

## CHAPTER 2

### CLEARING BY SEOCH

#### Acceptance for Clearing of Contracts

201. SEOCH shall have absolute discretion to determine the acceptance or refusal for clearing of OCH Contracts in respect of any option series. In general, SEOCH will accept for clearing pursuant to these Clearing Rules and the Options Trading Rules all OCH Contracts validly made pursuant to Clearing Rule 202. SEOCH shall give notice to the Exchange and all SEOCH Participants of any decision to refuse to clear one or more OCH Contracts in respect of any option series. Any such refusal by SEOCH shall not affect any then existing open positions in the affected option series, which shall continue to be subject to these Clearing Rules and the Options Trading Rules.

#### OCH Contracts and NCP Contracts

202. (1) Unless otherwise specified in the Options Trading Rules, the Operational Clearing Procedures and these Clearing Rules, immediately upon an Options Contract being validly made under Options Trading Rule 513, it 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. Unless otherwise specified in the Options Trading Rules, the Operational Clearing Procedures and these Clearing Rules, every OCH Contract and NCP Contract shall be validly made at the time when the details of the Options Contract from which it is derived are recorded in the Transaction Register of the Options Trading System. The Transaction Register of the Options Trading System or such other record as SEOCH shall in its sole discretion accept, together with the Standard Contract, the Options Trading Rules and these Clearing Rules, shall be conclusive evidence of OCH Contracts and NCP Contracts which have been validly made unless the SEOCH Board otherwise determines in exceptional circumstances.
- (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 or otherwise satisfy 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.

(4) [Repealed]

(5) [Repealed]

#### **Terms of OCH Contracts**

203. The parties to each OCH Contract shall contract under the OCH Contract as principals, and not in any other capacity, and shall accordingly be personally bound by, and entitled under, each OCH Contract.

204. Except as provided in Clearing Rules 205 and 206, each OCH Contract shall, other than in respect of the parties to it, be on identical terms to the Options Contract made pursuant to Options Trading Rule 513 from which it is derived.

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

(1) amounts and securities received or receivable by SEOCH from SEOCH Participants in respect of Premium and delivery obligations following exercise of OCH Contracts and the amounts received by SEOCH from SEOCH Participants on the settlement of any Identified OCH Contract;

(2) any property including, but not limited to, SEOCH Collateral in respect of margin, Premium, securities and amounts standing to the credit of a Defaulting SEOCH Participant available for the purpose of discharging that SEOCH Participant's obligations to SEOCH;

(3) the amount from time to time standing to the credit of the Reserve Fund, including the relevant amount received under Clearing Rules 413C and 413H, which is available to support the obligations of SEOCH under that OCH Contract;

(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;

(5) the amount received pursuant to any claim under any insurance policy taken out by SEOCH 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; and

(6) any amount SEOCH may in its absolute discretion make available to support its obligations out of the retained earnings of SEOCH,

(7) [Repealed]

and no other assets available to SEOCH shall be applied to meet any such obligations. To the extent that the aggregate of the assets available to SEOCH referred to in subparagraphs (1) to (6) above is insufficient at any time to meet the aggregate liability of SEOCH to SEOCH Participants under all OCH Contracts subsisting at any time, each SEOCH Participant to whom SEOCH is liable shall, subject to Clearing Rules 413I, 723A to 723D, 723F to 723H and 1301 to 1303, only be entitled to receive payment pro rata

according to the amount due to him as compared with the aggregate due to all SEOCH Participants, except in exceptional circumstances where SEOCH determines payment will not be pro rata. Subject to Clearing Rules 413I(5), 723E, 723I and 1304, SEOCH shall remain liable on all such OCH Contracts but payment of the balance of such amounts due shall only be made as and when, and to the extent that, the assets referred to in sub-paragraphs (1) to (6) are subsequently available to SEOCH. SEOCH shall only exercise its powers to defer making payment to SEOCH Participants under this Clearing Rule in consultation with the Commission.

