

## CHAPTER 1

### DEFINITIONS AND INTERPRETATION

#### Definitions

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

|                           |   |
|---------------------------|---|
| "Adjusted Capital"        | in respect of a GCP which is a Registered Institution, means the minimum of its: (i) High Quality Liquid Assets - Total Net Cash Outflows over the next 30 calendar days (in each case as described in the latest financial information and accounts supplied to SEOCH under Clearing Rule 403H) and (ii) Tier 1 capital;   |
| "affiliate"               | has the same meaning as in the Options Trading Rules;   |
| "Articles"                | has the same meaning as in the Exchange Rules;  |
| "Assessments"             | means additional contributions to the Reserve Fund provided or required to be provided by a SEOCH Participant pursuant to Clearing Rules 413C to 413E (inclusive);  |
| "Authorized Person"       | has the same meaning as in the Options Trading Rules;   |
| "Base Currency"           | means Hong Kong dollars, or such other currency as designated by SEOCH and notified to SEOCH Participants from time to time;  |
| "Bank Business Day"       | means, in relation to a jurisdiction, a day (except a Saturday, Sunday, and public holiday) on which banks in that jurisdiction are open for business;  |
| "Block Trade"             | has the same meaning as in the Options Trading Rules;   |
| "Board"                   | has the same meaning as in the Exchange Rules;  |
| "Business Day"            | means a day on which the Exchange is open for trading stock options;  |
| "Capped Liability Period" | means the period beginning from the date on which SEOCH declares a SEOCH Participant to be a Defaulter for an event of default and ending on the 5th Business Day following such declaration, provided that each time another SEOCH Participant is declared a Defaulter for an event of default during a prevailing Capped Liability Period, such Capped Liability Period shall be extended until the 5th Business Day following each such declaration and no new Capped Liability Period will be established for such declaration; |
| "CCASS"                   | has the same meaning as in the Exchange Rules;  |

|                               |   |
|-------------------------------|---|
| “CCASS Clearing Agreement”    | has the same meaning as in the Exchange Rules;  |
| “CCASS Clearing Participant”  | has the same meaning as in the Exchange Rules;  |
| “CCASS DCP”                   | has the same meaning as in the Exchange Rules;  |
| “CCASS GCP”                   | has the same meaning as in the Exchange Rules;  |
| “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;   |
| “CCMS Collateral Account”     | means an account established in CCMS for each SEOCH Participant for debiting and crediting collateral. For the purposes of these Clearing Rules and the Operational Clearing Procedures, unless otherwise specified, the term “CCMS Collateral Account” does not include an account established in CCMS by HKSCC or by HKCC under their respective rules; |
| “CCMS Terminal User Guide”    | means the manual entitled “CCMS Terminal User Guide” relating to the operation of CCMS, as amended from time to time by 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;   |
| “Clearing Account Cum MTM(t)” | means, with respect to each clearing account and each Business Day t during the Loss Distribution Period, the sum of Currency Cum MTM(t) in all Settlement Currencies in respect of such clearing account;  |
| “Clearing Account Gain”       | means, with respect to each Clearing Account Gainer and a Business Day during the Loss Distribution Period, the amount of positive Clearing Account Cum MTM in respect of such Clearing Account Gainer on such Business Day;  |
| “Clearing Account Gainer”     | means, with respect to any Business Day during the Loss Distribution Period, each clearing account of a non-defaulting SEOCH Participant in respect of which the value of the Clearing Account Cum MTM on such Business Day is greater than zero;   |
| “Clearing Account Loser”      | means, with respect to any Business Day during the Loss Distribution Period, each clearing account of a non-defaulting SEOCH Participant in respect of which the value of the Clearing Account Cum MTM on such Business Day is equal to or less than zero;  |
| “Clearing Agreement”          | has the same meaning as in the Options Trading Rules;   |

|                                      |   |
|--------------------------------------|---|
| "Clearing Rules"                     | means these rules of SEOCH, as from time to time in effect;   |
| "Clearing Service Termination Event" | means an event in relation to the winding down of clearing and settlement services by SEOCH in relation to OCH Contracts pursuant to Clearing Rule 1301;  |
| "Client Contract"                    | has the same meaning as in the Options Trading Rules;   |
| "closing contract"                   | has the same meaning as in the Options Trading Rules;   |
| "CNS System"                         | has the same meaning as in the HKSCC Rules;   |
| "Commission"                         | has the same meaning as in the Exchange Rules;  |
| "Contract"                           | has the same meaning as in the Options Trading Rules;   |
| "controller"                         | has the same meaning as in Part III of the Securities and Futures Ordinance;  |
| "Currency Cum MTM(t)"                | means, with respect to each Business Day t during the Loss Distribution Period and a Settlement Currency, the sum of Currency MTM Chg relating to the Currency MTM Amount in such Settlement Currency for each Business Day from (and including) the date on which SEOCH declares a SEOCH Participant to be a Defaulter for an event of default to (and including) such Business Day t;   |
| "Currency Cum MTM Flow(t)"           | means, with respect to each Business Day t during the Loss Distribution Period and a Settlement Currency, the total sum of Currency MTM Flow which would be a gain to a non-defaulting SEOCH Participant (expressed as a positive number) or a loss to a non-defaulting SEOCH Participant (expressed as a negative number) in such Settlement Currency from (and including) the date on which SEOCH declares a SEOCH Participant to be a Defaulter for an event of default to (and including) such Business Day t. Currency Cum MTM Flow(t-1) shall be the value for Currency Cum MTM Flow(t) calculated on the Business Day immediately preceding Business Day t during the Loss Distribution Period, provided that where Business Day t is the day of event of default, Currency Cum MTM Flow(t-1) shall be zero; |
| "Currency of the Contract"           | means the currency in which a Contract is traded;   |

