under Clearing Rule 414, as determined on the effective date of termination of its SEOCH Participantship by SEOCH.
723. To the extent that resources of the Reserve Fund in excess of the value of an expelled SEOCH Participant's SEOCH Collateral in respect of Reserve Fund Contributions are applied in discharging the rights and liabilities under any OCH Contracts to which it was party, SEOCH may recover in full the amount so applied from that SEOCH Participant as a debt due to SEOCH from it.

SECOND SCHEDULE

EFFECT OF GIVE-UPS ON OCH CONTRACTS AND NCP CONTRACTS

2. Where, pursuant to these Clearing Rules, an OCH Contract of a Defaulting, suspended or resigning SEOCH Participant is given-up, such give-up shall take place by way of novation by operation of Clearing Rule 210 and this Second Schedule to these Clearing Rules. The OCH Contract which is given-up shall be novated into a new OCH Contract on identical terms to that OCH Contract between the SEOCH Participant accepting the give-up and SEOCH.