Without prejudice to the foregoing provisions regarding pro rata payment in circumstances where the aggregate of the assets available to SEOCH referred to in sub-paragraphs (1) to (6) above is insufficient to meet the aggregate liability of SEOCH to SEOCH Participants under all OCH Contracts subsisting at any time, in respect of SEOCH's obligations to deliver securities under OCH Contracts, to the extent that the SEOCH Board determines that it is not possible or reasonably practicable to deliver securities, SEOCH's obligations shall be to make money compensation to SEOCH Participants concerned in substitution for the delivery of securities in whole or in part and in such amount as SEOCH may in its absolute discretion determine by reference to the market value of such securities at the time of payment of compensation by SEOCH (or the value at such other time as SEOCH shall consider fair and reasonable in the circumstances). The money compensation shall be in such currency or currencies (whether in the Settlement Currency, the Currency of the Contract or otherwise) and at such conversion rate(s) as SEOCH may in its absolute discretion determine to be fair and reasonable, taking into account all relevant circumstances as it may consider appropriate.

Without prejudice to the foregoing provisions regarding pro rata payment in circumstances where the aggregate of the assets available to SEOCH referred to in sub-paragraphs (1) to (6) above is insufficient to meet the aggregate liability of SEOCH to SEOCH Participants under all OCH Contracts subsisting at any time, in respect of SEOCH's obligations to make payment to SEOCH Participants under OCH Contracts in the Settlement Currency, to the extent that SEOCH determines that it is not possible or reasonably practicable to make payment in such Settlement Currency, SEOCH's obligations shall be to make payment, in full or in part, in such other currency or currencies and at such conversion rate(s) as SEOCH may in its absolute discretion determine to be fair and reasonable, taking into account all relevant circumstances as it may consider appropriate.

206. All OCH Contracts shall incorporate the following terms:-

- (1) SEOCH shall have no liability for any brokerage, commission or levy;
- (2) SEOCH shall have no liability for consequential loss of any kind;
- (3) subject to the Securities and Futures Ordinance, SEOCH shall be entitled to treat all monies paid to it by, and property received by it from, a SEOCH Participant as monies paid or property delivered to it by a principal, and no monies or property in the hands of SEOCH shall be impressed with a trust or other equitable interest in favour of any person; and
- (4) any payment or delivery by SEOCH to a SEOCH Participant in accordance with these Clearing Rules and the Operational Clearing Procedures shall constitute a good and sufficient discharge of the obligations in respect of which such payment or delivery is made.

207. The benefit of the performance by SEOCH of its obligations under each OCH Contract is conferred upon SEOCH Participants as principals and upon no other persons whatsoever.

#### **Terms of NCP Contracts**

208. The parties to each NCP Contract shall contract under the NCP Contract as principals, and not in any other capacity, and shall accordingly be bound by, and entitled under, each NCP Contract.
209. Each NCP Contract shall be on identical terms to the Options Contract from which it arises pursuant to Clearing Rule 202 and the First Schedule to these Clearing Rules.

#### **Effect of Give-ups on OCH Contracts and NCP Contracts**

210. OCH Contracts and NCP Contracts which are the subject of give-ups shall be replaced by new Contracts as set out in the Second Schedule to these Clearing Rules.

#### **Effect of Novation or Discharge**

211. Following any novation or discharge of a Contract as provided in these Clearing Rules or the Options Trading Rules, the rights and obligations of the parties to that Contract under that Contract shall be completely discharged and of no further force or effect.

#### **Error Trades**

212. SEOCH may, in conjunction with the Exchange and in accordance with the Options Trading Rules dealing with Error Trades, cancel any Error Trade in accordance with the Options Trading Rules. SEOCH shall require the payment of Premium, fees and SEOCH Collateral in respect of margin from the relevant Options Trading Exchange Participant until the cancellation of the Error Trade has been effected.

#### **Adjustments to Contracts**

213. Where there is a change in the capital structure or composition of the issuer of the underlying securities of an option class or in any other exceptional circumstances, the Exchange may make such adjustments to the terms of the Contracts of that option class in accordance with the Options Trading Rules as are, in its opinion, necessary or desirable to ensure that all parties to Contracts comprised in open positions in that option class are treated fairly. All such adjustments shall be binding upon all such affected parties.

#### **SEOCH Price Determinations**

214. SEOCH's determination as to any prices used in the Options System or in connection with any of its clearing, settlement or margining processes shall be final and conclusive. SEOCH shall not be responsible to the person who wishes to use such information for the accuracy or suitability for use of any market prices or other information related to the options market, whether calculated or provided by the Exchange, SEOCH, HKFE, HKCC or any other person.