“Currency MTM Amount”

means, in respect of any Business Day and a Settlement Currency, the aggregated amount of mark-to-market gains or losses in respect of all option positions and pending stock positions of a non-defaulting SEOCH Participant. SEOCH will calculate the mark-to-market gains or losses for each option series for a Business Day (t) as follows:

$$\Sigma \text{ contract size} \times [\text{net positions (t)} \times \text{price (t)} - \text{net positions (t-1)} \times \text{price (t-1)}] - \text{net Premium paid} - \text{net Settlement Amount paid}$$

where:

net positions refers to net long option positions (expressed as a positive number) or net short option positions (expressed as a negative number) in the case of the options positions; and net pending long stock positions (expressed as a positive number) or net pending short stock positions (expressed as a negative number) in the case of the pending stock positions. For the purpose of this calculation, SEOCH shall calculate the Currency MTM Amount in respect of (i) every option position until the Business Day following the date on which such position is closed or expired; and (ii) every pending stock position until the Business Day immediately preceding the Settlement Day or in the case of a pending stock position to be settled under the Isolated Trade System, the Settlement Day.

price refers to the fixing price in the case of the options positions; and the market closing price of the underlying security in the case of the pending stock positions

net Premium paid refers to Premium paid less Premium received on such Business Day (t)

net Settlement Amount paid refers to Settlement Amount paid less Settlement Amount received and for the purpose of this calculation, Settlement Amounts calculated to be due to be paid or received as a result of the exercise or assignment of such option positions shall be included in the Currency MTM Amount on the day of the exercise or assignment of such option positions regardless of the fact that they have not yet been paid or received

It would be a gain to a non-defaulting SEOCH Participant (expressed as a positive number) or a loss to a non-defaulting SEOCH Participant (expressed as a negative number) in such Settlement Currency on such Business Day without application of the MTM Gains Haircut; and for the purpose of the calculations and adjustments conducted under the Loss Distribution Process, the gains or losses on settlement of the Identified OCH Contracts will be included;

|                                |   |
|--------------------------------|---|
| “Currency MTM Chg(t)”          | means, with respect to each Business Day t during the Loss Distribution Period and a Settlement Currency, the Currency MTM Amount in such Settlement Currency (converted, where applicable, into the Base Currency at the exchange rate determined by SEOCH on such Business Day t) which would be a gain to a non-defaulting SEOCH Participant (expressed as a positive number) or a loss to a non-defaulting SEOCH Participant (expressed as a negative number) on such Business Day;   |
| “Currency MTM Flow(t)”         | means, with respect to each Business Day t during the Loss Distribution Period and a Settlement Currency, an amount equal to the net Currency MTM Amount in such Settlement Currency for that Business Day after taking into account the amount payable to SEOCH or the amount received from SEOCH pursuant to Clearing Rule 413I(2)(b) or 413I(2)(c);  |
| "Daily Margin"                 | means the aggregate amount determined by SEOCH after System Closure on each trading day to be payable in respect of a SEOCH Participant’s open positions and delivery obligations as determined by SEOCH, and for the purposes of the Options Trading Rules, these Clearing Rules and the Operational Clearing Procedures, references to “Daily Margin” include, unless the context requires otherwise, any additional margin payable by a SEOCH Participant under 9.2.4, 9.2.5 and 12.5 of the Operational Clearing Procedure; |
| “DCASS”                        | means the Derivatives Clearing and Settlement System operated by SEOCH and HKCC;  |
| “DCASS Agreement”              | means the subscription and license agreement in such form as may be prescribed by SEOCH from time to time and which is entered into between SEOCH and a SEOCH Participant entitling the SEOCH Participant to participate in DCASS in accordance with Chapter 11;  |
| “DCASS User Guide”             | means the manual entitled “DCASS User Guide” relating to the operation of DCASS via online access, as amended from time to time by SEOCH;   |
| “Default Information”          | means any information provided by SEOCH to a Receiving SEOCH Participant relating to a Defaulting SEOCH Participant including any information given relating to any action carried out pursuant to Clearing Rule 703;   |
| “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;   |

|                                    |  |
|------------------------------------|--|
| "delivery obligation"              | means an obligation arising as a result of the exercise of a Contract;   |
| "Designated Bank"                  | means a bank designated by a SEOCH Participant and appointed by SEOCH from time to time as being eligible for money settlements in relation to clearing services provided by SEOCH through fund transfers to and from a Settlement Bank;   |
| "designated GCP"                   | has the same meaning as in the Options Trading Rules;  |
| "Direct Clearing Member"           | means an SEOCH Member registered as a direct clearing member pursuant to these Clearing Rules effective immediately prior to the Scheme Effective Date;  |
| "Direct Clearing Participant"      | means a SEOCH Participant registered as a Direct Clearing Participant pursuant to Chapter 3 of these Clearing Rules, and "Direct Clearing Participantship" shall be construed accordingly;   |
| "Early Termination Date"           | means, in respect of an OCH Contract registered in the name of a SEOCH Participant, the date determined as an Early Termination Date for such OCH Contract in accordance with Clearing Rule 723F or 723G, as the case may be. An OCH Contract shall be terminated or novated with effect from the Early Termination Date relating to it; |
| "Error Trade"                      | has the same meaning as in the Options Trading Rules;  |
| "event of default"                 | means an event relating to a SEOCH Participant as referred to in Clearing Rule 701; and in the case of a SEOCH Participant being declared a Defaulter because of an event of default, the date of occurrence of the event of default refers to the date the SEOCH Participant is declared to be a Defaulter;                             |
| "Exchange"                         | has the same meaning as in the Exchange Rules;   |
| "Exchange Participant"             | has the same meaning as in the Options Trading Rules;  |
| "Exchange Rules"                   | has the same meaning as in the Options Trading Rules;  |
| "Exchange Traded Options Business" | has the same meaning as in the Options Trading Rules;  |
| "Exchange Trading System"          | means the automatic order matching and execution system as installed and operated by the Exchange for securities trading;  |

|   |   |
|---|---|
| "Failure to Pay Notice"                       | means a written notification provided by a SEOCH Participant to SEOCH pursuant to Clearing Rule 723F upon the failure by SEOCH to make, when due, any payment to a SEOCH Participant (other than a Defaulter) under an OCH Contract;  |
| "Fee Schedule"                                | means the lists of fees attached to the Operational Trading Procedures and the Operational Clearing Procedures;   |
| "Financial Resources Rules"                   | has the same meaning as in the Exchange Rules;  |
| "Former SEOCH Participant"                    | means, at any time, a person who was a SEOCH Participant but whose participation had been terminated prior to such time;  |
| "Gainer MTM Flow Adjustment(t)"               | means the Gainer MTM Flow Adjustment Base Currency(t) converted into the Settlement Currency of the relevant Currency MTM Amount at the exchange rate determined by SEOCH on Business Day t;  |
| "Gainer MTM Flow Adjustment Base Currency(t)" | means an amount determined in the Base Currency on the relevant Business Day t for each Currency MTM Amount relating to a clearing account as follows: $\text{Currency MTM Chg}(t) - [\text{Currency Cum MTM}(t) \times (1 - \text{MTM Gains Haircut}(t)) - \text{Currency Cum MTM Flow}(t-1)]$ |
| "GCM"   | means an SEOCH Member registered as a general clearing member pursuant to the Clearing Rules effective immediately prior to the Scheme Effective Date;  |
| "GCP"   | means a SEOCH Participant registered as a General Clearing Participant pursuant to Chapter 3 of these Clearing Rules;   |
| "General Collateral"                          | means collateral (other than Specific Securities Collateral and To-be-Released collateral) in a CCMS Collateral Account that can be used to cover margin requirement;   |
| "give-up"                                     | has the same meaning as in the Options Trading Rules;   |
| "HKATS"                                       | has the same meaning as in the Options Trading Rules;   |
| "HKATS Risk Functions"                        | has the same meaning as in the Options Trading Rules;   |
| "HKCC"  | means HKFE Clearing Corporation Limited;  |
| "HKCC Participant"                            | means a person duly registered as a participant of HKCC under one of the categories of participation specified in the HKCC Rules;   |

|  |   |
|--|---|
| “HKCC Rules”                             | means the rules and procedures of HKCC, as from time to time in effect;   |
| “HKEX”                                   | means Hong Kong Exchanges and Clearing Limited;   |
| “HKEX staff” or “HKEX’s staff”           | means staff of HKEX or staff of a company of which HKEX is a controller, including without limitation, staff of the Exchange;   |
| “HKEX website”                           | means the official website of HKEX at <a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a> or at such other website address specified by HKEX from time to time;   |
| “HKFE”                                   | has the same meaning as in the Options Trading Rules;   |
| "HKSCC"                                  | has the same meaning as in the Exchange Rules;  |
| "HKSCC Rules"                            | has the same meaning as in the Exchange Rules;  |
| "Hong Kong dollars" or "HK\$"            | has the same meaning as in the Options Trading Rules;   |
| “Identified OCH Contracts”               | means the OCH Contracts (including the OCH Contracts of a Defaulter and those of any non-defaulting SEOCH Participants so determined by SEOCH pursuant to Clearing Rule 723B) to be terminated under the contract termination process as referred to in Clearing Rules 723A to 723E;  |
| “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;   |
| “initial margin requirement”             | has the same meaning as in the Exchange Rules;  |
| "Intra-day Margin"                       | means an amount demanded by SEOCH pursuant to these Clearing Rules and which is required to be satisfied within one hour of such demand;  |
| “Isolated Trades System”                 | has the same meaning as in the HKSCC Rules;   |
| "Last Exercise Day"                      | has the same meaning as in the Standard Contract;   |
| “Limited Recourse Applicable Percentage” | means, in respect of a Clearing Service Termination Event, a percentage applied by SEOCH to determine the Limited Recourse CP Receivable with respect to a clearing account of a SEOCH Participant and the amount payable by SEOCH in respect of the Reserve Fund Contributions Balance of a SEOCH Participant pursuant to Section 19.1 of the Operational Clearing Procedures; |

|  |  |
|--|--|
| “Limited Recourse CP Receivable”             | means, in respect of a Clearing Service Termination Event, the amount payable by SEOCH to each relevant SEOCH Participant with respect to each of its clearing accounts pursuant to Section 19.1.2.2 of the Operational Clearing Procedures;   |
| “Limited Recourse Final CP Payable”          | means, in respect of a Clearing Service Termination Event, the final net amount payable by each relevant SEOCH Participant to SEOCH with respect to each of its clearing accounts, after taking into account the operation of Sections 19.1.2.1.i and 19.1.2.1.ii of the Operational Clearing Procedures;  |
| “Limited Recourse Interim CP Payable”        | means, in respect of a Clearing Service Termination Event, the amount payable by each relevant SEOCH Participant to SEOCH with respect to each of its clearing accounts, after taking into account any Margin Balance applied pursuant to Section 19.1.2.1.i of the Operational Clearing Procedures;   |
| "liquid capital"                             | has the meaning assigned to it by the Financial Resources Rules;   |
| “Loser MTM Flow Adjustment(t)”               | means the Loser MTM Flow Adjustment Base Currency(t) converted into the Settlement Currency of the relevant Currency MTM Amount at the exchange rate determined by SEOCH on Business Day t;  |
| “Loser MTM Flow Adjustment Base Currency(t)” | means an amount determined in the Base Currency on the relevant Business Day t for each Currency MTM Amount relating to a clearing account as follows: $\text{Currency MTM Chg}(t) - [\text{Currency Cum MTM}(t) - \text{Currency Cum MTM Flow}(t-1)]$   |
| “Loss Distribution Period”                   | means the period beginning from the date on which SEOCH declares a SEOCH Participant to be a Defaulter for an event of default to (but excluding) the Business Day on which all OCH Contracts to which the Defaulter is a party have been successfully closed, sold, given-up or exercised and all receivables, payments and/or delivery obligations in respect of such OCH Contracts have been discharged in full by the relevant party provided that each time another SEOCH Participant is declared a Defaulter for an event of default during a prevailing Loss Distribution Period, such Loss Distribution Period shall, where applicable, be extended until the Business Day on which all OCH Contracts to which the subsequent Defaulter(s) is/are a party have been successfully closed, sold, given-up or exercised and the related receivables, payments and/or delivery obligations have been discharged in full by the relevant party and no new Loss Distribution Period will be established for such subsequent Defaulter; |

|  |   |
|--|---|
| “Loss Distribution Process”                  | means the process of applying any MTM Flow Adjustment to each clearing account of each SEOCH Participant as described in Clearing Rule 413I;  |
| "margin"                                     | has the same meaning as in the Options Trading Rules;   |
| “Margin Balance”                             | means, in respect of a SEOCH Participant and a clearing account, the aggregate value of Premium, margin and collateral (including any excess collateral) provided by such SEOCH Participant, in each case, as recorded in the corresponding CCMS Collateral Account;  |
| “Marks, Margin and Concentration Collateral” | has the same meaning as “Mark”, “Margin” and “Concentration Collateral” in the HKSCC Rules collectively;  |
| “MTM Amount Shortfall(t)”                    | means, in respect of Business Day t, the greater of (1) zero and (2) an amount equal to (i) Total Clearing Accounts Cum MTM(t) plus (ii) any costs, interests or other expenses incurred by SEOCH in effecting the closing, sale, giving-up or exercise of any OCH Contract under Clearing Rule 703 less (iii) resources available to SEOCH including those available to be applied under Clearing Rules 703(10) and 413 with respect to all such events of default but excluding any Assessments which have not been deposited with SEOCH by such day; |
| “MTM Flow Adjustment(t)”                     | means either the Gainer MTM Flow Adjustment(t) or Loser MTM Flow Adjustment(t), as applicable;  |
| “MTM Gains Haircut(t)”                       | means, on each Business Day t during the Loss Distribution Period, an amount equal to the (1) MTM Amount Shortfall(t) divided by (2) Total Gains(t), expressed as a percentage figure;  |
| "NCP"  | has the same meaning as in the Options Trading Rules;   |
| "NCP Contract"                               | means a contract between a GCP and an NCP made pursuant to these Clearing Rules;  |
| “Negative Interest Rate Currency”            | means a currency in respect of which its central bank or other relevant authority has adopted a negative interest rate policy and is specified by SEOCH as such;  |
| “Notice of Assessment”                       | means a written notification provided by SEOCH to SEOCH Participants of any demand for Assessments pursuant to Clearing Rule 413E;  |
| "OCH Contract"                               | means a contract between SEOCH and a SEOCH Participant pursuant to a novation in accordance with these Clearing Rules;  |

|   |  |
|---|--|
| "open position"                           | has the same meaning as in the Options Trading Rules;  |
| "opening contract"                        | has the same meaning as in the Options Trading Rules;  |
| "Operational Clearing Procedures"         | means the practices, procedures and administrative requirements prescribed by SEOCH from time to time in effect relating to the Options Clearing System and clearing services provided by SEOCH; |
| "option class"                            | has the same meaning as in the Options Trading Rules;  |
| "option series"                           | has the same meaning as in the Options Trading Rules;  |
| "Options Clearing System"                 | has the same meaning as in the Options Trading Rules;  |
| "Options Contract"                        | has the same meaning as in the Options Trading Rules;  |
| "Options System"                          | has the same meaning as in the Options Trading Rules;  |
| "Options System Operator"                 | has the same meaning as in the Options Trading Rules;  |
| "Options Trading Exchange Participant"    | has the same meaning as in the Options Trading Rules;  |
| "Options Trading Rules"                   | Means the options trading rules of the Exchange, as from time to time in effect;   |
| "Options Trading System"                  | has the same meaning as in the Options Trading Rules;  |
| "order"                                   | has the same meaning as in the Options Trading Rules;  |
| "Participant Admission Appeals Committee" | means the committee convened to hear any appeal against the decisions by the SEOCH Board on any application to admit as a SEOCH Participant;   |
| "Permitted Purpose"                       | means any purpose, the objective of which is to allow the Receiving SEOCH Participant to assist SEOCH in any actions SEOCH chooses to take pursuant to Clearing Rule 703;                        |
| "person"                                  | has the same meaning as in the Options Trading Rules;  |
| "Premium"                                 | has the same meaning as in the Options Trading Rules;  |

|  |  |
|--|--|
| “Prescribed Risk Controls”               | has the same meaning as in the Options Trading Rules;  |
| “Receiving Clearing Participant”         | has the meaning as defined in Clearing Rule 708A(a);   |
| “Receiving SEOCH Participant Affiliates” | means, in relation to a Receiving SEOCH Participant, any subsidiary or holding company, or a subsidiary of a holding company of that Receiving SEOCH Participant. For the purposes of this definition, the terms “holding company” and “subsidiary” shall bear the same respective meanings herein as in the Companies Ordinance (Chapter 622 of the Laws of Hong Kong); |
| "recognized exchange controller"         | has the same meaning as in the Securities and Futures Ordinance;   |
| “Registered Institution”                 | means an authorized institution under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) which is registered to carry on Type 1 regulated activities under the Securities and Futures Ordinance;   |
| “Relevant CP Contracts”                  | means the OCH Contracts of the relevant SEOCH Participant to be terminated under a SEOCH Failure to Pay Event as referred to in Clearing Rule 723F;  |
| "Renminbi" or "RMB"                      | has the same meaning as in the Options Trading Rules;  |
| "Reserve Fund"                           | means the fund provided for in Chapter 4 of these Clearing Rules;  |
| “Reserve Fund Contributions”             | means, in respect of a SEOCH Participant, both its Initial Contribution and Variable Contribution;   |
| “Reserve Fund Contributions Balance”     | means, on any Business Day, with respect to each SEOCH Participant, the aggregate value of the Initial Contribution and Variable Contribution provided by the SEOCH Participant, as reduced by payments out of the Reserve Fund allocated to such Initial Contribution and/or Variable Contribution, as applicable, in accordance with Clearing Rule 413;                |
| "Reserve Fund Requirement"               | means, at any given time, the amount required to be contributed to the Reserve Fund by a SEOCH Participant pursuant to Chapter 4 of these Clearing Rules;  |
| “Reserve Fund Resources”                 | means the Reserve Fund and any other amounts specified as forming part of the Reserve Fund Resources in the Clearing Rules;  |
| “Reserve Fund Risk Predefined Limit”     | means an amount equal to 50% of the Reserve Fund Threshold or such other percentage as SEOCH deems appropriate from time to time;  |

|                                       |  |
|---------------------------------------|--|
| “Reserve Fund Threshold”              | means the Reserve Fund size prescribed by SEOCH from time to time pursuant to Clearing Rule 404B;  |
| "Scheme Effective Date"               | has the same meaning as in the Exchange Rules;   |
| "securities"                          | has the same meaning as in the Options Trading Rules;  |
| “Securities and Futures Ordinance”    | means the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);   |
| "SEOCH"                               | has the same meaning as in the Options Trading Rules;  |
| "SEOCH Board"                         | means the board of directors of SEOCH and, where the context so permits, any committee of that board;  |
| "SEOCH Collateral"                    | means money, bankers' drafts, bank cashiers' orders, securities and other property as may, from time to time, be so designated by the SEOCH Board, in each case in such form as may be required by the SEOCH Board;  |
| “SEOCH Default Applicable Percentage” | means, in respect of a SEOCH Failure to Pay Event or a SEOCH Insolvency Event, a percentage applied by SEOCH to determine the SEOCH Default CP Receivable with respect to a clearing account of a SEOCH Participant and the amount payable by SEOCH in respect of the Reserve Fund Contributions Balance of a SEOCH Participant pursuant to Section 20.1 of the Operational Clearing Procedures; |
| “SEOCH Default CP Receivable”         | means, in respect of a SEOCH Failure to Pay Event or a SEOCH Insolvency Event, the amount payable by SEOCH to each relevant SEOCH Participant with respect to each of its clearing accounts pursuant to Section 20.1.2.2 of the Operational Clearing Procedures;   |
| “SEOCH Default Final CP Payable”      | means, in respect of a SEOCH Failure to Pay Event or a SEOCH Insolvency Event, the final net amount payable by each relevant SEOCH Participant to SEOCH with respect to each of its clearing accounts, after taking into account the operation of Sections 20.1.2.1.i and 20.1.2.1.ii of the Operational Clearing Procedures;  |
| “SEOCH Default Interim CP Payable”    | means, in respect of a SEOCH Failure to Pay Event or a SEOCH Insolvency Event, the amount payable by each relevant SEOCH Participant to SEOCH with respect to each of its clearing accounts, after taking into account any Margin Balance applied pursuant to Section 20.1.2.1.i of the Operational Clearing Procedures;   |

|                                     |  |
|-------------------------------------|--|
| “SEOCH Failure to Pay Event”        | means an event arising from the failure of SEOCH to make all relevant payments under an OCH Contract to a SEOCH Participant by the end of the relevant SEOCH Failure to Pay Grace Period, provided that no such event shall occur if (1) such failure to pay arises as a result of technical or administrative reasons beyond the control of SEOCH; or (2) during the SEOCH Failure to Pay Grace Period, SEOCH has exercised its powers under Clearing Rules 723F(3)(a) and/or 723F(3)(b); |
| “SEOCH Failure to Pay Grace Period” | means the period from (but excluding) the day on which SEOCH receives a Failure to Pay Notice from a SEOCH Participant to (and including) the 21st Business Day following such day;  |
| “SEOCH Insolvency Event”            | means an event relating to the insolvency of SEOCH as referred to in Clearing Rule 723G;   |
| "SEOCH Member"                      | means a person who is duly registered under one of the categories of SEOCH membership set out in the Clearing Rules effective immediately prior to the Scheme Effective Date;  |
| "SEOCH Participant"                 | means a person who is duly registered, pursuant to Chapter 3 of these Clearing Rules, under one of the categories of SEOCH Participantship set out in Clearing Rule 302, and "SEOCH Participantship" shall be construed accordingly;   |
| "Settlement Amount"                 | has the same meaning as in the Standard Contract;  |
| “Settlement Bank”                   | means a bank appointed by SEOCH from time to time as being eligible for money settlements in relation to clearing services provided by SEOCH through either internal fund transfers or fund transfers to and from a Designated Bank;   |
| “Settlement Currency”               | means the currency in which a Contract shall be settled, which currency shall be the Currency of the Contract unless otherwise specified by SEOCH or the Exchange;   |
| "Settlement Day"                    | has the same meaning as in the HKSCC Rules;  |
| “Special Block Trade Margin”        | means the margin required by SEOCH pursuant to Clearing Rule 615A;   |
| “Specific Securities Collateral”    | means collateral in a CCMS Collateral Account that is used to cover short call positions to exclude the covered short call positions from calculation of margin requirement and that is provided by a SEOCH Participant to SEOCH in the form of the underlying securities of such positions;   |
| "Standard Contract"                 | has the same meaning as in the Options Trading Rules;  |

|                                      |  |
|--------------------------------------|--|
| “Stock Collateral Control Account”   | bears the same meaning as in the HKSCC Rules;  |
| “Stock Exchange Trading Right”       | has the same meaning as in the Exchange Rules;   |
| “System”                             | has the same meaning as in the Exchange Rules;   |
| “System Input Cutoff Time”           | means 6:45 p.m. or such other time after the close of trading from time to time prescribed by SEOCH as the system input cutoff time of DCASS on each Business Day;   |
| “Tax Information Exchange Framework” | means (i) sections 1471 to 1474 of the United States Internal Revenue Code of 1986, as amended (the “Code”) (ii) any similar or successor legislation to (i) introduced by the United States, (iii) any agreement described in section 1471(b) of the Code, (iv) any regulations or guidance pursuant to any of the foregoing, (v) any official interpretations of any of the foregoing, (vi) any intergovernmental agreement to facilitate the implementation of any of the foregoing (an “IGA”), or (vii) any law implementing an IGA; |
| “Termination Value Payable”          | means, under the contract termination process, the amount payable by each relevant SEOCH Participant to SEOCH with respect to each of its clearing accounts pursuant to Section 13A.1.1 of the Operational Clearing Procedures;  |
| “Termination Value Receivable”       | means, under the contract termination process, the amount payable by SEOCH to each relevant SEOCH Participant with respect to each of its clearing accounts pursuant to Section 13A.1.1 of the Operational Clearing Procedures;  |
| “Tier 1 capital”                     | has the same meaning as set out in the Banking (Capital) Rules (Chapter 155L of the Laws of Hong Kong);  |
| “To-be-Released collateral”          | means the collateral in a CCMS Collateral Account resulting from the decovering of covered calls that can neither be withdrawn by a SEOCH Participant nor be used to cover margin requirement but has priority over General Collateral for the purpose of covering call requests;  |
| “Total Clearing Accounts Cum MTM(t)” | means, with respect to any Business Day t during the Loss Distribution Period, the sum of the Total Clearing Accounts Currency Cum MTM(t) in all Settlement Currencies;  |

|   |   |
|---|---|
| “Total Clearing Accounts Currency Cum MTM(t)” | means, with respect to each Business Day t during the Loss Distribution Period, the sum of the Total Clearing Accounts Currency MTM for each Business Day from (and including) the date on which SEOCH declares a SEOCH Participant to be a Defaulter for an event of default to (and including) such Business Day t;   |
| “Total Clearing Accounts Currency MTM(t)”     | means, with respect to each Business Day t during the Loss Distribution Period, the sum of Currency MTM Chg(t) in respect of all clearing accounts of all non-defaulting SEOCH Participants;  |
| “Total Gains(t)”                              | means, with respect to each Business Day t during the Loss Distribution Period, the sum of all Clearing Account Gains in respect of all Clearing Account Gainers on such Business Day t;  |
| "total liabilities"                           | shall be construed in the same way as it is to be construed under the Financial Resources Rules;  |
| "trade"                                       | has the same meaning as in the Options Trading Rules;   |
| "trading day"                                 | has the same meaning as in the Exchange Rules;  |
| “Transaction Register”                        | has the same meaning as in the Options Trading Rules;   |
| “Unadjusted Limited Recourse CP Receivable”   | means, in respect of a Clearing Service Termination Event, the amount determined to be payable by SEOCH to each relevant SEOCH Participant with respect to each of its clearing accounts, without taking into account any adjustment pursuant to Section 19.1.2.2 of the Operational Clearing Procedures;   |
| “Unadjusted SEOCH Default CP Receivable”      | means, in respect of a SEOCH Failure to Pay Event or a SEOCH Insolvency Event, the amount determined to be payable by SEOCH to each relevant SEOCH Participant with respect to each of its clearing accounts, without taking into account any adjustment pursuant to Section 20.1.2.2 of the Operational Clearing Procedures;   |
| “Variable Contribution”                       | means (i) 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; (ii) where any Assessment has been demanded by SEOCH, any Assessment provided or required to be provided by the SEOCH Participant; and (iii) where any Voluntary Recap Amount has been requested by SEOCH, any Voluntary Recap Amount provided by the SEOCH Participant which will not be refunded by SEOCH to such SEOCH Participant in accordance with Clearing Rule 413H(4); |

|                                  |   |
|----------------------------------|---|
| “Voluntary Recap Amount”         | means a voluntary contribution to the Reserve Fund, as requested by SEOCH pursuant to a Voluntary Recap Request Notice;   |
| “Voluntary Recap Request Notice” | means a written notification provided by SEOCH pursuant to Clearing Rule 413H to a SEOCH Participant requesting for a Voluntary Recap Amount;   |
| “Withholding Tax”                | means any withholding or deduction pursuant to the Tax Information Exchange Framework;  |
| "Year 2000 Compliant"            | means that neither performance nor functionality of any system is affected by dates prior to, during and after the Year 2000. In particular : no value for current date will cause any interruption in operation; date-based functionality must behave consistently for dates prior to, during and after Year 2000; in all interfaces and data storage, the century in any date must be specified either explicitly or by unambiguous algorithms or inference rules; and Year 2000 must be recognised as a leap year. |

### **Interpretation**

102. Where the context so permits, words importing the singular number include the plural and vice versa and words importing the masculine gender shall include the feminine and neuter genders and vice versa.
103. Subject to Clearing Rule 101, any definitions of words defined in the Exchange Rules, the Options Trading Rules, the HKSCC Rules, the Securities and Futures Ordinance, the Companies Ordinance or the Articles shall, if not inconsistent with the subject or context, apply to these Clearing Rules.
- 103A. References to any law or regulation in these Clearing Rules shall be construed as references to such law or regulation as in force from time to time.
104. The headings shall not affect the construction hereof.
105. The interpretation by SEOCH of the Clearing Rules and the Operational Clearing Procedures shall be final, conclusive and binding on all SEOCH Participants and the parties to all Contracts.

### **Amendment**

106. Subject to the Securities and Futures Ordinance and the Articles of Association of SEOCH, the SEOCH Board shall have the power to add to, vary, repeal, enforce or waive any of these Clearing Rules.

### **Exclusion of Liability**

- 107A. The Options System is complex, and SEOCH, the Exchange, HKFE, HKCC and a recognized exchange controller which is the controller of SEOCH, do not accept any liability whatsoever, and no claim may be brought against any of them or their respective employees, in respect of any error in, or interruption or suspension of the operation of, the Options System, except in the case of wilful misconduct. In particular, neither SEOCH, the Exchange, HKFE, HKCC, a recognized exchange controller which is the controller of SEOCH, nor any person from whom SEOCH, the Exchange, HKFE, HKCC or a recognized exchange controller which is the controller of SEOCH has

obtained a licence, directly or indirectly, in connection with use of the Options System shall have any liability in connection with, or arising out of, any ability or inability to use the computer programs involved in the functioning of the Options System (whether based in contract, tort, misrepresentation, warranty or other legal or equitable grounds and without regard to the circumstances giving rise to any purported claim).

- 107B. SEOCH, the Exchange, HKFE, HKCC and a recognized exchange controller which is the controller of SEOCH will not be liable to any SEOCH Participant or to any other person with respect to any action or omission by them in connection with the operations of the Options System, the provision of services and facilities available thereunder, and all other matters as contemplated in these Clearing Rules, except in the case of wilful default.
- 107C. SEOCH, the Exchange, HKFE, HKCC and a recognized exchange controller which is the controller of SEOCH will not be liable for any action taken or for any failure, hindrance or delay in the provision of services or the performance in whole or in part of their obligations under these Clearing Rules or under any OCH Contract if such action, failure, hindrance or delay arises out of causes beyond their control. Such causes may include, but shall not be limited to, acts of God or the public enemy, acts of a civil or military authority, embargoes, fires, floods, explosions, accidents, labour disputes, mechanical breakdowns, computer or system failures or other failures of equipment, failures of or defects in computer or system software, unavailability of or restrictions on any communication media for whatever reason (whether or not such media is used by SEOCH Participants), interruptions (whether in whole or in part) of power supplies or other utility or service, any law, decree, regulation or order of any government, competent authority or any court or tribunal, and any other causes beyond the control of SEOCH, the Exchange (whether or not specified in the Exchange Rules), HKFE, HKCC or a recognized exchange controller which is the controller of SEOCH.
108. Information and statistics provided by SEOCH including, but not limited to market prices, numbers of Contracts cleared and risk management assumptions, are made available on the understanding that SEOCH, the Exchange, HKFE, HKCC and a recognized exchange controller which is the controller of SEOCH will not be liable or accountable to any party for that information's suitability or applicability for any use other than for managing or reporting activities internal to SEOCH.

### **Governing Law**

109. These Clearing Rules, the Operational Clearing Procedures and all Contracts shall be governed by, and construed in accordance with, the laws of Hong Kong.

### **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 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. SEOCH may pay or charge a SEOCH Participant interest on the cash balance in the SEOCH Participant's CCMS Collateral Accounts at such positive or negative rate, and may levy costs and charges thereon in such amount, as SEOCH may determine from time to time in accordance with the Operational Clearing Procedures.

## **Notice and Other Communications**

111. Unless otherwise provided in these Clearing Rules, all notices, requests, demands or other communications from SEOCH to SEOCH Participants may be given orally or in writing, in person or by post, by electronic or wire transmission, by telephone or facsimile, by posting on the HKEX website, or by any means of computer data transmission including, but in no way limited to, broadcast messages via HKATS or DCASS or e-mail.
112. Any communication disseminated via DCASS or HKATS or e-mail or posted on the HKEX website will constitute written notice for the purpose of these Clearing Rules and the Options Trading Rules.
113. Unless otherwise provided in these Clearing Rules, the Operational Clearing Procedures and in the Options System, all notices from SEOCH Participants to SEOCH shall be given in writing and sent to SEOCH in person, by facsimile, by post or such other means as may be acceptable to SEOCH. Notice by SEOCH Participants to SEOCH shall be deemed to have been given at the time of receipt by SEOCH.

All instructions and communications to SEOCH by, with the authority of, on behalf of and/or for the account of SEOCH Participants shall be given in such manner and form as may be prescribed by or acceptable to SEOCH from time to time.

SEOCH shall be entitled to accept and rely on any instruction or communication given or purporting to be given to it by, with the authority of, on behalf of or for the account of a SEOCH Participant, whether or not in strict compliance with the prescribed manner or form or any applicable limitation on authority of, which is understood or believed by SEOCH in good faith to have been given to it by, with the authority of, on behalf of or for the account of such SEOCH Participant.

SEOCH shall have no obligation to act on any instruction or communication given or purported to be given by, with the authority of, on behalf of or for the account of a SEOCH Participant if such instruction does not, in the determination of SEOCH, contain sufficient details for SEOCH to act upon it.

## **Transitional Provisions**

114. Without limiting the generality of Clearing Rule 115, with effect from the Scheme Effective Date and unless the context otherwise requires, the terms "SEOCH Member", "Direct Clearing Member" and "GCM" in the Clearing Rules will have been substituted with the term "SEOCH Participant", "Direct Clearing Participant", and "GCP" respectively. Each SEOCH Member, Direct Clearing Member and GCM that was, or was deemed to be, an Exchange Participant under the Exchange Rules or the repealed Exchanges and Clearing Houses (Merger) Ordinance was deemed automatically to have become a SEOCH Participant, Direct Clearing Participant and GCP respectively (provided their rights had not been revoked immediately prior to the Scheme Effective Date) and shall continue to be bound by these Clearing Rules and Operational Clearing Procedures.
115. For the avoidance of doubt:
  - (i) these Clearing Rules and Operational Clearing Procedures;
  - (ii) all rights, privileges, obligations and liabilities accrued to or incurred by any person (including without limitation a SEOCH Participant, a Direct Clearing Participant and a GCP) prior to the Scheme Effective Date; and

- (iii) all registrations and approvals made or granted to a person (including without limitation a SEOCH Participant, a Direct Clearing Participant and a GCP) which were valid immediately prior to the Scheme Effective Date

shall remain valid and binding on that person whatever capacity in which those rights, privileges, obligations, liabilities, registrations or approvals have been accrued, incurred, made or granted.